

COATESVILLE AREA SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2017



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

COATESVILLE AREA SCHOOL DISTRICT

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YEAR ENDED JUNE 30, 2017

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COATESVILLE AREA SCHOOL DISTRICT

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FINANCIAL SECTION

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Coatesville Area School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Coatesville Area School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Coatesville Area School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 12, budgetary comparison information on pages 50 and 51, schedule of the school district's proportionate share of the net pension liability on page 52, schedule of school district contributions on page 53 and postemployment benefits other than pension funding progress on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Coatesville Area School District's basic financial statements. The schedule of expenditures of federal awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2018, on our consideration of the Coatesville Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Coatesville Area School District's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Maillie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
February 27, 2018

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2017

The discussion and analysis of Coatesville Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review any notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2016-17 are as follows:

The Net Change in the Fund Balance for all Governmental Funds decreased by \$10,034,418. The bulk of this will be discussed later, but was a result of charter school costs. Total Governmental Funds revenues and other financing sources were \$161,005,565 compared to expenditures and other financing uses in the amount of \$171,700,288.

General Fund revenues were \$160,977,674 with other funds having total revenues of \$27,891. There was a \$1 million transfer from the General Fund into the Capital Reserve Fund. General Fund revenues consist of 65.6% local revenue, 31.4% state revenue, 3.0% federal revenues including grant funds. Other revenue funds consist of the Food Service Fund with revenues of \$3,254,146 and expenditures of \$3,281,238 resulting in a decrease in net position of \$27,092.

The District's ending General Fund balance of \$2,809,382 did not meet the guidelines of Board Policy 623, which states the unassigned fund balance is not to be less than 5% of the General Fund budget expenditures nor more than 8%. If the unassigned portion of the fund balance falls below the threshold of five percent (5%), the Board will pursue variations of increasing revenues and decreasing expenditures, or a combination of both until five percent (5%) is attained. The District is considering multiple options as it begins to develop its 2018-19 General Fund Budget

OTHER POST-EMPLOYMENT BENEFITS

In accordance with the Governmental Accounting Standards Board Statement No. 45, the Coatesville Area School District employed an actuary to determine the district's liability for other post-employment benefits other than pension benefits. The District's post-employment liability as of June 30th is \$5,461,617 for the General Fund and \$82,910 for the Food Service Fund.

USING THIS ANNUAL FINANCIAL REPORT

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

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2017

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

REPORTING THE SCHOOL DISTRICT AS A WHOLE - GOVERNMENT WIDE

While this document contains all of the funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and reviews how we did financially during 2016-2017 fiscal year. These statements include all assets and liabilities, revenue and expenses of the District using the full accrual method of accounting.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

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

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

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

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2017

FINANCIAL STATEMENTS

Condensed Statements of Net Position
June 30, 2016 and 2017

	Governmental Activities		Business-Type Activities		Totals	
	2016	2017	2016	2017	2016	2017
ASSETS AND DEFERRED OUTFLOWS						
Current and other assets	\$ 44,867,303	\$ 31,795,194	\$ 835,347	\$ 481,739	\$ 45,702,650	\$ 32,276,933
Capital assets	175,988,241	170,660,046	58,064	22,045	176,046,305	170,682,091
Deferred outflows of resources	14,611,929	316,200	269,000	616,000	14,880,929	32,228,000
TOTAL ASSETS AND DEFERRED OUTFLOWS	235,467,473	234,067,240	1,62,411	1,19,784	236,629,884	235,187,024
LIABILITIES AND DEFERRED INFLOWS						
Current liabilities	32,253,988	29,362,187	590,971	90,954	32,844,959	29,453,141
Long-term liabilities	335,819,102	347,813,030	3,209,712	3,645,194	339,028,814	351,458,224
Deferred inflows of resources	978,000	4,147,102	21,000	70,000	999,000	4,217,102
TOTAL LIABILITIES	369,051,090	381,322,319	3,821,683	3,806,148	372,872,773	385,128,467
NET POSITION						
Net investment in capital assets	3,342,031	(261,986)	58,064	22,045	3,400,095	(239,941)
Unrestricted	(136,925,648)	(146,993,093)	(2,717,336)	(2,708,409)	(139,642,984)	(149,701,502)
TOTAL NET POSITION	\$ (133,583,617)	\$ (147,255,079)	\$ (2,659,272)	\$ (2,686,364)	\$ (136,242,889)	\$ (149,941,443)

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2017

Statement of Activities

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

Condensed Statements of Activities
Years Ended June 30, 2016 and 2017

	Governmental Activities		Business-Type Activities		Totals	
	2016	2017	2016	2017	2016	2017
REVENUES						
Program services						
Charges for services	\$ 618,386	\$ 556,065	\$ 612,662	\$ 568,189	\$ 1,231,048	\$ 1,124,254
Operating grants and contributions	29,109,339	25,410,250	2,439,622	2,675,718	31,548,961	28,085,968
General revenues						
Property taxes	92,334,780	94,691,373	-	-	92,334,780	94,691,373
Other taxes	8,118,542	8,500,623	-	-	8,118,542	8,500,623
Grants, subsidies and contributions not restricted	27,997,189	31,109,801	-	-	27,997,189	31,109,801
Investment earnings	132,236	211,303	2,646	10,239	134,882	221,542
Other revenues	531,806	530,082	-	-	531,806	530,082
TOTAL REVENUES	158,842,278	161,009,497	3,054,930	3,254,146	161,897,208	164,263,643
EXPENSES						
Instruction	108,943,542	120,122,881	-	-	108,943,542	120,122,881
Instructional student support	8,252,844	8,255,220	-	-	8,252,844	8,255,220
Administrative and financial support	11,730,609	12,884,104	-	-	11,730,609	12,884,104
Operation and maintenance of plant services	11,655,476	13,082,842	-	-	11,655,476	13,082,842
Pupil transportation	9,919,360	10,888,040	-	-	9,919,360	10,888,040
Student activities	1,138,730	1,253,545	-	-	1,138,730	1,253,545
Community service	7,770	25,063	-	-	7,770	25,063
Interest on long-term debt	7,193,190	8,169,264	-	-	7,193,190	8,169,264
Food services	-	-	3,035,821	3,281,238	3,035,821	3,281,238
TOTAL EXPENSES	158,841,521	174,680,959	3,035,821	3,281,238	161,877,342	177,962,197
CHANGE IN NET POSITION	\$ 757	\$ (13,671,462)	\$ 19,109	\$ (27,092)	\$ 19,866	\$ (13,698,554)

GENERAL BUDGET INFORMATION

The District has been greatly impacted by an increase in mandated costs. Pensions, Charter School Tuition, and Special Education Placements have grown significantly in recent years. The District did increase real estate tax rates as shown below, but even that was not enough to keep up with mandated cost growth. The District is looking at ways to contain costs in other areas going forward, but a tax increase must also be considered.

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2017

The School District is dependent upon property taxes and is hampered by a lack of revenue growth and will regularly need to increase local taxes or eliminate staff and programs. Local taxes and revenues made up 65.6 percent of revenues for the Coatesville Area School District in fiscal year 2016-2017. Revenues are provided from the following sources:

	Amount	% of Total
Local Revenues	\$105,651,301	65.6%
State Revenues	50,567,327	31.4%
Federal Revenues	<u>4,759,046</u>	3.0%
Total Revenues	<u>\$160,977,674</u>	

Expenses consisted of the following:

	Amount	% of Total
Salaries	\$ 46,708,366	27.4%
Benefits	28,912,727	17.0%
Purchased Services	73,797,529	43.4%
Supplies and Equipment	3,749,731	2.2%
Debt Service and Other Uses	<u>16,992,200</u>	10.0%
Total	<u>\$170,160,553</u>	

The above expenditures were used to support the following:

Instructional Programs	\$113,753,046
Support Services	38,830,693
Non-Instructional Services	1,232,412
Debt Service and other Financing Uses	16,344,403

The dependence upon local tax revenue is apparent. State subsidies accounted for 31.4% of the District's total revenue for the 2016-2017 school year. The local tax base is by far the primary supporter for Coatesville Area School District students.

THE SCHOOL DISTRICT'S FUNDS

Information about the School District's major funds is stated within the Independent Auditors' Report. These funds are accounted for using the modified accrual basis of accounting. The most significant change was a significant decrease in Unassigned General Fund Balance, which changed from \$11,992,160 to \$2,809,382 due to both an increase in the number of students in charter schools and an increase in charter tuition rates, coupled with an increase in special education placements.

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2017

Fiscal Year	Mills	% Increase
2017-2018	34.9138	4.35%
2016-2017	33.4598	2.10%
2015-2016	32.7716	2.40%
2014-2015	32.0036	2.60%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2017 the School District has \$170,660,046 invested in land, buildings and equipment, net of accumulated depreciation. Below is a summary of the capital assets.

	<u>2017</u>	<u>2016</u>
Land	\$ 2,812,500	\$ 2,812,500
Land improvements	7,425,060	7,425,060
Buildings and building improvements	232,864,251	231,136,835
Furniture and equipment	<u>15,882,530</u>	<u>15,289,903</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	258,984,341	256,664,298
Accumulated depreciation	<u>(88,324,295)</u>	<u>(80,676,057)</u>
TOTAL CAPITAL ASSETS, net	<u>\$ 170,660,046</u>	<u>\$ 175,988,241</u>

Debt

As of June 30, 2017, the School District had a total debt of \$161,352,872 in bonds, net of any interest. Below is a summary of debt for the District's outstanding bond issues:

<u>Bonds/Notes Issued</u>	<u>Maturing Date</u>	<u>Outstanding Principal</u>
2009A	08/15/26	\$ 21,965,000
2010	08/15/31	53,390,000
2013	08/15/20	17,677,872
2014A	08/15/19	8,740,000
2014B	08/15/17	1,725,000
2017A	08/01/25	<u>57,755,000</u>
		<u>\$ 161,252,872</u>

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2017

FOR THE FUTURE

Coatesville Area School District is currently facing financial challenges. The General Fund unassigned fund balance decreased by more than \$9 million for the period ended June 30, 2017. This was driven by a mix of increased charter school enrollment and increased charter tuition rates, especially in special education, as well as District special education costs, and increased costs for pensions. These challenges continue into the 2017-18 fiscal year, despite a real estate tax increase. The District is proactively developing a financial plan to address the challenges create by these mandated costs. Because of these financial challenges, the District will consider many cost savings ideas as it develops its 2018-19 budget. Additionally, another increase in the real estate tax rate will need to be seriously considered for 2018-19.

The pension rate, which was a major driver of costs for all school districts has begun to slow its rate of increase. The rate soared since 2010-11 from 5.64% of payroll to 32.57% of payroll in 2017-18. The rate will again increase in 2018-19 to 33.43% of payroll, but this is by far the smallest increase in the past seven years. Still, the District's share of pension costs will rise by approximately \$250,000 in 2018-19.

While facing the challenges mentioned above, the District also recognizes the need to address the overall conditions of its facilities. The Board adopted a long-term facilities plan during 2017 and is developing a financing plan for those needs going forward.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors, and creditors with a general overview of the School District's finances. If you have questions about this report or need additional financial information contact Jeff Ammerman, Business Administrator, Coatesville Area School District, 3030 C. G. Zinn Road, Thorndale, PA 19372 or via e-mail at Ammermanj@casdschools.org.

COATESVILLE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 10,607,201	\$ 1,369,451	\$ 11,976,652
Investments	4,213,386	-	4,213,386
Pledged taxes receivable	6,235,817	-	6,235,817
Internal balances	1,056,358	(1,056,358)	-
Due from other governments	9,206,171	113,139	9,319,310
Other receivables	476,261	18,798	495,059
Inventories	-	36,709	36,709
Capital assets			
Land	2,812,500	-	2,812,500
Land improvements	7,425,060	-	7,425,060
Buildings and building improvements	232,864,251	-	232,864,251
Furniture and equipment	15,882,530	1,555,042	17,437,572
Accumulated depreciation	(88,324,295)	(1,532,997)	(89,857,292)
TOTAL ASSETS	202,455,240	503,784	202,959,024
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources, pension activity	31,612,000	616,000	32,228,000
LIABILITIES			
Accounts payable and accrued expenses	9,729,232	44,971	9,774,203
Accrued salaries and benefits	7,849,774	45,983	7,895,757
Accrued interest	2,778,254	-	2,778,254
Unearned revenues	397,432	-	397,432
Long-term liabilities			
Portion due or payable within one year			
Bonds payable, net	8,469,097	-	8,469,097
Compensated absences	138,398	-	138,398
Portion due or payable after one year			
Bonds payable, net	161,882,833	-	161,882,833
Net pension liability	179,223,000	3,493,000	182,716,000
Other postemployment benefits	5,461,617	82,910	5,544,527
Compensated absences	1,245,580	69,284	1,314,864
TOTAL LIABILITIES	377,175,217	3,736,148	380,911,365
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts on refunding	570,102	-	570,102
Deferred inflows of resources, pension activity	3,577,000	70,000	3,647,000
TOTAL DEFERRED INFLOWS OF RESOURCES	4,147,102	70,000	4,217,102
NET POSITION			
Net investment in capital assets	(261,986)	22,045	(239,941)
Unrestricted	(146,993,093)	(2,708,409)	(149,701,502)
TOTAL NET POSITION	\$ (147,255,079)	\$ (2,686,364)	\$ (149,941,443)

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 120,122,881	\$ 483,053	\$ 15,973,097	\$ -
Instructional student support	8,255,220	-	875,684	-
Administrative and financial support services	12,884,104	-	902,844	-
Operation and maintenance of plant services	13,082,842	-	644,576	-
Pupil transportation	10,888,040	-	6,198,272	-
Student activities	1,253,545	73,012	89,123	-
Community services	25,063	-	96	-
Interest on long-term debt	8,169,264	-	726,558	-
TOTAL GOVERNMENTAL ACTIVITIES	174,680,959	556,065	25,410,250	-
BUSINESS-TYPE ACTIVITIES				
Food service	3,281,238	568,189	2,675,718	-
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 177,962,197	\$ 1,124,254	\$ 28,085,968	\$ -

GENERAL REVENUES

Property taxes, levied for general purposes

Taxes levied for specific purposes

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental</u>	<u>Business-Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Totals</u>
\$ (103,666,731)	\$ -	\$ (103,666,731)
(7,379,536)	-	(7,379,536)
(11,981,260)	-	(11,981,260)
(12,438,266)	-	(12,438,266)
(4,689,768)	-	(4,689,768)
(1,091,410)	-	(1,091,410)
(24,967)	-	(24,967)
<u>(7,442,706)</u>	<u>-</u>	<u>(7,442,706)</u>
<u>(148,714,644)</u>	<u>-</u>	<u>(148,714,644)</u>
<u>-</u>	<u>(37,331)</u>	<u>(37,331)</u>
<u>(148,714,644)</u>	<u>(37,331)</u>	<u>(148,751,975)</u>
94,691,373	-	94,691,373
8,500,623	-	8,500,623
31,109,801	-	31,109,801
211,303	10,239	221,542
530,082	-	530,082
<u>135,043,182</u>	<u>10,239</u>	<u>135,053,421</u>
(13,671,462)	(27,092)	(13,698,554)
<u>(133,583,617)</u>	<u>(2,659,272)</u>	<u>(136,242,889)</u>
<u>\$ (147,255,079)</u>	<u>\$ (2,686,364)</u>	<u>\$ (149,941,443)</u>

COATESVILLE AREA SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2017

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 4,134,449	\$ 1,093,154	\$ 5,379,598	\$ 10,607,201
Investments	4,213,386	-	-	4,213,386
Taxes receivable	6,235,817	-	-	6,235,817
Due from other funds	1,056,358	-	-	1,056,358
Due from other governments	9,206,171	-	-	9,206,171
Other receivables	476,261	-	-	476,261
TOTAL ASSETS	\$ 25,322,442	\$ 1,093,154	\$ 5,379,598	\$ 31,795,194
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 9,726,907	\$ -	\$ 2,325	\$ 9,729,232
Accrued salaries and benefits	7,849,774	-	-	7,849,774
TOTAL LIABILITIES	17,576,681	-	2,325	17,579,006
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
Property taxes	4,936,379	-	-	4,936,379
FUND BALANCES				
Restricted, capital projects	-	1,093,154	5,377,273	6,470,427
Unassigned	2,809,382	-	-	2,809,382
TOTAL FUND BALANCES	2,809,382	1,093,154	5,377,273	9,279,809
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 25,322,442	\$ 1,093,154	\$ 5,379,598	\$ 31,795,194

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 9,279,809
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Land	2,812,500
Land improvements	7,425,060
Buildings and building improvements	232,864,251
Furniture and equipment	15,882,530
Accumulated depreciation	(88,324,295)
<p>Deferred charges used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Deferred amounts on refunding	(570,102)
<p>Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore are not reported in the governmental funds.</p>	
	28,035,000
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(2,778,254)
Bonds payable	(170,351,930)
Compensated absences	(1,383,978)
Net pension liability	(179,223,000)
Net OPEB obligation	(5,461,617)
<p>Some of the School District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>	
	<u>4,538,947</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (147,255,079)</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES					
Local sources	\$ 105,651,301	\$ 2,813	\$ 25,078	\$ -	\$ 105,679,192
State sources	50,567,327	-	-	-	50,567,327
Federal sources	4,759,046	-	-	-	4,759,046
TOTAL REVENUES	160,977,674	2,813	25,078	-	161,005,565
EXPENDITURES					
Instruction	113,753,046	-	-	-	113,753,046
Support services	38,830,693	-	-	-	38,830,693
Operation of non-instructional services	1,232,412	-	-	-	1,232,412
Facilities acquisition, construction and improvement services	-	-	1,850,069	-	1,850,069
Refunds of prior year revenues	190,442	-	29,361	-	219,803
Debt issuance costs	-	-	-	660,305	660,305
Debt service	15,153,960	-	-	-	15,153,960
TOTAL EXPENDITURES	169,160,553	-	1,879,430	660,305	171,700,288
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,182,879)	2,813	(1,854,352)	(660,305)	(10,694,723)
OTHER FINANCING SOURCES (USES)					
Proceeds from refunding bonds	-	-	-	57,755,000	57,755,000
Premium from refunding bonds	-	-	-	7,876,050	7,876,050
Payment to refunded bond escrow agent	-	-	-	(64,970,745)	(64,970,745)
Transfers in	-	1,000,000	-	-	1,000,000
Transfers out	(1,000,000)	-	-	-	(1,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	(1,000,000)	1,000,000	-	660,305	660,305
NET CHANGE IN FUND BALANCES	(9,182,879)	1,002,813	(1,854,352)	-	(10,034,418)
FUND BALANCES AT BEGINNING OF YEAR	11,992,261	90,341	7,231,625	-	19,314,227
FUND BALANCES AT END OF YEAR	\$ 2,809,382	\$ 1,093,154	\$ 5,377,273	\$ -	\$ 9,279,809

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (10,034,418)
Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current period.	(5,324,302)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net assets.	(3,893)
Deferred charges are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense.	(1,405,031)
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	7,632,764
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:	
Accrued interest not reflected in Governmental Funds	96,658
Pension plan expense	(4,746,000)
In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	222,486
The net change in the liability for the net OPEB obligation is reported in the government-wide statements but not in the Governmental Funds statements.	(161,927)
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues decreased by this amount this year.	52,201
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (13,671,462)</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

	Enterprise Fund <u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,369,451
Due from other governments	113,139
Other receivables	18,798
Inventories	<u>36,709</u>
TOTAL CURRENT ASSETS	<u>1,538,097</u>
CAPITAL ASSETS	
Furniture and equipment	1,555,042
Accumulated depreciation	<u>(1,532,997)</u>
TOTAL CAPITAL ASSETS	<u>22,045</u>
TOTAL ASSETS	<u>1,560,142</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources, pension activity	<u>616,000</u>
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	90,954
Due to other funds	<u>1,056,358</u>
TOTAL CURRENT LIABILITIES	<u>1,147,312</u>
NONCURRENT LIABILITIES	
Compensated absences	69,284
Other postemployment benefits	82,910
Net pension liability	<u>3,493,000</u>
TOTAL NONCURRENT LIABILITIES	<u>3,645,194</u>
TOTAL LIABILITIES	<u>4,792,506</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resource, pension activity	<u>70,000</u>
NET POSITION	
Net investment in capital assets	22,045
Unrestricted	<u>(2,708,409)</u>
TOTAL NET POSITION	<u>\$ (2,686,364)</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	Enterprise Fund Food Service Fund
OPERATING REVENUES	
Charges for services	\$ 461,048
Miscellaneous	<u>107,141</u>
TOTAL OPERATING REVENUES	<u>568,189</u>
OPERATING EXPENSES	
Salaries	945,845
Employee benefits	702,129
Purchased professional and technical services	38,852
Purchased property services	29,146
Other purchased services	1,817
Supplies	1,526,902
Depreciation	36,019
Other operating expenses	<u>528</u>
TOTAL OPERATING EXPENSES	<u>3,281,238</u>
OPERATING LOSS	<u>(2,713,049)</u>
NONOPERATING REVENUES	
Earnings on investments	10,239
State sources	253,072
Federal sources	<u>2,422,646</u>
TOTAL NONOPERATING REVENUES	<u>2,685,957</u>
CHANGE IN NET POSITION	(27,092)
NET POSITION AT BEGINNING OF YEAR	<u>(2,659,272)</u>
NET POSITION AT END OF YEAR	<u>\$ (2,686,364)</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

YEAR ENDED JUNE 30, 2017

	<u>Enterprise Fund Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 560,721
Payments to employees	(1,510,492)
Payments to suppliers	(2,107,681)
NET CASH USED BY OPERATING ACTIVITIES	<u>(3,057,452)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Due to other funds	(146,541)
Federal sources	2,378,825
State sources	253,396
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,485,680</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>10,239</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(561,533)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,930,984</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,369,451</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (2,713,049)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	36,019
Pension expense	91,000
Increase in	
Other receivables	(7,468)
Inventories	(10,419)
Increase (decrease) in	
Accounts payable and accrued liabilities	(500,017)
Compensated absences	49,266
Other postemployment benefits	(2,784)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (3,057,452)</u>
SUPPLEMENTAL DISCLOSURES	
Noncash activities	
Donated commodities	\$ 188,508

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Private Purpose Trust Fund	Agency Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ <u>128,237</u>	\$ <u>304,539</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable	\$ 1,035	\$ <u>304,539</u>
NET POSITION		
Held in trust for benefits and other purposes	<u>127,202</u>	
TOTAL LIABILITIES AND NET POSITION	<u>\$ 128,237</u>	

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2017

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Contributions, local	\$ 10,000
Investment earnings	<u>695</u>
TOTAL ADDITIONS	10,695
DEDUCTIONS	
Scholarships	<u>81,715</u>
CHANGE IN NET POSITION	(71,020)
NET POSITION AT BEGINNING OF YEAR	<u>198,222</u>
NET POSITION AT END OF YEAR	<u><u>\$ 127,202</u></u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Joint Ventures

The District is a participating member of the Center for Arts and Technology (the "Vo-Tech"). The Vo-Tech is run by a joint board consisting of school directors from each member district. The Board of Directors from each member district must approve the Vo-Tech's annual budget. Each member pays an allocated share of the debt and operating costs of the Vo-Tech based on the number of students from each district. For fiscal year ended June 30, 2017, the District's share of operating costs was \$2,630,736. The Vo-Tech prepares financial statements which are available to the public. The financial statements of the Vo-Tech are available from the Chester County Intermediate Unit located at 455 Boot Road, Downingtown, PA 19335.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting

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

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

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

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

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The *Debt Service Fund* is used to account for the incurrence and payment of debt obligations

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

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

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition and no restrictions on withdrawal.

Under Act No. 72, enacted by the General Assembly of the Commonwealth of Pennsylvania, the funds deposited with the various banks are permitted to be secured on a pooled basis with all other public funds which the banking institution has on deposit. These may be bonds of the United States, any state of the United States, or bonds of any political subdivision of Pennsylvania or the general state authority or their authorities created by the General Assembly of the Commonwealth of Pennsylvania, or insured with the Federal Deposit Insurance Corporation. The market value of such bonds pledged must equal 120% of the funds deposited. The security pledged by the various depositories utilized during the year and at June 30, 2017, was in excess of the minimum requirements just described.

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 THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District has adopted GASB Statements No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, No. 72, Fair Value Measurement and Application and No. 79, Certain External Investment Pools and Pool Participants. In accordance with these Statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in qualifying external investment pools are reported at amortized cost basis.

Receivables and Payables

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

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.

Property Taxes

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

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

Assessed valuations of property are determined by the Chester County Board of Assessments. The District’s taxes are billed and collected by a third-party administrator. The tax on real estate for public school purposes for fiscal 2016-2017 was 33.4598 mills (\$33.4598 for \$1,000 of assessed valuation) for the entire District.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items and Inventories

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

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

Capital Assets

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

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

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

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

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

Compensated Absences

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

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

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

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only one item that qualifies for reporting in this category. The deferred outflow related to pension activity, reported in the government-wide statement of net position and the proprietary fund statement of net position. The deferred outflow related to pension activity is the result of changes in the School District's proportionate share of the total plan from year to year, the difference between actual employer contributions and the School District's proportionate share of total contributions, changes in assumption, net difference between projected and actual investment earnings and actual contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has three items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. The second item, deferred amounts on refunding, is reported in the government-wide statement of net position and results from the difference in the carrying value of refunded debt and its reacquisition prices. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The third item, deferred inflows related to pension activity, are reported in the government-wide statement of net position and the proprietary fund statement of net position. The deferred inflow related to the pension activity is the result of differences between expected and actual experience and changes in proportion. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 54

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

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

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Budgetary Information

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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

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

NOTE C - CASH 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, 2017, the carrying amount of the District's deposits was \$12,409,428 and the bank balance was \$14,522,491. Cash deposits in the amount of \$14,522,491 are uninsured and uncollateralized, and are in the Pennsylvania School District Liquid Asset Fund ("PSDLAF). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2017, PSDLAF was rated as AAAM by a nationally recognized statistical rating agency.

Investments

As of June 30, 2017, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
			<u>Less Than One Year</u>	<u>One to Five Years</u>
State investment pools	\$ <u>4,213,386</u>	\$ <u>-</u>	\$ <u>4,213,386</u>	\$ <u>-</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE C - CASH AND INVESTMENTS (Continued)

The School District's investments are in the PSDLAF program, which is a fund similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PSDLAF cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at June 30, 2017, is \$4,213,386. These assets maintain a stable net asset value of \$1 per share. PSDALF is not SEC-registered. All investments are monitored weekly by Standard & Poor's and are subject to an independent audit on an annual basis.

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79.

The School District had \$4,213,386 invested in PSDLAF CD program accounts at June 30, 2017. These investments generally must be held to maturity. CD programs are subject to withdrawal restrictions at the applicable banks.

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, 2017, 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, 2017, PSDLAF was rated as AAAM by a nationally recognized statistical rating organization.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 2,812,500	\$ -	\$ -	\$ 2,812,500
Capital assets being depreciated				
Land improvements	7,425,060	-	-	7,425,060
Buildings and building improvements	231,136,835	1,727,416	-	232,864,251
Furniture and equipment	15,289,903	596,953	(4,326)	15,882,530
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>253,851,798</u>	<u>2,324,369</u>	<u>(4,326)</u>	<u>256,171,841</u>
Accumulated depreciation				
Land improvements	(7,099,336)	(23,259)	-	(7,122,595)
Buildings and building improvements	(62,105,912)	(7,232,231)	-	(69,338,143)
Furniture and equipment	(11,470,809)	(393,181)	433	(11,863,557)
TOTAL ACCUMULATED DEPRECIATION	<u>(80,676,057)</u>	<u>(7,648,671)</u>	<u>433</u>	<u>(88,324,295)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>173,175,741</u>	<u>(5,324,302)</u>	<u>(3,893)</u>	<u>167,847,546</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>175,988,241</u>	<u>(5,324,302)</u>	<u>(3,893)</u>	<u>170,660,046</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	1,555,042	-	-	1,555,042
Accumulated depreciation	(1,496,978)	(36,019)	-	(1,532,997)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>58,064</u>	<u>(36,019)</u>	<u>-</u>	<u>22,045</u>
CAPITAL ASSETS, net	<u>\$ 176,046,305</u>	<u>\$ (5,360,321)</u>	<u>\$ (3,893)</u>	<u>\$ 170,682,091</u>

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

GOVERNMENTAL ACTIVITIES	
Instruction	\$ 2,677,035
Operation and maintenance of plant service	152,973
Student transportation services	764,867
Central and other support services	152,974
Facilities and construction	<u>3,900,822</u>
TOTAL DEPRECIATION EXPENSE, GOVERNMENTAL ACTIVITIES	<u>\$ 7,648,671</u>
BUSINESS-TYPE ACTIVITIES	<u>\$ 36,019</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE E - INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2017, is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,056,358	\$ -
Food Service Fund	<u>-</u>	<u>1,056,358</u>
	<u>\$ 1,056,358</u>	<u>\$ 1,056,358</u>

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

Interfund transfers for the period ending June 30, 2017, were as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
General Fund	\$ -	\$ 1,000,000
Capital Projects Fund	<u>1,000,000</u>	<u>-</u>
	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

The Board approved a transfer from the General Fund to the Capital Projects Fund.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE F - GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental and business-type activities for the year ended June 30, 2017:

	Balance July 1, 2016	Additions
GOVERNMENTAL ACTIVITIES		
Bonds payable	\$ 177,984,694	\$ 65,631,050
Accumulated compensated absences	1,606,464	-
Net pension liability	159,241,000	19,982,000
Other postemployment benefits	<u>5,299,690</u>	<u>161,927</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 344,131,848</u>	<u>\$ 85,774,977</u>
BUSINESS-TYPE ACTIVITIES		
Accumulated compensated absences	\$ 20,018	\$ 49,266
Net pension liability	3,104,000	389,000
Other postemployment benefits	<u>85,694</u>	<u>-</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 3,209,712</u>	<u>\$ 438,266</u>

<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
\$ (73,263,814)	\$ 170,351,930	\$ 8,469,097
(222,486)	1,383,978	138,398
-	179,223,000	-
-	<u>5,461,617</u>	<u>-</u>
<u>\$ (73,486,300)</u>	<u>\$ 356,420,525</u>	<u>\$ 8,607,495</u>
\$ -	\$ 69,284	\$ -
-	3,493,000	-
<u>(2,784)</u>	<u>82,910</u>	<u>-</u>
<u>\$ (2,784)</u>	<u>\$ 3,645,194</u>	<u>\$ -</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE F - GENERAL LONG-TERM DEBT (Continued)

Bonds payable, net, consists of the following:

Bonds payable, at face	\$ 161,252,872
Bond premiums/(discounts), net	<u>9,099,058</u>
TOTAL BONDS PAYABLE, net	<u>\$ 170,351,930</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

General Obligation Bonds are as follows:

Series A of 2009, maturing August 15, 2026, bearing interest ranging from 4.00% to 5.00%, interest payable semiannually on February 15 and August 15	\$ 21,965,000
Series of 2010, maturing August 2031, bearing interest ranging from 2.25% to 5.00%, interest payable semiannually on February 15 and August 15	53,390,000
Series of 2013, maturing August 2020, bearing interest ranging from 1.33% to 4.13%, interest payable semiannually on February 15 and August 15	17,677,872
Series A of 2014, maturing August 2019, bearing interest ranging from 1.00% to 4.00%, interest payable semiannually on February 15 and August 15	8,740,000
Series B of 2014, maturing August 2017, bearing interest ranging from 1.32% to 2.30%, interest payable semiannually on February 15 and August 15	1,725,000
Series A of 2017, maturing August 2025, bearing interest ranging from 2.00% to 5.00%, interest payable semiannually on February 1 and August 1	<u>57,755,000</u>
TOTAL GENERAL OBLIGATION BONDS	<u>\$ 161,252,872</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE F - GENERAL LONG-TERM DEBT (Continued)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 7,432,064	\$ 6,934,125	\$ 14,366,189
2019	7,556,705	7,910,272	15,466,977
2020	8,855,989	6,719,815	15,575,804
2021	7,163,114	7,707,852	14,870,966
2022	9,935,000	5,961,359	15,896,359
2023 to 2027	58,245,000	21,634,226	79,879,226
2028 ro 2032	62,065,000	5,976,128	68,041,128
	<u>\$ 161,252,872</u>	<u>\$ 62,843,777</u>	<u>\$ 224,096,649</u>

NOTE G - OPERATING LEASES

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

<u>Year Ending June 30,</u>	
2018	\$ <u>161,348</u>
	<u>\$ 161,348</u>

Rental expense, including short-term rentals, for the year ended June 30, 2017, was \$647,433.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE H - PENSION PLAN

Summary of Significant Accounting Policies

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information About the Pension Plan

Plan Description - PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided - PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE H - PENSION PLAN (Continued)

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

Members Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with services rendered on or after January 1, 2002.
- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2017, was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the School District were \$13,739,000 for the year ended June 30, 2017.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE H - PENSION PLAN (Continued)

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the School District reported a liability of \$182,716,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the School District's proportion was 0.3687% which was an increase of 0.0061% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$18,485,000. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
GOVERNMENTAL ACTIVITIES		
Difference between expected and actual experience	\$ -	\$ 1,493,000
Changes in assumptions	6,470,000	-
Net difference between projected and actual investment earnings	9,989,000	-
Changes in proportions	1,300,000	2,084,000
Difference between employer contributions and proportionate share of total contributions	377,000	-
Contributions subsequent to the measurement date	<u>13,476,000</u>	<u>-</u>
	<u>\$ 31,612,000</u>	<u>\$ 3,577,000</u>
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	\$ -	\$ 29,000
Changes in assumptions	126,000	-
Net difference between projected and actual investment earnings	195,000	-
Changes in proportions	25,000	41,000
Difference between employer contributions and proportionate share of total contributions	7,000	-
Contributions subsequent to the measurement date	<u>263,000</u>	<u>-</u>
	<u>\$ 616,000</u>	<u>\$ 70,000</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE H - PENSION PLAN (Continued)

\$13,739,000 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the new pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2018	\$ 2,949,000	\$ 57,000
2019	2,949,000	57,000
2020	5,372,000	105,000
2021	<u>3,289,000</u>	<u>64,000</u>
	<u>\$ 14,559,000</u>	<u>\$ 283,000</u>

Changes in Actuarial Assumptions - The total pension liability as of June 30, 2016, was determined by rolling forward the System's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Changes in assumptions used in the measurement of the Total Pension Liability beginning June 30, 2016

- The Investment Rate of Return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.0% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE H - PENSION PLAN (Continued)

- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation. Mortality rates were based on the RP-2000 Combined Healthy Annuitant Table (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE H - PENSION PLAN (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLP's	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	20.0%
Financing (LIBOR)	-14.0%	50.0%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount Rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE H - PENSION PLAN (Continued)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School District's proportionate share of the net pension liability	\$ <u>223,511,000</u>	\$ <u>182,716,000</u>	\$ <u>148,436,000</u>

Pension Plan Fiduciary Net Position - Detailed information about PSERS's fiduciary net position is available in the PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

NOTE I - SELF-INSURANCE

The District administers a self-insurance program to provide for the medical care for eligible employees and their dependents. Benefit payments plus an administrative charge are made to a third-party administrator, who approves and processes all claims. The District has recorded a liability for claims incurred through June 30, 2017.

Change in Aggregate Claims Liabilities

Change in aggregate claims liabilities for the year ended June 30, 2017, consisted of the following:

CLAIMS LIABILITY, BEGINNING OF YEAR	\$ 2,153,938
Current year claims and changes in estimates	11,862,018
Claim payments by the District	<u>(11,990,929)</u>
CLAIMS LIABILITY, END OF YEAR	<u>\$ 2,025,027</u>

The liability is included in accrual salaries and benefits in the financial statements. Self-Insurance benefits also are offered to retired District employees according to the provisions set forth in each bargaining unit's ERIP agreement. Currently, 80 retirees are eligible for benefits, which are financed on a pay-as-you-go basis. The total amount of benefits paid was \$1,026,315 for the year ended June 30, 2017.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE J - COMMITMENTS AND CONTINGENCIES

Government Grants and Awards

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

Litigation

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

Tax Increment Financing Plan and Cooperation Agreement

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

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

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

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

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE J - COMMITMENTS AND CONTINGENCIES (Continued)

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

NOTE K - RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions of insurance coverages in the 2016-2017 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE L - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2017, the District contributed \$1,004,725 to the plan for current premiums.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Normal cost	\$ 2,542,881
Interest on net OPEB obligation	<u>242,342</u>
ANNUAL REQUIRED CONTRIBUTION (ARC)	2,785,223
Adjustment to ARC	<u>(1,044,104)</u>
ANNUAL OPEB EXPENSE	1,741,119
Net OPEB contributions during the year	<u>(1,581,976)</u>
INCREASE IN NET OPEB OBLIGATION	159,143
Net OPEB obligation at beginning of year	<u>5,385,384</u>
 NET OPEB OBLIGATION AT END OF YEAR	 <u>\$ 5,544,527</u>

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 2,744,355	92.6%	\$ 5,285,955
2016	1,755,922	94.3%	5,385,384
2017	1,741,119	90.9%	5,544,527

Funded Status and Funding Progress

As of June 30, 2015, the actuarial accrued liability for benefits was \$11,434,229 and the actuarial value of assets was \$0, all of which was unfunded.

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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

The schedule of funding progress, presented as required supplementary information on page 54, will present multiyear trend information in the future about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

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

In the June 30, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual healthcare cost trend rate of 6.00% in 2015, reduced by decrements of 0.5% per year to an ultimate rate of 5.50% in 2016. The UAAL is being amortized based on the level dollar, six year open period. The remaining amortization period at June 30, 2015, was seven years.

REQUIRED SUPPLEMENTARY INFORMATION

COATESVILLE AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 102,989,496	\$ 102,989,496	\$ 105,651,301	\$ 2,661,805
State sources	47,367,638	47,367,638	50,567,327	3,199,689
Federal sources	2,830,388	2,830,388	4,759,046	1,928,658
TOTAL REVENUES	153,187,522	153,187,522	160,977,674	7,790,152
EXPENDITURES				
Instruction				
Regular programs	64,753,962	64,753,962	70,855,616	(6,101,654)
Special programs	28,627,520	28,627,520	38,765,814	(10,138,294)
Vocational programs	3,552,915	3,552,915	3,308,205	244,710
Other instructional programs	345,467	345,467	823,411	(477,944)
TOTAL INSTRUCTION	97,279,864	97,279,864	113,753,046	(16,473,182)
Support services				
Pupil personnel services	3,765,519	3,765,519	4,138,611	(373,092)
Instructional staff services	2,694,910	2,694,910	2,482,744	212,166
Administrative services	7,003,371	7,003,371	7,767,213	(763,842)
Pupil health	1,009,176	1,009,176	1,122,562	(113,386)
Business services	1,381,990	1,381,990	1,187,946	194,044
Operation and maintenance of plant services	9,865,262	9,865,262	9,286,239	579,023
Student transportation services	8,690,878	8,690,878	10,111,196	(1,420,318)
Central support services	1,622,659	1,622,659	2,623,076	(1,000,417)
Other support services	-	-	111,106	(111,106)
TOTAL SUPPORT SERVICES	36,033,765	36,033,765	38,830,693	(2,796,928)
Operation of non-instructional services				
Student activities	1,248,554	1,248,554	1,207,402	41,152
Community services	37,762	37,762	25,010	12,752
TOTAL OPERATION OF NON-INSTRUCTIONAL SERVICES	1,286,316	1,286,316	1,232,412	53,904
Debt service	15,333,960	15,333,960	15,153,960	180,000
Refund of prior year revenues	-	-	190,442	(190,442)
Budgetary reserve	2,253,617	2,253,617	-	2,253,617
TOTAL EXPENDITURES	152,187,522	152,187,522	169,160,553	(16,973,031)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	1,000,000	1,000,000	(8,182,879)	(9,182,879)
OTHER FINANCING SOURCES				
Transfers out	(1,000,000)	(1,000,000)	(1,000,000)	-
TOTAL OTHER FINANCING SOURCES	(1,000,000)	(1,000,000)	(1,000,000)	-
NET CHANGE IN FUND BALANCE				
	\$ -	\$ -	(9,182,879)	\$ (9,182,879)
FUND BALANCE AT BEGINNING OF YEAR			11,992,261	
FUND BALANCE AT END OF YEAR			\$ 2,809,382	

See accompanying note to the budgetary comparison schedule.

COATESVILLE AREA SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2017

NOTE A - BUDGETARY INFORMATION

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

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

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

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

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

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST THREE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
SCHOOL DISTRICT'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	<u>0.3687%</u>	<u>0.3748%</u>	<u>0.2221%</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	<u>\$ 182,716,000</u>	<u>\$ 162,345,000</u>	<u>\$ 87,909,000</u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	<u>\$ 47,754,301</u>	<u>\$ 48,219,963</u>	<u>\$ 28,336,379</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	<u>382.62%</u>	<u>336.68%</u>	<u>310.23%</u>
THE PLAN'S FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>50.14%</u>	<u>45.64%</u>	<u>57.24%</u>

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
LAST THREE FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 13,739,000	\$ 11,959,000	\$ 9,887,000
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>13,739,000</u>	<u>11,959,000</u>	<u>9,887,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	<u>\$ 47,051,370</u>	<u>\$ 47,754,301</u>	<u>\$ 48,219,963</u>
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>29.20%</u>	<u>25.04%</u>	<u>20.50%</u>

COATESVILLE AREA SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2017

SCHEDULE OF FUNDING PROGRESS

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2011	\$ -	\$ 18,357,465	\$ 18,357,465	0%	\$ 44,917,748	40.87%
2013	-	17,562,004	17,562,004	0%	41,911,328	41.90%
2015	-	11,434,229	11,434,229	0%	40,540,784	28.20%

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Coatesville Area School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Coatesville Area School District's basic financial statements, and have issued our report thereon dated February 27, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maillie LLP

Oaks, Pennsylvania
February 27, 2018

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards in Accordance With the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the Coatesville Area School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Coatesville Area School District's major federal programs for the year ended June 30, 2017. The Coatesville Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Coatesville Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Coatesville Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Coatesville Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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

Report on Internal Control Over Compliance

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Coatesville Area School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Coatesville Area School District's basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance) 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 is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Purpose of this Report

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

Maillie LLP

Oaks, Pennsylvania
February 27, 2018

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

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF EDUCATION				
Passed through the Pennsylvania Department of Education				
Title I Improving Basic Programs	I	84.010	013-14-0089	July 1, 2013 to September 30, 2014
Title I Improving Basic Programs	I	84.010	013-16-0089	July 1, 2015 to September 30, 2016
Title I Improving Basic Programs	I	84.010	013-17-0089	July 1, 2016 to September 30, 2017
Title I Improving Basic Programs - Delinquent	I	84.010	107-15-0089	July 1, 2014 to September 30, 2015
Title I Improving Basic Programs - Delinquent	I	84.010	107-16-0089	July 1, 2015 to September 30, 2016
Title I Improving Basic Programs - Delinquent	I	84.010	107-17-0089	July 1, 2016 to September 30, 2017
Title I Improving Basic Programs - Program Improvement	I	84.010	042-13-0089	April 10, 2013 to September 30, 2014
Striving Readers Comprehensive Literacy Grant	I	84.010	143-120-089	July 1, 2013 to September 30, 2014
TOTAL TITLE I				
Title II Improving Teacher Quality	I	84.367	020-14-0089	July 1, 2013 to September 30, 2014
Title II Improving Teacher Quality	I	84.367	020-15-0089	July 1, 2014 to September 30, 2015
Title II Improving Teacher Quality	I	84.367	020-16-0089	July 1, 2015 to September 30, 2016
Title II Improving Teacher Quality	I	84.367	020-17-0089	July 1, 2016 to September 30, 2017
TOTAL TITLE II				
Title III Language Instruction	I	84.365	010-15-0089	July 1, 2014 to September 30, 2015
Title III Language Instruction	I	84.365	010-16-0089	July 1, 2015 to September 30, 2016
Title III Language Instruction	I	84.365	010-17-0089	July 1, 2016 to September 30, 2017
TOTAL TITLE III				
21st Century Community Learning Centers	I	84.287	410-005-2385	July 1, 2014 to June 30, 2015
21st Century Community Learning Centers	I	84.287	410-006-2385	July 1, 2012 to September 30, 2013
21st Century Community Learning Centers	I	84.287	410-006-2385	July 1, 2013 to September 30, 2014
TOTAL 21st CENTURY COMMUNITY LEARNING CENTERS				
SUBTOTAL FORWARD				

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2016</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2017</u>	<u>Passed Through to Sub-Recipients</u>
\$ 1,520,118	\$ (92,522)	\$ (92,522)	\$ -	\$ -	\$ -	\$ -
1,752,913	557,527	218,283	339,244	339,244	-	-
2,014,375	1,188,506	-	1,528,366	1,528,366	339,860	-
42,691	8,538	8,538	-	-	-	-
42,268	14,089	14,089	-	-	-	-
421	29,383	-	32,100	32,100	2,717	-
161,209	-	(10,098)	-	-	(10,098)	-
861,400	-	(20,387)	-	-	(20,387)	-
	<u>1,705,521</u>	<u>117,903</u>	<u>1,899,710</u>	<u>1,899,710</u>	<u>312,092</u>	<u>-</u>
455,752	(55,584)	(55,584)	-	-	-	-
455,199	242,667	242,667	-	-	-	-
454,793	150,803	145,974	4,829	4,829	-	-
448,643	<u>160,801</u>	<u>-</u>	<u>318,166</u>	<u>318,166</u>	<u>157,365</u>	<u>-</u>
	<u>498,687</u>	<u>333,057</u>	<u>322,995</u>	<u>322,995</u>	<u>157,365</u>	<u>-</u>
83,262	5,551	(2,105)	7,656	7,656	-	-
84,474	-	(56,108)	73,451	73,451	17,343	-
90,961	<u>25,989</u>	<u>-</u>	<u>648</u>	<u>648</u>	<u>(25,341)</u>	<u>-</u>
	31,540	(58,213)	81,755	81,755	(7,998)	-
252,793	-	151,694	-	-	151,694	-
252,793	-	63,198	-	-	63,198	-
252,793	<u>-</u>	<u>(24,008)</u>	<u>-</u>	<u>-</u>	<u>(24,008)</u>	<u>-</u>
	<u>-</u>	<u>190,884</u>	<u>-</u>	<u>-</u>	<u>190,884</u>	<u>-</u>
	<u>\$ 2,235,748</u>	<u>\$ 583,631</u>	<u>\$ 2,304,460</u>	<u>\$ 2,304,460</u>	<u>\$ 652,343</u>	<u>\$ -</u>

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF EDUCATION				
SUBTOTAL FORWARDED				
Passed through Chester County Intermediate Unit				
IDEA	I	84.027	062-15-0024	July 1, 2015 to September 30, 2016
IDEA	I	84.027	062-16-0024	July 1, 2016 to September 30, 2017
IDEA 619	I	84.027	131-150024B	July 1, 2015 to September 30, 2016
IDEA 619	I	84.027	131-160024B	July 1, 2016 to September 30, 2017
TOTAL SPECIAL EDUCATION CLUSTER				
TOTAL U.S. DEPARTMENT OF EDUCATION				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through the Substance Abuse and Mental Health Services Administration				
Substance Abuse and Mental Health Services	I	93.243	N/A	September 30, 2014 to September 29, 2016
Passed through Leader Services				
Medical Assistance	I	93.778	N/A	July 1, 2014 to June 30, 2015
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Pennsylvania Department of Education				
National School Lunch Program	I	10.555	N/A	July 1, 2015 to June 30, 2016
National School Lunch Program	I	10.555	N/A	July 1, 2016 to June 30, 2017
National School Breakfast Program	I	10.553	N/A	July 1, 2015 to June 30, 2016
National School Breakfast Program	I	10.553	N/A	July 1, 2016 to June 30, 2017
Passed through the Pennsylvania Department of Agriculture				
Value of U.S.D.A. Donated Commodities	I	10.555	N/A	July 1, 2015 to June 30, 2016
Value of U.S.D.A. Donated Commodities	I	10.555	N/A	July 1, 2016 to June 30, 2017
TOTAL CHILD NUTRITION CLUSTER				
Passed through the Pennsylvania Department of Education				
Fresh Fruit and Vegetable Program	I	10.582	N/A	July 1, 2015 to June 30, 2016
Fresh Fruit and Vegetable Program	I	10.582	N/A	July 1, 2016 to June 30, 2017
TOTAL FRESH FRUIT AND VEGETABLE PROGRAM				
TOTAL U.S. DEPARTMENT OF AGRICULTURE				
TOTAL FEDERAL AWARDS				

Footnotes:

- (A) Total amount of commodities received from Department of Agriculture.
- (B) Beginning inventory at July 1, 2016.
- (C) Total amount of commodities used.
- (D) Ending inventory at June 30, 2017.

Source Codes:

I = Indirect funding

Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2017	Passed Through to Sub-Recipients
	\$ 2,235,748	\$ 583,631	\$ 2,304,460	\$ 2,304,460	\$ 652,343	\$ -
\$ 1,078,388	287,570	287,570	-	-	-	-
1,219,020	893,948	-	1,219,020	1,219,020	325,072	-
3,874	3,874	3,874	-	-	-	-
4,042	-	-	4,042	4,042	4,042	-
	<u>1,185,392</u>	<u>291,444</u>	<u>1,223,062</u>	<u>1,223,062</u>	<u>329,114</u>	<u>-</u>
	<u>3,421,140</u>	<u>875,075</u>	<u>3,527,522</u>	<u>3,527,522</u>	<u>981,457</u>	<u>-</u>
99,756	-	24,076	10,960	10,960	35,036	-
58,665	<u>45,092</u>	<u>35,627</u>	<u>-</u>	<u>-</u>	<u>(9,465)</u>	<u>-</u>
	<u>45,092</u>	<u>59,703</u>	<u>10,960</u>	<u>10,960</u>	<u>25,571</u>	<u>-</u>
N/A	47,930	47,930	-	-	-	-
N/A	1,558,072	-	1,600,847	1,600,847	42,775	-
N/A	15,503	15,503	-	-	-	-
N/A	492,486	-	508,941	508,941	16,455	-
N/A	- (A)	(18,373) (B)	18,373	18,373 (C)	-	-
N/A	<u>188,508 (A)</u>	<u>-</u>	<u>170,134</u>	<u>170,134 (C)</u>	<u>(18,374) (D)</u>	<u>-</u>
	<u>2,302,499</u>	<u>45,060</u>	<u>2,298,295</u>	<u>2,298,295</u>	<u>40,856</u>	<u>-</u>
N/A	3,511	3,511	-	-	-	-
N/A	<u>73,356</u>	<u>-</u>	<u>124,350</u>	<u>124,350</u>	<u>50,994</u>	<u>-</u>
	<u>76,867</u>	<u>3,511</u>	<u>124,350</u>	<u>124,350</u>	<u>50,994</u>	<u>-</u>
	<u>2,379,366</u>	<u>48,571</u>	<u>2,422,645</u>	<u>2,422,645</u>	<u>91,850</u>	<u>-</u>
\$	<u><u>5,845,598</u></u>	<u><u>983,349</u></u>	<u><u>5,961,127</u></u>	<u><u>5,961,127</u></u>	<u><u>1,098,878</u></u>	<u><u>-</u></u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

NOTE A - SCOPE OF THIS SCHEDULE

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

NOTE B - BASIS OF ACCOUNTING

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

NOTE C - NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555 Value of U.S.D.A. Donated Commodities represent surplus food consumed by the District during the 2017 fiscal year.

NOTE D - INDIRECT COST RATES

The School District has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Coatesville Area School District.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Coatesville Area School District were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards in Accordance with the Uniform Guidance.
5. The auditors' report on compliance for the major award programs for the Coatesville Area School District expresses an unmodified opinion.
6. There were no audit findings that are required to be reported in accordance with the Uniform Grant Guidance.
7. The programs tested as major programs include:

Program	CFDA
Title I	84.010
Title II	84.367
Special Education Cluster - Grants to States	84.027

8. The threshold used for distinguishing Types A and B programs was \$750,000.
9. Coatesville Area School District was determined not to be a low-risk auditee.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

COATESVILLE AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2017

2016-02 - Title I Grants to Local Educational Agencies: Reporting

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

Description of Finding: The District did not properly report its expenditures.

Current Status: This finding is no longer applicable. The District has implemented policies and procedures to properly report expenditures.

2016-03 - Title II Improving Teacher Quality State Grants: Reporting

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

Description of Finding: The District did not properly report its expenditures.

Current Status: This finding is no longer applicable. The District has implemented policies and procedures to properly report expenditures.