

COATESVILLE AREA SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2018



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

COATESVILLE AREA SCHOOL DISTRICT

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COATESVILLE AREA SCHOOL DISTRICT

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of School Directors
Coatesville Area School District
Thorndale, 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, 2018, 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
Thorndale, 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, 2018, 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.

Emphasis of Matter

For the year ended June 30, 2018, the Coatesville Area School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 57 and 58, schedules of the school district's proportionate share of the PSERS net pension liability on page 59, schedules of school district's PSERS pension contributions on page 60 and schedule of the school district's proportionate share of the PSERS net other postemployment benefit plan liability on page 61, schedule of the school district's PSERS other postemployment benefit plan contributions on page 62 and schedule of changes in the total other postemployment benefit plan liability and related ratios on page 63 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
Thorndale, 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 7, 2019, 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 7, 2019

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

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, 2018. 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 2017-18 are as follows:

The Net Change in the Fund Balance for the General Fund increased by \$8,444,707 to \$11,254,089. However, this was caused by a borrowing and a sale/leaseback transaction on one of the District's buildings that provided more than \$13.3 million in funds to keep the District liquid. Without that transaction, the General Fund balance would have decreased by more than \$4.8 million and the General Fund Balance would have become negative.

Ongoing general fund revenues (excluding the sale/leaseback revenue) were \$167,393,415 while expenses were \$171,954,341. The cause of the deficit was a large increase in Charter School enrollments, coupled with some increases in Special Education costs.

The District has a Capital Fund Balance of \$6,326,232. These funds are restricted to be used for building upgrades and other large capital type purchases.

The Food Service fund had revenues of \$3,371,032 and expenses of \$3,241,913 with an increase in net position of \$129,119 to (\$2,651,755). The net position is negative because of a more than \$3 million net pension liability. That liability is not immediately due and will be paid over time through changes in the PSERS rate.

OTHER POST-EMPLOYMENT BENEFITS

Per GASB statements, 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 \$14,879,036 for the Governmental Activities and \$242,409 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, 2018

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 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 2017-18 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, 2018

FINANCIAL STATEMENTS

Condensed Statements of Net Position
June 30, 2017 and 2018

	Governmental Activities		Business-Type Activities		Totals	
	2017	2018	2017	2018	2017	2018
ASSETS AND DEFERRED OUTFLOWS						
Current and other assets	\$ 31,795,194	\$ 42,218,965	\$ 48,1739	\$ 552,051	\$ 32,276,933	\$ 42,771,016
Capital assets	170,660,046	163,329,847	22,045	-	170,682,091	163,329,847
Deferred outflows of resources	316,12,000	26,439,726	616,000	575,774	32,228,000	27,015,500
TOTAL ASSETS AND DEFERRED OUTFLOWS	234,067,240	231,988,538	1,119,784	1,127,825	235,187,024	233,116,363
LIABILITIES AND DEFERRED INFLOWS						
Current liabilities	29,362,187	23,906,981	90,954	2,682	29,453,141	23,909,663
Long-term liabilities	347,813,030	362,442,123	3,645,194	3,605,898	351,458,224	366,048,021
Deferred inflows of resources	4,147,102	11,232,541	70,000	17,1000	4,217,102	11,403,541
TOTAL LIABILITIES	381,322,319	397,581,645	3,806,148	3,779,580	385,128,467	401,361,225
NET POSITION						
Net investment in capital assets	(261,986)	(12,312,191)	22,045	-	(239,941)	(12,312,191)
Unrestricted	(146,993,093)	(153,280,916)	(2,708,409)	(2,651,755)	(149,701,502)	(155,932,671)
TOTAL NET POSITION	\$ (147,255,079)	\$ (165,593,107)	\$ (2,686,364)	\$ (2,651,755)	\$ (149,941,443)	\$ (168,244,862)

The Statements of Net Position are a more global long term view of the District's finances. In Pennsylvania School Districts, this Statement can be somewhat hard to interpret. Included in long term liabilities is the District's share of a long term pension liability. This will be paid off over time and is accounted for annually by showing pension expense. Additionally, a new GASB statement adjusted how other post-employment benefits (OPEB) are calculated for 2017-18. Much like the pension liability, these will be paid off over a long period of time. Nearly every District in the state is showing a large negative net position as a result of these accounting changes that were implemented over the past few years. While these costs will ultimately be incurred over time, District tend to focus less on the Net Position of the District and more on the Fund Balance of the District, which as mentioned early is a positive number after the recent borrowing.

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

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 considering the program revenues for government activities.

Condensed Statements of Activities
Years Ended June 30, 2017 and 2018

	Governmental Activities		Business-Type Activities		Totals	
	2017	2018	2017	2018	2017	2018
REVENUES						
Program services						
Charges for services	\$ 556,065	\$ 460,237	\$ 568,189	\$ 561,374	\$ 1,124,254	\$ 1,021,611
Operating grants and contributions	25,410,250	26,672,704	2,675,718	2,794,040	28,085,968	29,466,744
General revenues						
Property taxes	94,691,373	99,860,593	-	-	94,691,373	99,860,593
Other taxes	8,500,623	8,538,775	-	-	8,500,623	8,538,775
Grants, subsidies and contributions not restricted	31,109,801	30,725,342	-	-	31,109,801	30,725,342
Investment earnings	211,303	574,027	10,239	15,618	221,542	589,645
Other revenues	530,082	278,841	-	-	530,082	278,841
TOTAL REVENUES	161,009,497	167,110,519	3,254,146	3,371,032	164,263,643	170,481,551
EXPENSES						
Instruction	120,122,881	118,866,353	-	-	120,122,881	118,866,353
Instructional student support	8,255,220	8,493,585	-	-	8,255,220	8,493,585
Administrative and financial support	12,884,104	11,726,984	-	-	12,884,104	11,726,984
Operation and maintenance of plant services	13,082,842	13,904,307	-	-	13,082,842	13,904,307
Pupil transportation	10,888,040	11,066,569	-	-	10,888,040	11,066,569
Student activities	1,253,545	1,175,920	-	-	1,253,545	1,175,920
Community service	25,063	33,259	-	-	25,063	33,259
Interest on long-term debt	8,169,264	6,911,307	-	-	8,169,264	6,911,307
Food services	-	-	3,281,238	3,241,913	3,281,238	3,241,913
TOTAL EXPENSES	174,680,959	172,178,284	3,281,238	3,241,913	177,962,197	175,420,197
CHANGE IN NET POSITION	\$ (13,671,462)	\$ (5,067,765)	\$ (27,092)	\$ 129,119	\$ (13,698,554)	\$ (4,938,646)

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 way to contain other costs through building closures and reduction in positions through attrition.

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

The School District is dependent upon property taxes to fund its operations. Local taxes and revenues made up 66.5% of revenues for the Coatesville Area School District in fiscal year 2017-2018. State revenues make up only 31% of the revenues and Federal revenues comprise the other 2.5%. The totals of each type of revenue are shown below:

	<u>Amounts</u>	<u>Percentage</u>
Local revenues	\$ 111,346,379	66.5%
State revenues	51,929,586	31.0%
Federal revenues	<u>4,117,450</u>	2.5%
	<u>\$ 167,393,415</u>	

Major expenditure categories are shown below. Not surprisingly, most of the budget is spent on direct instructional programs. Bus transportation is the largest portion of the support services category at just over \$10 million, with facilities and maintenance costs at just under \$10 million. The rest of the support services include administration of all types, business office functions, technology costs, nursing services, and curriculum related expenses.

Instructional programs	\$ 116,070,795
Support services	40,259,613
Operation of non-instructional services	1,206,072
Debt service/other	14,417,861

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 District appeared to have an increase in General Fund balance for 2017-18 in excess of \$8 million, but that was only because of a borrowing transaction of more than \$13 million that gets accounted for as revenue. Without that borrowing, the General Fund balance would have declined by nearly \$5 million and become negative. The District had more than \$36 million in Charter Tuition costs in 2017-18. A large and unexpected rise in the number of children attending Charter School lead to the budget deficit. The District did raise taxes in 2017-18 by more than 4%, as shown in the chart below, but the revenue generated from that tax increase was less than the amount of increase in Charter Tuition. The 2017-18 deficit was smaller than the more than \$9 million deficit in 2016-17 and the District continues to take steps to bring revenues and expenses in line, which will be discussed further in the For the Future section.

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

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2017-18, the School District has \$163,329,847 invested in land, buildings and equipment, net of accumulated depreciation. Below is a summary of the capital assets.

	<u>2018</u>	<u>2017</u>
Land	\$ 2,812,500	\$ 2,812,500
Land improvements	7,425,060	7,425,060
Buildings and building improvements	233,008,164	232,864,251
Furniture and equipment	<u>16,068,308</u>	<u>15,882,530</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	259,314,032	258,984,341
Accumulated depreciation	<u>(95,984,185)</u>	<u>(88,324,295)</u>
TOTAL CAPITAL ASSETS, net	<u>\$ 163,329,847</u>	<u>\$ 170,660,046</u>

Debt

As of June 30, 2018, the School District had a total debt of \$166,220,809 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	\$ 21,960,000
2010	08/15/31	53,380,000
2013	08/15/20	11,990,809
2014A	08/15/19	8,735,000
2017A	08/01/25	57,755,000
2018	06/15/28	<u>12,400,000</u>
		<u>\$ 166,220,809</u>

COATESVILLE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2018

FOR THE FUTURE

Coatesville Area School District is currently facing financial challenges. As previously mentioned, increases in both Charter School enrollment and tuition rates have severely challenged the financial position of the District. The District spent in excess of \$36 million in 2017-18 on Charter costs and that number will soar to over \$40 million in 2018-19. The District is proactively meeting with parents who send their students to Charters and trying to show them the positive things that are happening at Schools operated by the District.

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 33.43% of payroll in 2018-19. The rate will again increase in 2019-20 to 34.29% of payroll. The District's share of pension costs will rise by approximately \$200,000 in 2019-20.

The District increased taxes by more than 5% for 2018-19, while closing an elementary school and eliminating more than 30 positions through attrition. Most employees have been moved to a high deductible health plan to help decrease the costs related to health insurance. Discussion about closing a middle school in 2019-20 is currently taking place, with further reduction in positions through attrition. All of these steps are needed to close the existing budget deficit, while recognizing that Charter School costs will continue to sharply increase in 2018-19 and likely into 2019-20.

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, 2018

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 19,013,869	\$ 392,187	\$ 19,406,056
Investments	8,000,000	-	8,000,000
Pledged taxes receivable	5,894,116	-	5,894,116
Internal balances	(17,381)	17,381	-
Due from other governments	8,792,099	84,813	8,876,912
Other receivables	131,095	27,902	158,997
Prepaid expenses	51,167	-	51,167
Inventories	-	29,768	29,768
Other assets	354,000	-	354,000
Capital assets			
Land	2,812,500	-	2,812,500
Land improvements	7,425,060	-	7,425,060
Buildings and building improvements	233,008,164	-	233,008,164
Furniture and equipment	16,068,308	1,555,042	17,623,350
Accumulated depreciation	(95,984,185)	(1,555,042)	(97,539,227)
TOTAL ASSETS	205,548,812	552,051	206,100,863
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources for postemployment benefit obligations	1,126,726	82,774	1,209,500
Deferred outflows of resources, pension activity	25,313,000	493,000	25,806,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	26,439,726	575,774	27,015,500
LIABILITIES			
Accounts payable and accrued expenses	9,767,984	1,853	9,769,837
Accrued salaries and benefits	10,509,652	829	10,510,481
Accrued interest	3,557,327	-	3,557,327
Unearned revenues	72,018	-	72,018
Long-term liabilities			
Portion due or payable within one year			
Bonds payable, net	8,684,493	-	8,684,493
Compensated absences	131,670	-	131,670
Portion due or payable after one year			
Bonds payable, net	166,505,893	-	166,505,893
Net pension liability	171,056,000	3,334,000	174,390,000
Other postemployment benefits	14,879,036	242,409	15,121,445
Compensated absences	1,185,031	29,489	1,214,520
TOTAL LIABILITIES	386,349,104	3,608,580	389,957,684
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts on refunding	451,652	-	451,652
Deferred inflows of resources for post employment benefit obligations	2,622,889	12,000	2,634,889
Deferred inflows of resources, pension activity	8,158,000	159,000	8,317,000
TOTAL DEFERRED INFLOWS OF RESOURCES	11,232,541	171,000	11,403,541
NET POSITION			
Net investment in capital assets	(12,312,191)	-	(12,312,191)
Unrestricted	(153,280,916)	(2,651,755)	(155,932,671)
TOTAL NET POSITION	\$ (165,593,107)	\$ (2,651,755)	\$ (168,244,862)

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 118,866,353	\$ 386,641	\$ 16,870,665	\$ -
Instructional student support	8,493,585	-	985,732	-
Administrative and financial support services	11,726,984	-	1,019,618	-
Operation and maintenance of plant services	13,904,307	-	661,963	-
Pupil transportation	11,066,569	-	6,797,346	-
Student activities	1,175,920	73,596	107,883	-
Community services	33,259	-	782	-
Interest on long-term debt	6,911,307	-	228,715	-
TOTAL GOVERNMENTAL ACTIVITIES	172,178,284	460,237	26,672,704	-
BUSINESS-TYPE ACTIVITIES				
Food service	3,241,913	561,374	2,794,040	-
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 175,420,197	\$ 1,021,611	\$ 29,466,744	\$ -

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, restated

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>Totals</u>
<u>Activities</u>	<u>Activities</u>	
\$ (101,609,047)	\$ -	\$ (101,609,047)
(7,507,853)	-	(7,507,853)
(10,707,366)	-	(10,707,366)
(13,242,344)	-	(13,242,344)
(4,269,223)	-	(4,269,223)
(994,441)	-	(994,441)
(32,477)	-	(32,477)
<u>(6,682,592)</u>	<u>-</u>	<u>(6,682,592)</u>
(145,045,343)	-	(145,045,343)
<u>-</u>	<u>113,501</u>	<u>113,501</u>
<u>(145,045,343)</u>	<u>113,501</u>	<u>(144,931,842)</u>
99,860,593	-	99,860,593
8,538,775	-	8,538,775
30,725,342	-	30,725,342
574,027	15,618	589,645
278,841	-	278,841
<u>139,977,578</u>	<u>15,618</u>	<u>139,993,196</u>
(5,067,765)	129,119	(4,938,646)
<u>(160,525,342)</u>	<u>(2,780,874)</u>	<u>(163,306,216)</u>
<u>\$ (165,593,107)</u>	<u>\$ (2,651,755)</u>	<u>\$ (168,244,862)</u>

COATESVILLE AREA SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Capital Reserve Fund	Capital Projects Fund	Coatesville Area School District Building Authority	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 12,685,909	\$ 944,062	\$ 5,383,898	\$ -	\$ 19,013,869
Investments	8,000,000	-	-	-	8,000,000
Taxes receivable	5,894,116	-	-	-	5,894,116
Due from other governments	8,792,099	-	-	-	8,792,099
Other receivables	131,095	-	-	-	131,095
Prepaid items	51,167	-	-	-	51,167
Other assets	354,000	-	-	-	354,000
TOTAL ASSETS	\$ 35,908,386	\$ 944,062	\$ 5,383,898	\$ -	\$ 42,236,346
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 9,766,256	\$ -	\$ 1,728	\$ -	\$ 9,767,984
Due to other funds	17,381	-	-	-	17,381
Accrued salaries and benefits	10,509,652	-	-	-	10,509,652
TOTAL LIABILITIES	20,293,289	-	1,728	-	20,295,017
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue					
Property taxes	4,361,008	-	-	-	4,361,008
FUND BALANCES					
Nonspendable, prepaid expenses	51,167	-	-	-	51,167
Restricted, capital projects	-	944,062	5,382,170	-	6,326,232
Unassigned	11,202,922	-	-	-	11,202,922
TOTAL FUND BALANCES	11,254,089	944,062	5,382,170	-	17,580,321
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 35,908,386	\$ 944,062	\$ 5,383,898	\$ -	\$ 42,236,346

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, 2018

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 17,580,321
<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	233,008,164
Furniture and equipment	16,068,308
Accumulated depreciation	(95,984,185)
<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	(451,652)
<p>Deferred inflows and outflows of resources related to pension and OPEB activities are not financial resources and therefore are not reported in the governmental funds.</p>	
	15,658,837
<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	(3,557,327)
Bonds payable	(175,190,386)
Compensated absences	(1,316,701)
Net pension liability	(171,056,000)
Net OPEB obligation	(14,879,036)
<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>4,288,990</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (165,593,107)</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, 2018

	General Fund	Capital Reserve Fund	Capital Projects Fund	Coatesville Area School District Building Authority	Total Governmental Funds
REVENUES					
Local sources	\$ 111,346,379	\$ 12,467	\$ 60,366	\$ -	\$ 111,419,212
State sources	51,929,586	-	-	-	51,929,586
Federal sources	4,117,450	-	-	-	4,117,450
TOTAL REVENUES	<u>167,393,415</u>	<u>12,467</u>	<u>60,366</u>	<u>-</u>	<u>167,466,248</u>
EXPENDITURES					
Instruction	116,070,795	-	-	-	116,070,795
Support services	40,259,613	28,200	-	-	40,287,813
Operation of non-instructional services	1,206,072	-	-	-	1,206,072
Facilities acquisition, construction and improvement services	-	133,359	55,469	13,005,633	13,194,461
Debt issuance costs	-	-	-	301,920	301,920
Debt service	14,417,861	-	-	-	14,417,861
TOTAL EXPENDITURES	<u>171,954,341</u>	<u>161,559</u>	<u>55,469</u>	<u>13,307,553</u>	<u>185,478,922</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(4,560,926)</u>	<u>(149,092)</u>	<u>4,897</u>	<u>(13,307,553)</u>	<u>(18,012,674)</u>
OTHER FINANCING SOURCES					
Bond issue proceeds	-	-	-	13,307,553	13,307,553
Proceeds from sale of capital assets	13,005,633	-	-	-	13,005,633
TOTAL OTHER FINANCING SOURCES (USES)	<u>13,005,633</u>	<u>-</u>	<u>-</u>	<u>13,307,553</u>	<u>26,313,186</u>
NET CHANGE IN FUND BALANCES	8,444,707	(149,092)	4,897	-	8,300,512
FUND BALANCES AT BEGINNING OF YEAR	<u>2,809,382</u>	<u>1,093,154</u>	<u>5,377,273</u>	<u>-</u>	<u>9,279,809</u>
FUND BALANCES AT END OF YEAR	<u>\$ 11,254,089</u>	<u>\$ 944,062</u>	<u>\$ 5,382,170</u>	<u>\$ -</u>	<u>\$ 17,580,321</u>

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, 2018

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 8,300,512
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.	(7,330,199)
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.	118,450
The issuance of long-term debt provides current financial resources to government funds, while the repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	(4,838,456)
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	(779,073)
Pension plan expense	(356,319)
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).	67,277
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.	<u>(249,957)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (5,067,765)</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018

	Enterprise Fund <u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 392,187
Due from other funds	17,381
Due from other governments	84,813
Other receivables	27,902
Inventories	29,768
TOTAL CURRENT ASSETS	<u>552,051</u>
CAPITAL ASSETS	
Furniture and equipment	1,555,042
Accumulated depreciation	<u>(1,555,042)</u>
TOTAL CAPITAL ASSETS	<u>-</u>
TOTAL ASSETS	<u>552,051</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources, pension activity	493,000
Deferred outflows of resources, OPEB activity	82,774
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>575,774</u>
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	<u>2,682</u>
NONCURRENT LIABILITIES	
Compensated absences	29,489
Other postemployment benefits	242,409
Net pension liability	3,334,000
TOTAL NONCURRENT LIABILITIES	<u>3,605,898</u>
TOTAL LIABILITIES	<u>3,608,580</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resource, pension activity	159,000
Deferred inflows of resource, OPEB activity	12,000
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>171,000</u>
NET POSITION	
Net investment in captial assets	-
Unrestricted	<u>(2,651,755)</u>
TOTAL NET POSITION	<u>\$ (2,651,755)</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, 2018

	Enterprise Fund Food Service Fund
OPERATING REVENUES	
Charges for services	\$ 441,603
Miscellaneous	119,771
TOTAL OPERATING REVENUES	<u>561,374</u>
OPERATING EXPENSES	
Salaries	891,157
Employee benefits	682,944
Purchased professional and technical services	8,815
Purchased property services	31,992
Other purchased services	1,467
Supplies	1,602,662
Depreciation	22,045
Other operating expenses	831
TOTAL OPERATING EXPENSES	<u>3,241,913</u>
OPERATING LOSS	<u>(2,680,539)</u>
NONOPERATING REVENUES	
Earnings on investments	15,618
State sources	298,633
Federal sources	2,495,407
TOTAL NONOPERATING REVENUES	<u>2,809,658</u>
CHANGE IN NET POSITION	129,119
NET POSITION AT BEGINNING OF YEAR, restated	<u>(2,780,874)</u>
NET POSITION AT END OF YEAR	<u>\$ (2,651,755)</u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	Enterprise Fund <u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 552,270
Payments to employees	(1,566,681)
Payments to suppliers	(2,800,837)
NET CASH USED BY OPERATING ACTIVITIES	<u>(3,815,248)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal sources	2,523,480
State sources	298,886
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,822,366</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>15,618</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(977,264)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,369,451</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 392,187</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (2,680,539)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	22,045
Pension expense	53,000
OPEB Expense	(5,785)
(Increase) decrease in	
Other receivables	(9,104)
Inventories	6,941
Due from other funds	(17,381)
Increase (decrease) in	
Accounts payable and accrued liabilities	(88,272)
Compensated absences	(39,795)
Due to other funds	(1,056,358)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (3,815,248)</u>
SUPPLEMENTAL DISCLOSURES	
Noncash activities	
Donated commodities	\$ 172,433

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Private Purpose Trust Fund	Agency Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ <u>210,402</u>	\$ <u>292,716</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable	\$ 1,035	\$ <u>292,716</u>
NET POSITION		
Held in trust for benefits and other purposes	<u>209,367</u>	
TOTAL LIABILITIES AND NET POSITION	<u>\$ 210,402</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, 2018

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Contributions, local	\$ 110,265
Investment earnings	19,100
TOTAL ADDITIONS	<u>129,365</u>
DEDUCTIONS	
Scholarships	<u>47,200</u>
CHANGE IN NET POSITION	82,165
NET POSITION AT BEGINNING OF YEAR	<u>127,202</u>
NET POSITION AT END OF YEAR	<u><u>\$ 209,367</u></u>

See accompanying notes to the basic financial statements.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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. The Coatesville Area School District Building Authority (the "Authority") is considered to be a component unit because of its operational and financial relationship with the District as explained below.

Blended Component Unit

The Authority was formed under the Municipal Authorities Act of 1945, as amended, and was incorporated in the Commonwealth of Pennsylvania on March 27, 2018 for the purpose acquiring, holding, constructing, improving, maintaining, and operating, owning or leasing, public school buildings and other school projects acquired, constructed or improved for public school purposes. The Authority is governed by a five-member board, which is appointed by the School Board. Although it is legally separate from the District, the Authority is reported as if it were part of the primary government because it conducts business solely with the District through a sale-leaseback agreement related to a public school building in the District. Financial information from the Authority for the year ended June 30, 2018, is combined in the accompanying financial statements by including financial information from the Authority as a special revenue fund in the District's governmental funds (blending).

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018, the District's share of operating costs was \$2,921,008. The Vo-Tech prepares financial statements which are available to the public. The financial statements of the Vo-Tech are available from the Chester County Intermediate Unit located at 455 Boot Road, Downingtown, PA 19335.

Basis of Presentation 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.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.”

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.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2018, was in excess of the minimum requirements just described.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 2017-2018 was 34.9138 mills (\$34.9138 for \$1,000 of assessed valuation) for the entire District.

Prepaid Items and Inventories

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

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

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 two items that qualifies for reporting in this category. The deferred outflow of resources for pension activities is 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. The deferred outflow of resources for OPEB activities is reported in the government-wide statement of net position and the proprietary fund statement of net position. Deferred outflows of resources for OPEB relates to the District's net OPEB liability and OPEB expense and arises from variances in expected versus actual investment earnings, changes in assumptions, and contributions subsequent to the measurement date and prior to the Districts' year-end.

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 four 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 deferred inflow related to pension activity is 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. The deferred inflow of resources for OPEB activities is reported in the government-wide statement of net position and the proprietary fund statement of net position. Deferred inflows of resources for OPEB relates to the District's net OPEB liability and OPEB expense and arises from changes in assumptions, and changes in the School District's proportionate share of the total plan from year to year.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

The District previously implemented GASB Statement No. 54, *Fund Balance reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***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, 2018

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, 2018, the carrying amount of the District's deposits was \$19,909,174 and the bank balance was \$27,807,976. Cash deposits in the amount of \$27,807,976 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, 2018, PSDLAF was rated as AAAM by a nationally recognized statistical rating agency.

Investments

As of June 30, 2018, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Investment Maturities</u>	
		<u>Less Than One Year</u>	<u>One to Five Years</u>
State investment pools	\$ <u>8,000,000</u>	\$ <u>8,000,000</u>	\$ <u>-</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, is \$8,000,000. 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.

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.

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, 2018, PSDLAF was rated as AAAM by a nationally recognized statistical rating organization.

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
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	232,864,251	143,913	-	233,008,164
Furniture and equipment	15,882,530	197,993	(12,215)	16,068,308
TOTAL CAPITAL ASSETS				
BEING DEPRECIATED	256,171,841	341,906	(12,215)	256,501,532
Accumulated depreciation				
Land improvements	(7,122,595)	(23,295)	-	(7,145,890)
Buildings and building improvements	(69,338,143)	(7,235,829)	-	(76,573,972)
Furniture and equipment	(11,863,557)	(412,981)	12,215	(12,264,323)
TOTAL ACCUMULATED				
DEPRECIATION	(88,324,295)	(7,672,105)	12,215	(95,984,185)
TOTAL CAPITAL ASSETS				
BEING DEPRECIATED, net	167,847,546	(7,330,199)	-	160,517,347
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, net	170,660,046	(7,330,199)	-	163,329,847
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	1,555,042	-	-	1,555,042
Accumulated depreciation	(1,532,997)	(22,045)	-	(1,555,042)
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, net	22,045	(22,045)	-	-
CAPITAL ASSETS, net	\$ 170,682,091	\$ (7,352,244)	\$ -	\$ 163,329,847

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE D - CAPITAL ASSETS (Continued)

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

GOVERNMENTAL ACTIVITIES	
Instruction	\$ 2,685,238
Operation and maintenance of plant service	153,442
Student transportation services	767,210
Central and other support services	153,442
Facilities and construction	<u>3,912,773</u>
TOTAL DEPRECIATION EXPENSE, GOVERNMENTAL ACTIVITIES	\$ <u>7,672,105</u>
BUSINESS-TYPE ACTIVITIES	\$ <u>22,045</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE E - INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018, is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 17,381
Food Service Fund	<u>17,381</u>	<u>-</u>
	<u>\$ 17,381</u>	<u>\$ 17,381</u>

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

NOTE F - GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental and business-type activities for the year ended June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Additions</u>
GOVERNMENTAL ACTIVITIES		
Bonds payable	\$ 170,351,930	\$ 13,307,553
Accumulated compensated absences	1,383,978	-
Net pension liability	179,223,000	-
Other postemployment benefits	<u>10,207,880</u>	<u>7,790,000</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 361,166,788</u>	<u>\$ 21,097,553</u>
BUSINESS-TYPE ACTIVITIES		
Accumulated compensated absences	\$ 69,284	\$ -
Net pension liability	3,493,000	-
Other postemployment benefits	<u>177,420</u>	<u>78,989</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 3,739,704</u>	<u>\$ 78,989</u>

<u>Reductions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
\$ (8,469,097)	\$ 175,190,386	\$ 8,684,493
(67,277)	1,316,701	131,670
(8,167,000)	171,056,000	-
<u>(3,118,844)</u>	<u>14,879,036</u>	<u>-</u>
\$ <u>(19,822,218)</u>	\$ <u>362,442,123</u>	\$ <u>8,816,163</u>
\$ (39,795)	\$ 29,489	\$ -
(159,000)	3,334,000	-
<u>(14,000)</u>	<u>242,409</u>	<u>-</u>
\$ <u>(212,795)</u>	\$ <u>3,605,898</u>	\$ <u>-</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE F - GENERAL LONG-TERM DEBT (Continued)

Bonds payable, net, consists of the following:

Bonds payable, at face	\$ 166,220,809
Bond premiums/(discounts), net	<u>8,969,577</u>
TOTAL BONDS PAYABLE, net	<u>\$ 175,190,386</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	\$ 21,960,000
Series of 2010, maturing August 2031, bearing interest ranging from 2.25% to 5.00%, interest payable semiannually on February 15 and August 15	53,380,000
Series of 2013, maturing August 2020, bearing interest ranging from 1.33% to 4.13%, interest payable semiannually on February 15 and August 15	11,990,809
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	8,735,000
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	57,755,000
Guaranteed School Lease Revenue Bonds, Series of 2018, maturing June 2028, bearing interest ranging from 2.50% to 5.00%, interest payable semiannually on June 1 and December 1	<u>12,400,000</u>
TOTAL GENERAL OBLIGATION BONDS	<u>\$ 166,220,809</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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>
2019	\$ 7,556,705	\$ 8,511,206	\$ 16,067,911
2020	8,860,989	7,339,628	16,200,617
2021	8,453,115	8,295,352	16,748,467
2022	11,295,000	6,482,609	17,777,609
2023	11,870,000	5,903,624	17,773,624
2024-2028	70,530,000	19,769,309	90,299,309
2028-2032	47,655,000	3,470,797	51,125,797
	<u>\$ 166,220,809</u>	<u>\$ 59,772,525</u>	<u>\$ 225,993,334</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>	
2019	\$ 125,180
2020	150,216
2021	150,216
2022	150,216
2023	150,216
Thereafter	<u>25,036</u>
	<u>\$ 751,080</u>

Rental expense, including short-term rentals, for the year ended June 30, 2018, was \$647,433.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018

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, 2018

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, 2018, the School District reported a liability of \$174,390,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. 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, 2017, the School District's proportion was 0.3531% which was a decrease of 0.0156% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of \$16,686,000. At June 30, 2018, 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	\$ 1,785,000	\$ 1,034,000
Changes in assumptions	4,646,000	-
Net difference between projected and actual investment earnings	3,964,000	-
Changes in proportions	827,000	7,124,000
Difference between employer contributions and proportionate share of total contributions	437,000	-
Contributions subsequent to the measurement date	<u>13,654,000</u>	<u>-</u>
	<u>\$ 25,313,000</u>	<u>\$ 8,158,000</u>
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	\$ 34,000	\$ 20,000
Changes in assumptions	91,000	-
Net difference between projected and actual investment earnings	77,000	-
Changes in proportions	16,000	139,000
Difference between employer contributions and proportionate share of total contributions	9,000	-
Contributions subsequent to the measurement date	<u>266,000</u>	<u>-</u>
	<u>\$ 493,000</u>	<u>\$ 159,000</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE H - PENSION PLAN (Continued)

\$13,920,000 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, 2018. 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>
2019	\$ 922,000	\$ 18,000
2020	3,346,000	65,000
2021	1,260,000	25,000
2022	<u>(2,027,000)</u>	<u>(40,000)</u>
	<u>\$ 3,501,000</u>	<u>\$ 68,000</u>

Actuarial Assumptions - The total pension liability as of June 30, 2017, was determined by rolling forward the System’s total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017, using the following actuarial assumptions:

- Actuarial cost method – entry age normal – level % of pay
- Investment Return – 7.25%, includes inflation at 2.75%
- Salary growth – effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on 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 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, 2018

NOTE H - PENSION PLAN (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLP's	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<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, 2017.

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.

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>214,659,000</u>	\$ <u>174,390,000</u>	\$ <u>140,392,000</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.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018.

Change in Aggregate Claims Liabilities

Change in aggregate claims liabilities for the year ended June 30, 2018, consisted of the following:

CLAIMS LIABILITY, BEGINNING OF YEAR	\$ 1,933,638
Current year claims and changes in estimates	13,831,015
Claim payments by the District	<u>(11,210,839)</u>
CLAIMS LIABILITY, END OF YEAR	<u>\$ 4,553,814</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, 59 retirees are eligible for benefits, which are financed on a pay-as-you-go basis. The total amount of benefits paid was \$1,471,408 for the year ended June 30, 2018.

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.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE J - COMMITMENTS AND CONTINGENCIES (Continued)

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.

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 2017-2018 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE L - OTHER POSTEMPLOYMENT BENEFITS - PSERS

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Pension Plan Description

PSERS is a governmental cost-sharing multiple-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.pa.gov.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - OTHER POSTEMPLOYMENT BENEFITS – PSERS (Continued)

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees

Contributions

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83% 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 OPEB plan from the District were \$391,000 for the year ended June 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of \$7,194,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB 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, 2018, the District's proportion was 0.3531% percent, which was a decrease of 0.0156% from its proportion measured as of June 30, 2017.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - OTHER POSTEMPLOYMENT BENEFITS – PSERS (Continued)

For the year ended June 30, 2018, the District recognized OPEB expense of (\$134,000). At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
GOVERNMENTAL ACTIVITIES		
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	329,000
Net difference between projected and actual investment earnings	8,000	-
Changes in proportions	-	282,000
Difference between employer contributions and proportionate share of total contributions	1,000	-
Contributions subsequent to the measurement date	<u>357,000</u>	<u>-</u>
	<u>\$ 366,000</u>	<u>\$ 611,000</u>
	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	6,000
Net difference between projected and actual investment earnings	-	-
Changes in proportions	-	6,000
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	<u>7,000</u>	<u>-</u>
	<u>\$ 7,000</u>	<u>\$ 12,000</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - OTHER POSTEMPLOYMENT BENEFITS – PSERS (Continued)

\$357,000 was reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Governmental Activities	Business-Type Activities
2019	\$ (101,000)	\$ (2,000)
2020	(101,000)	(2,000)
2021	(101,000)	(2,000)
2022	(101,000)	(2,000)
2023	(101,000)	(2,000)
Thereafter	(97,000)	(2,000)
	<u>\$ (602,000)</u>	<u>\$ (12,000)</u>

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017, was determined by rolling forward the System’s Total OPEB Liability as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on 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.
- Participation rate.
- Eligible retirees will elect to participate Pre age 65 at 50%.
- Eligible retirees will elect to participate Post age 65 at 70%.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - OTHER POSTEMPLOYMENT BENEFITS – PSERS (Continued)

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan’s policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
Fixed income	<u>23.6%</u>	1.5%
	<u><u>100.0%</u></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, 2017.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - OTHER POSTEMPLOYMENT BENEFITS – PSERS (Continued)

Discount Rate

The discount rate used to measure the Total OPEB Liability was 3.13%. Under the plan’s funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan’s fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a “pay-as-you-go” plan. A discount rate of 3.13% which represents the S&P 20 year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the System Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the System net OPEB liability for June 30, 2017, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
System net OPEB liability	\$ <u>7,192,000</u>	\$ <u>7,194,000</u>	\$ <u>7,196,000</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - OTHER POSTEMPLOYMENT BENEFITS – PSERS (Continued)

Sensitivity of the System Net OPEB Liability to Change in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage-point higher (4.13%) than the current rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB liability	\$ <u>8,178,000</u>	\$ <u>7,194,000</u>	\$ <u>6,377,000</u>

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report, which can be found on the System's website at www.psers.pa.gov.

NOTE M - OTHER POSTEMPLOYMENT BENEFITS – SINGLE EMPLOYER PLAN

Plan Description

The School District administers a single employer defined benefit health care plan. The plan provides medical insurance benefits for 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.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS – SINGLE EMPLOYER PLAN (Continued)

Plan Membership - At June 30, 2017, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	59
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>649</u>
	<u><u>708</u></u>

Funding Policy and Funding Status

The plan is an unfunded plan with no assets accumulated in a trust. Contributions to the plan are equal to benefit payments. For the fiscal year ended June 30, 2017, the District contributed \$1,573,002 to the Plan related to retirees.

Benefits Provided

The plan provides the following benefits:

All teachers and other employees retired prior to June 30, 2010 are eligible for benefits under the plan. Benefits include medical, prescription drug, dental and vision. The School District and the retiree pay a portion of the premium that is specific to each employee. Once the retiree is Medicare eligible, the plan continues for the COBRA continuation period.

All teachers and other employees retired under early retirement incentive at June 30, 2010 or June 30, 2011 with 10 years of service to the district and are PSERS retirement eligible are eligible for benefits under the plan. Benefits include medical, prescription drug, dental and vision. The retiree must pay the active cost share amount at retirement plus any additional increases in premium that occur after retirement. Once the retiree is eligible for unreduced social security, the plan continues for the COBRA continuation period.

All teachers retired under early retirement incentive at June 30, 2012 and are PSERS retirement eligible are eligible for benefits under the plan. Benefits include medical, prescription drug, dental and vision. The retiree must pay the full premium. Once the retiree reaches age 65, the plan continues for the COBRA continuation period.

All teachers retired after July 1, 2012 and other employees retired after July 1, 2011 and are PSERS retirement eligible are eligible for benefits under the plan. Benefits include medical, prescription drug, dental and vision. The retiree must pay the full premium. Once the retiree is Medicare eligible, the plan continues for the COBRA continuation period.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS – SINGLE EMPLOYER PLAN (Continued)

Assumptions

The following assumptions and actuarial methods and calculation were used:

Interest Rate - 3.13%, based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2017.

Salary - An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies from 2.75% to 0%.

Health Care Cost Trend Rate - 6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

Withdrawal - Rates of withdrawal vary by age, gender and years of service. Sample rates for employees with more than 10 years of service are shown below. Rates for new employees start at 22.9% for both men and women and decrease with age and service.

<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>	<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>
25	2.57%	5.02%	45	1.37%	1.65%
30	2.57%	4.02%	50	1.92%	2.06%
35	1.50%	2.85%	55	3.38%	3.11%
40	1.34%	1.60%	60	5.57%	6.40%

Mortality - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

Disability - No disability was assumed.

Retirement - Assumed retirement rates are based on PSERS plan experience and vary by age, service and gender.

Percent of Eligible Retirees Electing Coverage in Plan – 55% of Teachers and Administrators and 35% of the Support Staff are assumed to elect coverage.

Percent Married at Retirement - 70% of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.

Spouse Age - Wives are assumed to be two years younger than their husbands.

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS – SINGLE EMPLOYER PLAN (Continued)

Retiree Contributions - Retiree Contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.

Actuarial Value of Assets - Equal to the Market Value of Assets.

Actuarial Cost Method - Entry Age Normal - Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

Changes in Assumptions - In the 2017 actuarial valuation, the discount rate changed from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions. The percent of eligible retirees electing coverage was lowered for Teachers and Administrators, and Support Staff to 55% and 35%, respectively. The percent married at retirement was lowered to 70%.

Changes in the Total OPEB Liability

	Total OPEB Liability	
	Governmental Activities	Business-Type Activities
Balance at June 30, 2016	\$ 10,941,880	\$ 25,420
Changes for the year		
Service cost	386,926	1,174
Interest cost	260,885	647
Changes for experience	(1,758,621)	77,778
Changes in assumptions	(436,167)	525
Benefit payments	(1,571,867)	(1,135)
Net changes	(3,118,844)	78,989
Balance at June 30, 2017	\$ 7,823,036	\$ 104,409

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS – SINGLE EMPLOYER PLAN (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current discount rate:

	<u>1% Increase</u> 2.13%	<u>Current Discount Rate</u> 3.13%	<u>1% Increase</u> 4.13%
Total OPEB liability	\$ <u>8,384,401</u>	\$ <u>7,927,445</u>	\$ <u>7,493,848</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current Rates</u>	<u>1% Increase</u>
Total OPEB liability	\$ <u>7,335,295</u>	\$ <u>7,927,445</u>	\$ <u>8,627,218</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the year ended June 30, 2018, the School District recognized OPEB expense of (\$291,064). At June 30, 2018, 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>
Changes in assumptions	\$ 482	\$ 399,820
Difference between expected and actual experience	71,296	1,612,069
Contributions subsequent to the measurement date	<u>764,723</u>	<u>-</u>
	<u>\$ 836,501</u>	<u>\$ 2,011,889</u>

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - OTHER POSTEMPLOYMENT BENEFITS – SINGLE EMPLOYER PLAN (Continued)

\$764,723 was reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	
2019	\$ (176,374)
2020	(176,374)
2021	(176,374)
2022	(176,374)
2023	(176,374)
Thereafter	<u>(1,058,241)</u>
	<u>\$ (1,940,111)</u>

NOTE N - PRIOR PERIOD RESTATEMENT

The School District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefit (OPEB) plans. GASB Statement No. 75 states that the School must record their share of the Public School Employees' Retirement System (PSERS) unfunded liability. In addition, the School also must record the total liability of their single employer other postemployment benefit plan.

For the government-wide governmental activities and business-type activities, and the Food Service Fund, the School District has treated their proportionate share of the beginning of year PSERS net OPEB liability of \$7,942,000 and the beginning of year single employer OPEB plan liability of \$10,967,300 as having been recognized in the period incurred. As part of the implementation, the previously recognized obligation for OPEB under GASB 45 in the amount of \$5,461,617 will be reversed. The School District has adjusted beginning net position for the governmental activities from (\$147,255,079) to (\$160,525,342). The School District has adjusted beginning net position for the business-type activities and Food Service Fund from (\$2,686,364) to (\$2,780,874).

NOTE O - BUILDING SALE LEASEBACK

In June 2018 The Coatesville Area School District Building Authority (the Authority), a component unit of the Coatesville Area School District (the District), issued Guaranteed School Lease Revenue Bonds of 2018 with a face value of \$12,400,000 and issued at a premium of \$907,553 to acquire The Scott Middle School Building from the District. The building will be leased back to the District in annual rental payments equal to the debt service on the bonds issued by the Authority. At the end of the bond term, ownership of the building will then revert to the District.

REQUIRED SUPPLEMENTARY INFORMATION

COATESVILLE AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 110,332,220	\$ 110,332,220	\$ 111,304,043	\$ 971,823
State sources	51,510,346	51,510,346	51,929,586	419,240
Federal sources	3,322,184	3,322,184	4,117,450	795,266
Refunds of prior year expenses	-	-	42,336	42,336
TOTAL REVENUES	<u>165,164,750</u>	<u>165,164,750</u>	<u>167,393,415</u>	<u>2,228,665</u>
EXPENDITURES				
Instruction				
Regular programs	68,247,186	68,247,186	68,425,496	(178,310)
Special programs	33,142,785	33,142,785	43,168,395	(10,025,610)
Vocational programs	3,649,175	3,649,175	3,622,402	26,773
Other instructional programs	1,014,826	1,014,826	854,502	160,324
TOTAL INSTRUCTION	<u>106,053,972</u>	<u>106,053,972</u>	<u>116,070,795</u>	<u>(10,016,823)</u>
Support services				
Pupil personnel services	4,405,503	4,405,503	3,701,550	703,953
Instructional staff services	2,776,016	2,776,016	3,438,421	(662,405)
Administrative services	7,741,054	7,741,054	7,924,322	(183,268)
Pupil health	1,187,241	1,187,241	1,213,092	(25,851)
Business services	1,254,901	1,254,901	1,295,261	(40,360)
Operation and maintenance of plant services	11,097,169	11,097,169	9,979,718	1,117,451
Student transportation services	9,565,969	9,565,969	10,270,361	(704,392)
Central support services	2,799,277	2,799,277	2,322,759	476,518
Other support services	-	-	114,129	(114,129)
TOTAL SUPPORT SERVICES	<u>40,827,130</u>	<u>40,827,130</u>	<u>40,259,613</u>	<u>567,517</u>
Operation of non-instructional services				
Student activities	1,244,045	1,244,045	1,172,840	71,205
Community services	21,309	21,309	33,232	(11,923)
TOTAL OPERATION OF NON-INSTRUCTIONAL SERVICES	<u>1,265,354</u>	<u>1,265,354</u>	<u>1,206,072</u>	<u>59,282</u>
Debt service	14,613,379	14,613,379	14,417,861	195,518
Budgetary reserve	2,404,915	2,404,915	-	2,404,915
TOTAL EXPENDITURES	<u>165,164,750</u>	<u>165,164,750</u>	<u>171,954,341</u>	<u>(6,789,591)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	-	-	(4,560,926)	(4,560,926)
OTHER FINANCING SOURCES				
Sale of capital assets	-	-	13,005,633	13,005,633
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>8,444,707</u>	<u>\$ 8,444,707</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>2,809,382</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 11,254,089</u>	

See accompanying note to the budgetary comparison schedule.

COATESVILLE AREA SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

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
SCHEDULES OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE PSERS NET PENSION LIABILITY
LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
SCHOOL DISTRICT'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	<u>0.3531%</u>	<u>0.3687%</u>	<u>0.3748%</u>	<u>22.2100%</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	<u>\$ 174,390,000</u>	<u>\$ 182,716,000</u>	<u>\$ 162,345,000</u>	<u>\$ 87,909,000</u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	<u>\$ 47,010,413</u>	<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>370.96%</u>	<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>51.84%</u>	<u>50.14%</u>	<u>45.64%</u>	<u>57.24%</u>

NOTES TO SCHEDULES

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2017, 2016, 2015 and 2014).

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULES OF THE SCHOOL DISTRICT'S PSERS PENSION CONTRIBUTIONS
LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 13,920,000	\$ 13,739,000	\$ 11,959,000	\$ 9,887,000
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>13,920,000</u>	<u>13,739,000</u>	<u>11,959,000</u>	<u>9,887,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	\$ <u><u>43,856,333</u></u>	\$ <u><u>47,010,413</u></u>	\$ <u><u>47,754,301</u></u>	\$ <u><u>48,219,963</u></u>
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u><u>31.74%</u></u>	<u><u>29.23%</u></u>	<u><u>25.04%</u></u>	<u><u>20.50%</u></u>

NOTE TO SCHEDULES

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

COATESVILLE AREA SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE PSERS NET OTHER POSTEMPLOYMENT BENEFIT PLAN LIABILITY LAST FISCAL YEAR

SCHOOL DISTRICT'S PROPORTION OF THE NET OPEB LIABILITY (ASSET)	<u>0.3531%</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)	<u>\$ 7,194,000</u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	<u>\$ 47,010,413</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	<u>15.30%</u>
THE PLAN'S FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	<u>5.73%</u>

NOTES TO SCHEDULE

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2017).

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF SCHOOL DISTRICT'S PSERS OTHER POSTEMPLOYMENT
BENEFIT PLAN CONTRIBUTIONS
LAST FISCAL YEAR

CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 364,000
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>364,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	<u>\$ 43,856,333</u>
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>0.83%</u>

NOTE TO SCHEDULE

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE TOTAL OTHER POSTEMPLOYMENT
BENEFIT PLAN LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR

TOTAL OPEB LIABILITY	
Service cost	\$ 388,100
Interest	261,532
Changes in experience	(1,680,843)
Changes of assumptions	(435,642)
Benefit payments	<u>(1,573,002)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	<u>(3,039,855)</u>
 TOTAL OPEB LIABILITY, BEGINNING	 <u>10,967,300</u>
 TOTAL OPEB LIABILITY, ENDING	 <u>\$ 7,927,445</u>
 COVERED-EMPLOYEE PAYROLL	 <u>\$ 40,089,961</u>
 TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	 <u>19.77%</u>

NOTES TO SCHEDULE

No assets are accumulated in a trust to pay benefits related to this plan

Changes in assumptions: In the 2017 actuarial valuation, the discount rate changed from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

This schedule is to present the requirement to show information for ten (10) years. However, until a full ten-year trend is compiled, information for only those years for which information is available is shown.

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
Thorndale, 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, 2018, 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 7, 2019.

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
Thorndale, 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.

A handwritten signature in black ink that reads "Maullio LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
February 7, 2019

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

To the Board of School Directors
Coatesville Area School District
Thorndale, 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, 2018. 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, 2018.

To the Board of School Directors
Coatesville Area School District
Thorndale, 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.

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.



Oaks, Pennsylvania
February 7, 2019

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

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

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 - 1617	I	84.010	013-17-0089	August 8, 2016 to September 30, 2018	\$
Title I - 1718	I	84.010	013-18-0089	August 3, 2017 to September 30, 2018	
Title I - Delinquent - 1617	I	84.010	107-17-0089	August 8, 2016 to September 30, 2017	
Title I - Delinquent - 1718	I	84.010	107-18-0089	August 3, 2017 to September 30, 2018	
Title I - Program Improvement	I	84.010	042-13-0089	April 10, 2013 to September 30, 2014	
Striving Readers Comprehensive Literacy Grant - KTO	I	84.010	143-130089	July 1, 2013 to September 30, 2014	
TOTAL TITLE I					
Title II - Improving Teacher Quality -1617	I	84.367	020-17-0089	April 8, 2016 to September 30, 2017	
Title II - Improving Teacher Quality -1718	I	84.367	020-18-0089	August 3, 2017 to September 30, 2018	
TOTAL TITLE II					
Title III - 1516	I	84.365	010-16-0089	July 9, 2015 to September 30, 2017	
Title III - 1617	I	84.365	010-17-0089	August 8, 2016 to September 30, 2017	
Title III - 1718	I	84.365	010-18-0089	August 3, 2017 to September 30, 2018	
TOTAL TITLE III					
Title IV - 1718	I	84.424	144-18-0089	August 3, 2017 to September 30, 2018	
21st Century Community Learning Centers	I	84.287	410-006-2385	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					
Passed through Chester County Intermediate Unit					
IDEA 611-1617	I	84.027	062-17-0024	July 1, 2016 to June 30, 2017	
IDEA 611-1718	I	84.027	062-18-0024	July 1, 2017 to June 30, 2018	
TOTAL IDEA 611					
IDEA 619-1617	I	84.173	131-14-0	July 1, 2016 to June 30, 2017	
IDEA 619-1718	I	84.173	131-14-0	July 1, 2017 to June 30, 2018	
TOTAL IDEA 619					
TOTAL SPECIAL EDUCATION CLUSTER					
TOTAL FORWARD					

<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2018</u>	<u>Passed Through to Sub-Recipients</u>
2,014,375	\$ 825,869	\$ 339,860	\$ 486,009	\$ 486,009	\$ -	\$ -
1,740,662	870,331	-	1,419,976	1,419,976	549,645	-
51,421	17,910	2,717	15,193	15,193	-	-
52,250	14,929	-	30,341	30,341	15,412	-
161,209	-	(10,098)	-	-	(10,098)	-
861,400	-	(20,387)	-	-	(20,387)	-
	<u>1,729,039</u>	<u>312,092</u>	<u>1,951,519</u>	<u>1,951,519</u>	<u>534,572</u>	<u>-</u>
448,643	287,842	157,365	130,477	130,477	-	-
266,553	116,450	-	222,139	222,139	105,689	-
	<u>404,292</u>	<u>157,365</u>	<u>352,616</u>	<u>352,616</u>	<u>105,689</u>	<u>-</u>
84,474	28,366	17,343	11,023	11,023	-	-
90,961	45,480	(25,341)	80,580	80,580	9,759	-
78,231	22,352	-	11,740	11,740	(10,612)	-
	<u>96,198</u>	<u>(7,998)</u>	<u>103,343</u>	<u>103,343</u>	<u>(853)</u>	<u>-</u>
38,996	13,927	-	38,996	38,996	25,069	-
252,793	-	151,694	-	-	151,694	-
252,793	-	63,198	-	-	63,198	-
252,793	-	(24,008)	-	-	(24,008)	-
	<u>-</u>	<u>190,884</u>	<u>-</u>	<u>-</u>	<u>190,884</u>	<u>-</u>
1,219,020	325,072	325,072	-	-	-	-
1,219,911	-	-	1,219,911	1,219,911	1,219,911	-
	<u>325,072</u>	<u>325,072</u>	<u>1,219,911</u>	<u>1,219,911</u>	<u>1,219,911</u>	<u>-</u>
4,042	4,042	4,042	-	-	-	-
2,940	-	-	2,940	2,940	2,940	-
	<u>4,042</u>	<u>4,042</u>	<u>2,940</u>	<u>2,940</u>	<u>2,940</u>	<u>-</u>
	<u>329,114</u>	<u>329,114</u>	<u>1,222,851</u>	<u>1,222,851</u>	<u>1,222,851</u>	<u>-</u>
\$	<u>2,572,570</u>	<u>\$ 981,457</u>	<u>\$ 3,669,325</u>	<u>\$ 3,669,325</u>	<u>\$ 2,078,212</u>	<u>\$ -</u>

COATESVILLE AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

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				
TOTAL FORWARDED				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through the Substance Abuse and Mental Health Services Administration				
Substance Abuse and Mental Health Services - NITT	I	93.243	1H79SM062038-01	September 30, 2014 to September 29, 2016
Passed through Leader Services				
Medical Assistance Reimbursement - CCIU	I	93.778	N/A	July 1, 2014 to June 30, 2015
TOTAL MEDICAID CLUSTER				
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, 2016 to June 30, 2017
National School Lunch Program	I	10.555	N/A	July 1, 2017 to September 30, 2018
National School Breakfast Program	I	10.553	N/A	July 1, 2016 to June 30, 2017
National School Breakfast Program	I	10.553	N/A	July 1, 2017 to September 30, 2018
Passed through the Pennsylvania Department of Agriculture				
Value of U.S.D.A. Donated Commodities	I	10.555	N/A	July 1, 2016 to June 30, 2017
Value of U.S.D.A. Donated Commodities	I	10.555	N/A	July 1, 2017 to September 30, 2018
TOTAL CHILD NUTRITION CLUSTER				
Passed through the Pennsylvania Department of Education				
Fresh Fruit and Vegetable Program	I	10.582	N/A	July 1, 2016 to June 30, 2017
Fresh Fruit and Vegetable Program	I	10.582	N/A	July 1, 2017 to September 30, 2018
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, 2017.
- (C) Total amount of commodities used.
- (D) Ending inventory at June 30, 2018.

Source Codes:

I = Indirect funding

See accompanying notes to the schedule of expenditures of federal awards.

Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2017	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2018	Passed Through to Sub-Recipients
	\$ 2,572,570	\$ 981,457	\$ 3,669,325	\$ 3,669,325	\$ 2,078,212	\$ -
\$ 99,756	-	35,036	12,659	12,659	47,695	-
58,665	-	(9,465)	-	-	(9,465)	-
	-	(9,465)	-	-	(9,465)	-
	-	25,571	12,659	12,659	38,230	-
N/A	42,775	42,775	-	-	-	-
N/A	1,530,741	-	1,562,155	1,562,155	31,414	-
N/A	16,455	16,455	-	-	-	-
N/A	654,225	-	674,468	674,468	20,243	-
N/A	- (A)	(18,374) (B)	18,373	18,373 (C)	(1) (D)	-
N/A	176,928 (A)	- (B)	154,060	154,060 (C)	(22,868) (D)	-
	2,421,124	40,856	2,409,056	2,409,056	28,788	-
N/A	50,994	50,994	-	-	-	-
N/A	55,854	-	86,350	86,350	30,496	-
	106,848	50,994	86,350	86,350	30,496	-
	2,527,972	91,850	2,495,406	2,495,406	59,284	-
\$	\$ 5,100,542	\$ 1,098,878	\$ 6,177,390	\$ 6,177,390	\$ 2,175,726	\$ -

COATESVILLE AREA SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

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 2018 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, 2018

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
Special Education Cluster - Grants to States	84.027, 84.173
8. The threshold used for distinguishing Types A and B programs was \$750,000.
9. Coatesville Area School District was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

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

None