

CHARLEROI AREA SCHOOL DISTRICT
Financial Statements
June 30, 2010

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Independent Auditor Report

Members of the Board
Charleroi Area School District
Washington County, Pennsylvania

Dear Members:

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 Charleroi Area School District, Washington County, Pennsylvania as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Charleroi Area School District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Charleroi Area School District, Washington County, Pennsylvania as of June 30, 2010, and the respective changes in financial position and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010, on our consideration of the 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* and should be considered in assessing the results of our audit.

Members of the Board
Charleroi Area School District

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Seals & D'Amelio, PC". The signature is written in a cursive, flowing style.

Certified Public Accountants
Charleroi, PA
December 20, 2010

Charleroi Area School District
Management's Discussion and Analysis
June 30, 2010

The discussion and analysis of Charleroi Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Government Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for the State and Local Governments issued June 1999.

Financial Highlights

On June 27, 2006 the Pennsylvania state legislature passed ACT 1 of 2006, The Taxpayers Relief Act (Act). The most significant financial impact of the Act is the limit placed on the school district's taxing ability. The Act states that school districts are limited to raising real estate taxes up to an index based on the following components: the statewide average weekly wage; the employment cost index and market value/income aid ratio. If the school district would need a larger tax increase, the options are to seek a referendum exception from the Pennsylvania Department of Education or the Court of Common Pleas or seek a ballot referendum question to be proposed to the voters.

Local Sources

The trend of prior years indicated that during the fiscal year 2009-2010, Charleroi Area School District would continue to experience another year of uncertainty in its largest source of revenues, real estate tax collections, due to the re-assessment of many, large tax revenue generating properties and a number of appeals. Real estate taxes were increased three mills for the 2009-2010 fiscal year. Current tax collections increased by \$66,322 from the previous year even though the economy is still flat. Pennsylvania school districts receive a State Property Tax Reduction Allocation made available through the legalization of gaming, which for us totaled \$647,752. The district experienced an increase of \$20,541 in real estate transfer taxes as a return to a more normal year of home sales. Other areas of local revenue fluctuated up or down from the previous year, current earned income tax collections decreased by \$91,362 mostly due to the change in the calculation to determine delinquent earned income taxes. However, we cannot speculate what effect the economy will have in the future. We experienced an increase in delinquent tax collections of \$216,660 as a result of the calculation used in determining delinquent vs. current earned income taxes (see above) and an increase in delinquent real estate tax collections. Interest earnings decreased by \$14,375 as interest rates continued to drop.

State Sources

The biggest hit in state revenue affected our Basic Education Funding stream. Total state revenues decreased \$422,023 from the prior year of which BEF was reduced by \$480,982. However, the state replaced this decrease with federal stimulus funds totaling \$868,544, which netted an increase over the prior year BEF of \$387,562. Other areas of state revenue increasing over the previous year were: Charter Schools \$14,170; Special Education \$14,524; Transportation \$55,604; Social Security \$26,533. The state revenues experiencing decreases due to discontinued funding or reduced funding were: Alternative Education \$7,080 (discontinued); Dual Enrollment \$6,399 (reduced); State Share of Retirement \$48,360 (reduced); and Classrooms for the Future \$26,311 (discontinued).

Total Revenues exceeded Expenditures by \$243,876 for 2009-2010. The resulting general fund balance of \$1,165,484 is approximately 5.9% of expenditures.

Charleroi Area School District
Management's Discussion and Analysis
June 30, 2010

The School District's food service (proprietary) fund experienced a profit of \$20,755. This, combined with previous surpluses, resulted in total net assets of \$119,960 or 17.46% of 2009-2010 expenditures. Operating revenues, mostly sales of meals to students, decreased by \$27,268. There was a large increase of \$24,746 in federal non-operating revenues. Operating expenses, mostly personnel costs and food and other supplies, decreased by \$4,041.

American Recovery and Reinvestment Act (Federal Stimulus Funds)

During the 2009-2010 fiscal year the Federal Government made funds available through the American Recovery and Reinvestment Act to its states for the support of state government. The Pennsylvania State Legislature used these funds to help balance the state budget of which a portion was passed on to local school districts to balance their budget and help keep the economy from faltering. The Charleroi Area School District received funding from three sources Title I – ARRA, IDEA B – ARRA and FSFS-ARRA.

The Title I – ARRA funds, (totaling \$172,866) were made available to help supplement its regular Title I program. The district had the option to spend these funds over two fiscal years. Charleroi Area School District chose to spend these funds over two fiscal years, 2009-2010 and 2010-2011.

The IDEA B – ARRA funds (totaling \$450,736) were passed-through our local Intermediate Unit #1. These funds were designated to help schools with their special education costs. The district had the option to spend these funds over two fiscal years. Charleroi Area School District chose to spend these funds over two fiscal years, 2009-2010 and 2010-2011.

The FSFS – ARRA funds (totaling \$868,544) were used to supplement the districts general fund budget. We had to submit a budget for these funds and track all expenditures. These funds were required to be spent within the 2009-2010 fiscal year.

These amounts are further detailed on the Schedule of Federal Financial Assistance. These funds are stopgap in nature and will only be available for two years. The return to a more historical state revenue-funding stream is dependent on the economic recovery of the state and nation.

Using the Annual Financial Report

The Annual Financial Report consists of a financial section and a single audit section, which is issued to comply with federal guidelines as required in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. Within the financial section are the management's discussion and analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand Charleroi Area School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are government-wide financial statements - the statement of net assets and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

Charleroi Area School District
Management's Discussion and Analysis
June 30, 2010

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. The government fund statements tell how general School District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short and long-term financial information about the activities that the School District operates like a business. For this School District, this is our food service fund. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes to explain some of the information in the financial statements and provide more detailed data.

Overview of Financial Statements

Government-wide Statements

The government-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School District's net assets and how they have changed. Net assets, the difference between the School District's assets and liabilities, are only one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net assets are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the School District, you need to consider additional non-financial factors, such as changes in the School District's property tax base and the performance of the students.

The government-wide financial statements of the School District are divided into two categories:

Governmental activities - All of the School District's basic services are included here, such as instruction, administration and community services. Property taxes and state and federal subsidies and grants finance most of these activities.

Business type activities - The School District operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The School District's fund financial statements, which begin with Exhibit 3, provide detailed information about the most significant funds - not the School District as a whole. Some funds are required by state law and bond requirements.

Governmental funds - Most of the School District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income

Charleroi Area School District
Management's Discussion and Analysis
June 30, 2010

determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Proprietary funds - These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges customers for services it provides - whether to outside customers or to other units in the School District - these services are generally reported in proprietary funds. The food service fund is the School District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The School District is the trustee, or fiduciary, for various student activities funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets on Exhibit 10. We exclude these activities from the School District's other financial statement because the School District cannot use these assets to finance its operations.

Financial Analysis of the School District as a Whole

Fiscal Year Ended June 30, 2010
Net Assets

	Governmental Activities	Business-Type Activities	Totals
Current and Other Assets	\$ 14,900,558	\$ 86,644	\$ 14,987,202
Capital Assets	<u>26,279,656</u>	<u>0</u>	<u>26,279,656</u>
Total Assets	<u>\$ 41,180,214</u>	<u>\$ 86,644</u>	<u>\$ 41,266,858</u>
Current and Other Liabilities	\$ 3,267,397	\$ (33,316)	\$ 3,234,081
Long-Term Liabilities	<u>37,367,160</u>	<u></u>	<u>37,367,160</u>
Total Liabilities	<u>\$ 40,634,557</u>	<u>\$ (33,316)</u>	<u>\$ 40,601,241</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	(12,540,260)	0	(12,540,260)
Restricted	11,482,037	0	11,482,037
Unrestricted	<u>1,603,880</u>	<u>119,960</u>	<u>1,723,840</u>
Total Net Assets	<u>545,657</u>	<u>119,960</u>	<u>665,617</u>
Total Liabilities and Net Assets	<u>\$ 41,180,214</u>	<u>\$ 86,644</u>	<u>\$ 41,266,858</u>

Charleroi Area School District
Management's Discussion and Analysis
June 30, 2010

Financial Analysis of the School District as a Whole (Cont'd)

Fiscal Year Ended June 30, 2009			
Net Assets			
	Governmental Activities	Business-Type Activities	Totals
Current and Other Assets	\$ 3,732,878	\$ 131,257	\$ 3,864,135
Capital Assets	<u>23,756,579</u>	<u>0</u>	<u>23,756,579</u>
Total Assets	<u>\$ 27,489,457</u>	<u>\$ 131,257</u>	<u>\$ 27,620,714</u>
Current and Other Liabilities	\$ 3,077,833	\$ 32,052	\$ 3,109,885
Long-Term Liabilities	<u>23,873,853</u>	<u></u>	<u>23,873,853</u>
Total Liabilities	<u>26,951,686</u>	<u>32,052</u>	<u>26,983,738</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	(961,853)	0	(961,853)
Restricted	309,992	0	309,992
Unrestricted	<u>1,189,632</u>	<u>99,205</u>	<u>1,288,837</u>
Total Net Assets	<u>537,771</u>	<u>99,205</u>	<u>636,976</u>
Total Liabilities and Net Assets	<u>\$ 27,489,457</u>	<u>\$ 131,257</u>	<u>\$ 27,620,714</u>

Most of the School District's net assets are invested in capital assets (buildings, land and equipment). The restricted net assets consist mostly of funds for the purchase or construction of capital assets.

The results of this year's operations as a whole are reported in the statement of activities on Exhibit 2. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The two largest general revenues are the local taxes (real estate, earned income and business gross receipts) assessed to community taxpayers and the various subsidies provided by the State of Pennsylvania.

Charleroi Area School District
Management's Discussion and Analysis
June 30, 2010

Fiscal Year Ended June 30, 2010
Revenues and Expenses

	Governmental Activities	Business-Type Activities	Totals
Revenues			
Taxes, etc.	\$ 7,395,515	\$ 0	\$ 7,395,515
Grants, Subsidies, Etc.	8,044,884	707,525	8,752,409
Investment Income	<u>78,518</u>	<u>258</u>	<u>78,776</u>
Total Revenues	\$ 15,518,917	\$ 707,783	\$ 16,226,700
Expenses			
Instruction	\$ 9,812,601	\$	\$ 9,812,601
Instructional Student Support	882,480		882,480
Administrative	1,707,704		1,707,704
Operation and Maintenance	1,555,602		1,555,602
Pupil Transportation	625,436		625,436
Student Activities	332,518		332,518
Interest on Long Term Debt	594,690		594,690
Food Services		<u>687,028</u>	<u>687,028</u>
Total Expenses	\$ <u>15,511,031</u>	\$ <u>687,028</u>	\$ <u>16,198,059</u>
Change in Net Assets	\$ <u>7,886</u>	\$ <u>20,755</u>	\$ <u>28,641</u>

Fiscal Year Ended June 30, 2009
Revenues and Expenses

	Governmental Activities	Business-Type Activities	Totals
Revenues			
Taxes, etc.	\$ 7,321,412	\$ 0	\$ 7,321,412
Grants, Subsidies, Etc.	9,675,242	710,083	10,385,325
Investment Income	<u>50,468</u>	<u>975</u>	<u>51,443</u>
Total Revenues	\$ 17,047,122	\$ 711,058	\$ 17,758,180
Expenses			
Instruction	\$ 11,303,358	\$	\$ 11,303,358
Instructional Student Support	817,682		817,682
Administrative	1,803,246		1,803,246
Operation and Maintenance	1,542,315		1,542,315
Pupil Transportation	608,667		608,667
Student Activities	293,905		293,905
Interest on Long Term Debt	509,722		509,722
OPEB Expense	478,643		478,643
Food Services		<u>691,067</u>	<u>691,067</u>
Total Expenses	\$ <u>17,357,538</u>	\$ <u>691,067</u>	\$ <u>18,048,605</u>
Change in Net Assets	\$ <u>(310,416)</u>	\$ <u>19,991</u>	\$ <u>(290,425)</u>

Charleroi Area School District
Management's Discussion and Analysis
June 30, 2010

Table A-4 reflects the activities of the food service program, the only business-type activity of the School District.

Fiscal Years Ended June 30, 2010 and June 30, 2009 Business-type Activities		
Functions/Programs	Total Cost of Services	Net from Services
Food Service (06/30/2010)	<u>\$ 687,028</u>	<u>\$20,755</u>
Food Service (06/30/2009)	<u>\$ 691,067</u>	<u>\$19,991</u>

The statement of revenues, expenses and changes in fund net assets for this proprietary fund shown on Exhibit 8 will further detail the actual results of operations.

School District Funds

At June 30, 2010 and June 30, 2009, the School District's governmental funds reported a combined fund balance of \$12,658,236 and \$1,248,507 respectively.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2010 and June 30, 2009, the School District had \$25,255,013 and \$23,756,579 respectively, invested in a broad range of capital assets (net of applicable depreciation), including land, building, furniture and equipment.

Capital Assets - Net of Depreciation June 30, 2010 and June 30, 2009 Governmental Activities		
	June 30, 2010	June 30, 2009
Land	\$ 637,195	\$ 637,195
Buildings and Improvements & Furniture & Equipment	\$ 24,617,818	\$ 23,119,384

The School District added approximately \$2,427,214 in capital assets during the year. See Note 7 for additional details.

Debt Administration

During the year, the School District made principal payments totaling \$1,255,000 on its general obligation bonds and \$125,000 on its authority obligated bonds. The School District also recorded \$492,565 of accrued interest that relates to an authority obligation including non-refundable zero-coupon bonds. As of June 30, 2010, there was \$5,222,540 of accrued interest payable outstanding relating to this authority bond issue. Other outstanding long-term indebtedness amounts as of this date include \$27,900,000 in general obligation bonds, \$4,593,920 in authority bond obligations, and \$1,050,700 in other long-term obligations (compensated balances and OPEB).

Charleroi Area School District
Management's Discussion and Analysis
June 30, 2010

Bond Issuance

On December 30, 2010 the Charleroi Area School District Board of Education approved the refinancing of our GOB Series of 2002 bond issue in order to take advantage of the reduced interest rates in the market. We issued a new GOB Refunding Series A of 2009 for \$4,530,000.00. We were able to realize an up front savings of \$137,180.75 after bond issuance expenses. These funds were rolled into a new borrowing GOB Series B of 2009 for \$13,950,000 to offset the increase in debt service. The new borrowing (GOB Series B of 2009) was structured under the American Recovery and Reinvestment Act of 2009 pertaining to "Build America Bonds" as such the bonds were issued as taxable bonds with the United States Treasury reimbursing the school district 35% of interest payments. This was actually a better deal for the school district as the net interest cost to the district was less than issuing the bonds as non-taxable. The GOB Series of 2009 project is defined as: current refunding of the GOB Series of 2002 in order to reduce debt service over the life of the series; renovation and construction of the elementary center (including, but not limited to the cafeteria, elevators, classrooms and HVAC system); renovation of the auditorium (including, but not limited to seats, roof, carpet, lights and HVAC system); renovation of the high school including, but not limited to the gymnasium, cafeteria and elevators (with projects including, but not limited to lighting, flooring, roof and HVAC system); construction of an auxiliary gymnasium; renovation and /or construction of a new stadium; renovation of the planetarium; purchase of vehicles (including, but not limited to three buses, two pick-up trucks and one box delivery truck; paving of the parking lots; funding capitalized interest for the construction and paying the cost of issuance of the Bonds).

As of the release of this audit report the following projects have been completed: Elementary HVAC system, High School Planetarium; and the purchase of all vehicles. The remaining projects, except for the parking lot, have been put out for bid. This work is scheduled to be substantially completed by August 31, 2011. The parking lot will begin once all other projects have been completed.

Contacting the School District Regarding Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional information, please contact:

Michael A. Gigliotti
Business Manager
Charleroi Area School District
125 Fecsen Drive
Charleroi, PA 15022-2299
Telephone: (724) 483-3509 ext. 1216
E-mail: mgigliotti@charleroisd.org

Charleroi Area School District
Statement of Net Assets
June 30, 2010

Exhibit 1

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 13,236,808	\$ 27,831	\$ 13,264,639
Taxes Receivable (Net)	960,608		960,608
Due from Other Governments	649,381	1,754	651,135
Other Receivables	18,826	45,756	64,582
Inventories		11,303	11,303
Prepaid Expenses	34,935		34,935
Total Current Assets	<u>14,900,558</u>	<u>86,644</u>	<u>14,987,202</u>
Noncurrent Assets			
Land	637,195		637,195
Building and Building Improvements	23,506,472		23,506,472
Furniture and Equipment	1,111,346		1,111,346
Unamortized Bond Costs	975,643		975,643
Delinquent Real Estate Tax & Receivables	49,000		49,000
Total Noncurrent Assets	<u>26,279,656</u>	<u>0</u>	<u>26,279,656</u>
TOTAL ASSETS	<u>\$ 41,180,214</u>	<u>\$ 86,644</u>	<u>\$ 41,266,858</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 377,069	\$ 18,240	\$ 395,309
Current Portion of Long-Term Debt	1,370,000		1,370,000
Current Portion of Capital Lease Payable	78,813		78,813
Accrued Salaries, Benefits, & Taxes	1,119,595		1,119,595
PR Deductions and Withholding	94,581		94,581
Internal Balances	51,556	(51,556)	0
Current Portion of Compensated Absences	30,000		30,000
Other Current Liabilities	145,783		145,783
Total Current Liabilities	<u>3,267,397</u>	<u>(33,316)</u>	<u>3,234,081</u>
Noncurrent Liabilities			
Bonds Payable	26,665,000		26,665,000
Authority Lease Obligations	4,458,920		4,458,920
Other Long-Term Liabilities	5,222,540		5,222,540
LT Portion of Compensated Absences	93,611		93,611
Net OPEB Liability- Note 10	927,089		927,089
Total Noncurrent Liabilities	<u>37,367,160</u>	<u>0</u>	<u>37,367,160</u>
Total Liabilities	<u>40,634,557</u>	<u>(33,316)</u>	<u>40,601,241</u>
Net Assets			
Invested in Capital assets (Net of Related Debt)	(12,540,260)		(12,540,260)
Capital Projects	11,482,037		11,482,037
Unrestricted	1,603,880	119,960	1,723,840
Total Net Assets	<u>545,657</u>	<u>119,960</u>	<u>665,617</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,180,214</u>	<u>\$ 86,644</u>	<u>\$ 41,266,858</u>

See Accompanying Notes

Charleroi Area School District
Statement of Activities
Year Ended June 30, 2010

Exhibit 2

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Govern- mental Activities	Business- Type Activities
Totals					
Governmental Activities					
Instruction	\$ 12,809,939	\$ -	\$ 2,997,338	\$ (9,812,601)	\$ (9,812,601)
Instructional Student Support	910,479	-	27,999	(882,480)	(882,480)
Administrative and Financial Support Services	1,862,562	-	154,858	(1,707,704)	(1,707,704)
Operation and Maintenance of Plant Services	1,594,360	-	38,758	(1,555,602)	(1,555,602)
Pupil Transportation	1,268,049	-	642,613	(625,436)	(625,436)
Student Activities	345,702	-	13,184	(332,518)	(332,518)
Interest on Long-Term Debt	1,320,455	-	725,765	(594,690)	(594,690)
Total Governmental Activities	<u>20,111,546</u>	<u>-</u>	<u>4,600,515</u>	<u>(15,511,031)</u>	<u>(15,511,031)</u>
Business-Type Activities					
Food Service	<u>687,028</u>	<u>277,854</u>	<u>429,671</u>	<u>-</u>	<u>20,497</u>
Total Primary Government	<u>\$ 20,798,574</u>	<u>\$ 277,854</u>	<u>\$ 5,030,186</u>	<u>(15,511,031)</u>	<u>(15,490,534)</u>
General Revenues					
Property Taxes -- General Levy				7,395,515	7,395,515
Grant Subsidies, Contributions & Other Taxes				8,007,867	8,007,867
Investment Earnings				78,518	78,776
Miscellaneous Income				37,017	37,017
Total General Revenues				<u>15,518,917</u>	<u>15,519,175</u>
Changes in Net Assets				<u>7,886</u>	<u>28,641</u>
Net Assets - July 1, 2009				<u>537,771</u>	<u>99,205</u>
Net Assets - June 30, 2010				<u>\$ 545,657</u>	<u>\$ 119,960</u>
					<u>\$ 665,617</u>

See Accompanying Notes

Charleroi Area School District
Balance Sheet
Governmental Funds
June 30, 2010

Exhibit 3

	General Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,742,419	\$ 11,482,379	\$ 12,010	\$ 13,236,808
Taxes Receivable	1,009,608			1,009,608
Due from Other Funds			1,095	1,095
State Revenue Receivables	2,921			2,921
Federal Revenue Receivables	646,460			646,460
Other Receivables	18,826			18,826
Prepaid Expenses/Expenditures	<u>34,935</u>	<u> </u>	<u> </u>	<u>34,935</u>
TOTAL ASSETS	<u>\$ 3,455,169</u>	<u>\$ 11,482,379</u>	<u>\$ 13,105</u>	<u>\$ 14,950,653</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 374,337	\$ 2,652	\$ 80	\$ 377,069
Accrued Salaries and Benefits	1,119,595			1,119,595
Payroll Deductions and Withholding	94,580			94,580
Other Current Liabilities	47,785			47,785
Due to Other Funds	52,652			52,652
Deferred Revenues	<u>600,736</u>	<u> </u>	<u> </u>	<u>600,736</u>
Total Liabilities	<u>2,289,685</u>	<u>2,652</u>	<u>80</u>	<u>2,292,417</u>
Fund Balances				
Reserve for Capital Projects		11,479,727	2,130	11,481,857
Unreserved - Undesignated			10,895	10,895
General Fund	<u>1,165,484</u>	<u> </u>	<u> </u>	<u>1,165,484</u>
Total Fund Balances	<u>1,165,484</u>	<u>11,479,727</u>	<u>13,025</u>	<u>12,658,236</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,455,169</u>	<u>\$ 11,482,379</u>	<u>\$ 13,105</u>	<u>\$ 14,950,653</u>

See Accompanying Notes

Charleroi Area School District
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
Year Ended June 30, 2010

Exhibit 4

Total Fund Balances - Governmental Funds	\$ 12,658,236
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital Assets, Net of Depreciation of \$15,572,418	25,255,013
Inclusion of outstanding debt principal, capital lease payable and accrued interest	(37,891,535)
Compensated absences at year end	(123,611)
Deferred real estate taxes receivable (net) at year end	599,000
Bond discount/issue costs, net of amortization of \$ 272,321	975,643
Net OPEB liability at year end	(927,089)

Total Net Assets - Governmental Activities	<u>\$ 545,657</u>
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See Accompanying Notes

Charleroi Area School District
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010

Exhibit 5

	General Fund	Capital Project Fund	Non-Major Funds	Total Governmental Funds
Revenues				
Local Sources	\$ 7,437,250	\$ 45,367	\$ 21,242	\$ 7,503,859
State Sources	10,610,517			10,610,517
Federal Sources	<u>1,955,600</u>			<u>1,955,600</u>
Total Revenues	<u>20,003,367</u>	<u>45,367</u>	<u>21,242</u>	<u>20,069,976</u>
Expenditures				
Regular programs	8,117,062			8,117,062
Special programs	2,840,247			2,840,247
Vocational programs	455,579			455,579
Other instructional	347,165			347,165
Pupil personnel services	358,621			358,621
Instructional staff services	296,240			296,240
Administrative services	1,286,135			1,286,135
Pupil health	174,744			174,744
Business services	236,078			236,078
Operation of plant	1,501,216	1,658,789	460,666	3,620,671
Student transportation	1,297,334	237,705		1,535,039
Central & other support	358,498			358,498
Student activities	306,851		26,965	333,816
Community Service	3,000			3,000
Debt service	2,028,206	54,000		2,082,206
Interfund transfers	<u>152,515</u>		<u>(152,515)</u>	<u>0</u>
Total Expenditures	<u>19,759,491</u>	<u>1,950,494</u>	<u>335,116</u>	<u>22,045,101</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>243,876</u>	<u>(1,905,127)</u>	<u>(313,874)</u>	<u>(1,975,125)</u>
Other Financing Sources (Uses)				
Bond Proceeds	<u>0</u>	<u>13,384,854</u>	<u>0</u>	<u>13,384,854</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>13,384,854</u>	<u>0</u>	<u>13,384,854</u>
Net Change in Fund Balances	243,876	11,479,727	(313,874)	11,409,729
Fund Balances - July 1, 2009	<u>921,608</u>	<u>0</u>	<u>326,899</u>	<u>1,248,507</u>
Fund Balances - June 30, 2010	<u>\$ 1,165,484</u>	<u>\$ 11,479,727</u>	<u>\$ 13,025</u>	<u>\$ 12,658,236</u>

See Accompanying Notes

Charleroi 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, 2010

Exhibit 6

Total Net Change in Fund Balances - Governmental Funds	\$ 11,409,729
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Amounts reported for governmental activities in the statement of activities are different because:

Increase in bond issue costs/discounts on 2009 bond issue	630,830
Payments of debt service principal for current year	5,820,000
Payment for capital lease payable principal	75,724
Inclusion of accrued interest payable on authority obligations and bonds payable	(502,662)
Current acquisition costs of non-current fixed assets	2,427,214
Depreciation expense for current year	(928,780)
Amortization expense of bond costs for current year	(91,114)
Net increase in compensated absences for current year	46,391
Net increase in delinquent taxes receivable	49,000
Increase in bonds payable due to refunding & 2009 bond issues	(18,480,000)
Net increase in OPEB liability at year end	(448,446)

Change in Net Assets - Governmental Activities	<hr style="width: 100%;"/> <u>\$ 7,886</u>
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Charleroi Area School District
Statement of Net Assets
Proprietary Fund
June 30, 2010

Exhibit 7

	Food Service <u>Fund</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 27,831
Due from Other Governments	1,754
Other Receivables	45,756
Interfund Receivable	51,556
Inventories	<u>11,303</u>
Total Current Assets	<u>138,200</u>
Fixed Assets, net of accumulated depreciation	<u>0</u>
TOTAL ASSETS	<u>\$ 138,200</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Current Liabilities	
Accounts Payable	<u>\$ 18,240</u>
Total Current Liabilities	18,240
Net Assets	
Unrestricted	<u>119,960</u>
Total Net Assets	<u>119,960</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 138,200</u>

See Accompanying Notes

Charleroi Area School District
Statement of Revenues, Expenses and Changes
in Fund Net Assets
Proprietary Fund
Year Ended June 30, 2010

Exhibit 8

	Food Service <u>Fund</u>
Operating Revenues	
Food Service Revenue	\$ 277,854
Operating Expenses	
Salaries	182,407
Employee Benefits	54,337
Supplies	19,165
Other	35
Other Purchased Services, etc	<u>431,084</u>
Total Operating Expenditures	<u>687,028</u>
Operating Income (Loss)	(409,174)
Nonoperating Revenues (Expenses)	
State Sources	30,083
Federal Sources	399,588
Earnings on Investments	<u>258</u>
Total Nonoperating Revenues (Expenses)	<u>429,929</u>
Change in Net Assets	20,755
Total Net Assets - July 1, 2009	<u>99,205</u>
Total Net Assets - June 30, 2010	<u>\$ 119,960</u>

See Accompanying Notes

Charleroi Area School District
Statement of Cash Flows
Proprietary Fund Type
Year Ended June 30, 2010

Exhibit 9

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash Received from Users and Other Receipts	\$ 277,852
Cash Payments to Employees for Services	(182,407)
Cash Payments to Suppliers for Goods and Services	<u>(501,444)</u>
Net Cash Used for Operating Activities	<u>(405,999)</u>
Cash Flows from Non-Capital Financing Activities	
State Sources	30,083
Federal Sources	399,588
Transfer	<u>(77,175)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>352,496</u>
Cash Flows from Investing Activities	
Earnings on Investments	258
Loans Paid	<u>0</u>
Net Cash Provided by Investing Activities	<u>258</u>
Net Change in Cash and Cash Flows	(53,245)
Cash and Cash Equivalents - Beginning of Year	<u>81,076</u>
Cash and Cash Equivalents - End of Year	<u>\$ 27,831</u>
Operating Income (Loss)	\$(409,174)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities	
(Increase) Decrease in Inventories/accounts receivable	(8,632)
Increase (Decrease) in Accounts Payable	<u>11,807</u>
Total Adjustments	<u>3,175</u>
Cash Used for Operating Activities	<u>\$(405,999)</u>
Noncash Investing, Capital and Financing Activities:	

During the year ended June 30, 2010, the School District received \$29,550 of U.S.D.A. Donated Commodities in the food service fund.

See Accompanying Notes

Charleroi Area School District
Statement of Net Assets & Changes In Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

Exhibit 10

	<u>Activity Funds</u>
ASSETS	
Cash and Equivalents	\$ 82,436
	<hr/>
TOTAL ASSETS	<u>\$ 82,436</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Other Current Liabilities	\$ 82,436
Net Assets	
Restricted	<hr/> 0
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 82,436</u>
FIDUCIARY NET ASSETS, BEGINNING OF YEAR	\$ 83,598
LESS: REDUCTION IN NET ASSETS, CURRENT YEAR	<u>(1,162)</u>
FIDUCIARY NET ASSETS, END OF YEAR	<u>\$ 82,436</u>

See Accompanying Notes

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies

Charleroi Area School District, located in Washington County, Pennsylvania, provides public education, kindergarten through twelfth grade, to the residents of Charleroi, Pennsylvania.

The School District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the School District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the School District has chosen not to do so. The more significant accounting policies in GAAP and used by the School District are discussed below.

The following is a summary of the more significant policies:

A. Financial Reporting Entity

In evaluating how to define a government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and more specifically, the provisions of Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity". The following summarizes the guidance provided by GASB in determining the governmental activities, organizations, functions and component units that should be included in the governing entity's financial statements. The criterion for inclusion of a component unit is if the primary government is financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, it has been determined that the School District (the primary government) has no potential component units to be included in its financial reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies (Cont'd)

B. Government-Wide and Fund Financial Statements (Cont'd)

meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, net of any uncollectible amounts, are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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 period, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes levied but collected beyond 60 days after year end are recorded as deferred revenue to be recognized as revenue when the taxes are collected. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, investment income, rent and certain miscellaneous revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. In applying the susceptible to accrual concept to intergovernmental revenues (state and federal sources), the legal and contractual requirements of the individual programs are used as guidance. There are however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the School District; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure. All other revenue items are considered to be measurable and available only when cash is received by the government.

The School District reports the following major governmental funds:

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

The *capital projects fund* accounts for the resources accumulated and payments made for capital related transactions including acquisition, construction or improvement of major capital facilities.

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies (Cont'd)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)

The School District reports the following non-major governmental funds:

The *capital reserve fund* accounts and student athletic fund accounts.

The *fiduciary fund accounts* include the elementary, middle and high school student activities funds.

The School District reports the following proprietary fund:

The *food service fund* accounts for the revenues, food purchases, and other costs and expenses providing meals to students and/or faculty during the school year.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the School District's enterprise fund are charges to customers for sales of food. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Cash Equivalents

The School District's policy is to maintain cash balances in interest-bearing accounts such as money market or flex funds. The market values of the funds approximate cost. For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies (Cont'd)

E. Budgets

The School Board approves, prior to the beginning of each year, an annual budget on the modified accrual basis of accounting for the general fund. This is the only fund for which a budget is required and for which taxes may be levied. The general fund is the only fund that has an annual budget that has been legally adopted by the School Board. The Public School Code allows the School Board to authorize budget transfer amendments during the year, but only during the last nine months of the fiscal year.

The final budget data reflected in the financial statements includes the effect of approved budget transfer amendments and, for comparative purposes, the actual amounts have also been presented. The School District expenditures may not legally exceed the revised budget amounts by function. Function is defined as a program area such as instructional services and object is defined as a nature of the expenditure, such as salaries or supplies. Amendments require Board approval.

All appropriations lapse at the end of each fiscal year (June 30).

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

G. Inventories

On government-wide financial statements, inventories are presented at a lower of cost or market on a first-in, first-out basis, and are expensed when consumed.

H. Prepaid Expenses

In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

I. Capital Assets

Capital assets, which include property, plant, equipment and land improvements are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$4,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies (Cont'd)

I. Capital Assets (Cont'd)

capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings, etc.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40 - 50
Building Improvements	20 - 30
Land Improvements	20
Furniture	20
Vehicles	8
Equipment	5 - 15
Computers	5

J. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

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 while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as service expenditures.

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies (Cont'd)

K. Compensated Absences

The School District's policies regarding vacation time under various contracts, provide for employees to accumulate sick days which they are paid for upon retirement or termination of service. The amount the employee is compensated and the number of days varies based on their contract and their years of service. The liability for these compensated absences is recorded as current and noncurrent liabilities in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

L. Investments

Investments, if any, are stated at fair value except that treasury and agency obligations that have a remaining maturity at the time of purchase of one year or less are shown at amortized cost. Fair value is based on quoted market prices. Funds are invested pursuant to the Public School Code of 1949 and investment policy guidelines established by the School District and approved by the Members of the Board. The School Code states that authorized types of investments shall be: United States Treasury Bills; short-term obligations of the United States Government or its agencies or instrumentalities; deposits in savings accounts, time deposits or share accounts of institutions insured by the FDIC; obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States and the Commonwealth of Pennsylvania.

Note 2 - Deposits and Investments

The deposit policy of the School District adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School District.

At year-end the carrying amount of the District's deposits was \$13,264,639 while the balance on the bank records was approximately \$14,613,539.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in an event of a bank failure, the government's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. Deposits in excess of amounts covered by the Federal Deposit Insurance Corporation are collateralized in accordance with Act 72 of 1971 of the Pennsylvania State Legislature which requires the institution to pool collateral for all governments and have the collateral held by an approved custodian in the institution's name.

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 2 - Deposits and Investments (Cont'd)

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risks - The Pennsylvania Public School Code authorizes the types of investments allowed. These are described in Note 1L. The School District has no investment policy that would further limit its investment choices. The School District's investments in Pennsylvania School District Liquid Asset Fund (PSDLAF) and PA Invest Funds were rated AAAM by Standard & Poors.

Concentration of Credit Risk - The School District places no limit on the amount it may invest in any one issue.

Investments

The Pennsylvania School District Liquid Asset Fund (PSDLAF) was established as a common law trust, organized under laws of the Commonwealth of Pennsylvania. Shares of the fund are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools and municipalities. The purpose of the fund is to enable such governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. These funds have the characteristics of open-end mutual funds and are not subject to credit risk classification.

PSDLAF is governed by an elected board of trustees who are responsible for the overall management of the fund. The trustees are elected from the several classes of local governments participating in the fund. The fund is audited annually by independent auditors. The fund operates in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The fund uses amortized cost to report net assets to compute share prices. The fund maintains net asset value of \$1 per share.

Note 3 - Real Estate Taxes

The municipal tax collectors bill and collect real estate taxes on behalf of the School District based upon assessed values provided by the County. The School District's tax rate for all purposes in 2009/2010 was 125 mills. The tax calendar for real estate taxes levied for 2009/2010 is as follows:

Tax Levy Date	July 1
2% Discount Period	Through August 31
Face Payment Period	September 1 - October 31
10% Penalty Period	November 1 Until Liened
Lien Filing Date	January 1

The amounts shown as delinquent real estate taxes receivable have not been recorded as revenue on the fund statements. These taxes are, however, recorded as deferred revenue on the balance sheet until they are received. The amounts reported for this receivable are reported on the balance sheet in the amount of \$599,000.

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 4 - Interfund Balances

Interfund balances at year end were:

	Interfund Receivable	Interfund Payable
General Fund	\$	\$ 52,652
Food Service Fund	51,556	
Non Major Fund	1,095	
Other	<u>1</u>	
	<u>\$ 52,652</u>	<u>\$ 52,652</u>

Note 5 - Public School Employees' Retirement System (PSERS)

The Government Accounting Standards Board (GASB) requires that state and local governmental employers disclose in their notes to financial statements, certain information about the public employee retirement systems to which they contribute. The Public School Employees' Retirement System (PSERS) is providing the following information in accordance with GASB to assist the employers in the preparation of their annual financial statements.

Plan Description

Name of plan: Public School Employees' Retirement System (the System)

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

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

Authority: The Public School Employees Retirement Code (Act No. 96 of October 2, 1975, as amended) (24Pa. C. S. 8101-8535)

Annual Financial Report: The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, PO Box 125, Harrisburg, PA 17108-0125. This publication is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index/htm.

Funding Policy

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

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 5 - Public School Employees' Retirement System (PSERS) (Cont'd)

Contribution rates:

Member Contributions -

Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) 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 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation.

Members who joined the System after June 30, 2001, contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Employer Contributions - Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2010, the rate of employer's contribution was 4.78 percent of covered payroll. The 4.78 percent rate is composed of a pension contribution rate of 4.00 percent for pension benefits and 0.78 percent for healthcare insurance premium assistance.

Note 6 - Long-Term Debt

Long-term liability activity for the current year is provided below.

	<u>Original Issue Amount</u>	<u>Balance 6/30/09</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Balance 6/30/10</u>
Refunding Series of 2002	\$ 9,950,000	\$ 5,445,000	\$ 0	\$ 5,445,000	\$ 0
GOB Refunding Series of 2009	13,950,000	0	13,950,000	0	13,950,000
GOB Refunding Series of 2009	4,530,000	<u>0</u>	<u>4,530,000</u>	<u>5,000</u>	<u>4,525,000</u>
		<u>\$ 5,445,000</u>	<u>\$ 18,480,000</u>	<u>\$ 5,450,000</u>	<u>\$18,475,000</u>

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 6 - Long-Term Debt (Cont'd)

Authority Bond Obligations

Refunding Series of 2008	9,750,000	9,670,000	0	245,000	9,425,000
Refunding Series of 99B	1,985,000	550,000	0	125,000	425,000
Guaranteed Revenue Bonds Series 99C	4,168,920	<u>4,168,920</u>	<u>0</u>	<u>0</u>	<u>4,168,920</u>
		<u>\$ 14,388,920</u>	<u>\$ 0</u>	<u>\$ 370,000</u>	<u>\$ 14,018,920</u>
		<u>\$ 19,833,920</u>	<u>\$18,480,000</u>	<u>\$ 5,820,000</u>	<u>\$ 32,493,920</u>
Current					\$ 1,370,000
Long-term					<u>31,123,920</u>
					<u>\$ 32,493,920</u>

General obligation school building bonds payable at the end of the current year, with their outstanding balance are comprised of the individual issues presented below.

Refunding Series of 2008, \$9,750,000,
due serially through September 2017, interest
semiannually from 2.-% to 3.6%. \$ 9,425,000

Refunding Series of 99B, \$1,985,000,
due serially through October 2012, interest due
semiannually from 3.75% to 5.55%. 425,000

Guaranteed Revenue Bonds Series 99C,
\$4,168,920, zero coupon bonds due October 2024. 4,168,920

GOB Refunding Series A of 2009,
\$13,950,000, due serially through November 2033,
interest due semiannually from 5% to 6%. 13,950,000

GOB Refunding Series B of 2009,
\$4,530,000, due serially through November 2013,
interest due semiannually from .75% to 1.5%. 4,525,000

\$ 32,493,920

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 6 - Long-Term Debt (Cont'd)

The annual requirements to amortize all debt outstanding of \$32,493,920 are provided below:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,370,000	\$ 2,139,248	\$ 3,509,248
2012	1,555,000	2,229,585	3,784,585
2013	1,575,000	2,219,586	3,794,586
2014	1,730,000	2,063,738	3,793,738
2015	1,965,000	1,282,816	3,247,816
After	<u>24,298,920</u>	<u>31,512,848</u>	<u>55,811,768</u>
Total	<u>\$ 32,493,920</u>	<u>\$ 41,447,821</u>	<u>\$ 73,941,741</u>

On December 3, 2009 the District issued Series A of 2009 and Series B of 2009 General Obligation Bonds in the amounts of \$4,530,000.00 and \$13,950,000.00, respectively. The proceeds of Series A of 2009 GOB was used to refund the 2002 Refunding Series GOB in its entirety effectuated by a transfer to a 2002 sinking fund account in the approximate amount of \$4,464,000.00. This current refunding resulted in a present value savings to the District of approximately \$137,000.00. The remaining bond proceeds will be used to finance improvement projects at various District facilities.

Note 7 - Capital Assets

Capital asset activity for the governmental and business type activities for the current year is as follows:

	<u>Balance</u> <u>7/1/09</u>	<u>Additions</u>	<u>Balance</u> <u>6/30/10</u>
Land	\$ 637,195	\$ 0	\$ 637,195
Building & improvements	34,987,436	2,100,163	37,087,599
Furniture & equipment	<u>2,775,586</u>	<u>327,051</u>	<u>3,102,637</u>
	<u>\$ 38,400,217</u>	<u>\$ 2,427,214</u>	<u>\$ 40,827,431</u>
Less Accumulated Depreciation:			
Building & improvements	\$ 12,682,173	\$ 711,547	\$ 13,393,720
Furniture & equipment	<u>1,961,465</u>	<u>217,233</u>	<u>2,178,698</u>
	<u>\$ 14,643,638</u>	<u>\$ 928,780</u>	<u>\$ 15,572,418</u>
Capital Assets (net)	<u>\$ 23,756,579</u>	<u>\$ 1,498,434</u>	<u>\$ 25,255,013</u>

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 7 - Capital Assets (Cont'd)

The business-type capital activities included above follows below. There were no business-type additions or deletions during the current year.

Furniture & equipment, at cost	\$ 125,675
Accumulated depreciation	<u>(125,675)</u>
Net Book Value	<u>\$ 0</u>

Depreciation expense was charged to functions/programs as follows:

Instruction	\$ 594,420
Instructional Student Support	130,028
Administration & Financial Support	65,015
Operation & Maintenance of Plant, etc.	74,302
Student Activities	<u>65,015</u>
Total Depreciation Expense	<u>\$ 928,780</u>

Note 8 - Contingent Liabilities

The School District participates in a number of federally assisted grant programs, principal of which are Title I and National School Lunch Program. The programs are subject to program compliance audits by the grantors or their representatives. The audits of some of these programs for and including the current year have not yet been conducted. Accordingly, the School District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 9 – Capital Lease Payable

On July 22, 2008 the District entered into a lease purchase agreement for three school busses costing \$235,737 through capital leasing arrangements in the general fund. Interest is provided at 4.08% annually. At the end of the current year, the cost and accumulated depreciation of these busses are \$235,737 and \$45,183 respectively.

Capital lease activity for the current year is as follows:

	<u>Beginning Balance</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Lease Payable	\$154,537	\$ 75,724	\$ 78,813	\$ 78,813

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 9 – Capital Lease Payable (Cont'd)

The future minimum lease obligation relating to the three school busses is as follows:

Year ending June 30, 2011	\$ 82,029
Amount representing interest	<u>(3,216)</u>
Present value of minimum lease payments	<u>\$ 78,813</u>

Note 10 - Other Post-Employment Benefits Plan

A. Plan Description

The District provides post-employment insurance benefits to certain eligible employees through the Charleroi Area School District Other Post-Employment Benefits Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements.

Teacher Eligibility Requirements

Teachers retiring previous to their 65th birthday shall have the right to remain in the group health plan at no cost to the District, until they attain the age of 65.

In the 2006-2009 Contract, there was an early retirement incentive plan with the following terms and conditions:

- a) An employee must have thirty (30) years of service credit in the Public School Employees' Retirement System of which fifteen (15) years of service must be in the Charleroi Area School District or as a member of the Intermediate Unit who transferred during the "Transfer of Entities".
- b) A first time eligible employee will be paid \$12,000 at the time of retirement. Hospitalization insurance will be paid at the coverage in effect at the time of retirement until the age of sixty-five (65). The retiree will pay any increase in the premium after retirement.

Act 93 Administrators Eligibility Requirements

Act 93 administrators and support personnel retiring prior to being Medicare eligible shall have the right to remain in the medical insurance group, at no cost to the District, until such time as they become eligible for Medicare benefits.

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 10 - Other Post-Employment Benefits Plan (Cont'd)

Any administrator who has thirty (30) years in the Public School Employees Retirement System of which fifteen (15) years must be in the Charleroi Area School District may elect to retire and be entitled to the following:

Commencing on the administrator's retirement date, the District will pay the employee a monthly dollar amount equal to the monthly cost of the employee's health insurance premium as paid by the District in the 12 month period leading up to the employee's retirement. The District will make these payments for five (5) years immediately following retirement. The District is only obligated to make these payments if the retiree is not covered under another medical or hospitalization insurance plan.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement Nos. 43 and 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation to the plan:

Annual required contribution	<u>\$ 814,087</u>
Annual OPEB cost (expense)	814,087
Contributions made	<u>(365,641)</u>
Increase in net OPEB obligation	448,446
Net OPEB obligation - beginning of year	<u>478,643</u>
Net OPEB obligation - end of year	<u>\$ 927,089</u>

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 10 - Other Post-Employment Benefits Plan (Cont'd)

C. Annual OPEB Cost and Net OPEB Obligation (Cont'd)

The District's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan and the net OPEB obligation for the year are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 814,087	\$ 335,444	41.2%	\$ 478,643
June 30, 2010	\$ 814,087	\$ 365,641	44.9%	\$ 448,446

D. Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$8,135,378, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,135,378. The covered payroll was approximately \$8,900,000, and the ratio of the UAAL to the covered payroll was 91.4 percent.

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

E. Actuarial Methods and Assumptions

A summary of the actuarial assumptions used in the valuation is presented below:

Investment Return - The assumed rates used to discount obligations are as follows:

- | | |
|------------------------|--------|
| 1. Funded Conservative | 5.000% |
| 2. Non-Funded | 4.000% |

Salary Scale - None assumed

Retirement Rates - Teachers and administrators were assumed to retire immediately upon attainment of 30 years of service.

Termination - Sarason T-3.

Charleroi Area School District
Notes to Financial Statements
June 30, 2010

Note 10 - Other Post-Employment Benefits Plan (Cont'd)

E. Actuarial Methods and Assumptions (Cont'd)

Pre-retirement Mortality - RP-2000 Healthy Annuitant Mortality Table for males and females.

Post-retirement Mortality - RP-2000 Healthy Annuitant Mortality Table for males and females.

Rates of Disablement - Rates of disablement were not assumed.

Post-Disablement Mortality - Post-disablement mortality was not assumed in the valuation.

Administrative Expenses - None assumed.

Percent Married - Actual marital status and pre-retirement elections were used in the valuation.

Age of Spouse - Actual spouse's date of birth was used in valuation.

Medical inflation - 9% in the first year gradually decreasing by 1% per year, to an ultimate rate of 5%.

ACTUARIAL METHODS

Valuation of Obligations - The Entry Age Normal Method was used.

Valuation of Assets - Market value of assets was used.

Note 11 – Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Charleroi Area School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund - Budget and Actual
Year Ended June 30, 2010

Exhibit 11

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary)	Final Budget
			Basis)	Positive
				(Negative)
REVENUES				
Local Sources	\$ 7,394,984	\$ 7,394,984	\$ 7,437,250	\$ 42,266
State Sources	10,554,013	10,554,013	10,610,517	56,504
Federal Sources	<u>1,671,739</u>	<u>1,671,739</u>	<u>1,955,600</u>	<u>283,861</u>
TOTAL REVENUES	\$19,620,736	\$19,620,736	\$20,003,367	\$ 382,631
EXPENDITURES				
Regular Programs	8,090,806	8,090,806	8,117,062	(26,256)
Special Programs	2,764,561	2,764,561	2,840,247	(75,686)
Vocational Programs	460,000	460,000	455,579	4,421
Other Instructional Programs	379,533	379,533	347,165	32,368
Pupil Personnel Services	421,234	421,234	358,621	62,613
Instructional Staff Services	280,190	280,190	296,240	(16,050)
Administrative Services	1,330,319	1,330,319	1,286,135	44,184
Pupil Health	173,986	173,986	174,744	(758)
Business Services	251,702	251,702	236,078	15,624
Operation and Maintenance of				
Plant Services	1,677,503	1,677,503	1,501,216	176,287
Student Transportation Services	1,180,505	1,180,505	1,297,334	(116,829)
Central & Other Support Services	420,431	420,431	358,498	61,933
Student Activities	263,253	263,253	306,851	(43,598)
Community Services	9,173	9,173	3,000	6,173
Debt Service (Principal & Interest)	1,917,540	1,917,540	2,028,206	(110,666)
Interfund Transfers			<u>152,515</u>	<u>(152,515)</u>
TOTAL EXPENDITURES	<u>19,620,736</u>	<u>19,620,736</u>	<u>19,759,491</u>	<u>(138,755)</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES	0	0	243,876	243,876
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING				
SOURCES (USES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	\$ <u>0</u>	\$ <u>0</u>	\$ 243,876	\$ 243,876
FUND BALANCE – BEGINNING OF YEAR			921,608	
FUND BALANCE - END OF YEAR			<u>\$1,165,484</u>	

See Accompanying Notes

Members of the Board
Charleroi Area School District
Washington County, Pennsylvania

Dear Members:

The reports contained in this single audit section are required in addition to the financial statements. The various reports for Charleroi Area School District for the period ended June 30, 2010 were prepared to fulfill the requirements of the Office of Management and Budget's Circular A-133. A summary of the reports are as follows:

- A. Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- B. Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133
- C. Schedule of Findings and Questioned Costs
- D. Schedule of Expenditures of Federal Awards
- E. Management Letter (Issued Under Separate Cover)
- F. List of Report Distribution

Respectfully submitted,

Certified Public Accountants
December 20, 2010

**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***

Members of the Board
Charleroi Area School District
Washington County, Pennsylvania

Dear Members

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charleroi Area School District, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Members of the Board
Charleroi Area School District
Exhibit A
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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*.

We noted certain matters that we reported to management of the District in a separate letter dated December 20, 2010.

This report is intended solely for the information and use of the District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Certified Public Accountants
December 20, 2010

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

Members of the Board
Charleroi Area School District
Washington County, Pennsylvania

Dear Members:

Compliance

We have audited the compliance of Charleroi Area School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Charleroi Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Certified Public Accountants
December 20, 2010

Charleroi Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Exhibit C

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Charleroi Area School District.
2. No reportable conditions relating to the audit of the financial statements are reported in these statements.
3. No instances of noncompliance material to the financial statements of Charleroi Area School District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in these financial statements.
5. The auditor's report on compliance for the major federal award programs for the Charleroi Area School District expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Charleroi Area School District are reported in Part C of this Schedule.
7. The programs tested as major programs are the Title I - 84.389 and 84.010, Special Education Grants to States - 84.391 and 84.027, and State Fiscal Stabilization Grants (SFSF) - 84.394.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Charleroi Area School District qualified as a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

Charleroi Area School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Exhibit D

Federal Grantor/ Pass Through Grantor/ Project Title U.S. Department of Education Passed through the Pennsylvania Department of Education	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue 07/01/09	Revenue Recognized	Expend- itures	Accrued or (Deferred) Revenue 6/30/10
Title I - ARRA	I	84.389	127-100077	2009-10	\$ 172,866	\$ 81,881	\$ 11,814	\$ 68,976	\$ 68,976	\$ (1,091)
Title I	I	84.010	13-100077	2009-10	380,029	403,529	77,143	358,877	358,877	32,491
Title II-A	I	84.367	20-090077	2008-09	112,611	22,522	21,380	1,142	1,142	0
Title II-A	I	84.367	20-100077	2009-10	113,432	98,048	0	109,883	109,883	11,835
Drug Free Schools	I	84.186	100-100077	2009-10	6,598	6,598	0	6,598	6,598	0
Medical Assistance I	I	93.778	044-007077	2008-09	13,145	13,145	13,145	0	0	0
IDEA B - ARRA	I	84.391	128-100001	2009-10	450,736	0	0	208,342	208,342	208,342
IDEA B	I	84.027	062-100001	2009-10	283,862	283,862	0	283,862	283,862	0
SFSF - ARRA	I	84.394	126-100077	2009-10	868,544	506,651	0	868,544	868,544	361,893
Medical Assistance	I	93.778	044-007077	2009-10	31,899	0	0	31,899	31,899	31,899
Total U.S. Department of Education							\$ 123,482	\$1,938,123	\$1,938,123	\$ 645,369

Charleroi Area School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Exhibit D

Federal Grantor/ Pass Through Grantor/ Project Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/ Ending Date	Total Received for the Year	Accrued or (Deferred) Revenue 07/01/09	Revenue Recognized	Expend- itures	Accrued or (Deferred) Revenue 06/30/10
U.S. Department of Agriculture Passed through the Pennsylvania Department of Education									
Food Nutrition Service	S		N/A	09-18	\$ 30,083	\$ 0	\$ 30,083	\$ 30,083	\$ 0
Food Nutrition Service	S		N/A	08-09	3,028	3,028	0	0	0
Lunch Hi/Lo	I	10.555	N/A	09-10	318,074	39,165	278,909	278,909	0
Severe Need Breakfast	I	10.553	N/A	09-10	89,374	0	89,374	89,374	0
Summer Food Service	I	10.559	N/A	09-10	0	0	1,754	1,754	1,754
Passed through PA Department of Agriculture					(a)	(b)	(c)		(d)
Value of USDA Donated Commodities	I	10.550	N/A	08-09	29,550	(2,390)	27,612	27,612	(4,328)
Total Federal Assistance					<u>\$1,886,345</u>	<u>\$ 163,285</u>	<u>\$2,365,855</u>	<u>\$2,365,855</u>	<u>\$ 642,795</u>

Footnotes:
(a) = USDA Donated Commodities Received
(b) = Beginning of Year Donated Commodities Inventory
(c) = Total Value of Commodities Used
(d) = End of Year Donated Commodities Inventory

Charlottesville Area School District
List of Report Distribution
June 30, 2010

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