

Financial Statements

West Chester Area School District
West Chester, Pennsylvania

June 30, 2009

Rainer
& Company

A Professional Corporation
Certified Public Accountants



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A Professional Corporation
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INDEPENDENT AUDITORS' REPORT

Board of School Directors
West Chester Area School District
West Chester, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of West Chester Area School District as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of West Chester Area School District as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010, on our consideration of West Chester Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 42, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rainer & Company
Rainer & Company

January 13, 2010

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2009

The discussion and analysis of West Chester Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the transmittal letter, notes to the financial statements and financial statements.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- In the 2008-09 fiscal year, the District incurred inflationary increases in salaries, benefits, student charter school payments, transportation services and utility expenditures as well as significant decreases in local revenues as a result of the economic downturn.
- In the budgeting process, the Board of School Directors balanced the budget with a 1.06 mill increase (\$1.06 per \$1,000 of assessed value) to the taxpayers within Chester County.
- On a Government Wide basis, the District's total net assets were \$28,544,569 at June 30, 2009. After adjusting for a prior period adjustment, this represents a decrease of \$1,681,063 from the prior year.
- On a Fund reporting basis, the District's General Fund total revenue, excluding other financing sources, increased by \$6,783,999 or 3.7%. Property taxes, which include current and interim real estate taxes, increased by \$6,267,035 or 5.0%. As a result of the economic downturn, earned income collections decreased by \$141,227, real estate transfer tax collections decreased by \$999,364 and investment revenue decreased \$1,376,224. These decreases were offset by a \$2,739,676 increase in State revenue and a \$138,894 increase in Federal revenue.
- On a Fund reporting basis, compared to the prior year, the District's General Fund expenses increased \$4,199,573 or 2.3%, excluding other financing uses. Looking at the expense changes by category, instruction costs stayed relatively flat. Support service costs rose \$2,273,328 or 4.0% which were driven primarily by increases in charter school tuitions, student transportation costs and utilities. Facilities expenses dropped \$122,477 as compared to the prior year due to budgetary constraints. Debt service increased \$1,449,921 as the District phased in the debt service related to the school renovation projects.

OVERVIEW OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using both the accrual basis and modified accrual basis of accounting, respectively.

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
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Government-Wide Financial Statements

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 District's overall financial status.

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

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

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

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

- **Governmental Activities** - All of the 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 District operates a food service operation and charges fees to staff and students to cover the costs of the food service operation.

Fund Level Financial Statements

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how the District's general 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 District operates like a business. For this District, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others.

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

WEST CHESTER AREA SCHOOL DISTRICT
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Fund Level Financial Statements (Continued)

- Proprietary Funds - These funds are used to account for 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 District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements.
- Fiduciary Funds - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

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

FINANCIAL ANALYSIS OF THE DISTRICT - GOVERNMENT-WIDE STATEMENTS

The District's total net assets were \$28,544,569 at June 30, 2009. After accounting for a prior period adjustment, this represents a decrease of \$1,681,063 over last year. The following table presents condensed financial information for the net assets of the District as of June 30, 2009 and June 30, 2008.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current Assets	\$50,516,588	\$69,333,262	\$1,201,396	\$1,097,472	\$51,717,984	\$70,430,734
Capital Assets	311,018,711	309,454,040	82,865	61,439	311,101,576	309,515,479
Other Assets	2,380,768	2,601,171	0	0	2,380,768	2,601,171
TOTAL ASSETS	363,916,067	381,388,473	1,284,261	1,158,911	365,200,328	382,547,384
Current Liabilities	33,233,044	36,632,416	299,123	323,289	33,532,167	36,955,705
Noncurrent Liabilities	303,123,592	315,366,047	0	0	303,123,592	315,366,047
TOTAL LIABILITIES	336,356,636	351,998,463	299,123	323,289	336,655,759	352,321,752
Net Assets:						
Invested in Capital Assets, Net of Related Debt	8,903,159	9,965,104	82,865	61,439	8,986,024	10,026,543
Restricted: Capital Projec	14,641,919	16,378,062	0	0	14,641,919	16,378,062
Unrestricted	4,014,353	3,046,844	902,273	774,183	4,916,626	3,821,027
TOTAL NET ASSETS	\$27,559,431	\$29,390,010	\$ 985,138	\$ 835,622	\$28,544,569	\$30,225,632

The restricted net assets in the amount of \$14,641,919 are set aside to fund the capital improvements, the replacement of and additions to public works and improvements, and for deferred maintenance. The unrestricted net assets in the amount of \$4,916,626 include \$902,273 set aside for capital expenditures within the District's food service program. The balance remaining in the unrestricted net assets is available to fund any unforeseen financial issues.

WEST CHESTER AREA SCHOOL DISTRICT
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The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are presented to determine the final amount of the District's activities that are supported by other general revenues. The largest revenues are property taxes, local taxes and the state basic education subsidy.

The following table presents condensed financial information for the Statement of Activities in a different format so that you can see our total revenues for the year. Compared to the prior year, the District's total revenues increased by \$5,368,981 or 2.9%. Operating grants and contributions decreased by \$1,170,279 or 4.9% primarily due to the loss of one grant. Funding for the Classrooms for the Future grant dropped \$1,103,872 to the 2008/09 allocation of \$186,197. Property taxes, which include current and interim real estate taxes, increased by \$6,282,700 or 5.0%. Other taxes, driven by the economic downturn, decreased by \$1,149,938 or 5.5%. Grants and Subsidies, non-restricted, increased \$4,109,590 or 49.7% due to the additional state revenue provided for property tax relief for homestead or farmstead property owners. Other revenue dropped 53.0% or \$2,821,006 as a result of the decrease in investment earnings. Expenses increased by \$6,120,383 or 3.2%. Major expenditure increases by category included a \$2,585,739 increase in depreciation expense and a \$1,773,896 increase in Operation and Maintenance of plant service costs.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
REVENUES:						
Program Services:						
Charges for Services	\$ 582,520	\$ 570,852	\$2,704,187	\$2,597,941	\$ 3,286,707	\$ 3,168,793
Operating Grants and Contributions	22,035,332	23,277,208	600,091	528,494	22,635,423	23,805,702
General Revenues:						
Property Taxes	132,999,091	126,716,391	0	0	132,999,091	126,716,391
Other Taxes	19,619,521	20,769,459	0	0	19,619,521	20,769,459
Grants, Subsidies and Contributions Not Restricted	12,382,310	8,272,720	0	0	12,382,310	8,272,720
Other Revenue	2,486,367	5,282,683	17,032	41,722	2,503,399	5,324,405
TOTAL REVENUES	190,105,141	184,889,313	3,321,310	3,168,157	193,426,451	188,057,470
EXPENSES:						
Instruction	103,973,612	103,397,524	0	0	103,973,612	103,397,524
Instructional Student Support	13,634,029	13,064,208	0	0	13,634,029	13,064,208
Administrative and Financial Support	14,390,496	14,060,374	0	0	14,390,496	14,060,374
Operation and Maintenance of Plant Services	16,604,260	14,830,364	0	0	16,604,260	14,830,364
Pupil Transportation	13,219,823	12,846,908	0	0	13,219,823	12,846,908
Student Activities	4,145,743	4,028,516	0	0	4,145,743	4,028,516
Community Services	122,164	81,960	0	0	122,164	81,960
Interest on Long-Term Debt	13,361,141	13,695,699	0	0	13,361,141	13,695,699
Unallocated Depreciation Expense	12,484,452	9,898,713	0	0	12,484,452	9,898,713
Food Services	0	0	3,171,794	3,082,865	3,171,794	3,082,865
TOTAL EXPENSES	191,935,720	185,904,266	3,171,794	3,082,865	195,107,514	188,987,131
CHANGE IN NET ASSETS	\$ (1,830,579)	\$ (1,014,953)	\$ 149,516	\$ 85,292	\$ (1,681,063)	\$ (929,661)

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2009

EXPENSES

The following table presents condensed financial information on the expenses of the District by function. The table illustrates both the gross and net costs of services. Unrestricted grants, subsidies and contributions are deducted to reflect the amount needed to be funded by other revenue sources. The amount needed to be funded by other revenue sources increased by \$3,152,072 or 2.0% more than the prior year. The table for business-type activity reflects condensed financial activities of the food service program, the only business-type activity of the District.

Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Expenses - Governmental Activities:				
Instruction	\$103,973,612	\$103,397,524	\$ 89,742,267	\$ 87,732,908
Instructional Student Support	13,634,029	13,064,208	12,803,438	12,165,536
Administrative and Financial Support	14,390,496	14,060,374	13,843,166	13,435,461
Operation and Maintenance of Plant Services	16,604,260	14,830,364	14,637,946	12,879,576
Pupil Transportation	13,219,823	12,846,908	8,457,685	8,460,894
Student Activities	4,145,743	4,028,516	3,866,124	3,706,717
Community Services	122,164	81,960	121,649	80,702
Interest on Long-Term Debt	13,361,141	13,695,699	13,361,140	13,695,699
Unallocated Depreciation Expense	12,484,452	9,898,713	12,484,453	9,898,713
	<u>\$191,935,720</u>	<u>\$185,904,266</u>	169,317,868	162,056,206
Less: Grants, Subsidies and Contributions Not Restricted			<u>(12,382,310)</u>	<u>(8,272,720)</u>
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES			<u>\$156,935,558</u>	<u>\$153,783,486</u>

WEST CHESTER AREA SCHOOL DISTRICT
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THE DISTRICT FUNDS

General Fund

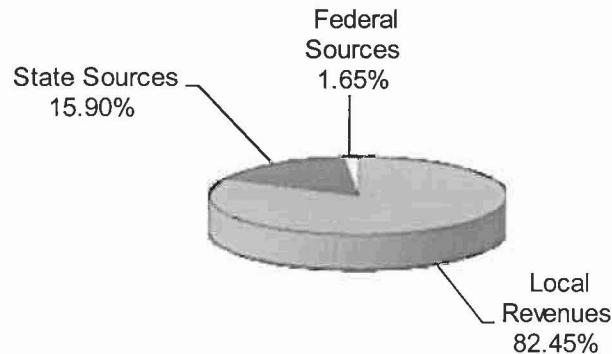
At June 30, 2009, the District reported a General Fund fund balance of \$7,861,943 which represents 4.2% of total expenditures and is an increase of \$367,620 over last year. The School Board of the West Chester Area School District consciously maintains a modest fund balance needed to respond to unforeseen contingencies. This philosophy was established during a healthy and growing economy within our District and accurate and timely forecasting which allows the District to constantly monitor economic trends within our community. This philosophy conforms to the Board's belief that the tax burden should be aligned with the current funding needs of the District.

REVENUE

Revenues, excluding other financing sources, which total \$189,075,283, increased \$6,783,999 or 3.6% over the prior year revenues. The following table reflects a comparison of current year revenues to prior year revenues:

	Revenue 2009	% of Total	Increase From 2008	Percentage Increase
Local Revenues	\$ 155,887,322	82.45%	\$ 3,905,429	2.57%
State Sources	30,057,945	15.90%	2,739,676	10.03%
Federal Sources	3,130,016	1.65%	138,894	4.64%
	<u>\$ 189,075,283</u>	<u>100.00%</u>	<u>\$ 6,783,999</u>	

Distribution of Funding Sources



WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2009

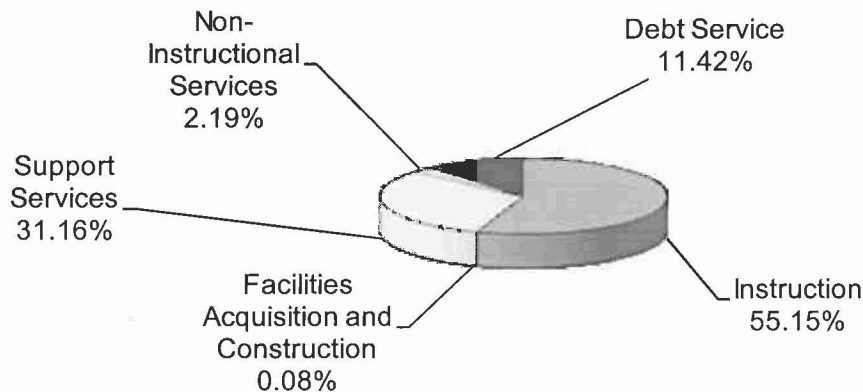
The District balanced the budget utilizing the fund balance from the previous year and increasing the 2008-09 tax rate to 16.85 mills from 15.79 mills in Chester County. As a result of the increase in millage and offsetting decreases in real estate assessments, revenues from real estate taxes increased only \$6,267,035 or 5.0%. The collection rate for current real estate taxes was 98.13%. Real estate transfer tax collections decreased by \$999,364 or 27.3% due to the slow-down in the housing market. Earned income collections decreased \$141,227 or 0.8%. As a result of lower interest rates, the District experienced a decrease in investment revenue of \$1,376,224 or 45.1%. State subsidies increased by \$2,739,676 or 10.0%, which included the addition of state revenue provided for real estate tax relief for homestead or farmstead property owners as well as the elimination of most of the Classrooms for the Future grant funding. Federal revenue increased \$138,894 or 4.6%

EXPENDITURES

General Fund expenditures, excluding other financing uses, totaling \$188,633,107, increased \$4,199,573 over the 2007-08 expenditures and were \$1,383,027 under budget. The expenditures were segregated into various programs depending on the functions of the activity. These programs and the costs associated with each, as well as comparison to the costs incurred in the prior year and the final 2008-09 budget, are as follows:

	Expenditures 2009	% of Total	Increase From 2008	Variance with Final Budget - Positive
Instruction	\$ 104,030,587	55.15%	\$ 466,748	\$ 103,890
Support Services	58,770,692	31.16%	2,273,328	291,321
Non-Instructional Services	4,135,962	2.19%	132,053	37,638
Facilities Acquisition and Construction	148,832	0.08%	(122,477)	636
Debt Service	21,547,034	11.42%	1,449,921	949,542
TOTAL EXPENDITURES BY FUNCTION	\$ 188,633,107	100.00%	\$ 4,199,573	\$ 1,383,027

Distribution of Expenditures by Function



WEST CHESTER AREA SCHOOL DISTRICT
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The increase in General Fund expenditures from the prior year is largely due to cost of living increases with the exception of spending changes in two categories. Facilities acquisition, construction and improvement spending in the General Fund dropped by \$122,477 or 45.1% in 2008/09 due to budgetary constraints. Spending on debt service in the general fund increased \$1,449,921 or 7.2%. This increase represents the planned phasing in of the debt service related to the funding of the secondary school renovations.

Capital Projects Fund

At June 30, 2009, the District reported a fund balance of \$6,965,394, which is a decrease of \$13,375,698 from June 30, 2008. The components of the change in this fund balance include interest income in the amount of \$1,622, expenditures for capital projects in the amount of \$13,285,233, and debt service payments in the amount of \$92,087.

Capital Reserve Fund

At June 30, 2009, the District reported a fund balance of \$14,641,919, which is a decrease of \$1,736,143 over June 30, 2008. During the year, the fund earned \$763,857 in investment income and spent \$2,500,000 on debt service payments.

GENERAL FUND BUDGET

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted. This is done after the end of the fiscal year in accordance with state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the financial statements.

To balance the budget, the District utilized \$1,636,550 of fund balance from the previous year. The differences in the 2008-09 expenses and revenues compared to the budget resulted in an overall positive variance of \$660,560.

Total revenues were under budgeted amounts by \$722,467 or 0.4% of budgeted revenue. A majority of the budgetary differences in local and state revenue is due to the state requirements for budgeting for the State property tax relief funding. The State requires the District to budget real estate taxes at 100% of billings but the State provided \$3,592,837 in real estate tax relief. This new State funding source decreased the Local revenue collections but increased the State revenue collections by the same amount. The balance of the decrease in local revenue collections was due to decreases in real estate transfer tax collections and earned income tax collections, each dropping approximately \$1 million. Additionally, the District received more than budgeted in State transportation subsidies as the result of market factors. The \$431,699 positive budget variance in Federal revenue sources was a direct result of American Recovery and Reinvestment Act (ARRA) funding received in 2008-09.

Total expenditures were under budget by \$1,383,027 or 0.7%.

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
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CAPITAL ASSETS

At June 30, 2009, the District's governmental activities had \$311,018,711 invested in a broad range of capital assets, including land, buildings and furniture and equipment. This amount represents a net increase (including additions, deletions and depreciation) of \$1,564,671 or 0.5% from last year. The net increase is attributed to the renovation and expansion of secondary school facilities.

The following schedule depicts the change in capital assets for the period July 1, 2008 through June 30, 2009. During this period, the District had the following significant additions in capital assets.

	(Restated) Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets:				
Land	\$ 33,139,690	\$ 0	\$ 0	\$ 33,139,690
Land Improvements	3,621,014	19,900	0	3,640,914
Buildings	326,058,346	4,424,116	0	330,482,462
Construction in Progress	22,795,600	10,813,595	3,183,346	30,425,849
Furniture and Equipment	30,396,050	2,005,305	930,971	31,470,384
TOTAL CAPITAL ASSETS	416,010,700	17,262,916	4,114,317	429,159,299
Accumulated Depreciation for:				
Buildings	83,678,849	8,863,488	0	92,542,337
Land Improvements	1,888,184	181,788	0	2,069,972
Furniture and Equipment	20,989,627	3,439,176	900,524	23,528,279
TOTAL ACCUMULATED DEPRECIATION	106,556,660	12,484,452	900,524	118,140,588
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 309,454,040	\$ 4,778,464	\$ 3,213,793	\$ 311,018,711
Business-Type Activities:				
Capital Assets:				
Furniture and Equipment	\$ 309,484	\$ 43,972	\$ 0	\$ 353,456
Accumulated Depreciation for:				
Furniture and Equipment	248,045	22,546	0	270,591
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 61,439	\$ 21,426	\$ 0	\$ 82,865

WEST CHESTER AREA SCHOOL DISTRICT
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DEBT ADMINISTRATION

As of June 30, 2009, the District had total long-term debt of \$309,080,946, a decrease of \$11,056,382 over last year. During 2008/09, the District refinanced \$10,700,000 in outstanding debt to take advantage of the favorable financing market conditions. The District incurred no new debt in 2008/09. Based upon a projection of future debt margins, the retirement of principal on current issues and estimated future borrowing, we are certain that the District will not exceed its debt limit.

Debt Service Schedule
June 30, 2009

	Principal Outstanding July 1, 2008	Maturities/ Refinancing	Additions	Principal Outstanding June 30, 2009
General Obligation Bonds, Series A of 1998	\$ 1,545,000	\$ 1,545,000	\$ 0	\$ 0
General Obligation Note, Series B of 2000	8,416,000	876,000	0	7,540,000
General Obligation Bonds, Series of 2002	4,750,000	1,105,000	0	3,645,000
General Obligation Bonds, Series AA of 2002	8,230,000	8,230,000	0	0
General Obligation Bonds, Series of 2003	29,980,000	5,000	0	29,975,000
General Obligation Bonds, Series A of 2003	15,785,000	1,545,000	0	14,240,000
General Obligation Bonds, Series of 2004	6,190,000	6,190,000	0	0
General Obligation Bonds, Series of 2005	9,985,000	5,000	0	9,980,000
General Obligation Bonds, Series A of 2005	8,310,000	470,000	0	7,840,000
General Obligation Bonds, Series of 2006	34,990,000	5,000	0	34,985,000
General Obligation Bonds, Series A of 2006	100,800,000	5,000	0	100,795,000
General Obligation Bonds, Series AA of 2006	16,530,000	1,505,000	0	15,025,000
General Obligation Bonds, Refunding Series of 2006	22,235,000	105,000	0	22,130,000
General Obligation Bonds, Refunding Series A of 2006	37,805,000	125,000	0	37,680,000
General Obligation Bonds, Series of 2007	10,000,000	5,000	0	9,995,000
General Obligation Bonds, Series of 2009	0	0	10,700,000	10,700,000
TOTAL	315,551,000	21,721,000	10,700,000	304,530,000
Less Deferred Amounts:				
Issuance (Discounts) Premium	5,592,770	340,516	55,489	5,307,743
Refunding Deferred Charge	(1,006,442)	(249,645)	0	(756,797)
LONG-TERM DEBT	\$ 320,137,328	\$ 21,811,871	\$ 10,755,489	\$ 309,080,946

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2009

OTHER LONG-TERM LIABILITIES

Other obligations include accrued vacation pay and severance for specific employees of the District. More detailed information about long term liabilities is included in the notes to the financial statements.

THE DISTRICT'S FUTURE

The District will see a slight decrease in enrollment over the next five years. Over the past few years, the District has completed a major secondary school construction project which included the building of the Bayard Rustin High School, renovations and additions to Henderson High School, the construction of Henderson High School North Athletic fields, the renovations as well as the construction of a new gymnasium and athletic fields at East High School. In addition, the District is completing renovations to Fugett Middle School.

The District may seek voter referendum for additional financing needed to fund future projects listed in the long-term analysis of WCASD maintenance and capital spending on District facilities. In 2009, the District continued developing an elementary school master plan which includes renovations and/or additions to each of our 10 elementary schools. While work on this plan continues, this project is currently on hold due to the current financial environment. The district has always exercised caution in a conservative approach to borrowing, including waiting until long-term bonds (20 year notes) were capable of being sold at advantageous, fixed rates of interest.

Additionally, the District strengthened its fiscal management by adopting a fund balance policy in 2009. This policy directs the District to strive for a General Fund Balance of 5% of General Funds expenditures. The District believes that this policy will strengthen the Districts balance sheet and allow the District to weather unforeseen fiscal issues.

The District continues to aggressively forecast revenues and expenditures five years forward to address all known changes in collection patterns and spending needs. As budgetary shortfalls come to light, the District has reached out to community members to help address the budgetary needs. The District currently is working with community committees to help balance the 2010/11 budget. The goal is for the committees to develop feasibility reports on ways to operate in a more cost effective manner.

STRATEGIC PLAN

In March 2008, the West Chester Area School District adopted a new district mission and strategic goals that focus our purpose and resources. A team of district stakeholders assembled to create the following five strategies:

1. The West Chester Area School District will facilitate a personalized educational experience for all students.
2. The West Chester Area School District will fortify the alignment between professional practice for all employees and the personalized academic, social and emotional needs of all students.
3. The West Chester Area School District will create a physical environment that maximizes the teaching/learning experience.
4. The West Chester Area School District will improve internal and external communications to foster strong and inclusive relationships, celebrate achievements, and recognize the contributions made by all members of our community
5. The West Chester Area School District will strengthen the integration of local, national and global resources to benefit the students, staff and community of the district.

FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Dr. Suzanne K. Moore, Director of Business Affairs at The West Chester Area School District, 829 Paoli Pike, West Chester, PA 19380, (484) 266-1020.

WEST CHESTER AREA SCHOOL DISTRICT
Statement of Net Assets
June 30, 2009

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current:			
Cash and Cash Equivalents	\$ 2,957,533	\$ 63,971	\$ 3,021,504
Investments	39,037,667	1,098,703	40,136,370
Due from Other Governments	2,142,890	31,173	2,174,063
Interest Receivables	16,758	0	16,758
Other Receivables	861,157	7,549	868,706
Property Taxes Receivable, Net	4,218,520	0	4,218,520
Prepaid Expenses	1,282,063	0	1,282,063
TOTAL CURRENT ASSETS	<u>50,516,588</u>	<u>1,201,396</u>	<u>51,717,984</u>
Capital:			
Land	33,139,690	0	33,139,690
Land Improvements	3,640,914	0	3,640,914
Buildings	330,482,462	0	330,482,462
Construction in Progress	30,425,849	0	30,425,849
Furniture and Equipment	31,470,384	353,456	31,823,840
Less: Accumulated Depreciation	(118,140,588)	(270,591)	(118,411,179)
TOTAL CAPITAL ASSETS, NET OF DEPRECIATION	<u>311,018,711</u>	<u>82,865</u>	<u>311,101,576</u>
Other:			
Deferred Bond Issuance Costs	2,380,768	0	2,380,768
TOTAL ASSETS	<u>\$ 363,916,067</u>	<u>\$ 1,284,261</u>	<u>\$ 365,200,328</u>
 <u>LIABILITIES</u>			
Current:			
Accounts Payable and Other Current Liabilities	\$ 18,659,547	\$ 257,263	\$ 18,916,810
Bonds and Notes Payable Due Within One Year	12,017,000	0	12,017,000
Deferred Revenues	42,210	41,860	84,070
Accrued Interest	2,514,287	0	2,514,287
TOTAL CURRENT LIABILITIES	<u>33,233,044</u>	<u>299,123</u>	<u>33,532,167</u>
Long-Term:			
Bonds and Notes Payable Due After One Year	297,063,946	0	297,063,946
Accrued Severance and Compensated Absences	6,059,646	0	6,059,646
TOTAL LONG-TERM LIABILITIES	<u>303,123,592</u>	<u>0</u>	<u>303,123,592</u>
TOTAL LIABILITIES	<u>336,356,636</u>	<u>299,123</u>	<u>336,655,759</u>
 <u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	8,903,159	82,865	8,986,024
Restricted: Capital Projects	14,641,919	0	14,641,919
Unrestricted	4,014,353	902,273	4,916,626
TOTAL NET ASSETS	<u>27,559,431</u>	<u>985,138</u>	<u>28,544,569</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 363,916,067</u>	<u>\$ 1,284,261</u>	<u>\$ 365,200,328</u>

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2009

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 103,973,612	\$ (430,893)	\$ (13,800,452)	\$ 0	\$ (89,742,267)	\$ 0	\$ (89,742,267)
Instructional Student Support	13,634,029	0	(830,591)	0	(12,803,438)	0	(12,803,438)
Administrative and Financial Support Services	14,390,496	0	(547,330)	0	(13,843,166)	0	(13,843,166)
Operation and Maintenance of Plant Services	16,604,260	(32,844)	(1,933,470)	0	(14,637,946)	0	(14,637,946)
Pupil Transportation	13,219,823	0	(4,762,138)	0	(8,457,685)	0	(8,457,685)
Student Activities	4,145,743	(118,783)	(160,836)	0	(3,866,124)	0	(3,866,124)
Community Services	122,164	0	(515)	0	(121,649)	0	(121,649)
Interest on Long-Term Debt	13,361,141	0	0	0	(13,361,141)	0	(13,361,141)
Unallocated Depreciation Expense	12,484,452	0	0	0	(12,484,452)	0	(12,484,452)
TOTAL GOVERNMENTAL ACTIVITIES	191,935,720	(582,520)	(22,035,332)	0	(169,317,868)	0	(169,317,868)
Business-Type Activities:							
Food Services	3,171,794	(2,704,187)	(600,091)	0	0	132,484	132,484
TOTAL PRIMARY GOVERNMENT	\$ 195,107,514	\$ (3,286,707)	\$ (22,635,423)	\$ 0	(169,317,868)	132,484	(169,185,384)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					132,999,091	0	132,999,091
Public Utility Realty, Earned Income and Realty Transfer Taxes, Levied for General Purposes, Net					19,619,521	0	19,619,521
Grants, Subsidies and Contributions Not Restricted					12,382,310	0	12,382,310
Investment Earnings					2,442,274	17,032	2,459,306
Miscellaneous Income					44,093	0	44,093
TOTAL GENERAL REVENUES AND SPECIAL ITEMS					167,487,289	17,032	167,504,321
CHANGE IN NET ASSETS					(1,830,579)	149,516	(1,681,063)
Net Assets - July 1, 2008					28,116,441	835,622	28,952,063
Prior Period Adjustment					1,273,569	0	1,273,569
NET ASSETS - JULY 1, 2008 (RESTATED)					29,390,010	835,622	30,225,632
NET ASSETS - JUNE 30, 2009					\$ 27,559,431	\$ 985,138	\$ 28,544,569

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2009

<u>ASSETS</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents	\$ 2,377,057	\$ 320,106	\$ 207,421	\$ 52,949	\$ 2,957,533
Investments	14,688,373	24,349,294	0	0	39,037,667
Interest Receivable	3,429	13,329	0	0	16,758
Taxes Receivable, Net	4,218,520	0	0	0	4,218,520
Due from Other Funds	900,000	0	14,447,247	0	15,347,247
Due from Other Governments	2,142,890	0	0	0	2,142,890
Other Receivables	861,157	0	0	0	861,157
Prepaid Expenses	1,282,063	0	0	0	1,282,063
TOTAL ASSETS	<u>\$ 26,473,489</u>	<u>\$ 24,682,729</u>	<u>\$ 14,654,668</u>	<u>\$ 52,949</u>	<u>\$ 65,863,835</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 5,221,675	\$ 2,370,088	\$ 12,749	\$ 3,353	\$ 7,607,865
Due to Other Funds	0	15,347,247	0	0	15,347,247
Payroll Accruals and Withholdings	11,051,683	0	0	0	11,051,683
Deferred Revenue	2,338,188	0	0	0	2,338,188
TOTAL LIABILITIES	<u>18,611,546</u>	<u>17,717,335</u>	<u>12,749</u>	<u>3,353</u>	<u>36,344,983</u>
Fund Balances:					
Reserved	0	6,965,394	14,641,919	0	21,607,313
Unreserved - Undesignated	7,861,943	0	0	49,596	7,911,539
TOTAL FUND BALANCES	<u>7,861,943</u>	<u>6,965,394</u>	<u>14,641,919</u>	<u>49,596</u>	<u>29,518,852</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 26,473,489</u>	<u>\$ 24,682,729</u>	<u>\$ 14,654,668</u>	<u>\$ 52,949</u>	<u>\$ 65,863,835</u>

The accompanying notes are an integral part of this statement.



WEST CHESTER AREA SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2009

Total Fund Balances - Governmental Funds \$ 29,518,852

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$429,159,299 and the accumulated depreciation is \$118,140,588 311,018,711

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds 2,295,979

Bond issuance costs are not financial resources and, therefore, are not reported as assets in the governmental funds. Issuance costs are \$2,380,768, net of accumulated amortization 2,380,768

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	\$ 309,080,946	
Accrued Interest on the Bonds	2,514,287	
Accrued Severance and Compensated Absences	6,059,646	(317,654,879)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 27,559,431

WEST CHESTER AREA SCHOOL DISTRICT
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Capital Projects Fund	Capital Reserve Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Revenues:						
Local Sources:						
Real Estate Taxes	\$132,740,138	\$ 0	\$ 0	\$ 0	\$ 0	\$ 132,740,138
Realty Transfer Tax	2,666,499	0	0	0	0	2,666,499
Earned Income Taxes	16,764,407	0	0	0	0	16,764,407
Other Taxes	188,615	0	0	0	0	188,615
Earnings from Investments	1,674,788	1,622	763,857	2,007	0	2,442,274
Other Local Revenues	1,852,875	0	0	0	118,783	1,971,658
State Sources	30,057,945	0	0	0	0	30,057,945
Federal Sources	3,130,016	0	0	0	0	3,130,016
TOTAL REVENUES	<u>189,075,283</u>	<u>1,622</u>	<u>763,857</u>	<u>2,007</u>	<u>118,783</u>	<u>189,961,552</u>
Expenditures:						
Instruction	104,030,587	0	0	0	0	104,030,587
Support Services	58,770,692	0	0	51,520	0	58,822,212
Non-Instructional Services	4,135,962	0	0	0	131,945	4,267,907
Facilities Acquisition, Construction, and Improvements	148,832	13,285,233	0	0	0	13,434,065
Debt Service (Principal and Interest)	21,547,034	92,087	2,500,000	309,307	0	24,448,428
TOTAL EXPENDITURES	<u>188,633,107</u>	<u>13,377,320</u>	<u>2,500,000</u>	<u>360,827</u>	<u>131,945</u>	<u>205,003,199</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>442,176</u>	<u>(13,375,698)</u>	<u>(1,736,143)</u>	<u>(358,820)</u>	<u>(13,162)</u>	<u>(15,041,647)</u>
Other Financing Sources (Uses):						
Bond Proceeds - Refunding Bonds	0	0	0	10,700,000	0	10,700,000
Payment to Refund Bond Escrow Agent	0	0	0	(10,648,480)	0	(10,648,480)
Refunds of Prior Years Revenues	(79,218)	0	0	0	0	(79,218)
Refunds of Prior Years Expenditures	4,662	0	0	0	0	4,662
TOTAL OTHER FINANCING SOURCES (USES)	<u>(74,556)</u>	<u>0</u>	<u>0</u>	<u>51,520</u>	<u>0</u>	<u>(23,036)</u>
NET CHANGE IN FUND BALANCES	367,620	(13,375,698)	(1,736,143)	(307,300)	(13,162)	(15,064,683)
Fund Balances - July 1, 2008	7,494,323	20,341,092	16,378,062	307,300	62,758	44,583,535
FUND BALANCES - JUNE 30, 2009	<u>\$ 7,861,943</u>	<u>\$ 6,965,394</u>	<u>\$ 14,641,919</u>	<u>\$ 0</u>	<u>\$ 49,596</u>	<u>\$ 29,518,852</u>

The accompanying notes are an integral part of this statement.



WEST CHESTER AREA SCHOOL DISTRICT
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
For the Year Ended June 30, 2009

Total Net Change in Fund Balances - Governmental Funds	\$ (15,064,683)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$14,049,123 exceed depreciation expense of \$12,484,452 in the period	1,564,671
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	21,721,000
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues decreased by this amount this year	258,955
In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (severance) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation leave earned exceeded the amounts paid by \$148,036 and severance used exceeded the amounts earned by \$533,110	385,074
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The accrued interest on bonds payable decreased by \$189,424	189,424
Bond proceeds are reported as financing sources in governmental funds and, thus, contributed to the change in fund balances. In the statement of activities, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. This amount represents total bond proceeds, net of deferral amounts associated with the issuance of debt	(10,664,617)
Debt issuance costs are reported as expenditures in the governmental funds when debt is first issued. In the statement of activities, these amounts are deferred and amortized. This is the amount by which amortization exceeds issuance costs for the year	<u>(220,403)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (1,830,579)</u></u>

The accompanying notes are an integral part of this statement.



WEST CHESTER AREA SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2009

Enterprise
Fund -
Food
Services

ASSETS

Current:

Cash and Cash Equivalents	\$ 63,971
Investments	1,098,703
Due from Other Governments	31,173
Other Receivables	7,549
TOTAL CURRENT ASSETS	1,201,396

Non-Current:

Furniture and Equipment	353,456
Less: Accumulated Depreciation	(270,591)
TOTAL NON-CURRENT ASSETS	82,865

TOTAL ASSETS

\$ 1,284,261

LIABILITIES

Current:

Accounts Payable and Accrued Liabilities	\$ 257,263
Deferred Revenue	41,860
TOTAL LIABILITIES	299,123

NET ASSETS

Invested in Capital Assets	82,865
Unrestricted	902,273
TOTAL NET ASSETS	985,138

TOTAL LIABILITIES AND NET ASSETS

\$ 1,284,261

The accompanying notes are an integral part of this statement.



WEST CHESTER AREA SCHOOL DISTRICT
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2009

	<u>Enterprise Fund - Food Services</u>
Operating Revenues:	
Food Service Sales	\$ 2,704,187
Operating Expenses:	
Professional and Contract Services	3,129,955
Depreciation	22,546
Other Operating Costs	19,293
TOTAL OPERATING EXPENSES	<u>3,171,794</u>
OPERATING (LOSS)	<u>(467,607)</u>
Non-Operating Revenues:	
Interest Income	17,032
State Sources	57,867
Federal Sources	542,224
TOTAL NON-OPERATING REVENUES	<u>617,123</u>
CHANGE IN NET ASSETS	149,516
Net Assets - July 1, 2008	<u>835,622</u>
NET ASSETS - JUNE 30, 2009	<u>\$ 985,138</u>

The accompanying notes are an integral part of this statement.



WEST CHESTER AREA SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

	<u>Enterprise Fund - Food Services</u>
Cash Flows From Operating Activities:	
Cash Received from Users	\$ 2,716,807
Cash Payments to Suppliers for Goods and Services	(3,180,094)
NET CASH (USED) BY OPERATING ACTIVITIES	<u>(463,287)</u>
Cash Flows From Non-Capital Financing Activities:	
State Sources	57,818
Federal Sources	539,496
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>597,314</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of Capital Assets	(43,972)
Cash Flows From Investing Activities:	
Purchase of Investment Securities/Deposits to Investment Pools	(61,537)
Interest on Investments	17,032
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(44,505)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,550
Cash and Cash Equivalents - July 1, 2008	<u>18,421</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2009	<u>\$ 63,971</u>
<u>Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities:</u>	
Operating (Loss)	\$ (467,607)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:	
Depreciation	22,546
Changes in Assets and Liabilities:	
Receivables	5,940
Accounts Payable and Accrued Liabilities	(30,846)
Deferred Revenue	6,680
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (463,287)</u>

The accompanying notes are an integral part of this statement.



WEST CHESTER AREA SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2009

<u>ASSETS</u>	<u>Private- Purpose Trusts</u>	<u>Agency Funds</u>
Cash and Cash Equivalents	\$ 158,446	\$ 627,018
Due from Other Funds	343,037	0
Other Receivables	<u>0</u>	<u>20,920</u>
 TOTAL ASSETS	 <u><u>\$ 501,483</u></u>	 <u><u>\$ 647,938</u></u>
 <u>LIABILITIES</u>		
Due to Other Funds	\$ 0	\$ 343,037
Accounts Payable	0	7,037
Due to Student Groups	<u>0</u>	<u>297,864</u>
 TOTAL LIABILITIES	 <u><u>\$ 0</u></u>	 <u><u>\$ 647,938</u></u>
 <u>NET ASSETS</u>		
Reserved for Scholarships	\$ 501,483	
Unrestricted	<u>0</u>	
 TOTAL NET ASSETS	 <u><u>\$ 501,483</u></u>	

The accompanying notes are an integral part of this statement.



WEST CHESTER AREA SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2009

	Private- Purpose Trusts
Additions:	
Gifts and Contributions	\$ 856,864
Deductions:	
Grants	<u>835,851</u>
CHANGE IN NET ASSETS	21,013
Net Assets - July 1, 2008	<u>480,470</u>
NET ASSETS - JUNE 30, 2009	<u><u>\$ 501,483</u></u>

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - Summary of Significant Accounting Policies

The School District's financial statements are prepared in accordance with U.S. 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 established in GAAP and used by the School District are discussed below.

The School District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. Certain of the significant changes in the Statement include the following:

- The financial statements include:
 - ◆ Management's Discussion and Analysis (MD&A) section providing an analysis of the School District's overall financial position and results of operations.
 - ◆ Financial statements prepared using full accrual accounting for all of the School District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

The School District is governed by an elected Board of Directors. U.S. generally accepted accounting principles require that the financial statements present the School District and its component units, entities for which the School District is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the School District's operations and so data from these units are required to be combined with data of the primary School District. Each discretely presented component unit, on the other hand, is required to be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the School District. Based on the application of these principles, there are no component units presented in the School District's financial statements.

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 and its component units. 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.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. 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 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 purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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, franchise taxes, licenses and interest 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. Only a portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

The School District reports the following major government funds:

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

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets other than those financed by enterprise operations.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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

Capital Reserve Fund - The Capital Reserve Fund is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for future capital projects.

The School District reports the following major proprietary funds:

Food Service Fund - The Food Service Fund (an Enterprise Fund) is used to account for the operations of the School District's school cafeterias that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the cost of providing goods or services to the school population on a continuing basis will be recovered or financed primarily through user charges.

Additionally, the School District reports the following fund types:

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governments. These include private-purpose trust funds and agency funds. Private-purpose trust funds account for resources, including both principal and earnings, which must be expended in accordance with a trust agreement, and are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial and thus do not involve measurement of the results of operations.

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 Governmental Accounting Standards Board. School districts also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The School District has elected not to follow subsequent private-sector guidance.

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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 Food Service Enterprise Fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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.

For purposes of the statements of cash flows of proprietary funds, cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest funds consistent with sound business practices in the following types of investments:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

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 either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported 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.

All trade and property tax receivables are shown net of any allowance for uncollectibles. There is no property tax receivable allowance at June 30, 2009.

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied on July 1 and payable in the following periods:

Discount Period - July 1 to August 31 - 2% of Gross Levy
Flat Period - September 1 to October 31
Penalty Period - November 1 to Collection - 10% of Gross Levy

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Inventories in the governmental funds represent supplies received in June for the next school year and are recorded as inventory in both government-wide and fund financial statements.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Inventories (Continued)

Inventories in the Food Service Fund consist of government-donated commodities which were valued at estimated fair market value at donation, and purchased commodities and supplies, both valued at cost using the first-in first-out (FIFO) method.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. 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 assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

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

Buildings	20-40 Years
Land Improvements	20 Years
Furniture and Equipment	3-10 Years

Compensated Absences

It is the School District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid accumulated sick leave is accounted for in the accrued severance pay. This time is paid out only through severance pay calculations.

School District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation must be taken in the year subsequent to when it was earned. If separation of service occurs in the year subsequent to earning, then the unused balance of what was earned in the prior year is paid at separation. The liability at June 30 represents vacation earned at that date that will be taken in the subsequent year.

Accrued Severance Pay

Administrative, Instructional, Secretarial and Support personnel who have completed at least fifteen years of credited School District service and retire under the normal PSERS guidelines, receive severance pay in the form of compensation. Administrative personnel receive \$45-\$80 per day for every day of accumulated sick and personal days at retirement. Instructional personnel receive \$45-\$80 per day. Secretarial and Support personnel receive \$75 per day for every day of accumulated sick and personal days at retirement to a maximum \$10,000 of compensation. Severance pay is generally liquidated by the General Fund.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

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, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are 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 debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - Budgetary Information

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. An annual appropriated budget is adopted for the general fund. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

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

1. The Business Manager submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the School District offices to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 - Budgetary Information (Continued)

4. The Business Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. Budgeted amounts are as originally adopted, or as amended by the School Board.

NOTE 3 - Deposits and Investments

Deposits - At year end, the total carrying amount of the School District's checking, savings and money market deposits was \$3,806,968 and the corresponding bank balance was \$4,618,316.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk. The School District maintains cash balances at several financial institutions. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation. In the normal course of business, the School District may have deposits that exceed insured balances.

Investments - The School District investments are categorized as either (1) insured and registered or securities are held by the School District or its agent in the School District's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the School District's name, or (3) uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the School District's name.

Investments - All funds in the Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and Pennsylvania Treasurer's Investment Program are invested in accordance with Section 440.1 of the School Code. These funds operate and are authorized under the Intergovernmental Cooperation Act of 1972. Each school district owns a prorata share of each investment or deposit which is held in the name of the Fund. Certificates of deposit or other fixed-term investments purchased by the School District through the Fund's administrator are purchased in the name of the School District.

Custodial Credit Risk - Investments - For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The School District has no investment subject to custodial credit risk.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 3 - Deposits and Investments (Continued)

Pooled Investments:

Pennsylvania School District Liquid Asset Fund:	
General Fund Accounts	\$ 5,283,881
Pennsylvania Local Government Investment Trust:	
Capital Project Fund Account	9,025,787
Pennsylvania Treasurer's Investment Program:	
General Fund Account	7,566,492
Capital Project Fund Account	15,323,507
Food Service Fund Account	1,098,703
TOTAL	23,988,702
Certificate of Deposit:	
General Fund Accounts	1,838,000
TOTAL POOLED INVESTMENTS	\$ 40,136,370

NOTE 4 - Taxes Receivable

Taxes receivable as of year end for the School District's individual major funds and nonmajor fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor and Other Funds	Total
Real Estate Taxes	\$ 2,605,376	\$ 0	\$ 2,605,376
Transfer Taxes	275,540	0	275,540
Earned Income Taxes	1,337,604	0	1,337,604
Less: Allowance for Uncollectibles	0	0	0
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NET TAXES RECEIVABLE	\$ 4,218,520	\$ 0	\$ 4,218,520

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 4 - Taxes Receivable (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Delinquent Real Estate Taxes	\$ 2,295,978
Other Deferred Revenue	<u>42,210</u>
 TOTAL	 <u><u>\$ 2,338,188</u></u>

NOTE 5 - Capital Assets

	(Restated) Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets:				
Land	\$ 33,139,690	\$ 0	\$ 0	\$ 33,139,690
Land Improvements	3,621,014	19,900	0	3,640,914
Buildings	326,058,346	4,424,116	0	330,482,462
Construction in Progress	22,795,600	10,813,595	3,183,346	30,425,849
Furniture and Equipment	<u>30,396,050</u>	<u>2,005,305</u>	<u>930,971</u>	<u>31,470,384</u>
TOTAL CAPITAL ASSETS	<u>416,010,700</u>	<u>17,262,916</u>	<u>4,114,317</u>	<u>429,159,299</u>
Accumulated Depreciation for:				
Buildings	83,678,849	8,863,488	0	92,542,337
Land Improvements	1,888,184	181,788	0	2,069,972
Furniture and Equipment	<u>20,989,627</u>	<u>3,439,176</u>	<u>900,524</u>	<u>23,528,279</u>
TOTAL ACCUMULATED DEPRECIATION	<u>106,556,660</u>	<u>12,484,452</u>	<u>900,524</u>	<u>118,140,588</u>
 GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	 <u><u>\$ 309,454,040</u></u>	 <u><u>\$ 4,778,464</u></u>	 <u><u>\$ 3,213,793</u></u>	 <u><u>\$ 311,018,711</u></u>

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 5 - Capital Assets (Continued)

Business-Type Activities:

Capital Assets:

Furniture and Equipment	\$	309,484	\$	43,972	\$	0	\$	353,456
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Accumulated Depreciation for:

Furniture and Equipment		<u>248,045</u>		<u>22,546</u>		<u>0</u>		<u>270,591</u>
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BUSINESS-TYPE ACTIVITIES

CAPITAL ASSETS, NET	\$	<u>61,439</u>	\$	<u>21,426</u>	\$	<u>0</u>	\$	<u>82,865</u>
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Depreciation expense was charged to functions/programs of the School District as follows:

Governmental Activities - Unallocated	\$	12,484,452
Business-Type Activities		<u>22,546</u>
TOTAL DEPRECIATION EXPENSE	\$	<u>12,506,998</u>

NOTE 6 - Interfund Receivables, Payables and Transfers

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 900,000	\$ 0
Capital Reserve Fund	14,447,247	0
Capital Projects Fund	<u>0</u>	<u>15,347,247</u>
	<u>\$ 15,347,247</u>	<u>\$ 15,347,247</u>

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 - Long-Term Debt

	Principal Outstanding July 1, 2008	Maturities/ Refinancing	Additions	Principal Outstanding June 30, 2009
General Obligation Bonds, Series A of 1998	\$ 1,545,000	\$ 1,545,000	\$ 0	\$ 0
General Obligation Note, Series B of 2000	8,416,000	876,000	0	7,540,000
General Obligation Bonds, Series of 2002	4,750,000	1,105,000	0	3,645,000
General Obligation Bonds, Series AA of 2002	8,230,000	8,230,000	0	0
General Obligation Bonds, Series of 2003	29,980,000	5,000	0	29,975,000
General Obligation Bonds, Series A of 2003	15,785,000	1,545,000	0	14,240,000
General Obligation Bonds, Series of 2004	6,190,000	6,190,000	0	0
General Obligation Bonds, Series of 2005	9,985,000	5,000	0	9,980,000
General Obligation Bonds, Series A of 2005	8,310,000	470,000	0	7,840,000
General Obligation Bonds, Series of 2006	34,990,000	5,000	0	34,985,000
General Obligation Bonds, Series A of 2006	100,800,000	5,000	0	100,795,000
General Obligation Bonds, Series AA of 2006	16,530,000	1,505,000	0	15,025,000
General Obligation Bonds, Refunding Series of 2006	22,235,000	105,000	0	22,130,000
General Obligation Bonds, Refunding Series A of 2006	37,805,000	125,000	0	37,680,000
General Obligation Bonds, Series of 2007	10,000,000	5,000	0	9,995,000
General Obligation Bonds, Series of 2009	0	0	10,700,000	10,700,000
	<u>315,551,000</u>	<u>21,721,000</u>	<u>10,700,000</u>	<u>304,530,000</u>
Deferred Amounts:				
Issuance (Discounts) Premium	5,592,770	340,516	55,489	5,307,743
Refunding Deferred Charge	<u>(1,006,442)</u>	<u>(249,645)</u>	<u>0</u>	<u>(756,797)</u>
LONG-TERM DEBT	<u>\$ 320,137,328</u>	<u>\$ 21,811,871</u>	<u>\$ 10,755,489</u>	<u>\$ 309,080,946</u>

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 - Long-Term Debt (Continued)

	<u>Current Outstanding Principal</u>
General Obligation Note, Series B of 2000. Original principal amount of \$13,461,000, maturing November 25, 2001 through November 25, 2015, bearing interest at a rate not to exceed 15%. Interest is paid monthly	\$ 7,540,000
General Obligation Bonds, Series of 2002. Original principal amount of \$30,000,000, maturing April 15, 2004 through April 15, 2022, bearing interest from 3% to 5%. Interest is paid semi-annually on April 15 and October 15	3,645,000
General Obligation Bonds, Series of 2003. Original principal amount of \$30,000,000, maturing March 15, 2005 through March 15, 2022, bearing interest from 3.25% to 4.4%. Interest is paid semi-annually on September 15 and March 15	29,975,000
General Obligation Bonds, Series A of 2003. Original principal amount of \$21,995,000, maturing November 15, 2003 through November 15, 2016, bearing interest from 1% to 3.9%. Interest is paid semi-annually on May 15 and November 15	14,240,000
General Obligation Bonds, Series of 2005. Original principal amount of \$10,000,000, maturing November 15, 2005 through November 15, 2017, bearing interest from 2% to 3.7%. Interest is paid semi-annually on May 15 and November 15	9,980,000
General Obligation Bonds, Series A of 2005. Original principal amount of \$8,975,000 maturing May 15, 2006 through May 15, 2022, bearing interest from 3% to 4.15%. Interest is paid semi-annually on May 15 and November 15	7,840,000
General Obligation Bonds, Series of 2006. Original principal amount of \$35,000,000 maturing May 15, 2007 through May 15, 2030, bearing interest from 3.25% to 5%. Interest is paid semi-annually on May 15 and November 15	34,985,000
General Obligation Bonds, Series A of 2006. Original principal amount of \$100,810,000 maturing May 15, 2007 through May 15, 2030, bearing interest from 3.5% to 5%. Interest is paid semi-annually on May 15 and November 15	100,795,000
General Obligation Bonds, Series AA of 2006. Original principal amount of \$18,390,000 maturing October 1, 2006 through October 1, 2020, bearing interest from 3.75% to 4%. Interest is paid semi-annually on April 1 and October 1	<u>15,025,000</u>
SUBTOTAL (CARRIED FORWARD)	224,025,000

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 - Long-Term Debt (Continued)

	<u>Current Outstanding Principal</u>
SUBTOTAL (BROUGHT FORWARD)	\$ 224,025,000
General Obligation Bonds, Refunding Series of 2006. Original principal amount of \$22,245,000 maturing April 15, 2007 through April 15, 2024, bearing interest from 4% to 4.25%. Interest is paid semi-annually on April 15 and October 15	22,130,000
General Obligation Bonds, Refunding Series A of 2006. Original principal amount of \$37,935,000 maturing February 1, 2007 through February 1, 2027, bearing interest from 3.5% to 4.5%. Interest is paid semi-annually on February 15 and August 15	37,680,000
General Obligation Bonds, Series of 2007. Original principal amount of \$10,000,000 maturing February 15, 2009 through February 15, 2029, bearing interest from 3.625% to 4.125%. Interest is paid semi-annually on February 15 and August 15	9,995,000
General Obligation Bonds, Series of 2009. Original principal amount of \$10,700,000 maturing September 15, 2009 through September 15, 2016, bearing interest from 1.75% to 3.00%. Interest is paid semi-annually on March 15 and September 15	<u>10,700,000</u>
TOTAL	<u>\$ 304,530,000</u>

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 12,017,000	\$ 12,685,148	\$ 24,702,148
2011	12,114,000	12,487,442	24,601,442
2012	12,539,000	12,057,285	24,596,285
2013	12,992,000	11,607,608	24,599,608
2014	13,492,000	11,117,673	24,609,673
2015-2019	71,671,000	45,105,830	116,776,830
2020-2024	84,745,000	27,035,944	111,780,944
2025-2029	76,710,000	8,353,348	85,063,348
2030-2034	<u>8,250,000</u>	<u>381,561</u>	<u>8,631,561</u>
TOTAL MATURITIES	304,530,000	140,831,839	445,361,839
Deferred Amounts	<u>4,550,946</u>	<u>(4,550,946)</u>	<u>0</u>
TOTAL	<u>\$ 309,080,946</u>	<u>\$ 136,280,893</u>	<u>\$ 445,361,839</u>

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 8 - Changes in Other Long-Term Liabilities

	(Restated)			
	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
Accrued Compensated Absences	\$ 1,385,453	\$ 148,036	\$ 0	\$ 1,533,489
Accrued Severance	5,059,267	0	533,110	4,526,157
TOTAL	\$ 6,444,720	\$ 148,036	\$ 533,110	\$ 6,059,646

NOTE 9 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE 10 - Construction Commitments

At June 30, 2009, the School District's capital projects fund had outstanding construction commitments amounting to \$11,674,290 for the completion of the renovations to various schools.

NOTE 11 - Risk Management

The School District self-insures worker's compensation through the School District's Insurance Consortium. The School District's Insurance Consortium is an association consisting of school districts, intermediate units, and vocational-technical schools of the Commonwealth of Pennsylvania. The School District obtained a self-insurance exemption from the Commonwealth of Pennsylvania, Department of Labor and Industry, Bureau of Worker's Compensation, which allows the School District to self-insure workers' compensation.

Each year the School District is required to deposit funds into the central fund. The School District is then billed monthly for actual claims for the current year paid during the previous month up to the level of retention. After the level of retention is reached, claim payments are made from the central fund. At the end of each fiscal year, reserves are established or adjusted on all outstanding claims. Funds in the central fund at the end of the fiscal year are not refunded.

Additionally, the School District self-insures group dental, vision and prescription coverage. The School District has accrued a three-month value for potential claims under dental, vision and prescription coverage.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 12 - Employee Retirement Systems and Pension Plans

School districts in the Commonwealth of Pennsylvania participate in a state-administered pension program. Under the program, contributions are made by each of three parties - the School District, the state and the employee. All full-time employees of the School District, and part-time employees who meet certain minimum employment requirements, participate in the program. The School District's contributions for the year ended June 30, 2009 totaled \$4,111,269. Total covered payroll was \$86,708,496 and total payroll was \$88,210,033 for the current year. The following is a summary of plan benefit and asset information:

Plan Description:

Name of Plan - The Public School Employees' Retirement System of Pennsylvania (the System).

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

Benefits - Retirement and disability, legislative mandated *ad hoc* cost-of-living adjustments, health care insurance premium assistance to qualified annuitants.

Authority - The Public School Employee's Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. 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 Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0123.

Funding Policy:

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

Contribution Rates - Members contribute from 5.25 to 7.50 percent of their qualifying compensation, depending on when their employment began.

Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2009, the rate of employer contribution was 4.76 percent of covered payroll.

NOTE 13 - Other Post-employment Benefits

Plan Description:

The School District provides a defined benefit post employment healthcare benefit, which provides medical benefits to eligible retirees and their spouses. The school district has four bargaining units which participate in this plan: the West Chester Education Support Personnel, the Custodial Bargaining Unit, the Teachers and the Administrators. In addition, the non-bargaining staff members participate in the plan. All except Administrators are eligible to receive post retirement benefits at age 50 with 15 years of service in the District. For Administrators, the eligibility requirements are age 50 with 10 years of service in the District and at least 5 years of service as an administrator. The employee must retire from service to receive the post employment benefits and not work for another school district.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 13 - Other Post-employment Benefits (Continued)

The health insurance plan is a single employer, defined benefit OPEB plan. The medical, prescription drug, dental and vision benefits are self insured. Only the PC-65 product is fully insured. The medical benefits are administered through Blue Cross and the prescription drug benefits through Caremark. Separate financial statements are not issued for the plan. The term life insurance is purchased from US Life and the Universal Life coverage is purchased from Genworth Financial.

Funding Policy:

As established by either collective bargaining or school policy, all groups except for administrators are entitled to receive, at retirement, the single coverage provided to active employees in the Personal Choice 10/20/70 plan. Administrators receive both retiree and spousal coverage. For all other eligible retirees, the coverage is provided for the retiree only. A retiree can elect a higher coverage but the retiree must pay the difference in the premium cost. The School District is responsible for funding the balance of the benefits. Teachers hired after July 1, 2003 do not receive post retirement healthcare coverage but instead receive a \$20,000 credit to a Health Reimbursement Account at retirement.

As of July 1, 2008, the School District has no segregated assets to fund this liability. It is the intention of the School District to pay the premium each year as it comes due.

Funding Progress

As of July 1, 2008, the date of the most recent actuarial report, the actuarial accrued liability for benefits was \$34,304,681, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$87,772,879 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.1%.

The actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made into the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents information about the actuarial value of the plan assets. In subsequent years, this schedule will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actual value of assets, consistent with the long term perspective of the calculations. In the July 1, 2008 actuarial valuation, the following actuarial assumptions were used:

Interest	4% compounded annually net of investment expenses
Amortization Method	Level dollar method at the valuation interest rate
Amortization Period	30 Years
Salary Increases	4% per year
Actuarial Valuation Cost Method	Entry Age Normal

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 13 - Other Post-employment Benefits (Continued)

Annual OPEB Cost and NET OPEB Obligations:

The Districts annual other Post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the School's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the School's net OPEB obligation.

Annual OPEB Cost:	
Normal Cost	\$ 1,133,553
Amortization of Unfunded Actuarial Accrued Liability	1,098,092
Interest on Net OPEB Obligation	(13,139)
Funding Adjustment	<u>21,898</u>
 ANNUAL OPEB COST	 <u>\$ 2,240,404</u>
 Net OPEB Obligation (Asset):	
Normal OPEB Obligation July 1, 2008	\$ (328,484)
OPEB Cost for the year ended June 30, 2009	2,240,404
Contributions for the year ended June 30, 2009	<u>(2,435,665)</u>
 NET OPEB OBLIGATION (ASSET)	 <u>\$ (523,745)</u>

NOTE 14 - Prior Period Adjustment

Net assets in the government-wide financial statements have been restated as of the beginning of the year for the net effect of the understatement of capitalized interest relating to the capital assets in the amount of \$3,535,613 and the understatement of accrued severance in the amount of \$2,262,044. The amount of the adjustment is \$1,273,569.

NOTE 15 - Subsequent Events

The District has evaluated subsequent events through January 13, 2010, which represents the date the financial statements were available to be issued.

In September 2009, the District authorized the incurrence of nonelectoral debt by the issuance of its \$10,000,000 principal amount General Obligation Note, Series of 2009, for the purpose of providing funds for and towards various capital projects.

WEST CHESTER AREA SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Local Revenues	\$157,735,386	\$157,735,386	\$ 155,887,322	\$ (1,848,064)
State Program Revenues	29,364,047	29,364,047	30,057,945	693,898
Federal Program Revenues	2,698,317	2,698,317	3,130,016	431,699
TOTAL REVENUES	<u>189,797,750</u>	<u>189,797,750</u>	<u>189,075,283</u>	<u>(722,467)</u>
Expenditures:				
Regular Programs	75,610,851	74,124,868	74,108,501	16,367
Special Programs	23,865,970	25,596,870	25,531,571	65,299
Vocational Programs	4,339,574	4,219,344	4,202,667	16,677
Other Instructional Programs	194,131	159,010	158,981	29
Adult Education Programs	34,172	34,385	28,867	5,518
Pupil Personnel Services	6,929,452	6,740,925	6,665,151	75,774
Instructional Staff Services	5,309,597	5,185,108	5,162,993	22,115
Administrative Services	10,890,183	10,813,894	10,729,281	84,613
Pupil Health	1,908,579	1,912,746	1,890,052	22,694
Business Services	1,591,319	1,580,702	1,565,788	14,914
Operation and Maintenance of Plant Services	17,195,783	17,232,053	17,212,299	19,754
Student Transportation Services	13,114,734	13,223,703	13,219,823	3,880
Central and Other Support Services	2,489,178	2,372,882	2,325,305	47,577
Student Activities	4,294,968	4,029,829	4,013,798	16,031
Community Services	127,551	143,771	122,164	21,607
Facilities Acquisition and Construction	400,000	149,468	148,832	636
Debt Service	22,561,576	22,496,576	21,547,034	949,542
TOTAL EXPENDITURES	<u>190,857,618</u>	<u>190,016,134</u>	<u>188,633,107</u>	<u>1,383,027</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,059,868)</u>	<u>(218,384)</u>	<u>442,176</u>	<u>660,560</u>
Other Financing Sources (Uses):				
Interfund Transfers In	900,000	900,000	0	(900,000)
Interfund Transfers Out	(934,000)	(934,000)	0	934,000
Refunds of Prior Years Revenues	0	(79,218)	(79,218)	0
Refunds of Prior Years Expenditures	0	0	4,662	4,662
Budgetary Reserve	(542,682)	(1,304,948)	0	1,304,948
TOTAL OTHER FINANCING SOURCES (USES)	<u>(576,682)</u>	<u>(1,418,166)</u>	<u>(74,556)</u>	<u>1,343,610</u>
NET CHANGE IN FUND BALANCES	<u>(1,636,550)</u>	<u>(1,636,550)</u>	<u>367,620</u>	<u>2,004,170</u>
Fund Balance - July 1, 2008	<u>6,736,550</u>	<u>6,736,550</u>	<u>7,494,323</u>	<u>757,773</u>
FUND BALANCE - JUNE 30, 2009	<u><u>\$ 5,100,000</u></u>	<u><u>\$ 5,100,000</u></u>	<u><u>\$ 7,861,943</u></u>	<u><u>\$ 2,761,943</u></u>