

Financial Statements

West Chester Area School District
West Chester, Pennsylvania

June 30, 2002

RAINER & COMPANY

A PROFESSIONAL CORPORATION

Certified Public Accountants

NEWTOWN SQUARE CORPORATE CAMPUS

2 CAMPUS BOULEVARD

SUITE 220

NEWTOWN SQUARE, PENNSYLVANIA 19073-3270

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INDEPENDENT AUDITORS' REPORT

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

We have audited the basic financial statements of the West Chester Area School District as of and for the year ended June 30, 2002, as listed in the table of contents. These basic financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of West Chester Area School District at June 30, 2002, and the results of its operations and the cash flows of its business-type activities for the year then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the basic financial statements, 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. This results in a change in the format and content of the basic financial statements.

Information included under Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measurement and presentation to this information. However, we did not audit the supplemental information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2002, on our consideration of West Chester Area School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Rainer & Company

November 8, 2002

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2002

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, 2002. 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 new 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 issued June 1999. Comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, previous year government-wide information is not available. For this reason, some comparative information is omitted as allowed by GASB Statement Number 34 in the first year of implementation. Subsequent reports, however, will include the comparative information.

FINANCIAL HIGHLIGHTS

The trends of prior years indicated that during the fiscal year 2001-2002, the West Chester Area School District would experience another year of significant increases in the costs for special education instruction, charter school tuitions, student transportation, debt service and benefits for our employees. In the budgeting process, the Board of School Directors was able to balance the budget with only a .25 mill increase (\$.25 per \$1,000 of assessed value) to the taxpayers within Chester County. The actual results of operation showed that some of these expenditures did not increase as much as was anticipated when the budget was prepared. This resulted in the savings being added to the beginning fund balance for school year 2002-2003. A decrease in interest payments on our variable rate borrowings resulted in the opportunity for the Board to transfer money from the General Fund to the Capital Reserve Fund to be used for future capital improvements.

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 and modified accrual basis of accounting, respectively.

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.

WEST CHESTER AREA SCHOOL DISTRICT
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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.
- 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.

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis
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FINANCIAL ANALYSIS OF THE DISTRICT – GOVERNMENT WIDE STATEMENTS

The District's total net assets were \$18,363,939 at June 30, 2002. The following table presents condensed financial information for the net assets of the District as of June 30, 2002:

Schedule of Net Assets
Year Ended June 30, 2002

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets	\$106,695,174	\$ 486,613	\$107,181,787
Capital Assets	113,948,767	110,391	114,059,158
Other Assets	59,674	0	59,674
	<u>220,703,615</u>	<u>597,004</u>	<u>221,300,619</u>
TOTAL ASSETS			
Current Liabilities	20,296,111	149,977	20,446,088
Noncurrent Liabilities	182,490,592	0	182,490,592
	<u>202,786,703</u>	<u>149,977</u>	<u>202,936,680</u>
TOTAL LIABILITIES			
Net Assets:			
Invested in Capital Assets, Net of Related Debt	0	110,391	110,391
Restricted	0	0	0
Unrestricted	17,916,912	336,636	18,253,548
	<u>17,916,912</u>	<u>447,027</u>	<u>18,363,939</u>
TOTAL NET ASSETS			

The unrestricted net assets consist mainly of amounts set-aside to fund capital improvements, the replacement of and additions to public works and improvements, and for deferred maintenance thereof.

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 represented 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.

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2002

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.

Changes in Net Assets
For the Year Ended June 30, 2002

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
REVENUES:			
Program Services:			
Charges for Services	\$ 430,482	\$1,846,198	\$ 2,276,680
Operating Grants and Contributions	10,757,655	330,293	11,087,948
General Revenues:			
Property Taxes	84,619,767	0	84,619,767
Other Taxes	16,613,523	0	16,613,523
Grants, Subsidies and Contributions Not Restricted	10,712,567	0	10,712,567
Other Revenue	3,394,741	12,458	3,407,199
TOTAL REVENUES	<u>126,528,735</u>	<u>2,188,949</u>	<u>128,717,684</u>
EXPENSES:			
Instruction	74,116,315	0	74,116,315
Instructional Student Support	9,869,605	0	9,869,605
Administrative and Financial Support	9,659,248	0	9,659,248
Operation and Maintenance of Plant Services	11,029,637	0	11,029,637
Pupil Transportation	8,901,161	0	8,901,161
Student Activities	2,107,591	0	2,107,591
Community Services	75,627	0	75,627
Interest on Long-Term Debt	6,701,812	0	6,701,812
Unallocated Depreciation Expense	5,934,199	0	5,934,199
Food Services	0	2,207,912	2,207,912
TOTAL EXPENSES	<u>128,395,195</u>	<u>2,207,912</u>	<u>130,603,107</u>
 CHANGE IN NET ASSETS	 <u>\$ (1,866,460)</u>	 <u>\$ (18,963)</u>	 <u>\$ (1,885,423)</u>

WEST CHESTER AREA SCHOOL DISTRICT
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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.

Expense Analysis
For the Year Ended June 30, 2002

	Total Cost of Services	Net Cost of Services
	<hr/>	<hr/>
Expenses - Governmental Activities:		
Instruction	\$ 74,116,315	\$ 68,661,556
Instructional Student Support	9,869,605	9,599,756
Administrative and Financial Support	9,659,248	9,659,248
Operation and Maintenance of Plant Services	11,029,637	10,127,374
Pupil Transportation	8,901,161	4,458,778
Student Activities	2,107,591	1,988,708
Community Services	75,627	75,627
Interest on Long-Term Debt	6,701,812	6,701,812
Unallocated Depreciation Expense	5,934,199	5,934,199
	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$128,395,195</u>	117,207,058
Less: Grants, Subsidies and Contributions Not Restricted		<u>(10,712,567)</u>
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES		<u>\$106,494,491</u>

The following table reflects condensed financial activities of the food service program, the only business-type activity of the District.

Business-Type Activities
For the Year Ended June 30, 2002

	Total Cost of Services	Net Cost of Services
	<hr/>	<hr/>
Expenses - Business-Type Activities:		
Food Services	<u>\$ 2,207,912</u>	<u>\$ 31,421</u>

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis
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THE DISTRICT FUNDS

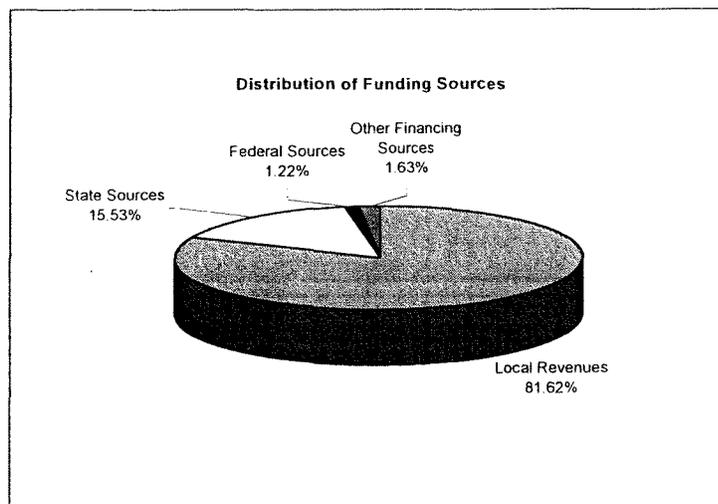
General Fund

At June 30, 2002, the District reported a fund balance of 7,608,575, which represents 5.8% of total expenses. This is a decrease of \$5,162,277 from 2000-01. This decrease consists primarily of a contribution to the capital reserve fund in the amount of \$3,300,834 to fund future capital expenditures. 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 in response to 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 with the Board's belief that the tax burden should be aligned with the current funding needs of the District.

REVENUE

Revenues, totaling \$126,113,494, increased \$5,753,582 over the 2000-01 revenues. The following table reflects a comparison of current year revenues with the revenues recognized in the prior year:

	Amount Received	% of Total	Inc / (Dec) from 00-01	% of Inc / (Dec)
Local Revenues	\$ 102,929,317	81.62%	\$ 4,582,479	4.45%
State Sources	19,588,911	15.53%	718,028	3.67%
Federal Sources	1,538,248	1.22%	167,336	10.88%
Other Financing Sources	2,057,018	1.63%	285,739	4.97%
	<u>\$ 126,113,494</u>	<u>100.00%</u>	<u>\$ 5,753,582</u>	<u>23.96%</u>



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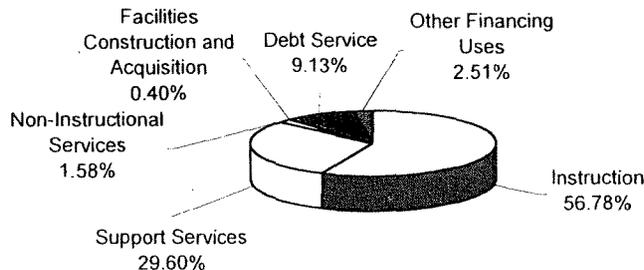
The District balanced the budget utilizing the fund balance from the previous year and increasing the 2001-2002 tax rate from 11.38 to 11.63 mills. As a result of the increase in millage and increases in real estate assessments, revenues from current and interim real estate taxes increased by \$5,228,659. The collection rate for current real estate taxes was 96.4%. This compares with 95.9% in 2000-2001. Collections of delinquent taxes decreased by \$136,951. The State has reduced the amount of Public Utility Realty Tax Act (PURTA) tax distributions to school districts over the last several years. As a result, our PURTA revenues are \$119,321 less than in the previous year. They are expected to decrease further in the future. Real estate transfer taxes collected increased by \$127,675. Earned Income collections increased by \$520,822. As a result of lower interest rates, the District experienced a substantial decrease in investment revenue, \$1,426,148. An increase of \$230,087 in revenue from Intermediate Sources is mainly due to an increase in our IDEA Grant funding.

EXPENDITURES

Expenditures, totaling \$131,275,771, increased \$12,450,731 over the 2000-01 expenses. These 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 original 2001-2002 budget, are as follows:

	Actual 2001-02	% of Total	Inc/(Dec) From 2000-01	% of Inc/(Dec) From 2000-01	Inc/(Dec) From Budget
Instruction	\$ 74,534,588	56.78%	\$ 4,494,505	36.10%	\$ 633,669
Support Services	38,855,121	29.60%	3,629,994	29.15%	(1,098,593)
Non-Instructional Services	2,075,497	1.58%	74,238	0.60%	(76,530)
Facilities Construction and Acquisition	525,645	0.40%	277,390	2.23%	(64,168)
Debt Service	11,984,085	9.13%	982,163	7.89%	(339,003)
Other Financing Uses	3,300,834	2.51%	2,992,442	24.03%	454,065
TOTAL EXPENDITURES BY FUNCTION	\$131,275,771	100.00%	\$12,450,731	100.00%	\$ (490,560)

Distribution of Expenditures by Function



WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis
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The District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process. Budgeted expenditures increased by \$689,491 as a result of these additional approved grants.

The increase in expenditures from 2000-01 is due to increases in various categories. The increase in the Instruction and Support Services areas can be attributed mainly to increases in the costs of staff salaries and benefits, as well as costs associated with charter school tuitions and special education services. Instruction and Support Services employee salaries increased by 7.06 % or \$4,348,091. This amount includes salary increase for the staff as well as the addition of new employees. The employee benefit program offered by the District to the Instruction and Support Services personnel increased by 10.8% or \$1,588,499. Charter School Tuitions increased by \$855,698, this represents a 46% increase over the prior year. Special education costs have increased by \$1,362,416; this is an 11.4% increase over the prior year. The increase of \$277,390 in Facilities Acquisition, Construction, and Improvements was due to an increase in capital improvements during 2001-2002. There is an increase in debt service in the amount of \$982,163 over 2000-01. The increase in other financing uses includes an increased contribution to the Capital Reserve fund in the amount of \$2,992,441 to help finance future capital improvements.

Capital Projects Fund

At June 30, 2002, the District reported a fund balance of \$71,498,915, which is an increase of \$9,174,797. The major components of this fund balance increase include the issuance of debt in the amount of \$30,434,982 and expenditures for capital projects in the amount of \$21,167,953.

Capital Reserve Fund

At June 30, 2002, the District reported a fund balance of \$13,205,221, which is an increase of \$2,459,940. During the year, the fund received transfers from the general fund in the amount of \$3,300,834 and from the capital projects fund in the amount of \$1,215,815. The capital reserve fund transferred \$2,057,018 to the general fund for the purchase of technology equipment.

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.

The District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process. Budgeted revenues increased \$689,491 as a result of additional approved grants.

Budgeted expenditures and other financing uses also increased in the same amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses occur during the year.

The Budgetary Reserve includes amounts that will be funded for operating contingencies such as unpredictable change in the cost of goods and services and the occurrence of events which are vaguely perceptible during the time of the budget process but which nonetheless may require expenditures by the District during the year of operation.

WEST CHESTER AREA SCHOOL DISTRICT
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CAPITAL ASSETS

At June 30, 2002, the District had \$114,059,158 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 \$15,955,279, or 16.3% from last year.

The following schedule depicts the change in capital assets for the period July 1, 2001 through June 30, 2002. During this period, the District had the following significant additions in capital assets.

Schedule of Capital Assets

	<u>Beginning Balance</u>	<u>Increase / (Decrease)</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>			
Capital Assets:			
Land	\$ 2,854,869	\$ 0	\$ 2,854,869
Land Improvements	3,500,315	47,150	3,547,465
Buildings	140,246,954	544,886	140,791,840
Construction in Progress	0	20,150,703	20,150,703
Furniture and Equipment	12,029,468	1,155,525	13,184,993
TOTAL CAPITAL ASSETS	<u>158,631,606</u>	<u>21,898,264</u>	<u>180,529,870</u>
Accumulated Depreciation for:			
Buildings	51,680,555	4,063,004	55,743,559
Land Improvements	638,991	177,373	816,364
Furniture and Equipment	8,331,558	1,689,622	10,021,180
TOTAL ACCUMULATED DEPRECIATION	<u>60,651,104</u>	<u>5,929,999</u>	<u>66,581,103</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$97,980,502</u>	<u>\$15,968,265</u>	<u>\$113,948,767</u>
<u>Business-Type Activities:</u>			
Capital Assets:			
Machinery and Equipment	\$ 148,053	\$ 38,748	\$ 186,801
Accumulated Depreciation for:			
Machinery and Equipment	<u>24,676</u>	<u>51,734</u>	<u>76,410</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 123,377</u>	<u>\$ (12,986)</u>	<u>\$ 110,391</u>

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis
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DEBT ADMINISTRATION

As of July 1, 2001, the District had total outstanding bond principal of \$161,456,000. During the year, the District made payments against principal in the amount of \$6,482,000, and incurred an additional borrowing the amount of \$30,420,483 resulting in ending outstanding debt as of June 30, 2002 of \$185,394,483. This amount represents 74.7% of our debt limit as determined by the formula included in Local Government Unit Act. The total debt margin for the District at June 30, 2002 is \$62,844,069. Based on 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, 2002

	Principal Outstanding July 1, 2001	Maturities/ Refinancing	Additions	Bonds Payable June 30, 2002
General Obligation Bonds, Series of 1993	\$ 16,095,000	\$ 185,000	\$ 0	\$ 15,910,000
General Obligation Bonds, Series A of 1993	14,465,000	2,640,000	0	11,825,000
General Obligation Bonds, Series of 1995	595,000	595,000	0	0
General Obligation Bonds, Series of 1996	12,735,000	95,000	0	12,640,000
General Obligation Bonds, Series of 1998	22,610,000	975,000	0	21,635,000
General Obligation Bonds, Series A of 1998	16,345,000	675,000	0	15,670,000
General Obligation Bonds, Series of 1999	9,225,000	420,000	0	8,805,000
General Obligation Note, Series of 2000	15,250,000	0	0	15,250,000
General Obligation Note, Series B of 2000	13,461,000	617,000	0	12,844,000
General Obligation Bonds, Series of 2001	9,995,000	0	0	9,995,000
General Obligation Note, Series of 2001	20,000,000	0	0	20,000,000
General Obligation Bonds, Refunding Series of 2001	10,680,000	280,000	0	10,400,000
General Obligation Bonds; Series of 2002	0	0	30,420,483	30,420,483
	<u>\$161,456,000</u>	<u>\$6,482,000</u>	<u>\$30,420,483</u>	<u>\$ 185,394,483</u>

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

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis
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THE DISTRICT'S FUTURE

The district will continue to experience enrollment growth in the next five years. This growth will be very similar to the heavy growth in the past ten years. We anticipate an increase of 363 students by the 2006-07 school year. Over the last 14 years, the District has renovated and expanded 8 elementary schools including Pennwood, East Bradford, Westtown-Thornbury, Fernhill, Exton, East Goshen, Mary C. Howse, and Glen Acres; partially renovated Henderson High School; renovated the Spellman Administration Building; constructed Sarah W. Starkweather Elementary School; constructed the new Peirce and Stetson Middle Schools; constructed the new warehouse; and completed numerous maintenance projects throughout the District. The District also completed the infrastructure for the District-Wide Area Network.

The District will need additional financing based on future approved and proposed projects listed on the October 2001 Capital Projects update, as revised January 2002. Major approved projects to be completed over the next six years include the construction of a new, third, high school on the site acquired in Westtown, the renovation and additions to Henderson High School with the acquisition of additional land for off-campus athletic fields and parking, the construction of a new gymnasium complex at East High School, renovations to Fugett Middle School, and additions to Peirce Middle School. In addition, proposed projects are included for the Spellman Administration Building and for the District's facility maintenance program. Total project expenditures are estimated to be \$193 million over the next six years.

In the future the District will need an additional \$127.9 million to finance the remainder of our active projects as well as our proposed capital projects. This includes the replacement of the temporary financings. The District does not have a formal plan in place for the future financings. As in the past, the District could use a series of interim financings as well as General Obligation Bonds. To demonstrate the financial impact of the funding needed for the District's capital program, we created a debt service schedule for a series of financings throughout the remainder of the capital program. The financing plan does not include the use of accumulated Capital Reserve funds for the program. The School Board is using the Reserve to fund technology equipment. The financings consist of four General Obligation Bond issues as follows: \$34.0 million in 2003, \$34.0 million in 2004, \$34.0 million in 2005, and \$25.9 million in 2006. Based on these financings our debt service is projected to increase significantly over the next five years. Specific increases in debt service amounts and relative increases in millage are as follows: \$2.4 million or .49 mills in 2003-04, \$3.3 million or .33 mills in 2004-05, \$2.7 million or .31 mills in 2005-06, \$2.4 million or .26 mills in 2006-07 and \$0.4 million or .04 mills in 2007-08.

STRATEGIC PLAN

In June 2002, the West Chester Area School District adopted a new strategic plan that has focused our purpose and resources as we prepare for the 21st Century. A team of 27 visionary School Board members, administrators, teachers, parents, community members, senior citizens and business leaders assembled to create the following six strategies:

- We will develop and implement plans to accommodate change and provide an effective learning environment through careful facility planning.
- We will develop a system to recruit, retain, evaluate and develop high-quality staff.
- We will complete the development of assessments to measure student mastery of local, state and national standards and ensure instruction is aligned with those standards.
- We will identify, teach and model the character traits and behaviors for everyone to become responsible, respectful, contributing citizens in our diverse school community.

WEST CHESTER AREA SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2002

- We will effectively use technology throughout the District for communication, decision-making and the teaching/learning process.
- We will develop a system to identify, communicate and report student needs among parents, caregivers and staff to ensure appropriate access to services and programs.

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 Suzanne K. Moore, Director of Business Affairs at The West Chester Area School District, 829 Paoli Pike, West Chester, PA 19380, (610)-436-7110.

WEST CHESTER AREA SCHOOL DISTRICT

Statement of Net Assets

June 30, 2002

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current:			
Cash and Cash Equivalents	\$ 19,594	\$ 19,672	\$ 39,266
Investments	101,440,156	436,768	101,876,924
Due from Other Governments	182,541	17,138	199,679
Other Receivables	278,246	13,035	291,281
Property Taxes Receivable, Net	3,711,049	0	3,711,049
Inventories	1,024,761	0	1,024,761
Prepaid Expenses	38,827	0	38,827
TOTAL CURRENT ASSETS	<u>106,695,174</u>	<u>486,613</u>	<u>107,181,787</u>
Capital Assets:			
Land	2,854,869	0	2,854,869
Land Improvements	3,547,465	0	3,547,465
Buildings	140,791,840	0	140,791,840
Construction in Progress	20,150,703	0	20,150,703
Furniture and Equipment	13,184,993	186,801	13,371,794
Less: Accumulated Depreciation	(66,581,103)	(76,410)	(66,657,513)
TOTAL CAPITAL ASSETS, NET OF DEPRECIATION	<u>113,948,767</u>	<u>110,391</u>	<u>114,059,158</u>
Other Assets:			
Deferred Bond Issuance Costs	59,674	0	59,674
TOTAL ASSETS	<u>\$ 220,703,615</u>	<u>\$ 597,004</u>	<u>\$ 221,300,619</u>
 <u>LIABILITIES</u>			
Current:			
Accounts Payable and Other Current Liabilities	\$ 11,580,444	\$ 139,056	\$ 11,719,500
Bonds and Notes Payable Due Within One Year	7,178,000	0	7,178,000
Deferred Revenues	2,059	10,921	12,980
Accrued Interest	1,535,608	0	1,535,608
TOTAL CURRENT LIABILITIES	<u>20,296,111</u>	<u>149,977</u>	<u>20,446,088</u>
Long-Term:			
Bonds and Notes Payable Due After One Year	178,216,483	0	178,216,483
Accrued Severance and Compensated Absences	4,274,109	0	4,274,109
TOTAL LONG-TERM LIABILITIES	<u>182,490,592</u>	<u>0</u>	<u>182,490,592</u>
TOTAL LIABILITIES	<u>202,786,703</u>	<u>149,977</u>	<u>202,936,680</u>
 <u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	0	110,391	110,391
Unrestricted	17,916,912	336,636	18,253,548
TOTAL NET ASSETS	<u>17,916,912</u>	<u>447,027</u>	<u>18,363,939</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 220,703,615</u>	<u>\$ 597,004</u>	<u>\$ 221,300,619</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, 2002

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	\$ 74,116,315	\$ (288,574)	\$ (5,166,185)	\$ 0	\$ (68,661,556)	\$ 0	\$ (68,661,556)
Instructional Student Support	9,869,605	0	(269,849)	0	(9,599,756)	0	(9,599,756)
Administrative and Financial Support Services	9,659,248	0	0	0	(9,659,248)	0	(9,659,248)
Operation and Maintenance of Plant Services	11,029,637	(23,025)	(879,233)	0	(10,127,374)	0	(10,127,374)
Pupil Transportation	8,901,161	0	(4,442,383)	0	(4,458,778)	0	(4,458,778)
Student Activities	2,107,591	(118,883)	0	0	(1,988,708)	0	(1,988,708)
Community Services	75,627	0	0	0	(75,627)	0	(75,627)
Interest on Long-Term Debt	6,701,812	0	0	0	(6,701,812)	0	(6,701,812)
Unallocated Depreciation Expense	5,934,199	0	0	0	(5,934,199)	0	(5,934,199)
TOTAL GOVERNMENTAL ACTIVITIES	128,395,195	(430,482)	(10,757,655)	0	(117,207,058)	0	(117,207,058)
Business-Type Activities:							
Food Services	2,207,912	(1,846,198)	(330,293)	0	0	(31,421)	(31,421)
TOTAL PRIMARY GOVERNMENT	\$ 130,603,107	\$ (2,276,680)	\$ (11,087,948)	\$ 0	(117,207,058)	(31,421)	(117,238,479)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					84,619,767	0	84,619,767
Public Utility Realty, Earned Income and Realty Transfer Taxes, Levied for General Purposes, Net					16,613,523	0	16,613,523
Grants, Subsidies and Contributions Not Restricted					10,712,567	0	10,712,567
Investment Earnings					3,343,373	12,458	3,355,831
Miscellaneous Income					1,368	0	1,368
Contributions					50,000	0	50,000
TOTAL GENERAL REVENUES AND SPECIAL ITEMS					115,340,598	12,458	115,353,056
CHANGE IN NET ASSETS					(1,866,460)	(18,963)	(1,885,423)
Net Assets - July 1, 2001					19,783,372	465,990	20,249,362
NET ASSETS - JUNE 30, 2002					\$ 17,916,912	\$ 447,027	\$ 18,363,939

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2002

<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	\$ 19,125	\$ 0	\$ 0	\$ 469	\$ 19,594
Investments	13,875,691	87,564,465	0	0	101,440,156
Taxes Receivable, Net	3,711,049	0	0	0	3,711,049
Due from Other Funds	6,748,645	5,131,110	18,727,579	21,881	30,629,215
Due from Other Governments	182,541	0	0	0	182,541
Other Receivables	274,925	0	2,815	0	277,740
Prepaid Expenses	38,827	0	0	0	38,827
Inventories	1,024,761	0	0	0	1,024,761
TOTAL ASSETS	<u>\$ 25,875,564</u>	<u>\$ 92,695,575</u>	<u>\$ 18,730,394</u>	<u>\$ 22,350</u>	<u>\$ 137,323,883</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 6,115,834	\$ 1,102,889	\$ 143,225	\$ 2,740	\$ 7,364,688
Due to Other Funds	6,588,540	20,093,771	5,381,948	0	32,064,259
Payroll Accruals and Withholdings	2,780,206	0	0	0	2,780,206
Deferred Revenue	2,782,409	0	0	0	2,782,409
TOTAL LIABILITIES	<u>18,266,989</u>	<u>21,196,660</u>	<u>5,525,173</u>	<u>2,740</u>	<u>44,991,562</u>
Fund Balances:					
Unreserved - Designated	446,120	0	0	0	446,120
Unreserved - Undesignated	7,162,455	71,498,915	13,205,221	19,610	91,886,201
TOTAL FUND BALANCES	<u>7,608,575</u>	<u>71,498,915</u>	<u>13,205,221</u>	<u>19,610</u>	<u>92,332,321</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 25,875,564</u>	<u>\$ 92,695,575</u>	<u>\$ 18,730,394</u>	<u>\$ 22,350</u>	<u>\$ 137,323,883</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, 2002

Total Fund Balances - Governmental Funds		\$ 92,332,321
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 \$180,529,870, and the accumulated depreciation is \$66,581,103		113,948,767
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		2,780,350
Bond issuance costs are not financial resources and therefore are not reported as assets in the governmental funds. Issuance costs are \$61,732, net of accumulated amortization of \$2,058		59,674
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	\$ (185,394,483)	
Accrued Interest on the Bonds	(1,535,608)	
Accrued Severance and Compensated Absences	(4,274,109)	(191,204,200)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u>\$ 17,916,912</u>

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2002

	General Fund	Capital Projects Fund	Capital Reserve Fund	Other Funds	Total Governmental Funds
Revenues:					
Local Sources:					
Real Estate Taxes	\$ 84,619,767	\$ 0	\$ 0	\$ 0	\$ 84,619,767
Realty Transfer tax	3,704,551	0	0	0	3,704,551
Earned Income Taxes	12,712,667	0	0	0	12,712,667
Other Taxes	186,655	0	0	0	186,655
Earnings from Investments	1,049,956	2,293,417	0	0	3,343,373
Other Local Revenues	655,721	0	0	118,883	774,604
State Sources	19,588,911	0	0	0	19,588,911
Federal Sources	1,538,248	0	0	0	1,538,248
TOTAL REVENUES	<u>124,056,476</u>	<u>2,293,417</u>	<u>0</u>	<u>118,883</u>	<u>126,468,776</u>
Expenditures:					
Instruction	74,534,588	0	0	0	74,534,588
Support Services	38,855,121	0	0	0	38,855,121
Non-Instructional Services	2,075,497	0	0	107,721	2,183,218
Capital Outlay	525,646	21,167,953	0	0	21,693,599
Debt Service (Principal and Interest)	11,984,085	1,169,834	0	0	13,153,919
TOTAL EXPENDITURES	<u>127,974,937</u>	<u>22,337,787</u>	<u>0</u>	<u>107,721</u>	<u>150,420,445</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,918,461)</u>	<u>(20,044,370)</u>	<u>0</u>	<u>11,162</u>	<u>(23,951,669)</u>
Other Financing Sources (Uses):					
Bond Proceeds	0	30,434,982	0	0	30,434,982
Interfund Transfers In	2,057,018	0	4,516,649	0	6,573,667
Interfund Transfers Out	(3,300,834)	(1,215,815)	(2,057,018)	0	(6,573,667)
Refunds of Prior Years Expenditures	0	0	309	0	309
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,243,816)</u>	<u>29,219,167</u>	<u>2,459,940</u>	<u>0</u>	<u>30,435,291</u>
NET CHANGE IN FUND BALANCES	<u>(5,162,277)</u>	<u>9,174,797</u>	<u>2,459,940</u>	<u>11,162</u>	<u>6,483,622</u>
Fund Balances - July 1, 2001	9,746,453	62,324,118	10,745,281	8,448	82,824,300
Prior Period Adjustment	3,024,399	0	0	0	3,024,399
FUND BALANCES - JULY 1, 2001 (AS RESTATED)	<u>12,770,852</u>	<u>62,324,118</u>	<u>10,745,281</u>	<u>8,448</u>	<u>85,848,699</u>
FUND BALANCES - JUNE 30, 2002	<u>\$ 7,608,575</u>	<u>\$ 71,498,915</u>	<u>\$ 13,205,221</u>	<u>\$ 19,610</u>	<u>\$ 92,332,321</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 Balance
To the Statement of Activities
For the Year Ended June 30, 2002

Total Net Change in Fund Balances - Governmental Funds	\$ 6,483,622
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 cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$21,902,464) exceed depreciation expense \$5,934,199 in the period	15,968,265
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	6,482,000
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 increased by this amount this year	9,650
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 used by \$125,376 and severance earned exceeded the amounts paid by \$219,746	(345,122)
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 increased by \$104,066	(104,066)
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 issuance costs exceeds amortization	59,674
Bond proceeds are reported as financing sources in governmental funds and thus contribute 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 of \$30,434,982, net of amortization of bond premium of \$14,499	(30,420,453)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,866,430)</u>

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2002

	<u>Enterprise Fund - Food Services</u>
<u>ASSETS</u>	
Current:	
Cash and Cash Equivalents	\$ 19,672
Investments	436,768
Due from Other Governments	17,138
Other Receivables	13,035
TOTAL CURRENT ASSETS	<u>486,613</u>
Non-Current:	
Furniture and Equipment	186,801
Less: Accumulated Depreciation	(76,410)
TOTAL NON-CURRENT ASSETS	<u>110,391</u>
 TOTAL ASSETS	 <u>\$ 597,004</u>
 <u>LIABILITIES</u>	
Current:	
Accounts Payable and Accrued Liabilities	\$ 139,056
Deferred Revenue	10,921
TOTAL LIABILITIES	<u>149,977</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets	110,391
Unrestricted	336,636
TOTAL NET ASSETS	<u>447,027</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 597,004</u>

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, 2002

	Enterprise Fund - Food Services
Operating Revenues:	
Food Service Sales	\$ 1,846,198
Operating Expenses:	
Professional and Contract Services	2,028,078
Depreciation	51,734
Other Operating Costs	128,100
TOTAL OPERATING EXPENSES	<u>2,207,912</u>
OPERATING INCOME (LOSS)	<u>(361,714)</u>
Non-Operating Revenues:	
Interest Income	12,458
State Sources	53,685
Federal Sources	276,608
TOTAL NON-OPERATING REVENUES	<u>342,751</u>
CHANGE IN NET ASSETS	(18,963)
Total Net Assets - July 1, 2001	<u>465,990</u>
TOTAL NET ASSETS - JUNE 30, 2002	<u>\$ 447,027</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, 2002

	Enterprise Fund - Food Services
Cash Flows From Operating Activities:	
Cash Received from Users	\$1,855,035
Cash Payments to Suppliers for Goods and Services	(2,203,701)
NET CASH (USED) BY OPERATING ACTIVITIES	<u>(348,666)</u>
Cash Flows From Non-Capital Financing Activities:	
State Sources	54,822
Federal Sources	281,674
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>336,496</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of Capital Assets	(38,748)
Cash Flows From Investing Activities:	
Purchase of Investment Securities/Deposits to Investment Pools	(44,918)
Interest on Investments	12,458
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(32,460)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(83,378)
Cash and Cash Equivalents - July 1, 2001	<u>103,050</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2002	<u>\$ 19,672</u>
 <u>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:</u>	
Operating Income (Loss)	\$ (361,714)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:	
Depreciation	51,734
Changes in Assets and Liabilities:	
Receivables	(2,084)
Accrued Liabilities	(36,602)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (348,666)</u>

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2002

<u>ASSETS</u>	<u>Private- Purpose Trusts</u>	<u>Agency Funds</u>
Cash and Cash Equivalents	\$ 3,965	\$ 388,776
Accrued Interest		586
Due from Other Funds	<u>208,971</u>	<u>1,435,044</u>
TOTAL ASSETS	<u>\$ 212,936</u>	<u>\$ 1,824,406</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 0	\$ 1,382,323
Due to Other Funds	0	208,971
Due to Student Groups	<u>0</u>	<u>233,112</u>
TOTAL LIABILITIES	<u>\$ 0</u>	<u>\$ 1,824,406</u>
<u>NET ASSETS</u>		
Reserved for Scholarships	\$ 212,936	
Unrestricted	<u>0</u>	
TOTAL NET ASSETS	<u>\$ 212,936</u>	

The accompanying notes are an integral part of this statement.

WSET CHESTER AREA SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2002

	<u>Private- Purpose Trusts</u>
Additions:	
Gifts and Contributions	\$ 412,739
Deductions:	
Grants	<u>427,946</u>
CHANGE IN NET ASSETS	(15,207)
Net Assets - July 1, 2001	<u>228,143</u>
NET ASSETS - JUNE 30, 2002	<u><u>\$ 212,936</u></u>

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

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:

- For the first time, the financial statements include:
 - ◆ Management 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 changes in net assets) 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, 2002

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 Project Fund - The Capital Project 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, 2002

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, 2002

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, 2002.

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 - October 31 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, 2002

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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

Inventories (Continued)

Inventory in the Food Service Fund consists 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. There is no liability for unpaid accumulated sick leave since the School District does not have a policy to pay any amounts when employees separate from service with the School District. Compensated absences are generally liquidated by the General Fund.

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 that have completed at least fifteen years of credited School District service, that retire under the normal PSERS guidelines, receive severance pay in the form of compensation. Administrative personnel receive \$300 for each year of service in the District. Instructional personnel receive \$200 for each year of service in the District. Secretarial and Support personnel receive \$250 for each year of service in the District. Severance pay is generally liquidated by the General Fund.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

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.
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.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

NOTE 2 - Budgetary Information (Continued)

The School District's general fund budget includes federal programs in which revenues are equal to qualifying expenditures. The School District's formally adopted budget filed with the State includes estimated amounts for Federal program revenues and expenditures. The accompanying Budgetary Comparison Schedule includes amounts from the formally adopted budget and an adjustment to reflect the Federal program budgets at actual amounts as follows:

	<u>Formally Adopted Budget</u>	<u>Federal and State Programs Adjustment</u>	<u>Total</u>
Revenues and Other Financing Sources:			
Local Sources	\$100,021,794	\$ 281,750	\$100,303,544
State Sources	18,665,036	343,798	19,008,834
Federal Sources	1,474,305	63,943	1,538,248
Other Financing Sources	2,621,644	0	2,621,644
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>122,782,779</u>	<u>689,491</u>	<u>123,472,270</u>
Total Expenditures and Other Financing Uses	<u>131,766,331</u>	<u>689,491</u>	<u>132,455,822</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(8,983,552)	0	(8,983,552)
Budgeted Fund Balance - July 1, 2001	<u>8,983,552</u>	<u>0</u>	<u>8,983,552</u>
BUDGETED FUND BALANCE - JUNE 30, 2002	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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 \$432,007, and the corresponding bank balance was \$1,795,497. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$1,695,497 was collateralized through pools of securities held by the respective depository institutions.

Investments - The School District investments are categorized under GASB Statement No. 3 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.

WEST CHESTER AREA SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2002

NOTE 3 - Deposits and Investments (Continued)

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. Since the Fund has the characteristics of a mutual fund, it would not be reported by risk category in accordance with Governmental Accounting Standards Board Statement #3. 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. Certificates of deposit purchased are federally insured up to \$100,000, collateralized with U.S. Government Securities at 100% market value, or 100% collateralized (principal and interest) by irrevocable letters of credit issued by the Federal Home Loan Bank.

The School District's investments at June 30, 2002 consisted of the following:

Pooled Investments:

Pennsylvania School District Liquid Asset Fund:		
General Fund Accounts		\$ 221,270
Pennsylvania Local Government Investment Trust:		
Capital Project Fund Account		40,465,608
Pennsylvania Treasurer's Investment Program:		
General Fund Account		13,654,421
Capital Project Fund Account		47,098,857
Food Service Fund Account		436,768
TOTAL		<u>61,190,046</u>
TOTAL POOLED INVESTMENTS		<u>\$ 101,876,924</u>

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	\$3,262,392	\$ 0	\$3,262,392
Transfer Taxes	448,657	0	448,657
Less: Allowance for Uncollectibles	<u>0</u>	<u>0</u>	<u>0</u>
NET TAXES RECEIVABLE	<u>\$3,711,049</u>	<u>\$ 0</u>	<u>\$3,711,049</u>

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

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 Taxes Receivable	\$ 2,780,350
Other Deferred Revenue	<u>2,059</u>
TOTAL	<u><u>\$ 2,782,409</u></u>

NOTE 5 - Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital Assets:				
Land	\$ 2,854,869	\$ 0	\$ 0	\$ 2,854,869
Land Improvements	3,500,315	47,150	0	3,547,465
Buildings	140,246,954	544,886	0	140,791,840
Construction in Progress	0	20,150,703	0	20,150,703
Furniture and Equipment	<u>12,029,468</u>	<u>1,159,725</u>	<u>4,200</u>	<u>13,184,993</u>
TOTAL CAPITAL ASSETS	<u><u>158,631,606</u></u>	<u><u>21,902,464</u></u>	<u><u>4,200</u></u>	<u><u>180,529,870</u></u>
Accumulated Depreciation for:				
Buildings	51,680,555	4,063,004	0	55,743,559
Land Improvements	638,991	177,373	0	816,364
Furniture and Equipment	<u>8,331,558</u>	<u>1,693,822</u>	<u>4,200</u>	<u>10,021,180</u>
TOTAL ACCUMULATED DEPRECIATION	<u><u>60,651,104</u></u>	<u><u>5,934,199</u></u>	<u><u>4,200</u></u>	<u><u>66,581,103</u></u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u><u>\$97,980,502</u></u>	<u><u>\$15,968,265</u></u>	<u><u>\$ 0</u></u>	<u><u>\$113,948,767</u></u>
<u>Business-Type Activities:</u>				
Capital Assets:				
Machinery and Equipment	\$ 148,053	\$ 38,748	\$ 0	\$ 186,801
Accumulated Depreciation for:				
Machinery and Equipment	<u>24,676</u>	<u>51,734</u>	<u>0</u>	<u>76,410</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u><u>\$ 123,377</u></u>	<u><u>\$ (12,986)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 110,391</u></u>

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

NOTE 5 - Capital Assets (Continued)

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

Governmental Activities – Unallocated	\$ 5,934,199
Business-Type Activities	<u>51,734</u>
TOTAL DEPRECIATION EXPENSE	<u><u>\$ 5,985,933</u></u>

NOTE 6 - Construction Commitments

At June 30, 2002, the School District's capital projects fund had outstanding construction commitments amounting to \$7,467,294 for the completion of the construction of a new high school and renovations to various schools.

NOTE 7 - Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2002 is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 6,748,645	\$ 6,588,540
Capital Reserve Fund	18,727,579	5,381,948
Capital Project Funds	5,131,110	20,093,771
Non-Major Governmental Funds	21,881	0
Activity Fund	52,878	0
Payroll Fund	<u>1,382,166</u>	<u>0</u>
	<u><u>\$ 32,064,259</u></u>	<u><u>\$ 32,064,259</u></u>

Interfund transfers were as follows:

	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$ 3,300,834	\$ 2,057,018
Capital Reserve Fund	2,057,018	4,516,649
Capital Project Funds	<u>1,215,815</u>	<u>0</u>
	<u><u>\$ 6,573,667</u></u>	<u><u>\$ 6,573,667</u></u>

Interfund transfers are made from the general fund to the capital reserve fund to provide funds for future capital expenses, the capital reserve fund makes transfers to the general fund for technology purchases and the capital project funds transfer interest earnings to the capital reserve fund.

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

NOTE 8 - Long-Term Debt

	Principal Outstanding July 1, 2001	Maturities/ Refinancing	Additions	Bonds Payable June 30, 2002
General Obligation Bonds, Series of 1993	\$ 16,095,000	\$ 185,000	\$ 0	\$ 15,910,000
General Obligation Bonds, Series A of 1993	14,465,000	2,640,000	0	11,825,000
General Obligation Bonds, Series of 1995	595,000	595,000	0	0
General Obligation Bonds, Series of 1996	12,735,000	95,000	0	12,640,000
General Obligation Bonds, Series of 1998	22,610,000	975,000	0	21,635,000
General Obligation Bonds, Series A of 1998	16,345,000	675,000	0	15,670,000
General Obligation Bonds, Series of 1999	9,225,000	420,000	0	8,805,000
General Obligation Note, Series of 2000	15,250,000	0	0	15,250,000
General Obligation Note, Series B of 2000	13,461,000	617,000	0	12,844,000
General Obligation Bonds, Series of 2001	9,995,000	0	0	9,995,000
General Obligation Note, Series of 2001	20,000,000	0	0	20,000,000
General Obligation Bonds, Refunding Series of 2001	10,680,000	280,000	0	10,400,000
General Obligation Bonds, Series of 2002	0	0	30,420,483	30,420,483
	<u>\$ 161,456,000</u>	<u>\$ 6,482,000</u>	<u>\$ 30,420,483</u>	<u>\$ 185,394,483</u>

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

NOTE 8 - Long-Term Debt (Continued)

	<u>Current Outstanding Principal</u>
General Obligation Bonds, Series A of 1993. Original principal amount of \$23,230,000, maturing December 1, 1994 through December 1, 2005, bearing interest from 3.85% to 4.75%. Interest is paid semi-annually on December 1 and June 1	\$ 11,825,000
General Obligation Bonds, Series of 1993. Original principal amount of \$17,210,000, maturing January 15, 1994 through January 15, 2011, bearing interest from 4.50% to 5.50%. Interest is paid semi-annually on January 15 and July 15	15,910,000
General Obligation Bonds, Series of 1996. Original principal amount of \$13,070,000, maturing September 1, 2014, bearing interest from 4.15% to 5.1%. Interest is paid semi-annually on March 1 and September 1	12,640,000
General Obligation Bonds, Series of 1998. Original principal amount of \$24,000,000, maturing May 15, 1999 through November 15, 2016, bearing interest from 4.0% to 5.2%. Interest is paid semi-annually on May 15 and November 15	21,635,000
General Obligation Bonds, Series A of 1998. Original principal amount of \$17,000,000, maturing November 15, 2000 through November 15, 2017, bearing interest from 4.0% to 5.2%. Interest is paid semi-annually on May 15 and November 15	15,670,000
General Obligation Bonds, Series of 1999. Original principal amount of \$9,820,000, maturing November 15, 1999 through November 15, 2016, bearing interest from 3.05% to 4.5%. Interest is paid semi-annually on May 15 and November 15	8,805,000
General Obligation Note, Series of 2000. Original principal amount of \$15,250,000, maturing June 1, 2004, bearing interest from 5.25% to 15%. Interest is paid semi-annually on June 1 and December 1	15,250,000
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	12,844,000
General Obligation Bonds, Series of 2001. Original principal amount of \$9,995,000, maturing May 15, 2003 through May 15, 2022, bearing interest from 3.70% to 5.05%. Interest is paid semi-annually on May 15 and November 15	9,995,000
General Obligation Note, Series of 2001. Original principal amount of \$20,000,000, maturing August 2004, bearing interest at a rate not to exceed 15%. Interest is paid monthly	<u>20,000,000</u>
SUBTOTAL (CARRIED FORWARD)	144,574,000

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

NOTE 8 - Long-Term Debt (Continued)

	Current Outstanding Principal
SUBTOTAL (BROUGHT FORWARD)	\$144,574,000
General Obligation Bonds, Refunding Series of 2001. Original principal amount of \$10,680,000, maturing November 15, 2001 through November 15, 2020, bearing interest from 3.30% to 5.0%. Interest is paid semi-annually on May 15 and November 15	10,400,000
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. Bond premium, net of accumulated amortization of \$14,499, is \$420,483 at June 30, 2002	30,420,483
TOTAL	<u>\$185,394,483</u>

The annual requirements to amortize all debts outstanding as of June 30, 2002, are as follows:

<u>Year Ended:</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2003	\$ 13,587,142	\$ 7,178,000	\$ 20,765,142
2004	13,161,422	23,157,000	36,318,422
2005	10,464,757	28,787,000	39,251,757
2006	7,007,445	9,144,000	16,151,445
2007	6,605,177	9,463,000	16,068,177
Subsequent	39,846,983	107,245,000	147,091,983
TOTAL MATURITIES	90,672,926	184,974,000	275,646,926
Bond Premium	(420,483)	420,483	0
TOTAL	<u>\$ 90,252,443</u>	<u>\$ 185,394,483</u>	<u>\$ 275,646,926</u>

NOTE 9 - Changes in Other Long-Term Liabilities

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Accrued Compensated Absences	\$ 642,147	\$ 125,376	\$ 0	\$ 767,523
Accrued Severance	3,286,840	219,746	0	\$3,506,586
TOTAL	<u>\$3,928,987</u>	<u>\$ 345,122</u>	<u>\$ 0</u>	<u>\$4,274,109</u>

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

NOTE 10 - Advance and Current Refundings

On May 1, 2001, the School District issued \$10,680,000 of non-electoral general obligation bonds. Upon issuance of the bonds, a portion of the proceeds were invested in U.S. Government Investments which are held in trust by an Escrow Agent and irrevocably pledged for the purpose of defeasing (paying and redeeming), solely from the principal and interest proceeds of such investments) all of the School District's General Obligation Bonds, Series of 2000. The proceeds of such investments, together with interest to be earned thereon, will be sufficient to pay interest and principal of these bond issues through the call dates of the outstanding bonds. The School District advance refunded the Series of 2000 bonds to reduce its total debt service payment over the next 20 years by approximately \$308,392.

Escrow accounts were established to provide for future debt service. The escrow account asset and the liability for the above defeased debt are not included on the School District's financial statements.

A summary of defeased debt of the School District at June 30, 2002 is as follows:

	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Outstanding Principal at June 30, 2002</u>
General Obligation Bonds, Series of 2000	11/15/20	4.25 - 5.85%	\$ 9,700,000

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, 2002

NOTE 12 - 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 13 - Other Postemployment Benefits

The School District provides post-retirement health care benefits to Administrative, Instructional, Secretarial and Support personnel. Administrative personnel who retire under the normal PSERS guidelines are covered to age 70. The School District pays 100% of the premium for the following coverage: group medical, which includes medical/surgical and major medical, vision and prescription drug for the retiree and their dependents. In addition, the School District provides retirees with group term life insurance to age 70 in a principal amount equal to two or three times annual salary plus \$15,000 and universal life insurance to age 70 in a principal amount equal to annual salary.

Instructional personnel who retire under the normal PSERS guidelines with at least 15 years of service and at least fifty years of age receive coverage to age 65. The School District will provide for 100% of the following coverage: group medical, which includes medical/surgical, and major medical and prescription coverage for the retirees.

Secretarial and Support personnel who retire under the normal PSERS guidelines with at least 15 years of service and at least fifty years of age receive coverage to age 65. The School District will provide for 100% of the following coverage: group medical, which includes medical/surgical and major medical coverage for the retirees.

The School District had an actuarial valuation performed. As of July 1, 1996, the actuarial present value of expected future benefits was \$9,546,579. This includes retirees, active employees eligible to retire, and active employees not yet eligible to retire. At this time, the Government Accounting Standards Board (GASB) has not issued a statement concerning accounting for accruals of post employment benefits other than to require certain disclosures for other post employment benefits under GASB Statement No. 12. The School District currently expenses post retirement benefits on a pay-as-you-go basis. Currently, there are 179 participants receiving benefits. The total benefits paid on behalf of these participants was \$915,131 for the year ended June 30, 2002.

NOTE 14 - 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, 2002 totaled \$716,315. Total covered payroll was \$66,115,325 and total payroll was \$67,433,442 for the current year. The following is a summary of plan benefit and asset information:

WEST CHESTER AREA SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2002

NOTE 14 - Employee Retirement Systems and Pension Plans (Continued)

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 - Most active members contribute at 5.25 percent of their qualifying compensation. Members joining the System on or after July 22, 1983 contribute at 6.25 percent.

Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2002, the rate of employer contribution was 1.09 percent of covered payroll.

NOTE 15 - Fund Balance

Fund balance of the general fund consists of the following at June 30, 2002:

Designated for Technology Program	\$ 446,120
Unreserved Fund Balance - Undesignated	<u>7,162,455</u>
TOTAL	<u>\$ 7,608,575</u>

NOTE 16 - Prior Period Adjustment

Fund balance of the governmental funds in the fund financial statements has been restated as of the beginning of the year for the effect of implementing GASB interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

WEST CHESTER AREA SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2002

	Original Budget	Amended Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Local Revenues	\$ 100,021,794	\$ 100,303,544	\$ 102,929,317	\$ 2,625,773
State Program Revenues	18,665,036	19,008,834	19,588,911	580,077
Federal Program Revenues	1,474,305	1,538,248	1,538,248	0
TOTAL REVENUES	120,161,135	120,850,626	124,056,476	3,205,850
Expenditures:				
Regular Programs	56,167,957	57,056,157	56,480,374	575,783
Special Programs	13,024,018	13,345,327	13,316,912	28,415
Vocational Programs	3,286,441	3,280,231	3,271,312	8,919
Other Instructional Programs	1,396,749	1,443,296	1,439,209	4,087
Adult Education Programs	25,754	26,781	26,781	0
Pupil Personnel Services	4,503,015	4,530,294	4,468,714	61,580
Instructional Staff Services	4,056,879	4,173,909	4,107,506	66,403
Administrative services	7,036,287	6,997,431	6,966,410	31,021
Pupil Health	1,402,337	1,316,959	1,309,518	7,441
Business Services	1,050,161	994,939	992,173	2,766
Operation and Maintenance of Plant Services	10,321,171	10,442,305	10,441,129	1,176
Student Transportation Services	9,431,928	8,904,866	8,901,161	3,705
Central and Other Support Services	2,151,936	2,047,482	1,668,510	378,972
Student Activities	2,108,027	2,005,213	1,999,870	5,343
Community services	44,000	77,707	75,627	2,080
Facilities Acquisition and Construction	589,814	528,005	525,646	2,359
Debt Service	12,323,088	11,984,086	11,984,085	1
TOTAL EXPENDITURES	128,919,562	129,154,988	127,974,937	1,180,051
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,758,427)	(8,304,362)	(3,918,461)	4,385,901
Other Financing Sources (Uses):				
Interfund Transfers In	2,621,644	2,621,644	2,057,018	(564,626)
Budgetary Reserve	(2,846,769)	0	0	0
Interfund Transfers Out	0	(3,300,834)	(3,300,834)	0
TOTAL OTHER FINANCING SOURCES (USES)	(225,125)	(679,190)	(1,243,816)	(564,626)
NET CHANGE IN FUND BALANCES	(8,983,552)	(8,983,552)	(5,162,277)	3,821,275
Fund Balance - July 1, 2001 (As Restated)	8,983,552	8,983,552	12,770,852	3,787,300
FUND BALANCE - JUNE 30, 2002	\$ 0	\$ 0	\$ 7,608,575	\$ 7,608,575