

Financial Statements

West Chester Area School District  
West Chester, Pennsylvania

June 30, 2003

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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, 2003, 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 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 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, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages 2 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 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated October 8, 2003, 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

October 8, 2003

WEST CHESTER AREA SCHOOL DISTRICT  
Management's Discussion and Analysis  
June 30, 2003

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, 2003. 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.

FINANCIAL HIGHLIGHTS

- The trends of prior years indicated that during the fiscal year 2002-2003, 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 .48 mill increase (\$.48 per \$1,000 of assessed value) to the taxpayers within Chester County.
- The District's total net assets were \$19,865,306 at June 30, 2003. This represents an increase of \$1,061,499 over last year.
- The District's total revenue increased by \$7,453,076, an increase of 5.8%. Property taxes, which include current and interim real estate taxes, increased by \$5,580,438, an increase of 6.6%. Operating grants and contributions, which include state subsidies, increased by \$1,697,937, an increase of 10.7%. Other revenue, which consists mainly of investment earnings, decreased by \$1,419,532, a decrease of 41.7%.
- The District's expenses increased by \$4,946,022, an increase of 3.8%. Major increases by category include salaries, which increased by \$1,428,772, employee benefits, which increased by \$1,307,258, charter school tuition, which increased by \$553,614, pupil transportation, which increased by 333,269 and special education costs, exclusive of salaries and benefits, which increased by \$291,952.
- A decrease in interest payments on our variable rate borrowings and a decrease in principal payments on two of our General Obligation Bonds, due to refinancing, 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 basis and modified accrual basis of accounting, respectively.

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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.

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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 \$19,865,306 at June 30, 2003. This represents an increase of \$1,061,499 over last year. The following table presents condensed financial information for the net assets of the District as of June 30, 2003 and June 30, 2002.

|                                    | Governmental Activities |                      | Business-Type Activities |                   | Total                |                      |
|------------------------------------|-------------------------|----------------------|--------------------------|-------------------|----------------------|----------------------|
|                                    | 2002                    | 2003                 | 2002                     | 2003              | 2002                 | 2003                 |
| Current Assets                     | \$ 106,695,174          | \$ 117,124,857       | \$ 486,613               | \$ 569,678        | \$ 107,181,787       | \$ 117,694,535       |
| Capital Assets                     | 113,948,767             | 128,091,449          | 110,391                  | 111,244           | 114,059,158          | 128,202,693          |
| Other Assets                       | 59,674                  | 810,548              | 0                        | 0                 | 59,674               | 810,548              |
| <b>TOTAL ASSETS</b>                | <b>220,703,615</b>      | <b>246,026,854</b>   | <b>597,004</b>           | <b>680,922</b>    | <b>221,300,619</b>   | <b>246,707,776</b>   |
| Current Liabilities                | 19,856,243              | 35,654,303           | 149,977                  | 206,311           | 20,006,220           | 35,860,614           |
| Noncurrent Liabilities             | 182,490,592             | 190,981,856          | 0                        | 0                 | 182,490,592          | 190,981,856          |
| <b>TOTAL LIABILITIES</b>           | <b>202,346,835</b>      | <b>226,636,159</b>   | <b>149,977</b>           | <b>206,311</b>    | <b>202,496,812</b>   | <b>226,842,470</b>   |
| Net Assets:                        |                         |                      |                          |                   |                      |                      |
| Invested in Capital Assets, Net of |                         |                      |                          |                   |                      |                      |
| Related Debt                       | 0                       | 0                    | 110,391                  | 111,244           | 110,391              | 111,244              |
| Restricted                         | 0                       | 0                    | 0                        | 0                 | 0                    | 0                    |
| Unrestricted                       | 18,356,780              | 19,390,695           | 336,636                  | 363,367           | 18,693,416           | 19,754,062           |
| <b>TOTAL NET ASSETS</b>            | <b>\$ 18,356,780</b>    | <b>\$ 19,390,695</b> | <b>\$ 447,027</b>        | <b>\$ 474,611</b> | <b>\$ 18,803,807</b> | <b>\$ 19,865,306</b> |

The unrestricted net assets in the amount of \$19,865,306 consist of \$19,390,695 set aside to fund capital improvements, the replacement of and additions to public works and improvements, and for deferred maintenance thereof and \$474,611 set aside for capital expenditures within the District's food service program. For the year ended June 30, 2002, the District previously reported net assets in the amount of \$18,363,939. Due to a prior period adjustment of \$439,868 needed for accrued health insurance expense, the District restated the net assets to \$18,803,807 at June 30, 2002.

**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 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.

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. The District's total revenues increased by \$7,453,076, an increase of 5.8%. Property taxes, which include current and interim real estate taxes, increased by \$5,580,438, an increase of 6.6%. Operating grants and contributions increased by \$1,697,937, an increase of 10.7%. Other revenue, which consists mainly of investment earnings, decreased by \$1,419,532, a decrease of 41.7%. Expenses increased by \$4,946,022, an increase of 3.8%. Major increases by category include salaries, which increased by \$1,428,772, employee benefits, which increased by \$1,307,258, charter school tuition, which increased by \$553,614, pupil transportation, which increased by \$333,269, and special education costs, exclusive of salaries and benefits, which increased by \$291,952.

|  | Governmental Activities |                     | Business-Type Activities |                  | Total                 |                     |
|--|-------------------------|---------------------|--------------------------|------------------|-----------------------|---------------------|
|  | 2002                    | 2003                | 2002                     | 2003             | 2002                  | 2003                |
| <b>REVENUES:</b>                                   |                         |                     |                          |                  |                       |                     |
| Program Services:                                  |                         |                     |                          |                  |                       |                     |
| Charges for Services                               | \$ 430,482              | \$ 478,944          | \$ 1,846,198             | \$ 2,020,217     | \$ 2,276,680          | \$ 2,499,161        |
| Operating Grants and Contributions                 | 15,496,493              | 17,191,078          | 330,293                  | 333,645          | 15,826,786            | 17,524,723          |
| General Revenues:                                  |                         |                     |                          |                  |                       |                     |
| Property Taxes                                     | 84,619,767              | 90,200,205          | 0                        | 0                | 84,619,767            | 90,200,205          |
| Other Taxes  | 16,613,523              | 17,047,129          | 0                        | 0                | 16,613,523            | 17,047,129          |
| Grants, Subsidies and Contributions Not Restricted | 5,973,729               | 6,911,875           | 0                        | 0                | 5,973,729             | 6,911,875           |
| Other Revenue                                      | 3,394,741               | 1,979,383           | 12,458                   | 8,284            | 3,407,199             | 1,987,667           |
| <b>TOTAL REVENUES</b>                              | <b>126,528,735</b>      | <b>133,808,614</b>  | <b>2,188,949</b>         | <b>2,362,146</b> | <b>128,717,684</b>    | <b>136,170,760</b>  |
| <b>EXPENSES:</b>                                   |                         |                     |                          |                  |                       |                     |
| Instruction  | 73,676,447              | 76,389,309          | 0                        | 0                | 73,676,447            | 76,389,309          |
| Instructional Student Support                      | 9,869,605               | 10,577,415          | 0                        | 0                | 9,869,605             | 10,577,415          |
| Administrative and Financial Support               | 9,659,248               | 10,829,598          | 0                        | 0                | 9,659,248             | 10,829,598          |
| Operation and Maintenance of Plant Services        | 11,029,637              | 11,202,959          | 0                        | 0                | 11,029,637            | 11,202,959          |
| Pupil Transportation                               | 8,901,161               | 9,234,230           | 0                        | 0                | 8,901,161             | 9,234,230           |
| Student Activities                                 | 2,107,591               | 1,880,236           | 0                        | 0                | 2,107,591             | 1,880,236           |
| Community Services                                 | 75,627                  | 69,991              | 0                        | 0                | 75,627                | 69,991              |
| Interest on Long-Term Debt                         | 6,701,812               | 6,580,671           | 0                        | 0                | 6,701,812             | 6,580,671           |
| Unallocated Depreciation Expense                   | 5,934,199               | 6,010,290           | 0                        | 0                | 5,934,199             | 6,010,290           |
| Food Services                                      | 0                       | 0                   | 2,207,912                | 2,334,562        | 2,207,912             | 2,334,562           |
| <b>TOTAL EXPENSES</b>                              | <b>127,955,327</b>      | <b>132,774,699</b>  | <b>2,207,912</b>         | <b>2,334,562</b> | <b>130,163,239</b>    | <b>135,109,261</b>  |
| <b>CHANGE IN NET ASSETS</b>                        | <b>\$ (1,426,592)</b>   | <b>\$ 1,033,915</b> | <b>\$ (18,963)</b>       | <b>\$ 27,584</b> | <b>\$ (1,445,555)</b> | <b>\$ 1,061,499</b> |

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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. The amount needed to be funded by other revenue sources increased by \$1,698,311, an increase of 1.6%. 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<br>Cost of<br>Services |                       | Net<br>Cost of<br>Services |                       |
|--|------------------------------|-----------------------|----------------------------|-----------------------|
|  | 2002                         | 2003                  | 2002                       | 2003                  |
| <b>Expenses - Governmental Activities:</b>                 |                              |                       |                            |                       |
| Instruction  | \$ 73,676,447                | \$ 76,389,309         | \$ 63,482,850              | \$ 65,170,392         |
| Instructional Student Support                              | 9,869,605                    | 10,577,415            | 9,599,756                  | 10,297,295            |
| Administrative and Financial Support                       | 9,659,248                    | 10,829,598            | 9,659,248                  | 10,829,598            |
| Operation and Maintenance of Plant Services                | 11,029,637                   | 11,202,959            | 10,127,374                 | 10,371,211            |
| Pupil Transportation                                       | 8,901,161                    | 9,234,230             | 4,458,778                  | 4,013,567             |
| Student Activities   | 2,107,591                    | 1,880,236             | 1,988,708                  | 1,761,662             |
| Community Services   | 75,627                       | 69,991                | 75,627                     | 69,991                |
| Interest on Long-Term Debt                                 | 6,701,812                    | 6,580,671             | 6,701,812                  | 6,580,671             |
| Unallocated Depreciation Expense                           | 5,934,199                    | 6,010,290             | 5,934,199                  | 6,010,290             |
| <b>TOTAL EXPENSES</b>                                      | <b>\$ 127,955,327</b>        | <b>\$ 132,774,699</b> | <b>112,028,352</b>         | <b>115,104,677</b>    |
| Less: Grants, Subsidies and Contributions Not Restricted   |                              |                       | (5,973,729)                | (6,911,875)           |
| <b>AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES</b> |                              |                       | <b>\$ 106,054,623</b>      | <b>\$ 108,192,802</b> |

### Business-Type Activities

|   | Total<br>Cost of<br>Services |              | Net<br>Cost of<br>Services |           |
|---|------------------------------|--------------|----------------------------|-----------|
|   | 2002                         | 2003         | 2002                       | 2003      |
| <b>Expenses - Business-Type Activities:</b> |                              |              |                            |           |
| Food Services                               | \$ 2,207,912                 | \$ 2,334,562 | \$ 31,421                  | \$ 19,300 |

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THE DISTRICT FUNDS

General Fund

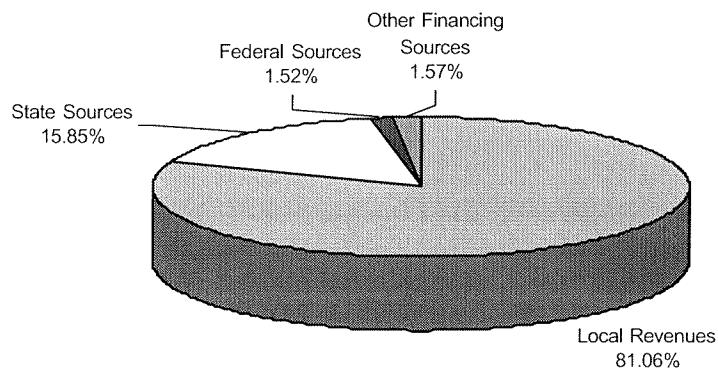
At June 30, 2003, the District reported a fund balance of \$7,986,245, which is a \$377,670 increase over last year and represents 5.9% of total expenditures. The School Board of the West Chester Area School District consciously maintains a modest fund balance needed to respond to unforeseen contingencies. 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 and other financing sources which total \$134,827,352, increased \$8,713,858 over the 2001-02 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 01-02 | % of Inc / (Dec) |
|-------------------------|-----------------------|----------------|------------------------|------------------|
| Local Revenues          | \$ 109,284,896        | 81.06%         | \$ 6,355,579           | 5.82%            |
| State Sources           | 21,368,451            | 15.85%         | 1,779,540              | 8.33%            |
| Federal Sources         | 2,053,343             | 1.52%          | 515,095                | 25.09%           |
| Other Financing Sources | 2,120,662             | 1.57%          | 63,644                 | .73%             |
|                         | <b>\$ 134,827,352</b> | <b>100.00%</b> | <b>\$ 8,713,858</b>    | <b>39.97%</b>    |

**Distribution of Funding Sources**



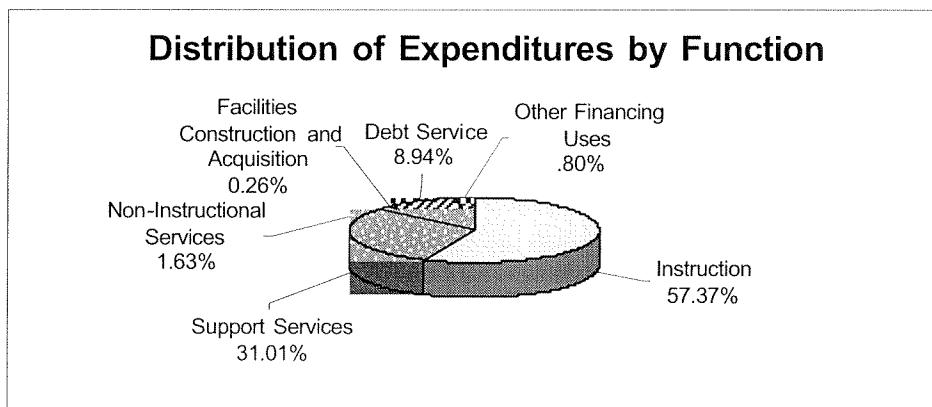
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The District balanced the budget utilizing the fund balance from the previous year and increasing the 2002-2003 tax rate from 11.63 to 12.11 mills. As a result of the increase in millage and increases in real estate assessments, revenues from current and interim real estate taxes increased by \$5,607,698. The collection rate for current real estate taxes was 96.3%. This compares with 96.4% in 2001-2002. Collections of delinquent taxes increased by \$336,665. Real estate transfer taxes collected increased by \$221,799. Earned income collections increased by \$247,994. As a result of lower interest rates, the District experienced a substantial decrease in investment revenue, \$432,325. State subsidies increased by \$1,779,540. An increase of \$303,767 in revenue from Intermediate Sources is mainly due to an increase in our IDEA Grant funding.

#### EXPENDITURES

Expenditures and other financing uses which total \$134,889,550, increased \$3,613,783 over the 2001-02 expenses. 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 original 2002-2003 budget, are as follows:

|   | Actual<br>2002-03     | % of<br>Total  | Increase<br>(Decrease)<br>From 2001-02 | Increase<br>(Decrease)<br>From Budget |
|---|-----------------------|----------------|--|---------------------------------------|
| Instruction                             | \$ 77,384,157         | 57.37%         | \$ 2,849,571                           | \$ (1,700,187)                        |
| Support Services                        | 41,823,487            | 31.01%         | 2,968,366                              | (25,191)                              |
| Non-Instructional Services              | 2,196,770             | 1.63%          | 121,274                                | 4,466                                 |
| Facilities Construction and Acquisition | 349,457               | 0.26%          | (176,188)                              | (22,125)                              |
| Debt Service                            | 12,060,503            | 8.94%          | 76,418                                 | (1,147,183)                           |
| Other Financing Uses                    | 1,075,176             | 0.80%          | (2,225,658)                            | (1,530,424)                           |
| <b>TOTAL EXPENDITURES BY FUNCTION</b>   | <b>\$ 134,889,550</b> | <b>100.00%</b> | <b>\$ 3,613,783</b>                    | <b>\$ (4,420,644)</b>                 |



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The increase in expenditures from 2001-02 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 1.33% or \$733,096. This amount includes salary increase for the staff as well as the addition of new employees. The employee benefits program offered by the District to the Instruction and Support Services personnel increased by 7.22% or \$984,893. Charter School Tuitions increased by \$553,614, this represents a 20% increase over the prior year. Special education costs, exclusive of salaries and benefits, have increased by \$291,952, a 5.2% increase over the prior year. Facilities Acquisition, Construction, and Improvements, which consist primarily of facility maintenance, decreased by \$176,188 in 2002-03. There was an increase in debt service in the amount of \$76,418 over 2001-02. The decrease in other financing uses included a decreased contribution to the capital reserve fund in the amount of \$2,225,658.

Capital Projects Fund

At June 30, 2003, the District reported a fund balance of \$81,998,840, which is an increase of \$10,499,925 over June 30, 2002. The major components of this fund balance increase include net debt proceeds in the amount of \$29,753,768 and expenditures for capital projects in the amount of \$18,190,956.

Capital Reserve Fund

At June 30, 2003, the District reported a fund balance of \$13,049,249, which is a decrease of \$155,972 over June 30, 2002. During the year, the fund received transfers from the general fund in the amount of \$1,075,176 and from the capital projects fund in the amount of \$889,514. The capital reserve fund transferred \$2,120,662 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 School District's formally adopted budget filed with the State includes estimated amounts for Federal program revenues and expenditures. The Budgetary Comparison Schedule includes amounts from the formally adopted budget and an adjustment of \$427,077 to reflect the Federal program budgets at actual amounts.

The District budgeted to utilize its fund balance in the amount of \$6,932,654 to balance the budget. The actual results reflected an increase in fund balance of \$377,670. The positive variance of budget versus actual amounts was \$7,310,324. Total revenues exceeded budgeted amounts by \$2,354,457, or 1.8% of budgeted revenue. The major excesses by category include interim taxes, which exceeded budgeted amounts by \$922,616 and realty transfer taxes, which exceeded budgeted amounts by \$1,426,349. Total expenditures were under budget by \$2,428,463, or 1.8% of budgeted expenditures. The District's amended budget included \$2,419,256 in budgetary reserve. The budgetary reserve includes amounts for funding 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.

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#### CAPITAL ASSETS

At June 30, 2003, the District had \$128,202,693 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 \$14,143,535, or 12.4% from last year. The net increase relates to the renovation and expansion of secondary school facilities.

The following schedule depicts the change in capital assets for the period July 1, 2002 through June 30, 2003. During this period, the District had the following significant additions in capital assets.

#### Schedule of Capital Assets

|                                       | Beginning<br>Balance  | Increase<br>(Decrease) | Ending<br>Balance     |
|---------------------------------------|-----------------------|------------------------|-----------------------|
| <b>Governmental Activities:</b>       |                       |                        |                       |
| Capital Assets:                       |                       |                        |                       |
| Land                                  | \$ 2,854,869          | \$ 0                   | \$ 2,854,869          |
| Land Improvements                     | 3,547,465             | 0                      | 3,547,465             |
| Buildings                             | 140,791,840           | 1,064,371              | 141,856,211           |
| Construction in Progress              | 20,150,703            | 15,708,458             | 35,859,161            |
| Furniture and Equipment               | 13,184,993            | 2,903,003              | 16,087,996            |
| <b>TOTAL CAPITAL ASSETS</b>           | <b>180,529,870</b>    | <b>19,675,832</b>      | <b>200,205,702</b>    |
| Accumulated Depreciation for:         |                       |                        |                       |
| Buildings                             | 55,743,559            | 4,088,901              | 59,832,460            |
| Land Improvements                     | 816,364               | 177,373                | 993,737               |
| Furniture and Equipment               | 10,021,180            | 1,266,876              | 11,288,056            |
| <b>TOTAL ACCUMULATED DEPRECIATION</b> | <b>66,581,103</b>     | <b>5,533,150</b>       | <b>72,114,253</b>     |
| <b>GOVERNMENTAL ACTIVITIES</b>        |                       |                        |                       |
| <b>CAPITAL ASSETS, NET</b>            | <b>\$ 113,948,767</b> | <b>\$ 14,142,682</b>   | <b>\$ 128,091,449</b> |
| <b>Business-Type Activities:</b>      |                       |                        |                       |
| Capital Assets:                       |                       |                        |                       |
| Furniture and Equipment               | \$ 186,801            | \$ 57,865              | \$ 244,666            |
| Accumulated Depreciation for:         |                       |                        |                       |
| Furniture and Equipment               | 76,410                | 57,012                 | 133,422               |
| <b>BUSINESS-TYPE ACTIVITIES</b>       |                       |                        |                       |
| <b>CAPITAL ASSETS, NET</b>            | <b>\$ 110,391</b>     | <b>\$ 853</b>          | <b>\$ 111,244</b>     |

WEST CHESTER AREA SCHOOL DISTRICT  
Management's Discussion and Analysis  
June 30, 2003

DEBT ADMINISTRATION

As of June 30, 2003 the District had total outstanding bond principal of \$208,770,097, an increase of \$23,375,614 over last year. New debt resulted from the issuance of General Obligation Bonds, Series of 2003 in the amount of \$30,000,000, to be utilized for secondary school construction projects. In addition, to improve cash flow and to take advantage of lower interest rates, the District decided to refinance \$45,400,000 of three general obligation debt issues. By refinancing debt, the District will reduce its debt service payments by \$2,417,878 over the next 13 years. Total outstanding debt at June 30, 2003 represents 74.3% of the District's debt limit as determined by the formula included in Local Government Unit Act. The total debt margin for the District at June 30, 2003 is \$53,580,931. 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, 2003

|   | Principal<br>Outstanding<br>July 1, 2002 | Maturities/<br>Refinancing | Additions            | Bonds Payable<br>June 30, 2003 |
|---|--|----------------------------|----------------------|--------------------------------|
| General Obligation Bonds,<br>Series of 1993           | \$ 15,910,000                            | \$ 15,910,000              | \$ 0                 | \$ 0                           |
| General Obligation Bonds,<br>Series A of 1993         | 11,825,000                               | 11,825,000                 | 0                    | 0                              |
| General Obligation Bonds,<br>Series of 1996           | 12,640,000                               | 720,000                    | 0                    | 11,920,000                     |
| General Obligation Bonds,<br>Series of 1998           | 21,635,000                               | 21,635,000                 | 0                    | 0                              |
| General Obligation Bonds,<br>Series A of 1998         | 15,670,000                               | 705,000                    | 0                    | 14,965,000                     |
| General Obligation Bonds,<br>Series of 1999           | 8,805,000                                | 440,000                    | 0                    | 8,365,000                      |
| General Obligation Note,<br>Series of 2000            | 15,250,000                               | 0                          | 0                    | 15,250,000                     |
| General Obligation Note,<br>Series B of 2000          | 12,844,000                               | 648,000                    | 0                    | 12,196,000                     |
| General Obligation Bonds,<br>Series of 2001           | 9,995,000                                | 325,000                    | 0                    | 9,670,000                      |
| General Obligation Note,<br>Series of 2001            | 20,000,000                               | 0                          | 0                    | 20,000,000                     |
| General Obligation Bonds,<br>Refunding Series of 2001 | 10,400,000                               | 370,000                    | 0                    | 10,030,000                     |
| General Obligation Bonds,<br>Series of 2002           | 30,000,000                               | 0                          | 0                    | 30,000,000                     |
| General Obligation Bonds,<br>Series A of 2002         | 0  | 0                          | 9,345,000            | 9,345,000                      |
| General Obligation Bonds,<br>Series AA of 2002        | 0  | 0                          | 16,265,000           | 16,265,000                     |
| General Obligation Bonds,<br>Series of 2003           | 0  | 0                          | 30,000,000           | 30,000,000                     |
| General Obligation Bonds,<br>Series A of 2003         | 0  | 0                          | 21,995,000           | 21,995,000                     |
| SUBTOTAL  | <u>184,974,000</u>                       | <u>52,578,000</u>          | <u>77,605,000</u>    | <u>210,001,000</u>             |
| Less: Deferred Amounts:                               |  |                            |                      |                                |
| Issuance (Discounts) Premium                          | 420,483                                  | 24,026                     | (102,781)            | 293,676                        |
| Refunding Deferred Charge                             | <u>0</u>                                 | <u>(77,529)</u>            | <u>(1,602,108)</u>   | <u>(1,524,579)</u>             |
| LONG-TERM DEBT  | <u>\$ 185,394,483</u>                    | <u>\$ 52,524,497</u>       | <u>\$ 75,900,111</u> | <u>\$ 208,770,097</u>          |

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.

WEST CHESTER AREA SCHOOL DISTRICT  
Management's Discussion and Analysis  
June 30, 2003

## THE DISTRICT'S FUTURE

The District will continue to experience enrollment growth in the next five years. Over the last 14 years, the District has renovated and expanded 8 elementary schools including Pennwood, East Bradford, Westtown-Thornburg, Fern Hill, 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 November 2002 Capital Projects update, as revised February 2003. Major approved projects to be completed over the next seven years include the construction of the new third high school, Bayard Rustin 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 \$209.5 million over the next seven years.

In the future the District will need an additional \$118.6 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 three General Obligation Bond issues as follows: \$40.0 million in 2004, \$40.0 million in 2005, \$38.6 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: \$2.7 million or .35 mills in 2004-05, \$3.0 million or .34 mills in 2005-06, \$3.0 million or .35 mills in 2006-07, \$0.5 million or .05 mills in 2007-08 and \$0.8 million or .08 mills in 2008-09.

## 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 21<sup>st</sup> 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, 2003

STRATEGIC PLAN (Continued)

- 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, 2003

| <u>ASSETS</u>                                    | Governmental<br>Activities | Business-Type<br>Activities | Total                 |
|--|----------------------------|-----------------------------|-----------------------|
| Current:   |                            |                             |                       |
| Cash and Cash Equivalents                        | \$ 882,186                 | \$ 4,645                    | \$ 886,831            |
| Investments                                      | 111,810,058                | 526,220                     | 112,336,278           |
| Due from Other Governments                       | 233,629                    | 25,281                      | 258,910               |
| Other Receivables                                | 509,147                    | 13,532                      | 522,679               |
| Property Taxes Receivable, Net                   | 3,113,264                  | 0                           | 3,113,264             |
| Inventories                                      | 535,668                    | 0                           | 535,668               |
| Prepaid Expenses                                 | 40,905                     | 0                           | 40,905                |
| <b>TOTAL CURRENT ASSETS</b>                      | <b>117,124,857</b>         | <b>569,678</b>              | <b>117,694,535</b>    |
| Capital:   |                            |                             |                       |
| Land   | 2,854,869                  | 0                           | 2,854,869             |
| Land Improvements                                | 3,547,465                  | 0                           | 3,547,465             |
| Buildings  | 141,856,211                | 0                           | 141,856,211           |
| Construction in Progress                         | 35,859,161                 | 0                           | 35,859,161            |
| Furniture and Equipment                          | 16,087,996                 | 244,665                     | 16,332,661            |
| Less: Accumulated Depreciation                   | (72,114,253)               | (133,421)                   | (72,247,674)          |
| <b>TOTAL CAPITAL ASSETS, NET OF DEPRECIATION</b> | <b>128,091,449</b>         | <b>111,244</b>              | <b>128,202,693</b>    |
| Other:   |                            |                             |                       |
| Deferred Bond Issuance Costs                     | 810,548                    | 0                           | 810,548               |
| <b>TOTAL ASSETS</b>                              | <b>\$ 246,026,854</b>      | <b>\$ 680,922</b>           | <b>\$ 246,707,776</b> |
|  |                            |                             |                       |
| <u>LIABILITIES</u>                               |                            |                             |                       |
| Current:   |                            |                             |                       |
| Accounts Payable and Other Current Liabilities   | \$ 11,650,493              | \$ 195,741                  | \$ 11,846,234         |
| Bonds and Notes Payable Due Within One Year      | 22,342,000                 | 0                           | 22,342,000            |
| Deferred Revenues                                | 0                          | 10,570                      | 10,570                |
| Accrued Interest                                 | 1,661,810                  | 0                           | 1,661,810             |
| <b>TOTAL CURRENT LIABILITIES</b>                 | <b>35,654,303</b>          | <b>206,311</b>              | <b>35,860,614</b>     |
| Long-Term:                                       |                            |                             |                       |
| Bonds and Notes Payable Due After One Year       | 186,428,097                | 0                           | 186,428,097           |
| Accrued Severance and Compensated Absences       | 4,553,759                  | 0                           | 4,553,759             |
| <b>TOTAL LONG-TERM LIABILITIES</b>               | <b>190,981,856</b>         | <b>0</b>                    | <b>190,981,856</b>    |
| <b>TOTAL LIABILITIES</b>                         | <b>226,636,159</b>         | <b>206,311</b>              | <b>226,842,470</b>    |
|  |                            |                             |                       |
| <u>NET ASSETS</u>                                |                            |                             |                       |
| Invested in Capital Assets, Net of Related Debt  | 0                          | 111,244                     | 111,244               |
| Unrestricted                                     | 19,390,695                 | 363,367                     | 19,754,062            |
| <b>TOTAL NET ASSETS</b>                          | <b>19,390,695</b>          | <b>474,611</b>              | <b>19,865,306</b>     |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>          | <b>\$ 246,026,854</b>      | <b>\$ 680,922</b>           | <b>\$ 246,707,776</b> |

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2003

| FUNCTIONS/PROGRAMS  | Program Revenues      |                       |                                    |                                  | Net (Expense) Revenue and Changes in Net Assets |                          |                        |
|---|-----------------------|-----------------------|------------------------------------|----------------------------------|---|--------------------------|------------------------|
|   | Expenses              | Charges For Services  | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                         | Business-Type Activities | Total                  |
| <b>Governmental Activities:</b>   |                       |                       |                                    |                                  |   |                          |                        |
| Instruction   | \$ 76,389,309         | \$ (324,111)          | \$ (10,894,806)                    | \$ 0                             | \$ (65,170,392)                                 | \$ 0                     | \$ (65,170,392)        |
| Instructional Student Support   | 10,577,415            | 0                     | (280,120)                          | 0                                | (10,297,295)                                    | 0                        | (10,297,295)           |
| Administrative and Financial Support Services   | 10,829,598            | 0                     | 0                                  | 0                                | (10,829,598)                                    | 0                        | (10,829,598)           |
| Operation and Maintenance of Plant Services   | 11,202,959            | (36,259)              | (795,489)                          | 0                                | (10,371,211)                                    | 0                        | (10,371,211)           |
| Pupil Transportation  | 9,234,230             | 0                     | (5,220,663)                        | 0                                | (4,013,567)                                     | 0                        | (4,013,567)            |
| Student Activities  | 1,880,236             | (118,574)             | 0                                  | 0                                | (1,761,662)                                     | 0                        | (1,761,662)            |
| Community Services  | 69,991                | 0                     | 0                                  | 0                                | (69,991)  | 0                        | (69,991)               |
| Interest on Long-Term Debt  | 6,580,671             | 0                     | 0                                  | 0                                | (6,580,671)                                     | 0                        | (6,580,671)            |
| Unallocated Depreciation Expense  | 6,010,290             | 0                     | 0                                  | 0                                | (6,010,290)                                     | 0                        | (6,010,290)            |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b>  | <b>132,774,699</b>    | <b>(478,944)</b>      | <b>(17,191,078)</b>                | <b>0</b>                         | <b>(115,104,677)</b>                            | <b>0</b>                 | <b>(115,104,677)</b>   |
| <b>Business-Type Activities:</b>  |                       |                       |                                    |                                  |   |                          |                        |
| Food Services   | 2,334,562             | (2,020,217)           | (333,645)                          | 0                                | 0   | 19,300                   | 19,300                 |
| <b>TOTAL PRIMARY GOVERNMENT</b>   | <b>\$ 135,109,261</b> | <b>\$ (2,499,161)</b> | <b>\$ (17,524,723)</b>             | <b>\$ 0</b>                      | <b>(115,104,677)</b>                            | <b>19,300</b>            | <b>..(115,085,377)</b> |
| <b>General Revenues:</b>  |                       |                       |                                    |                                  |   |                          |                        |
| Taxes:  |                       |                       |                                    |                                  |   |                          |                        |
| Property Taxes, Levied for General Purposes, Net  |                       |                       |                                    |                                  | 90,200,205                                      | 0                        | 90,200,205             |
| Public Utility Realty, Earned Income and Realty Transfer Taxes,<br>Levied for General Purposes, Net |                       |                       |                                    |                                  | 17,047,129                                      | 0                        | 17,047,129             |
| Grants, Subsidies and Contributions Not Restricted  |                       |                       |                                    |                                  | 6,911,875                                       | 0                        | 6,911,875              |
| Investment Earnings   |                       |                       |                                    |                                  | 1,967,254                                       | 8,284                    | 1,975,538              |
| Miscellaneous Income  |                       |                       |                                    |                                  | 12,129  | 0                        | 12,129                 |
| <b>TOTAL GENERAL REVENUES AND SPECIAL ITEMS</b>   |                       |                       |                                    |                                  | <b>116,138,592</b>                              | <b>8,284</b>             | <b>116,146,876</b>     |
| <b>CHANGE IN NET ASSETS</b>   |                       |                       |                                    |                                  |   |                          |                        |
| Net Assets - July 1, 2002   |                       |                       |                                    |                                  | 17,916,912                                      | 447,027                  | 18,363,939             |
| Prior Period Adjustment   |                       |                       |                                    |                                  | 439,868   | 0                        | 439,868                |
| <b>RESTATED NET ASSETS - JULY 1, 2002</b>   |                       |                       |                                    |                                  | <b>18,356,780</b>                               | <b>447,027</b>           | <b>18,803,807</b>      |
| <b>NET ASSETS - JUNE 30, 2003</b>   |                       |                       |                                    |                                  | <b>\$ 19,390,695</b>                            | <b>\$ 474,611</b>        | <b>\$ 19,865,306</b>   |

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT  
Balance Sheet  
Governmental Funds  
June 30, 2003

| <u>ASSETS</u>                              | <u>General Fund</u>  | <u>Capital Projects Fund</u> | <u>Capital Reserve Fund</u> | <u>Debt Service Fund</u> | <u>Other Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|------------------------------|-----------------------------|--------------------------|--------------------|---------------------------------|
| Cash and Cash Equivalents                  | \$ 881,805           | \$ 0                         | \$ 0                        | \$ 0                     | \$ 381             | \$ 882,186                      |
| Investments                                | 16,861,083           | 94,948,974                   | 0                           | 0                        | 0                  | 111,810,057                     |
| Taxes Receivable, Net                      | 3,113,264            | 0                            | 0                           | 0                        | 0                  | 3,113,264                       |
| Due from Other Funds                       | 4,287,778            | 4,293,448                    | 13,006,948                  | 0                        | 26,061             | 21,614,235                      |
| Due from Other Governments                 | 233,629              | 0                            | 0                           | 0                        | 0                  | 233,629                         |
| Other Receivables                          | 403,839              | 0                            | 105,308                     | 0                        | 0                  | 509,147                         |
| Prepaid Expenses                           | 40,905               | 0                            | 0                           | 0                        | 0                  | 40,905                          |
| Inventories                                | 535,668              | 0                            | 0                           | 0                        | 0                  | 535,668                         |
| <b>TOTAL ASSETS</b>                        | <b>\$ 26,357,971</b> | <b>\$ 99,242,422</b>         | <b>\$ 13,112,256</b>        | <b>\$ 0</b>              | <b>\$ 26,442</b>   | <b>\$ 138,739,091</b>           |
| <u>LIABILITIES AND FUND BALANCES</u>       |                      |                              |                             |                          |                    |                                 |
| Liabilities:                               |                      |                              |                             |                          |                    |                                 |
| Accounts Payable and Accrued Liabilities   | \$ 5,385,718         | \$ 1,241,344                 | \$ 33,299                   | \$ 0                     | \$ 2,838           | \$ 6,663,199                    |
| Due to Other Funds                         | 7,294,956            | 16,002,238                   | 29,708                      | 0                        | 0                  | 23,326,902                      |
| Payroll Accruals and Withholdings          | 3,274,626            | 0                            | 0                           | 0                        | 0                  | 3,274,626                       |
| Deferred Revenue                           | 2,416,426            | 0                            | 0                           | 0                        | 0                  | 2,416,426                       |
| <b>TOTAL LIABILITIES</b>                   | <b>18,371,726</b>    | <b>17,243,582</b>            | <b>63,007</b>               | <b>0</b>                 | <b>2,838</b>       | <b>35,681,153</b>               |
| Fund Balances:                             |                      |                              |                             |                          |                    |                                 |
| Unreserved - Designated                    | 363,040              | 0                            | 0                           | 0                        | 0                  | 363,040                         |
| Unreserved - Undesignated                  | 7,623,205            | 81,998,840                   | 13,049,249                  | 0                        | 23,604             | 102,694,898                     |
| <b>TOTAL FUND BALANCES</b>                 | <b>7,986,245</b>     | <b>81,998,840</b>            | <b>13,049,249</b>           | <b>0</b>                 | <b>23,604</b>      | <b>103,057,938</b>              |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 26,357,971</b> | <b>\$ 99,242,422</b>         | <b>\$ 13,112,256</b>        | <b>\$ 0</b>              | <b>\$ 26,442</b>   | <b>\$ 138,739,091</b>           |

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, 2003

|  |                      |
|--|----------------------|
| Total Fund Balances - Governmental Funds   | \$ 103,057,938       |
| 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 \$200,205,702, and the accumulated depreciation is \$72,114,253 | 128,091,449          |
| 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   | 2,416,426            |
| Bond issuance costs are not financial resources and therefore are not reported as assets in the governmental funds. Issuance costs are \$810,548, net of accumulated amortization  | 810,548              |
| 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  | \$ 208,770,097       |
| Accrued Interest on the Bonds  | 1,661,810            |
| Accrued Severance and Compensated Absences   | <u>4,553,759</u>     |
| TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES   | <u>\$ 19,390,695</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, 2003

|  | General<br>Fund     | Capital<br>Projects<br>Fund | Capital<br>Reserve<br>Fund | Debt<br>Service<br>Fund | Other<br>Funds   | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------------|----------------------------|-------------------------|------------------|--------------------------------|
| <b>Revenues:</b>   |                     |                             |                            |                         |                  |                                |
| Local Sources:   |                     |                             |                            |                         |                  |                                |
| Real Estate Taxes  | \$ 90,564,129       | \$ 0                        | \$ 0                       | \$ 0                    | \$ 0             | \$ 90,564,129                  |
| Realty Transfer Tax  | 3,926,349           | 0                           | 0                          | 0                       | 0                | 3,926,349                      |
| Earned Income Taxes  | 12,960,661          | 0                           | 0                          | 0                       | 0                | 12,960,661                     |
| Other Taxes  | 160,119             | 0                           | 0                          | 0                       | 0                | 160,119                        |
| Earnings from Investments                                    | 617,631             | 1,349,630                   | 0                          | 0                       | 0                | 1,967,261                      |
| Other Local Revenues   | 1,056,007           | 0                           | 0                          | 0                       | 118,574          | 1,174,581                      |
| State Sources  | 21,368,451          | 0                           | 0                          | 0                       | 0                | 21,368,451                     |
| Federal Sources  | 2,053,343           | 0                           | 0                          | 0                       | 0                | 2,053,343                      |
| <b>TOTAL REVENUES</b>  | <b>132,706,690</b>  | <b>1,349,630</b>            | <b>0</b>                   | <b>0</b>                | <b>118,574</b>   | <b>134,174,894</b>             |
| <b>Expenditures:</b>   |                     |                             |                            |                         |                  |                                |
| Instruction  | 77,384,157          | 0                           | 0                          | 0                       | 0                | 77,384,157                     |
| Support Services   | 41,823,487          | 0                           | 0                          | 0                       | 0                | 41,823,487                     |
| Non-Instructional Services                                   | 2,196,770           | 0                           | 0                          | 0                       | 114,580          | 2,311,350                      |
| Facilities Acquisition, Construction, and Improvements       | 349,457             | 18,190,956                  | 0                          | 0                       | 0                | 18,540,413                     |
| Debt Service (Principal and Interest)                        | 12,060,503          | 1,523,003                   | 0                          | 0                       | 0                | 13,583,506                     |
| <b>TOTAL EXPENDITURES</b>                                    | <b>133,814,374</b>  | <b>19,713,959</b>           | <b>0</b>                   | <b>0</b>                | <b>114,580</b>   | <b>153,642,913</b>             |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <b>(1,107,684)</b>  | <b>(18,364,329)</b>         | <b>0</b>                   | <b>0</b>                | <b>3,994</b>     | <b>(19,468,019)</b>            |
| <b>Other Financing Sources (Uses):</b>                       |                     |                             |                            |                         |                  |                                |
| Bond Proceeds  | 0                   | 29,753,768                  | 0                          | 0                       | 0                | 29,753,768                     |
| Bond Proceeds - Refunding Bonds                              | 0                   | 0                           | 0                          | 47,748,451              | 0                | 47,748,451                     |
| Payment to Refund Bond Escrow Agent                          | 0                   | 0                           | 0                          | (47,748,451)            | 0                | (47,748,451)                   |
| Interfund Transfers In                                       | 2,120,662           | 0                           | 1,964,690                  | 0                       | 0                | 4,085,352                      |
| Interfund Transfers Out                                      | (1,075,176)         | (889,514)                   | (2,120,662)                | 0                       | 0                | (4,085,352)                    |
| Refunds of Prior Years Expenditures                          | 439,868             | 0                           | 0                          | 0                       | 0                | 439,868                        |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                  | <b>1,485,354</b>    | <b>28,864,254</b>           | <b>(155,972)</b>           | <b>0</b>                | <b>0</b>         | <b>30,193,636</b>              |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>377,670</b>      | <b>10,499,925</b>           | <b>(155,972)</b>           | <b>0</b>                | <b>3,994</b>     | <b>10,725,617</b>              |
| <b>Fund Balances - July 1, 2002</b>                          | <b>7,608,575</b>    | <b>71,498,915</b>           | <b>13,205,221</b>          | <b>0</b>                | <b>19,610</b>    | <b>92,332,321</b>              |
| <b>FUND BALANCES - JUNE 30, 2003</b>                         | <b>\$ 7,986,245</b> | <b>\$ 81,998,840</b>        | <b>\$ 13,049,249</b>       | <b>\$ 0</b>             | <b>\$ 23,604</b> | <b>\$ 103,057,938</b>          |

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, 2003

|   |                     |
|---|---------------------|
| Total Net Change in Fund Balances - Governmental Funds  | \$ 10,725,617       |
| 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 (\$20,152,972) exceed depreciation expense \$6,010,290 in the period  | 14,142,682          |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets   | 52,524,497          |
| 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   | (363,924)           |
| Refunds of prior year expenditures are considered a revenue in the governmental funds but represent a prior period adjustment in the statement of activities  | (439,868)           |
| 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 \$84,589 and severance earned exceeded the amounts paid by \$195,061 | (279,650)           |
| 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 \$126,202  | (126,202)           |
| 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 exceed amortization  | 750,874             |
| 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, net of deferral amounts associated with the issuance of the debt  | <u>(75,900,111)</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES   | <u>\$ 1,033,915</u> |

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2003

| <u>ASSETS</u>                            | Enterprise<br>Fund -<br>Food<br>Services |
|--|--|
| Current:                                 |  |
| Cash and Cash Equivalents                | \$ 4,645                                 |
| Investments                              | 526,220                                  |
| Due from Other Governments               | 25,281                                   |
| Other Receivables                        | 13,532                                   |
| TOTAL CURRENT ASSETS                     | 569,678                                  |
| Non-Current:                             |  |
| Furniture and Equipment                  | 244,665                                  |
| Less: Accumulated Depreciation           | (133,421)                                |
| TOTAL NON-CURRENT ASSETS                 | 111,244                                  |
| TOTAL ASSETS                             | <u>\$ 680,922</u>                        |
| <u>LIABILITIES</u>                       |  |
| Current:                                 |  |
| Accounts Payable and Accrued Liabilities | \$ 195,741                               |
| Deferred Revenue                         | 10,570                                   |
| TOTAL LIABILITIES                        | 206,311                                  |
| <u>NET ASSETS</u>                        |  |
| Invested in Capital Assets               | 111,244                                  |
| Unrestricted                             | 363,367                                  |
| TOTAL NET ASSETS                         | 474,611                                  |
| TOTAL LIABILITIES AND NET ASSETS         | <u>\$ 680,922</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, 2003

|                                    | Enterprise<br>Fund -<br>Food<br>Services |
|------------------------------------|--|
| Operating Revenues:                |  |
| Food Service Sales                 | <u>\$ 2,020,217</u>                      |
| Operating Expenses:                |  |
| Professional and Contract Services | 2,183,335                                |
| Depreciation                       | 57,012                                   |
| Other Operating Costs              | 94,215                                   |
| TOTAL OPERATING EXPENSES           | <u>2,334,562</u>                         |
| OPERATING (LOSS)                   | <u>(314,345)</u>                         |
| Non-Operating Revenues:            |  |
| Interest Income                    | 8,284                                    |
| State Sources                      | 51,798                                   |
| Federal Sources                    | 281,847                                  |
| TOTAL NON-OPERATING REVENUES       | <u>341,929</u>                           |
| CHANGE IN NET ASSETS               | 27,584                                   |
| Net Assets - July 1, 2002          | <u>447,027</u>                           |
| NET ASSETS - JUNE 30, 2003         | <u>\$ 474,611</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, 2003

|  | Enterprise<br>Fund -<br>Food<br>Services |
|--|--|
| Cash Flows From Operating Activities:  |  |
| Cash Received from Users   | \$ 2,137,664                             |
| Cash Payments to Suppliers for Goods and Services                                    | (2,339,161)                              |
| NET CASH (USED) BY OPERATING ACTIVITIES  | <u>(201,497)</u>                         |
| Cash Flows From Non-Capital Financing Activities:                                    |  |
| State Sources  | 52,690                                   |
| Federal Sources  | 272,813                                  |
| NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES                                | <u>325,503</u>                           |
| Cash Flows From Capital and Related Financing Activities:                            |  |
| Acquisition of Capital Assets  | <u>(57,865)</u>                          |
| Cash Flows From Investing Activities:  |  |
| Purchase of Investment Securities/Deposits to Investment Pools                       | (89,452)                                 |
| Interest on Investments  | 8,284                                    |
| NET CASH (USED) BY INVESTING ACTIVITIES  | <u>(81,168)</u>                          |
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS  | <u>(15,027)</u>                          |
| Cash and Cash Equivalents - July 1, 2002   | <u>19,672</u>                            |
| CASH AND CASH EQUIVALENTS - JUNE 30, 2003  | <u>\$ 4,645</u>                          |
| <u>Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities</u> |  |
| Operating (Loss)   | \$ (314,345)                             |
| Adjustments to Reconcile Operating (Loss) to Net Cash                                |  |
| (Used) by Operating Activities:  |  |
| Depreciation   | 57,012                                   |
| Changes in Assets and Liabilities:   |  |
| Receivables  | (497)                                    |
| Accrued Liabilities  | <u>56,333</u>                            |
| NET CASH (USED) BY OPERATING ACTIVITIES  | <u>\$ (201,497)</u>                      |

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2003

|                           | Private-<br>Purpose<br>Trusts | Agency<br>Funds            |
|---------------------------|-------------------------------|----------------------------|
| <b><u>ASSETS</u></b>      |                               |                            |
| Cash and Cash Equivalents | \$ 4,465                      | \$ 458,045                 |
| Accrued Interest          | 0                             | 378                        |
| Due from Other Funds      | <u>272,173</u>                | <u>1,712,668</u>           |
| <b>TOTAL ASSETS</b>       | <b><u>\$ 276,638</u></b>      | <b><u>\$ 2,171,091</u></b> |
| <b><u>LIABILITIES</u></b> |                               |                            |
| Accounts Payable          | \$ 0                          | \$ 1,680,903               |
| Due to Other Funds        | 0                             | 272,173                    |
| Due to Student Groups     | <u>0</u>                      | <u>218,015</u>             |
| <b>TOTAL LIABILITIES</b>  | <b><u>\$ 0</u></b>            | <b><u>\$ 2,171,091</u></b> |
| <b><u>NET ASSETS</u></b>  |                               |                            |
| Reserved for Scholarships | \$ 276,638                    |                            |
| Unrestricted              | <u>0</u>                      |                            |
| <b>TOTAL NET ASSETS</b>   | <b><u>\$ 276,638</u></b>      |                            |

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, 2003

|                            | Private-<br>Purpose<br>Trusts |
|----------------------------|-------------------------------|
| Additions:                 |                               |
| Gifts and Contributions    | \$ 476,893                    |
| Deductions:                |                               |
| Grants                     | <u>413,191</u>                |
| CHANGE IN NET ASSETS       | 63,702                        |
| Net Assets - July 1, 2002  | <u>212,936</u>                |
| NET ASSETS - JUNE 30, 2003 | <u>\$ 276,638</u>             |

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2003

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 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, 2003

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, 2003

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, 2003

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, 2003.

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, 2003

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 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, 2003

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, 2003

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:

|  | Formally<br>Adopted<br>Budget | Federal<br>and State<br>Programs<br>Adjustment | Total              |
|--|-------------------------------|--|--------------------|
| <b>Revenues and Other Financing Sources:</b>   |                               |  |                    |
| Local Sources  | \$ 107,021,443                | \$ 139,093                                     | \$ 107,160,536     |
| State Sources  | 21,322,501                    | 255,723  | 21,578,224         |
| Federal Sources  | 2,021,082                     | 32,261   | 2,053,343          |
| Other Financing Sources  | 2,012,514                     | 0  | 2,012,514          |
| <b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>  | <b>132,377,540</b>            | <b>427,077</b>                                 | <b>132,804,617</b> |
| <b>Total Expenditures and Other Financing Uses</b>   | <b>139,310,194</b>            | <b>427,077</b>                                 | <b>139,737,271</b> |
| <b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b> |                               |  |                    |
|  | (6,932,654)                   | 0  | (6,932,654)        |
| <b>Budgeted Fund Balance - July 1, 2002</b>  | <b>6,932,654</b>              | <b>0</b>                                       | <b>6,932,654</b>   |
| <b>BUDGETED FUND BALANCE - JUNE 30, 2003</b>   | <b>\$ 0</b>                   | <b>\$ 0</b>                                    | <b>\$ 0</b>        |

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 \$1,349,342, and the corresponding bank balance was \$1,896,738. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$1,796,738 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, 2003

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, 2003 consisted of the following:

Pooled Investments:

|   |                       |
|---|-----------------------|
| Pennsylvania School District Liquid Asset Fund: |                       |
| General Fund Accounts                           | \$ 2,167,107          |
| Pennsylvania Local Government Investment Trust: |                       |
| Capital Project Fund Account                    | 67,825,234            |
| Pennsylvania Treasurer's Investment Program:    |                       |
| General Fund Account                            | 14,693,976            |
| Capital Project Fund Account                    | 27,123,741            |
| Food Service Fund Account                       | 526,220               |
| TOTAL   | 42,343,937            |
| TOTAL POOLED INVESTMENTS                        | <u>\$ 112,336,278</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<br>and Other<br>Funds | Total        |
|------------------------------------|--------------|--------------------------------|--------------|
| Real Estate Taxes                  | \$ 2,762,814 | \$ 0                           | \$ 2,762,814 |
| Transfer Taxes                     | 323,962      | 0                              | 323,962      |
| Earned Income Taxes                | 26,488       | 0                              | 26,488       |
| Less: Allowance for Uncollectibles | 0            | 0                              | 0            |
| NET TAXES RECEIVABLE               | \$ 3,113,264 | \$ 0                           | \$ 3,113,264 |

WEST CHESTER AREA SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2003

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 | \$ 2,416,426               |
| Other Deferred Revenue      | <u>0</u>                   |
| <b>TOTAL</b>                | <b><u>\$ 2,416,426</u></b> |

NOTE 5 - Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

|                                       | Beginning<br>Balance         | Increases                   | Decreases                  | Ending<br>Balance            |
|---------------------------------------|------------------------------|-----------------------------|----------------------------|------------------------------|
| <b>Governmental Activities:</b>       |                              |                             |                            |                              |
| Capital Assets:                       |                              |                             |                            |                              |
| Land                                  | \$ 2,854,869                 | \$ 0                        | \$ 0                       | \$ 2,854,869                 |
| Land Improvements                     | 3,547,465                    | 0                           | 0                          | 3,547,465                    |
| Buildings                             | 140,791,840                  | 1,064,371                   | 0                          | 141,856,211                  |
| Construction in Progress              | 20,150,703                   | 18,190,956                  | 2,482,498                  | 35,859,161                   |
| Furniture and Equipment               | 13,184,993                   | 3,382,492                   | 479,489                    | 16,087,996                   |
| <b>TOTAL CAPITAL ASSETS</b>           | <b>180,529,870</b>           | <b>22,637,819</b>           | <b>2,961,987</b>           | <b>200,205,702</b>           |
| Accumulated Depreciation for:         |                              |                             |                            |                              |
| Buildings                             | 55,743,559                   | 4,088,901                   | 0                          | 59,832,460                   |
| Land Improvements                     | 816,364                      | 177,373                     | 0                          | 993,737                      |
| Furniture and Equipment               | 10,021,180                   | 1,744,016                   | 477,140                    | 11,288,056                   |
| <b>TOTAL ACCUMULATED DEPRECIATION</b> | <b>66,581,103</b>            | <b>6,010,290</b>            | <b>477,140</b>             | <b>72,114,253</b>            |
| <b>GOVERNMENTAL ACTIVITIES</b>        |                              |                             |                            |                              |
| <b>CAPITAL ASSETS, NET</b>            | <b><u>\$ 113,948,767</u></b> | <b><u>\$ 16,627,529</u></b> | <b><u>\$ 2,484,847</u></b> | <b><u>\$ 128,091,449</u></b> |
| <b>Business-Type Activities:</b>      |                              |                             |                            |                              |
| Capital Assets:                       |                              |                             |                            |                              |
| Furniture and Equipment               | \$ 186,801                   | \$ 57,865                   | \$ 0                       | \$ 244,666                   |
| Accumulated Depreciation for:         |                              |                             |                            |                              |
| Furniture and Equipment               | 76,410                       | 57,012                      | 0                          | 133,422                      |
| <b>BUSINESS -TYPE ACTIVITIES</b>      |                              |                             |                            |                              |
| <b>CAPITAL ASSETS, NET</b>            | <b>\$ 110,391</b>            | <b>\$ 853</b>               | <b>\$ 0</b>                | <b>\$ 111,244</b>            |

WEST CHESTER AREA SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2003

NOTE 5 - Capital Assets (Continued)

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

|                                       |                     |
|---------------------------------------|---------------------|
| Governmental Activities - Unallocated | \$ 6,010,290        |
| Business -Type Activities             | <u>57,012</u>       |
| TOTAL DEPRECIATION EXPENSE            | <u>\$ 6,067,302</u> |

NOTE 6 - Construction Commitments

At June 30, 2003, the School District's capital projects fund had outstanding construction commitments amounting to \$97,740,871 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, 2003 is as follows:

|                              | <u>Interfund<br/>Receivables</u> | <u>Interfund<br/>Payables</u> |
|------------------------------|----------------------------------|-------------------------------|
| General Fund                 | \$ 4,287,778                     | \$ 7,294,956                  |
| Capital Reserve Fund         | 13,006,948                       | 29,708                        |
| Capital Projects Fund        | 4,293,448                        | 16,002,238                    |
| Non-Major Governmental Funds | 26,061                           | 0                             |
| Activity Fund                | 32,301                           | 382                           |
| Payroll Fund                 | <u>1,680,748</u>                 | <u>0</u>                      |
|                              | <u>\$ 23,327,284</u>             | <u>\$ 23,327,284</u>          |

Interfund transfers were as follows:

|                       | <u>Transfer to<br/>Other Funds</u> | <u>Transfer from<br/>Other Funds</u> |
|-----------------------|------------------------------------|--------------------------------------|
| General Fund          | \$ 1,075,176                       | \$ 2,120,662                         |
| Capital Reserve Fund  | 2,120,662                          | 1,964,690                            |
| Capital Projects Fund | <u>889,514</u>                     | <u>0</u>                             |
|                       | <u>\$ 4,085,352</u>                | <u>\$ 4,085,352</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 projects fund transfer interest earnings to the capital reserve fund.

WEST CHESTER AREA SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2003

NOTE 8 - Long-Term Debt

|   | Principal<br>Outstanding<br>July 1, 2002 | Maturities/<br>Refinancing | Additions          | Bonds Payable<br>June 30, 2003 |
|---|--|----------------------------|--------------------|--------------------------------|
| General Obligation Bonds,<br>Series of 1993           | \$ 15,910,000                            | \$ 15,910,000              | \$ 0               | \$ 0                           |
| General Obligation Bonds,<br>Series A of 1993         | 11,825,000                               | 11,825,000                 | 0                  | 0                              |
| General Obligation Bonds,<br>Series of 1996           | 12,640,000                               | 720,000                    | 0                  | 11,920,000                     |
| General Obligation Bonds,<br>Series of 1998           | 21,635,000                               | 21,635,000                 | 0                  | 0                              |
| General Obligation Bonds,<br>Series A of 1998         | 15,670,000                               | 705,000                    | 0                  | 14,965,000                     |
| General Obligation Bonds,<br>Series of 1999           | 8,805,000                                | 440,000                    | 0                  | 8,365,000                      |
| General Obligation Note,<br>Series of 2000            | 15,250,000                               | 0                          | 0                  | 15,250,000                     |
| General Obligation Note,<br>Series B of 2000          | 12,844,000                               | 648,000                    | 0                  | 12,196,000                     |
| General Obligation Bonds,<br>Series of 2001           | 9,995,000                                | 325,000                    | 0                  | 9,670,000                      |
| General Obligation Note,<br>Series of 2001            | 20,000,000                               | 0                          | 0                  | 20,000,000                     |
| General Obligation Bonds,<br>Refunding Series of 2001 | 10,400,000                               | 370,000                    | 0                  | 10,030,000                     |
| General Obligation Bonds,<br>Series of 2002           | 30,000,000                               | 0                          | 0                  | 30,000,000                     |
| General Obligation Bonds,<br>Series A of 2002         | 0  | 0                          | 9,345,000          | 9,345,000                      |
| General Obligation Bonds,<br>Series AA of 2002        | 0  | 0                          | 16,265,000         | 16,265,000                     |
| General Obligation Bonds,<br>Series of 2003           | 0  | 0                          | 30,000,000         | 30,000,000                     |
| General Obligation Bonds,<br>Series A of 2003         | 0  | 0                          | 21,995,000         | 21,995,000                     |
| TOTAL   | <u>184,974,000</u>                       | <u>52,578,000</u>          | <u>77,605,000</u>  | <u>210,001,000</u>             |
| Less: Deferred Amounts:                               |  |                            |                    |                                |
| Issuance (Discounts) Premium                          | 420,483                                  | 24,026                     | (102,781)          | 293,676                        |
| Refunding Deferred Charge                             | <u>0</u>                                 | <u>(77,529)</u>            | <u>(1,602,108)</u> | <u>(1,524,579)</u>             |
| LONG-TERM DEBT  | \$ 185,394,483                           | \$ 52,524,497              | \$ 75,900,111      | \$ 208,770,097                 |

WEST CHESTER AREA SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2003

NOTE 8 - Long-Term Debt (Continued)

|  | Current<br>Outstanding<br>Principal |
|--|-------------------------------------|
| 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                                    | \$ 11,920,000                       |
| 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          | 14,965,000                          |
| 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            | 8,365,000                           |
| 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                                 | 12,196,000                          |
| 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                     | 9,670,000                           |
| 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   | 20,000,000                          |
| 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 | 10,030,000                          |
| 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                     | 30,000,000                          |
| General Obligation Bonds, Series A of 2002. Original principal amount of \$9,345,000, maturing December 1, 2003 through December 1, 2005, bearing interest from 1.5% to 2.1%. Interest is paid semi-annually on June 1 and December 1              | 9,345,000                           |
| General Obligation Bonds, Series AA of 2002. Original principal amount of \$16,265,000, maturing January 15, 2004 through January 15, 2011, bearing interest from 2.1% to 5%. Interest is paid semi-annually on January 15 and July 15             | 16,265,000                          |
| SUBTOTAL (CARRIED FORWARD)   | 158,006,000                         |

WEST CHESTER AREA SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2003

NOTE 8 - Long-Term Debt (Continued)

|   | Current<br>Outstanding<br>Principal |
|---|-------------------------------------|
| SUBTOTAL (BROUGHT FORWARD)  | \$ 158,006,000                      |
| 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   | 30,000,000                          |
| 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 | 21,995,000                          |
| TOTAL   | <u>\$ 210,001,000</u>               |

The annual requirements to amortize all debts outstanding as of June 30, 2003, are as follows:

| <u>Year Ended</u> | <u>Interest</u>      | <u>Principal</u>      | <u>Total</u>          |
|-------------------|----------------------|-----------------------|-----------------------|
| 2004              | \$ 13,515,478        | \$ 22,342,000         | \$ 35,857,478         |
| 2005              | 11,025,073           | 29,192,000            | 40,217,073            |
| 2006              | 7,681,554            | 9,669,000             | 17,350,554            |
| 2007              | 7,344,707            | 9,928,000             | 17,272,707            |
| 2008              | 6,453,273            | 10,344,000            | 16,797,273            |
| Subsequent        | <u>44,600,976</u>    | <u>128,526,000</u>    | <u>173,126,976</u>    |
| TOTAL MATURITIES  | 90,621,061           | 210,001,000           | 300,622,061           |
| Deferred Amounts  | <u>1,230,903</u>     | <u>(1,230,903)</u>    | <u>0</u>              |
| TOTAL             | <u>\$ 91,851,964</u> | <u>\$ 208,770,097</u> | <u>\$ 300,622,061</u> |

NOTE 9 - Changes in Other Long-Term Liabilities

|                              | Balance<br>July 1,<br>2002 | Additions         | Reductions  | Balance<br>June 30,<br>2003 |
|------------------------------|----------------------------|-------------------|-------------|-----------------------------|
| Accrued Compensated Absences | \$ 767,523                 | \$ 84,589         | \$ 0        | \$ 852,112                  |
| Accrued Severance            | 3,506,586                  | 195,061           | 0           | 3,701,647                   |
| TOTAL                        | <u>\$ 4,274,109</u>        | <u>\$ 279,650</u> | <u>\$ 0</u> | <u>\$ 4,553,759</u>         |

WEST CHESTER AREA SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2003

NOTE 10 - Advance Refundings

The School District has issued several non-electoral general obligation bonds to refund outstanding General Obligation Bond Issues. 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) the School District's General Obligation Bonds. 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 advance refundings were undertaken to reduce total debt service payments and to achieve economic gains as noted below:

|   | Refunded<br>by Series of: | Reduction in          |  | Economic<br>Gain |
|---|---------------------------|-----------------------|--|------------------|
|   |                           | Total Debt<br>Service |  |                  |
| General Obligation Bonds,<br>Series of 2000   | 2001                      | \$ 308,392            |  | \$ 308,392       |
| General Obligation Bonds,<br>Series of 1998   | 2003                      | 1,017,595             |  | 986,235          |
| General Obligation Bonds,<br>Series of 1993   | AA of 2002                | 1,049,166             |  | 1,016,268        |
| General Obligation Bonds,<br>Series A of 1993 | 2002                      | 351,117               |  | 344,367          |

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

A summary of defeased debt of the School District at June 30, 2003 is as follows:

|   | Final<br>Maturity | Interest<br>Rates | Outstanding<br>Principal at<br>June 30, 2003 |
|---|-------------------|-------------------|--|
| General Obligation Bonds,<br>Series of 2000   | 11/15/2020        | 4.25 - 5.85%      | \$ 9,390,000                                 |
| General Obligation Bonds,<br>Series of 1998   | 11/15/2016        | 4.40 - 5.20%      | 20,615,000                                   |
| General Obligation Bonds,<br>Series A of 1993 | 12/1/2005         | 4.25 - 4.75%      | 9,070,000                                    |
| General Obligation Bonds,<br>Series of 1993   | 1/15/2011         | 5.00 - 5.50%      | 15,715,000                                   |

WEST CHESTER AREA SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2003

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.

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.

WEST CHESTER AREA SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2003

NOTE 13 - Other Postemployment Benefits (Continued)

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 213 participants receiving benefits. The total benefits paid on behalf of these participants was \$1,131,567 for the year ended June 30, 2003.

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, 2003 totaled \$787,608. Total covered payroll was 69,227,551, and total payroll was \$68,974,268 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, 2003, the rate of employer contribution was 1.09 percent of covered payroll.

WEST CHESTER AREA SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2003

NOTE 15 - Fund Balance

Fund balance of the general fund consists of the following at June 30, 2003:

|  |                            |
|--|----------------------------|
| Designated for Technology Program      | \$ 363,040                 |
| Unreserved Fund Balance - Undesignated | <u>7,623,205</u>           |
| <b>TOTAL</b>                           | <b><u>\$ 7,986,245</u></b> |

NOTE 16 - Prior Period Adjustment

Net assets in the statement of activities has been restated as of the beginning of the year to adjust for an overaccrual of health insurance expense at June 30, 2002 of \$439,868.

WEST CHESTER AREA SCHOOL DISTRICT  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2003

|  | Original<br>Budget | Amended<br>Budget  | Actual             | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|--|--------------------|--------------------|--------------------|---|
| Revenues:  |                    |                    |                    |   |
| Local Revenues                                       | \$ 107,021,443     | \$ 107,160,535     | \$ 109,724,765     | \$ 2,564,230  |
| State Program Revenues                               | 21,322,501         | 21,578,224         | 21,368,451         | (209,773)   |
| Federal Program Revenues                             | 2,021,082          | 2,053,343          | 2,053,343          | 0   |
| TOTAL REVENUES                                       | <u>130,365,026</u> | <u>130,792,102</u> | <u>133,146,559</u> | <u>2,354,457</u>  |
| Expenditures:  |                    |                    |                    |   |
| Regular Programs                                     | 59,603,797         | 59,792,154         | 58,403,941         | 1,388,213   |
| Special Programs                                     | 14,156,616         | 14,311,087         | 14,075,703         | 235,384   |
| Vocational Programs                                  | 3,325,045          | 3,147,755          | 3,047,853          | 99,902  |
| Other Instructional Programs                         | 1,970,584          | 1,853,352          | 1,830,483          | 22,869  |
| Adult Education Programs                             | 28,302             | 26,177             | 26,177             | 0   |
| Pupil Personnel Services                             | 4,918,648          | 4,909,957          | 4,792,720          | 117,237   |
| Instructional Staff Services                         | 4,290,219          | 4,464,750          | 4,329,855          | 134,895   |
| Administrative Services                              | 7,593,325          | 7,752,656          | 7,665,380          | 87,276  |
| Pupil Health   | 1,556,343          | 1,631,702          | 1,627,225          | 4,477   |
| Business Services                                    | 1,166,460          | 1,121,040          | 1,076,993          | 44,047  |
| Operation and Maintenance of                         |                    |                    |                    |   |
| Plant Services                                       | 10,922,102         | 11,156,274         | 10,968,361         | 187,913   |
| Student Transportation Services                      | 9,382,290          | 9,255,589          | 9,234,230          | 21,359  |
| Central and Other Support Services                   | 2,019,291          | 2,145,096          | 2,128,724          | 16,372  |
| Student Activities                                   | 2,100,023          | 2,173,738          | 2,126,779          | 46,959  |
| Community Services                                   | 92,281             | 89,240             | 69,991             | 19,249  |
| Facilities Acquisition and Construction              | 371,582            | 351,767            | 349,457            | 2,310   |
| Debt Service   | <u>13,207,686</u>  | <u>12,060,504</u>  | <u>12,060,503</u>  | <u>1</u>  |
| TOTAL EXPENDITURES                                   | <u>136,704,594</u> | <u>136,242,838</u> | <u>133,814,375</u> | <u>2,428,463</u>  |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | (6,339,568)        | (5,450,736)        | (667,816)          | 4,782,920   |
| Other Financing Sources (Uses):                      |                    |                    |                    |   |
| Interfund Transfers In                               | 2,012,514          | 2,012,514          | 2,120,662          | 108,148   |
| Budgetary Reserve                                    | (2,605,600)        | (2,419,256)        | 0                  | 2,419,256   |
| Interfund Transfers Out                              | 0                  | (1,075,176)        | (1,075,176)        | 0   |
| TOTAL OTHER FINANCING<br>SOURCES (USES)              | <u>(593,086)</u>   | <u>(1,481,918)</u> | <u>1,045,486</u>   | <u>2,527,404</u>  |
| NET CHANGE IN FUND BALANCES                          | (6,932,654)        | (6,932,654)        | 377,670            | 7,310,324   |
| Fund Balance - July 1, 2002                          | <u>6,932,654</u>   | <u>6,932,654</u>   | <u>7,608,575</u>   | <u>675,921</u>  |
| FUND BALANCE - JUNE 30, 2003                         | \$ 0               | \$ 0               | \$ 7,986,245       | \$ 7,986,245  |