

**Financial Statements**

**West Chester Area School District**  
**West Chester, Pennsylvania**

**June 30, 2007**

*Rainer*  
& Company

A Professional Corporation  
Certified Public Accountants

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A Professional Corporation  
Certified Public Accountants

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, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of West Chester Area School District as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2008, on our consideration of West Chester Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 42, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

January 2, 2008

  
Rainer & Company

**WEST CHESTER AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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, 2007. 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**

- For the 2006-07 year, the District incurred increases in the costs for special education instruction, tuitions, utilities, student transportation, debt service and salaries and benefits for our employees.
- In the budgeting process, the Board of School Directors was able to balance the budget with an 84 mill increase (\$.84 per \$1,000 of assessed value) to the taxpayers within Chester County.
- The District's total net assets were \$28,557,445 at June 30, 2007. This represents an increase of \$781,548 from last year.
- The District's General Fund total revenue increased by \$10,345,553 or 6.3%. Current real estate taxes increased by \$7,855,999. Real estate transfer tax collections decreased by \$936,033 and interim taxes decreased by \$708,172 due to a slowdown in the housing market. Earned income collections increased by \$1,485,231, investment revenue increased by \$983,736, state subsidies increased by \$1,635,246, including the new Classrooms for the Future grant of \$407,573, and retirement and social security revenue increases totaled \$1,034,617.
- On a Government-Wide Basis, compared to the prior year, the District's expenses increased by \$14,283,144 or 8.6%. Major increases by category include salaries, which increased by \$4,665,591, employee benefits, which increased by \$3,604,008, utilities which increased by \$393,094, pupil transportation (excluding salary and benefits), which increased by \$498,800, one time curriculum costs of \$1,420,299 associated with the opening of the new high school and interest expense on debt, which increased by \$3,629,277.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2007

**Government-Wide Financial Statements**

The first two statements are government-wide financial statements - the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

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

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

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

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

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

- **Governmental Activities** - All of the District's basic services are included here, such as instruction, administration and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business-Type Activities** - The District operates a food service operation and charges fees to staff and students to cover the costs of the food service operation.

**Fund Level Financial Statements**

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

- **Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

- Proprietary Funds - These funds are used to account for District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements.
- Fiduciary Funds - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

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

FINANCIAL ANALYSIS OF THE DISTRICT - GOVERNMENT-WIDE STATEMENTS

The District's total net assets were \$28,557,445 at June 30, 2007. This represents an increase of \$781,548 over last year. The following table presents condensed financial information for the net assets of the District as of June 30, 2007 and June 30, 2006.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 87,895,663	\$ 99,827,663	\$ 1,228,608	\$ 807,359	\$ 89,124,271	\$ 100,635,022
Capital Assets	298,030,744	283,022,594	85,434	102,695	298,116,178	283,125,289
Other Assets	2,776,788	2,185,201	0	0	2,776,788	2,185,201
<b>TOTAL ASSETS</b>	<b>388,703,195</b>	<b>385,035,458</b>	<b>1,314,042</b>	<b>910,054</b>	<b>390,017,237</b>	<b>385,945,512</b>
Current Liabilities	35,958,106	37,276,529	563,712	236,225	36,521,818	37,512,754
Noncurrent Liabilities	324,937,974	320,656,861	0	0	324,937,974	320,656,861
<b>TOTAL LIABILITIES</b>	<b>360,896,080</b>	<b>357,933,390</b>	<b>563,712</b>	<b>236,225</b>	<b>361,459,792</b>	<b>358,169,615</b>
<b>Net Assets:</b>						
Invested in Capital Assets, Net of Related Debt	3,547,104	5,479,152	85,434	102,695	3,632,538	5,581,847
Unrestricted	24,260,011	21,622,916	664,896	571,134	24,924,907	22,194,050
<b>TOTAL NET ASSETS</b>	<b>\$ 27,807,115</b>	<b>\$ 27,102,068</b>	<b>\$ 750,330</b>	<b>\$ 673,829</b>	<b>\$ 28,557,445</b>	<b>\$ 27,775,897</b>

The unrestricted net assets in the amount of \$24,924,907 include \$16,813,479 set aside to fund capital improvements, the replacement of and additions to public works and improvements, and for deferred maintenance thereof, and \$750,330 set aside for capital expenditures within the District's food service program. The balance remaining in the unrestricted net assets is not designated for any specific purpose.

**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. Compared to the prior year, the District's total revenues increased by \$10,991,104 or 6.5%. Property taxes, which include current and interim real estate taxes, increased by \$7,641,564 or 6.8%. Other taxes increased by \$563,069 or 2.7%. Operating grants and contributions increased by \$1,441,356 or 6.9%. The change in operating grants and contributions includes a decrease of \$360,399 in the state subsidy for debt service reimbursement on construction projects, offset by increases in the Classrooms for the Future grant of \$407,573 and other increases state and federal subsidies. Expenses increased by \$14,283,144 or 8.6%. Major increases by category include salaries, which increased by \$4,665,591, employee benefits, which increased by \$3,604,008, utilities which increased by \$393,094, pupil transportation (excluding salary and benefits), which increased by \$498,800, one time curriculum costs of \$1,420,299 associated with the opening of the new high school and interest expense on debt, which increased by \$3,629,277.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>REVENUES:</b>						
Program Services:						
Charges for Services	\$ 547,014	\$ 634,190	\$ 2,531,512	\$ 2,396,451	\$ 3,078,526	\$ 3,030,641
Operating Grants and Contributions	21,957,660	20,562,562	504,267	458,009	22,461,927	21,020,571
General Revenues:						
Property Taxes	120,239,104	112,597,540	0	0	120,239,104	112,597,540
Other Taxes	21,355,282	20,792,213	0	0	21,355,282	20,792,213
Grants, Subsidies and Contributions Not Restricted	8,036,082	7,544,014	0	0	8,036,082	7,544,014
Other Revenue	6,099,295	5,311,082	51,953	35,004	6,151,248	5,346,086
<b>TOTAL REVENUES</b>	<b>178,234,437</b>	<b>167,441,601</b>	<b>3,087,732</b>	<b>2,889,464</b>	<b>181,322,169</b>	<b>170,331,065</b>
<b>EXPENSES:</b>						
Instruction	95,791,662	90,858,202	0	0	95,791,662	90,858,202
Instructional Student Support	12,481,237	12,335,145	0	0	12,481,237	12,335,145
Administrative and Financial Support	13,664,819	12,756,454	0	0	13,664,819	12,756,454
Operation and Maintenance of Plant Services	16,260,118	13,704,052	0	0	16,260,118	13,704,052
Pupil Transportation	11,809,273	11,349,906	0	0	11,809,273	11,349,906
Student Activities	3,814,684	2,612,379	0	0	3,814,684	2,612,379
Community Services	76,445	69,046	0	0	76,445	69,046
Interest on Long-Term Debt	16,367,340	12,738,063	0	0	16,367,340	12,738,063
Unallocated Depreciation Expense	7,263,812	7,051,970	0	0	7,263,812	7,051,970
Food Services	0	0	3,011,231	2,782,260	3,011,231	2,782,260
<b>TOTAL EXPENSES</b>	<b>177,529,390</b>	<b>163,475,217</b>	<b>3,011,231</b>	<b>2,782,260</b>	<b>180,540,621</b>	<b>166,257,477</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 705,047</b>	<b>\$ 3,966,384</b>	<b>\$ 76,501</b>	<b>\$ 107,204</b>	<b>\$ 781,548</b>	<b>\$ 4,073,588</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 \$12,254,183 or 9.1% more than the prior year. The table for business-type activity reflects condensed financial activities of the food service program, the only business-type activity of the District.

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Expenses - Governmental Activities:				
Instruction	\$ 95,791,662	\$ 90,858,202	\$ 81,797,032	\$ 78,260,514
Instructional Student Support	12,481,237	12,335,145	11,641,312	11,549,084
Administrative and Financial Support	13,664,819	12,756,454	13,096,371	12,306,959
Operation and Maintenance of Plant Services	16,260,118	13,704,052	14,459,160	11,639,667
Pupil Transportation	11,809,273	11,349,906	6,821,346	6,304,267
Student Activities	3,814,684	2,612,379	3,502,191	2,359,717
Community Services	76,445	69,046	76,152	68,224
Interest on Long-Term Debt	16,367,340	12,738,063	16,367,340	12,738,063
Unallocated Depreciation Expense	7,263,812	7,051,970	7,263,812	7,051,970
TOTAL EXPENSES	<u>\$ 177,529,390</u>	<u>\$ 163,475,217</u>	155,024,716	142,278,465
Less: Grants, Subsidies and Contributions Not Restricted			<u>(8,036,082)</u>	<u>(7,544,014)</u>
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES			<u>\$ 146,988,634</u>	<u>\$ 134,734,451</u>

**Business-Type Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Expenses - Business-Type Activities:				
Food Services	<u>\$ 3,011,231</u>	<u>\$ 2,782,260</u>	<u>\$ (76,501)</u>	<u>\$ (72,200)</u>

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

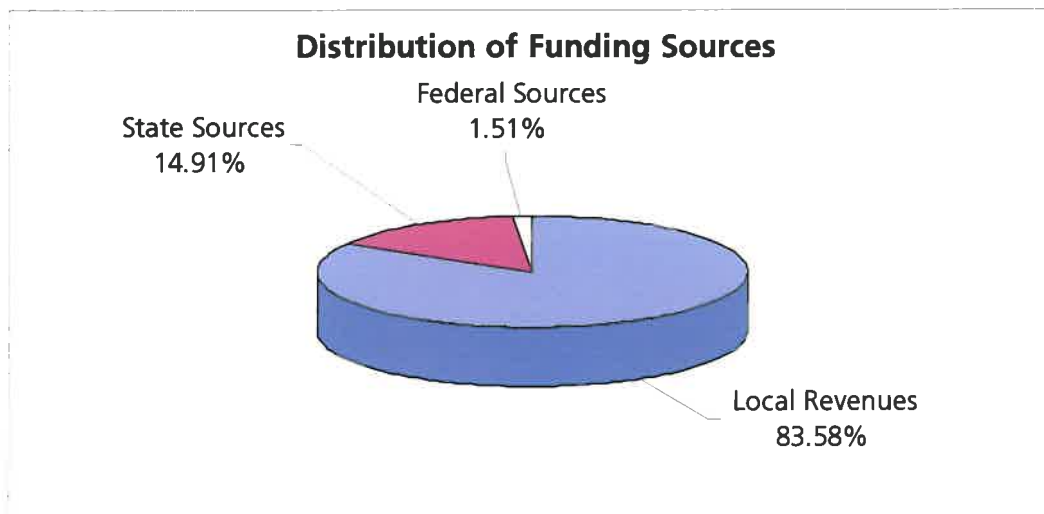
General Fund

At June 30, 2007, the District reported a fund balance of \$9,631,412 which represents 5.5% of total expenditures and is an increase of \$837,264 over last year. The School Board of the West Chester Area School District consciously maintains a modest fund balance needed to respond to unforeseen contingencies. This philosophy was established 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 to 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 \$175,188,904, increased \$10,345,553 or 6.3% over the prior year revenues. The following table reflects a comparison of current year revenues to prior year revenues:

	Revenue 2007	% of Total	Increase (Decrease) From 2006	Percentage Increase (Decrease)
Local Revenues	\$ 146,423,630	83.58%	\$ 8,372,679	6.06%
State Sources	26,115,323	14.91%	1,635,246	6.68%
Federal Sources	2,649,951	1.51%	337,628	14.60%
	<u>\$ 175,188,904</u>	<u>100.00%</u>	<u>\$ 10,345,553</u>	



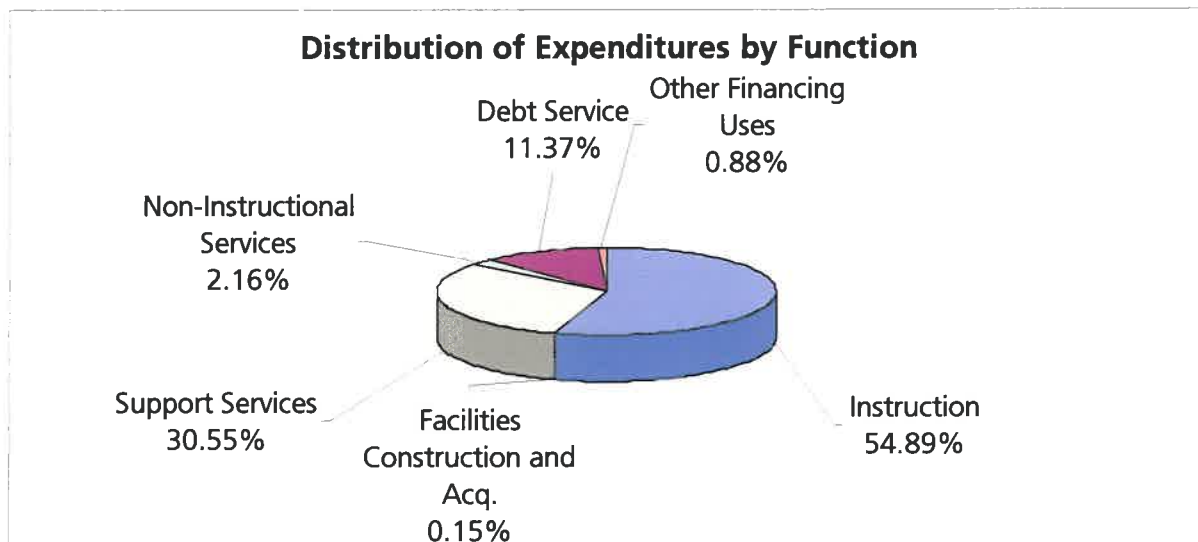
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The District balanced the budget utilizing the fund balance from the previous year and increasing the 2006-07 tax rate to 15.16 mills from 14.32 mills in Chester County. As a result of the increase in millage and increases in real estate assessments, revenues from current real estate taxes increased by \$7,855,999. The collection rate for current real estate taxes was 98.2%. Real estate transfer tax collections decreased by \$936,033 and interim taxes decreased by \$708,172 due to a slowdown in the housing market. Earned income collections increased by \$1,485,231. As a result of higher interest rates, the District experienced an increase in investment revenue of \$983,736. State subsidies increased by \$1,635,246, including the new Classrooms for the Future grant of \$407,573 and retirement and social security revenue increases totaling \$1,034,617. Federal revenue increased \$337,628 including an increase in Title I programs of \$224,278.

**EXPENDITURES**

Expenditures and other financing uses, which total \$174,351,640 increased \$10,015,247 over the 2005-06 expenditures and were \$2,073,440 under budget. The expenditures were segregated into various programs depending on the functions of the activity. These programs and the costs associated with each, as well as comparison to the costs incurred in the prior year and the final 2006-07 budget, are as follows:

	Expenditures 2007	% of Total	Increase (Decrease) From 2006	Variance with Final Budget - Positive (Negative)
Instruction	\$ 95,704,321	54.89%	\$ 4,857,700	\$ 434,628
Support Services	53,260,308	30.55%	3,428,459	1,154,423
Non-Instructional Services	3,761,354	2.16%	1,239,352	80,741
Facilities Construction and Acquisition	269,908	0.15%	(392)	818
Debt Service	19,825,495	11.37%	(20,085)	19,451
Other Financing Uses	1,530,254	0.88%	510,213	383,379
<b>TOTAL EXPENDITURES BY FUNCTION</b>	<b>\$ 174,351,640</b>	<b>100.00%</b>	<b>\$ 10,015,247</b>	<b>\$ 2,073,440</b>



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The increase in expenditures from 2005-06 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 and special education services. Instruction and Instructional Support Services employee salaries increased by 3.9% or \$2,421,606. The employee benefits program offered by the District to the Instruction and Instructional Support Services personnel increased by 12.8% or \$2,549,905. Special education costs, exclusive of salaries and benefits, have increased by \$223,064 or 2.9% over the prior year. Transportation costs for public, non-public and special education students increased \$498,800 or 4.4%. In the area of Non-Instructional Services, salaries and benefits related to extra-curricular activities increased by \$968,291. Other Financing Uses increased \$510,213, including an increase in the transfer to the capital reserve fund of \$776,017. In the prior year, there was a transfer of \$271,067 to the debt service fund in connection with the refinancing of debt and there was no such transfer in the current year.

Capital Projects Fund

At June 30, 2007, the District reported a fund balance of \$36,170,115 which is a decrease of \$11,524,752 over June 30, 2006. The components of the change in fund balance include revenues from debt proceeds in the amount of \$10,000,000, interest income in the amount of \$2,854,712, expenditures for capital projects in the amount of \$20,887,406, bond issue settlement costs of \$135,246, transfers to the capital reserve fund in the amount of \$2,788,940, and a transfer to the debt service fund for capitalized interest of \$567,872.

Capital Reserve Fund

At June 30, 2007, the District reported a fund balance of \$16,813,479, which is an increase of \$772,599 over June 30, 2006. During the year, the fund received transfers from the capital projects fund in the amount of \$2,788,940, transfers of \$1,518,064 from the general fund, paid capitalized interest in the amount of \$1,658,859, and one-time curriculum costs of \$1,875,546.

**GENERAL FUND BUDGET**

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

To balance the budget, the District utilized \$2,752,811 of fund balance from the previous year. The differences in the 2006-07 expenses and revenues compared to the budget resulted in an overall positive variance of \$3,590,075. Total revenues exceeded budgeted amounts by \$1,516,635 or 1% of budgeted revenue. The positive revenue budget variances by category include earned income taxes in the amount of \$1,454,716, interest earnings in the amount of \$764,424, and state subsidies in the amount of \$372,015. There was a negative budget variance totaling \$1,074,074 for interim and transfer taxes related to the slowdown in the housing market. The state subsidy excess includes an unanticipated new grant (Classrooms for the Future) in the amount of \$407,573. Total expenditures were under budget by \$2,073,440 or 1.2% of budgeted expenditures.

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**CAPITAL ASSETS**

At June 30, 2007, the District had \$298,116,178 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 \$14,990,889 or 5.3% from last year. The net increase is attributed to the renovation and expansion of secondary school facilities.

The following schedule depicts the change in capital assets for the period July 1, 2006 through June 30, 2007. During this period, the District had the following significant additions in capital assets.

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets:				
Land	\$ 30,429,427	\$ 1,643,106	\$ 0	\$ 32,072,533
Land Improvements	3,576,716	6,000	0	3,582,716
Buildings	149,121,904	1,868,623	0	150,990,527
Construction in Progress	167,050,344	20,887,406	4,941,754	182,995,996
Furniture and Equipment	23,656,734	2,808,666	483,665	25,981,735
TOTAL CAPITAL ASSETS	<u>373,835,125</u>	<u>27,213,801</u>	<u>5,425,419</u>	<u>395,623,507</u>
Accumulated Depreciation for:				
Buildings	72,492,756	4,394,960	0	76,887,716
Land Improvements	1,528,625	179,226	0	1,707,851
Furniture and Equipment	16,791,150	2,689,626	483,580	18,997,196
TOTAL ACCUMULATED DEPRECIATION	<u>90,812,531</u>	<u>7,263,812</u>	<u>483,580</u>	<u>97,592,763</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 283,022,594</u>	<u>\$ 19,949,989</u>	<u>\$ 4,941,839</u>	<u>\$ 298,030,744</u>
Business-Type Activities:				
Capital Assets:				
Furniture and Equipment	\$ 299,680	\$ 8,020	\$ 0	\$ 307,700
Accumulated Depreciation for:				
Furniture and Equipment	196,985	25,281	0	222,266
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 102,695</u>	<u>\$ (17,261)</u>	<u>\$ 0</u>	<u>\$ 85,434</u>

**WEST CHESTER AREA SCHOOL DISTRICT**  
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**DEBT ADMINISTRATION**

As of June 30, 2007, the District had total outstanding bond principal of \$330,653,755, an increase of \$5,415,446 over last year. New debt resulted from the issuance of General Obligation Bonds, Series of 2007 in the amount of \$10,000,000, to be utilized for secondary school construction projects. During the year ended June 30, 2007, the District also refinanced debt issues at lower rates. 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.

	Principal Outstanding July 1, 2006	Maturities	Additions (Refinancing)	Bonds Payable June 30, 2007
General Obligation Bonds, Series A of 1998	\$ 3,220,000	\$ 820,000	\$ 0	\$ 2,400,000
General Obligation Note, Series B of 2000	10,043,000	793,000	0	9,250,000
General Obligation Bonds, Series of 2002	27,660,000	0	(22,185,000)	5,475,000
General Obligation Bonds, Series AA of 2002	15,690,000	3,645,000	0	12,045,000
General Obligation Bonds, Series of 2003	29,990,000	5,000	0	29,985,000
General Obligation Bonds, Series A of 2003	18,780,000	1,485,000	0	17,295,000
General Obligation Bonds, Series A of 2004	7,385,000	595,000	0	6,790,000
General Obligation Bonds, Series AA of 2003	34,990,000	0	(34,990,000)	0
General Obligation Bonds, Series of 2005	9,995,000	5,000	0	9,990,000
General Obligation Bonds, Series A of 2005	8,970,000	210,000	0	8,760,000
General Obligation Bonds, Series of 2006	35,000,000	5,000	0	34,995,000
General Obligation Bonds, Series A of 2006	100,810,000	5,000	0	100,805,000
General Obligation Bonds, Series AA of 2006	18,390,000	405,000	0	17,985,000
General Obligation Bonds, Refunding Series of 2006	0	5,000	22,245,000	22,240,000
General Obligation Bonds, Refunding Series A of 2006	0	5,000	37,935,000	37,930,000
General Obligation Bonds, Series of 2007	0	0	10,000,000	10,000,000
	<u>320,923,000</u>	<u>7,983,000</u>	<u>13,005,000</u>	<u>325,945,000</u>
Deferred Amounts:				
Issuance (Discounts) Premium	5,615,687	260,482	506,960	5,862,165
Refunding Deferred Charge	<u>(1,300,378)</u>	<u>(146,968)</u>	<u>0</u>	<u>(1,153,410)</u>
<b>LONG-TERM DEBT</b>	<b><u>\$ 325,238,309</u></b>	<b><u>\$ 8,096,514</u></b>	<b><u>\$ 13,511,960</u></b>	<b><u>\$ 330,653,755</u></b>

**WEST CHESTER AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2007**

**OTHER LONG-TERM LIABILITIES**

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

**THE DISTRICT'S FUTURE**

The District will see a slight decrease in enrollment over the next five years. Over the past few years, the District has completed a major secondary school construction project which included the building of the new Bayard Rustin High School, renovations and additions to Henderson High School, the construction of Henderson High School North Athletic fields, the renovations as well as the construction of a new gymnasium and athletic fields at East High School. In addition, the District is in the process of completing renovations to Fugett Middle School scheduled to be finished in 2009.

The District may seek voter referendum for additional financings needed to fund future projects listed in the long-term analysis of WCASD maintenance and capital spending on District facilities. This analysis was prepared in March 2007. The District will focus on developing an elementary school master plan which may include renovations and/or additions to each of our 10 elementary schools.

**STRATEGIC PLAN**

In June 2002, the West Chester Area School District adopted a new strategic plan that has focused our purpose and resources. 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.
- 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.

During the months of October 2007 through June 2008, the District will develop a new 5-year strategic plan. The Board is scheduled to adopt the new strategic plan in June 2008.



**WEST CHESTER AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2007**

**FINANCIAL MANAGEMENT**

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



**WEST CHESTER AREA SCHOOL DISTRICT**  
Statement of Net Assets  
June 30, 2007

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current:			
Cash and Cash Equivalents	\$ 626,935	\$ 105,558	\$ 732,493
Investments	78,375,129	1,070,612	79,445,741
Due from Other Governments	1,674,482	26,343	1,700,825
Interest Receivables	146,216	0	146,216
Other Receivables	2,305,500	26,095	2,331,595
Property Taxes Receivable, Net	2,573,969	0	2,573,969
Prepaid Expenses	2,193,432	0	2,193,432
TOTAL CURRENT ASSETS	<u>87,895,663</u>	<u>1,228,608</u>	<u>89,124,271</u>
Capital:			
Land	32,072,533	0	32,072,533
Land Improvements	3,582,716	0	3,582,716
Buildings	150,990,527	0	150,990,527
Construction in Progress	182,995,996	0	182,995,996
Furniture and Equipment	25,981,735	307,700	26,289,435
Less: Accumulated Depreciation	(97,592,763)	(222,266)	(97,815,029)
TOTAL CAPITAL ASSETS, NET OF DEPRECIATION	<u>298,030,744</u>	<u>85,434</u>	<u>298,116,178</u>
Other:			
Deferred Bond Issuance Costs	2,776,788	0	2,776,788
TOTAL ASSETS	<u>\$ 388,703,195</u>	<u>\$ 1,314,042</u>	<u>\$ 390,017,237</u>
 <u>LIABILITIES</u>			
Current:			
Accounts Payable and Other Current Liabilities	\$ 22,877,658	\$ 538,755	\$ 23,416,413
Bonds and Notes Payable Due Within One Year	10,394,000	0	10,394,000
Deferred Revenues	8,776	24,957	33,733
Accrued Interest	2,677,672	0	2,677,672
TOTAL CURRENT LIABILITIES	<u>35,958,106</u>	<u>563,712</u>	<u>36,521,818</u>
Long-Term:			
Bonds and Notes Payable Due After One Year	320,259,755	0	320,259,755
Accrued Severance and Compensated Absences	4,678,219	0	4,678,219
TOTAL LONG-TERM LIABILITIES	<u>324,937,974</u>	<u>0</u>	<u>324,937,974</u>
TOTAL LIABILITIES	<u>360,896,080</u>	<u>563,712</u>	<u>361,459,792</u>
 <u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	3,547,104	85,434	3,632,538
Unrestricted	24,260,011	664,896	24,924,907
TOTAL NET ASSETS	<u>27,807,115</u>	<u>750,330</u>	<u>28,557,445</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 388,703,195</u>	<u>\$ 1,314,042</u>	<u>\$ 390,017,237</u>

The accompanying notes are an integral part of this statement.

**WEST CHESTER AREA SCHOOL DISTRICT**

Statement of Activities

For the Year Ended June 30, 2007

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
Governmental Activities:							
Instruction	\$ 95,791,662	\$ (368,684)	\$ (13,625,946)	\$ 0	\$ (81,797,032)	\$ 0	\$ (81,797,032)
Instructional Student Support	12,481,237	0	(839,925)	0	(11,641,312)	0	(11,641,312)
Administrative and Financial Support Services	13,664,819	0	(568,448)	0	(13,096,371)	0	(13,096,371)
Operation and Maintenance of Plant Services	16,260,118	(32,299)	(1,768,659)	0	(14,459,160)	0	(14,459,160)
Pupil Transportation	11,809,273	0	(4,987,927)	0	(6,821,346)	0	(6,821,346)
Student Activities	3,814,684	(146,031)	(166,462)	0	(3,502,191)	0	(3,502,191)
Community Services	76,445	0	(293)	0	(76,152)	0	(76,152)
Interest on Long-Term Debt	16,367,340	0	0	0	(16,367,340)	0	(16,367,340)
Unallocated Depreciation Expense	7,263,812	0	0	0	(7,263,812)	0	(7,263,812)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>177,529,390</b>	<b>(547,014)</b>	<b>(21,957,660)</b>	<b>0</b>	<b>(155,024,716)</b>	<b>0</b>	<b>(155,024,716)</b>
Business-Type Activities:							
Food Services	3,011,231	(2,531,512)	(504,267)	0	0	24,548	24,548
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 180,540,621</b>	<b>\$ (3,078,526)</b>	<b>\$ (22,461,927)</b>	<b>\$ 0</b>	<b>(155,024,716)</b>	<b>24,548</b>	<b>(155,000,168)</b>
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					120,239,104	0	120,239,104
Public Utility Realty, Earned Income and Realty Transfer Taxes, Levied for General Purposes, Net					21,355,282	0	21,355,282
Grants, Subsidies and Contributions Not Restricted					8,036,082	0	8,036,082
Investment Earnings					6,089,715	51,953	6,141,668
Miscellaneous Income					9,580	0	9,580
<b>TOTAL GENERAL REVENUES AND SPECIAL ITEMS</b>					<b>155,729,763</b>	<b>51,953</b>	<b>155,781,716</b>
CHANGE IN NET ASSETS					705,047	76,501	781,548
Net Assets - July 1, 2006					27,102,068	673,829	27,775,897
<b>NET ASSETS - JUNE 30, 2007</b>					<b>\$ 27,807,115</b>	<b>\$ 750,330</b>	<b>\$ 28,557,445</b>

The accompanying notes are an integral part of this statement.

WEST CHESTER AREA SCHOOL DISTRICT

Balance Sheet  
 Governmental Funds  
 June 30, 2007

<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	\$ 567,943	\$ 0	\$ 30,614	\$ 0	\$ 28,378	\$ 626,935
Investments	19,639,030	58,167,345	0	568,754	0	78,375,129
Interest Receivable	90,752	55,464	0	0	0	146,216
Taxes Receivable, Net	2,573,969	0	0	0	0	2,573,969
Due from Other Funds	34,604	0	17,064,031	0	0	17,098,635
Due from Other Governments	1,674,482	0	0	0	0	1,674,482
Other Receivables	499,700	1,800,000	0	0	5,800	2,305,500
Prepaid Expenses	2,193,432	0	0	0	0	2,193,432
<b>TOTAL ASSETS</b>	<b>\$ 27,273,912</b>	<b>\$ 60,022,809</b>	<b>\$ 17,094,645</b>	<b>\$ 568,754</b>	<b>\$ 34,178</b>	<b>\$ 104,994,298</b>
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts Payable and Accrued Liabilities	\$ 5,168,240	\$ 6,754,059	\$ 281,166	\$ 0	\$ 2,304	\$ 12,205,769
Due to Other Funds	0	17,098,635	0	0	0	17,098,635
Payroll Accruals and Withholdings	10,671,887	0	0	0	0	10,671,887
Deferred Revenue	1,802,373	0	0	0	0	1,802,373
<b>TOTAL LIABILITIES</b>	<b>17,642,500</b>	<b>23,852,694</b>	<b>281,166</b>	<b>0</b>	<b>2,304</b>	<b>41,778,664</b>
Fund Balances:						
Unreserved - Undesignated	9,631,412	36,170,115	16,813,479	568,754	31,874	63,215,634
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 27,273,912</b>	<b>\$ 60,022,809</b>	<b>\$ 17,094,645</b>	<b>\$ 568,754</b>	<b>\$ 34,178</b>	<b>\$ 104,994,298</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, 2007

Total Fund Balances - Governmental Funds		\$ 63,215,634
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 \$395,623,507 and the accumulated depreciation is \$97,592,763		298,030,744
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		1,793,595
Bond issuance costs are not financial resources and, therefore, are not reported as assets in the governmental funds. Issuance costs are \$2,776,788, net of accumulated amortization		2,776,788
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	\$ 330,653,755	
Accrued Interest on the Bonds	2,677,672	
Accrued Severance and Compensated Absences	4,678,219	(338,009,646)
<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>		<b>\$ 27,807,115</b>

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, 2007**

	General Fund	Capital Projects Fund	Capital Reserve Fund	Debt Service Fund	Other Funds	Total Governmental Funds
<b>Revenues:</b>						
<b>Local Sources:</b>						
Real Estate Taxes	\$ 120,195,112	0	0	0	0	\$ 120,195,112
Realty Transfer Tax	4,261,668	0	0	0	0	4,261,668
Earned Income Taxes	16,889,716	0	0	0	0	16,889,716
Other Taxes	203,898	0	0	0	0	203,898
Earnings from Investments	3,234,121	2,854,712	0	882	0	6,089,715
Other Local Revenues	1,639,115	0	0	0	146,031	1,785,146
State Sources	26,115,323	0	0	0	0	26,115,323
Federal Sources	2,649,951	0	0	0	0	2,649,951
<b>TOTAL REVENUES</b>	<u>175,188,904</u>	<u>2,854,712</u>	<u>0</u>	<u>882</u>	<u>146,031</u>	<u>178,190,529</u>
<b>Expenditures:</b>						
Instruction	95,704,321	0	0	0	0	95,704,321
Support Services	53,260,308	0	0	0	0	53,260,308
Non-Instructional Services	3,761,354	0	0	0	129,775	3,891,129
Facilities Acquisition, Construction, and Improvements	269,908	20,887,406	1,875,546	0	0	23,032,860
Debt Service (Principal and Interest)	19,825,495	135,246	1,658,859	637,168	0	22,256,768
<b>TOTAL EXPENDITURES</b>	<u>172,821,386</u>	<u>21,022,652</u>	<u>3,534,405</u>	<u>637,168</u>	<u>129,775</u>	<u>198,145,386</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>2,367,518</u>	<u>(18,167,940)</u>	<u>(3,534,405)</u>	<u>(636,286)</u>	<u>16,256</u>	<u>(19,954,857)</u>
<b>Other Financing Sources (Uses):</b>						
Bond Proceeds	0	10,000,000	0	0	0	10,000,000
Bond Proceeds - Refunding Bonds	0	0	0	60,707,570	0	60,707,570
Payment to Refund Bond Escrow Agent	0	0	0	(60,070,402)	0	(60,070,402)
Interfund Transfers In	0	0	4,307,004	567,872	0	4,874,876
Interfund Transfers Out	(1,518,064)	(3,356,812)	0	0	0	(4,874,876)
Refunds of Prior Years Revenues	(12,190)	0	0	0	0	(12,190)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,530,254)</u>	<u>6,643,188</u>	<u>4,307,004</u>	<u>1,205,040</u>	<u>0</u>	<u>10,624,978</u>
<b>NET CHANGE IN FUND BALANCES</b>	837,264	(11,524,752)	772,599	568,754	16,256	(9,329,879)
<b>Fund Balances - July 1, 2006</b>	8,794,148	47,694,867	16,040,880	0	15,618	72,545,513
<b>FUND BALANCES - JUNE 30, 2007</b>	<u>\$ 9,631,412</u>	<u>\$ 36,170,115</u>	<u>\$ 16,813,479</u>	<u>\$ 568,754</u>	<u>\$ 31,874</u>	<u>\$ 63,215,634</u>

The accompanying notes are an integral part of this statement.



**WEST CHESTER AREA SCHOOL DISTRICT**  
Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures and Changes in  
Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2007

Total Net Change in Fund Balances - Governmental Funds	\$ (9,329,879)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$22,271,962 exceed depreciation expense of \$7,263,812 in the period	15,008,150
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	8,096,514
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	56,182
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 exceeded the amounts paid by \$169,691 and severance earned exceeded the amounts used by \$111,976	(281,667)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The accrued interest on bonds payable decreased by \$76,120	76,120
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	591,587
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>(13,511,960)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 705,047</u></u>

The accompanying notes are an integral part of this statement.

**WEST CHESTER AREA SCHOOL DISTRICT**  
Statement of Net Assets  
Proprietary Funds  
June 30, 2007

<u>ASSETS</u>	<u>Enterprise Fund - Food Services</u>
Current:	
Cash and Cash Equivalents	\$ 105,558
Investments	1,070,612
Due from Other Governments	26,343
Other Receivables	26,095
TOTAL CURRENT ASSETS	<u>1,228,608</u>
Non-Current:	
Furniture and Equipment	307,700
Less: Accumulated Depreciation	<u>(222,266)</u>
TOTAL NON-CURRENT ASSETS	<u>85,434</u>
 TOTAL ASSETS	 <u><u>\$ 1,314,042</u></u>
 <u>LIABILITIES</u>	
Current:	
Accounts Payable and Accrued Liabilities	\$ 538,755
Deferred Revenue	24,957
TOTAL LIABILITIES	<u>563,712</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets	85,434
Unrestricted	664,896
TOTAL NET ASSETS	<u>750,330</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 1,314,042</u></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, 2007

	<u>Enterprise Fund - Food Services</u>
Operating Revenues:	
Food Service Sales	<u>\$ 2,531,512</u>
Operating Expenses:	
Professional and Contract Services	2,868,397
Depreciation	25,281
Other Operating Costs	117,553
TOTAL OPERATING EXPENSES	<u>3,011,231</u>
OPERATING (LOSS)	<u>(479,719)</u>
Non-Operating Revenues:	
Interest Income	51,953
State Sources	53,726
Federal Sources	450,541
TOTAL NON-OPERATING REVENUES	<u>556,220</u>
CHANGE IN NET ASSETS	76,501
Net Assets - July 1, 2006	<u>673,829</u>
NET ASSETS - JUNE 30, 2007	<u>\$ 750,330</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, 2007

	Enterprise Fund - Food Services
Cash Flows From Operating Activities:	
Cash Received from Users	\$ 2,526,830
Cash Payments to Suppliers for Goods and Services	(2,656,551)
NET CASH (USED) BY OPERATING ACTIVITIES	<u>(129,721)</u>
Cash Flows From Non-Capital Financing Activities:	
State Sources	53,857
Federal Sources	450,043
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>503,900</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of Capital Assets	<u>(8,020)</u>
Cash Flows From Investing Activities:	
Redemption of Investment Securities/Deposits to Investment Pools	(324,533)
Interest on Investments	51,953
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(272,580)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	93,579
Cash and Cash Equivalents - July 1, 2006	<u>11,979</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2007	<u>\$ 105,558</u>
<u>Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities:</u>	
Operating (Loss)	\$ (479,719)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:	
Depreciation	25,281
Changes in Assets and Liabilities:	
Receivables	(2,770)
Accounts Payable and Accrued Liabilities	329,399
Deferred Revenue	<u>(1,912)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (129,721)</u>

The accompanying notes are an integral part of this statement.

**WEST CHESTER AREA SCHOOL DISTRICT**  
Statement of Fiduciary Net Assets  
June 30, 2007

<u>ASSETS</u>	<u>Private- Purpose Trusts</u>	<u>Agency Funds</u>
Cash and Cash Equivalents	\$ 158,785	\$ 590,251
Other Receivables	0	23,949
Due from Other Funds	336,726	0
 TOTAL ASSETS	 <u>\$ 495,511</u>	 <u>\$ 614,200</u>
 <u>LIABILITIES</u>		
Due to Other Funds	\$ 0	\$ 336,726
Accounts Payable	0	16,703
Due to Student Groups	0	260,771
 TOTAL LIABILITIES	 <u>\$ 0</u>	 <u>\$ 614,200</u>
 <u>NET ASSETS</u>		
Reserved for Scholarships	\$ 495,511	
Unrestricted	0	
 TOTAL NET ASSETS	 <u>\$ 495,511</u>	

The accompanying notes are an integral part of this statement.



**WEST CHESTER AREA SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended June 30, 2007**

	<u>Private- Purpose Trusts</u>
Additions:	
Gifts and Contributions	\$ 738,447
Deductions:	
Grants	<u>719,928</u>
CHANGE IN NET ASSETS	18,519
Net Assets - July 1, 2006	<u>476,992</u>
NET ASSETS - JUNE 30, 2007	<u><u>\$ 495,511</u></u>

The accompanying notes are an integral part of this statement.

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

NOTE 1 - Summary of Significant Accounting Policies

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

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

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

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of 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, 2007

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, 2007

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, 2007**

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, 2007.

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, 2007

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 who have completed at least fifteen years of credited School District service and retire under the normal PSERS guidelines, receive severance pay in the form of compensation. Administrative personnel receive \$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, 2007**

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

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

NOTE 2 - Budgetary Information

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

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

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

NOTE 2 - Budgetary Information (Continued)

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

NOTE 3 - Deposits and Investments

Deposits - At year end, the total carrying amount of the School District's checking, savings and money market deposits was \$1,481,529 and the corresponding bank balance was \$3,091,449.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balances were uninsured and covered by collateral held by the institution's trust department on a pooled basis not in the name of the School District.

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

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

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

NOTE 3 - Deposits and Investments (Continued)

The School District's investments at June 30, 2007 consisted of the following:

Pooled Investments:

Pennsylvania School District Liquid Asset Fund:  
 General Fund Accounts

\$ 1,046,197

Pennsylvania Local Government Investment Trust:  
 Capital Project Fund Account  
 Debt Service Fund Account  
 TOTAL

51,087,472

568,754

51,656,226

Pennsylvania Treasurer's Investment Program:  
 General Fund Account  
 Capital Project Fund Account  
 Food Service Fund Account  
 TOTAL

16,754,833

7,079,873

1,070,612

24,905,318

Certificate of Deposit:

General Fund Accounts

1,838,000

TOTAL POOLED INVESTMENTS

\$ 79,445,741

NOTE 4 - Taxes Receivable

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

	General	Nonmajor and Other Funds	Total
Real Estate Taxes	\$ 2,131,602	\$ 0	\$ 2,131,602
Transfer Taxes	340,026	0	340,026
Earned Income Taxes	102,341	0	102,341
Less: Allowance for Uncollectibles	0	0	0
 NET TAXES RECEIVABLE	 \$ 2,573,969	 \$ 0	 \$ 2,573,969

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

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	\$ 1,793,596
Other Deferred Revenue	<u>8,777</u>
<b>TOTAL</b>	<u><u>\$ 1,802,373</u></u>

NOTE 5 - Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<b>Capital Assets:</b>				
Land	\$ 30,429,427	\$ 1,643,106	\$ 0	\$ 32,072,533
Land Improvements	3,576,716	6,000	0	3,582,716
Buildings	149,121,904	1,868,623	0	150,990,527
Construction in Progress	167,050,344	20,887,406	4,941,754	182,995,996
Furniture and Equipment	<u>23,656,734</u>	<u>2,808,666</u>	<u>483,665</u>	<u>25,981,735</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>373,835,125</u>	<u>27,213,801</u>	<u>5,425,419</u>	<u>395,623,507</u>
<b>Accumulated Depreciation for:</b>				
Buildings	72,492,756	4,394,960	0	76,887,716
Land Improvements	1,528,625	179,226	0	1,707,851
Furniture and Equipment	<u>16,791,150</u>	<u>2,689,626</u>	<u>483,580</u>	<u>18,997,196</u>
<b>TOTAL ACCUMULATED     DEPRECIATION</b>	<u>90,812,531</u>	<u>7,263,812</u>	<u>483,580</u>	<u>97,592,763</u>
<b>GOVERNMENTAL   ACTIVITIES CAPITAL   ASSETS, NET</b>	<u><u>\$ 283,022,594</u></u>	<u><u>\$ 19,949,989</u></u>	<u><u>\$ 4,941,839</u></u>	<u><u>\$ 298,030,744</u></u>
<b>Business-Type Activities:</b>				
<b>Capital Assets:</b>				
Furniture and Equipment	\$ 299,680	\$ 8,020	\$ 0	\$ 307,700
<b>Accumulated Depreciation for:</b>				
Furniture and Equipment	<u>196,985</u>	<u>25,281</u>	<u>0</u>	<u>222,266</u>
<b>BUSINESS-TYPE ACTIVITIES   CAPITAL ASSETS, NET</b>	<u><u>\$ 102,695</u></u>	<u><u>\$ (17,261)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 85,434</u></u>

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

NOTE 5 - Capital Assets (Continued)

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

Governmental Activities - Unallocated	\$ 7,263,812
Business-Type Activities	<u>25,281</u>
<b>TOTAL DEPRECIATION EXPENSE</b>	<b><u><u>\$ 7,289,093</u></u></b>

NOTE 6 - Construction Commitments

At June 30, 2007, the School District's capital projects fund had outstanding construction commitments amounting to \$17,599,848 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, 2007 is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 34,604	\$ 0
Capital Reserve Fund	17,064,031	0
Capital Projects Fund	<u>0</u>	<u>17,098,635</u>
	<b><u><u>\$ 17,098,635</u></u></b>	<b><u><u>\$ 17,098,635</u></u></b>

Interfund transfers were as follows:

	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$ 1,518,064	\$ 0
Capital Reserve Fund	0	4,307,004
Capital Projects Fund	3,356,812	0
Debt Service Fund	<u>0</u>	<u>567,872</u>
	<b><u><u>\$ 4,874,876</u></u></b>	<b><u><u>\$ 4,874,876</u></u></b>

Interfund transfers are made from the general fund to the capital reserve fund for future capital outlay, the capital projects fund to the debt service fund to provide funds for debt service expenses, and the capital projects fund also transfers interest earnings to the capital reserve fund.

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

NOTE 8 - Long-Term Debt

	Principal Outstanding July 1, 2006	Maturities/ Refinancing	Additions (Refinancing)	Principal Outstanding June 30, 2007
General Obligation Bonds, Series A of 1998	\$ 3,220,000	\$ 820,000	\$ 0	\$ 2,400,000
General Obligation Note, Series B of 2000	10,043,000	793,000	0	9,250,000
General Obligation Bonds, Series of 2002	27,660,000	0	(22,185,000)	5,475,000
General Obligation Bonds, Series AA of 2002	15,690,000	3,645,000	0	12,045,000
General Obligation Bonds, Series of 2003	29,990,000	5,000	0	29,985,000
General Obligation Bonds, Series A of 2003	18,780,000	1,485,000	0	17,295,000
General Obligation Bonds, Series AA of 2003	34,990,000	0	(34,990,000)	0
General Obligation Note, Series of 2004	7,385,000	595,000	0	6,790,000
General Obligation Bonds, Series of 2005	9,995,000	5,000	0	9,990,000
General Obligation Bonds, Series A of 2005	8,970,000	210,000	0	8,760,000
General Obligation Bonds, Series of 2006	35,000,000	5,000	0	34,995,000
General Obligation Bonds, Series A of 2006	100,810,000	5,000	0	100,805,000
General Obligation Bonds, Series AA of 2006	18,390,000	405,000	0	17,985,000
General Obligation Bonds, Refunding Series of 2006	0	5,000	22,245,000	22,240,000
General Obligation Bonds, Refunding Series A of 2006	0	5,000	37,935,000	37,930,000
General Obligation Bonds, Series of 2007	0	0	10,000,000	10,000,000
	<u>320,923,000</u>	<u>7,983,000</u>	<u>13,005,000</u>	<u>325,945,000</u>
Deferred Amounts:				
Issuance (Discounts) Premium	5,615,687	260,482	506,960	5,862,165
Refunding Deferred Charge	(1,300,378)	(146,968)	0	(1,153,410)
<b>LONG-TERM DEBT</b>	<u><u>\$ 325,238,309</u></u>	<u><u>\$ 8,096,514</u></u>	<u><u>\$ 13,511,960</u></u>	<u><u>\$ 330,653,755</u></u>

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

NOTE 8 - Long-Term Debt (Continued)

	<u>Current Outstanding Principal</u>
General Obligation Bonds, Series A of 1998. Original principal amount of \$17,000,000, maturing November 15, 2000 through November 15, 2009, bearing interest from 4.0% to 4.3%. Interest is paid semi-annually on May 15 and November 15	\$ 2,400,000
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	9,250,000
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	5,475,000
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	12,045,000
General Obligation Bonds, Series of 2003. Original principal amount of \$30,000,000, maturing March 15, 2005 through March 15, 2022, bearing interest from 3.25% to 4.4%. Interest is paid semi-annually on September 15 and March 15	29,985,000
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	17,295,000
General Obligation Bonds, Series of 2004. Original principal amount of \$7,910,000, maturing August 15, 2004 through November 15, 2016, bearing interest from 2% to 3.75%. Interest is paid semi-annually on May 15 and November 15	6,790,000
General Obligation Bonds, Series of 2005. Original principal amount of \$10,000,000, maturing November 15, 2005 through November 15, 2017, bearing interest from 2% to 3.7%. Interest is paid semi-annually on May 15 and November 15	<u>9,990,000</u>
SUBTOTAL (CARRIED FORWARD)	93,230,000

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

NOTE 8 - Long-Term Debt (Continued)

	<u>Current Outstanding Principal</u>
SUBTOTAL (BROUGHT FORWARD)	\$ 93,230,000
General Obligation Bonds, Series A of 2005. Original principal amount of \$8,975,000 maturing May 15, 2006 through May 15, 2022, bearing interest from 3% to 4.15%. Interest is paid semi-annually on May 15 and November 15	8,760,000
General Obligation Bonds, Series of 2006. Original principal amount of \$35,000,000 maturing May 15, 2007 through May 15, 2030, bearing interest from 3.25% to 5%. Interest is paid semi-annually on May 15 and November 15	34,995,000
General Obligation Bonds, Series A of 2006. Original principal amount of \$100,810,000 maturing May 15, 2007 through May 15, 2030, bearing interest from 3.5% to 5%. Interest is paid semi-annually on May 15 and November 15	100,805,000
General Obligation Bonds, Series AA of 2006. Original principal amount of \$18,390,000 maturing October 1, 2006 through October 1, 2020, bearing interest from 3.75% to 4%. Interest is paid semi-annually on April 1 and October 1	17,985,000
General Obligation Bonds, Refunding Series of 2006. Original principal amount of \$22,245,000 maturing April 15, 2007 through April 15, 2024, bearing interest from 4% to 4.25%. Interest is paid semi-annually on April 15 and October 15	22,240,000
General Obligation Bonds, Refunding Series A of 2006. Original principal amount of \$37,935,000 maturing February 1, 2007 through February 1, 2027, bearing interest from 3.5% to 4.5%. Interest is paid semi-annually on February 15 and August 15	37,930,000
General Obligation Bonds, Series of 2007. Original principal amount of \$10,000,000 maturing February 15, 2009 through February 15, 2029, bearing interest from 3.625% to 4.125%. Interest is paid semi-annually on February 15 and August 15	<u>10,000,000</u>
TOTAL	<u>\$ 325,945,000</u>



**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

NOTE 8 - Long-Term Debt (Continued)

The annual requirements to amortize all debts outstanding as of June 30, 2007, are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 10,394,000	\$ 13,690,319	\$ 24,084,319
2009	11,216,000	13,430,280	24,646,280
2010	11,962,000	13,032,887	24,994,887
2011	12,069,000	12,580,909	24,649,909
2012	23,524,000	13,874,925	37,398,925
2013-2017	61,650,000	51,686,719	113,336,719
2018-2022	74,275,000	37,991,550	112,266,550
2023-2027	95,885,000	19,116,664	115,001,664
2028-2032	24,970,000	2,390,399	27,360,399
TOTAL MATURITIES	325,945,000	177,794,652	503,739,652
Deferred Amounts	4,708,755	(4,708,755)	0
TOTAL	<u>\$ 330,653,755</u>	<u>\$ 173,085,897</u>	<u>\$ 503,739,652</u>

NOTE 9 - Changes in Other Long-Term Liabilities

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>
Accrued Compensated Absences	\$ 1,172,268	\$ 169,691	\$ 0	\$ 1,341,959
Accrued Severance	3,224,284	111,976	0	3,336,260
TOTAL	<u>\$ 4,396,552</u>	<u>\$ 281,667</u>	<u>\$ 0</u>	<u>\$ 4,678,219</u>

NOTE 10 - 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.

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

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 - Other Post-employment Benefits

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

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

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

The School District had an actuarial valuation performed. As of July 1, 1996, the actuarial present value of expected future benefits was \$9,546,579. This includes retirees, active employees eligible to retire, and active employees not yet eligible to retire. GASB statement No 45, effective July 1, 2007, will require the accrual of post employment benefits. Current standards under GASB Statement No. 12 account for the benefits on a pay-as-you-go basis. Currently, there are 263 participants receiving benefits. The total benefits paid on behalf of these participants were \$1,719,973 for the year ended June 30, 2007.

**WEST CHESTER AREA SCHOOL DISTRICT**  
Notes to Financial Statements  
June 30, 2007

NOTE 13 - 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, 2007 totaled \$5,209,415. Total covered payroll was \$80,949,511 and total payroll was \$82,117,885 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, 2007, the rate of employer contribution was 6.46 percent of covered payroll.

**WEST CHESTER AREA SCHOOL DISTRICT**  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
Local Revenues	\$ 145,234,574	\$ 145,234,574	\$ 146,423,630	\$ 1,189,056
State Program Revenues	25,743,308	25,743,308	26,115,323	372,015
Federal Program Revenues	2,694,387	2,694,387	2,649,951	(44,436)
<b>TOTAL REVENUES</b>	<u>173,672,269</u>	<u>173,672,269</u>	<u>175,188,904</u>	<u>1,516,635</u>
<b>Expenditures:</b>				
Regular Programs	68,498,910	68,851,723	68,576,405	275,318
Special Programs	20,706,086	21,329,258	21,221,258	108,000
Vocational Programs	4,260,659	4,167,681	4,148,923	18,758
Other Instructional Programs	2,243,622	1,752,685	1,727,531	25,154
Adult Education Programs	37,396	37,602	30,204	7,398
Pupil Personnel Services	6,021,673	6,101,191	6,049,036	52,155
Instructional Staff Services	5,336,171	4,768,047	4,661,131	106,916
Administrative Services	9,931,248	10,190,968	10,028,575	162,393
Pupil Health	1,960,520	1,884,169	1,765,471	118,698
Business Services	1,347,035	1,347,812	1,308,615	39,197
Operation and Maintenance of Plant Services	15,413,826	15,759,529	15,478,295	281,234
Student Transportation Services	12,581,748	12,124,957	11,809,273	315,684
Central and Other Support Services	2,209,876	2,238,058	2,159,912	78,146
Student Activities	4,049,087	3,738,019	3,684,909	53,110
Community Services	87,604	104,076	76,445	27,631
Facilities Acquisition and Construction	311,609	270,726	269,908	818
Debt Service	21,428,010	19,844,946	19,825,495	19,451
<b>TOTAL EXPENDITURES</b>	<u>176,425,080</u>	<u>174,511,447</u>	<u>172,821,386</u>	<u>1,690,061</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(2,752,811)</u>	<u>(839,178)</u>	<u>2,367,518</u>	<u>3,206,696</u>
<b>Other Financing Sources (Uses):</b>				
Interfund Transfers In	0	0	0	0
Interfund Transfers Out	0	(1,518,064)	(1,518,064)	0
Refunds of Prior Years Receipts	0	(65,000)	(12,190)	52,810
Budgetary Reserve	0	(330,569)	0	330,569
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>0</u>	<u>(1,913,633)</u>	<u>(1,530,254)</u>	<u>383,379</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(2,752,811)</u>	<u>(2,752,811)</u>	<u>837,264</u>	<u>3,590,075</u>
Fund Balance - July 1, 2006	<u>8,502,811</u>	<u>8,502,811</u>	<u>8,794,148</u>	<u>291,337</u>
<b>FUND BALANCE - JUNE 30, 2007</b>	<u>\$ 5,750,000</u>	<u>\$ 5,750,000</u>	<u>\$ 9,631,412</u>	<u>\$ 3,881,412</u>