

**WEST CHESTER AREA SCHOOL DISTRICT  
WEST CHESTER, PENNSYLVANIA**

**AUDIT REPORT**

**JUNE 30, 2010**

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WEST CHESTER AREA SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

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December 17, 2010

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 (the "District"), West Chester, Pennsylvania, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of West Chester Area 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, West Chester, Pennsylvania, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, on our consideration of West Chester Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted

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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise West Chester Area School District's basic financial statements. The accompanying schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**  
**June 30, 2010**

**INTRODUCTION**

The discussion and analysis of the financial performance of West Chester Area School District (the "District") provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers also should review the transmittal letter, notes to the financial statements and financial statements.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its 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**

- In the 2009-10 fiscal year, the District experienced decreases in local revenues, with the exclusion of current real estate taxes, as a result of the economic downturn. In response, the District took advantage of a number of cost savings measures to minimize the budgetary impact. As a result of these measures, excluding debt service and transfers to other funds, total expenditures went down when compared to the prior year.
- In the budgeting process, the Board of School Directors balanced the budget with a 1.0 mill increase (\$1.00 per \$1,000 of assessed value) to the taxpayers within Chester County.
- On an entity-wide basis, the District's total net assets were \$32,408,311 at June 30, 2010. This represents an increase of \$3,863,742 from the prior year.
- On a fund level reporting basis, the District's General Fund total revenue, excluding other financing sources, increased by \$7,758,466, or 4.1 percent. Property taxes, which include current and interim real estate taxes, increased by \$8,847,955, or 6.9 percent. As a result of the economic downturn, earned income collections decreased by \$306,431 and investment revenue decreased \$1,386,811. These decreases were partially offset by an increase of \$541,366 in ARRA pass-through federal revenue which was distributed to a grant recipient.
- On a fund reporting basis, compared to the prior year, the District's General Fund expenditures increased \$2,727,408, or 1.4 percent. Looking at the expenditure changes by category, instruction costs stayed relatively flat. Support service costs were reduced \$2,064,304, or 3.5 percent. Noninstructional services were also reduced by \$168,508, or 4.1 percent. Facilities expenditures increased \$241,041 because the District decided to fund more cyclical maintenance with operating funds. Debt service increased \$2,889,736 as the District phased in the debt service related to the school renovation projects.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2010**

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**Entity-wide Financial Statements**

The first two statements are entity-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 entity-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 entity-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, the reader needs to consider additional nonfinancial factors, such as changes in the District's property tax base and the performance of the students.

The entity-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 entity-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.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

June 30, 2010

- **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 the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** - These funds are used to account for District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services generally are reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities reported in the entity-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. These activities are excluded 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 - ENTITY-WIDE STATEMENTS**

The District's total net assets were \$32,408,311 at June 30, 2010. This represents an increase of \$3,863,742 over last year. The following table presents condensed financial information for the net assets of the District as of June 30, 2010 and 2009.

**Statement of Net Assets**  
**June 30, 2010 and 2009**

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 55,315,255	\$ 50,516,588	\$ 1,587,492	\$ 1,201,396	\$ 56,902,747	\$ 51,717,984
Capital assets	308,961,704	311,018,711	129,768	82,865	309,091,472	311,101,576
Other assets	1,936,944	2,380,768	-	-	1,936,944	2,380,768
<b>TOTAL ASSETS</b>	<b>366,213,903</b>	<b>363,916,067</b>	<b>1,717,260</b>	<b>1,284,261</b>	<b>367,931,163</b>	<b>365,200,328</b>
Current liabilities	32,352,414	33,233,044	589,934	299,123	32,942,348	33,532,167
Noncurrent liabilities	302,580,504	303,123,592	-	-	302,580,504	303,123,592
<b>TOTAL LIABILITIES</b>	<b>334,932,918</b>	<b>336,356,636</b>	<b>589,934</b>	<b>299,123</b>	<b>335,522,852</b>	<b>339,655,759</b>



**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2010**

**Statement of Net Assets**  
**June 30, 2010 and 2009**

(continued)	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Net assets:						
Invested in capital assets, net of related debt	9,418,873	8,903,159	129,768	82,865	9,548,641	8,986,024
Restricted for capital projects	13,811,178	14,641,919	-	-	13,811,178	14,641,919
Unrestricted	8,050,934	4,014,353	997,558	902,273	9,048,492	4,916,626
<b>TOTAL NET ASSETS</b>	<b>\$ 31,280,985</b>	<b>\$ 27,559,431</b>	<b>\$ 1,127,326</b>	<b>\$ 985,138</b>	<b>\$ 32,408,311</b>	<b>\$ 28,544,569</b>

The governmental activities restricted net assets in the amount of \$13,811,178 are set aside to fund the capital improvements, the replacement of and additions to public works and improvements, and for deferred maintenance. The total unrestricted net assets in the amount of \$9,048,492 include \$997,558 which can be used for capital and other expenditures within the District's food service program. The unrestricted net assets are available to fund any unforeseen financial issues.

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

The following table presents condensed financial information for the Statement of Activities in a different format so that the reader can see the total revenues for the year. Compared to the prior year, the District's total revenues increased by \$7,267,934, or 3.76 percent. The majority of the increase was in property tax revenues. Property tax revenues which include current and interim real estate taxes increased \$8,803,020, or 6.62 percent, over the prior year. Operating grants and contributions increased by \$521,375, or 2.30 percent. While most state subsidies fell slightly, the District received an additional \$541,366 in short-term federal funding made available through the American Reinvestment and Recovery Act (ARRA). Another significant drop in revenue was seen in the investment earnings. Investment earnings dropped \$2,030,299, or 82.6 percent. Expenses increased by \$1,723,129, or 0.88 percent. Increases were seen in instructional spending which increased \$1,279,251, or 1.14 percent, and in instructional student support (2.48 percent increase). Additional increases were seen in interest on long term debt (2.1 percent increase) and operation and maintenance of plant services (9.2 percent increase). These increases were partially offset by the decreases in administrative and financial support (6.74 percent decrease); pupil transportation (3.79 percent decrease) and student activities (4.94 percent decrease).

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

June 30, 2010

**Statement of Activities**  
**For the Years Ended June 30, 2010 and 2009**

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
<b>REVENUES</b>						
Program services:						
Charges for services	\$ 676,346	\$ 582,520	\$ 2,624,830	\$ 2,704,187	\$ 3,301,176	\$ 3,286,707
Operating grants and contributions	22,493,608	22,035,332	663,190	600,091	23,156,798	22,635,423
General revenues:						
Property taxes	141,802,111	132,999,091	-	-	141,802,111	132,999,091
Other taxes	19,373,245	19,619,521	-	-	19,373,245	19,619,521
Grants, subsidies and contributions not restricted	12,479,116	12,382,310	-	-	12,479,116	12,382,310
Other revenue	578,215	2,486,367	3,724	17,032	581,939	2,503,399
<b>TOTAL REVENUES</b>	<b>197,402,641</b>	<b>190,105,141</b>	<b>3,291,744</b>	<b>3,321,310</b>	<b>200,694,385</b>	<b>193,426,451</b>
<b>EXPENSES</b>						
Instruction	113,068,220	111,788,969	-	-	113,068,220	111,788,969
Instructional student support	15,022,492	14,658,854	-	-	15,022,492	14,658,854
Administrative/financial support	14,429,452	15,472,183	-	-	14,429,452	15,472,183
Operation and maintenance of plant services	19,486,401	17,852,348	-	-	19,486,401	17,852,348
Pupil transportation	13,674,801	14,213,514	-	-	13,674,801	14,213,514
Student activities	4,237,269	4,457,365	-	-	4,237,269	4,457,365
Community services	125,654	131,347	-	-	125,654	131,347
Interest on long-term debt	13,636,798	13,361,140	-	-	13,636,798	13,361,140
Food service	-	-	3,149,556	3,171,794	3,149,556	3,171,794
<b>TOTAL EXPENSES</b>	<b>193,681,087</b>	<b>191,935,720</b>	<b>3,149,556</b>	<b>3,171,794</b>	<b>196,830,643</b>	<b>195,107,514</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 3,721,554</b>	<b>\$ (1,830,579)</b>	<b>\$ 142,188</b>	<b>\$ 149,516</b>	<b>\$ 3,863,742</b>	<b>\$ (1,681,063)</b>

**EXPENSES**

The following table presents condensed financial information on the expenses of the District by function. The table illustrates both the gross and net costs of services. Unrestricted grants, subsidies and contributions are deducted to reflect the amount needed to be funded by other revenue sources. The amount needed to be funded by other revenue sources increased by \$1,096,459, or 0.70 percent 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	
	2010	2009	2010	2009
<b>Governmental-type Activities</b>				
Expenses - Governmental Activities:				
Instruction	\$113,068,220	\$111,788,969	\$ 98,908,834	\$ 97,557,624
Instructional student support	15,022,492	14,658,854	13,427,964	13,828,263
Administrative and financial support	14,429,452	15,472,183	13,879,769	14,924,853
Operation and maintenance of plant services	19,486,401	17,852,348	17,478,785	15,886,034
Pupil transportation	13,674,801	14,213,514	9,096,821	9,451,376
Student activities	4,237,269	4,457,365	4,078,413	4,177,746
Community services	125,654	131,347	3,749	130,832
Interest on long-term debt	13,636,798	13,361,140	13,636,798	13,361,140
<b>TOTAL EXPENSES</b>	<b>\$193,681,087</b>	<b>\$191,935,720</b>	<b>170,511,133</b>	<b>169,317,868</b>
Less: Grants, subsidies and contributions not restricted			(12,479,116)	(12,382,310)
<b>AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES</b>			<b>\$158,032,017</b>	<b>\$156,935,558</b>

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

June 30, 2010

**Business-type Activities**

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Expenses - Business-type Activities:				
Food services	\$ 3,149,556	\$ 3,171,794	\$ (138,464)	\$ (132,484)

**THE DISTRICT FUNDS**

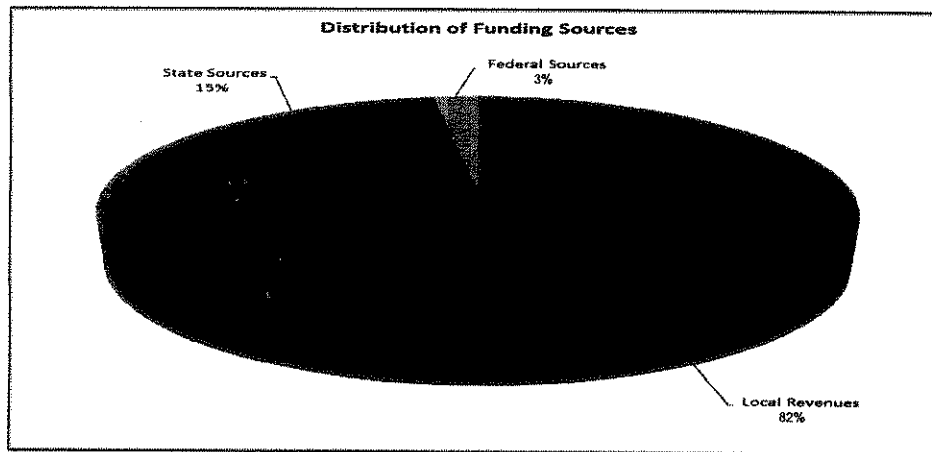
**General Fund**

At June 30, 2010, the District reported a General Fund fund balance of \$11,995,399 which represents 6.3 percent of total expenditures and is an increase of \$4,133,456 over last year. Of this amount, the District designated \$1,200,000 for future pension needs. The School Board of West Chester Area School District consciously maintains a modest fund balance needed to respond to unforeseen contingencies. This philosophy was established during a healthy and growing economy within the District and accurate and timely forecasting which allows the District to constantly monitor economic trends within our community. This philosophy conforms to the Board's belief that the tax burden should be aligned with the current funding needs of the District.

**REVENUE**

Revenues, excluding other financing sources which total \$196,833,749, increased \$7,758,466, or 4.10 percent over the prior year revenues. The following table reflects a comparison of current year revenues to prior year revenues:

	Revenue 2010	Percentage of Total	Increase from 2009	Percentage Increase
Local revenues	\$ 161,942,279	82.27%	\$ 6,054,957	3.88%
State sources	28,990,224	14.73%	(1,067,721)	-3.55%
Federal sources	5,901,246	3.00%	2,771,230	88.54%
	<b>\$ 196,833,749</b>	<b>100.00%</b>	<b>\$ 7,758,466</b>	<b>4.10%</b>



**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

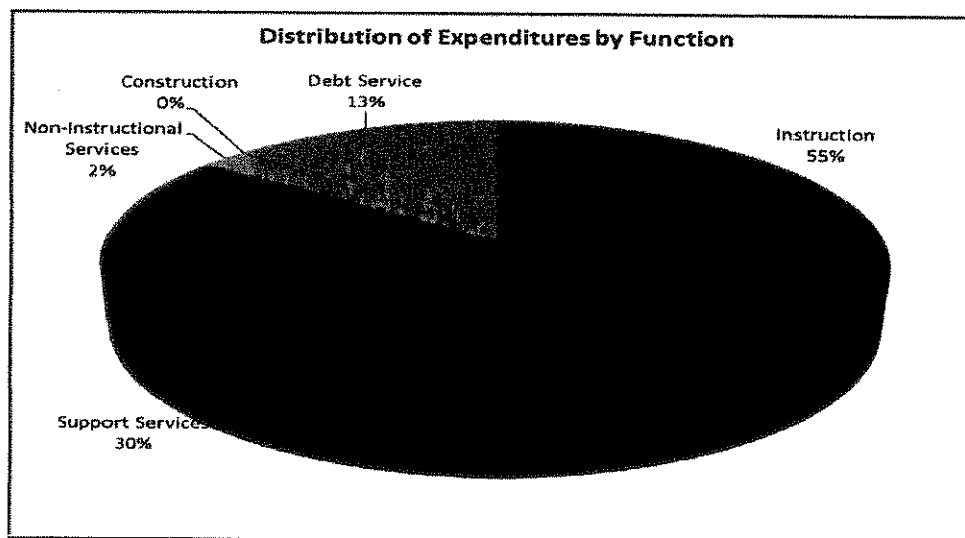
June 30, 2010

The increase in revenue is driven primarily by an increase in real estate tax millage. The 2009/2010 tax rate for Chester County properties was 17.85 mills which was a 1 mill increase from the prior year tax rate. This increase in real estate tax revenue covered significant drops in other local revenues that were the result of the poor economy. Interest earnings dropped 82.8 percent, or \$1,386,811. Earned income tax collections were down 1.8 percent, or \$306,431. The other significant change in revenue collections affected the state and federal subsidies revenues. The Commonwealth of Pennsylvania used the federal ARRA basic education funds to provide a portion of the 2009/2010 District basic education subsidy. The result was a reduction in state revenues and an increase in federal revenues in the amount of \$852,027. Additionally, the District received \$290,364 in Title I ARRA funds which were passed through to the Glen Mills School and \$251,003 in additional IDEA ARRA funds for the District's use.

**EXPENDITURES**

General Fund expenditures, excluding transfers to other governmental funds, totaled \$191,360,515. This was an increase of \$2,727,408 over the 2008-2009 expenditures, and it was \$7,363,796 under the approved 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 2009-2010 budget, are as follows:

	Expenditures 2010	Percentage of Total	Increase from 2009	Variance with Final Budget - Positive
Instruction	\$ 105,860,030	55.3%	\$ 1,829,443	\$ 2,415,502
Support services	56,706,388	29.6%	(2,064,304)	4,045,522
Noninstructional services	3,967,454	2.1%	(168,508)	630,644
Facilities acquisition and construction	389,873	0.2%	241,041	272,127
Debt service	24,436,770	12.8%	2,889,736	1
<b>TOTAL EXPENDITURES BY FUNCTION</b>	<b>\$ 191,360,515</b>	<b>100.0%</b>	<b>\$ 2,727,408</b>	<b>\$ 7,363,796</b>



**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2010**

The increase in General Fund expenditures from the prior year is due largely to cost-of-living increases. Drops in support services and noninstructional services were the direct result of management efforts to cut costs and services. These efforts were taken to try to better balance the actual expenditures with the falling revenues. Facilities acquisition, construction and improvement spending in the General Fund increased by \$241,041, which was \$272,127 less than the approved budget. This increase in General Fund facilities spending is the result of a management decision to allocate more cyclical maintenance expenditures to the operating funds. Spending on debt service in the general fund increased \$2,889,736 due to the planned phasing in of the debt service related to the funding of the secondary school renovations.

**Capital Projects Fund**

At June 30, 2010, the District reported a fund balance of \$8,316,802, which is an increase of \$1,351,408 from June 30, 2009. The District issued \$10,000,000 in debt to fund the balance of the secondary school renovations and the design costs of the elementary school renovations. Additionally, the General Fund transferred funds in the amount of \$272,127 to cover the cost of future capital outlays. These cash inflows were offset by \$9,009,062 in cash outflows for, primarily, the final payments on the secondary school renovation projects.

**Capital Reserve Fund**

At June 30, 2010, the District reported a fund balance of \$13,811,178, which is a decrease of \$830,741 over the prior year fund balance. During the year, the fund earned \$137,306 in investment income and spent \$2,048,270 on technology replacements. Additionally, \$1,607,895 was transferred from the General Fund to the Capital Reserve Fund. This transfer represents the interest savings achieved by refinancing two existing bond issues.

***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.

Due to legislative restrictions, the District must adopt a preliminary budget six months before the start of the fiscal year. Subsequent to the start of the fiscal year, it was evident that the downturn in the economy would take a more serious toll on the District's revenues than originally expected. In reaction to this anticipated drop in revenues, the District scaled back spending on all noninstruction areas when possible. This is evident when reviewing the District's actual revenue and expenditures versus the approved budget. Total revenues were under budgeted amounts by \$2,936,472, or 1.47 percent. Total expenses were under budget by \$7,363,796, or 3.7 percent.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2010**

**CAPITAL ASSETS**

At June 30, 2010, the District had \$308,961,704 invested in a broad range of governmental capital assets, including land, buildings and furniture and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$2,057,007, or 0.7 percent from last year.

The following schedule depicts the change in capital assets for the period July 1, 2009 through June 30, 2010.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital assets:					
Land	\$ 33,139,690	\$ -	\$ -	\$ -	\$ 33,139,690
Land improvements	3,640,914	-	-	5,604,832	9,245,746
Buildings	330,482,462	97,802	-	1,933,124	332,513,388
Construction-in-progress	30,425,849	8,853,828	-	(7,537,956)	31,741,721
Furniture and equipment	31,470,384	1,402,871	986,734	-	31,886,521
<b>TOTAL CAPITAL ASSETS</b>	<u>429,159,299</u>	<u>10,354,501</u>	<u>986,734</u>	<u>-</u>	<u>438,527,066</u>
Accumulated depreciation for:					
Land improvements	92,542,337	8,921,176	-	-	101,463,513
Buildings	2,069,972	321,237	-	-	2,391,209
Furniture and equipment	23,528,279	3,168,864	986,503	-	25,710,640
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>118,140,588</u>	<u>12,411,277</u>	<u>986,503</u>	<u>-</u>	<u>129,565,362</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
<b>CAPITAL ASSETS, NET</b>	<u>\$ 311,018,711</u>	<u>\$(2,056,776)</u>	<u>\$ 231</u>	<u>\$ -</u>	<u>\$ 308,961,704</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Capital assets:					
Furniture and equipment	\$ 353,456	\$ 74,892	\$ -	\$ -	\$ 428,348
<b>TOTAL CAPITAL ASSETS</b>	<u>353,456</u>	<u>74,892</u>	<u>-</u>	<u>-</u>	<u>428,348</u>
Accumulated depreciation for:					
Furniture and equipment	270,591	27,989	-	-	298,580
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>270,591</u>	<u>27,989</u>	<u>-</u>	<u>-</u>	<u>298,580</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
<b>CAPITAL ASSETS, NET</b>	<u>\$ 82,865</u>	<u>\$ 46,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,768</u>

**DEBT ADMINISTRATION**

As of June 30, 2010, the District had total outstanding bonds and related charges of \$307,859,633, a decrease of \$1,221,313 over last year. During 2009/2010, the District refinanced \$22,310,000 in outstanding debt to take advantage of the favorable financing market conditions. The District incurred \$10,000,000 of new debt to fund the final phases of the secondary school renovations and start the engineering work for the elementary school renovations. Based upon a projection of future debt margins, the retirement of principal on current issues and estimated future borrowing, the District is certain that it will not exceed its debt limit.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2010**

**Debt Service Schedule**  
**June 30, 2010**

	Principal Outstanding July 1, 2009	Maturities/ Refinancing	Additions	Principal Outstanding June 30, 2010
General obligation note, Series B of 2000	\$ 7,540,000	\$ 922,000	\$ -	\$ 6,618,000
General obligation bonds, Series of 2002	3,645,000	1,160,000	-	2,485,000
General obligation bonds, Series of 2003	29,975,000	5,000	-	29,970,000
General obligation bonds, Series A of 2003	14,240,000	14,240,000	-	-
General obligation bonds, Series of 2005	9,980,000	9,980,000	-	-
General obligation bonds, Series A of 2005	7,840,000	480,000	-	7,360,000
General obligation bonds, Series of 2006	34,985,000	5,000	-	34,980,000
General obligation bonds, Series A of 2006	100,795,000	95,000	-	100,700,000
General obligation bonds, Series AA of 2006	15,025,000	1,570,000	-	13,455,000
General obligation bonds, Refunding Series of 2006	22,130,000	110,000	-	22,020,000
General obligation bonds, Refunding Series A of 2006	37,680,000	130,000	-	37,550,000
General obligation bonds, Series of 2007	9,995,000	340,000	-	9,655,000
General obligation bonds, Refunding Series of 2009	10,700,000	5,290,000	-	5,410,000
General obligation note, Series of 2009	-	-	10,000,000	10,000,000
General obligation bonds, Refunding Series of 2010	-	-	22,330,000	22,330,000
	<u>304,530,000</u>	<u>34,327,000</u>	<u>32,330,000</u>	<u>302,533,000</u>
Deferred amounts:				
Issuance (discounts) premium	5,307,743	556,861	499,753	5,200,635
Refunding deferred charge	(756,797)	16,712	899,507	125,998
<b>LONG-TERM DEBT</b>	<u><b>\$ 309,080,946</b></u>	<u><b>\$ 34,900,573</b></u>	<u><b>\$ 33,729,260</b></u>	<u><b>\$ 307,859,633</b></u>

**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.

WEST CHESTER AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
June 30, 2010

**THE DISTRICT'S FUTURE**

Renovating existing District facilities has been a key financial element in the last few years. The secondary school construction projects, which included the building of a new high school, the renovation of the other two high schools and the renovation of one middle school, are complete. In 2009-2010, the District continued developing its 14-year long-term elementary school master plan which includes renovations and/or additions to each of its 10 elementary schools. While work on this plan continues, the District is cautious in this plan development due to the current financial environment. The District has always exercised caution in a conservative approach to borrowing, including waiting until long-term bonds (20-year notes) were capable of being sold at advantageous, fixed rates of interest.

In 2009-2010, the District struggled with two weighty financial issues. First, the poor economy caused some local revenue streams to drop significantly. Most heavily hit were investment earnings and earned income tax collections. When planning for the 2010-2011 budgets, the District was not optimistic about the recovery of these revenues. Therefore, the District has budgeted conservatively for these local revenue streams. Additionally, retirement rates started their climb in 2010-2011. While rates increased incrementally in 2010-2011, rates are projected to rise from 4.78 percent in 2009-2010 to 21.18 percent in 2014-2015. While the District is hopeful that the Commonwealth of Pennsylvania finds an alternative solution before 2014-2015, the District has started to reserve funds to finance this dramatic increase in pension cost.

As a result of these decreases in revenues and increases in current and future expenses, the District re-evaluated all budgets during the 2010-2011 budget development process. Utilizing the assistance of a Community Budget Task Force, the District was able to find more than \$8 million in reductions from all departments from the original budget projections. The District anticipates continuing a stringent budget review going forward to ensure all savings opportunities are identified.

Additionally, the District strengthened its fiscal management by adopting a fund balance policy in 2009-2010. This policy directs the District to strive for a General Fund balance of five percent of General Fund expenditures. The District believes that this policy will strengthen the District's balance sheet and allow the District to weather unforeseen fiscal issues.

The District continues to forecast revenues and expenditures five years forward to address all known changes in collection patterns and spending needs.

**STRATEGIC PLAN**

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



WEST CHESTER AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

June 30, 2010

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

**FINANCIAL MANAGEMENT**

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 1,648,635	\$ 27,585	\$ 1,676,220
Investments	44,954,112	1,512,580	46,466,692
Due from other governments	1,318,393	36,167	1,354,560
Interest receivable	80	-	80
Other receivables	1,278,270	11,160	1,289,430
Taxes receivable	4,343,853	-	4,343,853
Prepaid expenses	1,771,912	-	1,771,912
<b>Total Current Assets</b>	<b>55,315,255</b>	<b>1,587,492</b>	<b>56,902,747</b>
Noncurrent Assets:			
Bond issuance costs	1,936,944	-	1,936,944
Capital assets			
Land	33,139,690	-	33,139,690
Construction-in-progress	31,741,721	-	31,741,721
Land improvements	9,245,746	-	9,245,746
Buildings	332,513,388	-	332,513,388
Furniture and equipment	31,886,521	428,348	32,314,869
Less: Accumulated depreciation	(129,565,362)	(298,580)	(129,863,942)
<b>Total Noncurrent Assets</b>	<b>310,898,648</b>	<b>129,768</b>	<b>311,028,416</b>
<b>TOTAL ASSETS</b>	<b>\$366,213,903</b>	<b>\$ 1,717,260</b>	<b>\$367,931,163</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable and other current liabilities	\$ 18,492,209	\$ 541,785	\$ 19,033,994
Accrued interest	2,364,938	-	2,364,938
Deferred revenues	21,267	48,149	69,416
Bonds and notes payable	11,474,000	-	11,474,000
<b>Total Current Liabilities</b>	<b>32,352,414</b>	<b>589,934</b>	<b>32,942,348</b>
Noncurrent Liabilities:			
Bonds and notes payable	296,385,633	-	296,385,633
Accrued severance and compensated absences	6,194,871	-	6,194,871
<b>Total Noncurrent Liabilities</b>	<b>302,580,504</b>	<b>-</b>	<b>302,580,504</b>
<b>TOTAL LIABILITIES</b>	<b>334,932,918</b>	<b>589,934</b>	<b>335,522,852</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,418,873	129,768	9,548,641
Restricted	13,811,178	-	13,811,178
Unrestricted	8,050,934	997,558	9,048,492
<b>TOTAL NET ASSETS</b>	<b>31,280,985</b>	<b>1,127,326</b>	<b>32,408,311</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$366,213,903</b>	<b>\$ 1,717,260</b>	<b>\$367,931,163</b>

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
<b>PRIMARY GOVERNMENT</b>						
<b>GOVERNMENTAL ACTIVITIES:</b>						
Instruction	\$113,068,220	\$ 13,642,696	\$ -	\$ (98,908,834)	-	\$ (98,908,834)
Instructional student support	15,022,492	1,594,528	-	(13,427,964)	-	(13,427,964)
Administrative and financial support services	14,429,452	549,683	-	(13,879,769)	-	(13,879,769)
Operation and maintenance of plant services	19,486,401	1,968,683	-	(17,478,785)	-	(17,478,785)
Pupil transportation	13,674,801	4,577,980	-	(9,096,821)	-	(9,096,821)
Student activities	4,237,269	158,856	-	(4,078,413)	-	(4,078,413)
Community services	125,654	1,182	-	(3,749)	-	(3,749)
Interest on long-term debt	13,636,798	-	-	(13,636,798)	-	(13,636,798)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>193,681,087</b>	<b>22,493,608</b>	<b>-</b>	<b>(170,511,133)</b>	<b>-</b>	<b>(170,511,133)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>						
Food service	3,149,556	663,190	-	-	138,464	138,464
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 3,301,176</b>	<b>\$ 23,156,798</b>	<b>\$ -</b>	<b>(170,511,133)</b>	<b>138,464</b>	<b>(170,372,669)</b>
<b>GENERAL REVENUES</b>						
Property taxes, levied for general purposes				141,802,111	-	141,802,111
Taxes levied for specific purposes				19,373,245	-	19,373,245
Grants, entitlements and contributions not restricted to specific programs				12,479,116	-	12,479,116
Investment earnings				425,283	3,724	429,007
Other				152,932	-	152,932
<b>TOTAL GENERAL REVENUES</b>				<b>174,232,687</b>	<b>3,724</b>	<b>174,236,411</b>
<b>CHANGE IN NET ASSETS</b>				<b>3,721,554</b>	<b>142,188</b>	<b>3,863,742</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>				<b>27,559,431</b>	<b>985,138</b>	<b>28,544,569</b>
<b>NET ASSETS, END OF YEAR</b>				<b>\$ 31,280,985</b>	<b>\$ 1,127,326</b>	<b>\$ 32,408,311</b>

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Fund</u>	<u>Totals</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 828,339	\$ 195,553	\$ 546,649	\$ 78,094	\$ 1,648,635
Investments	24,090,278	8,676,486	12,187,348	-	44,954,112
Interest receivable	80	-	-	-	80
Taxes receivable	4,343,853	-	-	-	4,343,853
Due from other funds	22,674	-	-	-	1,341,524
Due from other governments	1,318,393	272,968	1,045,882	-	1,318,393
Other receivables	1,278,270	-	-	-	1,278,270
Prepaid expenses	1,730,642	-	41,270	-	1,771,912
<b>TOTAL ASSETS</b>	<u>\$ 33,612,529</u>	<u>\$ 9,145,007</u>	<u>\$ 13,821,149</u>	<u>\$ 78,094</u>	<u>\$ 56,656,779</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts payable and accrued liabilities	\$ 5,766,701	\$ 814,308	\$ 9,971	\$ 2,388	\$ 6,593,368
Due to other funds	1,340,022	1,402	-	100	1,341,524
Payroll accruals and withholdings	11,886,346	12,495	-	-	11,898,841
Deferred revenue	2,624,061	-	-	-	2,624,061
<b>TOTAL LIABILITIES</b>	<u>21,617,130</u>	<u>828,205</u>	<u>9,971</u>	<u>2,488</u>	<u>22,457,794</u>
<b>FUND BALANCES:</b>					
Reserved	-	8,316,802	13,811,178	-	22,127,980
Unreserved - designated for PSERS	1,200,000	-	-	-	1,200,000
Unreserved - undesignated	10,795,399	-	-	75,606	10,871,005
<b>TOTAL FUND BALANCES</b>	<u>11,995,399</u>	<u>8,316,802</u>	<u>13,811,178</u>	<u>75,606</u>	<u>34,198,985</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 33,612,529</u>	<u>\$ 9,145,007</u>	<u>\$ 13,821,149</u>	<u>\$ 78,094</u>	<u>\$ 56,656,779</u>

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
TO STATEMENT OF NET ASSETS  
JUNE 30, 2010**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 34,198,985

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 the governmental funds. The cost of assets was \$438,527,066 and the accumulated depreciation was \$129,565,362 308,961,704

Some of the District's revenues will be collected after year end but are not available soon enough to pay the current year's expenditures and therefore are reported as deferred revenue in the governmental funds. 2,602,794

Debt issuances resulted in deferred charges which will be amortized over the life of new debt but do not represent current rights and/or obligations. These assets and liabilities consist of:

Unamortized bond issuance costs 1,936,944

Long-term liabilities applicable to the governmental activities are not due and payable in the current period and therefore are not reported in the governmental funds.

Accrued interest	\$ (2,364,938)	
Bonds and notes payable in future years	(307,859,633)	
Accumulated compensated absences	(6,194,871)	<u>(316,419,442)</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 31,280,985

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Fund</u>	<u>Totals</u>
<b>REVENUES</b>					
Local sources	\$ 161,942,279	-	\$ 137,306	\$ 120,723	\$ 162,200,308
State sources	28,990,224	-	-	-	28,990,224
Federal sources	5,901,246	-	-	-	5,901,246
<b>TOTAL REVENUES</b>	<u>196,833,749</u>	<u>-</u>	<u>137,306</u>	<u>120,723</u>	<u>197,091,778</u>
<b>EXPENDITURES</b>					
Current:					
Instruction	105,860,030	-	-	-	105,860,030
Support services	56,706,388	88,343	734,126	-	57,528,857
Operation of noninstructional services	3,967,454	-	1,314,144	94,713	5,376,311
Debt service:					
Principal, interest and fiscal agent fees	24,436,770	135,159	-	-	24,571,929
Capital outlays	389,873	8,785,560	-	-	9,175,433
<b>TOTAL EXPENDITURES</b>	<u>191,360,515</u>	<u>9,009,062</u>	<u>2,048,270</u>	<u>94,713</u>	<u>202,512,560</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>5,473,234</u>	<u>(9,009,062)</u>	<u>(1,910,964)</u>	<u>26,010</u>	<u>(5,420,782)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Refund of prior year revenues	(4,813)	-	-	-	(4,813)
Refund of prior year expenditures	5,057	-	-	-	5,057
Proceeds from long-term debt	-	32,330,000	-	-	32,330,000
Payment to refund bonds	-	(22,691,410)	-	-	(22,691,410)
Premiums on bonds issued	-	449,753	-	-	449,753
Proceeds from sale of assets	-	272,127	12,328	-	12,328
Transfers in	-	-	1,067,895	-	1,340,022
Transfers out	(1,340,022)	-	-	-	(1,340,022)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,339,778)</u>	<u>10,360,470</u>	<u>1,080,223</u>	<u>-</u>	<u>10,100,915</u>
<b>NET CHANGE IN FUND BALANCES</b>	4,133,456	1,351,408	(830,741)	26,010	4,680,133
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>7,861,943</u>	<u>6,965,394</u>	<u>14,641,919</u>	<u>49,596</u>	<u>29,518,852</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 11,995,399</u>	<u>\$ 8,316,802</u>	<u>\$ 13,811,178</u>	<u>\$ 75,606</u>	<u>\$ 34,198,985</u>

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 4,680,133

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlays	\$ 10,354,501	
Depreciation expense	(12,411,277)	
Loss on disposition	<u>(231)</u>	(2,057,007)

Because some amounts will not be collected for several months after the District fiscal year ends, they are not considered as "available" revenues in the governmental funds.

Deferred tax revenues	154,381	
Deferred federal subsidies	<u>152,435</u>	306,816

The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issuance	(32,330,000)	
Refunded debt	22,310,000	
Principal repayments	<u>12,017,000</u>	1,997,000

Governmental funds report issuance costs as expenditures, bond discounts as other financing uses and bond premiums as other financing sources. However, these amounts are reported on the statement of net assets as deferred charges and credits and are amortized over the life of the debt.

(1,219,511)

In the statement of activities, certain operating expenses—compensated absences (vacations and sick leave) and special termination benefits (early retirement)—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 is the amount by which current period amounts earned exceeded current period compensated absences paid.

(135,225)

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 the interest accrues, regardless of when it is due.

149,348

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 3,721,554

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT  
BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$163,596,634	\$163,596,634	\$161,942,279	\$(1,654,355)
State sources	30,310,550	30,310,550	28,990,224	(1,320,326)
Federal sources	5,863,037	5,863,037	5,901,246	38,209
<b>TOTAL REVENUES</b>	<u>199,770,221</u>	<u>199,770,221</u>	<u>196,833,749</u>	<u>(2,936,472)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction				
Regular programs, elementary/secondary	79,622,621	76,246,982	75,275,369	971,613
Special programs, elementary/secondary	24,859,438	26,940,828	25,706,007	1,234,821
Vocational education programs	4,549,022	4,514,978	4,370,425	144,553
Other instructional programs	228,020	541,442	484,769	56,673
Adult education programs	36,714	31,302	23,460	7,842
Total Instruction	<u>109,295,815</u>	<u>108,275,532</u>	<u>105,860,030</u>	<u>2,415,502</u>
Support services				
Pupil personnel	7,096,037	6,975,193	6,726,085	249,108
Instructional staff	5,042,589	5,840,662	5,388,795	451,867
Administration	10,822,768	10,730,688	10,307,181	423,507
Pupil health	2,051,741	2,532,022	1,862,075	669,947
Business	1,566,477	1,513,345	1,477,726	35,619
Operation and maintenance of plant services	17,492,459	17,055,218	15,945,427	1,109,791
Student transportation services	13,208,663	13,258,520	12,732,134	526,386
Central	2,432,708	2,717,472	2,139,341	578,131
Other support services	129,790	128,790	127,624	1,166
Total Support Services	<u>59,843,232</u>	<u>60,751,910</u>	<u>56,706,388</u>	<u>4,045,522</u>
Operation of noninstructional services				
Student activities	4,485,464	4,470,340	3,850,462	619,878
Community services	110,883	127,758	116,992	10,766
Total Operation of Noninstructional Services	<u>4,596,347</u>	<u>4,598,098</u>	<u>3,967,454</u>	<u>630,644</u>
Facilities acquisition				
Site acquisition	812,000	662,000	389,873	272,127
Debt service				
Principal, interest and fiscal agent fees	24,181,730	24,436,771	24,436,770	1
<b>TOTAL EXPENDITURES</b>	<u>198,729,124</u>	<u>198,724,311</u>	<u>191,360,515</u>	<u>7,363,796</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,041,097</u>	<u>1,045,910</u>	<u>5,473,234</u>	<u>4,427,324</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refund of prior year revenues	-	(4,813)	(4,813)	-
Refund of prior year expenditures	-	-	5,057	5,057
Transfers in	89,500	89,500	-	(89,500)
Transfers out	-	-	(1,340,022)	(1,340,022)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>89,500</u>	<u>84,687</u>	<u>(1,339,778)</u>	<u>(1,424,465)</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,130,597	1,130,597	4,133,456	3,002,859
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>7,861,943</u>	<u>7,861,943</u>	<u>7,861,943</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 8,992,540</u>	<u>\$ 8,992,540</u>	<u>\$ 11,995,399</u>	<u>\$ 3,002,859</u>

The accompanying notes are an integral part of these financial statements.



**WEST CHESTER AREA SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - PROPRIETARY FUND  
JUNE 30, 2010**

	<u>Food Service Fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 27,585
Investments	1,512,580
Due from other governments	36,167
Other receivables	11,160
<b>TOTAL CURRENT ASSETS</b>	<u>1,587,492</u>
 <b>CAPITAL ASSETS:</b>	
Furniture and equipment, net	<u>129,768</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 1,717,260</u></u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable and accrued liabilities	\$ 541,785
Deferred revenue	48,149
<b>TOTAL LIABILITIES</b>	<u>589,934</u>
 <b>NET ASSETS:</b>	
Invested in capital assets	129,768
Unrestricted	997,558
<b>TOTAL NET ASSETS</b>	<u>1,127,326</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$ 1,717,260</u></u>

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service revenues	\$ 2,624,830
TOTAL OPERATING REVENUES	<u>2,624,830</u>
OPERATING EXPENSES	
Professional and contract services	3,114,832
Depreciation	27,989
Other operating costs	6,735
TOTAL OPERATING EXPENSES	<u>3,149,556</u>
OPERATING LOSS	<u>(524,726)</u>
NONOPERATING REVENUES	
State sources	62,685
Federal sources	600,505
Interest income	3,724
TOTAL NONOPERATING REVENUES	<u>666,914</u>
CHANGE IN NET ASSETS	142,188
NET ASSETS, BEGINNING OF YEAR	<u>985,138</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,127,326</u></u>

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Food Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 2,627,508
Payments to suppliers	<u>(2,837,045)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(209,537)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
State sources	62,612
Federal sources	489,791
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>552,403</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchase of capital assets	<u>(74,892)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(74,892)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of investment securities and deposits to investment pools	(308,084)
Interest income	3,724
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(304,360)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(36,386)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>63,971</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 27,585</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (524,726)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	27,989
Changes in assets and liabilities:	
(Increase) in other receivables	(3,611)
Increase in accounts payable and accrued liabilities	284,522
Increase in deferred revenue	6,289
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>\$ (209,537)</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>	
<b>NONCASH NONCAPITAL FINANCING ACTIVITY:</b>	
USDA donated commodities	<u>\$ 94,272</u>

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS - FIDUCIARY FUNDS**  
**JUNE 30, 2010**

	<u>Student Activity Funds</u>	<u>Other Agency Fund</u>	<u>Total Agency Funds</u>	<u>Private- Purpose Trust</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 263,287	\$ 51,718	\$ 315,005	\$ 550,779
Other receivables	-	53,429	53,429	-
<b>TOTAL ASSETS</b>	<u>\$ 263,287</u>	<u>\$ 105,147</u>	<u>\$ 368,434</u>	<u>\$ 550,779</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Other current liabilities	\$ 263,287	\$ 105,147	\$ 368,434	\$ 26,015
<b>TOTAL LIABILITIES</b>	<u>263,287</u>	<u>105,147</u>	<u>368,434</u>	<u>26,015</u>
<b>NET ASSETS:</b>				
Restricted	-	-	-	524,764
<b>TOTAL NET ASSETS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>524,764</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 263,287</u>	<u>\$ 105,147</u>	<u>\$ 368,434</u>	<u>\$ 550,779</u>

The accompanying notes are an integral part of these financial statements.

**WEST CHESTER AREA SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Gifts and contributions	<u>\$ 801,461</u>
TOTAL ADDITIONS	<u>801,461</u>
DEDUCTIONS	
Grants	<u>778,180</u>
TOTAL DEDUCTIONS	<u>778,180</u>
CHANGE IN NET ASSETS	23,281
NET ASSETS, BEGINNING OF YEAR	<u>501,483</u>
NET ASSETS, END OF YEAR	<u><u>\$ 524,764</u></u>

The accompanying notes are an integral part of these financial statements.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The District is governed by an elected Board of Directors. Generally accepted accounting principles require that the financial statements present the District and its component units, entities for which the 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, therefore, 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 entity-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 District's financial statements.

Entity-wide and Fund Financial Statements

The entity-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the 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.

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 entity-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The entity-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 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, therefore, 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 District.

The District reports the following major government funds:

**General Fund** - The General Fund is the 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.

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

The District reports the following major proprietary fund:

**Food Service Fund** - The Food Service Fund (an Enterprise Fund) is used to account for the operations of the District's school cafeterias that are financed and operated in a manner similar to a private business enterprise wherein 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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Additionally, the District reports the following fund types:

**Fiduciary Funds** - Fiduciary Funds are used to account for assets held by the 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.

**Proprietary Funds** - 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 statement 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 District's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

***Deposits and Investments***

Under Section 440-1 of the Public School code of 1949, as amended, the 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 ("FDIC") or the Federal Savings and Loan Insurance Corporation ("FSLIC") 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.



WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

***Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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 noncurrent 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 entity-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of any allowance for uncollectibles. There are no allowances at June 30, 2010.

Taxes are levied on July 1 and payable in the following periods:

Discount Period	-	July 1 to August 31	-	2% of gross levy
Fiat Period	-	September 1 to October 31		
Penalty Period	-	November 1 to collection	-	10% of gross levy
Lien Date	-	February 28		

***Capital Assets***

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. 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 assets 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 District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid accumulated sick leave is accounted for in the accrued severance pay. This time is paid out only through severance pay calculations.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

District employees who are required to work on a 12-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 the amount 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 15 years of credited District service and retire under the normal PSERS guidelines, receive severance pay in the form of compensation. Administrative personnel receive \$45 - \$80 per day for every day of accumulated sick and personal days at retirement. Instructional personnel receive \$45 - \$80 per day. Secretarial and support personnel receive \$75 per day for every day of accumulated sick and personal days at retirement to a maximum \$10,000 of compensation. Severance pay generally is liquidated by the General Fund.

*Long-term Obligations*

In the entity-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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 BUDGETARY INFORMATION

Budgets are adopted on a basis consistent with 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 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 District offices to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. Budgeted amounts are as originally adopted, or as amended by the School Board.

NOTE 3 DEPOSITS

Statutes authorize the District to invest in U.S. Treasury bills; short-term obligations of the U.S. government or its agencies; deposits in savings accounts or time deposits insured by the FDIC or the National Credit Union Share insurance fund, and for any amounts above the insured maximum, provided that approved collateral is pledged by the depository; obligations of the United States of America, the Commonwealth of Pennsylvania, any of its agencies or instrumentalities or any of its political subdivisions backed by the full faith and credit of the political subdivision; or approved local government investment pools or mutual funds.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk. At June 30, 2010, the carrying amount of the District's deposits was \$2,542,004 and the bank balance was \$4,430,008. Of the bank balance, \$4,285,567 was covered by federal depository insurance. The balance was uninsured but covered by collateral held by the depository's agent on a pooled basis not in the District's name.

NOTE 4 INVESTMENTS

Statutes authorize the District to invest in U.S. Treasury bills; short-term obligations of the U.S. government or its agencies; deposits in savings accounts or time deposits insured by the FDIC or the National Credit Union Share insurance fund, and for any amounts above the insured maximum, provided that approved collateral is pledged by the depository; obligations of the

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS (cont'd)

United States of America, the Commonwealth of Pennsylvania, any of its agencies or instrumentalities or any of its political subdivisions backed by the full faith and credit of the political subdivision; or approved local government investment pools or mutual funds.

As of June 2010, the District had the following investments.

Pooled Investments:

Pennsylvania School District Liquid Asset Fund ("PSDLAF")	
General fund accounts	\$ 7,806,497
Capital reserve fund account	12,102,022
Total Pennsylvania School District Liquid Asset Fund	<u>19,908,519</u>
Pennsylvania Local Government Investment Trust ("PLGIT")	
Capital project fund account	8,676,486
Capital reserve fund account	7,085
Total Pennsylvania Local Government Investment Trust	<u>8,683,571</u>
Pennsylvania Treasurer's Investment Program ("PTIP")	
General fund account	14,445,781
Capital reserve fund account	78,241
Food service fund account	1,512,580
Total Pennsylvania Treasurer's Investment Program	<u>16,036,602</u>
TOTAL	44,628,692
<u>Certificates of deposit:</u>	
General fund accounts	<u>1,838,000</u>
TOTAL POOLED INVESTMENTS	<u>\$ 46,466,692</u>

Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF, PLGIT and PTIP act like money market mutual funds in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2010, each was rated as AAA by a nationally recognized statistical rating agency.

The certificate of deposit was not covered by federal depository insurance and was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name.

NOTE 5 TAXES RECEIVABLE

Taxes receivable as of year end for the District, in the aggregate, are as follows:

	<u>General Fund</u>
Real estate taxes	\$ 2,921,318
Transfer taxes	333,286
Earned income taxes	1,089,249
Net Taxes Receivable	<u>\$ 4,343,853</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 TAXES RECEIVABLE (cont'd)

The District's evaluation of taxes resulted in no allowance for uncollectible accounts, as all taxes are deemed to be collectible through tax liens.

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

Delinquent real estate taxes	\$ 2,450,359
Deferred federal revenue	152,435
Other deferred revenue	<u>21,267</u>
<b>TOTAL</b>	<b><u>\$ 2,624,061</u></b>

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital assets not being depreciated:					
Land	\$ 33,139,690	\$ -	\$ -	\$ -	\$ 33,139,690
Construction-in-progress	<u>30,425,849</u>	<u>8,853,828</u>	<u>-</u>	<u>(7,537,956)</u>	<u>31,741,721</u>
Total Capital Assets Not Being Depreciated	<u>63,565,539</u>	<u>8,853,828</u>	<u>-</u>	<u>(7,537,956)</u>	<u>64,881,411</u>
Capital assets being depreciated:					
Land Improvements	3,640,914	-	-	5,604,832	9,245,746
Buildings	330,482,462	97,802	-	1,933,124	332,513,388
Furniture and equipment	<u>31,470,384</u>	<u>1,402,871</u>	<u>986,734</u>	<u>-</u>	<u>31,886,521</u>
Total Capital Assets Being Depreciated	<u>365,593,760</u>	<u>1,500,673</u>	<u>986,734</u>	<u>7,537,956</u>	<u>373,645,655</u>
Accumulated depreciation for:					
Land Improvements	92,542,337	8,921,176	-	-	101,463,513
Buildings	2,069,972	321,237	-	-	2,391,209
Furniture and equipment	<u>23,528,279</u>	<u>3,168,864</u>	<u>986,503</u>	<u>-</u>	<u>25,710,640</u>
Total accumulated depreciation	<u>118,140,588</u>	<u>12,411,277</u>	<u>986,503</u>	<u>-</u>	<u>129,565,362</u>
Total Capital Assets Being Depreciated, Net	<u>247,453,172</u>	<u>(10,910,604)</u>	<u>231</u>	<u>-</u>	<u>244,080,293</u>
Governmental Activities, Net	<u>\$311,018,711</u>	<u>\$ (2,056,776)</u>	<u>\$ 231</u>	<u>\$ -</u>	<u>\$308,961,704</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 CAPITAL ASSETS (cont'd)

(continued)	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>					
Capital assets:					
Furniture and equipment	\$ 353,456	\$ 74,892	\$ -	\$ -	\$ 428,348
Total Capital Assets	<u>353,456</u>	<u>74,892</u>	<u>-</u>	<u>-</u>	<u>428,348</u>
Accumulated depreciation for:					
Furniture and equipment	270,591	27,989	-	-	298,580
Total Accumulated Depreciation	<u>270,591</u>	<u>27,989</u>	<u>-</u>	<u>-</u>	<u>298,580</u>
Business-type Activities					
Capital Assets, Net	\$ <u>82,865</u>	\$ <u>46,903</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>129,768</u>

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

Governmental activities:

Instruction	\$ 7,794,310
Instructional student support	1,035,569
Administrative and financial support services	994,688
Operation and maintenance of plant services	1,343,287
Pupil transportation	942,667
Student activities	292,094
Community services	8,662
	<u>8,662</u>

Total Depreciation Expense - Governmental Activities \$ 12,411,277

Business-type Activities - Food Service \$ 27,989

NOTE 7 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2010 is as follows:

	Interfund Receivables	Interfund Payables
General fund	\$ 22,674	\$ 1,340,022
Capital reserve fund	1,045,882	-
Capital projects fund	272,968	1,402
Other nonmajor governmental fund	-	100
TOTAL	<u>\$ 1,341,524</u>	<u>\$ 1,341,524</u>

The general fund transferred \$272,127 and \$1,067,895 to the capital projects and capital reserve funds, respectively, for the year ended June 30, 2010.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2010:

	Principal Outstanding July 1, 2009	Maturities/ Refinancing	Additions	Principal Outstanding June 30, 2010
General obligation note, Series B of 2000	\$ 7,540,000	\$ 922,000	\$ -	\$ 6,618,000
General obligation bonds, Series of 2002	3,645,000	1,160,000	-	2,485,000
General obligation bonds, Series of 2003	29,975,000	5,000	-	29,970,000
General obligation bonds, Series A of 2003	<u>14,240,000</u>	<u>14,240,000</u>	<u>-</u>	<u>-</u>
General obligation bonds, Series of 2005	9,980,000	9,980,000	-	-
General obligation bonds, Series A of 2005	7,840,000	480,000	-	7,360,000
General obligation bonds, Series of 2006	34,985,000	5,000	-	34,980,000
General obligation bonds, Series A of 2006	100,795,000	95,000	-	100,700,000
General obligation bonds, Series AA of 2006	15,025,000	1,570,000	-	13,455,000
General obligation bonds, Refunding Series of 2006	22,130,000	110,000	-	22,020,000
General obligation bonds, Refunding Series A of 2006	37,680,000	130,000	-	37,550,000
General obligation bonds, Series of 2007	9,995,000	340,000	-	9,655,000
General obligation bonds, Refunding Series of 2009	10,700,000	5,290,000	-	5,410,000
General obligation note, Series of 2009	-	-	10,000,000	10,000,000
General obligation bonds, Refunding Series of 2010	<u>-</u>	<u>-</u>	<u>22,330,000</u>	<u>22,330,000</u>
	<u>304,530,000</u>	<u>34,327,000</u>	<u>32,330,000</u>	<u>302,533,000</u>
Deferred amounts:				
Issuance (discounts) premium	5,307,743	556,861	499,753	5,200,635
Refunding deferred charge	<u>(756,797)</u>	<u>16,712</u>	<u>899,507</u>	<u>125,998</u>
<b>LONG-TERM DEBT</b>	<b><u>\$309,080,946</u></b>	<b><u>\$ 34,900,573</u></b>	<b><u>\$ 33,729,260</u></b>	<b><u>\$307,859,633</u></b>

**General Obligation Bonds**

Series of 2002, original principal amount of \$30,000,000, maturing April 15, 2004 through April 15, 2022, bearing interest ranging from 3.00% to 5.00%, interest payable semi-annually on April 15 and October 15.

\$ 2,485,000

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (cont'd)

Series of 2003, original principal amount of \$30,000,000, maturing March 15, 2005 through March 15, 2022, bearing interest ranging from 3.25% to 4.40%, interest payable semi-annually on March 15 and September 15.	29,970,000
Series A of 2005, original principal amount of \$8,975,000, maturing May 15, 2006 through May 15, 2022, bearing interest ranging from 3.00% to 4.15%, interest payable semi-annually on May 15 and November 15.	7,360,000
Series of 2006, original principal amount of \$35,000,000, maturing May 15, 2007 through May 15, 2030, bearing interest ranging from 3.25% to 5.00%, interest payable semi-annually on May 15 and November 15.	34,980,000
Series A of 2006, original principal amount of \$100,810,000, maturing May 15, 2007 through May 15, 2030, bearing interest ranging from 3.50% to 5.00%, interest payable semi-annually on May 15 and November 15.	100,700,000
Series AA of 2006, original principal amount of \$18,390,000, maturing October 1, 2006 through October 1, 2020, bearing interest ranging from 3.75% to 4.00%, interest payable semi-annually on April 1 and October 1.	13,455,000
Refunding Series of 2006, original principal amount of \$22,245,000, maturing April 15, 2007 through April 15, 2024, bearing interest ranging from 4.00% to 4.25%, interest payable semi-annually on April 15 and October 15.	22,020,000
Refunding Series A of 2006, original principal amount of \$37,935,000, maturing February 1, 2007 through February 1, 2027, bearing interest ranging from 3.50% to 4.50%, interest payable semi-annually on February 15 and August 15.	37,550,000
Series of 2007, original principal amount of \$10,000,000, maturing February 15, 2009 through February 15, 2029, bearing interest ranging from 3.625% to 4.125%, interest payable semi-annually on February 15 and August 15.	9,655,000
Series of 2009, original principal amount of \$10,700,000, maturing September 15, 2009 through September 15, 2016, bearing interest ranging from 1.75% to 3.00%, interest payable semi-annually on March 15 and September 15.	5,410,000



WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (cont'd)

Refunding Series of 2010, original principal amount of \$22,330,000, maturing November 15, 2010 through November 15, 2017, bearing interest ranging from 1.25% to 2.625%, interest payable semi-annually on May 15 and November 15. This current refunding was undertaken to reduce total debt payments and resulted in an economic gain of \$1,134,140.

22,330,000

TOTAL BONDS

285,915,000

*General Obligation Notes*

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 to be paid monthly.

6,618,000

Series of 2009, original principal amount of \$10,000,000, maturing September 15, 2010 through March 15, 2015, bearing interest at a rate not to exceed 25%. Interest to be paid monthly.

10,000,000

TOTAL NOTES

16,618,000

TOTAL BONDS AND NOTES

\$302,533,000

Presented below is a summary of the bonds and notes debt service requirements to maturity by year:

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2011	\$ 11,474,000	\$ 12,422,310	\$ 23,896,310
2012	12,709,000	12,284,718	24,993,718
2013	13,137,000	11,865,566	25,002,566
2014	13,612,000	13,396,032	27,008,032
2015	14,120,000	10,896,366	25,016,366
2016-2020	73,826,000	46,621,192	120,447,192
2021-2025	91,040,000	28,784,839	119,824,839
2026-2030	<u>72,615,000</u>	<u>8,121,448</u>	<u>80,736,448</u>
	<u>\$302,533,000</u>	<u>\$144,392,471</u>	<u>\$446,925,471</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 CHANGES IN OTHER LONG-TERM LIABILITIES

Other long-term liabilities are summarized as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Balance June 30, 2010</u>
Accrued compensated absences	\$ 1,533,489	\$ 46,102	\$ 1,579,591
Accrued severance	<u>4,526,157</u>	<u>89,123</u>	<u>4,615,280</u>
	<u>\$ 6,059,646</u>	<u>\$ 135,225</u>	<u>\$ 6,194,871</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 District expects such amounts, if any, to be immaterial.

NOTE 11 CONSTRUCTION COMMITMENTS

At June 30, 2010, the District's capital projects fund had outstanding construction commitments amounting to \$2,067,265 for the completion of the renovations to various schools. The total amount spent to date on these contracts was \$24,619,757. In addition, the District has incurred costs in the amount of \$7,121,964 for other projects that were not under a formal construction commitment as of June 30, 2010.

NOTE 12 RISK MANAGEMENT

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

Each year the District is required to deposit funds into the central fund. The District then is 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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 12 RISK MANAGEMENT (cont'd)

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

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 District, and part-time employees who meet certain minimum employment requirements, participate in the program.

The District's contributions for the years ended June 30, 2010, 2009 and 2008 totaled \$4,203,795, \$4,111,269 and \$6,092,394, respectively. Total covered payroll was \$87,945,496, and total payroll was \$89,071,795 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 Employee's 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, 2010, the rate of employer contribution was 4.78 percent of covered payroll.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS

Plan Description

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

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

Funding Policy

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

As of July 1, 2009, the District has no segregated assets to fund this liability. It is the intention of the District to pay the premium each year as it comes due.

Funding Progress

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

The actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS (cont'd)

made into the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents information about the actuarial value of the plan assets. In subsequent years, this schedule will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

Interest	-	4% compounded annually net of investment expenses
Amortization method	-	Level dollar method at the valuation interest rate
Amortization period	-	30 years
Salary increases	-	4% per year
Actuarial valuation cost method	-	Entry age normal

Annual OPEB Cost and Net OPEB Obligations

The District's annual other post-employment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution ("ARC") of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the District's net OPEB obligation.

Annual OPEB Cost:		
Normal cost		\$ 1,198,120
Amortization of unfunded actuarial accrued liability		1,291,295
Interest on net OPEB obligation		(20,950)
Funding adjustment		<u>34,916</u>
<b>ANNUAL OPEB COST</b>		<b><u>\$ 2,503,381</u></b>
Net OPEB Obligation (Asset):		
Normal OPEB obligation July 1, 2009		\$ (523,745)
OPEB cost for year ended June 30, 2010		2,503,381
Contribution for year ended June 30, 2010		<u>(2,304,371)</u>
<b>NET OPEB OBLIGATION (ASSET)</b>		<b><u>\$ (324,735)</u></b>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 15 SUBSEQUENT EVENTS

On September 14, 2010, the District issued \$7,510,000 of General Obligation Bonds at interest rates between two and four percent. Interest is payable semi-annually beginning November 15, 2010. The bonds mature beginning May 15, 2011 and continuing through May 15, 2022. The proceeds of the bonds were used to refund all of the District's outstanding General Obligation Bonds, Series A of 2005.

On December 30, 2010, the District issued \$28,220,000 of General Obligation Bonds at interest rates between .50 and 3.15 percent. Interest is payable semi-annually beginning March 15, 2011 and continuing through March 15, 2022. The proceeds of the bonds were used to refund all of the District's outstanding General Obligation Bonds, Series 2003.

The District has evaluated all subsequent events through December 17, 2010, the date the financial statements were available to be issued.

**SINGLE AUDIT**

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REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

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December 17, 2010

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

We have audited the 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, West Chester, Pennsylvania as of and for the year ended June 30, 2010 which collectively comprise West Chester Area School District's basic financial statements and have issued our report thereon dated December 17, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Board of School Directors  
West Chester Area School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Chester Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of West Chester Area School District in a separate letter dated December 17, 2010.

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

  
BARBACANE, THORNTON & COMPANY LLP

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

T 302.478.8940  
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December 17, 2010

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

Compliance

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

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

In our opinion, West Chester Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed two instances of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and recommendations as items #10-1 and #10-2.

To the Board of School Directors  
West Chester Area School District

### Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and recommendations as items #10-1 and #10-2 to be significant deficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

West Chester Area School District's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit West Chester Area School District's response and, accordingly, we express no opinion on it.

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

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP

WEST CHESTER AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART A - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Type of auditors' report issued on compliance for major programs [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

Yes  No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010, 84.389

Title I, Part A Cluster

84.027, 84.391

Special Education Cluster (IDEA)

84.394

State Fiscal Stabilization Fund (SFSF) - Education

10.553, 10.555

State Grants, Recovery Act

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

Yes  No

WEST CHESTER AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**PART C - FINDINGS RELATED TO FEDERAL AWARDS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

ELIGIBILITY (CHILD NUTRITION CLUSTER)

**10-1** Finding

During our current year audit, we noted that two students, out of our sample of 40, were not eligible to receive the level of benefits granted. In accordance with the Compliance Supplement for the Child Nutrition Cluster, annual certification of a child's eligibility for free or reduced price meals is required. Improper classification of students with respect to eligibility causes inaccurate monthly reimbursement claims, as these claims are a function of eligibility class and number of meals provided. This was the result of inconsistent implementation of procedures.

WEST CHESTER AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Recommendation

We recommend that the District examine and improve its process for approval of eligibility determinations to ensure that students are appropriately classified as paid, reduced or free for consistency with USDA income eligibility guidelines.

Corrective Action Plan

West Chester Area School District has obtained FORMAT which is a new system to maintain and process National School Lunch applications. The use of this system will automatically determine the eligibility status upon the information being input from the application into the system. The system will cut down on errors in calculating income and determining eligibility status. The District also has instituted a procedure by which the social worker will review all applications that come in from the determining officials to ensure all the necessary information is listed on the application. In addition, a Master Eligibility report of all eligible students in the program will be run to ensure that there is either a direct certification letter on file or a National School Lunch application on file.

VERIFICATION TESTING (CHILD NUTRITION CLUSTER)

10-2 Finding

During our current year audit, we noted that special tests and provisions related to CFR Part 245.6 for verification testing were not properly performed. One of the applications selected for verification was incomplete, and another was not error prone. The resulting deficiencies caused improper population sampling and approval of incomplete meal benefit forms. This was the result of inconsistent implementation of procedures.

Recommendation

We recommend that the District review prescribed verification procedures provided by the Pennsylvania Department of Education and OMB Circular A-133 to improve its process for sampling approved applications. In addition, applications for free or reduced meals that are not fully completed should be denied.

Corrective Action Plan

West Chester Area School District has reviewed all the requirements for the verification process and has shared that information with all determining officials. The District was able to obtain the FORMAT system for the National School Lunch Program. This year Format searched all processed applications in the database and randomly selected the required number of error prone applications for the verification process. The District no longer has to determine manually which applications fall into the error prone category and then randomly select from those set aside. Having the FORMAT system eliminates errors in calculating income and determining whether the application is considered error prone.

**WEST CHESTER AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning - Ending	Program or Award Amount	Total Received for Year	Accrued (Deferred) Revenue 07/01/09	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue 06/30/10
<b>U.S. Department of Education</b>										
<b>Passed through PA Department of Education</b>										
Title I Grants to Local Education Agencies	I	84.010	013-090470	07/01/08-09/30/09	\$ 537,622	\$ 114,745	\$ 72,476	\$ 42,269	\$ 42,269	\$ -
Title I Grants to Local Education Agencies	I	84.010	013-100470	07/01/09-09/30/10	458,823	398,465	-	442,138	442,138	43,673
Title I Grants to Local Education Agencies	I	84.010	077-090470	07/01/08-09/30/09	9,000	6,000	(3,000)	9,000	9,000	-
Title I Grants to Local Education Agencies	I	84.010	077-100470	07/01/09-09/30/10	9,000	-	-	-	-	-
Title I Grants to Local Education Agencies	I	84.010	107-090470	07/01/08-09/30/09	1,117,440	566,147	97,991	488,156	468,156	-
Title I Grants to Local Education Agencies	I	84.010	107-100470	07/01/09-09/30/10	1,408,950	652,482	-	761,527	761,527	109,045
<b>Recovery Act</b>										
Improving Teacher Quality State Grants	I	84.389	133-100470	07/01/09-09/30/10	1,011,451	352,211	-	290,364	290,364	(61,847)
Improving Teacher Quality State Grants	I	84.367	020-090470	07/01/08-09/30/09	342,617	171,258	78,862	92,396	92,396	-
English Language Acquisition Grants	I	84.367	020-100470	07/01/09-09/30/10	338,670	180,624	-	90,036	90,036	(90,588)
English Language Acquisition Grants	I	84.365	010-090470	07/01/08-09/30/09	99,261	49,631	(8,069)	57,700	57,700	-
English Language Acquisition Grants	I	84.365	010-100470	07/01/09-09/30/10	101,000	-	-	44,229	44,229	-
Adult Education - Basic Grants to States	I	84.002	041-099101	07/01/08-09/30/09	23,832	7,944	7,944	-	-	-
Adult Education - Basic Grants to States	I	84.002	041-100097	07/01/09-09/30/10	19,781	11,539	-	19,781	19,781	8,242
Adult Literacy	S	N/A	059-099101	07/01/08-09/30/09	6,360	2,120	2,120	-	-	-
Adult Literacy	S	N/A	059-100100	07/01/09-09/30/10	5,000	2,917	-	5,000	5,000	2,083
<b>Safe and Drug-Free Schools and Communities - State Grants</b>										
Safe and Drug-Free Schools and Communities - State Grants	I	84.186	100-090470	07/01/08-09/30/09	25,173	11,618	(6,841)	18,459	18,459	-
Safe and Drug-Free Schools and Communities - State Grants	I	84.186	100-100470	07/01/09-09/30/10	24,506	8,169	-	22,086	22,086	13,917
State Fiscal Stabilization Fund - Education State Grants, Recovery Act	I	84.394	126-100470	07/01/09-09/30/10	852,027	852,027	-	852,027	852,027	-
<b>Passed through Chester County I.U.</b>										
IDEA Special Education - Grants to States	I	84.027	-	07/01/08-09/30/09	1,308,898	424,940	424,940	-	-	-
IDEA Special Education - Grants to States	I	84.027	-	07/01/09-09/30/10	1,296,294	1,188,270	-	1,296,294	1,296,294	108,024
IDEA Special Education - Grants to States Recovery Act	I	84.391	030-098911	02/17/09-09/30/11	1,908,911	738,385	418,024	669,026	669,026	348,665
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>										
<b>U.S. Dept of Health and Human Services</b>										
<b>Passed through PA Dept of Public Welfare</b>										
Title XIX Medical Assistance Program	I	93.778	-	07/01/09-06/30/10	125,015	125,015	-	125,015	125,015	-
<b>Passed through Chester County Government</b>										
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families	I	93.714	030-098911	07/01/09-09/30/10	45,430	-	-	3,329	3,329	3,329
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>										
								125,015	128,344	3,329
								5,180,488	5,180,488	525,443
								669,026	669,026	348,665
								1,296,294	1,296,294	108,024
								125,015	125,015	-
								3,329	3,329	3,329
								128,344	128,344	3,329

Continued on next page.

**WEST CHESTER AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning - Ending	Program or Award Amount	Total Received for Year	Accrued (Deferred) Revenue 07/01/09	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue 06/30/10
<b>U.S. Department of Agriculture</b>										
<b>Passed through PA Department of Education</b>										
School Breakfast Program	I	10.553	365	07/01/09-06/30/10	N/A	56,954	3,960	57,843	57,843	4,849
School Breakfast Program	I	10.553	367	07/01/09-06/30/10	N/A	28,969	1,988	28,886	28,886	1,905
National School Lunch Program	I	10.555	362	07/01/09-06/30/10	N/A	403,868	21,390	407,984	407,984	25,506
School Breakfast Program	S	N/A	510	07/01/09-06/30/10	N/A	54,180	3,235	54,236	54,236	3,291
National School Lunch Program	S	N/A	511	07/01/09-06/30/10	N/A	8,432	599	8,449	8,449	616
<b>Passed through PA Department of Agriculture</b>										
Value of USDA Donated Commodities	I	10.550	N/A	07/01/08-06/30/09	N/A	-	(34,921)	34,921	34,921	-
Value of USDA Donated Commodities	I	10.550	N/A	07/01/09-06/30/10	N/A	94,272	-	70,871	70,871	(23,401)
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>						<b>646,675</b>	<b>(3,749)</b>	<b>663,190</b>	<b>663,190</b>	<b>12,766</b>
<b>TOTAL FEDERAL AWARDS</b>						<b>\$ 6,511,182</b>	<b>\$1,080,698</b>	<b>\$ 5,972,022</b>	<b>\$ 5,972,022</b>	<b>\$ 541,538</b>

**Source Codes:**

- I - Indirect Funding
- D - Direct Funding
- S - State Share



WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

NOTE A BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

NOTE B BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note C. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE C NONMONETARY FEDERAL AWARDS - DONATED COMMODITIES

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards under CFDA #10.550 (Value of USDA Commodities) represent surplus food consumed by the District during the 2009-2010 fiscal year. The District has food commodities totaling \$23,401 in inventory as of June 30, 2010.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2010 was \$597,414.