



WEST CHESTER AREA SCHOOL DISTRICT
WEST CHESTER, PENNSYLVANIA

AUDIT REPORT

JUNE 30, 2012

WEST CHESTER AREA SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 13
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
- Statement of Net Position	14
- Statement of Activities	15
Fund Financial Statements:	
- Balance Sheet - Governmental Funds	16
- Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	17
- Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
- Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to Statement of Activities	19
- Budgetary Comparison Statement - General Fund	20
- Statement of Net Position - Proprietary Fund	21
- Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	22
- Statement of Cash Flows - Proprietary Fund	23
- Statement of Net Position - Fiduciary Funds	24
- Statement of Changes In Net Position - Fiduciary Funds	25
NOTES TO FINANCIAL STATEMENTS	26 - 44

WEST CHESTER AREA SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
SINGLE AUDIT	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45 - 46
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	47 - 48
Schedule of Findings and Recommendations	49 - 51
Schedule of Expenditures of Federal Awards and Certain State Grants	52 - 53
Notes to Schedule of Expenditures of Federal Awards and Certain State Grants	54

INDEPENDENT AUDITORS' REPORT

Barbacane, Thornton & Company LLP
200 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810

T 302.478.8940
F 302.468.4001
www.btcpa.com

November 29, 2012

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, 2012, 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, 2012, 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 November 29, 2012 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.

Board of School Directors
West Chester Area School District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise West Chester Area School District's financial statements as a whole. 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 financial statements. The schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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, 2012

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, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers also should review the financial statements and the notes to the 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

- Revenues in 2011-12 remained at historical low levels. In response, the District continued cost-cutting measures to offset increases in expenses. The largest of these cost-cutting measures was a freeze on all salary increases in 2011-12. As a result of these and other cost-cutting measures, including savings achieved through debt refinancing, revenues exceeded expenses at year end. The resulting increase in fund balance was committed and assigned to help the District address future projected budget gaps.
- In 2011-12, the Board of School Directors did not raise the real estate tax rate to balance the budget. The taxpayers within Chester County continued to be assessed for real estate taxes at 18.36 mills. (Please note that one mill is equal to one-tenth of a cent, or \$0.001 of assessed value.) The Chester County tax rate was assessed based upon the equalized millage calculation, which resulted in a reduction from 14.25 mills to 14.22 mills in 2011-12.
- On an entity-wide basis, the District's total net position was \$45,484,939 at June 30, 2012. This represented an increase of \$7,087,505 from the prior year.
- On a fund level reporting basis, the District's General Fund total revenues, excluding other financing sources, were relatively flat. Increases in earned income tax, transfer tax and delinquent real estate collections were offset by the elimination of all American Reinvestment and Relocation Act (ARRA) funding and the state charter subsidy.
- On a fund level reporting basis, compared to the prior year, the District's General Fund expenditures increased \$446,722, or 0.2 percent. The largest cost for the District is salary and benefits for over 1,400+ employees. The 2011-12 salary costs decreased over prior years as result of salary freezes, attrition, staffing reductions and vacant positions. Employee benefit costs rose 10.3 percent, with the largest increase occurring in pension expenses. Increases also were seen in special education, alternative education tuitions, charter school tuitions and debt service. Savings were seen in Facilities and Operations expenses, utility expenses and transportation costs.

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

June 30, 2012

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 Position 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 Position 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 position and how it has changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net position 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-term 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 for which 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, 2012

- **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. The District's major governmental funds are the General Fund, the Capital Projects Fund and the Capital Reserve Fund. 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 Position 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 Position. 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 position was \$45,484,939 at June 30, 2012. This represents an increase of \$7,087,505 over the prior year. The table below and on the following page presents condensed financial information for the net position of the District as of June 30, 2012 and 2011.

**Statement of Net Position
June 30, 2012 and 2011**

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 64,128,115	\$ 62,636,611	\$ 1,422,543	\$ 1,317,309	\$ 65,550,658	\$ 63,953,920
Capital assets	293,795,370	300,120,945	171,996	184,236	293,967,366	300,305,181
TOTAL ASSETS	357,923,485	362,757,556	1,594,539	1,501,545	359,518,024	364,259,101
Current liabilities	33,790,870	32,872,927	266,637	299,413	34,057,507	33,172,340
Noncurrent liabilities	279,975,578	292,689,327	-	-	279,975,578	292,689,327
TOTAL LIABILITIES	313,766,448	325,562,254	266,637	299,413	314,033,085	325,861,667

WEST CHESTER AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
June 30, 2012

Statement of Net Position
June 30, 2012 and 2011

(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Net Position:						
Invested in capital assets, net of related debt	8,057,190	7,083,089	171,996	184,236	8,229,186	7,267,325
Restricted for capital projects	14,329,759	14,506,078	-	-	14,329,759	14,506,078
Unrestricted	<u>21,770,088</u>	<u>15,606,135</u>	<u>1,155,906</u>	<u>1,017,896</u>	<u>22,925,994</u>	<u>16,624,031</u>
TOTAL NET POSITION	<u>\$ 44,157,037</u>	<u>\$ 37,195,302</u>	<u>\$ 1,327,902</u>	<u>\$ 1,202,132</u>	<u>\$ 45,484,939</u>	<u>\$ 38,397,434</u>

The governmental activities restricted net position in the amount of \$14,329,759 is available to fund the capital improvements, the replacement of and additions to public works and improvements, and for deferred maintenance. The total unrestricted net position in the amount of \$22,925,994 included \$1,155,906 which could be used for capital and other expenditures within the District's food service program. The unrestricted net position was 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 relate directly 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 table on the following page 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 decreased by \$928,841, or 0.5 percent. The largest change in revenue occurred in grants, subsidies and contributions that were not restricted. This grouping includes state and federal subsidies and it dropped \$1,919,435, or 15.27 percent. Changes in tax collection also impacted the revenue flows. While property taxes experienced a decrease of \$997,956, or 0.7 percent, other taxes, primarily earned income taxes, increased \$1,816,877, or 9.2 percent.

Expenses decreased by \$2,027,223, or one percent. While increases of \$1,969,179, or 1.7 percent, occurred in instructional spending, these were completely offset by a decrease of \$2,200,616 (12.4 percent) in operation and maintenance of plant services and a decrease of \$1,143,701 (7.3 percent) in instructional student support. These decreases were made possible by District-wide agreements with all employees and bargaining units to forgo any salary increases in the 2011-12. These agreements were made in response to the tight fiscal conditions at the District and throughout the state of Pennsylvania. In addition to this action, nonessential positions were eliminated through attrition and utility savings were achieved through effective energy management initiatives.

**WEST CHESTER AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
June 30, 2012**

**Statement of Activities
For the Years Ended June 30, 2012 and 2011**

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program services:						
Charges for services	\$ 1,190,680	\$ 1,079,373	2,604,560	\$ 2,511,962	\$ 3,795,240	\$ 3,591,335
Operating grants and contributions	22,238,269	22,377,251	832,383	786,659	23,070,652	23,163,910
General revenues:						
Property taxes	144,010,689	145,008,645	-	-	144,010,689	145,008,645
Other taxes	21,581,847	19,764,970	-	-	21,581,847	19,764,970
Grants, subsidies and contributions not restricted	10,654,228	12,573,663	-	-	10,654,228	12,573,663
Other revenue	297,937	238,478	2,269	702	300,206	239,180
TOTAL REVENUES	<u>199,973,650</u>	<u>201,042,380</u>	<u>3,439,212</u>	<u>3,299,323</u>	<u>203,412,862</u>	<u>204,341,703</u>
EXPENSES						
Instruction	119,941,565	117,972,385	-	-	119,941,564	117,972,385
Instructional student support	14,597,033	15,740,734	-	-	14,597,033	15,740,734
Administrative/financial support	14,211,207	13,956,105	-	-	14,211,207	13,956,105
Operation and maintenance of plant services	15,529,375	17,729,991	-	-	15,529,375	17,729,991
Pupil transportation	13,365,853	13,469,612	-	-	13,365,853	13,469,612
Student activities	4,095,132	4,055,872	-	-	4,095,132	4,055,872
Community services	115,730	127,041	-	-	115,730	127,041
Interest on long-term debt	11,156,020	12,076,323	-	-	11,156,020	12,076,323
Food service	-	-	3,313,442	3,224,517	3,313,442	3,224,517
TOTAL EXPENSES	<u>193,011,915</u>	<u>195,128,063</u>	<u>3,313,442</u>	<u>3,224,517</u>	<u>196,325,357</u>	<u>198,352,580</u>
CHANGE IN NET POSITION	6,961,735	5,914,317	125,770	74,806	7,087,505	5,989,123
BEGINNING NET POSITION	<u>37,195,302</u>	<u>31,280,985</u>	<u>1,202,132</u>	<u>1,127,326</u>	<u>38,397,434</u>	<u>32,408,311</u>
ENDING NET POSITION	<u>\$44,157,037</u>	<u>\$37,195,302</u>	<u>\$1,327,902</u>	<u>\$ 1,202,132</u>	<u>\$45,484,939</u>	<u>\$ 38,397,434</u>

EXPENSES

The table on the following page 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 decreased by \$169,038, or 0.1 percent from 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.

WEST CHESTER AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
June 30, 2012

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
<u>Governmental-type Activities</u>				
Expenses - Governmental Activities:				
Instruction	\$119,941,565	\$117,972,385	\$103,573,468	\$101,389,094
Instructional student support	14,597,033	15,740,734	13,550,028	14,695,954
Administrative and financial support	14,211,207	13,956,105	14,211,207	13,956,105
Operation and maintenance of plant services	15,529,375	17,729,991	13,933,967	16,455,311
Pupil transportation	13,365,853	13,469,612	9,070,783	9,035,177
Student activities	4,095,132	4,055,872	3,971,763	3,936,434
Community services	115,730	127,041	115,730	127,041
Interest on long-term debt	11,156,020	12,076,323	11,156,020	12,076,323
TOTAL EXPENSES	\$193,011,915	\$195,128,063	169,582,966	171,671,439
Less: Grants, subsidies and contributions not restricted			(10,654,228)	(12,573,663)
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES			\$158,928,738	\$159,097,776
<u>Business-type Activities</u>				
Expenses - Business-type Activities:				
Food services	\$ 3,313,442	\$ 3,224,517	\$ (123,501)	\$ (74,104)

THE DISTRICT FUNDS

General Fund

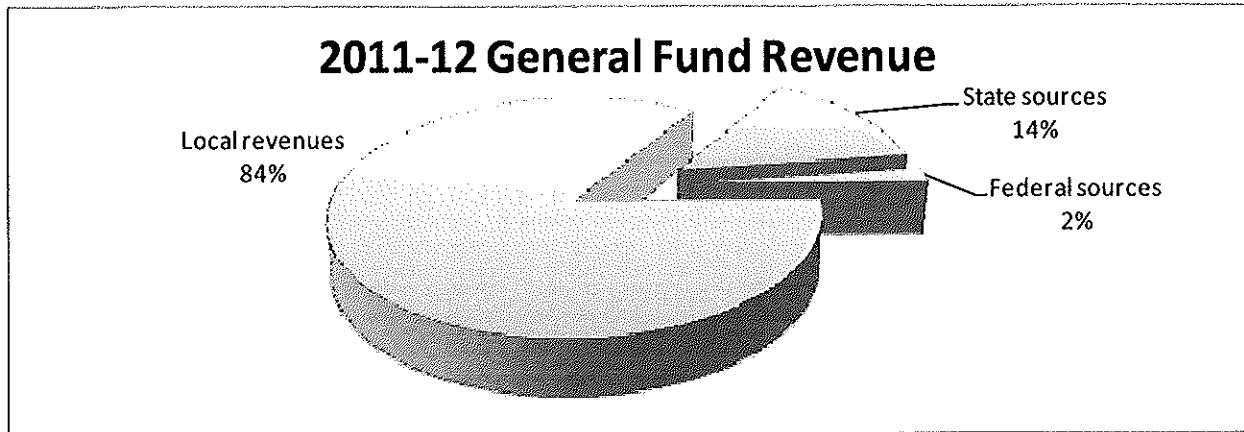
At June 30, 2012, the District reported a General Fund fund balance of \$25,376,004, which represents 13.2 percent of total expenditures and was an increase of \$6,913,320 over the prior year. Of this amount, the District committed \$2,677,700 for the purpose of healthcare rate stabilization. Due to the nature of self-insuring health insurance claims, the District experiences volatility in annual health insurance costs. To smooth these expenditures, the District established a health insurance rate stabilization fund last year and increased this commitment by \$1,119,600 to bring the balance of the commitment to \$2,677,700. The District also added to the commitment for future pension costs. The District added another \$2,500,000 to the previous commitment of \$1,200,000 for PSERS costs, bringing the total commitment balance to \$3,700,000. Lastly, the District assigned \$3,473,360 of the fund balance toward Tax Rate Stabilization. These funds will be used to offset the 2013-14 budget gap and eliminate the need for future tax increases. The School Board of West Chester Area School District manages the fund balance to respond to unforeseen contingencies and economic conditions. 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 its community. This philosophy conforms to the Board's belief that the tax burden should be aligned with the current funding needs of the District.

WEST CHESTER AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
 June 30, 2012

REVENUE

General Fund revenues, excluding other financing sources, total \$200,317,970, which is in line with the collections in the prior year. The table below reflects a comparison of current year revenues to prior year revenues:

	<u>G/F Revenue 2012</u>	<u>Percentage of Total</u>	<u>Increase from 2011</u>	<u>Percentage Change</u>
Local revenues	\$ 167,580,433	83.7%	\$ 2,508,033	1.5%
State sources	28,615,828	14.3%	360,956	1.3%
Federal sources	4,121,709	2.0%	(2,744,767)	-40.0%
	<u>\$ 200,317,970</u>	<u>100.0%</u>	<u>\$ 124,222</u>	<u>0.1%</u>



The largest change in annual revenue collections occurred in federal sourced revenues. As the budgetary comparison statement for the General Fund shows, this was a planned budgeted reduction in federal revenue. Most of this reduction was the result of the elimination of American Reinvestment and Recovery Act (ARRA) funding. The District lost \$820,721 in ARRA IDEA funding due to the elimination of the program. The District had a \$560,198 reduction of federal pass-through spending to the Glen Mills School as a result of the elimination of the ARRA Title I program as well as changing spending patterns in Title I spending. In 2010-11, when the ARRA funding was introduced, the Governor's budget used this funding to reduce the state Basic Education Subsidy as a means to balance the state budget. Although the elimination of the ARRA funding in 2011-12 led to a reduction in federal funding of \$1,320,861, the Governor's 2011-12 budget reinstated the Basic Education subsidy to the 2010-11 levels to adjust for this loss.

The increase in the state Basic Education Subsidy as a result of ARRA elimination is difficult to see because there were a number of other changes in state revenues. While basic education subsidies increased \$1,020,603, retirement subsidy revenue increased as well. The state reimburses the District for 50 percent of the District's pension cost. The dramatic increase in the state pension rates caused

WEST CHESTER AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
June 30, 2012

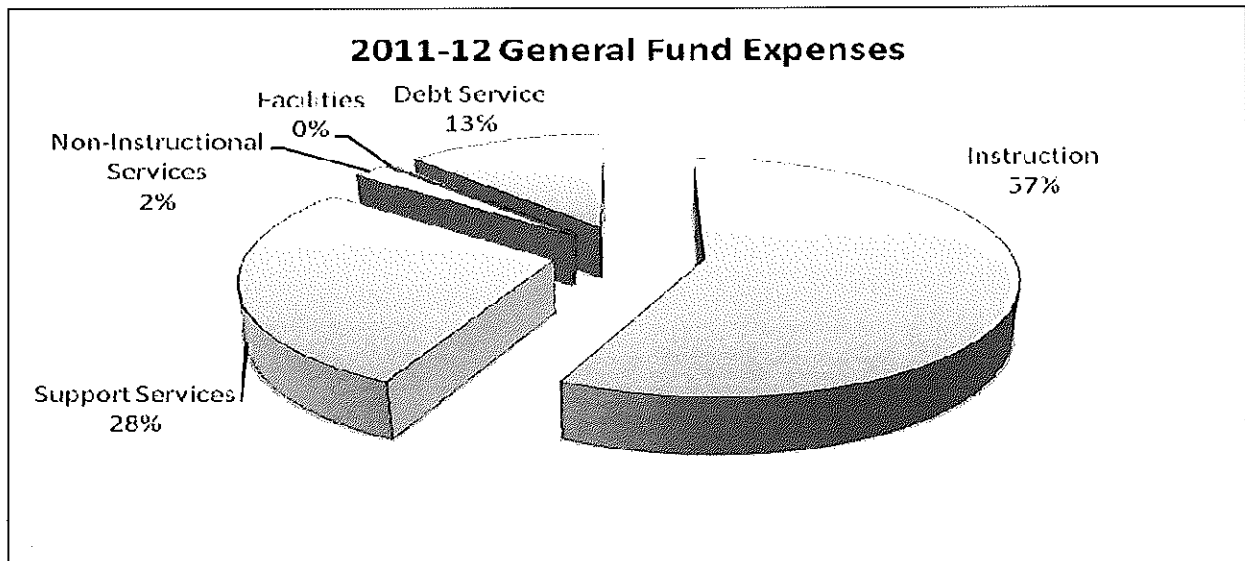
both an increase in the annual pension costs and an increase of \$1,177,164 in the related retirement subsidy reimbursement. Offsetting these increases, the State eliminated the Charter School subsidies in 2011-12 which caused a drop of \$1,478,920 in state revenues. These added with a number of smaller decreases in state subsidies led to a total increase in state subsidies of \$360,956.

Local revenues increased \$2,508,033 even with no increase in real estate tax millage rate. Instead, earned income taxes grew \$1,030,232, transfer taxes increased \$794,727 and delinquent real estate tax collection increased \$1,010,447.

EXPENDITURES

General Fund expenditures, excluding transfers to other governmental funds, totaled \$191,894,582. This was a small increase of \$446,722, or 0.2 percent, over the 2010-11 expenditures, and it was \$8,150,706 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 2011-12 budget, are as follows:

	G/F Expenditures 2012	Percentage of Total	Increase from 2011	Variance with Final Budget
Instruction	\$ 109,607,376	57.1%	\$ 894,645	\$ 4,040,039
Support services	54,024,947	28.2%	(2,462,399)	3,200,540
Noninstructional services	4,050,198	2.1%	52,016	605,386
Facilities acquisition and construction	426,521	0.2%	(583,687)	304,679
Debt service	23,785,540	12.4%	2,546,147	62
TOTAL EXPENDITURES BY FUNCTION	\$ 191,894,582	100.0%	\$ 446,722	\$ 8,150,706



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

June 30, 2012

The District was able to keep the 2011-12 personnel spending at prior year levels as a result of a District-wide agreement with all employees and bargaining units to forgo any salary increases in 2011-12. Another factor that impacted all cost centers with personnel costs was the increase in the pension contribution rate. In 2011-12, the State increased the employer pension contribution rate from 5.64 percent to 8.65 percent. There were a number of other factors that also impacted the changes in spending over the prior year. Support service spending dropped due to changes in Facility and Operating staffing (\$866,400 in savings), utility savings from an effective energy management plan (\$678,236 in savings), student transportation savings due to rerouting initiatives (\$230,186) and attrition. Offsetting these savings were planned increases in debt service payments which increased debt service payments by \$2,546,147 over the prior year.

Capital Projects Fund

At June 30, 2012, the District reported a fund balance of \$793,496, which was a decrease of \$5,139,847 from June 30, 2011. The Capital Projects Fund was funded by bond funds. The District was in the process of spending down the bond funds procured in previous years to fund the design costs of the elementary school renovations, the initial renovation costs for the elementary school renovations and various other capital improvements. The fund received some minor cash inflows which were interest proceeds from bond escrow funds and a federal grant. These cash inflows were offset by \$5,299,313 in cash outflows primarily for the design costs and initial construction costs of the elementary school renovations.

Capital Reserve Fund

The Capital Reserve Fund had a fund balance of \$14,329,759 at June 30, 2012, which was a \$176,319 decrease from the prior year. The Capital Reserve Fund is funded by transfers from the General Fund. In 2011-12, the capital outflows from the Capital Reserve Fund were spent on technology replacements. The Capital Reserve Fund received a transfer in of \$1,500,000 from the General Fund. This transfer represented the transfer of savings from general fund maintenance projects, funding for the time and attendance system project, and debt service savings achieved by refinancing an existing bond issue.

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 confirmed again 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, the District's projections indicated that future budget years would experience a budgetary shortfall due to rising pension rates and limited local revenue increases. In reaction to this anticipated gap, the District scaled back spending on all areas when possible. This is evident when reviewing the District's actual expenditures versus the approved budget. Total revenues were collected near budgeted amounts at \$1,899,031 over budget, or 1.0 percent. Total expenditures were under budget by \$8,150,706, or 4.1 percent.

WEST CHESTER AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
June 30, 2012

CAPITAL ASSETS

At June 30, 2012, the District had \$447,021,493 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 \$6,337,815, or 2.1 percent from the prior year.

The following schedule depicts the capital assets as of June 30, 2012. More detailed information about fixed assets is included in Note 6 to the financial statements.

	Governmental Activities	Business-Type Activities	Total Assets
Capital assets:			
Land	\$ 33,159,800	\$ -	\$ 33,159,800
Land improvements	14,452,651	-	14,452,651
Buildings	361,025,298	-	361,025,298
Construction-in-progress	5,946,351	-	5,946,351
Furniture and equipment	31,878,086	559,307	32,437,393
TOTAL CAPITAL ASSETS	<u>446,462,186</u>	<u>559,307</u>	<u>447,021,493</u>
TOTAL ACCUMULATED DEPRECIATION	<u>152,666,816</u>	<u>387,311</u>	<u>153,054,127</u>
CAPITAL ASSETS, NET	<u>\$ 293,795,370</u>	<u>\$ 171,996</u>	<u>\$ 293,967,366</u>

DEBT ADMINISTRATION

As of June 30, 2012, the District had total outstanding bonds and related charges of \$286,531,676, a decrease of \$12,439,523 over the prior year. During 2011-12, the District refinanced \$9,585,000 in outstanding debt to take advantage of the favorable financing market conditions. The District incurred no new debt in 2011-12. 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.

Debt Service Schedule
June 30, 2012

	Principal Outstanding July 1, 2011	Maturities	Additions	Principal Outstanding June 30, 2012
General obligation bonds and notes	\$ 291,539,000	\$ 21,494,000	\$ 9,585,000	\$ 279,630,000
<i>Deferred amounts:</i>				
Issuance (discounts) premium	7,324,201	577,029	76,310	6,823,482
Refunding deferred charge	<u>107,998</u>	<u>29,804</u>	<u>-</u>	<u>78,194</u>
LONG-TERM DEBT	<u>\$ 298,971,199</u>	<u>\$ 22,100,833</u>	<u>\$ 9,661,310</u>	<u>\$ 286,531,676</u>

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

June 30, 2012

OTHER LONG-TERM LIABILITIES

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

THE DISTRICT'S FUTURE

The challenges that the District encountered in 2011-12 continued into the 2012-13 fiscal year. The District's largest revenue stream, local revenue, is forecast with little growth over the prior year. Declining property values led to the reassessment of numerous commercial and residential properties, reducing the future real estate tax collections. The sluggish economy continues to be a concern in regard to real estate tax revenues though the District is optimistic about earned income tax projections. These projected low revenues coupled with expenses growing at cost-of-living indexes resulted in a projected budget gap in the preliminary 2012-13 budget process. In response, the District conducted its second Community Budget Task Force to develop cost-cutting initiatives to help close the projected budget gap. The Community Budget Task Force group efforts led to \$1 million in expenditure reductions or revenue increases. In addition to the Budget Task Force efforts, the District was able to reduce the expenditure budgets further through debt refinancing opportunities and the reduction of 12 District positions in 2012-13, which brings the total number of positions eliminated through attrition to 55. These initiatives allowed the Board to close the budget gap for 2012-13. In 2012-13, the budget utilizes only \$500,000 from the general fund budgetary reserves to balance the budget.

Going forward, the District has taken into consideration the impending increased pension contribution rates imposed by the state pension system, other anticipated expenditure growth and conservative revenue growth into the five-year budget projections. While currently, the District is showing a deficit in at least one of the forecasted years, the District Board and staff are working hard to develop methods to address these shortfalls and eliminate the need to draw from reserves.

Within the District's capital funds, the District initiated its 14-year long-term elementary school master plan which includes renovations and/or additions to each of its 10 elementary schools. This project was the continuation of the District's secondary school renovation program that was completed. The District has plans to renovate three elementary school buildings, with the first commencing in the summer of 2012. As for the balance of the plan, the District is cautious 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.

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 POSITION
JUNE 30, 2012**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 21,056,456	\$ 179,245	\$ 21,235,701
Investments	29,986,905	1,212,929	31,199,834
Investments - restricted	1,892,658	-	1,892,658
Due from other governments	1,232,213	12,786	1,244,999
Other receivables	1,461,604	7,468	1,469,072
Taxes receivable	5,130,823	-	5,130,823
Prepaid expenses	1,277,682	-	1,277,682
Inventories	-	10,115	10,115
Total Current Assets	<u>62,038,341</u>	<u>1,422,543</u>	<u>63,460,884</u>
Noncurrent Assets:			
Deferred charges	2,089,774	-	2,089,774
Capital assets			
Land	33,159,800	-	33,159,800
Construction-in-progress	5,946,351	-	5,946,351
Land improvements	14,452,651	-	14,452,651
Buildings	361,025,298	-	361,025,298
Furniture and equipment	31,878,086	559,307	32,437,393
Less: Accumulated depreciation	(152,666,816)	(387,311)	(153,054,127)
Total Noncurrent Assets	<u>295,885,144</u>	<u>171,996</u>	<u>296,057,140</u>
TOTAL ASSETS	<u><u>\$357,923,485</u></u>	<u><u>\$ 1,594,539</u></u>	<u><u>\$359,518,024</u></u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Current Liabilities:			
Accounts payable and other current liabilities	\$ 18,586,164	\$ 191,334	\$ 18,777,498
Accrued interest	2,053,135	-	2,053,135
Deferred revenues	44,571	75,303	119,874
Bonds and notes payable	13,107,000	-	13,107,000
Total Current Liabilities	<u>33,790,870</u>	<u>266,637</u>	<u>34,057,507</u>
Noncurrent Liabilities:			
Bonds and notes payable	273,424,676	-	273,424,676
Accrued severance and compensated absences	6,509,029	-	6,509,029
Other post-employment benefits	41,873	-	41,873
Total Noncurrent Liabilities	<u>279,975,578</u>	<u>-</u>	<u>279,975,578</u>
TOTAL LIABILITIES	<u>313,766,448</u>	<u>266,637</u>	<u>314,033,085</u>
NET POSITION			
Invested in capital assets, net of related debt	8,057,190	171,996	8,229,186
Restricted	14,329,759	-	14,329,759
Unrestricted	21,770,088	1,155,906	22,925,994
TOTAL NET POSITION	<u>44,157,037</u>	<u>1,327,902</u>	<u>45,484,939</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$357,923,485</u></u>	<u><u>\$ 1,594,539</u></u>	<u><u>\$359,518,024</u></u>

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, 2012**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES:							
Instruction	\$119,941,565	\$ 846,715	\$ 15,521,382	\$ -	\$(103,573,468)	\$ -	\$(103,573,468)
Instructional student support	14,597,033	-	1,047,005	-	(13,550,028)	-	(13,550,028)
Administrative and financial support services	14,211,207	-	-	-	(14,211,207)	-	(14,211,207)
Operation and maintenance of plant services	15,529,375	220,596	1,374,812	-	(13,933,967)	-	(13,933,967)
Pupil transportation	13,365,853	-	4,295,070	-	(9,070,783)	-	(9,070,783)
Student activities	4,095,132	123,369	-	-	(3,971,763)	-	(3,971,763)
Community services	115,730	-	-	-	(115,730)	-	(115,730)
Interest on long-term debt	11,156,020	-	-	-	(11,156,020)	-	(11,156,020)
TOTAL GOVERNMENTAL ACTIVITIES	193,011,915	1,190,680	22,238,269	-	(169,582,966)	-	(169,582,966)
BUSINESS-TYPE ACTIVITIES:							
Food service	3,313,442	2,604,560	832,383	-	-	123,501	123,501
TOTAL PRIMARY GOVERNMENT	\$196,325,357	\$ 3,795,240	\$ 23,070,652	\$ -	(169,582,966)	123,501	(169,459,465)
GENERAL REVENUES							
Property taxes, levied for general purposes					144,010,689	-	144,010,689
Taxes levied for specific purposes					21,581,847	-	21,581,847
Grants, entitlements and contributions not restricted to specific programs					10,654,228	-	10,654,228
Investment earnings					194,070	2,269	196,339
Gain on sale of asset					9,929	-	9,929
Other					93,938	-	93,938
TOTAL GENERAL REVENUES					176,544,701	2,269	176,546,970
CHANGE IN NET POSITION					6,961,735	125,770	7,087,505
NET POSITION, BEGINNING OF YEAR					37,195,302	1,202,132	38,397,434
NET POSITION, END OF YEAR					\$ 44,157,037	\$1,327,902	\$ 45,484,939

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

**WEST CHESTER AREA SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Fund</u>	<u>Totals</u>
ASSETS					
Cash and cash equivalents	\$ 17,356,041	\$ 638,242	\$ 3,062,173	\$ -	\$ 21,056,456
Investments	17,028,638	3,182,717	9,775,550	-	29,986,905
Investments - restricted	1,892,658	-	-	-	1,892,658
Taxes receivable	5,130,823	-	-	-	5,130,823
Due from other funds	-	-	1,500,000	-	1,500,000
Due from other governments	1,232,213	-	-	-	1,232,213
Other receivables	1,420,796	40,808	-	-	1,461,604
Prepaid expenses	1,277,682	-	-	-	1,277,682
TOTAL ASSETS	<u>\$ 45,338,851</u>	<u>\$ 3,861,767</u>	<u>\$ 14,337,723</u>	<u>\$ -</u>	<u>\$ 63,538,341</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable and accrued liabilities	\$ 4,103,124	\$ 3,066,925	\$ 7,964	\$ -	\$ 7,178,013
Due to other funds	1,498,654	1,346	-	-	1,500,000
Payroll accruals and withholdings	11,408,151	-	-	-	11,408,151
Deferred revenue	2,952,918	-	-	-	2,952,918
TOTAL LIABILITIES	<u>19,962,847</u>	<u>3,068,271</u>	<u>7,964</u>	<u>-</u>	<u>23,039,082</u>
FUND BALANCES:					
Nonspendable	1,277,682	-	-	-	1,277,682
Restricted	1,892,658	793,496	14,329,759	-	17,015,913
Committed	6,377,700	-	-	-	6,377,700
Assigned	3,473,360	-	-	-	3,473,360
Unassigned	12,354,604	-	-	-	12,354,604
TOTAL FUND BALANCES	<u>25,376,004</u>	<u>793,496</u>	<u>14,329,759</u>	<u>-</u>	<u>40,499,259</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 45,338,851</u>	<u>\$ 3,861,767</u>	<u>\$ 14,337,723</u>	<u>\$ -</u>	<u>\$ 63,538,341</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 POSITION
JUNE 30, 2012**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 40,499,259

Amounts reported for governmental activities in the statement of net position 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 \$446,462,186 and the accumulated depreciation was \$152,666,816. 293,795,370

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. 2,908,347

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 2,089,774

Other post-employment benefits (OPEB) are not financial resources and therefore are not reported in the governmental funds. (41,873)

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	\$ (2,053,135)	
Bonds and notes payable in future years	(286,531,676)	
Accumulated compensated absences	<u>(6,509,029)</u>	<u>(295,093,840)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 44,157,037

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, 2012

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Fund</u>	<u>Totals</u>
REVENUES					
Local sources	\$ 167,580,433	\$ -	\$ 20,462	\$ -	\$ 167,600,895
State sources	28,615,828	-	-	-	28,615,828
Federal sources	4,121,709	149,992	-	-	4,271,701
TOTAL REVENUES	<u>200,317,970</u>	<u>149,992</u>	<u>20,462</u>	<u>-</u>	<u>200,488,424</u>
EXPENDITURES					
Current:					
Instruction	109,607,376	-	1,015,256	-	110,622,632
Support services	54,024,947	-	691,454	177,113	54,893,514
Operation of noninstructional services	4,050,198	-	-	-	4,050,198
Debt service:					
Principal	11,591,540	-	-	-	11,591,540
Interest	12,063,488	-	-	-	12,063,488
Fiscal agent fees	130,512	-	-	-	130,512
Capital outlays	426,521	5,299,313	-	-	5,725,834
TOTAL EXPENDITURES	<u>191,894,582</u>	<u>5,299,313</u>	<u>1,706,710</u>	<u>177,113</u>	<u>199,077,718</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>8,423,388</u>	<u>(5,149,321)</u>	<u>(1,686,248)</u>	<u>(177,113)</u>	<u>1,410,706</u>
OTHER FINANCING SOURCES (USES)					
Refund of prior year revenues	(36,146)	-	-	-	(36,146)
Refund of prior year expenditures	26,078	9,474	-	-	35,552
Proceeds from long-term debt	-	-	-	9,585,000	9,585,000
Payment to refund bonds	-	-	-	(9,484,197)	(9,484,197)
Premiums on bonds issued	-	-	-	76,310	76,310
Proceeds from sale of assets	-	-	9,929	-	9,929
Transfers in	-	-	1,500,000	-	1,500,000
Transfers out	(1,500,000)	-	-	-	(1,500,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,510,068)</u>	<u>9,474</u>	<u>1,509,929</u>	<u>177,113</u>	<u>186,448</u>
NET CHANGE IN FUND BALANCES	6,913,320	(5,139,847)	(176,319)	-	1,597,154
FUND BALANCES, BEGINNING OF YEAR	<u>18,462,684</u>	<u>5,933,343</u>	<u>14,506,078</u>	<u>-</u>	<u>38,902,105</u>
FUND BALANCES, END OF YEAR	<u>\$ 25,376,004</u>	<u>\$ 793,496</u>	<u>\$ 14,329,759</u>	<u>\$ -</u>	<u>\$ 40,499,259</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, 2012**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,597,154

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	\$ 5,905,677	
Depreciation expense	(12,206,758)	
Dispositions	<u>(24,494)</u>	(6,325,575)

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	(524,110)	
Other post-employment benefits	<u>(183,352)</u>	(707,462)

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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issuance	(9,585,000)	
Refunded debt	9,300,000	
Principal repayments	<u>12,194,000</u>	11,909,000

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 position as deferred charges and credits and are amortized over the life of the debt.

521,032

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.

(231,901)

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.

199,487

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 6,961,735

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, 2012**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 164,855,362	\$ 164,855,362	\$ 167,580,433	\$ 2,725,071
State sources	29,291,308	29,291,308	28,615,828	(675,480)
Federal sources	4,272,269	4,272,269	4,121,709	(150,560)
TOTAL REVENUES	<u>198,418,939</u>	<u>198,418,939</u>	<u>200,317,970</u>	<u>1,899,031</u>
EXPENDITURES				
Current:				
Instruction				
Regular programs, elementary/secondary	79,752,198	80,063,866	76,997,033	3,066,833
Special programs, elementary/secondary	26,969,826	27,975,189	27,248,910	726,279
Vocational education programs	4,747,639	4,742,593	4,543,897	198,696
Other instructional programs	626,785	804,810	767,512	37,298
Nonpublic school programs	32,269	25,150	21,055	4,095
Adult education programs	30,124	35,807	28,969	6,838
Total Instruction	<u>112,158,841</u>	<u>113,647,415</u>	<u>109,607,376</u>	<u>4,040,039</u>
Support services				
Pupil personnel	7,402,453	7,325,909	7,160,311	165,598
Instructional staff	5,864,741	5,753,725	5,081,062	672,663
Administration	10,038,207	10,041,709	9,357,804	683,905
Pupil health	2,046,740	2,062,217	1,808,091	254,126
Business	1,479,372	1,555,418	1,500,459	54,959
Operation and maintenance of plant services	16,707,075	15,156,482	14,027,496	1,128,986
Student transportation services	12,941,415	12,949,167	12,873,828	75,339
Central	2,300,930	2,233,860	2,089,509	144,351
Other support services	147,000	147,000	126,387	20,613
Total Support Services	<u>58,927,933</u>	<u>57,225,487</u>	<u>54,024,947</u>	<u>3,200,540</u>
Operation of noninstructional services				
Student activities	4,418,899	4,528,131	3,943,765	584,366
Community services	106,099	127,453	106,433	21,020
Total Operation of Noninstructional Services	<u>4,524,998</u>	<u>4,655,584</u>	<u>4,050,198</u>	<u>605,386</u>
Facilities acquisition				
Site acquisition	731,200	731,200	426,521	304,679
Debt service				
Principal, interest and fiscal agent fees	24,940,962	23,785,602	23,785,540	62
TOTAL EXPENDITURES	<u>201,283,934</u>	<u>200,045,288</u>	<u>191,894,582</u>	<u>8,150,706</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,864,995)</u>	<u>(1,626,349)</u>	<u>8,423,388</u>	<u>10,049,737</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year revenues	-	(65,000)	(36,146)	28,854
Refund of prior year expenditures	-	-	26,078	26,078
Budgetary reserve	-	(41,576)	-	41,576
Transfers out	(367,932)	(1,500,002)	(1,500,000)	2
TOTAL OTHER FINANCING SOURCES (USES)	<u>(367,932)</u>	<u>(1,606,578)</u>	<u>(1,510,068)</u>	<u>96,510</u>
NET CHANGE IN FUND BALANCE	<u>(3,232,927)</u>	<u>(3,232,927)</u>	<u>6,913,320</u>	<u>10,146,247</u>
FUND BALANCE, BEGINNING OF YEAR	<u>18,462,684</u>	<u>18,462,684</u>	<u>18,462,684</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 15,229,757</u>	<u>\$ 15,229,757</u>	<u>\$ 25,376,004</u>	<u>\$10,146,247</u>

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

**WEST CHESTER AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2012**

	<u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 179,245
Investments	1,212,929
Due from other governments	12,786
Other receivables	7,468
Inventories	10,115
TOTAL CURRENT ASSETS	<u>1,422,543</u>
 CAPITAL ASSETS:	
Furniture and equipment, net	<u>171,996</u>
 TOTAL ASSETS	 <u><u>\$ 1,594,539</u></u>
 LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	\$ 191,334
Deferred revenue	75,303
TOTAL LIABILITIES	<u>266,637</u>
 NET POSITION:	
Invested in capital assets	171,996
Unrestricted	1,155,906
TOTAL NET POSITION	<u>1,327,902</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 1,594,539</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 POSITION -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service revenues	\$ 2,604,560
TOTAL OPERATING REVENUES	<u>2,604,560</u>
OPERATING EXPENSES	
Professional and contract services	3,217,295
Depreciation	43,048
Other operating costs	53,099
TOTAL OPERATING EXPENSES	<u>3,313,442</u>
OPERATING LOSS	<u>(708,882)</u>
NONOPERATING REVENUES	
State sources	69,678
Federal sources	760,073
Local sources	2,632
Interest income	2,269
TOTAL NONOPERATING REVENUES	<u>834,652</u>
CHANGE IN NET POSITION	125,770
NET POSITION, BEGINNING OF YEAR	<u>1,202,132</u>
NET POSITION, END OF YEAR	<u>\$ 1,327,902</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, 2012**

	<u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 2,612,606
Payments to suppliers	<u>(3,188,700)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(576,094)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State sources	71,895
Federal sources	659,157
Local sources	<u>2,632</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>733,684</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	<u>(30,808)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(30,808)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investment securities and deposits to investment pools	(5,568)
Interest income	<u>2,269</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(3,299)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	123,483
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>55,762</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 179,245</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (708,882)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	43,048
Commodities usage	117,678
Changes in assets and liabilities:	
Decrease in other receivables	933
Decrease in inventories	3,905
(Decrease) in accounts payable and accrued liabilities	(35,984)
Increase in deferred revenue	<u>3,208</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (576,094)</u>
SUPPLEMENTAL DISCLOSURE:	
NONCASH NONCAPITAL FINANCING ACTIVITY:	
USDA donated commodities	<u>\$ 113,773</u>

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

**WEST CHESTER AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2012**

	<u>Student Activity Funds</u>	<u>Other Agency Fund</u>	<u>Total Agency Funds</u>	<u>Private- Purpose Trust</u>
ASSETS				
Cash and cash equivalents	\$ 318,771	\$ 58,177	\$ 376,948	\$ 586,215
Other receivables	<u>-</u>	<u>24,780</u>	<u>24,780</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 318,771</u></u>	<u><u>\$ 82,957</u></u>	<u><u>\$ 401,728</u></u>	<u><u>\$ 586,215</u></u>
LIABILITIES AND NET POSITION				
LIABILITIES:				
Other current liabilities	\$ 318,771	\$ 82,957	\$ 401,728	\$ -
TOTAL LIABILITIES	<u>318,771</u>	<u>82,957</u>	<u>401,728</u>	<u>-</u>
NET POSITION:				
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>586,215</u>
TOTAL NET POSITION	<u>-</u>	<u>-</u>	<u>-</u>	<u>586,215</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 318,771</u></u>	<u><u>\$ 82,957</u></u>	<u><u>\$ 401,728</u></u>	<u><u>\$ 586,215</u></u>

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

**WEST CHESTER AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Gifts and contributions	<u>\$ 957,257</u>
TOTAL ADDITIONS	<u>957,257</u>
DEDUCTIONS	
Grants	<u>947,597</u>
TOTAL DEDUCTIONS	<u>947,597</u>
CHANGE IN NET POSITION	9,660
NET POSITION, BEGINNING OF YEAR	<u>576,555</u>
NET POSITION, END OF YEAR	<u><u>\$ 586,215</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). 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 position 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 - This capital reserve fund is used for funds set aside that are legally restricted to expenditures for specific purposes.

The District reports one nonmajor fund (debt service) which is used to record certain debt activity.

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.

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 Position 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.

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."

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

All trade and property tax receivables are shown net of any allowance for uncollectibles. There are no allowances at June 30, 2012.

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

Discount Period	-	July 1 to August 31	-	2% of gross levy
Flat Period	-	September 1 to October 31		
Penalty Period	-	November 1 to collection	-	10% of gross levy
Lien Date	-	January 15		

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both entity-wide and fund financial statements.

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 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.

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

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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.

Early Implementation of GASB Statements

During the current year, the District elected to implement GASB Statement No. 61, "The Financial Reporting Entity: Omnibus." This new guidance affects the treatment of component units within the financial statements. The implementation of this new Statement did not have an effect on the District's current year financial statements.

During the current year, the District elected to implement GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This new guidance codifies pre-1989 standards set by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), which are followed for proprietary fund and entity-wide reporting. The District's notes to the financial statements have been revised to reflect the level of disclosure required by the new Statement.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

During the current year, the District elected to implement GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." This new guidance creates two sections to the balance sheet (deferred outflows and deferred inflows) and revises other proprietary fund and entity-wide terminology as a result of this change. The District's proprietary fund and entity-wide balance sheets have been revised to reflect the new terminology. At June 30, 2012, the District had no deferred inflows or deferred outflows.

Fund Equity

Fund balance will be displayed in the following classification (if applicable) depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – that portion of the fund balance that cannot be spent because it is either in a nonspendable form or legally or contractually required to be maintained intact.

Restricted – that portion of the fund balance that is constrained to be used for a specific purpose as per an external party or law.

Committed – that portion of the balance that is to be used for a specific purpose as per School Board motion. These constraints can be removed or changed by equal level action. Action to constrain resources should occur prior to the fiscal year end. Direction from the School Board can commit specific dollar amounts, percentages or funds related to a specific activity.

Assigned – that portion of the fund balance that is intended to be used for a specific purpose as per the Property and Finance Committee, the Superintendent or the Business Manager.

Unassigned – that portion of the fund balance that represents expendable available financial resources. It is the residual after the nonspendable, restricted, committed and assigned portions are deducted from the total fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 BUDGETARY INFORMATION

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 but operates under the provisions of Commonwealth laws (Act 72). At June 30, 2012, the carrying amount of the District's deposits was \$22,198,864 and the bank balance was \$23,902,387. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was fully collateralized. This collateral was 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 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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS (cont'd)

As of June 2012, the District had the following investments.

Investments held in the District's Name:

<u>Money Market</u>	
General fund accounts	\$ 152,908
Capital reserve fund account	<u>65,942</u>
Total Money Market	<u>218,850</u>
<u>Agencies and CDs</u>	
General fund accounts	10,007,320
Capital reserve fund account	<u>9,693,986</u>
Total Agencies and CDs	<u>19,701,306</u>
Total Investments held in the District's Name	<u>\$ 19,920,156</u>

The District purchases money market holdings, certificates of deposit ("CDs") and agencies through Fulton Financial Advisors. The money market is a federal money market fund and maintains 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, 2012, it was rated AAA by a nationally recognized statistical rating agency. Fulton Financial Advisors is a registered member of the Securities and Exchange Commission and subject to the Commission's oversight. Investments are in short-term securities in accordance with the District's investment policy and school district code. All agencies purchased are highly rated by a nationally recognized rating agency. All CDs are purchased at values to stay within the FDIC insurance limits.

Pooled Investments:

<u>Pennsylvania School District Liquid Asset Fund ("PSDLAF")</u>	
General fund accounts	\$ 1,991,498
Capital reserve fund account	<u>778</u>
Total Pennsylvania School District Liquid Asset Fund	<u>1,992,276</u>
<u>Pennsylvania Local Government Investment Trust ("PLGIT")</u>	
Capital project fund account	3,182,717
Capital reserve fund account	<u>14,843</u>
Total Pennsylvania Local Government Investment Trust	<u>3,197,560</u>
<u>Pennsylvania Treasurer's Investment Program ("PTIP")</u>	
General fund account	6,769,570
Capital reserve fund account	1
Food service fund account	<u>1,212,929</u>
Total Pennsylvania Treasurer's Investment Program	<u>7,982,500</u>
TOTAL POOLED INVESTMENTS	<u>\$ 13,172,336</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS (cont'd)

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, 2012, each was rated as AAA by a nationally recognized statistical rating agency.

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	\$ 3,285,357
Transfer taxes	299,500
Earned income taxes	<u>1,545,966</u>
Net Taxes Receivable	<u>\$ 5,130,823</u>

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	\$ 2,908,347
Other deferred revenue	<u>44,571</u>
TOTAL	<u>\$ 2,952,918</u>

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES					
Capital assets not being depreciated:					
Land	\$ 33,159,800	\$ -	\$ -	\$ -	\$ 33,159,800
Construction-in-progress	<u>1,715,107</u>	<u>4,805,966</u>	<u>24,494</u>	<u>(550,228)</u>	<u>5,946,351</u>
Total Capital Assets Not Being Depreciated	<u>34,874,907</u>	<u>4,805,966</u>	<u>24,494</u>	<u>(550,228)</u>	<u>39,106,151</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 CAPITAL ASSETS (cont'd)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
(cont'd)					
Capital assets being depreciated:					
Land Improvements	14,452,651	-	-	-	14,452,651
Buildings	360,129,654	412,606	-	483,038	361,025,298
Furniture and equipment	31,713,443	687,105	589,852	67,190	31,878,086
Total Capital Assets Being Depreciated	<u>406,295,748</u>	<u>1,099,711</u>	<u>589,852</u>	<u>550,228</u>	<u>407,356,035</u>
Accumulated depreciation for:					
Land Improvements	2,981,571	720,534	-	-	3,702,105
Buildings	110,781,751	9,545,291	-	-	120,327,042
Furniture and equipment	27,286,388	1,940,933	589,852	-	28,637,669
Total accumulated depreciation	<u>141,049,710</u>	<u>12,206,758</u>	<u>589,852</u>	<u>-</u>	<u>152,666,816</u>
Total Capital Assets Being Depreciated, Net	<u>265,246,038</u>	<u>(11,107,047)</u>	<u>-</u>	<u>550,228</u>	<u>254,689,219</u>
Governmental Activities, Net	<u>\$300,120,945</u>	<u>\$ (6,301,081)</u>	<u>\$ 24,494</u>	<u>\$ -</u>	<u>\$293,795,370</u>
BUSINESS-TYPE ACTIVITIES					
Capital assets:					
Furniture and equipment	<u>\$ 528,499</u>	<u>\$ 30,808</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 559,307</u>
Total Capital Assets	<u>528,499</u>	<u>30,808</u>	<u>-</u>	<u>-</u>	<u>559,307</u>
Accumulated depreciation for:					
Furniture and equipment	<u>344,263</u>	<u>43,048</u>	<u>-</u>	<u>-</u>	<u>387,311</u>
Total Accumulated Depreciation	<u>344,263</u>	<u>43,048</u>	<u>-</u>	<u>-</u>	<u>387,311</u>
Business-type Activities					
Capital Assets, Net	<u>\$ 184,236</u>	<u>\$ (12,240)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,996</u>

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

Governmental activities:

Instruction	\$ 7,766,878
Instructional student support	997,873
Administrative and financial support services	970,859
Operation and maintenance of plant services	1,277,213
Pupil transportation	907,969
Student activities	278,082
Community services	7,884

Total Depreciation Expense - Governmental Activities \$ 12,206,758

Business-type Activities - Food Service \$ 43,048

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2012 is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	\$ -	\$ 1,498,654
Capital reserve fund	1,500,000	-
Capital projects fund	-	1,346
TOTAL	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

Interfund receivables and payables exist as a result of a time lag between dates when goods and services were provided and payments between funds were made. All will be paid within one year. The general fund transferred \$1,500,000 to the capital reserve fund for the year ended June 30, 2012 to fund future planned capital expenditures.

NOTE 8 LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2012:

	<u>Principal Outstanding July 1, 2011</u>	<u>Maturities</u>	<u>Additions</u>	<u>Principal Outstanding June 30, 2012</u>	<u>Due on One Year</u>
General obligation note, Series B of 2000	\$ 5,649,000	\$1,019,000	\$ -	\$ 4,630,000	\$1,072,000
General obligation bonds, Series of 2002	1,265,000	1,265,000	-	-	-
General obligation bonds, Series of 2006	34,975,000	5,000	-	34,970,000	5,000
General obligation bonds, Series A of 2006	98,870,000	1,910,000	-	96,960,000	1,970,000
General obligation bonds, Series AA of 2006	11,820,000	1,705,000	-	10,115,000	1,765,000
General obligation bonds, Refunding Series of 2006	21,905,000	115,000	-	21,790,000	1,440,000
General obligation bonds, Refunding Series A of 2006	37,415,000	140,000	-	37,275,000	145,000
General obligation bonds, Series of 2007	9,300,000	9,300,000	-	-	-
General obligation bonds, Refunding Series of 2009	4,400,000	695,000	-	3,705,000	705,000
General obligation note, Series of 2009	9,995,000	5,000	-	9,990,000	5,000
General obligation bonds, Refunding Series of 2010	20,265,000	2,950,000	-	17,315,000	3,025,000
General obligation bonds, Refunding Series A of 2010	7,460,000	605,000	-	6,855,000	615,000

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (cont'd)

(continued)	Principal Outstanding July 1, 2011	Maturities	Additions	Principal Outstanding June 30, 2012	Due in One Year
General obligation bonds, Refunding Series AA of 2010	28,220,000	1,780,000	-	26,440,000	2,195,000
General obligation bonds, Refunding Series of 2011	-	-	9,585,000	9,585,000	165,000
	<u>291,539,000</u>	<u>21,494,000</u>	<u>9,585,000</u>	<u>279,630,000</u>	<u>\$13,107,000</u>
Deferred amounts:					
Issuance (discounts) premium	7,324,201	577,029	76,310	6,823,482	
Refunding deferred charge	<u>107,998</u>	<u>29,804</u>	<u>-</u>	<u>78,194</u>	
LONG-TERM DEBT	<u>\$298,971,199</u>	<u>\$22,100,833</u>	<u>\$9,661,310</u>	<u>\$286,531,676</u>	

General Obligation Bonds

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. \$ 34,970,000

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. 96,960,000

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. 10,115,000

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. 21,790,000

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. 37,275,000

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. 3,705,000

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.	17,315,000
Refunding Series A of 2010, original principal amount of \$7,510,000, maturing May 15, 2011 through May 15, 2022, bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually on May 15 and November 15.	6,855,000
Refunding Series AA of 2010, original principal amount of \$28,220,000, maturing March 15, 2012 through March 15, 2022, bearing interest ranging from 2.00% to 5.00%, interest payable semi-annually on March 15 and September 15.	26,440,000
Refunding Series of 2011, original principal amount of \$9,585,000, maturing February 15, 2013 through February 15, 2029, bearing interest ranging from 2.00% to 3.20%, interest payable semi-annually on February 15 and August 15. This current refunding was undertaken to reduce total debt payments and resulted in an economic gain of \$822,959.	<u>9,585,000</u>
TOTAL BONDS	<u>265,010,000</u>
 <i>General Obligation Notes</i>	
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.	4,630,000
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.	<u>9,990,000</u>
TOTAL NOTES	<u>14,620,000</u>
TOTAL BONDS AND NOTES	<u>\$279,630,000</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (cont'd)

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>
2013	\$ 13,107,000	\$ 11,568,931	\$ 24,675,931
2014	13,867,000	11,144,881	25,011,881
2015	14,335,000	10,682,071	25,017,071
2016	13,851,000	10,222,054	24,073,054
2017	14,310,000	9,768,486	24,078,486
2018-2022	80,480,000	39,876,679	120,356,679
2023-2027	99,070,000	20,365,048	119,435,048
2028-2030	30,610,000	2,446,191	33,056,191
	<u>\$279,630,000</u>	<u>\$116,074,341</u>	<u>\$395,704,341</u>

NOTE 9 CHANGES IN OTHER LONG-TERM LIABILITIES

Other long-term liabilities are summarized as follows:

	<u>Balance July 1, 2011</u>	<u>Additions (Deletions)</u>	<u>Balance June 30, 2012</u>
Accrued compensated absences	\$ 1,472,603	\$ (81,973)	\$ 1,390,630
Accrued severance	4,804,525	313,874	5,118,399
	<u>\$ 6,277,128</u>	<u>\$ 231,901</u>	<u>\$ 6,509,029</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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11 CONSTRUCTION COMMITMENTS

As of June 30, 2012, the District had construction projects yet to be completed. The commitments and amounts completed to date are as follows:

	<u>Contract Amount</u>	<u>Completed as of 06/30/2012</u>	<u>Commitments</u>
Renovations	<u>\$ 20,805,526</u>	<u>\$ 4,517,897</u>	<u>\$ 16,287,629</u>

In addition, the District has incurred costs totaling \$1,428,454 for project costs that were not under a formal contract as of June 30, 2012.

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.

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, 2012, 2011 and 2010 totaled \$7,377,780, \$5,035,278 and \$4,203,795, respectively. Total covered payroll was \$85,292,259, and total payroll was \$86,232,489 for the current year. Shown on the following page is a summary of plan benefit and asset information:

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 13 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (cont'd)

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, 2012, the rate of employer contribution was 8.65 percent of covered payroll.

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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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, 2010, the most recent valuation, 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

The schedule of funding progress of OPEB is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2010	\$ -	\$26,658,307	\$26,658,307	0.00%	\$86,718,957	30.74%
7/1/2008	\$ -	\$34,304,681	\$34,304,681	0.00%	\$87,772,879	39.08%

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

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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, 2010 actuarial valuation, the following actuarial assumptions were used:

Interest	-	4.5% compounded annually net of investment expenses
Amortization method	-	Level dollar method at the valuation interest rate
Amortization period	-	30 years
Salary increases	-	4% cost of living + merit 0.25% to 3% 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		\$ 1,450,855
Amortization of unfunded actuarial accrued liability		1,103,119
Interest on net OPEB obligation		(6,367)
Funding adjustment		<u>5,854</u>
ANNUAL OPEB COST		<u>\$ 2,553,461</u>
Net OPEB Obligation (Asset):		
Normal OPEB obligation (asset) July 1, 2011		\$ (141,479)
OPEB cost for year ended June 30, 2012		2,553,461
Contribution for year ended June 30, 2012		<u>(2,370,109)</u>
NET OPEB OBLIGATION		<u>\$ 41,873</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 15 FUND BALANCES

As of June 30, 2012, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Governmental Funds</u>
Nonspendable	\$ 1,277,682	\$ -	\$ -	\$ 1,277,682
Restricted:				
Capital projects	-	793,496	14,329,759	15,123,255
Healthcare	1,892,658	-	-	1,892,658
Committed:				
PSERS	3,700,000	-	-	3,700,000
Healthcare	2,677,700	-	-	2,677,700
Assigned:				
Tax stabilization	3,349,200	-	-	3,349,200
Gate receipts	124,160	-	-	124,160
Unassigned	<u>12,354,604</u>	-	-	<u>12,354,604</u>
Total fund balances	<u>\$ 25,376,004</u>	<u>\$ 793,496</u>	<u>\$ 14,329,759</u>	<u>\$ 40,499,259</u>

NOTE 16 ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

The District recognizes as revenue and expenses contributions made by the Commonwealth of Pennsylvania to be used for District employees' social security and pension contributions. On-behalf payments to the District totaled \$3,172,963 and \$3,688,225 for social security and retirement contributions, respectively. These contributions are recorded in the General Fund as revenue and expenditures.

NOTE 17 SUBSEQUENT EVENTS

On July 23, 2012, the District issued \$60,330,000 of General Obligation bonds at interest rates between 0.50 and 3.03 percent. Interest is payable semi-annually beginning November 15, 2012. The bonds mature beginning May 15, 2013 and continuing through May 15, 2032. The proceeds of the bonds were used to refund a portion of the District's outstanding General Obligation bonds, Series 2006 A and to provide \$21,000,000 in new capital funding. The debt service savings achieved through the refinancing portion of this bond issue totaled \$3,677,738.

The District has evaluated all subsequent events through November 29, 2012, the date the financial statements were available to be issued.

SINGLE AUDIT

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

November 29, 2012

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, 2012, which collectively comprise West Chester Area School District's basic financial statements, and have issued our report thereon dated November 29, 2012.

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

Management of West Chester Area School District, West Chester, Pennsylvania, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered West Chester Area School District, West Chester, Pennsylvania'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 West Chester Area School District, West Chester, Pennsylvania's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 that are required to be reported under *Government Auditing Standards*.

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

REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Barbacane, Thornton & Company LLP
200 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810

T 302.478.8940
F 302.468.4001
www.btcpa.com

November 29, 2012

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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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,

To the Board of School Directors
West Chester Area School District

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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.

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 _____ X No
- Significant deficiency(ies) identified? _____ Yes _____ X None reported
- Noncompliance material to financial statements noted? _____ Yes _____ X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes _____ X No
- Significant deficiency(ies) identified? _____ Yes _____ X 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 _____ X 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, 84.173

Special Education Cluster (IDEA)

93.778

Medical Assistance Program

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

\$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes _____ X No

WEST CHESTER AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

PERSONNEL FILES

11-1 Finding

Condition

During our prior year audit, we sampled 40 personnel files to ensure that proper documentation was being maintained for existing employees. We noted that nine individuals selected in our sample did not have Form I-9, "Employment Eligibility Verification."

Criteria

In accordance with federal law, employers are required to have employees verify his or her identity and employment authorization through completion of Form I-9, "Employment Eligibility Verification." Employers are required to maintain these forms for employees hired after November 6, 1986.

Effect

The District was noncompliant with federal law and may have hired individuals who are not authorized to work in the United States.

Cause

Inconsistent implementation of Human Resources policies during the hiring process.

Recommendation

We recommended that the District review all personnel records for existing employees to ensure that appropriate documentation is completed and maintained.

Status

During our current year audit, we noted that the District completed its review of personnel records and obtained Form I-9 for employees for whom documentation had been missing. This finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

WEST CHESTER AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

WEST CHESTER AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2012

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 07/01/11	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue 06/30/12
U.S. Department of Education										
Passed through PA Department of Education										
Adult Education - Basic Grants to States	I	84.002	041-119101	07/01/10-06/30/11	\$ 18,792	\$ 10,962	\$ 10,962	\$ -	\$ -	\$ -
Title I Grants to Local Education Agencies	I	84.010	013-110470	07/01/10-09/30/11	457,663	116,516	104,689	11,827	11,827	-
Title I Grants to Local Education Agencies	I	84.010	013-120470	07/01/11-09/30/12	441,244	360,993	-	429,148	429,148	68,155
Title I Grants to Local Education Agencies	I	84.010	077-110470	07/01/10-09/30/11	5,000	5,000	-	5,000	5,000	-
Title I Grants to Local Education Agencies	I	84.010	107-110470	07/01/10-09/30/11	1,318,080	885,718	123,856	761,862	761,862	-
Title I Grants to Local Education Agencies	I	84.010	107-110470	07/01/10-09/30/11	1,035,712	343,798	-	133,550	133,550	(210,248)
Total CFDA #84.010						1,712,025	228,545	1,341,387	1,341,387	(142,093)
English Language Acquisition Grants	I	84.365	010-110470	07/01/10-09/30/11	96,827	67,034	13,072	53,962	53,962	-
English Language Acquisition Grants	I	84.365	010-120470	07/01/11-09/30/12	109,053	28,318	-	50,817	50,817	22,499
Total CFDA #84.365						95,352	13,072	104,779	104,779	22,499
Improving Teacher Quality State Grants	I	84.367	020-110470	07/01/10-09/30/11	344,610	229,290	52,841	176,449	176,449	-
Improving Teacher Quality State Grants	I	84.367	020-120470	07/01/11-09/30/12	292,642	98,058	-	134,770	134,770	36,712
Total CFDA #84.367						327,348	52,841	311,219	311,219	36,712
Title I Grants to Local Education Agencies, Recovery Act	I	84.389	133-100470	07/01/09-09/30/11	1,011,451	120,108	(129,224)	249,332	249,332	-
State Fiscal Stabilization Fund - Education State Grants, Recovery Act	I	84.394	126-100470	07/01/10-06/30/11	834,020	139,003	139,003	-	-	-
ARRA Education Jobs Fund	I	84.410	140-119403	07/01/11-06/30/12	7,302	-	-	7,302	7,302	7,302
Adult Literacy	S	N/A	059-110095	07/01/10-06/30/11	3,895	2,272	2,272	-	-	-
Passed through Chester County O.I.C.										
Adult Education - Basic Grants to States	I	84.002	041-129101	07/01/11-06/30/12	24,000	22,000	-	24,000	24,000	2,000
Total CFDA #84.002						32,962	10,962	24,000	24,000	2,000
Adult Literacy	S	N/A	059-120095	07/01/11-06/30/12	4,969	4,555	-	4,969	4,969	414
Passed through Chester County I.U.										
IDEA Special Education - Grants to States	I	84.027	N/A	07/01/10-06/30/11	1,235,639	104,140	104,140	-	-	-
IDEA Special Education - Grants to States	I	84.027	N/A	07/01/11-06/30/12	1,234,363	1,065,040	-	1,290,509	1,290,509	225,469
Total CFDA #84.027						1,169,180	104,140	1,290,509	1,290,509	225,469
IDEA Special Education - Preschool Grants	I	84.173	N/A	07/01/11-06/30/12	19,775	19,775	-	19,775	19,775	-
IDEA Special Education - Grants to States Recovery Act	I	84.391	030-098911	02/17/09-09/30/11	1,907,771	467,232	467,232	-	-	-
TOTAL U.S. DEPARTMENT OF EDUCATION						4,089,812	888,843	3,353,272	3,353,272	152,303
U.S. Dept of Health and Human Services										
Passed through PA Dept of Public Welfare										
Title XIX Medical Assistance Program	I	93.778	N/A	07/01/11-06/30/12	205,481	205,481	39,000	166,481	166,481	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						205,481	39,000	166,481	166,481	-
U.S. Environmental Protection Agency										
Climate Showcase Communities Grant	D	66.041	N/A	01/01/10-01/31/12	149,992	149,992	-	149,992	149,992	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY						149,992	-	149,992	149,992	-

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, 2012**

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 07/01/11	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue 06/30/12
U.S. Department of Agriculture										
<u>Passed through PA Department of Agriculture</u>										
Value of USDA Donated Commodities	I	10.555	N/A	07/01/10-06/30/11	N/A	-	(14,020)	14,020	14,020	-
Value of USDA Donated Commodities	I	10.555	N/A	07/01/11-06/30/12	N/A	113,773	-	103,658	103,658	(10,115)
<u>Passed through PA Department of Education</u>										
National School Lunch Program	I	10.555	362	07/01/11-06/30/12	N/A	547,038	22,221	533,061	533,061	8,244
Total CFDA #10.555						<u>660,811</u>	<u>8,201</u>	<u>650,739</u>	<u>650,739</u>	<u>(1,871)</u>
School Breakfast Program	I	10.553	365	07/01/11-06/30/12	N/A	90,900	4,442	89,137	89,137	2,679
School Breakfast Program	I	10.553	367	07/01/11-06/30/12	N/A	21,219	1,623	20,197	20,197	601
Total CFDA #10.553						<u>112,119</u>	<u>6,065</u>	<u>109,334</u>	<u>109,334</u>	<u>3,280</u>
School Breakfast Program	S	N/A	510	07/01/11-06/30/12	N/A	62,343	2,934	60,397	60,397	988
National School Lunch Program	S	N/A	511	07/01/11-06/30/12	N/A	9,552	545	9,281	9,281	274
Subtotal						<u>71,895</u>	<u>3,479</u>	<u>69,678</u>	<u>69,678</u>	<u>1,262</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE						<u>844,825</u>	<u>17,745</u>	<u>829,751</u>	<u>829,751</u>	<u>2,671</u>
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS						<u>\$ 5,290,110</u>	<u>\$ 945,588</u>	<u>\$ 4,499,496</u>	<u>\$ 4,499,496</u>	<u>\$ 154,974</u>
TOTAL FEDERAL AWARDS						\$ 5,211,388	\$ 939,837	\$ 4,424,849	\$ 4,424,849	\$ 153,298
TOTAL STATE GRANTS						78,722	5,751	74,647	74,647	1,676
TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS						<u>\$ 5,290,110</u>	<u>\$ 945,588</u>	<u>\$ 4,499,496</u>	<u>\$ 4,499,496</u>	<u>\$ 154,974</u>
TITLE I PART A CLUSTER						<u>\$ 1,832,133</u>	<u>\$ 99,321</u>	<u>\$ 1,590,719</u>	<u>\$ 1,590,719</u>	<u>\$ (142,093)</u>
SPECIAL EDUCATION CLUSTER (IDEA)						<u>\$ 1,656,187</u>	<u>\$ 571,372</u>	<u>\$ 1,310,284</u>	<u>\$ 1,310,284</u>	<u>\$ 225,469</u>
CHILD NUTRITION CLUSTER						<u>\$ 772,930</u>	<u>\$ 14,266</u>	<u>\$ 760,073</u>	<u>\$ 760,073</u>	<u>\$ 1,409</u>

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 and Certain State Grants under CFDA #10.555 (Value of USDA Commodities) represent surplus food consumed by the District during the 2011-2012 fiscal year. The District has food commodities totaling \$10,115 in inventory as of June 30, 2012.

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, 2012 was \$606,925.