

*In the opinion of Bond Counsel, assuming compliance with certain covenants of the School District, interest on the Bonds is excluded from gross income of the owners of the Bonds for federal income tax purposes under existing law, as currently enacted and construed. Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations as more fully described under the caption "Tax Exemption" herein. Under the laws of the Commonwealth of Pennsylvania, as currently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.*

## \$60,330,000

### West Chester Area School District

Chester and Delaware Counties, Pennsylvania

\$21,000,000 General Obligation Bonds, Series A of 2012

\$39,330,000 General Obligation Bonds, Series AA of 2012

**Dated:** Date of Delivery

**Principal Due:** May 15, as shown on inside front cover

**Interest Due:** May 15 and November 15

**First Interest Payment:** November 15, 2012

The Bonds described herein are in the combined aggregate principal amount of \$60,330,000 and consist of \$21,000,000 General Obligation Bonds, Series A of 2012 (the "2012A Bonds") and \$39,330,000 General Obligation Bonds, Series AA of 2012 (the "2012AA Bonds" and together with the 2012A Bonds, the "Bonds"). The Bonds will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof only under the book-entry only system maintained by DTC through its brokers and dealers who are, or act through, DTC Participants. The purchasers of the Bonds will not receive physical delivery of the Bonds. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein. If, under the circumstances described herein, Bonds are ever issued in certificated form, the Bonds will be subject to registration or transfer, exchange and payment as described herein. The principal of the Bonds will be paid to the registered owners or assigns, when due, upon presentation and surrender of the Bonds to TD Bank, N.A (the "Paying Agent"), acting as paying agent, registrar and sinking fund depository, at its corporate trust office in Philadelphia, Pennsylvania. Interest on the Bonds is payable initially on November 15, 2012 and thereafter semiannually on November 15 and May 15 of each year, until the principal sum thereof is paid. DTC Participants and Indirect Participants will be responsible for remitting such payments to Beneficial Owners of the Bonds.

**The 2012A Bonds are subject to redemption prior to maturity and the 2012AA Bonds are not subject to redemption prior to maturity, as described herein.**

The Bonds are general obligations of the West Chester Area School District, Chester and Delaware Counties, Pennsylvania (the "School District"), payable from its tax and other general revenues. In the Resolution described herein the School District covenants that it will provide in its budget in each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year and will duly and punctually pay or cause to be paid from the sinking fund established under the Resolution or any other of its revenues or funds the principal of every Bond and the interest thereon on the dates, at the place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the School District irrevocably pledges its full faith, credit and taxing power, which taxing power presently includes the power to levy *ad valorem* taxes on all taxable property within the School District within limitations provided by law. (See "Security" and "*Act 1 of 2006 (The Taxpayer Relief Act)*" *infra*.)

Proceeds of the 2012A Bonds will be used to finance the costs of the acquisition, design, construction, furnishing and equipping of additions, alterations and renovations and other improvements to the School District's existing school buildings and related facilities and pay the costs of issuing the 2012A Bonds.

Proceeds of the 2012AA Bonds will be used to advance refund a portion of the School District's outstanding General Obligation Bonds, Series A of 2006 and pay the costs of issuing the 2012AA Bonds.

The Bonds are an authorized investment for fiduciaries in the Commonwealth of Pennsylvania pursuant to the Pennsylvania Probate, Estate and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508, as amended and supplemented.

### MATURITIES, AMOUNTS, RATES AND YIELDS/PRICES {As Shown on Inside Front Cover}

The Bonds are offered when, as and if issued, subject to withdrawal or modification of the offer without notice, and subject to the approving legal opinion of Pepper Hamilton LLP, Bond Counsel, to be furnished upon delivery of the Bonds. Certain other legal matters will be passed upon for the School District by Unruh, Turner, Burke & Frees, P.C., of West Chester, Pennsylvania, School District Solicitor. Public Financial Management, Inc., of Harrisburg, Pennsylvania, will serve as the School District's Financial Advisor in connection with the issuance of the Bonds. It is expected that the Bonds will be available for delivery through DTC, on or about August 28, 2012.



**\$60,330,000**

**West Chester Area School District**  
**Chester and Delaware Counties, Pennsylvania**

**Dated:** Date of Delivery  
**Principal Due:** May 15

**Interest Due:** May 15 and November 15  
**First Interest Payment:** November 15, 2012

**BOND MATURITY SCHEDULE FOR:**

**\$21,000,000 General Obligation Bonds, Series A of 2012**

<b>Maturity Date (May 15) Year</b>	<b>Principal Amounts</b>	<b>Interest Rates</b>	<b>Initial Offering Yields</b>	<b>Initial Offering Prices</b>	<b>CUSIP<sup>(1)</sup></b>
2023	\$5,000	3.000%	2.350%*	105.613%*	952030J21
2024	5,000	3.000	2.450*	104.726*	952030J39
2025	5,000	3.000	2.550*	103.848*	952030J47
2026	5,000	3.000	2.650*	102.977*	952030J54
2027	5,000	3.000	2.700*	102.545*	952030J62
2028	3,950,000	3.000	2.750*	102.115*	952030J70
2029	4,070,000	3.000	2.820*	101.517*	952030J88
2030	4,190,000	3.000	2.890*	100.923*	952030J96
2031	4,320,000	3.000	2.960*	100.332*	952030K29
2032	4,445,000	3.000	3.030	99.554	952030K37

<sup>(1)</sup>The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the School District or the Underwriter, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the School District nor the Underwriter has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

\*Yield/Price to Optional Redemption Date of May 15, 2022

**\$60,330,000**

**West Chester Area School District**  
**Chester and Delaware Counties, Pennsylvania**

**Dated:** Date of Delivery  
**Interest Due:** May 15 and November 15

**Principal Due:** September 15, as shown below  
**First Interest Payment:** November 15, 2012

**BOND MATURITY SCHEDULE FOR:**

**\$39,330,000 General Obligation Bonds, Series AA of 2012**

<b>Maturity Date</b>					
<b>(May 15)</b>	<b>Principal</b>	<b>Interest</b>	<b>Initial Offering</b>	<b>Initial Offering</b>	<b>CUSIP<sup>(1)</sup></b>
<b>Year</b>	<b>Amounts</b>	<b>Rates</b>	<b>Yields</b>	<b>Prices</b>	
2014	\$5,000	2.000%	0.500%	102.556%	952030K45
2015	110,000	2.000	0.600	103.762	952030K52
2016	115,000	2.000	0.700	104.757	952030K60
2017	115,000	2.000	0.800	105.539	952030K78
2018	7,835,000	5.000	1.000	122.159	952030K86
2019	8,295,000	5.000	1.220	124.294	952030K94
2020	7,875,000	5.000	1.430	125.984	952030L28
2021	7,360,000	4.000	1.620	119.267	952030L36
2022	7,620,000	4.000	1.750	120.017	952030L44

<sup>(1)</sup>The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the School District or the Underwriter, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the School District nor the Underwriter has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

# WEST CHESTER AREA SCHOOL DISTRICT

Chester and Delaware Counties, Pennsylvania

## BOARD OF SCHOOL DIRECTORS

---

Vince Murphy .....	President
Heidi Adsett.....	Vice President
Sean Carpenter .....	Member
Edward Coyle .....	Member
Karen Miller .....	Member
Dr. Maria Pimley.....	Member
Linda Raileanu .....	Member
Maureen Snook.....	Member
Susan Tiernan.....	Member
Pauline A. Bachtle.....	Secretary*
John Scully .....	Assistant Secretary*
Dr. Suzanne K. Moore.....	Treasurer*

---

\*Non-Voting Member

### SUPERINTENDENT

DR. JAMES R. SCANLON

### DIRECTOR OF BUSINESS AFFAIRS

DR. SUZANNE K. MOORE

### SCHOOL DISTRICT SOLICITOR

UNRUH, TURNER, BURKE & FREES, P.C.  
West Chester, Pennsylvania

### BOND COUNSEL

PEPPER HAMILTON LLP

### FINANCIAL ADVISOR

PUBLIC FINANCIAL MANAGEMENT, INC.  
Harrisburg, Pennsylvania

### PAYING AGENT

TD BANK, N.A.  
Philadelphia, Pennsylvania

### UNDERWRITER

JANNEY MONTGOMERY SCOTT LLC  
Philadelphia, Pennsylvania

### SCHOOL DISTRICT ADDRESS

829 Paoli Pike  
West Chester, Pennsylvania

No dealer, broker, salesman or other person has been authorized by the School District to give information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from the School District and from other sources which are believed to be reliable but the School District does not guarantee the accuracy or completeness of information from sources other than the School District. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

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# OFFICIAL STATEMENT

## \$60,330,000

### West Chester Area School District Chester and Delaware Counties, Pennsylvania

#### General Obligation Bonds, Series A of 2012 General Obligation Bonds, Series AA of 2012

#### INTRODUCTION

This Official Statement, including the cover page and inside cover page hereof, is furnished by West Chester Area School District, Chester and Delaware Counties, Pennsylvania (the "School District"), in connection with the offering of \$60,330,000 combined aggregate principal amount of general obligation bonds, which consist of \$21,000,000 aggregate principal amount of General Obligation Bonds, Series A of 2012 (the "2012A Bonds") and \$39,330,000 aggregate principal amount of General Obligation Bonds, Series AA of 2012 (the "2012AA Bonds"). The 2012A Bonds and the 2012AA Bonds are collectively referred to as the "Bonds". The Bonds are being issued pursuant to a Resolution of the Board of School Directors of the School District adopted on July 23, 2012 (the "Resolution"), and pursuant to the Local Government Unit Debt Act of the Commonwealth of Pennsylvania (the "Commonwealth"), 53 Pa. Cons. Stat. §8001 *et seq.*, as amended (the "Act"). TD Bank, N.A., will act as paying agent, registrar and sinking fund depository (in each capacity referred to as the "Paying Agent").

#### PURPOSE OF THE ISSUE

Proceeds of the 2012A Bonds will be used to finance the costs of the acquisition, design, construction, furnishing and equipping of additions, alterations and renovations and other improvements to the School District's existing school buildings and related facilities and pay the costs of issuing the 2012A Bonds.

Proceeds of the 2012AA Bonds will be used to advance refund a portion of the School District's outstanding General Obligation Bonds, Series A of 2006 currently outstanding in the amount of \$96,960,000 (the "2006A Bonds") of which \$41,245,000 shall be refunded (the "Refunded 2006A Bonds") and pay the costs of issuing the 2012AA Bonds.

Upon issuance of the 2012AA Bonds, a portion of the proceeds will be irrevocably deposited in an escrow fund (the "Escrow Fund") maintained by TD Bank, N.A., as successor Paying Agent for the 2006A Bonds, under terms of an Escrow Agreement for the 2006A Bonds (the "Escrow Agreement") dated as of the date of delivery. The proceeds of the 2012AA Bonds so deposited will be used to purchase direct obligations of the United States of America which will mature and earn interest at such rates as will provide sufficient funds to pay the interest and maturing principal on the Refunded 2006A Bonds. The Refunded 2006A Bonds will be called for optional redemption, at a redemption price of 100% of principal amount plus accrued interest, pursuant to the optional redemption provisions applicable to the 2006A Bonds on November 15, 2015.

#### VERIFICATION

The accuracy of the mathematical computations supporting the adequacy of the maturing principal amounts of, and interest earned on, the Government Obligations deposited pursuant to the Escrow Agreement to pay the principal of, and interest and premium, if any, when due or upon the optional redemption of the Refunded 2006A Bonds, and the accuracy of certain mathematical computations supporting the conclusion of Bond Counsel that the 2012AA Bonds will not be "arbitrage bonds" under Section 103(c) of the Internal Revenue Code, will be verified by BondResource Partners, LP, as a condition to the delivery of the 2012AA Bonds.

#### Estimated Sources and Uses

<b>Sources:</b>	<b>2012A Bonds</b>	<b>2012AA Bonds</b>	<b>Totals</b>
Bond Proceeds.....	\$21,000,000.00	\$39,330,000.00	\$60,330,000.00
Net Original Issue Premium .....	179,461.25	8,757,037.95	8,936,499.20
<b>Total</b> .....	<u>\$21,179,461.25</u>	<u>\$48,087,037.95</u>	<u>\$69,266,499.20</u>
<b>Uses:</b>			
Project Fund Deposit .....	\$20,719,836.25	\$0.00	\$20,719,836.25
Escrow Fund Deposit for the Refunded 2006A Bonds .....	0.00	47,681,423.65	\$47,681,423.65
Estimated Costs of Issuance <sup>(1)</sup> .....	459,625.00	292,661.60	752,286.60
Estimated Deposit into Sinking Fund .....	0.00	112,952.70	112,952.70
<b>Total</b> .....	<u>21,179,461.25</u>	<u>\$48,087,037.95</u>	<u>\$69,266,499.20</u>

<sup>(1)</sup>Includes legal, financial advisor, printing, rating, underwriter's discount, original issue discount, CUSIP, paying/redemption agent, escrow agent, and verification agent.

## THE BONDS

### Description

The Bonds will be issued in fully registered book-entry only form in the denomination of \$5,000 or integral multiples thereof. The Bonds will be issued as one fully registered Bond for each maturity of the Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of all Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein. The Bonds will be dated as of the date of delivery, and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside cover of this Official Statement. Interest on the Bonds will be payable initially on November 15, 2012 and semiannually thereafter on November 15 and May 15 until the principal sum thereof is paid.

### Payment of Principal and Interest

Subject to the provisions described under "BOOK-ENTRY ONLY SYSTEM" herein, principal of the Bonds will be paid to the registered owners thereof or assigns, when due, upon surrender of the Bonds at the designated office of the Paying Agent.

Interest is payable to the registered owner of a Bond from the interest payment date next preceding the date of authentication of the Bond, unless: (a) such Bond is authenticated as of an interest payment date, in which event such Bond shall bear interest from said interest payment date, or (b) such Bond is authenticated after a Regular Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such Bond shall bear interest from such succeeding interest payment date, or (c) such Bond is authenticated on or prior to the Regular Record Date preceding November 15, 2012, in which event such Bond shall bear interest from the date of delivery. Interest on the Bonds shall be paid initially on November 15, 2012, and thereafter semiannually on November 15 and May 15 of each year, until the principal sum is paid. Interest on each Bond is payable by check drawn on the Paying Agent, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the last day of the calendar month (whether or not a business day) immediately preceding each interest payment date (the "Regular Record Date"), on the registration books maintained by the Paying Agent, irrespective of any transfer or exchange of the Bond subsequent to such Regular Record Date and prior to such interest payment date, unless the School District shall be in default in payment of interest due on such interest payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name the Bond is registered at the close of business on a special record date (which shall be a business day) for the payment of such defaulted interest established by notice mailed by the Paying Agent to the registered owners of such Bonds at least ten (10) days preceding such special record date but not more than thirty (30) days prior to the payment date of such defaulted interest.

If the date for payment of the principal of or interest on any Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth of Pennsylvania or in each of the cities in which the corporate trust office or payment office of the Paying Agent is located are authorized by law or executive order to close, then the date for payment of such principal or interest shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the nominal date established for such payment.

### Transfer, Exchange and Registration of Bonds

Subject to the provisions described under "BOOK-ENTRY ONLY SYSTEM" herein, Bonds are transferable or exchangeable by the registered owners thereof upon surrender of Bonds to the Paying Agent, at its designated office in Philadelphia, Pennsylvania, accompanied by a written instrument or instruments in form, with instructions, and with guaranty of signature satisfactory to the Paying Agent, duly executed by the registered owner of such Bond or his attorney-in-fact or other legal representative. The Paying Agent shall enter any transfer of ownership of Bonds in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees, a new fully registered bond or bonds of authorized denominations of the same maturity and interest rate for the aggregate principal amount which the registered owner is entitled to receive. The Paying Agent is not required to transfer or exchange any Bond during the fifteen days immediately preceding the date of mailing of any notice of redemption or at any time following the mailing of any such notice, if the Bond to be transferred or exchanged has been called for such redemption. The School District and the Paying Agent may deem and treat the registered owner of any Bond as the absolute owner thereof (whether or not a Bond shall be overdue) for the purpose of receiving payment of or on account of principal and interest and for all other purposes, and the School District and the Paying Agent shall not be affected by any notice to the contrary.

Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate.



## **Commonwealth Enforcement of Debt Service Payments**

Section 633 of the Pennsylvania Public School Code of 1949, as amended by Act 154 of 1998 (the "Public School Code"), presently provides that in all cases where the board of school directors of any school district fails to pay or to provide for the payment of any indebtedness at date of maturity or date of mandatory redemption, or any interest due on such indebtedness on any interest payment date, in accordance with the schedule under which the bonds were issued, the Secretary of Education shall notify such board of school directors of its obligation and shall withhold out of any State appropriation due such school district an amount equal to the sum of the principal amount maturing or subject to mandatory redemption and interest owing by such school district, and shall pay over the amount so withheld to the bank or other person acting as sinking fund depository for such bond issue. Such withholding provisions are not part of any contract with the holders of the Bonds, and may be amended or repealed by future legislation.

There can be no assurance, however, that any payments pursuant to such withholding provisions will be made by the date on which such payments are due to the bondholders.

The effectiveness of Section 633 of the Public School Code may be limited by the application of other withholding provisions contained in the Public School Code, such as provisions for withholding and paying over of appropriations for payment of unpaid teachers' salaries. Enforcement may also be limited by bankruptcy, insolvency, or other laws or equitable principles affecting the enforcement of creditors' rights generally.

## **Security**

The Bonds will be general obligations of the School District, payable from its tax and other general revenues. The School District covenants in the Resolution that it will provide in its budget for each year, and will appropriate from its general revenues in each such year, the amount of the debt service on the Bonds for such year, and will duly and punctually pay or cause to be paid from its Sinking Fund, as hereinafter defined, or any other of its revenues or funds, the principal of each of the Bonds and the interest thereon at the dates and place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the School District irrevocably pledges its full faith, credit and taxing power, which taxing power presently includes the power to levy *ad valorem* taxes on all taxable property within the School District, within limitations provided by law. (See "Security" and "Act 1 of 2006 (*The Taxpayer Relief Act*)" *infra* herein discussing legislative initiatives that may subject the School District's taxing power to certain limitations. The Act presently provides for enforcement of debt service payments as hereinafter described (see "Defaults and Remedies" herein), and the Public School Code presently provides for the withholding and application of subsidies in the event of failure to pay debt service (see "Commonwealth Enforcement of Debt Service Payments" herein).

Neither the credit nor the taxing power of the Commonwealth of Pennsylvania or of any political subdivision thereof, other than the School District, is pledged for the payment of interest or principal payable upon the Bonds.

## **Sinking Funds**

Sinking funds for the payment of debt service on the Bonds, designated "General Obligation Bonds, Series A of 2012 Sinking Fund" and "General Obligation Bonds, Series AA of 2012 Bonds Sinking Fund" (collectively, the "Sinking Funds"), created under the Resolution shall be held by the Paying Agent as sinking fund depository. The School District shall deposit in the Sinking Funds a sufficient sum not later than the date when interest and/or principal is to become due on the Bonds so that on each payment date the Sinking Funds will contain an amount which, together with any other funds available therein, is sufficient to pay in full interest and/or principal then due on the Bonds.

The Sinking Funds shall be held by the Paying Agent, as sinking fund depository, and funds deposited therein will be invested by the Paying Agent in such securities or shall be deposited in such funds or accounts as are authorized by law, upon direction of the School District. Such deposits and securities shall be in the name of the School District, but subject to withdrawal or collection only by the Paying Agent, as sinking fund depository, and such deposits and securities, together with the interest thereon, shall be a part of the Sinking Funds.

The Paying Agent, as sinking fund depository, is authorized without further order from the School District to pay from the Sinking Funds the principal of and interest on the Bonds, as and when due and payable.

## BOOK-ENTRY ONLY SYSTEM

*The information in this section has been obtained from materials provided by DTC for such purpose. The School District (herein referred to as the "Issuer") and the Underwriter do not guaranty the accuracy or completeness of such information and such information is not to be construed as a representation of the School District or the Underwriter.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The Ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

NEITHER THE ISSUER NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY TO ANY BENEFICIAL OWNER BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

*The Issuer and the Paying Agent cannot give any assurances that DTC or the Participants will distribute payments of the principal or redemption price of and interest on the Bonds paid to DTC or its nominee, as the registered owner of the Bonds, or any redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.*

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## **REDEMPTION OF THE BONDS**

### **Optional Redemption – 2012A Bonds**

The 2012A Bonds maturing on or after May 15, 2023, are subject to redemption prior to maturity, at the option of the School District, at the redemption price of 100% of the principal amount of the 2012A Bonds to be redeemed, plus accrued interest to the date fixed for redemption, in whole or, from time to time, in part (and if in part, in any order of maturity or portion of a maturity as the School District shall select and within a maturity by lot), at any time on and after May 15, 2022.

### **Optional Redemption – 2012AA Bonds**

The 2012AA Bonds are not subject to redemption prior to maturity.

### **Notice of Redemption**

Notice of any redemption shall be given by mailing a copy of the redemption notice by first class United States mail, postage prepaid, or by another method of giving notice which is acceptable to the Paying Agent and customarily used by fiduciaries for similar notices at the time such notice is given, not less than thirty (30) days prior to the date fixed for redemption addressed to each of the registered owners of Bonds to be redeemed, in whole or in part, at the addresses shown on the registration books; provided, however, that failure to give such notice by mailing, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other Bonds called for redemption as to which proper notice has been given.

On the date designated for redemption, notice having been provided as aforesaid, and money for payment of the principal and accrued interest being held by the Paying Agent, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds or portions thereof shall cease to be entitled to any benefit or security under the Resolution, and registered owners of such Bonds or portions thereof so called for redemption shall have no rights with respect to such Bonds, except to receive payment of the principal of and accrued interest on such Bonds to the date fixed for redemption.

If at the time of the mailing of any notice of optional redemption the School District shall not have deposited with the Paying Agent moneys sufficient to redeem all the Bonds called for redemption, such notice shall state that it is conditional, that is, subject to the deposit or transfer of the redemption moneys with the Paying Agent not later than the opening of business on the redemption date, and that such notice shall be of no effect unless such moneys are so deposited.

### **Manner of Redemption**

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, a Bond shall be treated as representing that number of Bonds which is obtained by dividing the principal amount thereof by \$5,000, each \$5,000 portion of such Bond being subject to redemption. In the case of partial redemption of a Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for Bonds of authorized denominations in aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

If the redemption date for any Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the Commonwealth of Pennsylvania or in each of the cities in which the corporate trust office or payment office of the Paying Agent is located are authorized by law or executive order to close, then the date for payment of the principal, premium, if any, and interest upon such redemption shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the nominal date of redemption.

## THE SCHOOL DISTRICT

### Introduction

The School District encompasses several communities in central Chester County and one municipality in western Delaware County and covers an area of approximately 75 square miles. The School District's boundaries are coterminous with those of the Borough of West Chester and the Townships of East Bradford, East Goshen, Thornbury, West Goshen, Westtown and West Whiteland, all located in Chester County, and the Township of Thornbury in Delaware County. The Borough of West Chester, located in the geographic center of the School District and county seat of Chester County, is approximately 25 miles west of metropolitan Philadelphia, 15 miles north of Wilmington, Delaware, and 15 miles south of King of Prussia and Valley Forge. Many well-known unincorporated communities are located within the School District and these include: Exton in West Whiteland Township, Goshenville in East Goshen Township, Chatwood in West Goshen Township, Cheyney and Glen Mills in Thornbury Township, Delaware County, and Darlington Corners in Westtown Township.

West Chester Area School District is characterized by rolling hills and fertile valleys flanking the east branch of the Brandywine Creek and the tributaries of the Chester Creek. The Borough of West Chester is the financial and professional center for the surrounding area. The Townships encompassed within the School District are principally residential in character, with regional shopping centers and industrial parks. Four major public institutions are within the School District: West Chester University; Cheyney University; Chester County Courthouse; and Chester County Hospital.

### Administration

The School District is governed by a nine member Board of School Directors (the "School Board") who are elected for four-year terms. The Superintendent is the chief administrative officer of the School District, with overall responsibility for all aspects of operations, including education. The Director of Business Affairs is responsible for budget and financial operations. Both of these officials are appointed by the School Board.

### School Facilities

The School District operates ten elementary schools, three middle schools and three high schools, all as described on the following table. A fourth high school is presently under construction. Students at the secondary level also attend the Central Chester County Area Vocational Technical School.

**TABLE 1  
WEST CHESTER AREA SCHOOL DISTRICT FACILITIES**

<u>Building</u>	<u>Original Construction Date</u>	<u>Addition and/or Renovation Date</u>	<u>Grades</u>	<u>2012-13 Enrollment</u>
B. Rustin High School .....	2003-06	-	9-12	1,296
East High School .....	1973	1976/92/93/04	9-12	1,355
East/Fugett Athletic Fields.....	2004	-	-	----
Henderson High School .....	1951	1956/64/76/94/98/04	9-12	1,248
Henderson-North Campus Athletics .	2006	-	-	----
E. N. Peirce Middle School.....	1963	1998/01/03	6-8	862
G. A. Stetson Middle School .....	1959	1961/98/03/07	6-8	926
J. R. Fugett Middle School .....	1969	-	6-8	998
Mary C. Howse Elementary .....	1962	1965/97	K-5	348
Exton Elementary .....	1940	1953/57/91/92/93/00	K-5	444
East Goshen Elementary .....	1955	1960/64/67/95/01	K-5	522
Fern Hill Elementary .....	1955	1960/89	K-5	468
Glen Acres Elementary .....	1966	1997	K-5	525
Westtown-Thornbury Elementary.....	1954	1956/89	K-5	612
Penn Wood Elementary .....	1966	1970/89/01	K-5	525
East Bradford Elementary.....	1958	1966/70/89	K-5	574
Hillsdale Elementary.....	1976	2007	K-5	650
Sarah W. Starkweather Elementary ..	1991	1998	K-5	462
Facilities & Operations Center.....	1999	-	-	----
Spellman Administration .....	1924	1952/55/77/99	Admin/Gifted	----
<b>Totals</b>				<b>11,815</b>

Source: School District Officials – Projected for September 30, 2012 enrollment. Enrollments do not include vo-tech students. Excludes portable classrooms.

## Enrollment Trends

The following table presents recent trends in school enrollment and projections of enrollment for the next 5 years, as prepared by the School District's administrative officials.

**TABLE 2**  
**WEST CHESTER AREA SCHOOL DISTRICT ENROLLMENT TRENDS\***

<b>Actual Enrollments</b>					<b>Projected Enrollments</b>				
<b>School</b>					<b>School</b>				
<b>Year</b>	<b>K-5</b>	<b>6-8</b>	<b>9-12</b>	<b>Total</b>	<b>Year</b>	<b>K-5</b>	<b>6-8</b>	<b>9-12</b>	<b>Total</b>
2007-08	4,971	2,821	3,875	11,667	2012-13	5,129	2,786	3,900	11,815
2008-09	4,961	2,803	3,920	11,684	2013-14	5,185	2,730	3,906	11,821
2009-10	5,024	2,801	3,985	11,810	2014-15	5,199	2,779	3,880	11,858
2010-11	5,036	2,819	3,970	11,825	2015-16	5,112	2,844	3,883	11,839
2011-12	5,085	2,790	3,947	11,822	2016-17	5,042	2,901	3,850	11,793

Source: School District officials.

## SCHOOL DISTRICT FINANCES

### Introduction

The School District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by the Superintendent and Director of Business Affairs and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1.

### Financial Reporting

The School District keeps the books and prepares the financial reports for the General Fund according to a modified accrual basis of accounting. Major accrual items are payrolls, payroll taxes and pension fund contributions payable, loans receivable from other funds, and revenues receivable from other governmental units. Taxes are credited when received.

As of July 1, 2001, the School District adopted provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis - For State and Local Governments, Statement No. 37, Basic Financial Statements – and Management Discussion and Analysis - For State and Local Governments: Omnibus, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Balance Statements.

The School District financial statements are audited annually by an independent certified public accountant, as required by Commonwealth law. The firm of Barbacane, Thornton & Company LLP, Wilmington, Delaware, currently serves as the School District's auditor.

## **Budgeting Process as modified by Act 1 of 2006 (Taxpayer Relief Act)**

In General. School districts budget and expend funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by school district administrative officials on a uniform form furnished by such Department and submitted to the board of school directors for approval prior to the beginning of the fiscal year on July 1.

Procedures for Adoption of the Annual Budget. Under the Taxpayer Relief Act, all school districts of the first class A, second class, third class and fourth class (except as described below) must adopt a preliminary budget proposal (which must include estimated revenues and expenditures and proposed tax rates) no later than 90 days prior to the date of the election immediately preceding the fiscal year. The preliminary budget proposal must be printed and made available for public inspection at least 20 days prior to its adoption; the board of school directors may hold a public hearing on the budget; and the board must give at least 10 days public notice of its intent to adopt the final budget.

If the adopted preliminary budget includes an increase in the rate of any tax levy, the preliminary budget must be submitted to the Pennsylvania Department of Education (PDE) no later than 85 days prior to the date of the election immediately preceding the fiscal year. PDE is to compare the proposed percentage increase in the rate of any tax with the school district's Index (see "The Taxpayer Relief Act" herein) and within 10 days, but not later than 75 days prior to the upcoming election, inform the school district whether the proposed percentage increase is less than or equal to the Index. If PDE determines that a proposed tax increase will exceed the Index, the school district must reduce the proposed tax increase, seek voter approval for the tax increase at the upcoming election, or seek approval to utilize one of the referendum exceptions authorized under The Taxpayer Relief Act.

With respect to the utilization of any of the Taxpayer Relief Act referendum exceptions for which PDE approval is required (see "The Taxpayer Relief Act" herein), the school district must publish notice of its intent to seek PDE approval not less than one week before submitting its request for approval to PDE and, if PDE determines to schedule a public hearing on the request, a notice of the date, time and place of such hearing. PDE is required by the Taxpayer Relief Act to rule on the school district's request and inform the school district of its decision no later than 55 days prior to the upcoming election so that, if PDE denies the school district's request, the school district may submit a referendum question to the local election officials at least 50 days before the upcoming election, if it so chooses.

If a school district seeks voter approval to increase taxes at a rate higher than the applicable Index, whether or not it first seeks approval to utilize one of the referendum exceptions available under the Taxpayer Relief Act, and the referendum question is not approved by a majority of the voters voting on the question, the board of school directors may not approve an increase in the tax rate greater than the applicable Index.

Simplified Procedures in Certain Cases. The above budgetary procedures will not apply to a school district if the board of school directors adopts a resolution no later than 110 days prior to the election immediately preceding the upcoming fiscal year declaring that it will not increase any tax at a rate that exceeds the Index and that a tax increase at or below the rate of the Index will be sufficient to balance its budget. In that case, the Taxpayer Relief Act requires only that the proposed annual budget be prepared at least 30 days, and made available for public inspection at least 20 days, prior to its adoption, and that at least ten (10) days' public notice be given of the board's intent to adopt the annual budget. No referendum exceptions are available to a school district adopting such a resolution.

Status of 2012-13 Budget Under Act 1. The School District's budget for fiscal year 2012-13 included an increase to the Chester County tax rate of 1.7% which was the Index cap.

## Summary and Discussion of Financial Results

A summary of the comparative governmental fund balances is presented in Tables 3 and Table 4 shows General Fund Balances of the School District. Table 5 shows revenues and expenditures for the past four years, estimated 2011-12 and 2012-13.

**TABLE 3**  
**WEST CHESTER AREA SCHOOL DISTRICT**  
**SUMMARY OF COMPARATIVE GOVERNMENTAL FUND BALANCE SHEET**  
**(Years ending June 30)**

<b>ASSETS</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Current:</b>					
Cash and Cash Equivalents .....	\$626,935	\$139,792	\$2,957,533	\$1,648,632	\$21,186,043
Investments .....	78,375,129	61,158,971	39,037,667	44,954,112	29,800,981
Taxes Receivable .....	2,573,969	3,734,467	4,218,520	4,343,853	5,038,789
Other Current Assets .....	0	0	0	0	0
Due from other Governments .....	1,674,482	1,639,867	2,142,890	1,318,393	1,738,483
Other Receivables .....	2,451,716	782,160	877,915	1,278,350	665,398
Prepaid Expenditures.....	2,193,432	1,878,005	1,282,063	1,771,912	1,966,173
Inventories.....	0	0	0	0	0
<b>TOTAL CURRENT ASSETS</b> .....	<b>\$87,895,663</b>	<b>\$69,333,262</b>	<b>\$50,516,588</b>	<b>\$55,315,252</b>	<b>\$60,395,867</b>
<b>Non-current Assets</b>					
<b>Capital Assets:</b>					
Bond issuance costs.....	\$0	\$0	\$0	\$1,936,950	\$2,099,265
Other post-employment benefits .....	0	0	0	0	141,479
Land .....	32,072,533	33,139,690	33,139,690	33,139,690	33,159,800
Land Improvements.....	1,874,865	1,732,811	1,570,942	6,854,537	11,471,080
Buildings .....	74,102,810	238,843,283	237,940,125	231,049,875	249,347,903
Construction in Progress .....	182,995,996	22,795,600	30,425,849	31,741,721	1,715,107
Furniture and Equipment.....	6,984,540	9,407,043	7,942,105	6,175,880	4,427,055
Long Term Prepayments (net).....	2,776,788	2,601,171	2,380,768	0	0
<b>TOTAL CAPITAL ASSETS,</b> <b>NET OF DEPRECIATION</b> .....	<b>\$300,807,532</b>	<b>\$308,519,598</b>	<b>\$313,399,479</b>	<b>\$310,898,653</b>	<b>\$302,361,689</b>
<b>Other Assets:</b>					
Deferred Bond Issuance Costs.....	\$0	\$0	\$0	\$0	\$0
<b>TOTAL ASSETS</b> .....	<b>\$388,703,195</b>	<b>\$377,852,860</b>	<b>\$363,916,067</b>	<b>\$366,213,905</b>	<b>\$362,757,556</b>
<b>LIABILITIES</b>					
<b>Current:</b>					
Accounts Payable and Accrued Liabilities .....	\$22,877,658	\$22,682,922	\$18,659,547	\$18,492,211	\$18,041,988
Bond and Notes Payable Within One Year .....	0	0	0	0	12,559,000
Current Portion of Long-Term Debt.....	10,394,000	11,216,000	12,017,000	11,474,000	0
Accrued Interest .....	0	0	0	2,364,938	2,252,622
Deferred Revenues .....	8,776	29,780	42,210	173,702	19,317
Other Current Liabilities .....	2,677,672	2,703,714	2,514,287	0	0
<b>TOTAL CURRENT LIABILITIES</b> .....	<b>\$35,958,106</b>	<b>\$36,632,416</b>	<b>\$33,233,044</b>	<b>\$32,504,851</b>	<b>\$32,872,927</b>
<b>Long-Term:</b>					
Bonds and Notes Payable Due After One Year .....	\$320,259,755	\$308,921,328	\$297,063,946	\$296,385,633	\$286,412,199
Accrued Severance and Compensated Absences.....	4,678,219	4,182,675	6,059,646	6,194,871	6,277,128
<b>TOTAL LONG-TERM LIABILITIES</b> .....	<b>\$324,937,974</b>	<b>\$313,104,003</b>	<b>\$303,123,592</b>	<b>\$302,580,504</b>	<b>\$292,689,327</b>
<b>TOTAL LIABILITIES</b> .....	<b>\$360,896,080</b>	<b>\$349,736,419</b>	<b>\$336,356,636</b>	<b>\$335,085,355</b>	<b>\$325,562,254</b>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt.....	\$3,547,104	\$6,122,191	\$8,903,159	\$9,266,438	\$7,083,089
Restricted Fund Balance.....	0	0	14,641,919	13,811,178	14,506,078
Unrestricted Fund Balance .....	24,260,011	21,994,250	4,014,353	8,050,934	15,606,135
<b>TOTAL FUND EQUITIES</b> .....	<b>\$27,807,115</b>	<b>\$28,116,441</b>	<b>\$27,559,431</b>	<b>\$31,128,550</b>	<b>\$37,195,302</b>
<b>TOTAL LIABILITIES AND</b> <b>FUND EQUITIES/NET ASSETS</b> .....	<b>\$388,703,195</b>	<b>\$377,852,860</b>	<b>\$363,916,067</b>	<b>\$366,213,905</b>	<b>\$362,757,556</b>

Source: School District's Annual Financial Reports.



**TABLE 4**  
**WEST CHESTER AREA SCHOOL DISTRICT GENERAL FUND**  
**SUMMARY OF CHANGES IN GENERAL FUND BALANCE\***  
**(For years ending June 30)**

	Actual				Estimated	Estimated
	2008	2009	2010	2011	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>
<b>Beginning Fund Balance .....</b>	\$9,631,410	\$7,494,321	\$7,861,941	\$12,071,005	\$18,462,685	\$23,513,146
Revenues over (under) Expenditure....	<u>(2,137,090)</u>	<u>367,620</u>	<u>4,133,458</u>	<u>6,391,680</u>	<u>5,050,461</u>	<u>2,137,312</u>
<b>Ending Fund Balance .....</b>	<u>\$7,494,321</u>	<u>\$7,861,941</u>	<u>\$11,995,399</u>	<u>\$18,462,685</u>	<u>\$23,513,146</u>	<u>\$25,650,458</u>

\*Totals may not add due to rounding.

<sup>(1)</sup>Estimated, subject to change and final audit.

<sup>(2)</sup>Estimated, subject to change and final audit.

Source: School District Annual Financial Reports and Budget.

### Revenue

The School District anticipates receiving \$199,633,700 in revenue in 2011-12 (estimated) and has projected revenue of \$202,130,719 in 2012-13 (estimated). Local sources increased as a share of total revenue in the past five years, from 83.4 percent in 2007-08 to 84.2 percent in 2011-12 (estimated). Revenue from Commonwealth sources decreased slightly as a share of the total revenue from 14.9 percent to 14.3 (estimated) percent over this period. Federal and other revenue decreased as a share of the total revenue from 1.6 percent to 1.5 percent (estimated) over this period.

**TABLE 5**  
**WEST CHESTER AREA SCHOOL DISTRICT**  
**SUMMARY OF SCHOOL DISTRICT GENERAL FUND**  
**REVENUES\***  
**(For years ending June 30)**

REVENUE:	Actual				Estimated	Estimated
	2008	2009	2010	2011	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>
<b>Local Sources:</b>						
Real Estate Taxes (Current) .....	\$121,988,633	\$128,291,632	\$136,999,771	\$140,160,462	\$139,794,823	\$141,653,535
Interim Real Estate Taxes.....	1,674,192	1,503,635	1,331,749	1,060,391	1,155,300	1,105,300
Total Act 511 Taxes.....	20,571,497	19,430,906	19,164,815	19,546,706	20,463,700	20,461,700
Public Utility Realty Tax.....	197,962	188,615	208,431	218,264	145,000	145,000
Delinquencies on Taxes Levied.....	2,810,278	2,944,871	3,316,209	2,805,694	3,619,900	3,419,900
Earnings from Temporary Deposits & Investments	3,051,012	1,674,788	287,977	118,422	161,900	170,000
PA Revenue Rec'd.-Other Intermediate Sources .....	90,534	98,243	0	119,445	0	0
Fed. Rev. Rec'd.-Other Intermediate/PA Sources....	1,240,537	1,308,898	1,296,294	1,235,639	1,304,200	1,234,400
Tuition from Patrons .....	165,470	163,252	152,746	150,097	534,500	534,500
Rentals .....	0	0	0	199,984	939,700	237,083
Contributions and Donations.....	0	39,178	51,545	23,374	0	0
Receipts from Other LEAs .....	239,697	267,641	363,945	609,854	0	1,026,683
Refund of Prior Years' Expenditures .....	5,297	9,646	0	1,648	0	0
All Other Local Revenues Not Specified.....	14,381	25,714	26,160	33,589	0	0
Other Sources.....	28,234	32,844	38,933	10,912	0	0
<b>Total Local Sources.....</b>	<u>\$152,077,724</u>	<u>\$155,979,862</u>	<u>\$163,238,575</u>	<u>\$166,294,480</u>	<u>\$168,119,023</u>	<u>\$169,988,101</u>
<b>State Sources:</b>						
<b>Total State Sources .....</b>	<u>\$27,227,734</u>	<u>\$29,959,702</u>	<u>\$28,990,224</u>	<u>\$28,254,872</u>	<u>\$28,540,248</u>	<u>\$29,642,211</u>
<b>Federal Sources:</b>						
<b>Total Federal Sources .....</b>	<u>\$2,991,122</u>	<u>\$3,130,016</u>	<u>\$4,604,950</u>	<u>\$5,630,838</u>	<u>\$2,974,429</u>	<u>\$2,500,407</u>
<b>Other Sources:</b>						
<b>Total Other Sources.....</b>	<u>\$0</u>	<u>\$10,364</u>	<u>\$5,057</u>	<u>\$15,212</u>	<u>\$0</u>	<u>\$0</u>
<b>TOTAL REVENUE.....</b>	<u>\$182,296,580</u>	<u>\$189,079,944</u>	<u>\$196,838,807</u>	<u>\$200,195,402</u>	<u>\$199,633,700</u>	<u>\$202,130,719</u>

\*Totals may not add due to rounding.

<sup>(1)</sup>Estimated, subject to change and final audit.

<sup>(2)</sup>Estimated, subject to change and final audit.

Source: School District Annual Financial Reports and Estimates.

**TABLE 5**  
**WEST CHESTER AREA SCHOOL DISTRICT**  
**SUMMARY OF SCHOOL DISTRICT GENERAL FUND**  
**EXPENDITURES\***  
**(For years ending June 30)**

EXPENDITURES:	Actual				Estimated	Estimated
	2008	2009	2010	2011	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>
Instruction .....	\$103,563,832	\$104,030,587	\$105,860,030	\$108,712,731	\$108,977,274	\$111,114,439
Pupil Personnel .....	6,483,288	6,665,150	6,726,085	7,169,537	7,357,846	7,477,411
Instructional Staff.....	4,769,381	5,162,993	5,388,795	5,601,386	6,010,713	5,558,517
Support Services – Administration.....	10,410,847	10,729,281	10,307,181	9,970,175	9,714,931	10,137,458
Support Services - Pupil Health .....	1,830,904	1,890,052	1,862,075	1,950,128	2,040,491	1,918,251
Business .....	1,487,970	1,565,788	1,477,726	1,433,614	1,475,087	1,516,498
Operation & Maintenance .....	16,364,754	17,212,299	15,945,427	15,320,913	14,342,508	15,984,825
Pupil Transportation.....	12,846,908	13,219,823	12,732,134	12,970,008	12,425,411	12,948,786
Central Support Services .....	2,173,381	2,196,114	2,136,444	1,936,078	2,191,595	2,203,138
Support Services – Other.....	129,790	129,191	130,520	135,507	147,000	127,624
Community Services .....	81,960	122,164	0	89,122	0	0
Non-instructional Services .....	3,921,949	4,013,798	3,967,454	3,909,060	4,499,337	4,701,041
Facilities Acquisition, Construction and Improvement .....	0	0	0	687,509	731,200	722,500
Capital Outlay .....	271,309	148,832	389,873	0	0	325,100
Debt Service.....	20,097,254	21,626,252	24,436,770	21,239,393	23,804,831	25,257,819
Refund Prior Year Expenditures.....	140	0	4,813	1,760	0	0
Other Support Services.....	0	0	0	0	0	0
Budgetary Reserves & Transfers.....	0	0	1,340,022	2,676,801	865,015	0
<b>TOTAL EXPENDITURES.....</b>	<b>\$184,433,669</b>	<b>\$188,712,324</b>	<b>\$192,705,349</b>	<b>\$193,803,722</b>	<b>\$194,583,239</b>	<b>\$199,993,407</b>
<b>SURPLUS (DEFICIT) OF REVENUES OVER EXPENDITURES.....</b>	<b>(\$2,137,090)</b>	<b>\$367,620</b>	<b>\$4,133,458</b>	<b>\$6,391,680</b>	<b>\$5,050,461</b>	<b>\$2,137,312</b>

\*Totals may not add due to rounding.

<sup>(1)</sup>Estimated, subject to change and final audit.

<sup>(2)</sup>Estimated, subject to change and final audit.

Source: School District Annual Financial Reports and Estimates.

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## TAXING POWERS OF THE SCHOOL DISTRICT

### In General

*Subject to certain limitations imposed by the Taxpayer Relief Act, Act No. 1 of the Special Session of 2006, as amended (see “The Taxpayer Relief Act (Act 1)” herein), the School District is empowered by the School Code and other statutes to levy the following taxes:*

1. A basic annual tax on all real property taxable for school purposes, not to exceed 25 mills on each dollar of assessed valuation, to be used for general school purposes.
2. An unlimited ad valorem tax on the property taxable for school purposes to provide funds:
  - a. for minimum salaries and increments of the teaching and supervisory staff;
  - b. to pay rentals due any municipality authority or non-profit corporation or due the State Public School Building Authority;
  - c. to pay interest and principal on any indebtedness incurred pursuant to the Local Government Unit Debt Act, or any prior or subsequent act governing the incurrence of indebtedness of the school district; and
  - d. to pay for the amortization of a bond or note issue which provided a school building prior to the first Monday of July, 1959.
3. An annual per capita tax on each resident or inhabitant over 18 years of age of not more than \$5.00.
4. Additional taxes subject to division with other political subdivisions authorized to levy similar taxes on the same person, subject, business, transaction or privilege, under Act No. 511, enacted December 31, 1965, as amended (“The Local Tax Enabling Act”). These taxes, which may include, among others, an additional per capita tax, a wage and other earned income tax, a real estate transfer tax, a gross receipts tax, a local services tax and an occupation tax, shall not exceed, in the aggregate, an amount equal to the product of the market valuation of real estate in the School District (as certified by the State Tax Equalization Board of the Commonwealth – “STEB”) multiplied by twelve mills. All local taxing authorities are required by the Local Tax Enabling Act to exempt disabled veterans and members of the armed forces reserve who are called to active duty at any time during the tax year from any local services tax and to exempt from any local services tax levied at a rate in excess of \$10 those persons whose total income and net profits from all sources within the political subdivision is less than \$12,000 for the tax year. The Local Tax Enabling Act also authorizes, but does not require, taxing authorities to exempt from per capita, occupation, and earned income taxes and any local services tax levied at a rate of \$10 or less per year, any person whose total income from all sources is less than \$12,000 per year.

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## **The Taxpayer Relief Act (Act 1)**

Under Pennsylvania Act No. 1 of the Special Session of 2006, as amended by Act 25 of 2011 (“The Taxpayer Tax Relief Act” or “Act 1”), a school district may not, in fiscal year 2007-2008 or in any subsequent fiscal year, levy any tax for the support of the public schools which was not levied in the 2006-2007 fiscal year, raise the rate of any earned income and net profits tax if already imposed under the authority of the Local Tax Enabling Act (Act 511), or increase the rate of any tax for school purposes by more than the Index (defined below), unless in each case either (a) such increase is approved by the voters in the school district at a public referendum or (b) one of the exceptions summarized below is applicable and the use of such exception is approved by the Pennsylvania Department of Education (PDE):

1. to pay interest and principal on indebtedness incurred (i) prior to September 4, 2004, in the case of a school district which had elected to become subject to the provisions of the prior Homeowner Tax Relief Act, Act 72 of 2004, or (ii) prior to June 27, 2006, in the case of a school district which had not elected to become subject to Act 72 of 2004; to pay interest and principal on any indebtedness approved by the voters at referendum (electoral debt); and to pay interest and principal on debt refunding or refinancing debt for which one of the above exceptions is permitted, as long as the refunding or refinancing incurs no additional debt other than for costs and expenses related to the refunding or refinancing and the funding of appropriate debt service reserves;
2. to pay costs incurred in providing special education programs and services to students with disabilities, under specified circumstances; and
3. to make payments into the State Public School Employees’ Retirement System when the increase in the estimated payments between the current year and the upcoming year is greater than the Index, as determined by PDE in accordance with the provisions of Act 1.

Any revenue derived from an increase in the rate of any tax allowed under the exception numbered 1 above may not exceed the anticipated dollar amount of the expenditure, and any revenue derived from an increase in the rate of any tax allowed pursuant to any other exception enumerated above may not exceed the rate increase required, as determined by PDE. If a school district’s petition or request to increase taxes by more than the Index pursuant to one or more of the allowable exceptions is not approved, the school district may submit the proposed tax increase to a referendum.

The Index (to be determined and reported by PDE by September of each year for application to the following fiscal year) is the average of the percentage increase in the statewide average weekly wage, as determined by the State Department of Labor and Industry for the preceding calendar year, and the employment cost index for elementary and secondary schools, as reported by the federal Bureau of Labor Statistics for the preceding 12-month period beginning July 1 and ending June 30. If and when a school district has a Market Value/Income Aid Ratio greater than 0.40 for the prior school year, however, the Index is adjusted upward by multiplying the unadjusted Index by the sum of 0.75 and such Aid Ratio.

In accordance with Act 1, the School District put a referendum question on the ballot at the May, 15, 2007, primary election seeking voter approval to levy (or increase the rate of) an earned income and net profits tax (“EIT”) or a personal income tax (“PIT”) and use the proceeds to reduce local real estate taxes by a homestead and farmstead exclusion. The referendum was **NOT** approved by the voters.

A board of school directors may submit, but is not required to submit, a referendum question to the voters at the municipal election in 2009 or any later year seeking approval to levy or increase the rate of an EIT or a PIT for the purpose of funding homestead and farmstead exclusions, but the proposed rate of the EIT or PIT shall not exceed the rate that is required to provide the maximum homestead and farmstead exclusions allowable under law.

### **The 2012A Bonds are not Eligible for the “Grandfathered Debt” Exception from the Index under The Taxpayer Relief Act**

The 2012A Bonds were not authorized before the effective date of Act 1, and therefore the 2012A Bonds cannot be granted an exception for debt incurred prior to such effective date and will not be exempt from the Act 1 referendum requirement to pay debt service on the 2012A Bonds if a tax increase greater than the Index is needed. The School District intends to include sufficient new tax millage in its 2012-13 budget to cover the full amount of the debt service on the 2012A Bonds within the limits of the 2012-13 Index.

**The 2012AA Bonds are “Grandfathered” debt under the Act 1**

The 2012AA Bonds described in this Official Statement refund Bonds that represent debt that was approved (“incurred”) by the board of school directors prior to the effective date of Act 1, and the board of school directors previously elected not to become subject to the provisions of former Act 72 of 2004 (“Act 72”) (Act 72 was repealed by Act 1) which, like Act 1, limited the power of the board to increase taxes above a certain index. Consequently, the School District is entitled by Act 1 to apply to the Pennsylvania Department of Education (PDE) for approval to utilize an Act 1 referendum exception, if and to the extent a tax increase greater than the Index is needed to pay the principal and interest on the 2012AA Bonds in any particular fiscal year (see “**The Taxpayer Relief Act**” and “**Budgeting Process in School Districts under the Taxpayer Relief Act**” herein). Act 1 provides that PDE shall approve a school district’s request if a review of the data demonstrates that the school district qualifies for the exception sought and the sum of the dollar amounts of all exceptions for which the school district qualifies is not more than what is necessary to balance the budget after giving effect to the revenue to be raised by the allowable tax increase under the Index. There can be no assurance; however, that approval will be given by PDE to utilize a referendum exception in any future fiscal year or years.

**Act 130 of 2008**

Act 130 of 2008 of the Commonwealth amended the Local Tax Enabling Act so as to authorize school districts levying an occupation tax to replace that occupation tax with an increased earned income tax or, if the school district has implemented a personal income tax in accordance with the Taxpayer Relief Act, an increased personal income tax, in a revenue neutral manner. To so replace an occupation tax, the board of school directors must first hold at least one public hearing on the matter and then place a binding referendum question on the ballot at a general or municipal election for approval by the voters.

The School District has not placed an Act 24 referendum question on the ballot nor does it presently intend to do so.

**Legislation Limiting Unreserved Fund Balances**

Pennsylvania Act No. 2003-48 (enacted December 23, 2003) prohibits a school district from increasing real property taxes for the school year 2005-2006 or any subsequent school year, unless the school district has adopted a budget for such school year that includes an estimated ending unreserved undesignated fund balance which is not more than a specified percentage of the total budgeted expenditures, as set forth below:

<u>Total Budgeted Expenditures</u>	<u>Estimated Ending Unreserved Undesignated Fund Balance as a Percentage of Total Budgeted Expenditures</u>
Less than or equal to \$11,999,999	12.0%
Between \$12,000,000 and \$12,999,999	11.5%
Between \$13,000,000 and \$13,999,999	11.0%
Between \$14,000,000 and \$14,999,999	10.5%
Between \$15,000,000 and \$15,999,999	10.0%
Between \$16,000,000 and \$16,999,999	9.5%
Between \$17,000,000 and \$17,999,999	9.0%
Between \$18,000,000 and \$18,999,999	8.5%
Greater than or equal to \$19,000,000	8.0%

“Estimated ending unreserved fund balance” is defined in Act 2003-48 as that portion of the fund balance which is appropriate for expenditure or not legally or otherwise segregated for a specific or tentative future use, projected for the close of the school year for which a school district’s budget was adopted and held in the general fund accounts of the school district.

**Tax Levy Trends**

Table 6 which follows shows the recent trend of tax rates levied by the School District. Table 7 shows the comparative trend of real property tax rates for the School District, the Borough, Townships, and the County.

**TABLE 6**

**WEST CHESTER AREA SCHOOL DISTRICT TAX RATES**

<b>Fiscal Year</b>	<b>Chester County (mills)</b>	<b>Delaware County (mills)</b>	<b>Real Estate Transfer<sup>(1)</sup> (%)</b>	<b>Wage and Income<sup>(1)</sup> (%)</b>
2007-08.....	15.79	11.87	1.00	1.00
2008-09.....	16.85	12.94	1.00	1.00
2009-10.....	17.85	14.16	1.00	1.00
2010-11.....	18.36	14.25	1.00	1.00
2011-12.....	18.36	14.22	1.00	1.00

<sup>(1)</sup>Subject to sharing providing the municipality levies the tax.

Source: School District officials.

**TABLE 7**

**WEST CHESTER AREA SCHOOL DISTRICT  
COMPARATIVE REAL PROPERTY TAX RATES  
(Mills on Assessed Value)**

<b>School District</b>	<b>2007-08 (mills)</b>	<b>2008-09 (mills)</b>	<b>2009-10 (mills)</b>	<b>2010-11 (mills)</b>	<b>2011-12 (mills)</b>
Chester County .....	15.790	16.850	17.850	18.360	18.360
Delaware County .....	11.870	12.940	14.160	14.250	14.220
East Bradford Township .....	0.071	0.071	0.071	0.071	0.071
East Goshen Township .....	1.250	1.250	1.250	1.250	1.250
Thornbury Township .....	0.840	0.840	0.840	0.840	0.840
Thornbury Township (Delaware County) .....	0.000	0.000	0.000	0.000	0.000
West Chester Borough .....	5.200	5.600	5.600	5.600	6.960
West Goshen Township .....	1.500	1.500	1.500	1.500	2.000
West Whiteland Township.....	0.600	0.600	0.600	0.600	0.600
Westtown Township .....	1.500	2.000	2.000	2.000	2.500
Chester County .....	3.804	3.804	3.965	3.965	3.965

Source: Chester County website.

## Real Property Tax

The real property tax including interim collections (excluding delinquent collections) is estimated to produce \$140,950,123 in 2011-12 (estimated), approximately 70.6 percent of overall revenue.

The following tables summarize trends of assessed and market valuations of real property. For the 2008-09 fiscal year, eligible taxpayers could opt into the installment method of payment for their school taxes. Installment payments are based upon three (3) one-third payments of the base tax amount.

Table 8 shows real property assessment data for the School District, Table 9 shows assessment by municipality and Table 10 shows assessment by land use. Table 11 summarizes recent trends in real property tax collection. The last countywide assessment in Chester County was in 1998 and for Delaware County was in 2000.

**TABLE 8  
WEST CHESTER AREA SCHOOL DISTRICT  
REAL PROPERTY ASSESSMENT DATA**

<b>Year</b>	<b>Market Value<sup>(1)</sup></b>	<b>Assessed Value<sup>(2)</sup></b>
2010-11.....	\$11,068,104,000	\$8,286,028,290
2009-10.....	9,697,034,000	8,304,222,582
2008-09.....	9,590,187,000	8,245,233,294
2007-08.....	8,359,241,000	8,159,131,405
2006-07.....	8,110,036,000	8,076,932,243

<sup>(1)</sup>Market Value as reported in the School District's Fact Book.

<sup>(2)</sup>Assessed Value as reported the Pennsylvania State Tax Equalization Board.

Source: As reported by School District officials.

**TABLE 9  
WEST CHESTER AREA SCHOOL DISTRICT  
REAL PROPERTY ASSESSMENT DATA BY MUNICIPALITY**

	<b>2009-10</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2010-11</b>
	<b>Market Value</b>	<b>Assessed Value</b>	<b>Market Value</b>	<b>Assessed Value</b>
<i>School District</i> .....	\$11,153,404,465	\$8,304,222,582	\$12,025,290,350	\$8,286,028,290
<i>Chester County</i> .....	49,146,202,564	37,198,472,898	52,956,376,186	36,530,159,273
East Bradford Township.....	1,097,870,290	829,417,029	1,177,579,460	823,589,979
East Goshen Township.....	2,212,278,726	1,637,427,985	2,385,645,086	1,643,578,445
Thornbury Township.....	394,180,551	296,457,519	424,009,696	303,688,039
Thornbury Township (Delaware County)..	672,012,184	646,432,848	690,550,991	637,835,596
West Chester Borough.....	1,057,217,595	643,038,290	1,196,477,127	649,249,450
West Goshen Township.....	2,406,675,923	1,747,526,471	2,647,104,170	1,752,550,691
West Whiteland Township.....	2,251,851,464	1,752,904,670	2,359,568,488	1,724,439,970
Westtown Township.....	1,061,317,733	751,017,770	1,144,355,332	751,096,120

Source: Pennsylvania State Tax Equalization Board.

**TABLE 10  
WEST CHESTER AREA SCHOOL DISTRICT  
ASSESSMENT BY LAND USE**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Residential.....	\$6,074,129,634	\$6,153,442,453	\$6,175,286,127	\$6,236,574,475	\$6,244,217,402
Lots.....	51,956,241	44,779,921	53,744,016	46,386,121	41,242,822
Industrial.....	159,511,950	151,550,670	165,446,720	152,694,010	152,724,350
Commercial.....	1,767,665,808	1,785,468,171	1,819,890,888	1,844,995,276	1,824,373,666
Agriculture.....	23,668,610	23,890,190	30,865,543	23,572,700	23,470,050
<b>Total</b> .....	<b>\$8,076,932,243</b>	<b>\$8,159,131,405</b>	<b>\$8,245,233,294</b>	<b>\$8,304,222,582</b>	<b>\$8,286,028,290</b>

Source: Pennsylvania State Tax Equalization Board.

TABLE 11

WEST CHESTER AREA SCHOOL DISTRICT  
REAL PROPERTY TAX COLLECTION DATA

<u>Year</u>	<u>Assessed Valuation</u>	<u>Mills</u>	<u>Adjusted Levied<sup>(1)</sup></u>	<u>Current Collections Amount</u>	<u>Current Year Collections as Percent</u>	<u>Total Collections Amount<sup>(2)</sup></u>	<u>Total Collections as Percent</u>
2006-07.....	\$8,061,281,755	15.16	\$119,753,099	\$115,783,804	96.69%	\$118,230,776	98.73%
2007-08.....	8,156,171,424	15.79	126,331,139	122,028,708	96.59%	124,840,111	98.82%
2008-09.....	8,235,714,280	16.85	136,273,669	128,318,365	94.16%	131,262,662	96.32%
2009-10.....	8,305,191,010	17.85	146,756,868	140,880,800	95.99%	143,857,600	98.02%
2010-11.....	8,255,798,912	18.36	148,965,204	140,166,559	94.09%	142,972,253	95.98%
2011-12 (est.).....	8,230,042,326	18.36	148,475,677	140,247,477	94.46%	143,666,764	96.76%

<sup>(1)</sup>Plus penalties, less discounts and exonerations.

<sup>(2)</sup>Includes real property assessments plus delinquent collections.

Source: School District officials.

The ten largest real property taxpayers, together with 2012 assessed values, are shown on Table 12 which follows. The aggregate assessed value of these ten taxpayers totals approximately 3.63 percent of total assessed value.

TABLE 12

WEST CHESTER AREA SCHOOL DISTRICT  
TEN LARGEST REAL PROPERTY TAXPAYERS, 2012-13

<u>Owner</u>	<u>Property</u>	<u>2012 Assessed Value</u>
Exton Square, Inc.	Shopping Mall	\$ 77,784,710
QVC Realty, Inc.	Industrial Building/TV Shopping	37,486,400
Main Street at Exton	Shopping Center	28,553,560
TRC Valley Creek Assoc.	Business Complex	27,524,200
Exton Crossing Apts.	Apartment Complex	21,023,480
Whiteland Investors, LP	Shopping Center	19,320,000
Comcast Cable Communications	Business Complex	17,636,080
Westtown Apt., Inc.	Apartment Complex	16,636,690
Fern Hill LLC	Business complex	16,617,370
Hankin Family Limited	Apartment Complex	16,216,110
<b>Total</b>		<b>\$278,798,600</b>

Source: School District officials.

**Other Taxes**

Under Act 511, the School District collected \$20,463,700 in taxes in 2011-12 (estimated). Among the taxes authorized by Act 511, the Real Estate Transfer Tax and Wage and Income Taxes are levied by the School District. The Act 511 limit, equal to 12 mills on the market value of real property, was approximately \$1,328,172.48

*Real Estate Transfer.* The School District levies a tax of one-half percent of the value of real estate transfers. In 2011-12 (estimated) the School District's collected portion of this tax is anticipated to yield \$2,512,200 or 1.3 percent of total revenue.

*Wage and Income Tax.* The School District levies a tax of one-half percent of the earned income of residents. In 2011-12 (estimated) the School District's collected portion of this tax is anticipated to yield \$17,951,500 or 8.8 percent of total revenue.



**Commonwealth Aid to School Districts**

Pennsylvania school districts receive financial assistance from the Commonwealth in a number of forms, all subject to statutory provisions and annual appropriation by the Pennsylvania General Assembly.

The largest subsidy, basic instructional subsidy, is allocated to all school districts based on factors such as: (1) the per pupil market value of assessable real property in the school district; (2) the per pupil earned income in the school district; (3) the school district's tax effort, as compared with the tax effort of other school districts in the Commonwealth; and (4) student count. School districts also receive subsidies for special education, pupil transportation, health service and debt service.

Commonwealth law presently provides that the School District will receive reimbursement from the Commonwealth for a portion of debt service on the Bonds after the Bonds financed have received final approval of the Department of Education. Commonwealth reimbursement is based on the "Reimbursable Percentage" assigned to the Bonds and the School District's Capital Account Reimbursement Fraction ("CARF"). The School District officials have estimated that the "Project Reimbursable Percentage" of the project to be financed by the 2012A Bonds is **not** applicable. The School District officials have estimated that the "Project Reimbursable Percentage" of the project to be financed by the 2012AA Bonds will be a maximum of 10.45 percent. The School District CARF for the 2011-12 school year is currently 27.54 percent. The product of these two factors is 2.88 percent which is the estimated maximum percentage of debt service which will be reimbursed by the Commonwealth. In future years, this percentage may change as the School District's CARF changes, or by future legislation. CARF is a function of the market value per weighted average daily membership of the School District relative to the other School Districts and the Commonwealth.

**DEBT AND DEBT LIMITS**

**Debt Statement**

Table 13 which follows shows the debt of the West Chester Area School District as of July 23, 2012, and the Bonds.

**TABLE 13**

**WEST CHESTER AREA SCHOOL DISTRICT  
DEBT STATEMENT  
(As of July 23, 2012) \***

	<b>Gross Outstanding</b>
<b>NET NONELECTORAL DEBT</b>	
General Obligation Bonds, Series AA of 2012 (last maturity 2022).....	\$ 39,330,000
General Obligation Bonds, Series A of 2012 (last maturity 2032).....	21,000,000
General Obligation Bonds, Series of 2011 (last maturity 2029) .....	9,585,000
General Obligation Bonds, Series AA of 2010 (last maturity 2022).....	26,440,000
General Obligation Bonds, Series A of 2010 (last maturity 2022).....	6,855,000
General Obligation Bonds, Series of 2010 (last maturity 2017) .....	17,315,000
General Obligation Note, Series of 2009 (last maturity 2027).....	9,990,000
General Obligation Bonds, Series of 2009 (last maturity 2016) .....	3,705,000
General Obligation Bonds, Refunding Series A of 2006 (last maturity 2027).....	37,275,000
General Obligation Bonds, Refunding Series of 2006 (last maturity 2024).....	21,790,000
General Obligation Bonds, Series AA of 2006 (last maturity 2020).....	10,115,000
General Obligation Bonds, Series A of 2006 (last maturity 2027)(remaining portion).....	55,715,000
General Obligation Bonds, Series of 2006 (last maturity 2030) .....	34,970,000
General Obligation Note, Series B of 2000 (last maturity 2015)	
Delaware Valley Regional Finance Authority .....	4,630,000
<b>GROSS NONELECTORAL DEBT</b> .....	<b>\$298,715,000</b>
<b>LEASE RENTAL DEBT</b>	
<b>NET LEASE RENTAL DEBT</b> .....	<b>\$ 0</b>
<b>TOTAL NET NONELECTORAL AND LEASE RENTAL DEBT</b> .....	<b>\$298,715,000</b>

\*Includes the Bonds offered through this Official Statement. Excludes the Refunded 2006A Bonds.

Table 14 presents the overlapping indebtedness and debt ratios of the School District. After issuance of the Bonds, the principal of direct debt of the School District will total \$298,715,000. After adjustment for available funds and estimated Commonwealth aid, the local effort of direct debt will total \$288,302,029.

**TABLE 14**  
**WEST CHESTER AREA SCHOOL DISTRICT**  
**BONDED INDEBTEDNESS AND DEBT RATIOS\***  
**(As of July 23, 2012)**

	<b>Gross Outstanding</b>	<b>Local Effort or Net of Available Funds and Estimated Commonwealth Aid<sup>(1)</sup></b>
<b>DIRECT DEBT</b>		
Nonelectoral Debt .....	\$298,715,000	\$288,302,029
Lease Rental Debt .....	0	0
<b>TOTAL DIRECT DEBT</b> .....	<b>\$298,715,000</b>	<b>\$288,302,029</b>
<b>OVERLAPPING DEBT</b>		
Chester County, General Obligation <sup>(2)</sup> .....	\$145,659,711	\$145,659,711
Delaware County, General Obligation <sup>(3)</sup> .....	107,199,541	10,782,420
Municipal Debt.....	98,912,198	104,965,449
<b>TOTAL OVERLAPPING DEBT</b> .....	<b>\$351,771,450</b>	<b>\$261,407,580</b>
<b>TOTAL DIRECT AND OVERLAPPING DEBT</b> .....	<b>\$650,486,450</b>	<b>\$549,709,610</b>
<b>DEBT RATIOS</b>		
Per Capita (2010) .....	\$5,998.53	\$5,069.20
Percent 2010-11 Assessed Value.....	7.85%	6.63%
Percent 2010-11 Market Value.....	5.88%	4.97%

\*Includes the Bonds offered through this Official Statement. Excludes the Refunded 2006A Bonds.

<sup>(1)</sup>Gives effect to expected future Commonwealth Reimbursement of School District sinking fund payments based on current CARF. See "Commonwealth Aid to School Districts".

<sup>(2)</sup>Pro rata 22.7 percent share of \$641,449,000 principal outstanding, including self-supporting debt of the County or local municipalities.

<sup>(3)</sup>Pro rata 30.0 percent share of \$357,364,968 principal outstanding, including self-supporting debt of the County or local municipalities.

**Debt Limit and Remaining Borrowing Capacity**

The statutory borrowing limit of the School District under the Act is computed as a percentage of the School District's "Borrowing Base". The "Borrowing Base" is defined as the annual arithmetic average of "Total Revenues" (as defined by the Act), for the three full fiscal years ended next preceding the date of incurring debt. The School District calculates its present borrowing base and borrowing capacity as follows:

Total Revenues for 2009-10 .....	\$195,294,086
Total Revenues for 2010-11 .....	199,105,494
Total Revenues for 2011-12 (estimated) .....	198,456,143
Total Revenues, Past Three Years .....	<u>\$592,855,723</u>
Annual Arithmetic Average (Borrowing Base) .....	<u><u>\$197,618,574</u></u>

Under the Act as presently in effect, no school district shall incur any nonelectoral debt or lease rental debt, if the aggregate net principal amount of such new debt together with any other net nonelectoral debt and lease rental debt then outstanding, would cause the net nonelectoral debt plus net lease rental debt to exceed 225% of the Borrowing Base. The application of the aforesaid percentage to the School District's Borrowing Base produces the following product:

	<u>Legal Limit</u>	<u>Net Debt Outstanding*</u>	<u>Remaining Borrowing Capacity</u>
Net Nonelectoral Debt Limit:			
225% of Borrowing Base.....	\$444,641,792	\$298,715,000	\$145,926,792

\*Includes the Bonds described herein; does not reflect credits against gross indebtedness that may be claimed for a portion of principal of debt estimated to be reimbursed by Commonwealth aid. Excludes the Refunded 2006A Bonds.

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## Debt Service Requirements

Table 15 presents the debt service requirements on the School District's outstanding general obligation indebtedness including debt service on the Bonds.

Table 16 presents data on the extent to which Commonwealth Aid provides coverage for debt service requirements.

The School District has never defaulted on the payment of debt service.

**TABLE 15**

**WEST CHESTER AREA SCHOOL DISTRICT  
DEBT SERVICE REQUIREMENTS\***

Year	Other General Obligation Debt	Series A of 2012			Series AA of 2012			Total Requirements
		Principal	Interest	Subtotal	Principal	Interest	Subtotal	
2012-13	\$20,753,681	\$0	\$449,750	\$449,750	\$0	\$1,289,533	\$1,289,533	\$22,492,964
2013-14	22,271,547	0	630,000	630,000	5,000	1,806,350	1,811,350	24,712,897
2014-15	23,172,799	0	630,000	630,000	110,000	1,806,250	1,916,250	25,719,049
2015-16	22,210,449	0	630,000	630,000	115,000	1,804,050	1,919,050	24,759,499
2016-17	22,208,068	0	630,000	630,000	115,000	1,801,750	1,916,750	24,754,818
2017-18	14,532,389	0	630,000	630,000	7,835,000	1,799,450	9,634,450	24,796,839
2018-19	14,433,195	0	630,000	630,000	8,295,000	1,407,700	9,702,700	24,765,895
2019-20	15,263,168	0	630,000	630,000	7,875,000	992,950	8,867,950	24,761,118
2020-21	16,144,390	0	630,000	630,000	7,360,000	599,200	7,959,200	24,733,590
2021-22	16,122,802	0	630,000	630,000	7,620,000	304,800	7,924,800	24,677,602
2022-23	23,891,957	5,000	630,000	635,000	0	0	0	24,526,957
2023-24	23,994,152	5,000	629,850	634,850	0	0	0	24,629,002
2024-25	23,988,114	5,000	629,700	634,700	0	0	0	24,622,814
2025-26	23,983,258	5,000	629,550	634,550	0	0	0	24,617,808
2026-27	23,753,408	5,000	629,400	634,400	0	0	0	24,387,808
2027-28	15,071,971	3,950,000	629,250	4,579,250	0	0	0	19,651,221
2028-29	9,362,033	4,070,000	510,750	4,580,750	0	0	0	13,942,783
2029-30	8,631,563	4,190,000	388,650	4,578,650	0	0	0	13,210,213
2030-31	0	4,320,000	262,950	4,582,950	0	0	0	4,582,950
2031-32	0	4,445,000	133,350	4,578,350	0	0	0	4,578,350
<b>Total</b>	<b>\$339,788,943</b>	<b>\$21,000,000</b>	<b>\$11,193,200</b>	<b>\$32,193,200</b>	<b>\$39,330,000</b>	<b>\$13,612,033</b>	<b>\$52,942,033</b>	<b>\$424,924,176</b>

\*Totals may not add due to rounding.

**TABLE 16**

**WEST CHESTER AREA SCHOOL DISTRICT  
COVERAGE OF DEBT SERVICE  
REQUIREMENTS BY COMMONWEALTH AID\***

2011-12 Estimated Commonwealth Aid Received .....	\$28,540,248.00
2011-12 Estimated Debt Service Requirements .....	23,804,831.00
Maximum Future Debt Service Requirements after Issuance of Bonds .....	25,719,049.00
Coverage of 2011-12 Estimated Debt Service Requirements .....	1.20 times
Coverage of Maximum Future Debt Service Requirements after Issuance of Bonds .....	1.11 times

\*Assumes current Commonwealth Aid Ratio. See "Commonwealth Aid to School Districts."

## Future Financing

The School District anticipates issuing additional long-term debt in the future to complete its Capital Improvement Program within the next 2-3 years.

## LABOR RELATIONS

### School District Employees

There are approximately 1,434 employees of the School District.

The School District has a contract which expired June 30, 2012 with the West Chester Education Association (the "Association"), which is affiliated with the Pennsylvania State Education Association (PSEA), covering the professional employees of the School District other than administrators. The PSEA acts as a bargaining agent for such employees under the conditions of Pennsylvania Law (Act 195) providing for collective bargaining. Secretarial and clerical personnel are represented by the Pennsylvania Education Association (P.E.A.) under a contract which expired June 30, 2012. Custodial and maintenance personnel are represented by P.E.A. under a contract which expired June 30, 2012. All contracts are currently under negotiations.

### Pension Program

School Districts in Pennsylvania are required to participate in a statewide pension program administered by the Public School Employees Retirement System (PSERS). All of the School District's full-time employees, part-time employees who work more than 80 days in a school year, and hourly employees who work over 500 hours a year participate in the program. However, please note a Pennsylvania Supreme Court decision has removed the hourly de minimis requirement for current members of PSERS regarding the purchase of credit for their part-time school service rendered prior to their being members of PSERS, for purposes of increasing their pension benefits.

The PSERS Board of Trustees has set the fiscal year 2011-12 employer retirement contribution rate at 8.65 percent of payroll. Both the School District and the Commonwealth are responsible for paying a portion of the employer's share. Employers are divided into two groups; school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses the employer for one-half the payment for employees. Recent School District pension contributions to PSERS have been as follows:

2006-07	\$ 5,229,338
2007-08	6,032,597
2008-09	4,127,324
2009-10	4,294,335
2010-11	5,067,702
2011-12 (unaudited)	7,607,826
2012-13 (budgeted)	10,663,295

The School District is current in all payments. Future projections are indicating increases in the contribution rate for future years. The PSERS complete report is available on its website on the Internet: [www.psers.state.pa.us](http://www.psers.state.pa.us).

**Other Post-Employment Benefits (“OPEB”)**

The School District is obligated under certain professional employees’ collective bargaining agreements and certain Pennsylvania legal provisions to provide medical and prescription benefits coverage for retired employees for a period following retirement as stipulated in such bargaining unit or legal requirements. The School District’s annual other Post-employment benefit (OPEB) cost (expense is calculated based on the annual required contribution of the employer (ARC). 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 thirty years. The following table shows the components of the School District’s annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the School District’s net OPEB obligation.

<b>Annual OPEB Cost:</b>	
Normal Cost .....	\$1,450,855
Amortization of unfunded actuarial accrued liability .....	1,103,119
Interest on Net OPEB Obligation .....	(14,613)
Funding Adjustment .....	13,438
ANNUAL OPEB COST .....	<u>\$2,552,799</u>
<b>Net OPEB Obligation (Asset):</b>	
Normal OPEB Obligation July 1, 2010 .....	(\$324,735)
OPEB Cost for the year ended June 30, 2011 .....	2,552,799
Contributions for year ended June 30, 2011 .....	<u>(2,369,543)</u>
NET OPEB OBLIGATION (ASSET) .....	<u>(\$141,479)</u>

Source: School District 2011 Audit report.

**LITIGATION**

There is no litigation pending or threatened with respect to the Bonds or the Resolution or the right of the School District to issue the Bonds.

**DEFAULTS AND REMEDIES**

In the event of failure of the School District to pay or cause to be paid the interest on or principal of the Bonds, the holders of the Bonds shall be entitled to certain remedies provided by the Act. Among the remedies, if the failure to pay shall continue for 30 days, holders of the Bonds shall have the right to recover the amount due by bringing actions in assumpsit in the Court of Common Pleas of Chester and Delaware Counties. The Act provides that any judgment shall have an appropriate priority upon the funds next coming into the treasury of the School District. The Act also provides that upon a default of at least 30 days, holders of at least 25 percent of the Bonds may appoint a trustee to represent them. The Act provides certain other remedies in the event of default, and further qualifies the remedies hereinbefore described.

**TAX EXEMPTION**

In the opinion of Bond Counsel, assuming compliance with certain covenants of the School District, interest on the Bonds is excluded from gross income of the owners of the Bonds for federal income tax purposes under existing law, as currently enacted and construed. Interest on the Bonds is not an item of tax preference under the Internal Revenue Code of 1986, as amended (the “Code”), for purposes of determining the alternative minimum tax imposed on individuals and corporations. Interest on a Bond held by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder. Interest on a Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

Ownership of the Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Bond Counsel expresses no opinion as to any such collateral federal income tax consequences. Purchasers of the Bonds should consult their own tax advisors as to collateral federal income tax consequences.

The initial public offering price of Bonds of certain maturities is greater than the amount payable on such Bonds at maturity. Bond counsel expresses no opinion herein with respect to the treatment of such excess of offering price over amounts payable at maturity (“original issue premium”). Investors should seek advice thereon from their own tax advisor.

The initial public offering price of the 2012A Bonds maturing May 15, 2032, is less than the amount payable at maturity. The difference between the initial public offering price and the amount payable at maturity constitutes original issue discount. Bond Counsel is of the opinion that the appropriate portion of such original issue discount allocable to the original and each subsequent holder will, upon sale, exchange, redemption, or payment at maturity, be treated as interest and excluded from gross income for federal income tax purposes to the same extent as the stated interest on the Bonds.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to remain excludable from the gross income of the owners of the Bonds for federal income tax purposes. The School District has covenanted in the Resolution to comply with such requirements. Noncompliance with such requirements may cause the interest on the Bonds to be includible in the gross income of the owners of the Bonds for federal income tax purposes, retroactive to the date of issue of the Bonds. The opinion of Bond Counsel assumes compliance with such covenants, and Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

The Bonds are not being designated as “qualified tax-exempt obligations”.

Bond Counsel is of the opinion that, under the laws of the Commonwealth of Pennsylvania, as currently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

Pursuant to the provisions of Act 68 of 1993 of the Commonwealth of Pennsylvania (“Act 68”), profits, gain or income from the sale of the Bonds shall be subject to Pennsylvania personal income tax and Pennsylvania corporate net income tax. Bond Counsel expresses no opinion as to the treatment of original issue premium or original issue discount in the computation of profits, gain or income from the sale of the Bonds pursuant to Act 68.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

#### **CONTINUING DISCLOSURE UNDERTAKING**

The School District covenants to provide, pursuant to Rule 15c2-12(b) (the “Rule”) promulgated by the Securities and Exchange Commission, for the benefit of the holders of the Bonds certain financial and operating data on an annual basis in accordance herewith. Under the terms of the Rule, the School District (being an “obligated person” within the meaning of the Rule) agrees:

- (i) to provide at least annually to the Municipal Securities Rulemaking Board (the “MSRB”), the following annual financial information and operating data with respect to the School District for each of its fiscal years, beginning with the fiscal year ending June 30, 2012, within 180 days following the end of such fiscal year:
  - the financial statements for the most recent fiscal year, prepared in accordance with generally accepted accounting principles for local government units and audited in accordance with generally accepted auditing standards;
  - a summary of the budget for the new fiscal year;
  - the aggregate assessed value and aggregate market value of all taxable real estate for the new fiscal year;
  - the taxes and millage rates imposed for the new fiscal year;
  - the real property tax collection results for the most recent fiscal year, including (1) the real estate levy imposed (expressed both as a millage rate and an aggregate dollar amount), (2) the dollar amount of real estate taxes collected that represented current collections (expressed both as a percentage of such fiscal year’s levy and as an aggregate dollar amount), (3) the amount of real estate taxes collected that represented taxes levied in prior years (expressed as an aggregate dollar amount), and (4) the total amount of real estate taxes collected (expressed both as a percentage of the current year’s levy and as an aggregate dollar amount);
  - a list of the ten (10) largest real estate taxpayers and, for each, the total assessed value of real estate for the new fiscal year; and
  - pupil enrollment figures, including enrollment at the end of the most recent fiscal year, current enrollment and projected enrollment for the beginning of the next fiscal year, including a breakdown between elementary and secondary enrollment (to the extent reasonably feasible);

- (ii) in a timely manner not in excess of ten business days after the occurrence of the event, to file with the MSRB, notice of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls (excluding mandatory sinking fund redemptions), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or a similar proceeding by the School District; (13) the consummation of a merger, consolidation, or acquisition involving the School District or the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of an additional or successor trustee or the change of name of a trustee, if material;
- (iii) to provide, in a timely manner, to the MSRB, notice of the failure of the School District to provide the information set forth in subparagraph (i) above on or before the date specified above.

The School District may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, but the School District does not commit to provide any such notice of the occurrence of any events except those specifically listed above.

The School District reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the School District no longer remains an “obligated person” with respect to the Bonds within the meaning of the Rule. The School District acknowledges that its undertaking pursuant to the Rule described herein is intended to be for the benefit of the holders or beneficial owners of the Bonds and shall be enforceable by the holders or beneficial owners of such Bonds; provided that the Bondholders’ right to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement for the School District’s obligations hereunder and any failure by the School District to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds.

The School District may modify from time to time the specific types of information provided or the format of the presentation of such information, as a result of a change in legal requirements or change in the nature of the School District; provided that any such modification will be done in a manner consistent with the SEC Rule 15c2-12 including amendments thereto and will not, in the opinion of nationally recognized bond counsel, violate the Rule, as amended.

Any filing under this Section may be made solely by transmitting such filing to the MSRB through its Electronic Municipal Market Access (EMMA) system for municipal securities disclosures.

The School District unintentionally failed to file some of their Annual Reports in a timely manner for the past (5) five years. For fiscal years ending June 30, 2007 and June 30, 2008 the School District’s Audits were filed through DisclosureUSA.org on January 2, 2008 and January 16, 2009. The Annual Reports for fiscal year’s ending June 30, 2009, 2010 and 2011 were filed with EMMA by the School District on February 8, 2010, October 20, 2011 and January 18, 2012. The School District is currently in compliance with its filing requirements for these fiscal years. The School District will continue to adhere to procedures that were put in place to provide timely ongoing disclosure of annual financial information and notice of material events affecting its securities.

#### **RATING**

Moody’s Investors Service has assigned an underlying rate of “Aaa” to this issue of Bonds. Such rating reflects only the view of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: Moody’s Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

#### **UNDERWRITING**

The Underwriter, has agreed to purchase the Bonds from the School District, subject to certain conditions precedent, and will purchase all of the Bonds if any of such Bonds are purchased. The Bonds will be purchased for a purchase price of \$68,649,062.60, equal to the par value of the Bonds less an underwriter’s discount of \$617,436.60, plus a net original issue premium of \$8,936,499.20.



## **LEGAL OPINION**

The Bonds are offered subject to the receipt of the approving legal opinion of Pepper Hamilton LLP, Bond Counsel. Certain other legal matters will be passed upon for the School District by Unruh, Turner, Burke & Frees, P.C, of West Chester, Pennsylvania, School District Solicitor.

## **FINANCIAL ADVISOR**

The School District has retained Public Financial Management, Inc., Harrisburg, Pennsylvania, as financial advisor (the "Financial Advisor") in connection with the preparation, authorization and issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## **MISCELLANEOUS**

This Official Statement has been prepared under the direction of the School District by Public Financial Management, Inc., Harrisburg, Pennsylvania, in its capacity as Financial Advisor to the School District. The information set forth in this Official Statement has been obtained from the School District and from other sources believed to be reliable. Insofar as any statement herein includes matters of opinion or estimates about future conditions, it is not intended as representation of fact, and there is no guarantee that it is, or will be, realized. Summaries or descriptions of provisions of the Bonds, the Resolution, and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof. Reference is hereby made to the complete documents, copies of which will be furnished by the School District or the Financial Advisor upon request. The information assembled in this Official Statement is not to be construed as a contract with holders of the Bonds.

The School District has authorized the distribution of this Official Statement.

**WEST CHESTER AREA SCHOOL DISTRICT**  
Chester and Delaware Counties, Pennsylvania

By: /s/ Vince Murphy  
President, Board of School Directors

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**APPENDIX A**  
**Demographic and Economic Information**  
**Relating to the West Chester Area School District**

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**Introduction**

The School District encompasses several communities in central Chester County and one municipality in western Delaware County and covers an area of approximately 75 square miles. The School District’s boundaries are coterminous with those of the Borough of West Chester and the Townships of East Bradford, East Goshen, Thornbury, West Goshen, Westtown and West Whiteland, all located in Chester County, and the Township of Thornbury in Delaware County. The Borough of West Chester, located in the geographic center of the School District and county seat of Chester County, is approximately 25 miles west of metropolitan Philadelphia, 15 miles north of Wilmington, Delaware and 15 miles south of King of Prussia and Valley Forge. Many well-known unincorporated communities are located within the School District and these include: Exton in West Whiteland Township, Goshenville in East Goshen Township, Chatwood in West Goshen Township, Cheyney and Glen Mills in Thornbury Township, Delaware County and Darlington Corners in Westtown Township.

West Chester Area School District is characterized by rolling hills and fertile valleys flanking the east branch of the Brandywine Creek and the tributaries of the Chester Creek. The Borough of West Chester is the financial and professional center for the surrounding area. The Townships are principally residential in character, with regional shopping centers and industrial parks. Four major public institutions are within the School District: West Chester University; Cheyney University; Chester County Courthouse; and Chester County Hospital.

Table A-1 which follows shows recent population trends for the School District, Chester County and the Commonwealth of Pennsylvania. Table A-2 shows 2000 age composition and average number of persons per household in Chester County and for the Commonwealth. Average household size was higher for Chester County than the statewide average.

**TABLE A-1**  
**RECENT POPULATION TRENDS**

<u>Area</u>	<u>2000</u>	<u>2010</u>	<b>Compound Average Annual Percentage Change 2000-2010</b>
School District .....	101,207	108,441	0.77%
Chester County .....	376,396	433,501	1.58%
Pennsylvania .....	11,881,643	12,281,054	0.37%

Source: U.S. Census Bureau, Census 2000 & 2010 Redistricting Data (Public Law 94-171) Summary File and the Pennsylvania State Data Center.

**TABLE A-2**  
**AGE COMPOSITION**

	<u>0-17</u> <u>Years</u>	<u>65+</u> <u>Years</u>	<b>Persons Per Household</b>
Chester County .....	26.2%	11.7%	2.7
Pennsylvania .....	23.8%	15.6%	2.5

Source: Pennsylvania State Data Center, 2000 General Population and Housing Characteristics: Pennsylvania.

## Employment

Overall employment data are not compiled for the School District or the municipality within it, but such data are compiled for the Philadelphia Primary Metropolitan Statistical Area ("PMSA") for April 2012.

**TABLE A-3  
DISTRIBUTION OF EMPLOYMENT  
PHILADELPHIA PRIMARY METROPOLITAN STATISTICAL AREA  
(Bucks, Chester, Delaware, Montgomery, and Philadelphia – PA Counties)**

**NONFARM JOBS  
(April 2012)**

<i>ESTABLISHMENT DATA</i>	Industry Employment			Net Change From:		
	April 2012	March 2012	February 2012	April 2011	March 2012	April 2012
<b>Total Nonfarm</b> .....	<b>1,887,900</b>	1,869,300	1,859,200	1,888,500	18,600	-600
<b>Total Private</b> .....	<b>1,675,000</b>	1,656,900	1,646,800	1,666,600	18,100	8,400
<b>Goods Producing</b> .....	<b>194,300</b>	193,000	192,300	196,000	1,300	-1,700
<b>Mining, Logging, and Construction</b> .....	<b>63,700</b>	62,600	62,800	65,300	1,100	-1,600
<b>Manufacturing</b> .....	<b>130,600</b>	130,400	129,500	130,700	200	-100
Durable Goods.....	<b>69,200</b>	69,300	68,100	67,600	-100	1,600
Transportation equipment mfg. ....	<b>14,700</b>	14,700	14,600	14,700	0	0
Non-Durable Goods .....	<b>61,400</b>	61,100	61,400	63,100	300	-1,700
Chemical mfg. ....	<b>22,800</b>	22,800	22,700	23,500	0	-700
Pharmaceutical and medicine mfg.....	<b>14,200</b>	14,200	14,300	15,100	0	-900
<b>SERVICE-PROVIDING</b> .....	<b>1,693,600</b>	1,676,300	1,666,900	1,692,500	17,300	1,100
<b>PRIVATE SERVICE-PROVIDING</b> .....	<b>1,480,700</b>	1,463,900	1,454,500	1,470,600	16,800	10,100
<b>Trade, Transportation, and Utilities</b> .....	<b>328,000</b>	325,200	323,400	327,300	2,800	700
Wholesale Trade.....	<b>83,300</b>	82,900	82,300	82,100	400	1,200
Retail Trade .....	<b>185,700</b>	183,600	182,500	186,200	2,100	-500
Building material and supplies dealers .....	<b>11,300</b>	10,600	10,200	10,900	700	400
Food and beverage stores .....	<b>44,400</b>	44,400	44,100	44,800	0	-400
Health and personal care stores .....	<b>15,600</b>	15,500	15,600	15,300	100	300
Clothing and clothing accessories stores .....	<b>21,200</b>	21,200	21,200	21,700	0	-500
General merchandise stores .....	<b>28,500</b>	28,500	28,200	27,800	0	700
Department stores.....	<b>20,600</b>	20,400	20,000	20,400	200	200
Transportation, warehousing, and utilities.....	<b>59,000</b>	58,700	58,600	59,000	300	0
Transportation and warehousing .....	<b>53,800</b>	53,500	53,400	53,800	300	0
Trucking, couriers & messengers, and warehousing.....	<b>24,600</b>	24,400	24,400	24,300	200	300
<b>Information</b> .....	<b>37,100</b>	36,800	36,900	37,900	300	-800
Telecommunications .....	<b>12,400</b>	12,400	12,500	12,600	0	-200
<b>Financial Activities</b> .....	<b>130,500</b>	130,400	130,000	131,600	100	-1,100
Finance and insurance .....	<b>106,800</b>	106,700	106,600	107,600	100	-800
Credit intermediation and related activities .....	<b>30,800</b>	30,700	30,800	31,500	100	-700
Depository credit intermediation .....	<b>22,500</b>	22,500	22,500	22,800	0	-300
Insurance carriers and related activities.....	<b>47,000</b>	46,900	466,600	46,900	100	100
Real estate and rental and leasing.....	<b>23,700</b>	23,700	23,400	24,000	0	-300
<b>Professional and Business Services</b> .....	<b>303,000</b>	300,300	297,100	296,900	2,700	6,100
Professional and Technical Services .....	<b>157,000</b>	157,500	157,500	151,800	-500	5,200
<b>Legal services</b> .....	<b>25,500</b>	25,500	25,500	25,800	0	-300
<b>Architectural and engineering services</b> .....	<b>18,600</b>	18,400	18,200	17,900	200	700
Computer systems design and related services .....	<b>32,600</b>	32,300	32,300	31,700	300	900
Scientific research and development services.....	<b>18,400</b>	18,600	18,700	18,900	-200	-500
Management of companies and enterprises .....	<b>42,100</b>	42,400	42,300	42,000	-300	100
Administrative and waste services.....	<b>103,900</b>	100,400	97,300	103,100	3,500	800
Administrative and support services.....	<b>100,600</b>	97,200	94,000	98,400	3,400	2,200
Employment services .....	<b>27,700</b>	27,700	27,500	28,500	0	-800

Data benchmarked to March 2011

\*\*\*Data changes of 100 may be due to rounding\*\*\*

Source: Pennsylvania State Employment Service: [www.paworkstats.state.pa.us](http://www.paworkstats.state.pa.us)

The largest employers located within the School District include:

<u>Name</u>	<u>Product or Service</u>	<u>Employment</u>
QVC Network, Inc.	Home Shopping Network	3,682
Chester County	County Government	2,620
United Parcel Service, Inc.	Delivery Services	2,593
Chester County Hospital	Health Care Services	2,111
Therakos	Health Care Products	1,690
West Chester Area School District	Education	1,489
West Chester University	Education	1,457
Synthes Spine Co. LP	Medical Technology	1,332
A. Duie Pyle, Inc.	Trucking	874
Communication Test Design	Communications Hardware	844

Source: School District officials

Industries located in nearby communities include:

<u>Name</u>	<u>Community</u>
DuPont Corporation	Wilmington
Hercules Corporation	Wilmington
S.M.S. Corporation	Great Valley
Lockheed Martin	Valley Forge
S.E.I. Corporation	Valley Forge
Vanguard Group	Great Valley

Source: School District officials.

Table A-4 shows trends in labor force, employment and unemployment for Chester County and the State.

**TABLE A-4**  
**RECENT TRENDS IN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>(1)</sup></u>	<u>Compound Average Annual % Rate</u>
<b><i>Chester County</i></b>							
Civilian Labor Force (000)	262.8	269.4	271.6	264.2	261.1	265.7	0.22%
Employment (000) .....	254.7	258.7	254.8	246.3	244.3	250.4	-0.34%
Unemployment (000) .....	8.2	10.7	16.9	17.8	16.8	15.3	13.29%
Unemployment Rate .....	3.1	4.0	6.2	6.7	6.4	5.8	
<b><i>Pennsylvania</i></b>							
Civilian Labor Force (000)	6,297.0	6,395.0	6,414.0	6,303.0	6,340.0	6,429.0	0.42%
Employment (000) .....	6,023.0	6,051.0	5,895.0	5,808.0	5,791.0	5,954.0	-0.23%
Unemployment (000) .....	274.0	344.0	519.0	494.0	549.0	475.0	11.63%
Unemployment Rate .....	4.4	5.4	8.1	7.8	8.7	7.4	

<sup>(1)</sup>As of April 2012.

Source: Pennsylvania State Employment Service: [www.paworkstats.state.pa.us](http://www.paworkstats.state.pa.us).

**Income**

The data on Table A-5 shows recent trends in per capita income for the School District, Chester County and Pennsylvania over the 2000-2009 period.

**TABLE A-5  
RECENT TRENDS IN PER CAPITA INCOME\***

	<u>2000</u>	<u>2009</u>	<u>Percentage Change 2000-2009</u>
School District .....	\$35,713	\$41,433	1.66%
Chester County .....	20,601	31,627	4.88%
Pennsylvania .....	14,068	20,880	4.49%

\*Income is defined by the Bureau of the Census as the sum of wage and salary income, non-farm self-employment income, net self-employment income, Social Security and Railroad retirement income, public assistance income, interest, dividends, pensions, etc. before deductions for personal income taxes, Social Security, etc. School District income is the population-weighted average for political subdivisions.

Source: 2000: U.S. Census Bureau, Summary File 1 (SF 1) and Summary File 3 (SF 3) & 2009: U.S. Census Bureau, 2005-2009 American Community Survey.

**Commercial Activity**

Commercial activity within the School District is centered in the Borough of West Chester and in large shopping centers, including Exton Square and the West Goshen Shopping Center.

Exton Square, a large shopping mall, includes many major shops and the Chester County Library centered around four anchored major retail stores. The enclosed mall is situated four miles north of the Borough of West Chester at the intersection of U.S. Route 30 and 100. Other large shopping centers include: Fairfield Place and Whiteland Towne Center.

Table A-6 shows retail sales for the 2008-2012 period for the County and the Commonwealth.

**TABLE A-6  
TOTAL RETAIL SALES  
(000)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Chester County .....	\$ 15,103,555	\$ 12,929,399	\$ 11,660,539	\$ 12,218,832	\$ 12,210,801
PMSA .....	136,677,207	94,687,876	89,183,335	94,935,061	94,890,513
Pennsylvania .....	NR	180,948,327	174,483,292	188,193,104	188,149,727

NR: Not reported.

Source: Sales and Marketing Management Magazine

**Housing**

Housing construction has progressed in an orderly fashion during the past decade as former agricultural land has been developed in accordance with strict zoning guidelines. The School District contains some of the finest single-family residential housing in the Delaware Valley area. Most new home construction taking place in the School District is in the \$555,000 median price range. The median selling price of all housing within the School District during 2007 was \$319,000, as compared with Chester County as a whole of \$312,500, according to the Chester County Planning Commission.

**Educational Institutions**

West Chester University and Cheyney University are located within the School District. Both universities are run by the Commonwealth of Pennsylvania. West Chester University, which is located in the Borough and West Goshen Township, is a multi-purpose university. Cheyney University is located in Thornbury Township, Delaware and Chester Counties. Both universities provide a liberal arts education.



## **Medical Facilities**

Medical care facilities are provided by Chester County Hospital (the "Hospital") in West Chester. The Hospital provides complete professional, medical and surgical treatment to the central and eastern portions of Chester County. Paoli Memorial Hospital, while outside the School District, is within easy reach.

## **Transportation**

The School District's economic position has been bolstered by a network of federal and state highways and has realized further growth due to the opening of the Exton Bypass. The School District is served by over eighty motor freight companies. U.S. 202 passes through the School District in a north-south direction connecting the area with Valley Forge to the north and Wilmington, Delaware to the south. U.S. 30 crosses the area in an east-west direction connecting the area with Lancaster via Coatesville to the west and Philadelphia via Paoli to the east. State Route 100 connects the School District with the Pennsylvania Turnpike (Downingtown Interchange) which is approximately 2 miles north of the School District. Other major highways include: U.S. 1 and 322 and State Routes 3 (West Chester Pike), 29, 52, 162, 352, 842, and 926.

Passenger railroad service is provided by one line, Main Line, by Southeastern Pennsylvania Transportation Authority (SEPTA). Freight services are provided by two branch lines of Conrail.

Bus service to Philadelphia and Wilmington is provided by SEPTA. Light plane air service is available at West Chester Airport, established in 1959, which has single and multiple engine aircraft available for charter flights with licensed pilots and student flight training.

## **Recreation**

School District residents have access to a variety of recreational facilities through public, private and quasi-public agencies. There are four private and several public golf courses located in the School District. The Borough of West Chester, East Bradford, East Goshen, West Goshen and West Whiteland Townships provide recreational parks throughout the area for use by their residents.

## **Utilities**

Sewer: Resident of portions of East Goshen Township, portions of East Bradford Township portions of West Goshen Township, portions of West Whiteland Township, West Chester Borough and portions of Westtown Township are provided with sewer service by either various municipal authorities or the municipality. Some of the less developed portions of these areas are served by on-site systems. All other Townships are served by on-site systems.

Water: Aqua Pennsylvania, Inc. and other private water companies supply water service to the Borough and developed portions of the various Townships. Other residents of the Townships are served by on-site wells.

Electricity and Gas: PECO provides both electricity and natural gas to users within the School District.

Telephone: Verizon supplies telephone service to residents of the School District.

## **Municipal Services**

All Townships and the Borough have full-time protection from either the state police or local police departments. The Embreeville State Police is located just outside the School District. All communities support their local volunteer fire companies.

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**APPENDIX B**  
Opinion of Bond Counsel

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[PROPOSED FORM OF BOND COUNSEL OPINION]

Closing Document No. \_\_\_\_

\_\_\_\_\_, 2012

West Chester Area School District

Re: \$60,330,000 West Chester Area School District General Obligation Bonds,  
Series A and AA of 2012

You have requested our opinion as to the legality of the above reference series of general obligation bonds (the "Bonds"). The Bonds are issued by the West Chester Area School District, Chester and Delaware Counties, Pennsylvania (the "School District"), under the provisions of the Pennsylvania Local Government Unit Debt Act, 53 Pa. Cons. Stat. §8001 *et seq.*, as amended (the "Act"), and pursuant to a resolution duly adopted by the Board of School Directors of the School District (the "Resolution"). The Bonds are being issued for the purpose of providing funds (i) to finance the costs of the acquisition, design, construction, furnishing and equipping of additions, alterations and renovations and other improvements to the School District's existing school buildings and related facilities, (ii) to advance refund a portion of the School District's outstanding General Obligation Bonds, Series A of 2006 and (iii) to pay the costs of issuing the Bonds.

The School District has covenanted in the Resolution (i) to include the amount of debt service for the Bonds for each fiscal year in which such sums are due and payable in its budget for that year; (ii) to appropriate such amounts from its general revenues for the payment of such debt service; and (iii) to duly and punctually pay, or cause to be paid, from its sinking fund or any other of its revenues or funds, the principal of, and interest on, the Bonds at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof; for such budgeting, appropriation and payment the School District in the Resolution has pledged its full faith, credit and taxing power.

As Bond Counsel for the School District, we have examined the relevant provisions of the Constitution of the Commonwealth of Pennsylvania; the Acts of Assembly pursuant to which the Bonds are authorized, issued and sold; the transcript of proceedings filed with the Pennsylvania Department of Community and Economic Development (the

“Department”); and certain statements, affidavits and other documents which we have considered pertinent.

In rendering this opinion we have examined and relied upon (a) the opinion of counsel to the School District with respect, *inter alia*, to the due adoption by the School District of the Resolution in accordance with applicable laws; and (b) the accuracy of the statements and representations and the performance by the School District of its covenants set forth in the Resolution and the School District’s Tax Certificate delivered on this date in connection with the issuance of the Bonds.

As to questions of fact material to our opinion, we have relied upon the representations of the School District contained in the Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The School District is authorized under the provisions of the Constitution and laws of the Commonwealth of Pennsylvania to issue the Bonds for the purposes above set forth, and the School District has authorized the issuance thereof.

2. As indicated in the School District’s debt statement filed with the Department in connection with the issuance of the Bonds, outstanding debt of the School District, including debt represented by the Bonds, is within the debt limitations of the Act.

3. The Bonds are the valid and binding general obligations of the School District payable from the revenues of the School District from whatever source derived, which revenues, at the time of the issuance and sale of the Bonds, include *ad valorem* taxes levied upon all the taxable property within the School District, within limitations provided by law.

4. Under the laws of the Commonwealth of Pennsylvania, as currently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

5. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes under existing law, as currently enacted and construed. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed upon individuals and corporations. Interest on a Bond held by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the earnings and profits of the corporate holder. Interest

on a Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

Ownership of the Bonds may give rise to collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. We express no opinion as to such collateral federal income tax consequences.

The initial public offering price of the Bonds of maturing on May 15, 2032 (the "Discount Bonds") is less than the amount payable at maturity. An amount not less than the difference between the initial public offering price of the Discount Bonds and the amount payable at maturity constitutes original issue discount. We are of the opinion that the appropriate portion of such original issue discount allocable to the original and each subsequent holder of a Discount Bond will, upon sale, exchange, redemption or payment at maturity of such Discount Bond, be treated as interest and excluded from gross income for federal income tax purposes to the same extent as the stated interest on the Discount Bonds.

In providing this opinion, we advise you that it may be determined in the future that interest on the Bonds, retroactive to the date of issuance thereof or prospectively, will not be excluded from the gross income of the owners of the Bonds for federal income tax purposes if certain requirements of the Code are not met. The School District has covenanted in the Resolution to comply with such requirements.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

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**APPENDIX C**  
Financial Statements  
West Chester Area School District  
West Chester, Pennsylvania  
June 30, 2011

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*AUDIT REPORT*



# **WEST CHESTER AREA SCHOOL DISTRICT**

**West Chester, Pennsylvania**

**June 30, 2011**

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WEST CHESTER AREA SCHOOL DISTRICT

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WEST CHESTER AREA SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

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

November 14, 2011

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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, 2011, 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, 2011, 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 14, 2011 on our consideration of West Chester Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted

Board of School Directors  
West Chester Area School District

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**  
**June 30, 2011**

**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, 2011. 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**

- While revenues in 2010-2011 were relatively flat compared to the prior year, the prior year revenues represented historical lows. In response, the District continued cost-cutting measures to offset inflationary increases. As a result of these measures, savings achieved through debt refinancing almost completely offset all other cost increases.
- In the budgeting process, the Board of School Directors balanced the budget in 2010-2011 with a 0.51 mill increase (\$0.51 per \$1,000 of assessed value) to the taxpayers within Chester County. This represented a 2.9 percent increase in millage.
- On an entity-wide basis, the District's total net assets were \$38,397,434 at June 30, 2011. This represented an increase of \$5,989,123 from the prior year.
- On a fund level reporting basis, the District's General Fund total revenue, excluding other financing sources, increased by \$3,359,999, or 1.7 percent. This increase was driven primarily by the increase in real estate tax millage. Other local revenues had small gains or losses that were offsetting. State and federal revenues experienced a change. The Commonwealth of Pennsylvania changed its funding scheme for subsidies and reduced state education subsidies but replaced the funds with Federal American Recovery and Reinvestment Act (ARRA) funds. This resulted in decreases in state subsidies and offsetting increases in federal funds.
- On a fund reporting basis, compared to the prior year, the District's General Fund expenditures increased \$87,346, or 0.05 percent. The District made a commitment to avoid cutting instructional programs. This is evident in the \$2,852,701 increase in spending on instruction. Facilities spending also increased as a result of a management initiative to move more cyclical facilities expenditures to the General Fund budget. These increases in spending were almost completely offset by a \$3,197,377 decrease in debt service expenditures that were the result of effective debt management strategies.



**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

- The one-time savings achieved through debt management strategies was committed for healthcare cost fluctuations. Because the District has a self-insured health plan, the District experiences volatility in annual healthcare costs. To help smooth the effect of this volatility on the annual budget, the District established a reserve fund.

#### **OVERVIEW OF FINANCIAL STATEMENTS**

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

#### **Entity-wide Financial Statements**

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

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

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

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

To assess the overall health of the District, the reader needs to consider additional nonfinancial factors, such as changes in the District's property tax base and the performance of the students.

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

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

**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.

- **Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** - These funds are used to account for District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services generally are reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities reported in the entity-wide statements.
- **Fiduciary Funds** - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations.

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

**FINANCIAL ANALYSIS OF THE DISTRICT - ENTITY-WIDE STATEMENTS**

The District's total net assets were \$38,397,434 at June 30, 2011. This represents an increase of \$5,989,123 over the prior year. The table on the following page presents condensed financial information for the net assets of the District as of June 30, 2011 and 2010.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

**Statement of Net Assets**  
**June 30, 2011 and 2010**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 60,395,867	\$ 55,315,255	\$ 1,317,309	\$ 1,587,492	\$ 61,713,176	\$ 56,902,747
Capital assets	300,120,945	308,961,704	184,236	129,768	300,305,181	309,091,472
Other assets	2,240,744	1,936,944	-	-	2,240,744	1,936,944
<b>TOTAL ASSETS</b>	<b>362,757,556</b>	<b>366,213,903</b>	<b>1,501,545</b>	<b>1,717,260</b>	<b>364,259,101</b>	<b>367,931,163</b>
Current liabilities	32,872,927	32,352,414	299,413	589,934	33,172,340	32,942,348
Noncurrent liabilities	292,689,327	302,580,504	-	-	292,689,327	302,580,504
<b>TOTAL LIABILITIES</b>	<b>325,562,254</b>	<b>334,932,918</b>	<b>299,413</b>	<b>589,934</b>	<b>325,861,667</b>	<b>335,522,852</b>
Net assets:						
Invested in capital assets, net of related debt	7,083,089	9,418,873	184,236	129,768	7,267,325	9,548,641
Restricted for capital projects	14,506,078	13,811,178	-	-	14,506,078	13,811,178
Unrestricted	15,606,135	8,050,934	1,017,896	997,558	16,624,031	9,048,492
<b>TOTAL NET ASSETS</b>	<b>\$ 37,195,302</b>	<b>\$ 31,280,985</b>	<b>\$ 1,202,132</b>	<b>\$ 1,127,326</b>	<b>\$ 38,397,434</b>	<b>\$ 32,408,311</b>

The governmental activities restricted net assets in the amount of \$14,506,078 are set aside to fund the capital improvements, the replacement of and additions to public works and improvements, and for deferred maintenance. The total unrestricted net assets in the amount of \$10,785,388 included \$1,017,896 which could be used for capital and other expenditures within the District's food service program. The unrestricted net assets were 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 increased by \$3,602,841, or 1.8 percent. The majority of the increase was in property tax revenues. Property tax revenues which included current and interim real estate taxes increased \$3,206,534, or 2.3 percent, over the prior year. Other taxes, which included real estate transfer taxes and earned income taxes, increased by 2.0 percent, or \$391,725. Charges for services increased by 8.8 percent, or \$290,159. Expenses increased by \$1,477,460, or 0.8

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

percent. Increases were seen in instructional spending which increased \$4,904,165, or 4.3 percent, and in instructional student support (4.8 percent increase). These increases were partially offset by the decreases in interest on long-term debt (11.4 percent), which was the result of effective debt management strategies; and operation and maintenance of plant service (9.0 percent decrease) which is reflective of effective cost-cutting measures and regular spending dips in cyclical equipment replacement schedules.

**Statement of Activities**  
**For the Years Ended June 30, 2011 and 2010**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
<b>REVENUES</b>						
Program services:						
Charges for services	\$ 1,079,373	\$ 676,346	\$ 2,511,962	\$ 2,624,830	\$ 3,591,335	\$ 3,301,176
Operating grants and contributions	22,377,251	22,493,608	786,657	663,190	23,163,908	23,156,798
General revenues:						
Property taxes	145,008,645	141,802,111	-	-	145,008,645	141,802,111
Other taxes	19,764,970	19,373,245	-	-	19,764,970	19,373,245
Grants, subsidies and contributions not restricted	12,573,663	12,479,116	-	-	12,573,663	12,479,116
Other revenue	238,478	578,215	702	3,724	239,180	581,939
<b>TOTAL REVENUES</b>	<b>201,042,380</b>	<b>197,402,641</b>	<b>3,299,321</b>	<b>3,291,744</b>	<b>204,341,703</b>	<b>200,694,385</b>
<b>EXPENSES</b>						
Instruction	117,972,385	113,068,220	-	-	117,972,385	113,068,220
Instructional student support	15,740,734	15,022,492	-	-	15,740,734	15,022,492
Administrative/financial support	13,956,105	14,429,452	-	-	13,956,105	14,429,452
Operation and maintenance of plant services	17,729,991	19,486,401	-	-	17,729,991	19,486,401
Pupil transportation	13,469,612	13,674,801	-	-	13,469,612	13,674,801
Student activities	4,055,872	4,237,269	-	-	4,055,872	4,237,269
Community services	127,041	125,654	-	-	127,041	125,654
Interest on long-term debt	12,076,323	13,636,798	-	-	12,076,323	13,636,798
Food service	-	-	3,224,515	3,149,556	3,224,515	3,149,556
<b>TOTAL EXPENSES</b>	<b>195,128,063</b>	<b>193,681,087</b>	<b>3,224,515</b>	<b>3,149,566</b>	<b>198,352,580</b>	<b>196,830,643</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 5,914,317</b>	<b>\$ 3,721,554</b>	<b>\$ 74,806</b>	<b>\$ 142,188</b>	<b>\$ 5,989,123</b>	<b>\$ 3,863,742</b>

**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 increased by \$1,021,284, or 0.65 percent more than the prior year. The table for business-type activity reflects condensed financial activities of the food service program, the only business-type activity of the District.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b><u>Governmental-type Activities</u></b>				
Expenses - Governmental Activities:				
Instruction	\$117,972,385	\$113,068,220	\$101,389,094	\$ 98,908,834
Instructional student support	15,740,734	15,022,492	14,695,954	13,427,964
Administrative and financial support	13,956,105	14,429,452	13,956,105	13,879,769
Operation and maintenance of plant services	17,729,991	19,486,401	16,455,311	17,478,785
Pupil transportation	13,469,612	13,674,801	9,035,177	9,096,821
Student activities	4,055,872	4,237,269	3,936,434	4,078,413
Community services	127,041	125,654	127,041	3,749
Interest on long-term debt	<u>12,076,323</u>	<u>13,636,798</u>	<u>12,076,323</u>	<u>13,636,798</u>
<b>TOTAL EXPENSES</b>	<b><u>\$195,128,063</u></b>	<b><u>\$193,681,087</u></b>	<b>171,671,439</b>	<b>170,511,133</b>
Less: Grants, subsidies and contributions not restricted			<u>(12,573,663)</u>	<u>(12,479,116)</u>
<b>AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES</b>			<b><u>\$159,097,776</u></b>	<b><u>\$158,032,017</u></b>

**Business-type Activities**

Expenses - Business-type Activities:				
Food services	<u>\$ 3,224,517</u>	<u>\$ 3,149,556</u>	<u>\$ (74,104)</u>	<u>\$ (138,464)</u>

**THE DISTRICT FUNDS**

**General Fund**

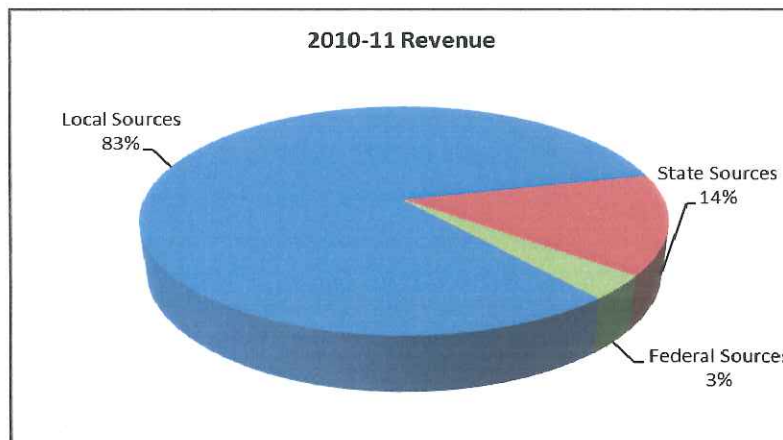
At June 30, 2011, the District reported a General Fund fund balance of \$18,462,684, which represents 9.6 percent of total expenditures and was an increase of \$6,391,679 over the prior year. Of this amount, the District committed \$1,558,100 for the purpose of healthcare rate stabilization. As a result 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 with a starting committed balance of \$1,558,100. In previous years, the District had committed \$1,200,000 for future pension needs. The School Board of West Chester Area School District consciously maintains a modest fund balance needed to respond to unforeseen contingencies. This philosophy was established during a healthy and growing economy within the District and accurate and timely forecasting which allows the District to constantly monitor economic trends within our community. This philosophy conforms to the Board's belief that the tax burden should be aligned with the current funding needs of the District.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

**REVENUE**

Revenues, excluding other financing sources, total \$200,193,748, an increase of \$3,359,999, or 1.7 percent over the prior year revenues. The table below reflects a comparison of current year revenues to prior year revenues:

	<u>Revenue 2011</u>	<u>Percentage of Total</u>	<u>Increase from 2010</u>	<u>Percentage Increase</u>
Local revenues	\$ 165,072,400	82.5%	\$ 3,130,121	1.9%
State sources	28,254,872	14.1%	(735,352)	-2.5%
Federal sources	<u>6,866,476</u>	<u>3.4%</u>	<u>965,230</u>	<u>16.4%</u>
	<u>\$ 200,193,748</u>	<u>100.0%</u>	<u>\$ 3,359,999</u>	<u>1.7%</u>



The increase in 2010-11 revenue is driven primarily by an increase in real estate tax millage. The 2010-11 tax rate for Chester County properties was 18.36 mills which was a 0.51 mill increase from the prior year tax rate. Earned income tax collections were up 3.8 percent, or \$622,735. These increases in tax revenue covered significant drops in other local revenues that were the result of the poor economy. Interest earnings dropped 58.9 percent, or \$169,555, from the very low prior year earnings. Real estate transfer taxes were down 8.9 percent, or \$240,844, and delinquent real estate tax collections decreased 15.4 percent, or \$510,515. In state revenues, state rental subsidy revenue dropped 30.4 percent, or \$470,025, as the result of bond refinancing. The District also experienced a \$130,678, or 2.9 percent, drop in the state transportation subsidy. The state retirement subsidy increased \$367,907 which is reflective of the increase in expenditures due to increases in the employer contribution rate. The other significant change in revenue collections affected the state and federal subsidies revenues. The Commonwealth of Pennsylvania continued its initiative to use the federal ARRA funds to provide a portion of the 2010-11 basic education subsidy. In addition to the

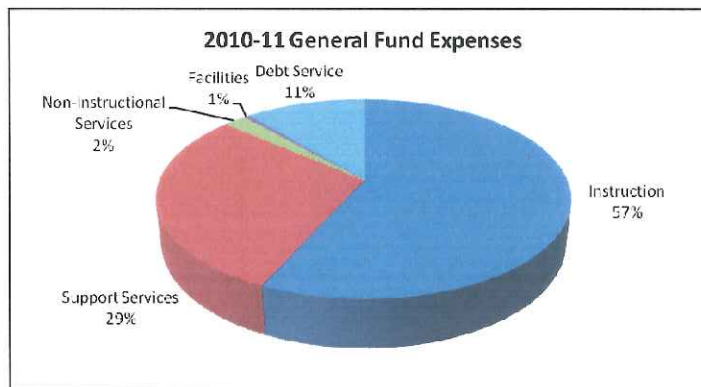
**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

original planned ARRA funding, the state allocated another \$494,143 in ARRA Educational Jobs funds to the District which replaced state funds. The result was a reduction in state revenues and an increase in federal revenues in the amount of \$494,143 through the Education Jobs program. The District also received an additional \$181,391 in Title I ARRA funds which were passed through to the Glen Mills School, \$151,695 in additional IDEA ARRA funds and \$234,363 in additional Title II funds for the District's use.

**EXPENDITURES**

General Fund expenditures, excluding transfers to other governmental funds, totaled \$191,447,860. This was a small increase of \$87,345 over the 2009-2010 expenditures, and it was \$11,760,281 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 2010-2011 budget, are as follows:

	Expenditures 2011	Percentage of Total	Increase from 2010	Variance with Final Budget
Instruction	\$ 108,712,731	56.8%	\$ 2,852,701	\$ 3,835,558
Support services	56,487,346	29.5%	(219,042)	3,792,279
Noninstructional services	3,998,182	2.1%	30,728	682,993
Facilities acquisition and construction	1,010,208	0.5%	620,335	(315,669)
Debt service	21,239,393	11.1%	(3,197,377)	3,765,120
<b>TOTAL EXPENDITURES BY FUNCTION</b>	<b>\$ 191,447,860</b>	<b>100.0%</b>	<b>\$ 87,345</b>	<b>\$ 11,760,281</b>



The increase in General Fund expenditures from the prior year is due largely to cost-of-living increases. One important factor in these cost-of-living increases was the increase in the state-mandated employer pension rate. In 2010-2011, the state increased the employer pension contribution rate from 4.78 percent to 5.64 percent. Drops in debt service and the steady spending in support service

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

expenditures were the direct result of management efforts to cut costs and services. These efforts were taken to better balance the actual expenditures with the falling revenues. Facilities acquisition, construction and improvement spending in the General Fund increased by \$620,335, which was greater than the approved budget. This increase in General Fund facility spending is the result of a management decision to allocate more cyclical maintenance expenditures to the operating funds.

**Capital Projects Fund**

At June 30, 2011, the District reported a fund balance of \$5,933,343, which was a decrease of \$2,383,459 from June 30, 2010. 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 and various other capital improvements. Additionally, the General Fund transferred funds in the amount of \$94,700 to cover the cost of future capital outlays. These cash inflows were offset by \$2,478,159 in cash outflows primarily for the final secondary school renovation payments and design costs of the elementary school renovations.

**Capital Reserve Fund**

The Capital Reserve Fund had a fund balance of \$14,506,078 at June 30, 2011 which was a \$694,900 increase from the prior year. The Capital Reserve Fund is funded by transfers from the General Fund. In 2010-2011, the capital outflows from the Capital Reserve Fund were spent on technology replacements. The Capital Reserve Fund received a transfer in of \$2,582,101 from the General Fund. This transfer represented the interest savings achieved by refinancing two existing bond issues.

**GENERAL FUND BUDGET**

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are 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, it was evident that the downturn in the economy would take a more serious toll on the District's revenues than originally expected. In reaction to this anticipated drop in revenues, the District scaled back spending on all areas when possible. This is evident when reviewing the District's actual revenue and expenditures versus the approved budget. Total revenues were under budgeted amounts by \$1,922,452, or 1.0 percent. Total expenditures were under budget by \$11,760,281, or 5.8 percent.



**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

**CAPITAL ASSETS**

At June 30, 2011, the District had \$300,120,945 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 \$8,840,759, or 2.9 percent from last year.

The following schedule depicts the change in capital assets for the period July 1, 2010 through June 30, 2011.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital assets:					
Land	\$ 33,139,690	\$ 390,484	\$ 370,374	\$ -	\$ 33,159,800
Land improvements	9,245,746	11,843	-	5,195,062	14,452,651
Buildings	332,513,388	285,399	-	27,330,867	360,129,654
Construction-in-progress	31,741,721	2,499,315	-	(32,525,929)	1,715,107
Furniture and equipment	31,886,521	853,623	1,026,701	-	31,713,443
<b>TOTAL CAPITAL ASSETS</b>	<u>438,527,066</u>	<u>4,040,664</u>	<u>1,397,075</u>	<u>-</u>	<u>441,170,655</u>
Accumulated depreciation for:					
Land improvements	2,391,209	590,362	-	-	2,981,571
Buildings	101,463,513	9,318,238	-	-	110,781,751
Furniture and equipment	25,710,640	2,602,449	1,026,701	-	27,286,388
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>129,565,362</u>	<u>12,511,049</u>	<u>1,026,701</u>	<u>-</u>	<u>141,049,710</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
<b>CAPITAL ASSETS, NET</b>	<u>\$ 308,961,704</u>	<u>\$(8,470,385)</u>	<u>\$ 370,374</u>	<u>\$ -</u>	<u>\$ 300,120,945</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Capital assets:					
Furniture and equipment	\$ 428,348	\$ 100,151	\$ -	\$ -	\$ 528,499
<b>TOTAL CAPITAL ASSETS</b>	<u>428,348</u>	<u>100,151</u>	<u>-</u>	<u>-</u>	<u>528,499</u>
Accumulated depreciation for:					
Furniture and equipment	298,580	45,683	-	-	344,263
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>298,580</u>	<u>45,683</u>	<u>-</u>	<u>-</u>	<u>344,263</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
<b>CAPITAL ASSETS, NET</b>	<u>\$ 129,768</u>	<u>\$ 54,468</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,236</u>

**DEBT ADMINISTRATION**

As of June 30, 2011, the District had total outstanding bonds and related charges of \$298,971,199, a decrease of \$8,888,434 over last year. During 2010-2011, the District refinanced \$35,730,000 in outstanding debt to take advantage of the favorable financing market conditions. The District incurred no new debt in 2010-2011. Based upon a projection of future debt margins, the retirement of principal on current issues and estimated future borrowing, the District is certain that it will not exceed its debt limit.

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

**Debt Service Schedule**  
**June 30, 2011**

	Principal Outstanding July 1, 2010	Maturities/ Refinancing	Additions	Principal Outstanding June 30, 2011
General obligation note, Series B of 2000	\$ 6,618,000	\$ 969,000	\$ -	\$ 5,649,000
General obligation bonds, Series of 2002	2,485,000	1,220,000	-	1,265,000
General obligation bonds, Series of 2003	29,970,000	29,970,000	-	-
General obligation bonds, Series A of 2005	7,360,000	7,360,000	-	-
General obligation bonds, Series of 2006	34,980,000	5,000	-	34,975,000
General obligation bonds, Series A of 2006	100,700,000	1,830,000	-	98,870,000
General obligation bonds, Series AA of 2006	13,455,000	1,635,000	-	11,820,000
General obligation bonds, Refunding Series of 2006	22,020,000	115,000	-	21,905,000
General obligation bonds, Refunding Series A of 2006	37,550,000	135,000	-	37,415,000
General obligation bonds, Series of 2007	9,655,000	355,000	-	9,300,000
General obligation bonds, Refunding Series of 2009	5,410,000	1,010,000	-	4,400,000
General obligation note, Series of 2009	10,000,000	5,000	-	9,995,000
General obligation bonds, Refunding Series of 2010	22,330,000	2,065,000	-	20,265,000
General obligation bonds, Refunding Series A of 2010	-	50,000	7,510,000	7,460,000
General obligation bonds, Refunding Series AA of 2010	-	-	28,220,000	28,220,000
	<u>302,533,000</u>	<u>46,724,000</u>	<u>35,730,000</u>	<u>291,539,000</u>
Deferred amounts:				
Issuance (discounts) premium	5,200,635	517,381	2,640,947	7,324,201
Refunding deferred charge	<u>125,998</u>	<u>18,000</u>	<u>-</u>	<u>107,998</u>
<b>LONG-TERM DEBT</b>	<b><u>\$ 307,859,633</u></b>	<b><u>\$ 47,259,381</u></b>	<b><u>\$ 38,370,947</u></b>	<b><u>\$ 298,971,199</u></b>

**OTHER LONG-TERM LIABILITIES**

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

**THE DISTRICT'S FUTURE**

In 2010-2011, the District started developing 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 recently completed. While work on this plan continues, the District is cautious in this plan development due to the current financial environment. The District has always exercised caution in a conservative approach to borrowing, including waiting until long-term bonds (20-year notes) were capable of being sold at advantageous, fixed rates of interest.

The 2010-2011 fiscal year provided a number of challenges. First, the poor economy kept local revenues at historical lows. Earned income tax revenues and investment earnings increased slightly from the prior year collections but these collections were far below collections from two years ago. Additionally, falling residential and commercial property values led to more successful assessment appeals and a reduction in the tax base. In the near future, the District is not optimistic about the recovery of these revenue streams and, therefore, the 2011-2012 budget was crafted conservatively. Adding to the economic concerns, retirement rates started their climb in 2010-2011 and are expected to increase for the next 11 years. Rates increased from 5.64 percent in 2010-2011 to 8.65 percent in 2011-2012 and are projected to increase a maximum of 4.5 percent annually every year until 2020-2021. To assist with this issue, the District established a reserve fund to help finance this dramatic increase in pension costs. Along the same lines, the District's self-insured health insurance costs are difficult to forecast. To help smooth the impact of these increases and decreases in costs, the District established a health insurance reserve. Lastly, 2011-2012 marked the end of the American Recovery and Reinvestment Act funding. While these revenue cuts were expected and budgeted, state budget restrictions lead to another \$3.5 million in unexpected cuts.

As a result of these decreases in revenues and increases in current and future expenses, the District continued to re-evaluate all budgets during the 2011-2012 budget development process. Recommendations of the Community Budget Task Force resulted in budget reductions of more than \$3.5 million in the 2011-2012 budget including a \$1 million savings gained through a consolidated transportation plan. Through these cuts and the use of \$2.8 million of budgetary reserves, the District was able to balance the budget with no tax increase in 2011-2012.

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

**STRATEGIC PLAN**

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**June 30, 2011**

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

This Strategic Plan is a six-year comprehensive plan that will be in place through 2014.

The Strategic Planning Committee met on Thursday August 25, 2011 to conduct a progress report for the plan. Information was presented to the West Chester Area School District Board at its Education Committee on Monday, September 12, 2011.

The Strategic Plan is the guide to ensure we keep the focus on students and learning.

**FINANCIAL MANAGEMENT**

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

**WEST CHESTER AREA SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 21,186,043	\$ 55,762	\$ 21,241,805
Investments	29,800,981	1,207,361	31,008,342
Due from other governments	1,738,483	31,765	1,770,248
Other receivables	665,398	8,401	673,799
Taxes receivable	5,038,789	-	5,038,789
Prepaid expenses	1,966,173	-	1,966,173
Inventories	-	14,020	14,020
Total Current Assets	<u>60,395,867</u>	<u>1,317,309</u>	<u>61,713,176</u>
<b>Noncurrent Assets:</b>			
Bond issuance costs	2,099,265	-	2,099,265
Other post-employment benefits	141,479	-	141,479
<b>Capital assets</b>			
Land	33,159,800	-	33,159,800
Construction-in-progress	1,715,107	-	1,715,107
Land improvements	14,452,651	-	14,452,651
Buildings	360,129,654	-	360,129,654
Furniture and equipment	31,713,443	528,499	32,241,942
Less: Accumulated depreciation	(141,049,710)	(344,263)	(141,393,973)
Total Noncurrent Assets	<u>302,361,689</u>	<u>184,236</u>	<u>302,545,925</u>
<b>TOTAL ASSETS</b>	<u><u>\$362,757,556</u></u>	<u><u>\$ 1,501,545</u></u>	<u><u>\$364,259,101</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable and other current liabilities	\$ 18,041,988	\$ 227,318	\$ 18,269,306
Accrued interest	2,252,622	-	2,252,622
Deferred revenues	19,317	72,095	91,412
Bonds and notes payable	12,559,000	-	12,559,000
Total Current Liabilities	<u>32,872,927</u>	<u>299,413</u>	<u>33,172,340</u>
<b>Noncurrent Liabilities:</b>			
Bonds and notes payable	286,412,199	-	286,412,199
Accrued severance and compensated absences	6,277,128	-	6,277,128
Total Noncurrent Liabilities	<u>292,689,327</u>	<u>-</u>	<u>292,689,327</u>
<b>TOTAL LIABILITIES</b>	<u>325,562,254</u>	<u>299,413</u>	<u>325,861,667</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,083,089	184,236	7,267,325
Restricted	14,506,078	-	14,506,078
Unrestricted	15,606,135	1,017,896	16,624,031
TOTAL NET ASSETS	<u>37,195,302</u>	<u>1,202,132</u>	<u>38,397,434</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$362,757,556</u></u>	<u><u>\$ 1,501,545</u></u>	<u><u>\$364,259,101</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, 2011**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
<b>PRIMARY GOVERNMENT</b>							
<b>GOVERNMENTAL ACTIVITIES:</b>							
Instruction	\$117,972,385	\$ 759,951	\$15,823,340	\$ -	\$(101,389,094)	\$ -	\$(101,389,094)
Instructional student support	15,740,734	-	1,044,780	-	(14,695,954)	-	(14,695,954)
Administrative and financial support services	13,956,105	-	-	-	(13,956,105)	-	(13,956,105)
Operation and maintenance of plant services	17,729,991	199,984	1,074,696	-	(16,455,311)	-	(16,455,311)
Pupil transportation	13,469,612	-	4,434,435	-	(9,035,177)	-	(9,035,177)
Student activities	4,055,872	119,438	-	-	(3,936,434)	-	(3,936,434)
Community services	127,041	-	-	-	(127,041)	-	(127,041)
Interest on long-term debt	12,076,323	-	-	-	(12,076,323)	-	(12,076,323)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>195,128,063</b>	<b>1,079,373</b>	<b>22,377,251</b>	<b>-</b>	<b>(171,671,439)</b>	<b>-</b>	<b>(171,671,439)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Food service	3,224,517	2,511,962	786,659	-	-	74,104	74,104
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$198,352,580</b>	<b>\$ 3,591,335</b>	<b>\$ 23,163,910</b>	<b>\$ -</b>	<b>(171,671,439)</b>	<b>74,104</b>	<b>(171,597,335)</b>
<b>GENERAL REVENUES</b>							
Property taxes, levied for general purposes					145,008,645	-	145,008,645
Taxes levied for specific purposes					19,764,970	-	19,764,970
Grants, entitlements and contributions not restricted to specific programs					12,573,663	-	12,573,663
Investment earnings					135,070	702	135,772
Other					103,408	-	103,408
<b>TOTAL GENERAL REVENUES</b>					<b>177,585,756</b>	<b>702</b>	<b>177,586,458</b>
<b>CHANGE IN NET ASSETS</b>					5,914,317	74,806	5,989,123
<b>NET ASSETS, BEGINNING OF YEAR</b>					<b>31,280,985</b>	<b>1,127,326</b>	<b>32,408,311</b>
<b>NET ASSETS, END OF YEAR</b>					<b>\$ 37,195,302</b>	<b>\$1,202,132</b>	<b>\$ 38,397,434</b>

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

**WEST CHESTER AREA SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Fund</u>	<u>Totals</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 18,032,199	\$ 376,191	\$ 2,777,653	-	\$ 21,186,043
Investments	12,238,176	5,907,717	11,655,088	-	29,800,981
Taxes receivable	5,038,789	-	-	-	5,038,789
Due from other funds	56,471	-	-	-	56,471
Due from other governments	1,738,483	-	-	-	1,738,483
Other receivables	665,398	-	-	-	665,398
Prepaid expenses	1,839,248	-	126,925	-	1,966,173
<b>TOTAL ASSETS</b>	<u>\$ 39,608,764</u>	<u>\$ 6,283,908</u>	<u>\$ 14,559,666</u>	<u>\$ -</u>	<u>\$ 60,452,338</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts payable and accrued liabilities	\$ 5,221,831	\$ 330,084	\$ 7,960	-	\$ 5,559,875
Due to other funds	-	10,843	45,628	-	56,471
Payroll accruals and withholdings	12,472,475	9,638	-	-	12,482,113
Deferred revenue	3,451,774	-	-	-	3,451,774
<b>TOTAL LIABILITIES</b>	<u>21,146,080</u>	<u>350,565</u>	<u>53,588</u>	<u>-</u>	<u>21,550,233</u>
<b>FUND BALANCES:</b>					
Restricted	-	5,838,643	14,506,078	-	20,344,721
Committed	2,758,100	-	-	-	2,758,100
Assigned	95,549	94,700	-	-	190,249
Unassigned	15,609,035	-	-	-	15,609,035
<b>TOTAL FUND BALANCES</b>	<u>18,462,684</u>	<u>5,933,343</u>	<u>14,506,078</u>	<u>-</u>	<u>38,902,105</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 39,608,764</u>	<u>\$ 6,283,908</u>	<u>\$ 14,559,666</u>	<u>\$ -</u>	<u>\$ 60,452,338</u>

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

**WEST CHESTER AREA SCHOOL DISTRICT  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
TO STATEMENT OF NET ASSETS  
JUNE 30, 2011**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 38,902,105

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of assets was \$441,170,655 and the accumulated depreciation was \$141,049,710. 300,120,945

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. 3,432,457

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 2,099,265

Other post-employment benefits (OPEB) assets are not financial resources and therefore are not reported in the governmental funds. 141,479

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	\$ (2,252,622)	
Bonds and notes payable in future years	(298,971,199)	
Accumulated compensated absences	<u>(6,277,128)</u>	<u>(307,500,949)</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 37,195,302

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, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Other Governmental Fund</u>	<u>Totals</u>
<b>REVENUES</b>					
Local sources	\$ 165,072,400	-	\$ 19,075	-	\$ 165,091,475
State sources	28,254,872	-	-	-	28,254,872
Federal sources	6,866,476	-	-	-	6,866,476
<b>TOTAL REVENUES</b>	<u>200,193,748</u>	<u>-</u>	<u>19,075</u>	<u>-</u>	<u>200,212,823</u>
<b>EXPENDITURES</b>					
Current:					
Instruction	108,712,731	-	1,223,590	-	109,936,321
Support services	56,487,346	111,383	83,481	-	56,682,210
Operation of noninstructional services	3,998,182	-	-	-	3,998,182
Debt service:					
Principal, interest and fiscal agent fees	21,239,393	-	-	1,040,946	22,280,339
Capital outlays	1,010,208	2,366,776	602,405	-	3,979,389
<b>TOTAL EXPENDITURES</b>	<u>191,447,860</u>	<u>2,478,159</u>	<u>1,909,476</u>	<u>1,040,946</u>	<u>196,876,441</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>8,745,888</u>	<u>(2,478,159)</u>	<u>(1,890,401)</u>	<u>(1,040,946)</u>	<u>3,336,382</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Refund of prior year revenues	(1,760)	-	-	-	(1,760)
Refund of prior year expenditures	1,653	-	-	-	1,653
Proceeds from long-term debt	-	-	-	35,730,000	35,730,000
Payment to refund bonds	-	-	-	(37,330,000)	(37,330,000)
Premiums on bonds issued	-	-	-	2,640,946	2,640,946
Proceeds from sale of assets	322,699	-	3,200	-	325,899
Transfers in	-	94,700	2,582,101	-	2,676,801
Transfers out	(2,676,801)	-	-	-	(2,676,801)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,354,209)</u>	<u>94,700</u>	<u>2,585,301</u>	<u>1,040,946</u>	<u>1,366,738</u>
<b>NET CHANGE IN FUND BALANCES</b>	6,391,679	(2,383,459)	694,900	-	4,703,120
<b>FUND BALANCES, BEGINNING OF YEAR</b>	12,071,005	8,316,802	13,811,178	-	34,198,985
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 18,462,684</u>	<u>\$ 5,933,343</u>	<u>\$ 14,506,078</u>	<u>\$ -</u>	<u>\$ 38,902,105</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, 2011**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 4,703,120

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	\$ 4,040,664	
Depreciation expense	(12,511,049)	
Land disposition	<u>(370,374)</u>	(8,840,759)

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	982,098	
Other post-employment benefits	141,479	
Deferred federal subsidies	<u>(152,435)</u>	971,142

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

Debt issuance	(35,730,000)	
Refunded debt	37,330,000	
Principal repayments	<u>9,394,000</u>	10,994,000

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

(1,943,245)

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.

(82,257)

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.

112,316

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 5,914,317

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, 2011**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 167,118,417	\$ 165,958,517	\$ 165,072,400	\$ (886,117)
State sources	31,898,514	31,898,514	28,254,872	(3,643,642)
Federal sources	2,967,869	4,259,169	6,866,476	2,607,307
<b>TOTAL REVENUES</b>	<u>201,984,800</u>	<u>202,116,200</u>	<u>200,193,748</u>	<u>(1,922,452)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction				
Regular programs, elementary/secondary	81,026,614	78,606,075	76,804,108	1,801,967
Special programs, elementary/secondary	27,127,596	28,457,235	26,822,298	1,634,937
Vocational education programs	4,855,383	4,787,749	4,479,351	308,398
Other instructional programs	197,047	635,587	554,069	81,518
Nonpublic school programs	-	32,269	31,549	720
Adult education programs	31,359	29,374	21,356	8,018
Total Instruction	<u>113,237,999</u>	<u>112,548,289</u>	<u>108,712,731</u>	<u>3,835,558</u>
Support services				
Pupil personnel	7,503,790	7,452,945	7,169,537	283,408
Instructional staff	5,776,234	5,888,403	5,601,386	287,017
Administration	10,571,150	10,567,760	9,970,175	597,585
Pupil health	2,066,948	2,026,161	1,950,128	76,033
Business	1,539,018	1,567,254	1,433,614	133,640
Operation and maintenance of plant services	17,163,625	16,539,467	15,320,913	1,218,554
Student transportation services	13,531,365	13,598,525	12,970,008	628,517
Central	2,328,967	2,492,110	1,936,078	556,032
Other support services	147,000	147,000	135,507	11,493
Total Support Services	<u>60,628,097</u>	<u>60,279,625</u>	<u>56,487,346</u>	<u>3,792,279</u>
Operation of noninstructional services				
Student activities	4,454,599	4,579,131	3,909,060	670,071
Community services	107,636	102,044	89,122	12,922
Total Operation of Noninstructional Services	<u>4,562,235</u>	<u>4,681,175</u>	<u>3,998,182</u>	<u>682,993</u>
Facilities acquisition				
Site acquisition	687,000	694,539	1,010,208	(315,669)
Debt service				
Principal, interest and fiscal agent fees	23,961,310	25,004,513	21,239,393	3,765,120
<b>TOTAL EXPENDITURES</b>	<u>203,076,641</u>	<u>203,208,141</u>	<u>191,447,860</u>	<u>11,760,281</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,091,841)</u>	<u>(1,091,941)</u>	<u>8,745,888</u>	<u>9,837,829</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refund of prior year revenues	-	(65,000)	(1,760)	63,240
Refund of prior year expenditures	-	-	1,653	1,653
Proceeds from sale of assets	-	-	322,699	322,699
Transfers in	89,500	-	-	-
Transfers out	-	(2,676,801)	(2,676,801)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>89,500</u>	<u>(2,741,801)</u>	<u>(2,354,209)</u>	<u>387,592</u>
<b>NET CHANGE IN FUND BALANCE (DEFICIT)</b>	<u>(1,002,341)</u>	<u>(3,833,742)</u>	<u>6,391,679</u>	<u>10,225,421</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>12,071,005</u>	<u>12,071,005</u>	<u>12,071,005</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 11,068,664</u>	<u>\$ 8,237,263</u>	<u>\$ 18,462,684</u>	<u>\$10,225,421</u>

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

**WEST CHESTER AREA SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - PROPRIETARY FUND  
JUNE 30, 2011**

	<u>Food Service Fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 55,762
Investments	1,207,361
Due from other governments	31,765
Other receivables	8,401
Inventories	<u>14,020</u>
TOTAL CURRENT ASSETS	1,317,309
 <b>CAPITAL ASSETS:</b>	
Furniture and equipment, net	<u>184,236</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,501,545</u></u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable and accrued liabilities	\$ 227,318
Deferred revenue	<u>72,095</u>
TOTAL LIABILITIES	<u>299,413</u>
 <b>NET ASSETS:</b>	
Invested in capital assets	184,236
Unrestricted	<u>1,017,896</u>
TOTAL NET ASSETS	<u>1,202,132</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$ 1,501,545</u></u>

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Food Service Fund</u>
<b>OPERATING REVENUES</b>	
Food service revenues	\$ 2,511,962
<b>TOTAL OPERATING REVENUES</b>	<u>2,511,962</u>
 <b>OPERATING EXPENSES</b>	
Professional and contract services	3,137,753
Depreciation	45,683
Other operating costs	41,081
<b>TOTAL OPERATING EXPENSES</b>	<u>3,224,517</u>
 <b>OPERATING LOSS</b>	<u>(712,555)</u>
 <b>NONOPERATING REVENUES</b>	
State sources	68,843
Federal sources	694,384
Local sources	23,432
Interest income	702
<b>TOTAL NONOPERATING REVENUES</b>	<u>787,361</u>
 <b>CHANGE IN NET ASSETS</b>	74,806
 <b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,127,326</u>
 <b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 1,202,132</u></u>

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

**WEST CHESTER AREA SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Food Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 2,524,647
Payments to suppliers	<u>(3,493,301)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(968,654)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
State sources	69,273
Federal sources	570,839
Local sources	<u>23,432</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>663,544</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchase of capital assets	<u>(100,151)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(100,151)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Sale of investment securities and deposits to investment pools	432,736
Interest income	<u>702</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>433,438</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	28,177
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>27,585</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 55,762</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (712,555)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	45,683
Changes in assets and liabilities:	
Decrease in other receivables	2,759
(Increase) in inventories	(14,020)
(Decrease) in accounts payable and accrued liabilities	(314,467)
Increase in deferred revenue	<u>23,946</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>\$ (968,654)</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>	
<b>NONCASH NONCAPITAL FINANCING ACTIVITY:</b>	
USDA donated commodities	<u>\$ 118,138</u>

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

**WEST CHESTER AREA SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS - FIDUCIARY FUNDS**  
**JUNE 30, 2011**

	Student Activity Funds	Other Agency Fund	Total Agency Funds	Private- Purpose Trust
<b>ASSETS</b>				
Cash and cash equivalents	\$ 252,812	\$ 50,881	\$ 303,693	\$ 576,555
Other receivables	<u>-</u>	<u>39,774</u>	<u>39,774</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 252,812</u>	<u>\$ 90,655</u>	<u>\$ 343,467</u>	<u>\$ 576,555</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Other current liabilities	\$ 252,812	\$ 90,655	\$ 343,467	\$ -
<b>TOTAL LIABILITIES</b>	<u>252,812</u>	<u>90,655</u>	<u>343,467</u>	<u>-</u>
<b>NET ASSETS:</b>				
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>576,555</u>
<b>TOTAL NET ASSETS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>576,555</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 252,812</u>	<u>\$ 90,655</u>	<u>\$ 343,467</u>	<u>\$ 576,555</u>

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

**WEST CHESTER AREA SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Private- Purpose Trust</u>
ADDITIONS	
Gifts and contributions	<u>\$ 909,329</u>
TOTAL ADDITIONS	<u>909,329</u>
DEDUCTIONS	
Grants	<u>857,538</u>
TOTAL DEDUCTIONS	<u>857,538</u>
CHANGE IN NET ASSETS	51,791
NET ASSETS, BEGINNING OF YEAR	<u>524,764</u>
NET ASSETS, END OF YEAR	<u><u>\$ 576,555</u></u>

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



WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Entity-wide and Fund Financial Statements

The entity-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds even though the latter are excluded from the entity-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and, therefore, have been recognized as revenues of the current fiscal period. Only a portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major government funds:

**General Fund** - The General Fund is the District's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. In 2010-2011, the athletic fund (nonmajor governmental fund) was eliminated and consolidated with the general fund.

**Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources to be used or the acquisition or construction of major capital assets other than those financed by enterprise operations.

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

The District reports the following major proprietary fund:

**Food Service Fund** - The Food Service Fund (an Enterprise Fund) is used to account for the operations of the District's school cafeterias that are financed and operated in a manner similar to a private business enterprise wherein the intent of the governing body is that the cost of providing goods or services to the school population on a continuing basis will be recovered or financed primarily through user charges.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Additionally, the District reports the following fund types:

***Fiduciary Funds*** - Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations or other governments. These include private-purpose trust funds and agency funds. Private-purpose trust funds account for resources, including both principal and earnings, which must be expended in accordance with a trust agreement and are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial and thus do not involve measurement of the results of operations.

For purposes of the statement of cash flows of proprietary funds, cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

***Deposits and Investments***

Under Section 440-1 of the Public School code of 1949, as amended, the District is permitted to invest funds consistent with sound business practices in the following types of investments:

- Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America; (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth; or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation ("FDIC") or the Federal Savings and Loan Insurance Corporation ("FSLIC") to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

***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, 2011.

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		

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings	20-40 years
Land improvements	20 years
Furniture and equipment	3-10 years

**Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid accumulated sick leave is accounted for in the accrued severance pay. This time is paid out only through severance pay calculations.

District employees who are required to work on a 12-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation must be taken in the year subsequent to when it was earned. If separation of service occurs in the year subsequent to earning, then the unused balance of the amount earned in the prior year is paid at separation. The liability at June 30 represents vacation earned at that date that will be taken in the subsequent year.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

***Accrued Severance Pay***

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

***Long-term Obligations***

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

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

***Fund Equity***

As of June 30, 2011, fund balances of the governmental funds are classified, if applicable, as follows:

*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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

*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.

As of June 30, 2011, 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>
Restricted:				
Capital projects	\$ -	\$ 5,838,643	\$ 14,506,078	\$ 20,344,721
Committed:				
PSERS	1,200,000	-	-	1,200,000
Healthcare	1,558,100	-	-	1,558,100
Assigned:				
Renovations	-	94,700	-	94,700
Gate receipts	95,549	-	-	95,549
Unassigned	<u>15,609,035</u>	<u>-</u>	<u>-</u>	<u>15,609,035</u>
Total fund balances	<u>\$ 18,462,684</u>	<u>\$ 5,933,343</u>	<u>\$ 14,506,078</u>	<u>\$ 38,902,105</u>

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.

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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 BUDGETARY INFORMATION (cont'd)

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

NOTE 3 DEPOSITS

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk. At June 30, 2011, the carrying amount of the District's deposits was \$22,122,053 and the bank balance was \$23,048,762. Of the bank balance, \$500,000 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.

As of June 2011, the District had the following investments.

Pooled Investments:

Pennsylvania School District Liquid Asset Fund ("PSDLAF")	
General fund accounts	\$ 8,238,612
Capital reserve fund account	11,562,880
Total Pennsylvania School District Liquid Asset Fund	<u>19,801,492</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS (cont'd)

(continued)

Pennsylvania Local Government Investment Trust ("PLGIT")	
Capital project fund account	5,907,717
Capital reserve fund account	13,889
Total Pennsylvania Local Government Investment Trust	<u>5,921,606</u>
Pennsylvania Treasurer's Investment Program ("PTIP")	
General fund account	3,999,564
Capital reserve fund account	78,319
Food service fund account	1,207,361
Total Pennsylvania Treasurer's Investment Program	<u>5,285,244</u>
<b>TOTAL POOLED INVESTMENTS</b>	<b><u>\$ 31,008,342</u></b>

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, 2011, 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	\$ 3,725,114
Transfer taxes	278,470
Earned income taxes	<u>1,035,205</u>
Net Taxes Receivable	<u>\$ 5,038,789</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	\$ 3,432,457
Other deferred revenue	<u>19,317</u>
<b>TOTAL</b>	<b><u>\$ 3,451,774</u></b>



WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital assets not being depreciated:					
Land	\$ 33,139,690	\$ 390,484	\$ 370,374	\$ -	\$ 33,159,800
Construction-in-progress	31,741,721	2,499,315	-	(32,525,929)	1,715,107
Total Capital Assets Not Being Depreciated	<u>64,881,411</u>	<u>2,889,799</u>	<u>370,374</u>	<u>(32,525,929)</u>	<u>34,874,907</u>
Capital assets being depreciated:					
Land improvements	9,245,746	11,843	-	5,195,062	14,452,651
Buildings	332,513,388	285,399	-	27,330,867	360,129,654
Furniture and equipment	31,886,521	853,623	1,026,701	-	31,713,443
Total Capital Assets Being Depreciated	<u>373,645,655</u>	<u>1,150,865</u>	<u>1,026,701</u>	<u>32,525,929</u>	<u>406,295,748</u>
Accumulated depreciation for:					
Land improvements	2,391,209	590,362	-	-	2,981,571
Buildings	101,463,513	9,318,238	-	-	110,781,751
Furniture and equipment	25,710,640	2,602,449	1,026,701	-	27,286,388
Total accumulated depreciation	<u>129,565,362</u>	<u>12,511,049</u>	<u>1,026,701</u>	<u>-</u>	<u>141,049,710</u>
Total Capital Assets Being Depreciated, Net	<u>244,080,293</u>	<u>(11,360,184)</u>	<u>370,374</u>	<u>32,525,929</u>	<u>265,246,038</u>
Governmental Activities, Net	<u>\$308,961,704</u>	<u>\$ (8,470,385)</u>	<u>\$ 370,374</u>	<u>\$ -</u>	<u>\$300,120,945</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Capital assets:					
Furniture and equipment	\$ 428,348	\$ 100,151	\$ -	\$ -	\$ 528,499
Total Capital Assets	<u>428,348</u>	<u>100,151</u>	<u>-</u>	<u>-</u>	<u>528,499</u>
Accumulated depreciation for:					
Furniture and equipment	298,580	45,683	-	-	344,263
Total Accumulated Depreciation	<u>298,580</u>	<u>45,683</u>	<u>-</u>	<u>-</u>	<u>344,263</u>
Business-type Activities					
Capital Assets, Net	<u>\$ 129,768</u>	<u>\$ 54,468</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,236</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 CAPITAL ASSETS (cont'd)

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

Governmental activities:	
Instruction	\$ 7,792,157
Instructional student support	1,094,498
Administrative and financial support services	1,092,002
Operation and maintenance of plant services	1,314,506
Pupil transportation	928,252
Student activities	280,880
Community services	<u>8,754</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 12,511,049</u>
Business-type Activities - Food Service	<u>\$ 45,683</u>

NOTE 7 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2011 is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	\$ 56,471	\$ -
Capital reserve fund	-	45,628
Capital projects fund	-	10,843
TOTAL	<u>\$ 56,471</u>	<u>\$ 56,471</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 \$94,700 and \$2,582,101 to the capital projects and capital reserve funds, respectively, for the year ended June 30, 2011.

NOTE 8 LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2011:

	<u>Principal Outstanding July 1, 2010</u>	<u>Maturities/ Refinancing</u>	<u>Additions</u>	<u>Principal Outstanding June 30, 2011</u>
General obligation note, Series B of 2000	\$ 6,618,000	\$ 969,000	\$ -	\$ 5,649,000
General obligation bonds, Series of 2002	2,485,000	1,220,000	-	1,265,000
General obligation bonds, Series of 2003	29,970,000	29,970,000	-	-
General obligation bonds, Series A of 2005	7,360,000	7,360,000	-	-

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (cont'd)

(continued)	Principal Outstanding July 1, 2010	Maturities/ Refinancing	Additions	Principal Outstanding June 30, 2011
General obligation bonds, Series of 2006	34,980,000	5,000	-	34,975,000
General obligation bonds, Series A of 2006	100,700,000	1,830,000	-	98,870,000
General obligation bonds, Series AA of 2006	13,455,000	1,635,000	-	11,820,000
General obligation bonds, Refunding Series of 2006	22,020,000	115,000	-	21,905,000
General obligation bonds, Refunding Series A of 2006	37,550,000	135,000	-	37,415,000
General obligation bonds, Series of 2007	9,655,000	355,000	-	9,300,000
General obligation bonds, Refunding Series of 2009	5,410,000	1,010,000	-	4,400,000
General obligation note, Series of 2009	10,000,000	5,000	-	9,995,000
General obligation bonds, Refunding Series of 2010	22,330,000	2,065,000	-	20,265,000
General obligation bonds, Refunding Series A of 2010	-	50,000	7,510,000	7,460,000
General obligation bonds, Refunding Series AA of 2010	-	-	28,220,000	28,220,000
	<u>302,533,000</u>	<u>46,724,000</u>	<u>35,730,000</u>	<u>291,539,000</u>
Deferred amounts:				
Issuance (discounts) premium	5,200,635	517,381	2,640,947	7,324,201
Refunding deferred charge	<u>125,998</u>	<u>18,000</u>	<u>-</u>	<u>107,998</u>
<b>LONG-TERM DEBT</b>	<u><b>\$307,859,633</b></u>	<u><b>\$ 47,259,381</b></u>	<u><b>\$ 38,370,947</b></u>	<u><b>\$298,971,199</b></u>

**General Obligation Bonds**

Series of 2002, original principal amount of \$30,000,000, maturing April 15, 2004 through April 15, 2022, bearing interest ranging from 3.00% to 5.00%, interest payable semi-annually on April 15 and October 15. \$ 1,265,000

Series of 2006, original principal amount of \$35,000,000, maturing May 15, 2007 through May 15, 2030, bearing interest ranging from 3.25% to 5.00%, interest payable semi-annually on May 15 and November 15. 34,975,000

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. 98,870,000

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (cont'd)

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.	11,820,000
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.	21,905,000
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.	37,415,000
Series of 2007, original principal amount of \$10,000,000, maturing February 15, 2009 through February 15, 2029, bearing interest ranging from 3.625% to 4.125%, interest payable semi-annually on February 15 and August 15.	9,300,000
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.	4,400,000
Refunding Series of 2010, original principal amount of \$22,330,000, maturing November 15, 2010 through November 15, 2017, bearing interest ranging from 1.25% to 2.625%, interest payable semi-annually on May 15 and November 15. This current refunding was undertaken to reduce total debt payments and resulted in an economic gain of \$1,134,140.	20,265,000
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. This current refunding was undertaken to reduce total debt payments and resulted in an economic gain of \$558,655.	7,460,000
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. This current refunding was undertaken to reduce total debt payments and resulted in an economic gain of \$2,271,178.	<u>28,220,000</u>
<b>TOTAL BONDS</b>	<u><b>275,895,000</b></u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (cont'd)

*General Obligation Notes*

Series B of 2000, original principal amount of \$13,461,000, maturing November 25, 2001 through November 25, 2015, bearing interest at a rate not to exceed 15%. Interest to be paid monthly.

5,649,000

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.

9,995,000

TOTAL NOTES

15,644,000

TOTAL BONDS AND NOTES

\$291,539,000

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

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2012	\$ 12,559,000	\$ 12,061,002	\$ 24,620,002
2013	13,322,000	11,679,073	25,001,073
2014	13,767,000	11,243,123	25,010,123
2015	14,240,000	10,775,894	25,015,894
2016	13,761,000	10,310,808	24,071,808
2017-2021	76,980,000	43,450,650	120,430,650
2022-2026	94,960,000	24,756,335	119,716,335
2027-2030	51,950,000	4,834,328	56,784,328
	<u>\$291,539,000</u>	<u>\$129,111,213</u>	<u>\$420,650,213</u>

NOTE 9 CHANGES IN OTHER LONG-TERM LIABILITIES

Other long-term liabilities are summarized as follows:

	<u>Balance July 1, 2010</u>	<u>Additions (Deletions)</u>	<u>Balance June 30, 2011</u>
Accrued compensated absences	\$ 1,579,591	\$ (106,988)	\$ 1,472,603
Accrued severance	<u>4,615,280</u>	<u>189,245</u>	<u>4,804,525</u>
	<u>\$ 6,194,871</u>	<u>\$ 82,257</u>	<u>\$ 6,277,128</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally, the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE 11 CONSTRUCTION COMMITMENTS

As of June 30, 2011, 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 06/30/2011</u>	<u>Commitments</u>
Renovations	<u>\$1,592,341</u>	<u>\$ 914,362</u>	<u>\$ 677,979</u>

In addition, the District has incurred costs totaling \$800,745 for project costs that were not under a formal contract as of June 30, 2011.

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.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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, 2011, 2010 and 2009 totaled \$5,035,278, \$4,203,795 and \$4,111,269, respectively. Total covered payroll was \$89,277,970, and total payroll was \$90,547,776 for the current year. The following is a summary of plan benefit and asset information:

Plan Description

**Name of Plan** - The Public School Employees' Retirement System of Pennsylvania (the "System").

**Type of Plan** - Governmental cost-sharing multiple-employer defined-benefit plan.

**Benefits** - Retirement and disability, legislative mandated *ad hoc* cost-of-living adjustments, health care insurance premium assistance to qualified annuitants.

**Authority** - The Public School Employee's Retirement Code (Act No. 96 of October 2, 1975, as amended), 24 Pa. C.S. 8101-8535.

**Annual Financial Report** - The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0123.

Funding Policy

**Authority** - The contribution policy is established in the Public School Employee's Retirement Code and requires contributions by active members, employers and the Commonwealth.

**Contribution Rates** - Members contribute from 5.25 to 7.50 percent of their qualifying compensation, depending on when their employment began.

Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2011, the rate of employer contribution was 5.64 percent of covered payroll.

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS

Plan Description

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

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

Funding Policy

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

As of July 1, 2010, 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%



WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

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.

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	(14,613)
Funding adjustment	<u>13,438</u>
 ANNUAL OPEB COST	 <u>\$ 2,552,799</u>

WEST CHESTER AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

Net OPEB Obligation (Asset):	
Normal OPEB obligation July 1, 2010	\$ (324,735)
OPEB cost for year ended June 30, 2011	2,552,799
Contribution for year ended June 30, 2011	<u>(2,369,543)</u>
 NET OPEB OBLIGATION (ASSET)	 <u>\$ (141,479)</u>

NOTE 15 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following general fund function incurred expenditures in excess of appropriations in the following amount for the year ended June 30, 2011:

Facilities acquisition	<u>\$ 315,669</u>
------------------------	-------------------

This spending overage was the result of a noncash transaction property swap. While expenditures were incurred for this property transaction, offsetting revenue was recorded which was also not budgeted.

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 \$3,319,175 and \$2,511,061 for social security and retirement contributions, respectively. These contributions are recorded in the General Fund as revenue and expenditures.

NOTE 17 SUBSEQUENT EVENTS

On October 24, 2011, the District issued \$9,585,000 of General Obligation bonds at interest rates between 0.40 and 3.22 percent. Interest is payable semi-annually beginning February 15, 2012. The bonds mature beginning February 15, 2013 and continuing through May 15, 2029. The proceeds of the bonds were used to refund all the District's outstanding General Obligation bonds, Series 2007.

The District has evaluated all subsequent events through November 14, 2011, the date the financial statements were available to be issued.

**SINGLE AUDIT**

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

November 14, 2011

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, 2011, which collectively comprise West Chester Area School District's basic financial statements, and have issued our report thereon dated November 14, 2011.

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

Internal Control Over Financial Reporting

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

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

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

Board of School Directors  
West Chester Area School District

Compliance and Other Matters

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

The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and recommendations as item #11-1.

We noted a matter involving the internal control over financial reporting that we have reported to management of West Chester Area School District in a separate letter dated November 14, 2011.

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

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

  
BARBACANE, THORNTON & COMPANY LLP

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

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November 14, 2011

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, 2011. 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, 2011.

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, 84.391	Special Education Cluster (IDEA)
84.394	State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
10.553, 10.555	Child Nutrition Cluster
84.367	Improving Teacher Quality State Grants
84.410	Education Jobs Fund

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

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

PERSONNEL FILES

11-1 Finding

Condition

During our current 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 is 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 recommend that the District review all personnel records for existing employees to ensure that appropriate documentation is completed and maintained.

WEST CHESTER AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Corrective Action

The Human Resources department will conduct a full review of all active employee files. The review will be completed for Form I-9, as well as several other required documents. Human Resources plans to finish the project by the end of the 2011-2012 school year.

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

STATUS OF PRIOR YEAR FINDINGS

ELIGIBILITY (CHILD NUTRITION CLUSTER)

**10-1 Finding**

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

Recommendation

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

Status

During our current year audit, we noted that the District complied with eligibility requirements. This finding is no longer applicable.

VERIFICATION TESTING (CHILD NUTRITION CLUSTER)

**10-2 Finding**

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

WEST CHESTER AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)

STATUS OF PRIOR YEAR FINDINGS

Recommendation

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

Status

During our current year audit, we noted that the District complied with verification testing requirements. This finding is no longer applicable.

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, 2011**

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 07/01/10	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue 06/30/11
<b>U.S. Department of Education</b>										
<b>Passed through PA Department of Education</b>										
Adult Education - Basic Grants to States	I	84.002	041-100097	07/01/09-06/30/10	\$ 19,781	\$ 8,242	\$ 8,242	\$ 18,792	\$ 18,792	\$ 10,962
Adult Education - Basic Grants to States	I	84.002	041-119101	07/01/10-06/30/11	18,792	7,830	-	18,792	18,792	10,962
Total CFDA #84.002						16,072	8,242			
Title I Grants to Local Education Agencies	I	84.010	013-100470	07/01/09-09/30/10	458,823	60,358	43,673	16,685	16,685	-
Title I Grants to Local Education Agencies	I	84.010	013-110470	07/01/10-09/30/11	457,563	341,147	-	445,836	445,836	104,689
Title I Grants to Local Education Agencies	I	84.010	077-100470	07/01/09-09/30/10	9,000	9,000	-	9,000	9,000	-
Title I Grants to Local Education Agencies	I	84.010	077-110470	07/01/10-09/30/11	5,000	-	-	-	-	-
Title I Grants to Local Education Agencies	I	84.010	107-100470	07/01/09-09/30/10	1,408,950	756,468	109,045	647,423	647,423	-
Title I Grants to Local Education Agencies	I	84.010	107-110470	07/01/10-09/30/11	1,318,080	432,362	-	556,218	556,218	123,856
Total CFDA #84.010						1,599,335	152,718	1,675,162	1,675,162	228,545
<b>Safe and Drug-Free Schools and Communities - State Grants</b>										
English Language Acquisition Grants	I	84.186	100-100470	07/01/09-09/30/10	24,506	16,337	13,917	2,420	2,420	-
English Language Acquisition Grants	I	84.365	010-100470	07/01/09-09/30/10	101,000	101,000	44,229	56,771	56,771	-
English Language Acquisition Grants	I	84.365	010-110470	07/01/10-09/30/11	96,827	29,793	-	42,865	42,865	13,072
Total CFDA #84.365						130,793	44,229	99,636	99,636	13,072
Improving Teacher Quality State Grants	I	84.367	020-100470	07/01/09-09/30/10	338,670	158,046	(90,588)	248,634	248,634	-
Improving Teacher Quality State Grants	I	84.367	020-110470	07/01/10-09/30/11	344,610	115,320	-	168,161	168,161	52,841
Total CFDA #84.367						273,366	(90,588)	416,795	416,795	52,841
Title I Grants to Local Education Agencies, Recovery Act	I	84.389	133-100470	07/01/09-09/30/11	1,011,451	539,132	(61,847)	471,755	471,755	(129,224)
State Fiscal Stabilization Fund - Education	I	84.394	126-100470	07/01/10-06/30/11	834,020	695,017	-	834,020	834,020	139,003
State Grants, Recovery Act	I	84.410	140-119403	07/01/10-06/30/11	494,143	494,143	-	494,143	494,143	-
Education Jobs Fund	I									
Adult Literacy	S	N/A	059-100100	07/01/09-06/30/10	5,000	2,083	2,083	-	-	-
Adult Literacy	S	N/A	059-110095	07/01/10-06/30/11	3,895	1,623	-	3,895	3,895	2,272
Subtotal						3,706	2,083	3,895	3,895	2,272
<b>Passed through Chester County I.U.</b>										
IDEA Special Education - Grants to States	I	84.027	-	07/01/09-09/30/10	1,296,294	108,024	108,024	-	-	-
IDEA Special Education - Grants to States	I	84.027	-	07/01/10-06/30/11	1,235,639	1,131,499	-	1,235,639	1,235,639	104,140
Total CFDA #84.027						1,239,523	108,024	1,235,639	1,235,639	104,140
IDEA Special Education - Grants to States	I	84.391	030-098911	02/17/09-09/30/11	1,907,771	702,154	348,665	820,721	820,721	467,232
Recovery Act	I									
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>						5,709,578	525,443	6,072,978	6,072,978	888,843
<b>U.S. Dept of Health and Human Services</b>										
Passed through PA Dept of Public Welfare	I	93.778	-	07/01/10-06/30/11	142,827	103,827	-	142,827	142,827	39,000
Title XIX Medical Assistance Program	I									
Passed through Chester County Government	I	93.714	030-098911	07/01/09-09/30/10	45,430	32,129	3,329	28,800	28,800	-
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families	I									
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						135,956	3,329	171,627	171,627	39,000

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, 2011**

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 07/01/10	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue 06/30/11
<b>U.S. Department of Agriculture</b>										
Passed through PA Department of Agriculture										
Value of USDA Donated Commodities	I	10.555	N/A	07/01/09-06/30/10	N/A	-	(23,401)	23,401	23,401	-
Value of USDA Donated Commodities	I	10.555	N/A	07/01/10-06/30/11	N/A	118,138	-	104,118	104,118	(14,020)
<b>Passed through PA Department of Education</b>										
National School Lunch Program	I	10.555	362	07/01/10-06/30/11	N/A	475,058	25,506	471,773	471,773	22,221
Total CFDA #10.555						593,196	2,105	599,292	599,292	8,201
School Breakfast Program	I	10.553	365	07/01/10-06/30/11	N/A	70,227	4,849	69,820	69,820	4,442
School Breakfast Program	I	10.553	367	07/01/10-06/30/11	N/A	25,554	1,905	25,272	25,272	1,623
Total CFDA #10.553						95,781	6,754	95,092	95,092	6,065
School Breakfast Program	S	N/A	510	07/01/10-06/30/11	N/A	60,603	3,291	60,246	60,246	2,934
National School Lunch Program	S	N/A	511	07/01/10-06/30/11	N/A	8,670	616	8,597	8,597	543
Subtotal						69,273	3,907	68,843	68,843	3,477
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>						758,250	12,766	763,227	763,227	17,743
<b>TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS</b>						\$ 6,603,784	\$ 541,538	\$ 7,007,832	\$ 7,007,832	\$ 945,586
<b>TOTAL FEDERAL AWARDS</b>						\$ 6,530,805	\$ 535,548	\$ 6,935,094	\$ 6,935,094	\$ 939,837
<b>TOTAL STATE GRANTS</b>						72,979	5,990	72,738	72,738	5,749
<b>TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS</b>						\$ 6,603,784	\$ 541,538	\$ 7,007,832	\$ 7,007,832	\$ 945,586
<b>TITLE I PART A CLUSTER</b>						\$ 2,138,467	\$ 90,871	\$ 2,146,917	\$ 2,146,917	\$ 99,321
<b>SPECIAL EDUCATION CLUSTER (IDEA)</b>						\$ 1,941,677	\$ 456,689	\$ 2,056,360	\$ 2,056,360	\$ 571,372
<b>CHILD NUTRITION CLUSTER</b>						\$ 688,977	\$ 8,859	\$ 694,384	\$ 694,384	\$ 14,266

**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 2010-2011 fiscal year. The District has food commodities totaling \$14,020 in inventory as of June 30, 2011.

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, 2011 was \$625,766.

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