

October 1, 2006

To the Board of School Directors and the Citizens of Boyertown Area School District:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) for the Boyertown Area School District, Pennsylvania, for the fiscal year ended June 30, 2006. The District's Business Office prepared this CAFR. Responsibility for both accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the School District. We believe the data as presented is accurate in all material respects. It is presented in a manner designed to fairly set forth the financial position and results of operations of the School District as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain a clear understanding of the School District's financial affairs have been included.

The organization, form, contents of this CAFR, the accompanying financial statements, and the statistical tables were prepared in accordance with the standards established by the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association (GFOA), the American Institute of Certified Public Accountants (AICPA), and the Public School Code of 1949, as amended, of the Commonwealth of Pennsylvania.

This CAFR is presented in four sections:

1. *The Introductory Section.* This section includes the letter of transmittal, the School District's organization chart, list of elected School District officials, and a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA).
2. *The Financial Section.* This section includes a report by the independent auditors, the basic financial statements, required supplemental information, and combining and individual fund statements and schedules.
3. *The Statistical Section.* This section includes historical financial information, selected demographic, and other miscellaneous statistics.
4. *The Single Audit Section.* This section includes all related information, including the Schedule of Expenditures of Federal and State Awards, and the independent auditors' report on the internal control structure and compliance with applicable laws and regulations. The District complies with the requirements of the Single Audit Act concept, in conformity with the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

U.S. generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Boyertown Area School District's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

This CAFR includes all funds of the School District, consistent with the guidance contained in GASB 14, *The Financial Reporting Entity*, and GASB 39, *Determining Whether Certain Organizations Are Component Units*. The criteria used by the School District to evaluate whether additional entities should be included in the School District's reporting entity as component units includes whether the School District can impose its will on these entities and whether these entities bring the School District financial benefit or burden.

A related organization excluded is the Berks Career and Technology Center (Vo-Tech). A joint board consisting of school directors from each member district runs the Vo-Tech. Each member district pays a share of the operating costs, debt, and approves the Vo-Tech's budget. Since the School District cannot impose its will or have a voting majority, the Vo-Tech is considered a joint venture.

Local Economy

The Boyertown Area School District is situated on the northwestern edge of the greater Philadelphia suburban sprawl in southeastern Pennsylvania. About 45 miles northwest of Philadelphia, it is just 20 miles south of Allentown and 20 miles east of Reading, straddling the Montgomery-Berks County line. When it was formed as a jointure in 1953 it was one of the largest school districts in the state, covering nearly 100 square miles. It encompasses Colebrookdale, Douglass, Earl, and Washington Townships and the Boroughs of Bally, Bechtelsville, and Boyertown in Berks County plus the Townships of Douglass, New Hanover, and Upper Frederick in Montgomery County. The population in the District is over 40,000. With abundant room for growth, it is expected the population will increase steadily for the immediate future.

The District has been shifting from a predominance of farming and blue-collar homes to a suburban-type community. The preponderance of "new-comers" finds their employment outside the District boundaries in the King of Prussia, Exton, Allentown or Reading areas. The fairly recent modernization of U.S. Route 422, a major artery into the Philadelphia area, which just barely brushes the southern edge of the District, has caused more rapid growth on the eastern, or Montgomery County, side. Pennsylvania Routes 100 and 73 provide the other major traffic arteries across the District.

Approximately 7,131 students in the District are educated in ten modern buildings. Seven K-6 elementary schools funnel students into one of two 7-9 junior high schools. There is one senior high school serving grades 10, 11, and 12. Geographic size makes school bus transportation a fact of life for better than 90% of the student body at all levels, as presented by the map on the next page. The shaded area of the map is the area of the Boyertown Area School District. The blue line that circles the District represents the ten-mile radius beyond the District's boundaries. According to policy, the District "will provide transportation for resident students who attend non-public schools not operated for profit located within the District geographic boundaries or outside the boundaries via the nearest paved public highway when the distance does not exceed ten miles from the district boundaries."

The District's tax base has increased steadily and reflects new home construction on open land, more of which remains. Importantly, property tax collections remain strong. In addition, socioeconomic indices for per capita income and property values are very favorable relative to other areas of the State.

It appears that there may be construction of one or more major retailers within the District's boundaries. A Walmart has been constructed on Route 100 and a shopping center is expected to be constructed at Routes 73 & 663, tentatively housing a Home Improvement Warehouse and a major grocery store. This will add value to the tax rolls as well as create new jobs for the local economy. The adverse effect of these major retailers would be that they could possibly put the local stores out of business and cause congestion on an already heavily traveled infrastructure.

The job growth rate remains relatively strong in Berks County with an unemployment percent slightly above the national average.



Long-term Financial Planning

The District is exploring the possibility of renovating or adding additions to the various school buildings to compensate for a growing student enrollment. Preliminary estimates of the project to outfit a new 9th grade center and renovations at several elementary schools are approximately \$50 million. The District recently completed an addition to one of the junior high schools. This project began with the groundbreaking ceremony held in August 2004 at an estimated total cost of \$21.5 million.

The Commonwealth of Pennsylvania has addressed real estate tax reform through the passage of 2006 Special Session, Act 1. Each public school in the Commonwealth must abide by Act 1. The District has an opportunity to swap education funding from the current property tax method to an increased income tax through a voter referendum scheduled for May 2007. The increased revenue would be earmarked for the reduction of property taxes through the Homestead/Farmstead exemption. This tax is theoretically revenue neutral, with the school

district receiving no more or less funding for education. Act 1 also provides a published index that would allow school districts to raise taxes as needed up to the index before voter approval would be sought to approve tax increases above the index. Act 1 also provides for the distribution of gambling revenues to school districts for the purpose of lowering the property tax to qualified homeowners. Again, no additional funds would be received by the school district for education. Currently, the state funds approximately 32% of the District's programs.

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury, obligations of U.S. instrumentalities, obligations of other governmental units within the Commonwealth of Pennsylvania, and in an investment pool. The maturities of investments range from six months to about five years. Investment income includes appreciation/depreciation in the fair value of investments. Increases in fair value during the year do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments, that the government intends to hold to maturity.

Risk Management

The District purchases commercial insurance for areas of potential losses. Additional information on the District's risk management activities can be found in Note II.L of the notes to the financial statements.

The District participates in the Berks County Consortium for medical benefits for the employees of the District.

Major Initiatives

Co-Curricular

The School District is committed to a broad range of co-curricular activities for all students in grades kindergarten through twelfth grade. These programs range from athletics to music, theater and arts, service clubs and various other clubs and programs. Present offerings include:

<u>Music and Theater</u>	<u>Athletics</u>	<u>Service & School Clubs</u>	
Barbershop Quartet	Baseball	Academic Challenge	Math Club
Concert Band	Basketball	Academic Teams	National Honor Society
Concert Choir	Cheerleading	Amnesty International	NO Patrol – Students Say
Jazz Ensemble	Cross Country	Arts / Crafts Club	“No” to Drugs and Alcohol
Marching Band/ Band Front	Field Hockey	Builders Club	SADD – Students Against
Drama/ Musical Productions	Football	Chess Club	Drunk Driving
Orchestra	Golf	Envirothon Team	SAVE – Students Against
Senior Class Play	Lacrosse	FBLA – Future Business	Violation of the Earth
Show Choir	Soccer	Leaders of America	Science Olympiad
String Quartet	Softball	FHCC – Future Health	Ski Club
Sweet Adelines	Swimming	Career Club	Student Council
Treble Singers	Tennis	Hip Hop Club	Student Newspapers
Vocal Ensemble	Track	Jr. Statesman of	TSA – Technology Student
	Wrestling	America	Association
		Key Club	TV/Audio Visual Club
		Leo Club	Yearbook Clubs
		Library Club	

Instructional Services

The School District's Instructional Program is divided into Elementary Education: grades K-6 at seven sites; Junior High School: grades 7-9 at two sites; Senior High School: grades 10-12 at one site. Responsibility for administration and instructional leadership of the individual schools in the District is entrusted to the following building principals for the 2005-2006 school year:

Boyertown Elementary School	Dr. Stephanie J. Brightbill
Colebrookdale Elementary School	Dr. Thomas L. Shugar
Earl Elementary School	Dr. Craig K. Zerr
Gilbertsville Elementary School	Mr. Ronald W. Christman
New Hanover-Upper Frederick Elem. School	Mrs. M. Stephanie Wilson
Pine Forge Elementary School	Mrs. Melissa Woodard
Washington Elementary School	Mr. Christopher J. Iacobelli
Junior High East	Mr. Andrew Ruppert
Junior High West	Mr. Gregory S. Galtere
Senior High School	Mr. Daniel Goffredo

The instructional program includes the following subject areas:

Art	Mathematics
Business Education	Music
Communications (Reading and Language Arts)	NJROTC
Computer Applications	Science
Family/Consumer Science	Social Studies
Foreign Language	Technology Education
Language Arts/English	Telecommunications
Library	Wellness/Fitness

All curriculums indicate what the District expects students to know and to demonstrate as skills. Curriculums are provided to each teacher with additional copies at each building level. Curriculums have been adopted based on State Academic Standards and are being implemented in each area. Curriculum information and our graduation requirements are available at individual buildings.

The School District is very proud that all curriculums have been written by teams of staff members to meet the various needs of today's learners. The District believes that over the next five to six years it must continue to focus attention on the evolving State Standards and assure that the District's curriculum and instructional programs meet the needs of all students.

Remediation Program

In conjunction with state regulations, our District provides a remediation program for grades first through ninth in all schools. The purpose of this program is to help students achieve state academic standards. The remediation program functions in various ways depending upon the grade level and individual needs of the students.

District Technology Program

The School District submitted the state mandated Technology Plan in April 2003 after school board approval and is in the process of submitting the plan for the next three years. The plan is a reporting mechanism used by the state to determine the uses of technology within the School District, which allows them to track the changing technology trends in education. It is used by the District as a blueprint for future technology implementation. District technology initiatives that have been completed or are currently being implemented:

- District Wide Area Network
- Individual building wiring
- Internet and District e-mail
- An acceptable use policy for Internet usage
- A District web page – currently being updated
- Computer labs in all buildings and computers in all classrooms
- Computers in all District offices
- Computers in libraries for electronic databases, Internet, and circulation
- Two-way interactive distance learning
- TV studio in the secondary schools upgraded to digital
- District software purchased for student grading, attendance, and parent communication
- Implementation of wireless network
- Business applications package which includes accounting, personnel, purchasing, and bidding
- IP telephony system
- Implementation of various technologies such as Smart Boards to support learning

The District will continue to place and upgrade computers in classrooms and subject areas. The continued purchase of software programs for curriculum areas and for instructional management is essential. Access to computers for teachers and the replacement and upgrade of all technology will aid in instruction. Currently, the District has more than 3,000 computers in place as well as peripherals, network, distance learning equipment, television equipment, and technology curriculums. The District participates in the Children's Internet Protection Act established by the Federal Government.

Special Education Services

The Boyertown Area School District provides special education services and gifted support services to more than 1,400 students, or 19% of the total student enrollment. Of this, the percentage of disabled students is 14% or slightly less than the statewide average. The District has more than 350 gifted students – approximately 5% of total enrollment. The number of students in out-of-district placements is approximately 50, which is below the statewide average.

Special Education Programs in Boyertown serve students that are mildly to severely mentally retarded, hearing impaired, speech/language impaired, visually impaired, learning disabled, emotionally disturbed, physically disabled, other health impaired, brain damaged, autistic and gifted. Each neighborhood school operates its own program with the exception of district life skills support programs offered at Colebrookdale Elementary School, Junior High School East, and the Senior High School.

District Program of Assessment

The School District has in place a standardized assessment system with a broad range of assessment instruments – kindergarten through twelfth grade. This system is meant to be an addition to classroom and building assessments that are in place as part of the District's curriculums. The District uses standardized tests primarily to provide parents, teachers, and administrators with information to help diagnose skill and learning deficiencies for individual students. In addition, information from standardized test results, grouped by school, grade, and subject, are provided to the administration, the school board and to the public as a means of accountability and to focus discussion regarding additions and revisions to the instructional program.

Vocational/Technical Support

As part of its educational program, the School District provides tenth, eleventh, and twelfth grade students with the opportunity to participate in vocational and technical education at the Berks Career and Technical Center (BCTC). The BCTC offers half-day classes in three-year vocational/technical programs, which prepare students for skilled work experiences after graduation and for future education in college, or technical school programs. During the 2005-2006 school year, approximately 230 Boyertown Area School District students, or approximately 14% of the high school enrollment, attend BCTC East or West Campus. They participate in one of the following programs:

Auto Collision Repair Tech.	Electronic Technology
Automotive Technology	Health Occupations
Building Construction Occ.	Health Related Technology
Cabinetmaking	Heavy Equipment Technology
CAD	Horticulture
Carpentry	HVAC/R
CIS-Applications	Machinist/Toolmaker
CIS-Programming	Masonry
Commercial Art	Occupational Child Development
Commercial Photography	Painting and Decorating
Computer Information Services	Plumbing and Heating
Computerized Machine Technology	Pre-Engineering
Cosmetology	Pre-Vocational
Culinary Arts	Printing Technology
Dental Occupations	Protective Services
Diesel Technology	Recreational/Power Equip. Tech.
Drafting Design Technology	Robotics and Automation Tech.
Electrical Occupations	Service Occupations
	Welding

Strategic Plan Goals

The School District Strategic Plan – 2000/2006 was approved by the Board of School Directors on September 12, 2000, after a series of public meetings and a community needs assessment. Various working committees prepared the following goals during the course of the Plan's development. Such goals have served as the focus of District efforts over the last 6 years. An updated strategic plan is being developed for submission to the State this fall.

1. The District will use mentorship activities to help each student develop and cultivate a life plan.
2. The District will develop, implement, manage, and evaluate a Pre K through 12th grade parenting education program and a program of involvement and communication with parents, community, business, and industry.
3. The District will meet the diverse learning needs of all students by developing, implementing, and monitoring programs to improve student achievement.
4. The District will enhance the quality of the primary (K through 3) educational program by improving the student/teacher ratio determining the need for a full day kindergarten program; and coordinating the educational opportunities between the area preschool programs and the District.

Pension

The District participates in the Public School Employees Retirement System. Currently, the District pays 4.69% of payroll costs. The rate jumps to 6.46% for 2006 – 2007 and increasing to an estimated high of approximately 28% in 2012. Although the Commonwealth funds 50% of the District's cost, the District will have to budget for a larger expenditure in the future, unless some form of legislation is enacted by the state. Additional information on the District's pension can be found in Note II.I of the notes to the financial statements.

Accounting System and Budgetary Control

All governmental and agency funds utilize the modified accrual basis of accounting with revenue being recorded when susceptible to accrual, both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are generally recognized when the related fund liability is incurred except for: (1) disbursements for inventory type items, which are expenditures at the time of purchase, and (2) principal and interest on general long-term debt which is recognized when due. Financial statements for the Proprietary Fund are maintained on the accrual basis of accounting, with revenue recognized when earned and expenses recorded when incurred.

In developing and evaluating the School District's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; (2) the reliability of financial records for preparing financial statements; and (3) maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost and benefits requires estimates and judgments by management.

All internal accounting control evaluations occur within the above framework. We believe that the School District's internal accounting controls: (1) adequately safeguard assets; (2) provide reasonable assurance of proper recording of financial transactions; and (3) maintain accountability for assets.

The School District maintains budgetary controls, which ensures compliance with legal provisions embodied in the annual appropriated budget that is adopted by the Board of School Directors by June 30th of each year. The Business Office maintains budgetary control at the major expenditure classification through monitoring and review. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

Legal budgetary control is maintained at the sub function/major object level. The Board of School Directors may make transfers of funds appropriated to any particular line of expenditure by legislative action in accordance with the PA School Code. Management may amend the budget at the sub function/sub object level without School Board approval.

Independent Audit

The School District had an independent audit of all its funds performed for the year ended June 30, 2006. The report of our certified public accountants, Major & Mastro, LLC, appears in the Financial Section of this CAFR.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Boyertown Area School District for its comprehensive annual financial report for the year ended June 30, 2005. This was the third time that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The completion of this CAFR represents the fourth time the School District has prepared such a report and demonstrates a commitment to continue the excellence in financial reporting. The preparation of the CAFR was made possible by the dedicated service of the Business Office. They have our sincere appreciation for the contributions made in the preparation of this report, as well as all additional individuals who assisted in this effort. Appreciation is also expressed to the Superintendent and the Board of School Directors for their cooperation and outstanding assistance in matters pertaining to the financial affairs of the School District.

Sincerely,



Wendy Boarder
Director of Business Services



David A. Szablowski
Assistant to the Superintendent
for Business Affairs