

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Boyertown Area School District's (the "District") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

### **Highlights**

The District's net assets increased by \$5,089,302 (or 48.65%). The governmental net assets increased by \$5,294,978 (or 55.40%) and the business-type net assets decreased by \$205,676 (or 22.74%). During the 2004-2005 fiscal year the District recognized a loss of investment due to a defaulted bond investment which significantly reduced the net assets of the District. As a percentage the 2005-2006 net assets rose dramatically due to the reduced level of net assets on June 30, 2004. The gain of net assets was due partly to favorable budget results, restructuring of debt, and the return of favorable investment markets. The two-year increase of the District's net assets is \$1,678,785 (or 12.7%), which is a more stable indicator of the District's financial strength. Overall the District projects a stable financial future based on economic factors and conservative budgeting.

Capital Projects were a major expenditure during the 2005-2006 fiscal year, with the continuation of the Junior High East expansion project, which is scheduled for completion in August 2006, as well as capital investments into the District's buildings and the addition of an all-weather 400 meter track installed at the Senior High School Stadium, which was scheduled for completion in September.

Health Care costs continue to be a major expenditure with increases managed through negotiated agreements with health care carriers, the examination of benefits and an increased contribution from employees toward their benefits. Increases in the State mandated retirement contributions for each employee are also a concern. The contribution rate is an uncontrollable expenditure for public schools.

### **Using this Annual Report**

In light of the fact that this is a very different presentation of the District's previous general-purpose financial statements, the primary focus of local government's financial statement for the last 20 years (summarized fund type information) has been discarded. The new (and clearly preferable) focus is on both the District as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the District's accountability.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns, which add to a total for the primary government. The focus of the Statement of Net Assets (the "unrestricted net assets") is designed to be similar to a bottom line for the District and its governmental and business-type activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The Statement of Activities is focused on both the gross and net cost of various activities (including governmental and business-type), which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services and/or subsidy to various business-type activities.

The governmental activities reflect the District's basic service, including instruction, instructional support, administration, and transportation. Property taxes, earned income tax and state subsidies finance the majority of

these services. The business-type activities reflect private sector type operations (Food service), where the fee for service typically covers all or most of the cost of operation including depreciation.

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

### **Fund Financial Statements**

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds rather than fund types. The governmental major fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the fund financial statement allows the demonstration of sources and uses and/or budgeting compliance associated therewith.

The fund financial statements also allow the government to address its fiduciary (or trust funds) summarized by type (pension, investment and private-purpose trusts). While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

While the Food Service column on the proprietary fund financial statements is the same as the business-type column at the government-wide financial statement, the governmental major funds total column requires a reconciliation because of the different measurement focus (current financial resources versus total economic resources) which is reflected on the page following each statement. The flow of current financial resources will reflect bond proceeds and interfund transfers as other financial sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and others) into the governmental activities column (in the government-wide statements). Adjustment between the business-type presentations (government-wide and major fund totals) will typically only occur if there is a need to redistribute excess income/loss for the Internal Service Funds to the customers (including business-type activities) and adjustments, if necessary, will be reflected on the bottom of the fund financial statements.

## Government-wide Statement

### Statement of Net Assets

The following table reflects the condensed Statement of Net Assets.

**Table 1**  
Condensed Statement of Net Assets  
Fiscal year ended June 30,

|  | 2006                       |                             |                      | 2005                         |                             |                      |
|--|----------------------------|-----------------------------|----------------------|------------------------------|-----------------------------|----------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                | Governmental<br>Activities * | Business-type<br>Activities | Total                |
| <b>Assets</b>                                      |                            |                             |                      |                              |                             |                      |
| Current and other assets                           | \$ 28,125,932              | \$ 284,784                  | \$ 28,410,716        | \$ 35,169,151                | \$ 433,938                  | \$ 35,603,089        |
| Capital assets                                     | 61,011,378                 | 437,470                     | 61,448,848           | 52,254,692                   | 512,731                     | 52,767,423           |
| Total assets                                       | <u>\$ 89,137,310</u>       | <u>\$ 722,254</u>           | <u>\$ 89,859,564</u> | <u>\$ 87,423,843</u>         | <u>\$ 946,669</u>           | <u>\$ 88,370,512</u> |
| <b>Liabilities</b>                                 |                            |                             |                      |                              |                             |                      |
| Current and other liabilities                      | \$ 12,495,890              | \$ 23,562                   | \$ 12,519,452        | \$ 13,698,814                | \$ 42,301                   | \$ 13,741,115        |
| Long-term liabilities                              | 61,789,473                 |                             | 61,789,473           | 64,168,060                   |                             | 64,168,060           |
| Total liabilities                                  | <u>74,285,363</u>          | <u>23,562</u>               | <u>74,308,925</u>    | <u>77,866,874</u>            | <u>42,301</u>               | <u>77,909,175</u>    |
| <b>Net Assets:</b>                                 |                            |                             |                      |                              |                             |                      |
| Invested in capital assets,<br>net of related debt | 2,892,251                  | 437,470                     | 3,329,721            | (5,518,729)                  | 512,731                     | (5,005,998)          |
| Restricted   | 3,022,036                  |                             | 3,022,036            | 7,411,421                    |                             | 7,411,421            |
| Unrestricted                                       | 8,937,660                  | 261,222                     | 9,198,882            | 7,664,277                    | 391,637                     | 8,055,914            |
| Total net assets                                   | <u>14,851,947</u>          | <u>698,692</u>              | <u>15,550,639</u>    | <u>9,556,969</u>             | <u>904,368</u>              | <u>10,461,337</u>    |
| Total liabilities and net assets                   | <u>\$ 89,137,310</u>       | <u>\$ 722,254</u>           | <u>\$ 89,859,564</u> | <u>\$ 87,423,843</u>         | <u>\$ 946,669</u>           | <u>\$ 88,370,512</u> |

\* Amounts from 2005 have been restated to conform to the current year presentation and to reflect the effects of a prior period adjustment.

Most of the District's net assets are invested in capital assets (buildings, land, and equipment) but the majority of the capital assets were financed with debt. The restricted amounts are set aside to fund future purchases or capital projects as planned by the District. See the Statement of Net Assets for more detailed information.

## Statement of Activities

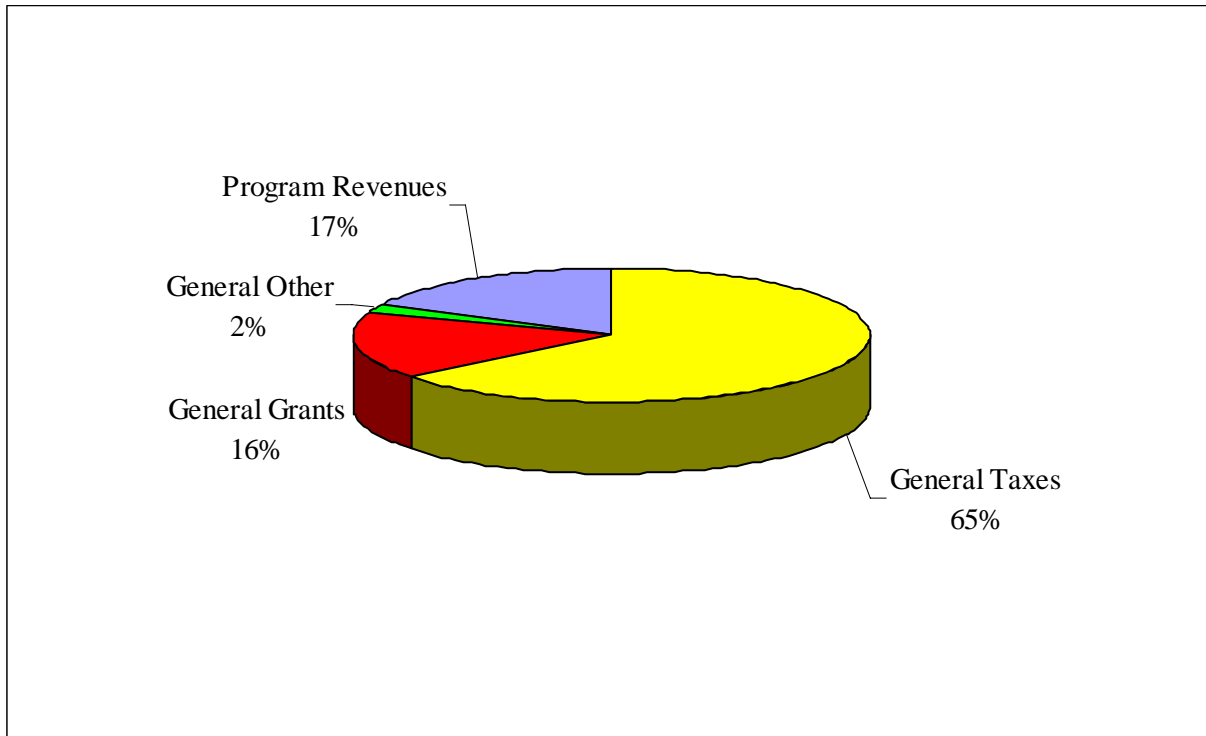
The following table reflects the revenues and expenses for the current period.

**Table 2**  
Condensed Changes in Statement of Net Assets  
Fiscal year ended June 30,

|   | 2006                       |                             |                   | 2005                         |                             |                   |
|---|----------------------------|-----------------------------|-------------------|------------------------------|-----------------------------|-------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total             | Governmental<br>Activities * | Business-type<br>Activities | Total             |
| <b>Revenues</b>   |                            |                             |                   |                              |                             |                   |
| Program revenues  |                            |                             |                   |                              |                             |                   |
| Charges for services                                    | \$ 612,765                 | \$ 1,731,929                | \$ 2,344,694      | \$ 559,533                   | \$ 1,814,236                | \$ 2,373,769      |
| Operating grants and contributions                      | 10,591,367                 | 607,840                     | 11,199,207        | 10,278,106                   | 540,319                     | 10,818,425        |
| Capital grants and contributions                        | 1,839,582                  |                             | 1,839,582         | 2,695,783                    |                             | 2,695,783         |
| General revenues  |                            |                             |                   |                              |                             |                   |
| Taxes   | 48,381,017                 |                             | 48,381,017        | 43,788,611                   |                             | 43,788,611        |
| Grants  | 12,200,055                 |                             | 12,200,055        | 11,701,663                   |                             | 11,701,663        |
| Investment earnings                                     | 1,580,319                  | 13,401                      | 1,593,720         | (8,289,917)                  | 8,309                       | (8,281,608)       |
| Miscellaneous   | 69,218                     |                             | 69,218            | 140,001                      |                             | 140,001           |
| <b>Total Revenues</b>                                   | <b>75,274,323</b>          | <b>2,353,170</b>            | <b>77,627,493</b> | <b>60,873,780</b>            | <b>2,362,864</b>            | <b>63,236,644</b> |
| <b>Expenses</b>   |                            |                             |                   |                              |                             |                   |
| Instruction   |                            |                             |                   |                              |                             |                   |
| Regular programs  | 30,874,793                 |                             | 30,874,793        | 29,482,309                   |                             | 29,482,309        |
| Special programs  | 8,266,660                  |                             | 8,266,660         | 8,115,249                    |                             | 8,115,249         |
| Vocational programs                                     | 1,586,091                  |                             | 1,586,091         | 1,522,502                    |                             | 1,522,502         |
| Other instructional programs                            | 1,133,691                  |                             | 1,133,691         | 1,136,986                    |                             | 1,136,986         |
| Adult education programs                                | 11,655                     |                             | 11,655            | 11,166                       |                             | 11,166            |
| Support services  |                            |                             |                   |                              |                             |                   |
| Pupil personnel services                                | 2,343,767                  |                             | 2,343,767         | 2,180,588                    |                             | 2,180,588         |
| Instructional staff services                            | 3,288,862                  |                             | 3,288,862         | 2,539,365                    |                             | 2,539,365         |
| Administrative services                                 | 4,439,403                  |                             | 4,439,403         | 4,333,167                    |                             | 4,333,167         |
| Pupil health  | 626,536                    |                             | 626,536           | 628,071                      |                             | 628,071           |
| Business services                                       | 867,583                    |                             | 867,583           | 819,813                      |                             | 819,813           |
| Operation of maintenance of<br>plant services           | 6,441,800                  |                             | 6,441,800         | 6,133,561                    |                             | 6,133,561         |
| Pupil transportation                                    | 4,828,458                  |                             | 4,828,458         | 4,465,677                    |                             | 4,465,677         |
| Central services  | 897,289                    |                             | 897,289           | 710,019                      |                             | 710,019           |
| Other support services                                  | 73,292                     |                             | 73,292            | 70,386                       |                             | 70,386            |
| Non-instructional services                              |                            |                             |                   |                              |                             |                   |
| Food service  |                            | 2,483,752                   | 2,483,752         |                              | 2,362,930                   | 2,362,930         |
| Student activities                                      | 1,085,669                  |                             | 1,085,669         | 1,093,942                    |                             | 1,093,942         |
| Community services                                      | 22,976                     |                             | 22,976            | 35,643                       |                             | 35,643            |
| Interest on long-term debt                              | 3,265,914                  |                             | 3,265,914         | 3,200,725                    |                             | 3,200,725         |
| <b>Total Expenses</b>                                   | <b>70,054,439</b>          | <b>2,483,752</b>            | <b>72,538,191</b> | <b>66,479,169</b>            | <b>2,362,930</b>            | <b>68,842,099</b> |
| Increase (decrease) in net assets<br>before transfers   | 5,219,884                  | (130,582)                   | 5,089,302         | (5,605,389)                  | (66)                        | (5,605,455)       |
| Transfers   | 75,094                     | (75,094)                    | -                 | 75,094                       | (75,094)                    | -                 |
| Increase (decrease) in net assets                       | 5,294,978                  | (205,676)                   | 5,089,302         | (5,530,295)                  | (75,160)                    | (5,605,455)       |
| Net assets, beginning of year<br>As previously reported | 9,556,969                  | 904,368                     | 10,461,337        | 13,173,162                   | 979,528                     | 14,152,690        |
| Adjustment (See Note II.O)                              |                            |                             |                   | 1,914,102                    |                             | 1,914,102         |
| Net Assets, beginning of year, restated                 | 9,556,969                  | 904,368                     | 10,461,337        | 15,087,264                   | 979,528                     | 16,066,792        |
| Net assets, end of year                                 | \$ 14,851,947              | \$ 698,692                  | \$ 15,550,639     | \$ 9,556,969                 | \$ 904,368                  | \$ 10,461,337     |

\* Amounts from 2005 have been restated to conform to the current year presentation and to reflect the effects of a prior period adjustment.

The District's reliance upon tax revenues is demonstrated by the graphs below.



## **The District Funds**

### Governmental Funds

As of the year-end, the governmental funds reported a combined fund balance of \$16,538,920, which is a decrease from the prior year of \$6,141,088 (or 27.08%). Of the \$16,538,920, the General fund balance is \$6,373,017, which is an increase of \$1,086,009 over the prior year, with \$1,250,000 designated as reserved fund balance. The major contributor to the General fund balance increase is primarily due to higher than expected revenues, specifically local tax revenues and interest earned revenues. The District also has \$4,108,638 remaining in the Gilbertsville, Washington, JHW and Senior High Renovation fund, which is \$125,059 higher than the prior year. The major contributor to the increase in this fund is increased interest earnings due to rising interest rates. The Junior High East Renovation fund balance is at \$4,134,219, which is down \$7,163,465 from the prior year due to capital investments during the year. The non-major funds report total fund balance of \$1,923,046, which is \$188,691 lower than the prior year. The major contributor to the decrease in fund balance in the non-major funds is actual expenditures exceeded actual revenue. The general fund unrestricted balance represents 7 percent of the total general fund expenditures.

### General Fund Budgetary Highlights

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 at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law. A schedule showing the District's original and final budget amounts compared with the amounts actually incurred and recognized is provided on page 39.

During the year, the District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process. Budgeted revenues and expenditures increased \$233,920 (.33%) as a result of additional approved grants.

The General Fund actual amount of revenue received exceeded the final revenue budget by \$2,769,388 (3.89%) predominantly due to better than anticipated real estate tax collections and an increase in realized state subsidies. The increase in revenue received is also due to an increase in interim tax bills on new homes, an increase in Earned Income Tax collections, as well as additional transfer tax for new and existing home sales.

Due to favorable market conditions and rising interest rates, the school district was able to earn increased interest revenue.

The General Fund actual amount of expenditures exceeded the final expenditure budget by \$2,122,023 (3.02%). This is primarily due to the recording of capital leases for the purchase of textbooks and IP telephony system (\$1,266,268). The Capital Outlay category did not have an original or final budget, however, costs for a performance contract with CM3 (\$1,025,844) had to be reclassified, to this category, as an expenditure. Other costs that exceeded final budget include additional special education costs, increased fuel costs, and increased transportation costs. Expenditures for regular programs were under spent due to unanticipated staff vacancies and the inability to fill the vacant positions in a timely manner. Expenditures for debt service on outstanding bonds were below the expected budgeted level due to a refunding of bonds.

## Capital assets and debt administration

### Capital Assets

As of year-end, the District's investment in capital assets for its governmental and business-type activities amounts to \$61,448,848, which represents a net increase (additions less retirements and depreciation) of \$8,681,425 or 16.45% from the end of last year. This is mainly due to the ongoing renovation project at the Junior High East School. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note II.D).

#### **Boyetown Area School District's Capital Assets** (net of depreciation)

|                            | <u>Governmental Activities</u> |                      | <u>Business-type Activities</u> |                   |
|----------------------------|--------------------------------|----------------------|---------------------------------|-------------------|
|                            | <u>2006</u>                    | <u>2005</u>          | <u>2006</u>                     | <u>2005</u>       |
| Land                       | \$ 609,177                     | \$ 609,177           | \$                              | \$                |
| Construction in progress   | 19,145,853                     | 10,537,596           |                                 |                   |
| Site improvements          | 513,920                        | 609,824              |                                 |                   |
| Buildings and improvements | 37,505,173                     | 38,489,922           |                                 |                   |
| Furniture and equipment    | <u>3,237,255</u>               | <u>2,008,173</u>     | <u>437,470</u>                  | <u>512,731</u>    |
| Total                      | <u>\$ 61,011,378</u>           | <u>\$ 52,254,692</u> | <u>\$ 437,470</u>               | <u>\$ 512,731</u> |

### Debt Outstanding

As of year-end, the District had \$64,205,000 in debt (bonds and notes) outstanding compared to \$67,755,000 last year. This represents a decrease of \$3,550,000 or 5.24%. During the current fiscal year, the District refunded bonds to take advantage of favorable interest rates and reduce debt service payments by approximately \$258,965. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements (Note II.E).

## Factors Expected to have an Effect on Future Operations

The District has experienced moderate growth over the past years. If the growth patterns in student population change so that more students enter the District than currently anticipated, adjustments will have to be made to the financial models upon which assumptions are made. Also, an economic slowdown could result in revenue forecasts having to be revised downward. Either of these scenarios could cause the District to scale down educational program offerings or seek additional resources.

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.

Litigation progresses as a way to recover the lost investment of the Hummlestown General Authority bonds, which defaulted in September 2004. The District instructed the bond trustee to sell the Whitetail Golf Resort, which was obtained by the bond proceeds, in order to recoup some of the investment. The asset sold in April 2006 and the net pro-rated proceeds of the sale are expected to be distributed.