

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

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 \$4,707,263 (or 29.54%) for the year ending June 30, 2007, and \$5,089,302 for the year ending June 30, 2006. During the year ending June 30, 2007, the governmental net assets increased by \$4,905,537 (or 32.29%) and the business-type net assets decreased by \$198,274 (or 26.73%). The gain of net assets was due partly to favorable budget results and the return of favorable investment markets. Overall the District projects a stable financial future based on economic factors and conservative budgeting.

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. Litigation is on-going to recover the District's losses.

Capital Projects were a major expenditure during the 2006-2007 fiscal year, with the completion of the Junior High East expansion project as well as capital investments in the District's buildings, including upgrading of energy efficient light fixtures and other energy-saving measures in all buildings.

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,

	2007			2006		
	Governmental Activities	Business-type Activities	Total	Governmental Activities *	Business-type Activities *	Total
Assets						
Current and other assets	\$ 30,688,325	\$ 208,030	\$ 30,896,355	\$ 28,466,805	\$ 327,781	\$ 28,794,586
Capital assets	62,175,402	365,361	62,540,763	61,011,378	437,470	61,448,848
Total assets	<u>\$ 92,863,727</u>	<u>\$ 573,391</u>	<u>\$ 93,437,118</u>	<u>\$ 89,478,183</u>	<u>\$ 765,251</u>	<u>\$ 90,243,434</u>
Liabilities						
Current and other liabilities	\$ 15,108,301	\$ 29,976	\$ 15,138,277	\$ 12,495,890	\$ 23,562	\$ 12,519,452
Long-term liabilities	57,657,069		57,657,069	61,789,473		61,789,473
Total liabilities	<u>72,765,370</u>	<u>29,976</u>	<u>72,795,346</u>	<u>74,285,363</u>	<u>23,562</u>	<u>74,308,925</u>
Net Assets:						
Invested in capital assets, net of related debt	2,758,537	365,361	3,123,898	2,892,251	437,470	3,329,721
Restricted	6,276,967		6,276,967	3,022,036		3,022,036
Unrestricted	11,062,853	178,054	11,240,907	9,278,533	304,219	9,582,752
Total net assets	<u>20,098,357</u>	<u>543,415</u>	<u>20,641,772</u>	<u>15,192,820</u>	<u>741,689</u>	<u>15,934,509</u>
Total liabilities and net assets	<u>\$ 92,863,727</u>	<u>\$ 573,391</u>	<u>\$ 93,437,118</u>	<u>\$ 89,478,183</u>	<u>\$ 765,251</u>	<u>\$ 90,243,434</u>

* Amounts from 2006 have been restated 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

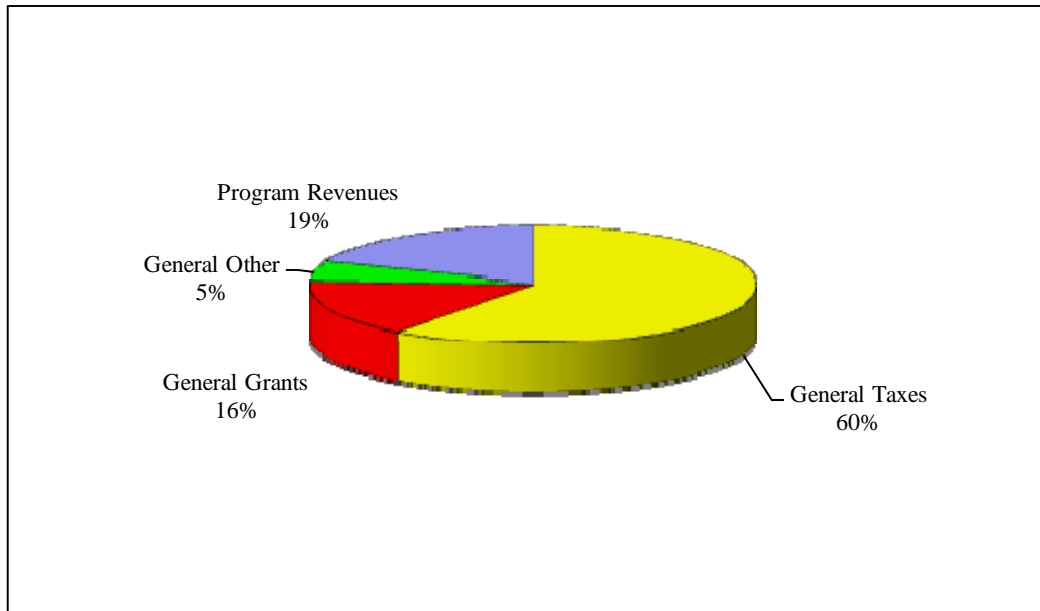
The following table reflects the revenues and expenses for the current and prior years.

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

	2007			2006		
	Governmental Activities	Business-type Activities	Total	Governmental Activities *	Business-type Activities *	Total
Revenues						
Program revenues						
Charges for services	\$ 577,601	\$ 1,803,675	\$ 2,381,276	\$ 612,765	\$ 1,731,929	\$ 2,344,694
Operating grants and contributions	12,551,293	630,054	13,181,347	10,932,240	650,837	11,583,077
Capital grants and contributions	319,057		319,057	1,839,582		1,839,582
General revenues						
Taxes	50,542,714		50,542,714	48,381,017		48,381,017
Grants	13,051,855		13,051,855	12,200,055		12,200,055
Investment earnings	4,333,050	10,809	4,343,859	1,580,319	13,401	1,593,720
Loss on disposition of assets	(29,388)	(5,551)	(34,939)			-
Miscellaneous	14,964		14,964	69,218		69,218
Total Revenues	81,361,146	2,438,987	83,800,133	75,615,196	2,396,167	78,011,363
Expenses						
Instruction						
Regular programs	33,299,462		33,299,462	30,874,793		30,874,793
Special programs	9,243,819		9,243,819	8,266,660		8,266,660
Vocational programs	1,608,743		1,608,743	1,586,091		1,586,091
Other instructional programs	1,056,137		1,056,137	1,133,691		1,133,691
Adult education programs	13,606		13,606	11,655		11,655
Support services						
Pupil personnel services	2,254,540		2,254,540	2,343,767		2,343,767
Instructional staff services	3,624,804		3,624,804	3,288,862		3,288,862
Administrative services	4,920,763		4,920,763	4,439,403		4,439,403
Pupil health	697,079		697,079	626,536		626,536
Business services	915,444		915,444	867,583		867,583
Operation of maintenance of plant services	6,750,708		6,750,708	6,441,800		6,441,800
Pupil transportation	6,780,105		6,780,105	4,828,458		4,828,458
Central services	832,597		832,597	897,289		897,289
Other support services	75,806		75,806	73,292		73,292
Non-instructional services						
Food service		2,562,167	2,562,167		2,483,752	2,483,752
Student activities	1,154,320		1,154,320	1,085,669		1,085,669
Community services	34,906		34,906	22,976		22,976
Interest on long-term debt	3,267,864		3,267,864	3,265,914		3,265,914
Total Expenses	76,530,703	2,562,167	79,092,870	70,054,439	2,483,752	72,538,191
Increase (decrease) in net assets before transfers	4,830,443	(123,180)	4,707,263	5,560,757	(87,585)	5,473,172
Transfers	75,094	(75,094)	-	75,094	(75,094)	-
Increase (decrease) in net assets	4,905,537	(198,274)	4,707,263	5,635,851	(162,679)	5,473,172
Net Assets, beginning of year, restated	15,192,820	741,689	15,934,509	9,556,969	904,368	10,461,337
Net assets, end of year	\$ 20,098,357	\$ 543,415	\$ 20,641,772	\$ 15,192,820	\$ 741,689	\$ 15,934,509

* Amounts from 2006 have been restated 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 \$17,494,482, which is an increase from the prior year of \$614,689 (or 3.64%). Of the \$17,494,482, the General fund balance is \$7,671,390, which is an increase of \$957,500 over the prior year. The major contributor to the General fund balance increase is higher than expected revenues, specifically local earned income tax revenues and interest earned revenues. The District also has \$3,932,746 remaining in the Gilbertsville, Washington, JHW and Senior High Renovation fund, which is \$175,892 lower than the prior year with \$1,142,460 designated as reserved fund balance. The major contributor to the decrease in this fund is an investment in the all-weather track at the Senior High School Stadium. The Debt Service fund balance is at \$3,814,077, which is an increase of \$2,532,371 from the prior year due to a partial recapture (\$2,453,222) of the defaulted investment from the 2004-2005 fiscal year through the sale of an asset owned by the Hummelstown General Authority, issuer of the defaulted investment. The non-major funds report total fund balance of \$2,076,269, which is \$2,699,290 lower than the prior year. The major contributor to the decrease in fund balance in the non-major funds is actual expenditures for the completion of the Junior High East renovation project exceeded actual revenue. The general fund unrestricted balance represents 10 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 41.

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 \$222,671 (.29%) as a result of additional approved grants.

The General Fund actual amount of revenue received exceeded the final revenue budget by \$1,565,086 (2.04%) predominantly due to better than anticipated local earned income tax collections, interest earnings, 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 as well as additional transfer tax for new and existing home sales.

The General Fund actual amount of expenditures exceeded the final expenditure budget by \$420,883 (0.55%). This is primarily due to the recording of a one-time adjustment due to a change in contracted transportation with the Berks County Intermediate Unit. In previous years the District recorded the actual expenditure of intermediate unit-provided transportation through a deduction from the transportation subsidy the following June. This one-time adjustment represents the expenditure incurred in the year the services were provided. The Capital Outlay category did not have an original budget, however, costs for the balance of a performance contract with CM3 (\$216,658) had to be recorded to this category as an expenditure. Other costs that exceeded final budget include additional special education costs and increased fuel and energy 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.

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 \$62,540,763, which represents a net increase (additions less retirements and depreciation) of \$1,091,915 or 1.78% from the end of last year. This is mainly due to the completed 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).

Boyertown Area School District's Capital Assets (net of depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 609,177	\$ 609,177	\$	\$
Construction in progress	14,448	19,145,853		
Site improvements	1,370,548	513,920		
Buildings and improvements	57,273,326	37,505,173		
Furniture and equipment	2,907,903	3,237,255	365,361	437,470
Total	<u>\$ 62,175,402</u>	<u>\$ 61,011,378</u>	<u>\$ 365,361</u>	<u>\$ 437,470</u>

Debt Outstanding

As of year-end, the District had \$60,985,000 in debt (bonds and notes) outstanding compared to \$64,205,000 last year. This represents a decrease of \$3,220,000 or 5.02%. 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. The growth patterns in student population have changed in the Montgomery County portion of the District, causing an overpopulation of students in the buildings that serve the eastern portion of the District. Anticipated redistricting will cause transportation adjustments and possibly building renovations. Also, an economic slowdown could result in revenue forecasts having to be revised downward. The current economic slowdown is impacting interest rates and new housing starts. 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 had the opportunity to swap education funding from the current property tax method to an increased income tax through a voter referendum in May 2007 but the measure was soundly rejected. 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 31% 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 (\$2,453,222.09) were received in February 2007.