I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Boyertown Area School District is located in Boyertown, Pennsylvania. The District's tax base includes portions of Berks and Montgomery Counties and consists of the following Townships and Boroughs: Bally, Bechtelsville, Boyertown, Colebrookdale, Washington, Upper Frederick, Douglass-Berks, Douglass-Montgomery, Earl and New Hanover.

The Boyertown Area School District is a unit established, organized and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on the local level, the Commonwealth's obligation of public education, as established by the constitution of the Commonwealth and by the school law code of the same (Article II; Act 150, July 8, 1968).

A board of nine school directors who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term, governs the Boyertown Area School District.

The Board of School Directors has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary, secondary and other schools necessary to educate eligible students between the ages of 5 and 21 years residing in such district who may attend.

In order to establish, enlarge, equip, furnish, operate and maintain any schools, or to pay any school indebtedness which the District is required to pay, the Board of School Directors is vested with all necessary authority and power to annually levy and collect the taxes required and granted by the legislature, in addition to the annual state appropriation, and is vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949, as amended.

The most significant of the District's accounting policies are described below:

A. Reporting entity

In evaluating the District as a reporting entity, management has addressed all potential component units for which the District may or may not be financially accountable, and, as such, be includable within the District's financial statements. In accordance with Statement of Governmental Accounting Standards Board (GASB) No. 14 and No. 39, the District is financially accountable if it appoints a voting majority of the organization governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based upon the application of these criteria, the District has determined it has no component units. The District is a participant in a joint venture (see Note II.H).

B. Fund accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Government-wide and fund financial statements

The government-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. 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided by a given function or segment. In addition, program revenues include 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 government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's ongoing operations. The principal operating revenues of the District's enterprise fund are food service charges. Operating expenses for the District's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Measurement focus, basis of accounting, and financial statement presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Fiduciary fund financial statements are prepared on the economic resource measurement focus and accrual basis of accounting, however the agency funds have no measurement focus. 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 prepared 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 tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual are tax revenues and tuition. Revenue from federal, state, and other grants designated for payment of specific expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Measurement focus, basis of accounting, and financial statement presentation, continued

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund, which accounts for all financial resources except those required to be accounted for in another fund.

The Gilbertsville, Washington, Junior High West, and Senior High Renovation Fund was established to provide funds for certain capital projects, which consist of the acquisition, improvements, additions, extraordinary maintenance and repair of public school buildings and facilities of the District, and paying bond issue and financial costs, specifically for renovations and additions to the Gilbertsville and Washington Elementary Schools, Junior High West and the first floor of the Senior High.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The District reports the following major proprietary funds:

The Food Service Fund is used to account for the activities of the District's food service program.

Additionally, the District reports the following funds:

The Special Revenue Fund is used to account for financial resources, which are restricted to expenditures for specified purposes. This fund is used to account for funds for school athletics authorized by Section 511 of the Public School Code of 1949, as amended.

The Capital Projects Fund was established to provide funds for certain capital projects, which consist of the acquisition, improvements, and additions to District buildings and facilities.

The Technology Reserve Fund was established to provide funds for acquiring computer equipment and network infrastructure to keep the District up to date with technology.

The Senior High and N.H.U.F. Renovation Fund was established to provide funds for certain capital projects, which consist of the acquisition, improvements, additions, extraordinary maintenance and repair of public school buildings and facilities of the District, and paying bond issue and financial costs, specifically for major renovations in the Senior High School and the New Hanover-Upper Frederick Elementary School.

The Junior High East Renovation Fund was established to provide funds for certain capital projects, which consist of the acquisition, improvements, additions, extraordinary maintenance and repair of public school buildings and facilities of the District, and paying bond issue and financial costs, specifically for renovations in the Junior High East, Senior High School and Education Center.

The Internal Service Fund was established to record the contingent liability arising from the District being self-insured for insurance in prior periods.

The Private-purpose Trust Fund is used to account for the resources of the various scholarships, whose sole purpose is to provide annual scholarships to particular students as prescribed by donor stipulations.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Measurement focus, basis of accounting, and financial statement presentation, continued

The Agency Fund accounts for the assets held as an agent for the various student activities. In addition, the agency fund accounts for the activities of the Boyertown Earned Income Tax Office. The Earned Income Tax Office operates the collection of earned income taxes and occupational privilege tax levied by the District and surrounding municipalities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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

E. Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

F. Elimination and reclassification

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column. Interfund services provided and used are not eliminated in the process of consolidation.

G. Capital assets

Capital assets, which include property, plant, equipment, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The District defines capital assets, as assets with an initial individual cost equal to or greater than $1,000 or purchased with debt proceeds 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 asset or materially extend asset lives are not capitalized.

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

	Years
Site improvements	15-20
Buildings and building improvements	20-40
Furniture and equipment	5-20

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

H. Cash equivalents and investments

For purposes of the statement of cash flows, the Proprietary Funds consider all highly liquid investments, with maturity of three months or less when purchased, to be cash equivalents.

Investments are valued at fair value.

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds in the following types of investments:

i. United States Treasury bills.

ii. Short-term obligations of the United States government or its agencies or instrumentalities.

iii. 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 or the National Credit Union Share Insurance Fund 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.

iv. Obligations of 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, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or 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.

I. Inventories and prepaid items

Inventory of food and milk in the Food Service Fund consists of supplies purchased and donated commodities received from the federal government. The donated commodities are valued at the USDA's approximate cost. Food and supplies are carried at cost using the first-in, first-out method. Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased.

The inventories on hand in the Food Service Fund at June 30, 2007, consist of the following:

Supplies	$ 32,584
Purchased food	37,081
Donated commodities	1,874
	$ 71,539

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

J. Long-term obligations

In the government-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. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds 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 expenditures.

K. Deferred revenue

Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Such is the case in the General Fund, where deferred revenue has been established to offset real estate tax receivables. Deferred revenue also arises when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the Governmental Funds balance sheet and revenue is recognized.

L. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Real estate taxes

The District’s real estate taxes are based on assessed values established by the Counties’ Boards of Assessments. Elected local tax collectors collect the taxes. Real estate taxes are effectively levied on July 1. A discount of 2% is applied to payments made prior to August 31. A penalty of 10% is added to the face amount of taxes paid after October 31. Real estate taxes are liened on January 1. As of January 1, 2004, any unpaid real estate taxes are collected by the School District for approximately sixty days. After sixty days, delinquent real estate taxes are sent to an attorney for collection. Any outstanding taxes before January 1, 2004 are collected through each county’s tax claim bureau.

N. Allowance for doubtful accounts

The District believes that all receivables are collectible. Therefore, an allowance for doubtful accounts is not needed.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Custodial credit risk – deposits
In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2007, $17,557,739 of the District's bank balance of $21,422,939 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

As of June 30, 2007, the District had the following investments:

Investment Type	Fair value
Investment pools	5,292,661
Money Market Funds	581,487
Federal Home Loan Mortgage	248,770
Common stock	20,421

Custodial Credit Risk – Investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investments subject to custodial credit risk.

Credit Risk. The District has no investment policy that would limit its choices to certain credit ratings. As of June 30, 2007, The District's investments were rated as:

Investment	Standard & Poor's
PA School District Liquid Asset Fund	AAA
PA Local Government Investment Trust	AAA
Federal Home Loan Mortgage	AAA

Interest Rate Risk. Interest Rate risk is the risk that changes in interest rates will adversely affect an investment's value. The District does not have a formal policy regarding interest rate risk. As of June 30, 2007, the District's investments had the following weighted average maturities:

Investment	Fair Value	Weighted Average Maturity (Days)
Federal Home Loan Bank	$ 248,788	20
PA School District Liquid Asset Fund	3,686,239	11
PA Local Government Investment Trust	1,606,422	43

The mortgage pass-through investments are highly sensitive to changes in interest rate changes because of prepayment options.

II. DETAILED NOTES ON ALL FUNDS, continued

B. Receivables

Taxes Receivable

The millage rate levied by the District for the fiscal year ended June 30, 2007, was 19.18 mills for Berks County and 18.63 mills for Montgomery County, as established by the Board of School Directors. Current tax collections for the District were approximately 97.5% of the total tax levy.

The following amounts applicable to taxes receivable were recorded at June 30, 2007:

Real estate transfer tax	$ 103,539
Interim real estate taxes	50,528
Delinquent taxes	2,231,115
	$ 2,385,182

Due from Other Governments (Intergovernmental Receivables)

General Fund	
Federal subsidies receivable	
Title I Part A	$ 15,331
Title II	90,081
IDEA	469,815
ACESS	460,449
Total Federal Subsidies Receivable	1,035,676
State subsidies receivable	
State Grants	24,661
Rental Subsidy	98,564
Retirement	497,908
Social security	168,712
Total State Subsidies Receivable	789,845
Other governmental units	
Grants	18,154
Tuition	56,769
Total Intergovernmental Receivables	$ 1,900,444
Proprietary Funds	
Federal subsidies receivable	$ 10,218
State subsidies receivable	2,229
Total Intergovernmental Receivables	$ 12,447

II. DETAILED NOTES ON ALL FUNDS, continued

C. Interfund receivables, payables, and transfers

The following is a summary of interfund receivables and payables at June 30, 2007:

	Interfund Receivable	Interfund Payable
General Fund	$	$ 1,342,460
Other governmental funds	200,000	667,580
Gilbertsville/Wash/JHW Fund	1,810,040	
	$ 2,010,040	$ 2,010,040

The Gilbertsville/Wash/JHW Fund interfund receivable is not expected to be repaid within one year since this is a multi year loan.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." The amounts between the Capital Projects, Technology Reserve, and Gilbertsville/Washington/JHW Funds are interfund borrowings to purchase technology. The amount between the General Fund and Gilbertsville/Washington/JHW Fund is a long-term interfund borrowing for an energy savings contract. The amounts between the General Fund and Food Service are for payroll.

Interfund transfers are summarized as follows:

	Transfers In	Transfers Out
General Fund	$ 75,094	$ 1,217,992
Other governmental funds	1,538,337	5,337
Private-Purpose Trust Fund	17,992	
Gilbertsville/Wash/JHW Fund		333,000
Food Service		75,094
	$ 1,631,423	$ 1,631,423

The District typically transfers budgeted dollar amounts from the General Fund to the Capital Projects Fund and Technology Reserve Fund to assist the Capital Projects Fund in providing for the various repairs, maintenance, or purchase of buildings and equipment and assist the Technology Reserve Fund for purchasing technology for the District. The Food Service fund transfers money to pay for its share of utility costs and rent.

D. Capital assets

The net book value of each capital asset category for Governmental Activities is as follows:

	Cost	Accumulated Depreciation	Net Book Value
Capital assets not being depreciated			
Land	$ 609,177	$	$ 609,177
Construction in progress	14,448		14,448
Capital assets being depreciated			
Site improvements	3,916,631	(2,546,083)	1,370,548
Buildings and improvements	92,353,124	(35,079,798)	57,273,326
Furniture and equipment	10,525,935	(7,618,032)	2,907,903
	$ 107,419,315	$ (45,243,913)	$ 62,175,402

II. DETAILED NOTES ON ALL FUNDS, continued

D. Capital assets, continued

A summary of changes in capital assets is as follows:

Governmental Activities:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated				
Land	$ 609,177	$	$	$ 609,177
Construction in progress	19,145,853	14,448	19,145,853	14,448
Total Capital assets not being depreciated	19,755,030	14,448	19,145,853	623,625
Capital assets being depreciated				
Site improvements	2,924,714	991,917		3,916,631
Buildings and improvements	70,575,988	21,777,136		92,353,124
Furniture and equipment	11,066,240	560,229	1,100,534	10,525,935
Total capital assets being depreciated at historical cost	84,566,942	23,329,282	1,100,534	106,795,690
Less accumulated depreciation for				
Site improvements	(2,410,794)	(135,289)		(2,546,083)
Buildings and improvements	(33,070,815)	(2,008,983)		(35,079,798)
Furniture & Equipment	(7,828,985)	(860,193)	(1,071,146)	(7,618,032)
Total accumulated depreciation	(43,310,594)	(3,004,465)	(1,071,146)	(45,243,913)
Total capital assets being depreciated, net	41,256,348	20,324,817	29,388	61,551,777
Governmental Activities capital assets, net	61,011,378	20,339,265	19,175,241	62,175,402
Business-type Activities:				
Capital assets being depreciated				
Furniture and equipment	1,775,008	34,162	90,692	1,718,478
Less accumulated depreciation	(1,337,538)	(100,720)	(85,141)	(1,353,117)
Business-type activities capital assets, net	437,470	(66,558)	5,551	365,361
Total for Reporting Entity	$ 61,448,848	$ 20,272,707	$ 19,180,792	$ 62,540,763

II. DETAILED NOTES ON ALL FUNDS, continued

D. Capital assets, continued

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular programs	$	1,385,563
Special programs		384,237
Vocational		66,812
Other instructional programs		43,862
Adult education programs		565
Support Services		
Pupil personnel services		93,633
Instructional staff services		157,221
Administration services		201,303
Pupil health		29,720
Business services		38,166
Operation and maintenance of plant services		286,976
Pupil transportation services		281,582
Central Services		34,825
Total Depreciation charged as direct expense	$	3,004,465

E. Long-term debt

Bonds and notes payable at June 30, 2007, consisted of:

General Obligation Bond, Series of 1999, principal amount $36,355,000, due in annual installments ranging from $1,455,000 to $10,075,000, maturing February 2017, bearing interest from 3.3% to 5%	$	23,455,000
General Obligation Bond, Series of 2005, principal amount $24,325,000, due in annual installments ranging from $955,000 to $1,515,000, maturing October 2025, bearing interest from 2.5% to 5%		22,320,000
General Obligation Note, Series of 2005, principal amount $6,400,000, due in annual installments ranging from $5,000 to $725,000, maturing February 2026, bearing a variable interest rate		6,390,000
General Obligation Bond, Series of 2006, principal amount $9,405,000, due in annual installments ranging from $585,000 to $1,250,000, maturing March 2015, bearing interest from 3% to 4%		8,820,000
	$	60,985,000

II. DETAILED NOTES ON ALL FUNDS, continued

E. Long-term debt, continued

All of the District's debt was issued to provide funds for the acquisition and/or construction of major capital facilities.

The following is a summary of governmental long-term liability activity of the District for the year ended June 30, 2007:

Type	Principal Outstanding July 1, 2006	Additions	Repayments	Principal Outstanding June 30, 2007	Due within One Year
General Obligation Bond - 1999	$ 25,130,000	$	$ 1,675,000	$ 23,455,000	$ 1,995,000
General Obligation Bond - 2005	23,275,000		955,000	22,320,000	985,000
General Obligation Note - 2005	6,395,000		5,000	6,390,000	5,000
General Obligation Bond - 2006	9,405,000		585,000	8,820,000	970,000
	64,205,000	-	3,220,000	60,985,000	3,955,000
Capital Leases	1,057,994	87,743	310,207	835,530	316,780
	65,262,994	87,743	3,530,207	61,820,530	4,271,780
Compensated Absences (Note II.J)	32,295	86,957	5,232	114,020	5,701
Total	$ 65,295,289	$ 174,700	$ 3,535,439	$ 61,934,550	$ 4,277,481

The General Fund funds the payments of long-term debt and compensated absences.

Debt Service Requirements

A summary of long-term debt service requirements to maturity, including principal and interest for Bonds and Notes, is as follows:

Year Ended June 30,	Principal	Interest	Total
2008	$ 3,955,000	$ 2,573,777	$ 6,528,777
2009	4,110,000	2,430,473	6,540,473
2010	4,265,000	2,273,766	6,538,766
2011	4,455,000	2,090,227	6,545,227
2012	4,645,000	1,898,369	6,543,369
2013-2017	22,780,000	6,277,181	29,057,181
2018-2022	8,430,000	2,601,866	11,031,866
2023-2026	8,345,000	718,842	9,063,842
	$ 60,985,000	$ 20,864,501	$ 81,849,501

II. DETAILED NOTES ON ALL FUNDS, continued

E. Long-term debt, continued

Interest rate swap

Objective: As a means to lower its borrowing costs, the District's strategy is to have a mixture of fixed and variable rate debt to take advantage of market fluctuations. Because variable rates have been at 25 year lows, the District decided to synthetically create variable rate debt by entering into a derivative.

Terms: In March 2005, the District entered into a pay variable, receive fixed interest rate swap for the General Obligation Bonds Series 2005. The notional value of the swap is $9,060,000. Under the terms of the swap, entered into in 2005 and scheduled to end in October 2014, the District pays a variable rate equivalent to the Bond Market Association Municipal Swap Index (BMA), which was 3.73% at June 30, 2007, and receives fixed rate payments at 3.46%. The variable rate on the swap has an interest rate cap of 25%. The swap is structured such that the notional amount and payment dates will match the amortization and payment dates of the General Obligation Bonds Series 2005. As of June 30, 2007, the swap created a synthetic variable rate bond as follows:

	Terms	Rates
Interest rate swap:		
Variable payment to counterparty	BMA	3.73%
Fixed payment from counterparty	Fixed	(3.46%)
Net interest rate swap payments		.27%
Fixed rate bond coupon payment	Fixed	3.0%
Synthetic variable interest rate on bonds		3.27%

Fair value: As of June 30, 2007 the swap had a negative fair value of $62,865 calculated by Public Financial Management Inc using proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions.

Credit risk: The swap's fair value represented the District's credit exposure to the counterparty as of June 30, 2007. Should the counterparty to this transaction fail to perform according to the terms of the swap contract, the District faced a maximum possible loss equivalent to the swap's negative $62,865 fair value. As of June 30, 2007 the counterparty was rated Aa1 by Moody's Investors Service and AA by Standard & Poor's and AA- by Fitch Ratings. To mitigate credit risk, if the counterparty's credit quality falls below A3/A-, the fair value of the swap can be fully collateralized by the counterparty.

Interest rate risk: The swap increases the District's exposure to variable interest rates. As BMA increases, the District's net payment on the swap increases.

Termination risk: The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for that payment.

II. DETAILED NOTES ON ALL FUNDS, continued

E. Long-term debt, continued

Interest rate swap, continued

Swap payments and associated debt: Using the interest rates as of June 30, 2007, principal and interest requirements of the debt and net swap payments for the term of the swap and the debt are as follows. As rates vary, net swap payments will vary.

	Fixed Rate Bonds			
Fiscal year ending June 30,	Principal	Interest	Interest rate swaps, net	Total
2008	$ 985,000	$ 1,018,450	$ 24,462	$ 2,027,912
2009	1,010,000	988,525	21,803	2,020,328
2010	1,050,000	952,375	19,076	2,021,451
2011	1,100,000	903,875	16,241	2,020,116
2012	1,150,000	854,813	13,271	2,018,084
2013-2017	5,780,000	3,466,025	20,656	9,266,681
2018-2022	5,620,000	2,113,225		7,733,225
2023-2026	5,625,000	580,375		6,205,375
	$ 22,320,000	$ 10,877,663	$ 115,509	$ 33,313,172

F. Capital Leases

On August 22, 2005, the District entered into a lease-purchase agreement with Suntrust Leasing Corporation for the purchase of communication equipment. The present value of the lease payments is $906,268. The lease provides for ten semi-annual payments of $100,628. The implicit interest rate is 3.9%. The total present value of the lease, in the amount of $906,268 has been included in capital assets as furniture & equipment, and long-term liabilities in the government-wide financial statements.

On August 16, 2005, the District entered into a lease-purchase agreement with Government Capital Corporation for the purchase of school textbooks. The present value of the lease payments is $360,000. The lease provides for three annual payments of $125,319. The implicit interest rate is 4.73%. The total present value of the lease, in the amount of $360,000 has been included in capital assets as furniture and equipment, and long-term liabilities in the government-wide financial statements.

II. DETAILED NOTES ON ALL FUNDS, continued

F. Capital Leases, continued

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, were as follows:

Year Ended June 30,	Governmental Activities
2008	$ 350,966
2009	225,647
2010	225,647
2011	100,628
Total minimum lease payments	902,888
Less: amount representing interest	67,358
Present value of minimum lease payments	$ 835,530

G. Deferred revenue

General Fund

Real estate taxes collected within 60 days of the close of the fiscal year are recorded as current revenues. The noncurrent portion of real estate taxes receivable is recorded as deferred revenue until such time as it becomes available. Program grants received prior to the incurrence of qualifying expenditures are recorded as deferred revenue.

At June 30, 2007, deferred revenue consisted of delinquent taxes receivable of $2,138,775.

Also included in deferred revenue is $100,753. This amount represents funds received to be used for future expenditures.

Food Service Fund

Deferred revenue of $29,976 in the Food Service Fund represents a carryover of student deposits and the unused donated commodities inventory as of June 30, 2007.

H. Joint venture

The District is a participating member of the Berks Career and Technology Center. A joint board consisting of school directors from each member district runs the Center. The board of directors of each member district must approve the Center's annual operating budget. Each member pays a private share of the operating costs of the Center based on the number of students from each district. For the fiscal year ended June 30, 2007, the Boyertown Area School District's share was $1,541,930. The Center prepares financial statements, which are available to the public.

In 1998, the Berks County Vocational Technical School Authority (Authority) issued its Lease Revenue Bonds (Berks Career and Technology Center Project) Series of 1998. The proceeds were to be used to finance renovations and improvements to the Vo-Tech School's East and West Campuses, the acquisition of certain machinery and equipment for educational instruction, funding of a Debt Service Reserve Fund, funding of capitalized interest and payment of the costs of issuing the bonds.

II. DETAILED NOTES ON ALL FUNDS, continued

H. Joint venture, continued

To secure payment of principal and interest on the bonds, the Authority entered into a lease and sublease with the Vo-Tech School. Bond counsel to the Vo-Tech School has determined the obligation does not constitute "debt" or "lease rental debt" of the District as defined in the Local Governmental Unit Debt Act of the Commonwealth of Pennsylvania. However, each participating member is obligated to pay its proportionate share of the rental payments of the Vo-Tech School to the Authority under the sublease. The District's proportionate share for the year ended June 30, 2007, was $385,250. Future rentals payable under the sublease shall be allocated among the participating members based on the proportion, which the market valuation of each participating member bears to the total market valuation of all participating members.

I. Pensions

Plan description

Name of plan: The Public School Employees' Retirement System (the System).

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

Benefits: Retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants.

Authority: The Public School Employees' 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 Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System, PO Box 125, Harrisburg, PA 17108-0125. The report is also available on the PSERS website at www.psers.state.pa.us/publications/cafr/index.htm.

Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Contribution rates: Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class TC) or at 6.5% (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class TC) or at 7.5% (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.5% (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2007, the rate of employer's contribution was 6.46 percent of covered payroll. The 6.46 percent rate is composed of a pension contribution rate of 5.72 percent for pension benefits and .74 percent for healthcare insurance premium assistance.

The District's contributions to PSERS for the years ending June 30, 2007, 2006 and 2005, were $2,557,447, $1,520,845 and $1,521,122, respectively, equal to the required contributions for each year.

II. DETAILED NOTES ON ALL FUNDS, continued

J. Other post-employment benefits and compensated absences

Post-employment Health Care Benefits

The District makes available certain health care benefits for retired public employees. The District pays one full year of medical insurance for each ten years of service to the District for central administrators. The District will pay 25 percent of medical premiums for three years for directors and principals with five to nine consecutive years of service to the District. The District will pay 40 percent of medical premiums for three years for directors and principals with ten or more years of service to the District. All other retired employees pay the entire cost of the benefits.

Retirement Termination Benefits

In addition to providing the health care benefit, employees of the District, who are eligible to retire as defined by PSERS, will be entitled to remuneration for each year of service to the District upon 60 days notice of retiring. This benefit is provided by the compensation policies for each class of employees which is adopted by the Board of School Directors. The amount of remuneration is based on the following classification and required years of service in the District:

Eligible Employee Classification	Required Years of Service	Remuneration Per Year of Service	Maximum Years of Service
Superintendent	1	$ 275	30
Head Custodian & Classified Supervisors	1	175	30
Cafeteria Manager	1	175	30
Teachers	5	275	35
Central Administrative Staff	1	275	30
Principals	1	275	30
Secretarial and Clerical	1	175	30
Custodian & Maintenance	1	175	30

The District finances the contributions on the pay-as-you-go method. The amount paid for the fiscal year ended June 30, 2007 is $136,904. The number of employees eligible to receive this benefit is 589.

Compensated absences
In accordance with board policy, certain groups of employees are eligible to receive their sick days as compensation when they retire provided they have at least five years of service with the District. Directors and principals are eligible to receive $55 per day up to 150 days of unused sick leave and the central administrators are eligible to receive $60 per day up to 150 days of unused sick leave. It is the District's policy to pay unexpended vacation days at an employee's per diem rate when they resign or retire. Only central administrators, directors and principals are allowed to carry over up to ten unexpended vacation days to the next fiscal year. Compensated absences of $114,020 have been recognized. The General Fund, in prior years, liquidated the liability for compensated absences.

II. DETAILED NOTES ON ALL FUNDS, continued

K. Commitments and 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.

The District is the defendant in several lawsuits arising in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements, and, accordingly, no provision for losses has been recorded.

The District has various commitments under long-term construction contracts totaling approximately $678,704 as of June 30, 2007.

L. Risk Management

The District is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. It is the policy of the District to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

M. Deficit fund balance

The Technology Reserve Fund had a deficit fund balance of $124,980 as of June 30, 2007. The deficit fund balance is made up of existing inter-fund debt that is funded each year by a transfer from the General Fund.

N. New Accounting Pronouncements

The Governmental Accounting Standards Board issued two statements not yet implemented by the District. The statements that might impact the District are as follows:

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* issued April 2004, will be effective for the District for the fiscal year ending June 30, 2008. This statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* issued June 2004, will be effective for the District for the fiscal year ending June 30, 2009. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers.

The District's management has not yet determined the effect these statements will have on the District's financial statements.

II. DETAILED NOTES ON ALL FUNDS, continued

O. CHANGES IN BEGINNING FUND BALANCE AND NET ASSETS

The following discloses the restatement fund balance/net assets as of the beginning of the year:

Governmental Fund Balance:	
Fund Balance, beginning of year, as previously stated	$ 16,538,920
Increase due to correction of accrued items	340,873
Fund Balance, beginning of year, as restated	$ 16,879,793
Proprietary Fund Balance:	
Fund Balance, beginning of year, as previously stated	$ 698,692
Increase due to correction of accrued items	42,997
Fund Balance, beginning of year, as restated	$ 741,689
Government Wide Net Assets:	
Net assets, beginning of year, as previously stated	$ 15,550,639
Increase due to correction of accrued items	383,870
Net assets, beginning of year, as restated	$ 15,934,509