

**REPORT ON  
BETHLEHEM AREA SCHOOL DISTRICT  
SINGLE AUDIT REPORT  
FISCAL YEAR ENDED JUNE 30, 2009**

**BETHLEHEM AREA SCHOOL DISTRICT**

**Single Audit Report**

**For the Fiscal Year Ended June 30, 2009**

**TABLE OF CONTENTS**

---

	<b><u>PAGE (S)</u></b>
<b>Introductory Section</b>	
Transmittal Letter .....	1
Letter to Governance/Management .....	2 - 13
Report Distribution List .....	14 - 15
<b>Financial Section</b>	
Independent Auditor's Report .....	16 - 17
Management's Discussion and Analysis .....	18 - 22
<b>Basic Financial Statements</b>	
District-wide Financial Statements:	
Statement of Net Assets .....	23
Statement of Activities .....	24
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	25
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	26
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	27
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	28 - 29
Statement of Net Assets - Proprietary Funds .....	30
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds .....	31
Statement of Cash Flows - Proprietary Funds .....	32 - 33
Statement of Net Assets - Fiduciary Funds .....	34
Statement of Changes in Net Assets - Fiduciary Funds .....	35

**BETHLEHEM AREA SCHOOL DISTRICT**

**Single Audit Report**

**For the Fiscal Year Ended June 30, 2009**

**TABLE OF CONTENTS**

---

	<b><u>PAGE (S)</u></b>
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund.....	36
Notes to Basic Financial Statements.....	37 – 79
<b>Required Supplemental Information:</b>	
Schedule of Funding Progress .....	80
<b>Supplemental Information:</b>	
Combining Balance Sheet - Non-Major Governmental Funds .....	81
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds .....	82
Combining Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds.....	83
Combining Balance Sheet - All Capital Reserve Funds.....	84
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – All Capital Reserve Funds .....	85
General Fund - Statement of Revenue, Expenditures, and Changes in Fund Balance.....	86 - 90
Capital Reserve Technology Fund - Statement of Revenues and Expenditures.....	91
Capital Reserve Fund - Statement of Revenues and Expenditures .....	92
Special Revenue Fund – Statement of Revenues and Expenditures.....	93
05-07 Capital Project Fund – Statement of Revenues and Expenditures .....	94
Food Service Fund – Statement of Revenues, Expenses, and Changes in Net Assets.....	95
Day Care Fund - Statement of Revenues, Expenses, and Changes in Net Assets ...	96
Self Insurance Fund - Statement of Revenues, Expenses, and Changes in Net Assets.....	97
Athletic Fund – Statement of Revenues and Expenditures .....	98
Concession Fund - Statement of Revenues and Expenditures.....	99
Non-Expendable Trust Fund - Statement of Additions and Deductions .....	99

**BETHLEHEM AREA SCHOOL DISTRICT**

**Single Audit Report**

**For the Fiscal Year Ended June 30, 2009**

**TABLE OF CONTENTS**

---

	<b><u>PAGE (S)</u></b>
2009 GON Bond Fund – Statement of Revenues and Expenditures .....	100
2009 A GOB Bond Fund – Statement of Revenues and Expenditures .....	100
2009 AA GOB Bond Fund – Statement of Revenues and Expenditures .....	101
 General Long-Term Debt	
Schedule on General Obligation Bonds – Series A of 2001 .....	102
Schedule on General Obligation Bonds – Series of 2007 .....	103
Schedule on General Obligation Bonds – Series A of 2007 .....	103
Schedule on Guaranteed Revenue Bonds – Series of 2009.....	104
Schedule on General Obligation Bonds – Series A of 2009.....	104
Schedule on General Obligation Bonds - Series AA of 2009 .....	104
Schedule on General Obligation Bonds – Series B of 2009.....	105
 <b>Single Audit Section</b>	
Schedule of Expenditures of Federal Awards .....	106-107
Notes to the Schedule of Expenditures of Federal Awards.....	108-109
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards.....	110 - 111
Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in accordance with OMB Circular A-133 .....	112 - 113
Schedule of Findings and Questioned Costs .....	114 – 122
Schedule of Prior Year Findings.....	123 -129
Independent Accountant's Report on Applying Agreed - Upon Procedures.....	130
Schedule of Revenues and Expenditures of Family Center Grant .....	131
Schedule of Revenues and Expenditures of Family Reunification Grant .....	132
Management's Corrective Action Plan .....	133 -143

## INTRODUCTORY SECTION



# GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

Members of the Board  
Bethlehem Area School District  
1516 Sycamore Street  
Bethlehem, PA 18017

We have performed the Single Audit of the Bethlehem Area School District for the fiscal year ended June 30, 2009, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of OMB Circular A-133, which entailed:

1. An audit of the basic financial statements, and our opinion thereon;
2. A review of compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with Governmental Auditing Standards, and our report thereon;
3. An examination of the Schedule of Expenditures of Federal Awards, and our report thereon; and,
4. An opinion on compliance with requirements applicable to each major program and a review of internal control over compliance in accordance with OMB Circular A-133, and our report thereon.

As part of our report, we have enclosed our governance/management letter.

Respectfully submitted,

*Gorman & Associates, P.C.*

March 19, 2010



# GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

Board of School Directors  
Dr. Thomas Persing, Superintendent  
Bethlehem Area School District  
1516 Sycamore Street  
Bethlehem, PA 18017-6099

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Bethlehem Area School District for the year ended June 30, 2009, and have issued our report thereon dated March 19, 2010.

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether your financial statements are fairly presented, in all material respects, in conformity with the U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities, including having compensating controls in place to ensure our preparation of your financial statements and note disclosures are not materially misstated.

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matter on September 4, 2009.

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Bethlehem Area School District are described in the notes to the financial statements. No new accounting policies were adopted during this past year and the existing policies were properly applied. We did not discover any transactions entered into by the District that lacked authoritative guidance or consensus. In addition, there are no significant transactions affecting the financial statements that have been recognized incorrectly in the wrong year, except for the items discussed in this letter.

Accounting estimates, which are part of the significant accounting policies, are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation taken on capital assets based upon the estimated useful life of each asset and calculated on the straight-line basis of depreciation, and the actuarial assumptions associated with Other Post Employment Benefits. We have evaluated the factors and assumptions used to develop these estimates and have determined the estimates to be reasonable in relation to the financial statements taken as a whole.

We wish to inform you that the disclosures in your financial statements are neutral, consistent, and clear. From time to time, certain disclosures are more sensitive than others due to their significance to financial statement users. The most sensitive disclosures involve capital assets, long-term debt, and other post employment benefits.

We have requested certain representations from management that are included in the management representation letter provided to us on March 19, 2010. We advise the governing body to request this letter from management for their review. In conjunction with their representations, we wish to inform you we did not encounter any significant difficulties in dealing with management, except as noted in this letter and had no disagreements with your management. To our knowledge, management did not find a need to converse with any other independent accountant on any related accounting or auditing issue.

In addition, the representation letter provided to us, by management, confirmed there were no uncorrected misstatements that materially affect the financial statements. Management has recorded all of our adjusting journal entries, and has agreed to the conversion entries necessary to convert governmental funds and proprietary funds to governmental activities and business-type activities, respectively.

In accordance with auditing standards, generally accepted in the United States of America, we have acquired a sufficient understanding of the District and its environment, including its internal control, to assess the risk of material misstatements of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures that were necessary to express an opinion on the 2008-09 basic financial statements.

Our consideration of the District's internal control components was not designed for the purpose of making detailed recommendations and would not necessarily disclose all significant deficiencies within the components. Our audit procedures have been appropriately adjusted to compensate for any observed significant deficiencies. The following three paragraphs define the three different types of deficiencies that can occur:

**A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.**

**A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal control.**

**A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.**

As the primary purpose of our audit is to form an opinion on the basic financial statements, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against errors and fraud which audit procedures may not disclose. The objective of internal control over financial reporting is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use and that financial records are reliable for preparing financial statements in accordance with generally accepted accounting principles and for maintaining the accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the related benefits; to operationalize this concept, management is required to formulate estimates and judgments of the cost/benefit ratios of alternative controls.

There are inherent limitations that should be recognized in considering the potential effectiveness of internal control over financial reporting. Errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, fatigue, and other personnel factors. Control procedures whose effectiveness depends upon the segregation of duties can be circumvented by collusion or by management. What's more, any projection of internal control evaluations to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or due to the deterioration of the degree of compliance with control procedures.

As an adjunct to our audit, we remained alert throughout for opportunities to enhance internal controls and operating efficiency. The remainder of this letter will explain any internal control deficiencies discovered during the audit, other auditor recommendations, and other information pertinent to the District.



A control deficiency is determined to be considered a material weakness or significant deficiency based upon the magnitude of the problem as it pertains to a particular opinion unit. In other words, what is considered a significant deficiency in one fund may only be a control deficiency in another fund of greater size.

**The following section in this governance/management letter is separated by categories based on importance, with any material weaknesses or significant deficiencies listed in the beginning:**

### **MATERIAL WEAKNESSES**

#### **All Funds – Pooled Cash Account (Bank Reconciliation)**

During our review of the pooled cash account, we noticed that the book balance matched the bank balance at year end. However, during our review of closing journal entries made by management, we discovered the cash account was arbitrarily adjusted (plugged) by \$106,846.49 recording this difference to cash. Upon further investigation, management denied knowing about it and the staff person responsible claimed he was told to do it. It was further discovered that this pooled bank account never agrees on a monthly basis and nobody has attempted to reconcile this account all year long. We expanded our procedures to find if the prior year balance was adjusted. We discovered the prior year balance matched the bank statement balance at June 30, 2008 after making a much smaller adjustment of approximately \$5,000.

In lieu of the fact that the bank balance was lower than the book balance and with the changeover of senior management, we expanded our procedures to attempt to find what was wrong. We examined all transactions occurring within ten days of the beginning of the year and ten days at the end of the year by tracing all deposits and checks written from the computer system to the bank statements. In most instances, errors in balance sheet accounts occur during the beginning or ending of any fiscal year (Our detailed procedures revealed additional errors were made making the overall difference between book balance and bank statement balances grow to \$182,954.07). We discovered an athletic deposit that was not recorded on the books (\$8,032) and June deposits made by the Day Care Fund (\$112,862.77) that was set up incorrectly as a receivable instead of part of the cash balance.

On November 24, 2009, we informed the Assistant to the Superintendent for Fiscal Affairs and his assistant to find the unacceptable difference before we came back on December 21, 2009 to perform federal compliance procedures on grant awards.

Upon our return, the Assistant to the Superintendent for Fiscal Affairs had left and his assistant informed us they were still looking for the difference. After spending over 90 additional hours in trying to reconcile the pooled cash account, we had to wait until the middle of February for your staff to find the major component of the difference, which turns out to affect fund 71, as well. The major difference was co-payments collected from employees for health insurance that was paid to the self-insurance fund, but was not recorded on the books.

The failure to properly reconcile this major cash account on a monthly basis has caused the District additional audit costs and delays in issuing this annual report. Poor monitoring by senior management helped in creating this material weakness. We highly recommend monthly bank reconciliations be performed with any unknown differences investigated and found, so management can properly report the correct cash balance to the School Board at its monthly meetings. Proper monitoring of personnel is a major component to internal controls, without it, errors or fraud can occur without detection.

**General Fund – Accounts Payable**

During our review of this balance sheet account, we discovered some improvement in maintaining documentation to support the ending balance in the account, which was correct. However, we discovered management arbitrarily adjusted an unknown balance of \$1,250,422 to bring this account into correct balance. The failure to find any variance in a balance sheet account causes an under or overstatement of a revenue or expenditure account. Our investigation revealed that fund 71 was not correct as a result of this difference.

The monitoring aspect of internal controls is designed to investigate and find any variances and why they are occurring versus just arbitrarily plugging the incorrect amount anywhere in the system. We recommend management take greater care and understand the flow of transactions among the various accounts in order to create accurate and complete records.

**Food Service Fund – Inventories**

As was the case in last year's report, during our review of assets recorded in the food service fund, the only evidence provided by management to support the ending inventory was a summary sheet. When we asked for additional documentation on how the numbers were derived, we were told the detail inventory sheets were destroyed at the end of the year. By discarding this information, management has destroyed the audit trail. While we believe the inventories reported at year end appear reasonable, we could not verify this information.

In the future, we recommend management maintain all supporting documentation on any inventory taken to support the balance reported in the general ledger at year end.

**Food Service Fund – Other Accounts Receivable**

As was the case in last year's report, during our testing of recorded revenue and assets in the food service fund, we reviewed over 370 pages of outstanding balances owed by students or parents of students on previous meals provided in the cafeteria and not paid at the time of service. The total amount shown on your general ledger as owed from students has grown to \$215,458 at June 30, 2009. This amount appeared very high so we made further inquiry to discover additional information. We were told by the food service director that student accounts are sent to a collection agency called "Credittech" when the balance owed is greater than \$50. After receiving the statement from Credittech for the balance owed at June 30, 2009, their statement showed only \$43,805 owed.

We wish to recommend management analyze the 370 plus pages to determine any discrepancies that may have to be written off as bad debts. We also wish to advise management to consider modifying the policies associated with providing lunches without payment. At the time of this report, the balance has been reduced to \$123,000.

**05-07 Capital Project Fund – Coding**

During our review of construction costs, we discovered \$1,668,998 coded to incorrect expenditure accounts. These costs were coded to repairs and maintenance functions versus capital improvement codes. The failure to properly code these costs can impair future rental subsidy payments from the Commonwealth and create misunderstandings on the purpose of the projects.

We recommend management properly monitor the coding of these costs in accordance with the PA School Accounting Manual. Any questions management may have in regards to the proper function or object codes to use; they are welcome to contact us for assistance.

#### **05-07 Capital Project Fund – Accounts Payable**

During our review of the balance reported in the accounts payable account at year end, we discovered the account balance was incorrect by \$1,365,883. It appears, management failed to review subsequent invoices paid in 2009-10, to determine if they belonged in the 2008-09 fiscal year. The failure to properly reflect all expenditures in the correct year can overstate the financial position of the fund at year end.

We recommend management monitors this fund at year end to ensure any unpaid invoices are included in expenditures for the proper year using the modified accrual basis of accounting, as mandated by generally accepted accounting principles for governmental funds.

#### **Self Insurance Fund**

During our review of this fund, we discovered this fund is not properly being monitored by management. The District uses this fund to collect premiums paid by other district funds, co-pays from employees, and pays all medical claims of employees. The amount each fund pays into this fund is an estimate created by the Assistant to the Superintendent for Fiscal Affairs at the beginning of the year. This estimate was incorrectly applied by the Assistant Business Manager throughout the year; creating the impression that the general fund, day care fund, and food service fund had larger surpluses than actually existed. In addition, \$1,354,000 was given to Capital Blue Cross to be held in escrow, which was erroneously charged to expenditures instead of restricted cash.

The failure to monitor the estimated payments into the fund with the actual claims made from this fund can create an overstatement or understatement of the financial position on every school district fund that has employees charged to each respective fund. We have made the appropriate adjustments, with the help of the new Assistant to the Superintendent for Fiscal Affairs, to correct the revenues and expenditures in this fund.

We highly recommend management properly monitor this fund's activities because it affects the financial positions of the general fund, food service fund, athletic fund, and day care fund in addition to its own.

### **SIGNIFICANT DEFICIENCIES**

#### **Payroll PSDLAF Account – Reconciliation**

As was the case last year, during our review of the District's bank accounts, we discovered the payroll account with the Pennsylvania School District Liquid Asset Fund is not properly reconciled. As a result, at year end this account's bank statement less outstanding checks does not agree with the balance in the computer system by \$88,631.56. Although management appears to be aware of the problem, they either accept the difference or don't know how to find out why the account doesn't reconcile.

We were informed that this account has had variances in the reconciliation for many years. We spent the time and energy finding out what is creating this continuous problem. Our investigation revealed the outstanding check list is incorrect. Because the personnel in charge of reconciling this account performed the reconciliation in August 2009, the outstanding check list created excluded checks that were outstanding at June 30, 2009, but cleared the bank in July 2009. The district receives an upload from the bank at the end of each month for all transactions that have taken place during the month. Once this upload is put into the district's accounting software, the outstanding check list changes for checks clearing the bank for that particular month.

We spent an additional 32 hours determining the problem in the reconciliation of this account, that proper oversight by management should have detected years ago. We recommend management properly monitor their staff to ensure future problems don't arise in reconciling this bank account.

### **Real Estate Tax Collection**

As we explained in last year's report, the City of Bethlehem, who collects current and interim real estate taxes, is not following Tax Collection Law or not providing timely information to reconcile the taxes collected.

After reviewing the City of Bethlehem's monthly reports, we discovered the tax collector's office at the City is not reconciling the collections to the tax duplicate. The reports only contain the taxes collected for the month with discounts and penalties shown. Personnel at the business office attempts to reconcile to the duplicate based upon the information the City provides. Unfortunately, this person is unable to reconcile the taxes collected to the original duplicate with applicable changes during the year. At year end, there was a balance of \$62,311 undistributed to a tax revenue account because the business office was unable to determine the allocation.

To help correct part of this problem, we are suggesting a change in how the undistributed funds are recorded in the system. We believe the tax department within the business office should prepare the entries to distribute taxes to the respective accounts, since they are more familiar, in the types of taxes collected by the City and the City's reports than the current person performing this function. In addition, we highly recommend the management for the District sit down with the City of Bethlehem's tax office to discuss the City's compliance with Act 169 and help resolve the inability to reconcile to the original tax duplicate with additions and/or deductions during the year.

### **General Fixed Assets**

As explained in last year's report the tag numbers reported in the VFACS program are arbitrary and have never been labeled onto each asset. As such, the inventory system is flawed because management cannot correlate its records to any particular location.

Although the Technology Department maintains a separate list of technology assets using their own tagging system, we would like to recommend the district consolidate its inventory system and incorporate all fixed assets reported on its financial statements. The failure to do this can create an overstatement or understatement of the district's financial position in future years.

Another area we discovered through our review of the inventory system that needs to be corrected is the value of land reported on the financial statements. According to district personnel, when the fixed assets were valued a number of years ago, the appraisal company never valued the estimated or actual historical cost of all the land owned by the district. As such, the only value reported on the financial statements is \$75,410, which represents a more recent acquisition. We suggest management correlate with the appraisal company to come up with an estimated or actual cost of all land owned by the district.

During the course of the audit, we were informed by the person responsible for maintaining the fixed asset records, that the records were not completed because the person decided to wait until after we made changes to the list. It is pretty difficult to audit records, and make changes to those records, if there are no records for us to review. In addition, if all additions and deletions were properly recorded by the District, there wouldn't be anything we had to adjust. This delay to submit the 2008-09 additions and deletions caused the audit to be incomplete for an extended period of time.

We suggest proper maintenance of fixed asset records should be maintained at all times, including the addition of land values with proper monitoring of staff by management.

### **General Fund – Missing Documentation**

During our interim testing of expenditures in the general fund, we could not find an invoice for check no. 255549 to Apple Computer Education dated October 23, 2008. The amount on the check was \$263,735.15. The accounts payable department was told in July 2009, to see if they could find the invoice by the time we came back for the regular audit (November 2009). Upon our arrival for the regular audit the assistant business manager informed us she hadn't heard anything and for us to ask the accounts payable department. We were informed the staff forgot to look for it and proceeded to look for it while we were there and did not find it.

Continuing with our investigation, we noticed that this invoice was charged to a federal grant. We proceeded to check with the federal and state grant department and discovered they had a copy of the invoice. Although we realize this is only one invoice and the staff handles thousands of invoices throughout the year, the magnitude of the amount caused us some concern. In addition, the failure of management and other personnel to follow up on missing documents gives us cause for concern.

In an unrelated issue, on October 30, 2009, we were testing rental subsidy revenue when we discovered a receipt that we did not have a rental subsidy reimbursement form to support the receipt. We requested this reimbursement sheet from the Assistant Business Manager and fifteen days later we still did not have this documentation. We decided to call the Commonwealth and within 20 minutes, we received a fax of the original document sent by the District to support the receipt.

In the future, we suggest personnel take greater care in filing all documentation and management follow up on any documentation reported missing. The failure to do this can cause fraud to occur without being detected.

### **Governmental Activities – Inventories**

During our conversion from governmental funds, reported on the modified accrual basis of accounting, and the governmental activities, reported on the accrual basis of accounting, we requested the District's ending inventory on all consumable products held in storage at year end. We were informed by the previous Assistant to the Superintendent for Fiscal Affairs, the inventory was not taken because the only items left at year end was a truck load of paper. Considering this District is the sixth largest school district in the Commonwealth, it is hard to believe there is no other paper or consumable products at any school belonging to the district.

The failure to value consumable goods at year end can understate the financial position of the governmental activities. Since the governmental activities on the Statement of Net Assets, at June 30, 2009 shows a deficit of \$34,437,599, we believe the District should report all available assets on hand at year end. As such, we suggest the District perform a physical count of all consumable products on hand at year end, and value them according to their respective costs.

#### **Athletic Fund – Bank Reconciliations**

During the process of reviewing the cash balances recorded in the Athletic Fund, we discovered the Freedom High School's officials bank account was not reconciled during the year, and the Liberty High School's bank reconciliation was performed but discarded, providing the auditors with no evidence to support the balance on the books.

We would like to suggest bank reconciliations should be performed monthly correlating the balance maintained in the computer system. Any discrepancies uncovered should be able to be detected within a relatively short period of time.

#### **Capital Reserve Fund – Expenditures**

During our review of expenditures paid in the capital reserve fund, we discovered \$122,664 charged to this fund for monthly maintenance costs on the IFAS computer system. This check written to Sunguard is not allowed as an expenditure of the capital reserve fund in accordance with Section 1434 of the Municipal Code. After agreement by your former Assistant to the Superintendent for Fiscal Affairs, we removed this expenditure from this fund and charged it to the general fund.

In the future, we suggest management review the allowable expenditures to be made in the capital reserve fund to prevent unacceptable items being expended in error.

#### **Federal and State Grant Funds**

During our review of the multiple grant funds, we discovered the staff in charge of these grants is improperly recording contributions and donations received from outside individuals or organizations. In past years, according to staff, donations from individuals are received and if the staff needs revenue for matching purposes on a particular grant, they utilize the donated funds and attempt to defer the remaining donation until the following fiscal year.

Under generally accepted governmental accounting principles, you cannot defer recognition of donations. The year the money is donated is the year that revenue must be recognized. The staff maintains a spreadsheet keeping track of the remaining amount of donations they didn't utilize in the current year's grants. Unfortunately, the staff cannot access those donations for next year grants. We also found some issues associated with the proper classification of revenue type (6829 versus 6821 and 6839 versus 6920 for contributions).

We suggest senior management give proper guidance to their staff on the proper recording of contributions.

## **CONTROL DEFICIENCIES**

### General Fund - Delinquent Real Estate Taxes

As explained in last year's report, during our review of delinquent real estate tax revenue, we noticed the district separates the commissions into an expenditure account and records the revenue at gross. If there is a slight difference (anywhere from .01 to .38 cents this year) it is posted to miscellaneous revenue. We would like to suggest showing this difference against the commission expenditure account. In this manner, the gross revenue less commissions will equal the net amount of the check received. In addition, when delinquent real estate taxes are received, the district is currently posting delinquent taxes pertaining to the current year duplicate against the current real estate tax account (6111). In accordance with tax collection law, taxes for the current year duplicate are considered delinquent, if received in the current fiscal year, after January 15<sup>th</sup>. As such, any collection of the current year duplicate after January 15<sup>th</sup> should be credited against delinquent real estate tax revenue account 6411.

### Food Service Fund – Interfund Transfers

As reported in last year's report, during our review of the Food Service Fund's revenue and expenses, we discovered a \$50,000 transfer to the General Fund. According to our inquiries made, we were told this transfer is for reimbursement of items that cannot be tracked, such as utilities. When asked how this number was derived, management could not provide us with any current documentation. The business administrator informed us a calculation, based upon square footage, was done a number of years ago. In addition, we reclassified this transfer to a utility object code, since monies from the food service fund are not suppose to be transferred back to the general fund according to PDE.

Although it is perfectly allowable to charge indirect costs to the food service fund, we suggest management perform a current re-calculation of the estimated amount of utilities used in all cafeterias to justify future charges of utilities in the food service fund.

### Athletic Fund – Invoices

During our testing of invoices paid in the athletic fund, we discovered a few invoices were missing for payments made on check numbers 255635, 256756, and 254710. The total invoices missing was \$4,711.93. The failure to provide proper documentation to support the payment can cause invalid payments to be made. Although these amounts are not material, we would like to suggest management take greater care in maintaining all invoices.

### 05-07 Capital Project Fund – Bank Reconciliation

During our review of the reconciliation of the M & T investment account, we found errors being made in not separating the components of earnings, fees, and market value changes to their respective accounts. For example, market value changes should be recorded to function 6530, with earnings on investments posted to 6510. In addition, certain M & T bank accounts that are used to pay bondholders were incorrectly posted to this fund.

We would like to recommend using the proper revenue accounts and eliminate the posting of transactions unrelated to this fund.

### Activity Funds

During our review of the District's student activities, we discovered a checking account called "Liberty High School Spirit Account" that was not recorded on the books of the District. We were informed this account was opened in August 2008 and the first deposit consisted of a transfer from Liberty's activity fund checking account. We were also informed this account is used for needy children who cannot pay for field trips or various other items. We discovered the money in this account is used to pay for an annual senior citizens lunch.

We recommend this account and its transactions should be recorded on the books of the District as an Activity account. We suggest management determine whether the senior citizen's lunch is an allowable disbursement from this account.

## **OTHER AUDITOR RECOMMENDATIONS**

### Grant Funds

As we recommended last year, we believe management should eliminate the multiple federal and state grant funds to minimize errors made and to allow employees to more effectively manage these funds without creating complexity in your operations. This one suggestion has the potential to save the district numerous hours in posting computer adjustments. In case those employees working in the state and federal liaison office are concerned about tracking each grant's transactions, management should explain to them the new system's capability in running specific reports by source code, which has the effect of changing the two digit fund number on each grant to a three digit source code number that is supposed to be used in accordance with PDE's School Accounting Manual.

### Board Minutes

At the time of our audit, the district personnel were five months behind in typing board minutes. The failure to have current board minutes delays the auditors from completing the audit, since we utilize these minutes to provide us evidence on legal resolutions and subsequent events occurring up to the issuance of our report.

We understand the Board's request to dictate all words spoken by each school director at each meeting to completely document all statements, but because of the limited staff and delays in preparing these reports for public consumption, we would like to suggest an alternative. Most school districts board minutes are prepared in summary format with an electronic format (tape) maintained as supporting documentation in the event someone wishes to challenge or question a statement that was given. In preparing a summary format of what was said, with detail on legal resolutions, reviewing the board minutes and maintaining current completed minutes is much easier to accomplish.

## **OTHER INFORMATION**

### **GASB Statement No. 54 – Fund Balance Reporting**

In February 2009, the Governmental Accounting Standards Board issued Statement No. 54 redefining the various components of fund balance that is used in governmental funds (General Fund, Capital Reserve Fund, Athletic Fund, Capital Project Fund, and Debt Service Funds). This standard goes into effect for the 2010-11 fiscal year.



The new categories of fund balance are:

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

The **Nonspendable** fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" includes items not expected to be converted into cash, for example, inventories and prepaid amounts. The corpus (principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

The **Restricted** fund balance classification occurs when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to mandate payment of resources from external providers and includes a legally enforceable requirement that those resources be used for the specific purpose stipulated in the legislation.

The **Committed** fund balance classification is used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (legislation, ordinance, or resolution). The formal action of the government's highest level of decision-making authority that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, subject to the constraint, may be determined in the subsequent period.

The **Assigned** fund balance classification involves amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The authority to create an assigned amount does not require formal action of the governing body.

Assigned fund balance includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

The **Unassigned** fund balance is the residual classification for the general fund. The general fund should be the only governmental fund that reports a positive unassigned fund balance account. In

the other governmental funds, this account is only used to show negative fund balance amounts after all restricted, committed, and/or assigned amounts have been extinguished.

The management and governing body needs to formulate new accounting policies pertaining to these new classifications of fund balance. We are recommending the School Board adopt a policy establishing the person or persons responsible to assigning any portion of the fund balance. The policy could stipulate the superintendent, business manager, members of the governing body or any combination thereof, to authorize the assignment of fund balance. Unlike committed fund balance, assignments should not be approved by the entire governing body by formal resolution.

In addition, the policy should provide a pecking order of which category of fund balance should be eliminated before other categories. In other words, should committed fund balance be eliminated before assigned fund balance or vice versa? Should restricted fund balance be eliminated before committed or vice versa?

This letter is required by our standards and has been combined with, what we previously referred to as, the management letter. The intent of this letter is to communicate with those charged with governance on matters pertaining to the audit and includes information that we believe can help you correct or improve operating efficiency, under the limitations of staff availability, within the District.

Respectively submitted,



*Gorman & Associates, P.C.*

March 19, 2010

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## **FINANCIAL SECTION**



**GORMAN & ASSOCIATES, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

Board of School Directors  
Bethlehem Area School District  
1516 Sycamore Street  
Bethlehem, PA 18017

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bethlehem Area School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards, generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of Bethlehem Area School District, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards we have also issued our report dated March 19, 2010, on our consideration of the Bethlehem Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, on pages 18 to 22, and the Schedule of Funding Progress, on page 80, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bethlehem Area School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the combining and individual fund financial statements and schedules, listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the financial statements of the Bethlehem Area School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

*Sharon E. Associates, P.C.*

March 19, 2010

**Bethlehem Area School District  
Management's Discussion and Analysis**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
(UNAUDITED)  
For the Year Ended June 30, 2009**

Our discussion and analysis of Bethlehem Area School District's financial performance provides an overview of the school district's financial activities for the fiscal year ended June 30, 2009. The MD&A should be read in conjunction with the financial statements and footnotes.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999.

### **THE SCHOOL DISTRICT**

Bethlehem Area School District is a School District of the Second Class, organized and existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth").

The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors.

### **FINANCIAL HIGHLIGHTS**

Our financial statements provide these insights into the results of this year's operations:

Governmental funds reported a deficit of (\$15,183,125), which includes a gain of \$1,950,733 in the general fund. The deficit for all governmental funds was the result of deficits in certain governmental funds during this period; Capital Reserve, (\$524,382), Capital Projects, (\$16,126,767) and Non-Major Governmental Funds, (\$482,709).

The General Fund reported a deficit fund balance, as of June 30, 2009 of (\$1,119,282), or 1.15% of the 2009-2010 \$195.4 million operating budget approved by June 2009.

#### Revenues

The school district's general fund received 69.62% of its funding from local sources, 26.97% from state sources and 3.41% from federal sources. Real estate tax receipts continue to be the primary source of revenue for the general fund. The property assessments, from which real estate tax receipts are based, increased 1.804% from 2007-2008, but not at a rate sufficient to maintain millage rates. Collection of current real estate taxes was 94.32%, consistent with the most recent five year average of 95.95%. Without a significant increase in state funding it is anticipated that future annual millage rate increase and expenditure reductions will both be significant. Earned Income Tax is the second largest local revenue source funding general fund operations and it has increased at a rate at or above the Consumer Price Index (CPI). The strength of the diverse local tax base has allowed each of these necessary funding mechanisms to continue to increase instead of decline. However, the current economic downturn is resulting in increased unemployment, which will reduce the incremental increase in receipts from this tax. It is anticipated that the local economy will deteriorate somewhat, but less than the national economy. The sub prime banking issues are causing more foreclosures and credit tightening, has brought anticipated assessment increases to approximately one-percent (1%). The completion of the Las Vegas Sands casino project prior to summer of 2009 will generate additional revenue, but that project has several components that have been delayed. Because the financial health of the local economy is not dependent on any one or several major employers it has and will continue to perform better than many communities. Additionally, there



**Bethlehem Area School District  
Management's Discussion and Analysis**

have been improvements and additions to the highways, increasing access to major markets, and making the Bethlehem Area School District a location that business will find attractive. Additionally, the development of the commerce park located in the City of Bethlehem on one of the larger production sites of the former Bethlehem Steel is progressing. The timing of the development of these properties will likely be tied to the local, state and national economics and will need to be monitored carefully.

**Expenditures**

Total general fund expenditures and other financing sources for 2008-2009 was \$185,588,709 million for the year. Instructional programs, excluding support for the community college, expended \$107.5 million, or 57.94% of all general fund spending. Community college funding was \$2.03 million and supports residents of the school district who are enrolled in credit programs at Northampton Community College.

Actual general fund expenditures were below budgeted expenditures for the year by \$1,703,219 or 0.9%. Actual spending by category was as follows:

	2008-2009	Percent	2007-2008	Percent
Instruction, not including post-secondary	\$ 107,523,599	57.94%	\$ 110,898,211	60.07%
Community College	2,029,807	1.09%	1,972,585	1.07%
Pre-Kindergarten	1,715,237	0.92%	-	0.00%
Pupil Personnel Services	7,613,215	4.10%	7,829,196	4.24%
Instructional Staff Services	8,145,900	4.39%	7,971,751	4.32%
Administrative Services	9,929,882	5.35%	10,090,842	5.47%
Pupil Health Services	1,606,313	0.87%	1,659,297	0.90%
Business Services	2,424,970	1.31%	2,606,512	1.41%
Operation and Maintenance of Plant	14,476,347	7.80%	14,984,110	8.12%
Student Transportation	5,495,987	2.96%	5,230,142	2.83%
Central Support Services	1,703,326	0.92%	2,010,784	1.09%
Other Support Services	98,393	0.05%	97,924	0.05%
Student Activities	414,342	0.22%	469,286	0.25%
Community Services	208,588	0.11%	200,627	0.11%
Scholarship and Awards	3,188	0.00%	17,178,724	9.30%
Debt Service	20,778,032	11.20%	-	0.00%
Refund of Prior Year Receipts	-	0.00%	-	0.00%
Facilities, Acquisition and Construction	-	0.00%	887	0.00%
Fund Transfers Out	1,421,583	0.77%	1,418,521	0.77%
	<u>\$ 185,588,709</u>	<u>100.00%</u>	<u>\$ 184,619,399</u>	<u>100.00%</u>

Explanation of Category Content:	
Pupil Personnel Services -	Guidance, attendance, psychological, speech, and audio, student accounting, and other related services.
Instructional Staff Services -	Educational media and computer services, curriculum, and staff development.
Administrative Services -	School board, tax collection, legal, superintendent, and building administration.
Business Services -	Fiscal, purchasing, and printing services
Operation and Maintenance of Plant -	Building and grounds, equipment upkeep, utilities, and energy
Student Transportation -	Conveyance of students
Central Support Services -	Data processing, public information, and human resource services.
Other Support Services -	Colonial Intermediate Unit 20 administrative operation funding.
Student Activities -	Co-curricular student activities, not including interscholastic athletics.
Community Services -	Crossing guards, and civic services
Scholarships -	Student scholarships
Debt Service -	Payment of principal and interest on outstanding bonds and other debt obligations.
Refund of Prior Year Receipts -	Tax refunds as a result of assessment appeals.
Facilities, Acquisition and Construction-	Capital expenditures incurred to purchase land, buildings, service systems, and built-in equipment

**Bethlehem Area School District  
Management's Discussion and Analysis**

**ASSETS, LIABILITIES & FUND BALANCES**

As of June 30, 2009, the school district governmental funds had total current assets of \$44.101 million with 40.99% in cash and cash equivalents, 35.30% in investments, and 14.30% as receivables for delinquent taxes. The remaining 1.99% is mostly attributable to receivables from other funds, including the blending of the District's component unit.

	<b>2008-2009</b>	<b>Percent</b>	<b>2007-2008</b>	<b>Percent</b>
Cash and Cash Equivalents	\$ 18,075,567	40.99%	\$ 12,242,028	22.74%
Investments	15,569,327	35.30%	32,741,130	60.82%
Taxes Receivable	6,304,782	14.30%	3,611,244	6.71%
Due From Other Governments	3,274,084	7.42%	4,202,448	7.81%
Due from Other Funds	631,290	1.43%	-	0.00%
Other Receivables	216,565	0.49%	166,790	0.31%
Inventories	13,116	0.03%	24,053	0.04%
Prepaid Expenses/Expenditures	16,344	0.04%	843,080	1.57%
Total Current Assets	<u>\$ 44,101,075</u>	<u>100.00%</u>	<u>\$ 53,830,773</u>	<u>100.00%</u>

Liabilities as of June 30, 2009 totaled 31.92 million, 37.03% in accounts payable, 38.80% in salaries and benefits payable plus payroll deduction withholdings, and \$14.26 million of deferred revenue. Due to other governments primarily represents grant payments received but not spent by June 30, 2009, accounts payable balances are primarily the result of expenditures incurred prior to June 30, 2009 and paid subsequent to June 30, 2009. Accrued salaries and benefits and payroll withholdings withheld are primarily the result of salaries earned by teachers as of June 30, 2009 and paid during the summer 2009. Deferred revenue of \$4.6 million is primarily due to the recording of delinquent taxes.

	<b>2008-2009</b>	<b>Percent</b>	<b>2007-2008</b>	<b>Percent</b>
Due to Other Governments	\$ 223,641	0.70%	\$ 9,725	0.04%
Due to Other Funds	631,390	1.98%	-	0.00%
Accounts Payable	11,825,878	37.03%	12,101,828	45.70%
Current Portion of Long-Term Debt	128,105	0.40%	134,684	0.51%
Accrued Salaries and Benefits	12,390,969	38.80%	9,666,650	36.51%
Payroll Withholdings	1,375,299	4.31%	1,180,163	4.46%
Deferred Revenue	4,552,769	14.26%	3,376,248	12.75%
Other Current Liabilities	803,665	2.52%	8,891	0.03%
Total Current Liabilities	<u>\$ 31,931,716</u>	<u>100.00%</u>	<u>\$ 26,478,189</u>	<u>100.00%</u>

The resulting \$12,169,459 million in fund balances include a net of \$12,517,942 million reserve for capital projects partially completed where financing has been obtained, \$1,232,644 capital reserve funds designated for use on future capital projects and a (\$1,147,692) million deficit in unreserved funds, \$631,390 deficit in unreserved funds, \$631,390 deficit in the Authority funds \$194,774 reserve in Debt Service, and (\$27,642) deficit in unreserved funds in the athletic program and the concession amounts.

	<b>2008-2009</b>	<b>Percent</b>	<b>2007-2008</b>	<b>Percent</b>
Standard fund balance reserves	\$ -	0.00%	\$ 834,261	3.05%
Unreserved	12,169,459	100.00%	26,518,323	96.95%
Total Fund Balances	<u>\$ 12,169,459</u>	<u>100.00%</u>	<u>\$ 27,352,584</u>	<u>100.00%</u>

## **FUTURE ECONOMIC FACTORS**

### ***Capital Improvement Plan***

Since 1991 the school district had renovated or replaced the majority of its 23 schools and other properties. The planned replacements of Broughal Middle School and renovations to Liberty High School are scheduled for completion June 2009 and Spring 2009 respectively. The Broughal project required the school district to obtain \$6 million in additional financing for raising of the existing building, which should be completed by Fall, 2011. Nitschmann Middle School has been identified for major renovation costing approximately \$65 million, however, funding has not been obtained and the timeline for commencement of that project has not been determined. The school district continues to annually fund and complete capital improvement projects that are designed to maintain all existing structures. However, it is anticipated that the lack of additional capital funds may delay advancement of future capital improvement projects.

### **Pennsylvania School Employees Retirement System**

Actuarial estimates for funding the defined benefit plan will require rapidly increasing employer contributions in the foreseeable future, with these rates accelerating with the 2012-2013 fiscal year.

### **Health Care Benefits To Employees, Dependents, and Retirees**

The cost of funding existing health care benefits, even with increases in employee contributions, is rising much more rapidly than revenue sources. Since health care benefits are contractually required, the school district must provide funding for these benefits. The annual increases are expected to approximate \$1.5million. If local and state funding becomes restricted it may be necessary to reduce or eliminate other programs and services.

### **Technology**

Bethlehem Area School District had invested several million dollars to acquire technology in the form of equipment, software, infrastructure and the personnel to support this technology. Attempts to provide budgeted funds for replacement and upgrade of this technology and the needed personnel in an effort to remain reasonably current have been modestly successful. It is anticipated that higher levels of funding will be required in the near term; however funding will likely not increase or may decrease.

### **Revenue Uncertainty**

The stability of revenue sources to meet current fiscal demands is questionable considering the current economic downturn, the anticipated further deterioration of property values, construction environment and employment market.

### **Act 1 of 2006**

This legislation will have a major impact on all Pennsylvania school districts by altering the timeline for preliminary budgets, limitations on real estate tax increases not requiring voter approval, and a costing study of school district expenditures that may lead to funding changes.

### **Variable Rate Debt and SWAP Concerns**

The school district's financial agents struggled to re-market its variable rate debt during 2008-09; however, those concerns do not currently exist. The percentage of variable rate debt within the school district's debt portfolio was reduced by approximately \$75 million during this fiscal year, lowering the percentage of variable rate to total debt from 79% to 42%. The Constant Maturity Swaps became producers of positive cash flow late in the fiscal year and continued to greater financial benefit during the 2009-2010 fiscal year. The School directors continue to restructure the debt portfolio through reducing the number of swaps and

**Bethlehem Area School District  
Management's Discussion and Analysis**

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The School directors continue to restructure the debt portfolio through reducing the number of swaps and improving the quality of the debt outstanding. The school district acquired further refinancing due to the expiration of the Bond Series 2005 and losing its liquidity provider in January 2010. Dexia Bank notified the school district that it will not renew its agreement upon expiration. This non-renewal was due to Dexia's financial issues and not the school district's.

**Future Budgets**

With the passage of Act 1 of 2006, no relief programmatic mandates, a relatively flat tax base, an economy in recession, a deficit fund balance, and a primarily labor driven budget, it is likely that severe expenditure cuts and real estate tax rate increases, larger than Index, will be needed. Revenues that increase incrementally slower than expenditures, continued debt financing needed for facility renovations and additions, and the lack of legislative fortitude to reduce mandates will strain current operations and will require elimination and/or reductions in programs provided by the school district. It is projected that the growth of student enrollment will flatten over the next few years, which is positive for the district.

**CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT**

Our financial report is designed to provide citizens, taxpayers, students, investors and creditors, and other interested parties with a general overview of the School Board's finances and to illustrate the School Board's accountability for the funds it receives. Questions concerning this report or a request for additional information should be addressed to the Assistant to the Superintendent for Finance and Administration, Bethlehem Area School District, 1516 Sycamore Street, Bethlehem, PA 18017, telephone number (610) 861-0500 ext. 60201.

## **BASIC FINANCIAL STATEMENTS**

Bethlehem Area School District  
Statement of Net Assets  
As of June 30, 2009

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 18,716,824	\$ 515,689	\$ 19,232,513
Investments	15,569,327	-	15,569,327
Receivables, net	6,835,065	-	6,835,065
Internal Balances	-	3,347	- (1)
Due From Other Governments	3,556,263	101,329	3,657,592
Other Receivables	216,565	314,441	531,006
Inventories	13,116	229,939	243,055
Prepaid Expenses	15,344	-	15,344
Other Current Assets	1,000	-	1,000
<b>TOTAL CURRENT ASSETS</b>	<b>44,923,504</b>	<b>1,164,745</b>	<b>46,084,902</b>
<b>NON-CURRENT ASSETS:</b>			
Restricted Cash and Cash Equivalents	1,354,000	-	1,354,000
Land	75,410	-	75,410
Site Improvements (net of depreciation)	3,616,809	-	3,616,809
Building and Bldg. Improvements (net of depreciation)	102,946,001	-	102,946,001
Furniture and Equipment (net of depreciation)	7,257,951	98,506	7,356,457
Construction in Progress	136,015,462	-	136,015,462
Bond Issue Costs (net of amortization)	3,157,463	-	3,157,463
<b>TOTAL NON-CURRENT ASSETS</b>	<b>254,423,096</b>	<b>98,506</b>	<b>254,521,602</b>
<b>TOTAL ASSETS</b>	<b>\$ 299,346,600</b>	<b>\$ 1,263,251</b>	<b>\$ 300,606,504</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Internal Balances	\$ 3,347	\$ -	\$ - (1)
Due to other governments	223,641	-	223,641
Accounts Payable	13,128,825	61,426	13,190,251
Current Portion of Long-Term Obligations	9,075,293	-	9,075,293
Accrued Salaries and Benefits	12,396,931	37,915	12,434,846
Payroll Deductions and Withholdings	1,380,904	81,062	1,461,966
Deferred Revenue	32,408	62,251	94,659
Other Current Liabilities	1,918,622	-	1,918,622
<b>TOTAL CURRENT LIABILITIES</b>	<b>38,159,971</b>	<b>242,654</b>	<b>38,399,278</b>
<b>NON-CURRENT LIABILITIES:</b>			
Bonds and Notes Payable	287,095,531	-	287,095,531
Extended Term Financing Agreements Payable	-	-	-
Lease Purchase Obligations	1,977,009	-	1,977,009
Long-Term Portion of Compensated Absences	3,384,611	67,973	3,452,584
Authority Lease Obligations	-	-	-
Net OPEB Obligation	3,167,077	32,111	3,199,188
<b>TOTAL LIABILITIES</b>	<b>333,784,199</b>	<b>342,738</b>	<b>334,123,590</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(30,650,642)	98,506	(30,552,136)
<b>RESTRICTED FOR:</b>			
Retirement of Long-Term Debt	-	-	-
Capital Projects	-	-	-
Other Restrictions	-	-	-
Unrestricted (deficit)	(3,786,957)	822,007	(2,964,950)
<b>TOTAL NET ASSETS</b>	<b>(34,437,599)</b>	<b>920,513</b>	<b>(33,517,086)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 299,346,600</b>	<b>\$ 1,263,251</b>	<b>\$ 300,606,504</b>

The Accompanying Notes are an integral part of these financial statements.

(1) Internal balances represent the amount owed to or from the two types of activities within the Primary Government. Since internal balances do not represent assets or liabilities of the total Primary Government, their balances are eliminated in the "total" column (GASB Statement No. 34, para. 58).

Bethlehem Area School District  
Statement of Activities  
For the Year Ended June 30, 2009

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS		GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
			GRANTS AND CONTRIBUTIONS	CAPITAL CONTRIBUTIONS			
<b>GOVERNMENTAL ACTIVITIES:</b>							
Instruction	\$ 119,043,006	\$ 625,517	\$ 22,954,710	\$ 5,995	\$ (95,456,784)	\$ -	\$ (95,456,784)
Instructional Student Support	17,878,449	-	3,246,281	-	(14,632,168)	-	(14,632,168)
Admin. & Fin'l Support Services	14,361,149	-	670,975	-	(13,690,174)	-	(13,690,174)
Oper. & Maint. of Plant Svcs.	14,333,880	-	389,513	-	(13,944,367)	-	(13,944,367)
Pupil Transportation	6,056,545	2,000	2,535,103	-	(3,519,442)	-	(3,519,442)
Student activities	2,247,760	105,221	76,564	-	(2,065,975)	-	(2,065,975)
Community Services	209,200	31,394	14,508	-	(163,298)	-	(163,298)
Scholarships and Awards	3,188	-	-	-	(3,188)	-	(3,188)
Interest on Long-Term Debt	27,025,979	-	-	569,859	(26,456,120)	-	(26,456,120)
Unallocated Depreciation Expense	179,188	-	-	-	(179,188)	-	(179,188)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>201,338,344</b>	<b>764,132</b>	<b>29,887,654</b>	<b>575,854</b>	<b>(170,110,704)</b>	<b>-</b>	<b>(170,110,704)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Food Services	5,717,849	2,242,629	3,643,183	-	-	167,963	167,963
Day Care	2,585,319	2,478,666	200,874	-	-	94,221	94,221
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 209,641,512</b>	<b>\$ 5,485,427</b>	<b>\$ 33,731,711</b>	<b>\$ 575,854</b>	<b>\$ (170,110,704)</b>	<b>\$ 262,184</b>	<b>\$ (169,848,520)</b>

**GENERAL REVENUES:**

Property taxes. Levied for general purposes, net	\$ 106,488,866	\$ -	\$ 106,488,866
Taxes levied for specific purposes	18,687,331	-	18,687,331
Grants, subsidies, & contributions not restricted	28,688,474	-	28,688,474
Investment Earnings	1,361,574	4,558	1,366,132
Miscellaneous Income	609,493	-	609,493
Special item - Gain (Loss) on sale of capital assets	10,470	-	10,470
Extraordinary Items	-	-	-
Transfers	200,000	(200,000)	-
<b>TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS</b>	<b>156,046,208</b>	<b>(195,442)</b>	<b>155,850,766</b>
<b>CHANGE IN NET ASSETS</b>	<b>(14,064,496)</b>	<b>66,742</b>	<b>(13,997,754)</b>
<b>NET ASSETS - BEGINNING</b>	<b>(26,576,608)</b>	<b>853,771</b>	<b>(25,722,837)</b>
<b>Prior Period Adjustment</b>	<b>6,203,505</b>	<b>-</b>	<b>6,203,505</b>
<b>NET ASSETS - ENDING</b>	<b>\$ (34,437,599)</b>	<b>\$ 920,513</b>	<b>\$ (33,517,086)</b>

The Accompanying Notes are an integral part of these financial statements.

Bethlehem Area School District  
Balance Sheet  
Governmental Funds  
As of June 30, 2009

	ASSETS				CAPITAL RESERVE	CAPITAL PROJECTS	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL							
Cash and cash equivalents	\$ 8,863,554	\$	8,101,559	\$	758	\$	1,009,696	\$ 18,075,567
Investments	-	-	-	-	15,568,327	-	-	15,568,327
Taxes Receivable, net	6,304,782	-	-	-	-	-	-	6,304,782
Due from other funds	631,390	-	-	-	-	-	-	631,390
Due from Other Governments	3,274,084	-	-	-	-	-	-	3,274,084
Due from Component Unit	-	-	-	-	-	-	-	-
Other Receivables	202,414	-	-	-	14,151	-	-	216,565
Inventories	13,116	-	-	-	-	-	-	13,116
Prepaid Expenditures	15,344	-	-	-	-	-	-	15,344
Other Current Assets	-	-	-	-	1,000	-	-	1,000
<b>TOTAL ASSETS</b>	<b>\$ 19,404,684</b>	<b>\$</b>	<b>8,101,559</b>	<b>\$</b>	<b>15,585,236</b>	<b>\$</b>	<b>1,009,696</b>	<b>\$ 44,101,175</b>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>LIABILITIES:</b>								
Due to Other Funds	-	\$	-	\$	-	-	\$ 631,390	\$ 631,390
Due to Primary Government	-	-	-	-	-	-	-	-
Due to Other Governments	223,641	-	-	-	-	-	-	223,641
Accounts Payable	1,860,537	-	6,868,895	-	3,061,332	-	35,114	11,825,878
Current Portion of Long-Term Debt	123,105	-	-	-	-	-	5,000	128,105
Accrued Salaries and Benefits	12,388,836	-	-	-	-	-	2,133	12,390,969
Payroll Deductions and Withholdings	1,369,337	-	-	-	5,962	-	-	1,375,299
Deferred Revenues	4,552,769	-	-	-	-	-	-	4,552,769
Other Current Liabilities	5,691	-	-	-	-	-	797,974	803,665
<b>TOTAL LIABILITIES</b>	<b>20,523,916</b>	<b>\$</b>	<b>6,868,895</b>	<b>\$</b>	<b>3,067,294</b>	<b>\$</b>	<b>1,471,611</b>	<b>31,931,716</b>
<b>FUND BALANCES:</b>								
Standard Fund Balance Reserves	-	-	-	-	-	-	-	-
Reserve for Next Year Appropriations	-	-	-	-	-	-	-	-
Specific Fund Balance Reserves	-	-	-	-	-	-	-	-
Unreserved-Designated Fund Balances	-	-	-	-	-	-	-	-
Unreserved-Undesignated Fund Balances -	-	-	-	-	-	-	-	-
- General Fund	(1,119,232)	-	-	-	-	-	-	(1,119,232)
- Capital Projects Fund	-	-	-	-	12,517,942	-	-	12,517,942
- Capital Reserve Fund	-	-	1,232,664	-	-	-	-	1,232,664
- Authority General Fund	-	-	-	-	-	-	(631,390)	(631,390)
- Concession Fund	-	-	-	-	-	-	2,143	2,143
- Debt Service Funds	-	-	-	-	-	-	194,974	194,974
- Athletic Fund	-	-	-	-	-	-	(27,642)	(27,642)
<b>TOTAL FUND BALANCES</b>	<b>(1,119,232)</b>	<b>\$</b>	<b>1,232,664</b>	<b>\$</b>	<b>12,517,942</b>	<b>\$</b>	<b>(461,915)</b>	<b>12,169,459</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 19,404,684</b>	<b>\$</b>	<b>8,101,559</b>	<b>\$</b>	<b>15,585,236</b>	<b>\$</b>	<b>1,009,696</b>	<b>\$ 44,101,175</b>

The Accompanying Notes are an integral part of these financial statements.



**Bethlehem Area School District  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets  
As of June 30, 2009**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 12,169,459**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$379,605,980 and the accumulated depreciation is \$129,694,347. 249,911,633

Additional receivables established that do not meet the availability criteria reflected in the fund financial statements. This amount represents the difference between the prior year receivables and the current year receivables established under the accrual basis of accounting. 282,180

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 5,050,645

This amount reflects the elimination of the Internal Service Fund's assets, liabilities, and equity and incorporating them into the Governmental Activities column. 677,394

The governmental funds follow the purchase method of inventory; therefore no inventory is reflected on the balance sheet. However, the statement of net assets uses the consumption method of inventory. -

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	\$ (292,148,068)	
Accrued interest on the bonds	(1,114,957)	
Compensated absences	(3,384,611)	
Net OPEB Obligation	(3,167,077)	
Lease Purchase Obligations	(2,714,197)	(302,528,910)

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES** **\$ (34,437,599)**

The Accompanying Notes are an integral part of these financial statements.

**Bethlehem Area School District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2009**

	GENERAL	CAPITAL RESERVE	CAPITAL PROJECTS	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>					
Local Sources	\$ 129,159,452	\$ 26,708	\$ 472,680	\$ 327,792	\$ 129,986,632
State Sources	50,040,402	-	-	53,071	50,093,473
Federal Sources	6,335,003	-	-	-	6,335,003
<b>TOTAL REVENUES</b>	<u>185,534,857</u>	<u>26,708</u>	<u>472,680</u>	<u>380,863</u>	<u>186,415,108</u>
<b>EXPENDITURES</b>					
Instruction	111,268,643	-	413,371	-	111,682,014
Support Services	51,494,333	546,220	754,482	1,394,666	54,189,701
Operation of Non-Instructional Services	626,118	-	-	1,684,003	2,310,121
Capital Outlay	-	4,870	26,418,304	-	26,423,174
Debt Service	20,778,032	-	-	811,115	21,589,147
<b>TOTAL EXPENDITURES</b>	<u>184,167,126</u>	<u>551,090</u>	<u>27,586,157</u>	<u>3,889,784</u>	<u>216,194,157</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>1,367,731</u>	<u>(524,382)</u>	<u>(27,113,477)</u>	<u>(3,508,921)</u>	<u>(29,779,049)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from Bond Issues	-	-	11,100,000	-	11,100,000
Proceeds from Refunded Bond Issues	-	-	-	165,400,000	165,400,000
Proceeds from Extended Term Financing	1,794,115	-	-	1,794,115	1,794,115
Bond Premiums	-	-	6,166	2,706,766	2,712,932
Refund of Prior Year Expenditures	-	-	17,290	-	17,290
Interfund Transfers In	200,000	-	-	1,421,583	1,621,583
Sale/Compensation for Fixed Assets	10,470	-	-	-	10,470
Payment to bond refunding escrow agent	-	-	-	(153,262,810)	(153,262,810)
Swap Termination Fee	-	-	-	(12,364,000)	(12,364,000)
Bond Discounts	-	-	(136,746)	(875,327)	(1,012,073)
Refunds of Prior Year Receipts	-	-	-	-	-
Operating Transfers Out	(1,421,583)	-	-	-	(1,421,583)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>583,002</u>	<u>-</u>	<u>10,986,710</u>	<u>3,026,212</u>	<u>14,595,924</u>
<b>SPECIAL/EXTRAORDINARY ITEMS</b>					
Special Items	-	-	-	-	-
Extraordinary Items	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<u>1,950,733</u>	<u>(524,382)</u>	<u>(16,126,767)</u>	<u>(482,709)</u>	<u>(15,183,125)</u>
<b>FUND BALANCES - BEGINNING</b>	<u>(3,169,965)</u>	<u>1,857,046</u>	<u>28,644,709</u>	<u>20,794</u>	<u>27,352,584</u>
Prior Period Adjustment	100,000	(100,000)	-	-	-
<b>FUND BALANCES - ENDING</b>	<u>\$ (1,119,232)</u>	<u>\$ 1,232,664</u>	<u>\$ 12,517,942</u>	<u>\$ (461,915)</u>	<u>\$ 12,169,459</u>

The Accompanying Notes are an integral part of these financial statements.

**Bethlehem Area School District  
Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures, and Changes In Fund Balances  
to the Statement of Activities  
For the Year Ended June 30, 2009**

**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ (15,183,125)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Depreciation expense	\$ 7,218,246	
less - capital outlays	<u>27,912,876</u>	20,694,630

In the statement of activities, only the gain on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of fixed assets sold.

-

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred revenues decreased by this amount this year.

463,537

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

6,965,000

In the statement of activities, certain operating expenses--compensated absences (vacations) and special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

(1,440,994)

In the statement of activities, certain operating revenues are recognized when earned versus the revenues using the modified accrual basis of accounting in the fund statements that are recognized when the funds are available. As such, the amount shown here represents the difference between earned revenues and revenues that are earned, but not available.

223,902

**SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING** **11,722,950**

**Bethlehem Area School District  
Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures, and Changes In Fund Balances  
to the Statement of Activities  
For the Year Ended June 30, 2009**

**SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING  
(cont'd)**

\$ 11,722,950

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This would include accumulated interest accreted on capital appreciation bonds. The additional interest accrued in the statement of activities over the amount due is shown here.

(107,569)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Refunding bond issues becomes a use of current financial resources in governmental funds, but refundings represent payments of long-term debt in the statement of net assets. This figure represents the difference between bond proceeds and refunding payments made to paying agents.

(25,235,416)

An Internal Service Fund is used by the District to charge the health costs of self-insurance to the individual funds. The gain or (loss) of the Internal Service Fund's current operations are reported in the governmental activities.

(444,461)

The governmental funds use the purchase method of inventory, where all items purchased are charged to expenditures. However, the statement of activities is reflected on the consumption method of recording inventory type items; therefore, this adjustment reflects the inventory difference.

-

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**

**\$ (14,064,496)**

The Accompanying Notes are an integral part of these financial statements.

**Bethlehem Area School District**  
**Statement of Net Assets - Proprietary Funds**  
**As of June 30, 2009**

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 317,060	\$ 198,629	\$ 515,689	\$ 1,995,257
Investments	-	-	-	-
Due from other funds	-	-	-	-
Due From Other Governments	101,329	-	101,329	-
Other Receivables	219,428	95,013	314,441	-
Inventories	229,939	-	229,939	-
Prepaid expenses	-	-	-	-
Other Current Assets	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>867,756</b>	<b>293,642</b>	<b>1,161,398</b>	<b>1,995,257</b>
<b>NON-CURRENT ASSETS:</b>				
Building & Bldg. Improvements (net)	-	-	-	-
Machinery & Equipment (net)	78,284	20,222	98,506	-
Other Long-Term Receivables	-	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>78,284</b>	<b>20,222</b>	<b>98,506</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>\$ 946,040</b>	<b>\$ 313,864</b>	<b>\$ 1,259,904</b>	<b>\$ 1,995,257</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES:</b>				
Due to Other Funds	\$ -	\$ -	\$ -	\$ -
Due to Other Governments	-	-	-	-
Accounts Payable	55,205	6,220	61,425	1,314,516
Compensated Absences	-	-	-	-
Accrued Salaries and Benefits	37,915	-	37,915	-
Payroll Deductions and Withholdings	-	81,062	81,062	-
Deferred Revenue	37,385	24,866	62,251	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>130,505</b>	<b>112,148</b>	<b>242,653</b>	<b>1,314,516</b>
<b>NON-CURRENT LIABILITIES:</b>				
Long-Term Portion of Compensated Absences	47,583	20,390	67,973	-
Net OPEB Obligation	20,078	12,033	32,111	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>67,661</b>	<b>32,423</b>	<b>100,084</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>198,166</b>	<b>144,571</b>	<b>342,737</b>	<b>1,314,516</b>
<b>NET ASSETS</b>				
Invested in capital assets, with no related debt	78,284	20,222	98,506	-
Restricted for Legal Purposes	-	-	-	-
Unrestricted	669,590	149,071	818,661	680,741
<b>TOTAL NET ASSETS</b>	<b>747,874</b>	<b>169,293</b>	<b>917,167</b>	<b>680,741</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 946,040</b>	<b>\$ 313,864</b>	<b>\$ 1,259,904</b>	<b>\$ 1,995,257</b>

The Accompanying Notes are an integral part of these financial statements.

**Bethlehem Area School District**  
**Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds**  
**For the Year Ended June 30, 2009**

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
<b>OPERATING REVENUES:</b>				
Food Service Revenue	\$ 2,227,317	\$ -	\$ 2,227,317	\$ -
Charges for Services	-	1,826,875	1,826,875	19,038,714
Other Operating Revenues	15,077	651,792	666,869	1,996,806
<b>TOTAL OPERATING REVENUES</b>	<b>2,242,394</b>	<b>2,478,667</b>	<b>4,721,061</b>	<b>21,035,520</b>
<b>OPERATING EXPENSES:</b>				
Salaries	1,766,695	1,494,290	3,260,985	217,528
Employee Benefits	378,563	767,246	1,145,809	21,275,380
Purchased Professional and Technical Services	2,380	3,290	5,670	3,958
Purchased Property Service	119,676	-	119,676	-
Other Purchased Services	3,001,598	12,557	3,014,155	-
Supplies	345,160	256,582	601,742	-
Depreciation	38,639	7,862	46,501	-
Dues and Fees	6,018	26	6,044	-
Claims and Judgments	-	-	-	-
Other Operating Expenses	55,799	29,903	85,702	-
<b>TOTAL OPERATING EXPENSES</b>	<b>5,714,528</b>	<b>2,571,756</b>	<b>8,286,284</b>	<b>21,496,866</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(3,472,134)</b>	<b>(93,089)</b>	<b>(3,565,223)</b>	<b>(461,346)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Earnings on investments	-	4,558	4,558	-
Contributions and Donations	235	-	235	-
Gain/Loss on Sale of Fixed Assets	-	-	-	-
State Sources	369,797	200,874	570,671	-
Federal Sources	3,273,387	-	3,273,387	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>3,643,419</b>	<b>205,432</b>	<b>3,848,851</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	<b>171,285</b>	<b>112,343</b>	<b>283,628</b>	<b>(461,346)</b>
Capital Contributions	-	-	-	-
Transfers in (out)	-	(200,000)	(200,000)	-
<b>CHANGES IN NET ASSETS</b>	<b>171,285</b>	<b>(87,657)</b>	<b>83,628</b>	<b>(461,346)</b>
<b>NET ASSETS - BEGINNING</b>	<b>576,589</b>	<b>256,950</b>	<b>833,539</b>	<b>1,142,087</b>
Prior Period Adjustment	-	-	-	-
<b>NET ASSETS - ENDING</b>	<b>\$ 747,874</b>	<b>\$ 169,293</b>	<b>\$ 917,167</b>	<b>\$ 680,741</b>

The Accompanying Notes are an integral part of these financial statements.

**Bethlehem Area School District**  
**Statement of Cash Flows - Proprietary Funds**  
**As of June 30, 2009**

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL INTERNAL FUND
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Users	\$ 2,181,925	\$ 1,826,053	\$ 4,007,978	\$ -
Cash Received from Assessments made to Other Funds	-	-	-	19,038,714
Cash Received from Earnings on Investments	-	-	-	-
Cash Received from Other Operating Revenue	15,297	651,792	667,089	1,996,806
Cash Payments to Employees for Services	(2,125,917)	(2,211,834)	(4,337,751)	(20,722,535)
Cash Payments for Insurance Claims	-	-	-	-
Cash Payments to Suppliers for Goods and Services	(3,426,984)	(361,964)	(3,788,948)	(3,958)
Cash Payments to Other Operating Expenses	(11,817)	(2,634)	(14,451)	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(3,367,496)</b>	<b>(98,587)</b>	<b>(3,466,083)</b>	<b>309,027</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Local Sources	-	-	-	-
State Sources	397,674	200,874	598,548	-
Federal Sources	3,286,347	-	3,286,347	-
Notes and Loans Received	-	-	-	-
Contributions and Donations	235	-	235	-
Operating Transfers In (Out)	-	(200,000)	(200,000)	-
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES</b>	<b>3,684,256</b>	<b>874</b>	<b>3,685,130</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of Equipment	-	-	-	-
Gain/Loss on Sale of Fixed Assets (Proceeds)	-	-	-	-
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Earnings on Investments	-	4,558	4,558	-
Purchase of Investment Securities/Deposits to Investment Pools	-	-	-	-
Withdrawals from Investment Pools	-	-	-	-
Proceeds from Sale and Maturity of Investment Securities	-	-	-	-
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>-</b>	<b>4,558</b>	<b>4,558</b>	<b>-</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>316,760</b>	<b>(93,155)</b>	<b>223,605</b>	<b>309,027</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>300</b>	<b>291,784</b>	<b>292,084</b>	<b>1,686,230</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 317,060</b>	<b>\$ 198,629</b>	<b>\$ 515,689</b>	<b>\$ 1,995,257</b>

Bethlehem Area School District  
Statement of Cash Flows - Proprietary Funds  
As of June 30, 2009

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
OPERATING INCOME (LOSS)	\$ (3,472,134)	\$ (93,089)	(3,565,223)	\$ (461,346)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Depreciation and Net Amortization	38,639	7,862	46,501	-
Provision for Uncollectible Accounts	-	-	-	-
Donated Commodities Used	265,734	-	265,734	-
CHANGE IN ASSETS AND LIABILITIES:				
(Increase) Decrease in Accounts Receivable	(45,392)	(822)	(46,214)	-
(Increase) Decrease in Advances from Other Funds	-	-	-	-
(Increase) Decrease in Inventories	52,740	-	52,740	-
(Increase) Decrease in Prepaid Expenses	220	-	220	-
(Increase) Decrease in Other Current Assets	-	-	-	-
Increase (Decrease) in Accounts Payable	(224,838)	(49,227)	(274,065)	770,373
Increase (Decrease) in Accrued Salaries and Benefits	19,341	49,702	69,043	-
Increase (Decrease) in Advances to Other Funds	-	-	-	-
Increase (Decrease) in Other Current Liabilities	(1,806)	(13,013)	(14,819)	-
TOTAL ADJUSTMENTS	104,638	(5,498)	99,140	770,373
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (3,367,496)	\$ (98,587)	\$ (3,466,083)	\$ 309,027

The Accompanying Notes are an integral part of these financial statements.



**Bethlehem Area School District**  
**Statement of Net Assets - Fiduciary Funds**  
**As of June 30, 2009**

	<b>PRIVATE PURPOSE TRUST</b>	<b>PENSION AND OTHER EMPLOYEE BENEFIT TRUST</b>	<b>AGENCY FUNDS</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 59,726	\$ -	\$ 430,247
Investments	116,802	-	-
Due from Other Funds	-	-	-
Other Receivables	-	-	-
Prepaid Expenses	-	-	-
Other Current Assets	87	-	-
<b>TOTAL ASSETS</b>	<b>\$ 176,615</b>	<b>\$ -</b>	<b>\$ 430,247</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
Due to Student Clubs	-	-	430,247
Other Current Liabilities	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>430,247</b>
<b>NET ASSETS</b>			
Restricted	-	-	-
Unrestricted	176,615	-	-
<b>TOTAL NET ASSETS</b>	<b>\$ 176,615</b>	<b>\$ -</b>	<b>\$ -</b>

The Accompanying Notes are an integral part of these financial statements.

**Bethlehem Area School District**  
**Statement of Changes in Net Assets - Fiduciary Funds**  
**For the Year Ended June 30, 2009**

	<b>PRIVATE-PURPOSE TRUST FUND</b>	<b>PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS</b>
<b>ADDITIONS</b>		
Contributions	\$ 34,433	\$ -
Transfers from other funds	-	-
<b>INVESTMENT EARNINGS:</b>		
Interest and Dividends	11,437	-
Net increase (decrease) in fair value of investments	-	-
Less investment expense	-	-
<b>TOTAL ADDITIONS</b>	<u>45,870</u>	<u>-</u>
	-----	-----
<b>DEDUCTIONS</b>		
Transfers to other funds	-	-
Administrative charges	-	-
Scholarships	<u>56,816</u>	<u>-</u>
<b>TOTAL DEDUCTIONS</b>	<u>56,816</u>	<u>-</u>
	-----	-----
<b>CHANGE IN NET ASSETS</b>	(10,946)	-
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>187,561</u>	<u>-</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 176,615</u>	<u>\$ -</u>

The Accompanying Notes are an integral part of these financial statements.

**Bethlehem Area School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -**  
**General Fund**  
**For the Year Ended June 30, 2009**

	BUDGET AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	BUDGET TO GAAP DIFFERENCE	ACTUAL AMOUNTS GAAP BASIS
	ORIGINAL	FINAL				
<b>REVENUES</b>						
Local Sources	\$ 128,874,360	\$ 130,437,760	\$ 129,159,452	\$ (1,278,308)	\$ -	\$ 129,159,452
State Sources	50,882,774	50,801,050	50,040,402	(760,648)	-	50,040,402
Federal Sources	5,866,827	5,796,118	6,335,003	538,885	-	6,335,003
<b>TOTAL REVENUES</b>	<b>185,623,961</b>	<b>187,034,928</b>	<b>185,534,857</b>	<b>(1,500,071)</b>		<b>185,534,857</b>
<b>EXPENDITURES</b>						
Regular Instruction	78,113,578	77,035,914	77,032,405	3,509	-	77,032,405
Special Programs	21,177,102	20,172,618	20,140,961	31,657	-	20,140,961
Vocational Programs	8,742,108	8,323,723	8,115,927	207,796	-	8,115,927
Other Instructional Programs	2,281,913	2,438,530	2,179,467	259,063	-	2,179,467
Nonpublic School Programs		10,500	10,300	200	-	10,300
Adult Education Programs	39,601	45,060	44,539	521	-	44,539
Community/Junior College Ed. Programs	2,047,386	2,032,451	2,029,807	2,644	-	2,029,807
Pre-Kindergarten	1,208,386	1,720,752	1,715,237	5,515	-	1,715,237
Pupil Personnel Services	7,608,757	7,673,749	7,613,215	60,534	-	7,613,215
Instructional Staff Services	6,381,731	8,528,871	8,145,900	382,971	-	8,145,900
Administrative Services	9,881,845	10,106,265	9,929,882	176,383	-	9,929,882
Pupil Health	1,663,457	1,712,556	1,606,313	106,243	-	1,606,313
Business Services	2,840,674	2,493,753	2,424,970	68,783	-	2,424,970
Operation & Maintenance of Plant Services	16,068,088	14,550,576	14,476,347	74,229	-	14,476,347
Student Transportation Services	5,179,198	5,549,159	5,495,987	53,172	-	5,495,987
Central Support Services	1,561,279	1,715,854	1,703,326	12,528	-	1,703,326
Other Support Services	40,000	100,000	98,393	1,607	-	98,393
Student Activities	380,891	416,253	414,342	1,911	-	414,342
Community Services	234,222	209,222	208,588	634	-	208,588
Scholarships and Awards	-	4,000	3,188	812	-	3,188
Facilities, Acquisition and Construction	-	-	-	-	-	-
Debt Service	18,606,366	20,836,493	20,778,032	58,461	-	20,778,032
<b>TOTAL EXPENDITURES</b>	<b>184,056,582</b>	<b>185,676,299</b>	<b>184,167,126</b>	<b>1,509,173</b>	-	<b>184,167,126</b>
Excess (deficiency) of revenues over expenditures	1,567,379	1,358,629	1,367,731	9,102	-	1,367,731
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds From Extended Term Financing	-	-	1,794,115	1,794,115	-	1,794,115
Interfund Transfers In	250,000	250,000	200,000	(50,000)	-	200,000
Sale/Compensation for Fixed Assets	7,000	7,000	10,470	3,470	-	10,470
Fund Transfers Out	(1,599,379)	(1,515,629)	(1,421,583)	94,046	-	(1,421,583)
Budgetary Reserve	(225,000)	(100,000)	-	100,000	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,567,379)</b>	<b>(1,358,629)</b>	<b>583,002</b>	<b>1,941,631</b>	-	<b>583,002</b>
Special Items	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>1,950,733</b>	<b>1,950,733</b>	<b>-</b>	<b>1,950,733</b>
<b>FUND BALANCE - JULY 1, 2008</b>	<b>-</b>	<b>\$ -</b>	<b>(3,169,965)</b>	<b>\$ (3,169,965)</b>	<b>\$ -</b>	<b>\$ (3,169,965)</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>-</b>	<b>100,000</b>	<b>100,000</b>	<b>-</b>	<b>100,000</b>
<b>FUND BALANCE - JUNE 30, 2009</b>	<b>-</b>	<b>\$ -</b>	<b>(1,119,232)</b>	<b>\$ (1,119,232)</b>	<b>\$ -</b>	<b>\$ (1,119,232)</b>

The Accompanying Notes are an integral part of these financial statements.

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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**Note 1 - Description of the School District and Reporting Entity**

***School District***

The Bethlehem Area School District (BASD), located 50 miles north of Philadelphia in eastern Pennsylvania, serves five communities in Bethlehem with demographics ranging from small suburban schools to severely distressed urban schools. It is the sixth largest school district in the state, with an approximate enrollment of 15,392 students. BASD facilities include two high schools, four middle schools, 16 elementary schools, and a school building which houses the District's preschool program.

The Bethlehem 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 to 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).

As specified under the School Law Code of the Commonwealth of Pennsylvania, this and all other school districts of the state "shall be and hereby are vested as, bodies corporate, with all necessary powers to carry out the provisions of this act." (Article II, Section 211).

***Board of School Directors***

The public school system of the Commonwealth shall be administered by a board of school directors, to be elected or appointed, as hereinafter provided. At each election of school directors, each qualified voter shall be entitled to cast one vote for each school director to be elected.

The Bethlehem Area School District is governed by a board of nine School Directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

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 every person, residing in such district, between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any schools herein provided, or to pay any school indebtedness which the school district is required to pay, or to pay any indebtedness that may at any time hereafter be created by the school district, the board of school directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual State appropriation, and are 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.

***Administration***

The Superintendent of Schools shall be the executive officer of the Board of School Directors and, in that capacity shall administer the School District in conformity with Board policies and the School Laws of Pennsylvania. The Superintendent shall be directly responsible to, and therefore appointed by, the Board of School Directors. The Superintendent shall be responsible for the overall administration, supervision, and operation of the School District.

The Assistant to the Superintendent for Fiscal Affairs, recommended by the Superintendent and appointed by the Board of School Directors, shall supervise and coordinate all business aspects of the School District. In this capacity, he or she shall be responsible to insure that all work accomplished by him/her, or by persons under his/her supervision, is in the best interests of the Bethlehem Area School District. The Assistant to the Superintendent for Fiscal Affairs is directly responsible to the Superintendent.

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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***Reporting Entity***

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Bethlehem Area School District, this includes general operations, food service, and student related activities of the School District.

Bethlehem Area School District is a municipal Corporation governed by an elected nine-member board. As required by generally accepted accounting principles, these financial statements are to present Bethlehem Area School District (the primary government) and organizations for which the primary government is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the School District in that the School District approved the budget, the issuance of debt, or the levying of taxes. The Bethlehem Area School District has one component unit that is blended into its financial statements.

***Component Unit***

During this past fiscal year, the Bethlehem Area School District Authority was reactivated. The Authority is created under the Pennsylvania Municipality Authorities Act of 1945, as amended, by the School Districts, and is empowered under the Act to acquire, hold, construct, improve, maintain, operate, and lease school buildings and other school projects acquired, constructed or improved for public school purposes. The Authority, at the request of the Bethlehem Area School District, has undertaken reconstruction, modifying, and improving the financing of school buildings and facilities. As such, this component unit's transactions during the 2008-09 fiscal year are blended into the School District's basic financial statements.

***Joint Ventures***

***Bethlehem Area Vocational Technical School***

The School District is a participating member of the Bethlehem Area Vocational Technical School (BAVTS). The BAVTS is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the BAVTS's annual operating budget. Each participating district pays a pro-rata share of the BAVTS's operating costs based on the number of students attending the BAVTS for each District. The District's share of the BAVTS's operating costs for 2008-09 was \$5,663,774.

On dissolution of the Bethlehem Area Vocational Technical School, the net assets of BAVTS will be shared on a pro-rata basis of each participating district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the District does not have an equity interest in BAVTS as defined by GASB Statement No. 14, except a residual interest in the net assets upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the BAVTS obtained from the BAVTS's administrative office at 3300 Chester Avenue, Bethlehem, PA 18020.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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*Northampton Community College*

The District is a participating member of the Northampton Community College (NCC). The NCC is run by a Board of Trustees elected by the participating member districts' boards of directors. No participating district appoints a majority of the Board of Trustees. A vote of two-thirds of all member districts shall be required for approval of the NCC's annual operating budget. The amount of the annual operating costs of the NCC shall be apportioned among the member districts on the basis of the number of full-time equivalent students enrolled in NCC and residing in the respective geographical areas of each of the member districts. The District's share of NCC's operating costs for 2008-09 was \$2,029,807.

On dissolution of the Northampton Community College, the net assets of NCC will be shared on a pro-rata basis of each member district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the District does not have an equity interest in NCC as defined by GASB Statement No. 14, except a residual interest in the net assets upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for NCC can be obtained from the NCC's Administrative office at 3835 Green Pond Road, Bethlehem, PA 18020.

***Jointly Governed Organizations***

*Colonial Intermediate Unit*

The School District is a participating member of the Colonial Intermediate Unit (CIU). The CIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CIU's annual operating budget. The CIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no on-going financial interest or financial responsibility in the CIU. The CIU contracts with participating districts to supply special education services, computer services, and acts as a conduit for certain federal programs.

**Note 2 - Summary of significant accounting policies**

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its business-type activities and to its proprietary funds, provided they do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

***A. Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements.*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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direct expenses and program revenues for each program or function of the School District's governmental activities and for one business-type activity of the School District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the School District.

**Fund Financial Statements** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's **major** governmental funds:

*General Fund*

The General Fund is the general operating fund of the School District. It is used to account for all financial resources, except those required to be accounted for in another fund.

*Special Revenue Funds*

The District has established a Capital Reserve Fund in accordance with the PA School Laws. This fund is used to account for the proceeds of specific revenue sources as outlined by school laws that are legally restricted to expenditures for specified purposes.

*Capital Reserve Fund*

This fund was created in accordance with Section 1432 of the Municipal Code. As such, the PA Department of Education has decided this fund should be classified as a major fund regardless of whether or not GASB's major fund criteria are met.

*Capital Project Funds*

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital equipment and facilities (other than those financed by the proprietary fund).

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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The District has the following Capital Project Funds:

a) 05-07 Capital Project Fund

During this fiscal year this fund received the proceeds from the \$11,100,000 General Obligation Bonds – Series B of 2009. The purpose of this issue is to finance the capital costs of designing, constructing, renovating, improving, and furnishing & equipping school facilities, including the Broughal Middle School and Northeast Middle School projects.

**Proprietary Funds** Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise funds.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise fund is:

*Food Service Fund* - This fund accounts for the financial transactions related to the food service operations of the School District.

**Internal Service Funds** Internal Service Funds are used to account for the financing of goods and services provided by one fund to other funds of the government on a cost-reimbursement basis. Services recorded in this Fund represent self-insurance provided to other funds of the School District.

**Fiduciary Funds** Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all enterprise funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its enterprise activities.



**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Non-Exchange Transactions.** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**E. Budgetary Process**

An operating budget is adopted prior to the beginning of each year for the General Fund on the modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

In accordance with Act 1 of 2006, the Board shall annually, but not later than the first business meeting of January, decide the budget option to be used for the following fiscal year. The Board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

**Accelerated Budget Process Option**

Under this option, a preliminary budget must be prepared 150 days prior to the primary election. Under this Option, the preliminary budget must be available for public inspection at least 110 days prior to the primary election. The Board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

If the preliminary budget exceeds the increase authorized by the Index, an application for an exception may be filed with either a Court of Common Pleas with jurisdiction or PDE and made available for public inspection. The Board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

The final budget shall include any necessary changes from the adopted preliminary budget. Any reduction required as the result of the failure of referendum shall be clearly stated. The final budget shall be made available for public inspection at least 20 days prior to final adoption. The Board shall annually adopt the final budget by a majority vote of all members of the Board prior to June 30.

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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**Board Resolution Option**

Under the Board Resolution Option, the Board shall adopt a resolution that it will not raise the rate of any tax for the following fiscal year by more than the Index. Such resolution shall be adopted no later than 110 days prior to the primary election. At least 30 days prior to adoption of the final budget the Board shall prepare a proposed budget. The proposed budget shall be available for public inspection at least 20 days prior to adoption of the budget. The Board shall give public notice of its intent to adopt at least 10 days prior to adoption of the proposed budget. The Board shall annually adopt the final budget by a majority vote of all members of the Board by June 30.

Legal budgetary control is maintained at the sub-function/major object level. The PA School Code allows the School Board to make budgetary transfers between major function and major object codes only within the last nine months of the fiscal year, unless there is a two-thirds majority of the Board approving the transfer. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2008-09 budget transfers, including the re-opening of the budget in May 2009 to account for \$1,410,967 in additional federal and state grants.

***Encumbrances***

Any encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The General Fund Budget is maintained on the modified accrual basis of accounting, except that budgetary basis expenditures include any encumbrances issued for goods or services not received at year-end and not terminated.

The actual results of operations are presented in accordance with GAAP and the District's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred. Any encumbrances are presented as a reservation for encumbrances on the balance sheet of the General Fund. If budgetary encumbrances exist at year-end, they are included in the fund financial statements to reflect actual revenues and expenditures on a budgetary basis consistent with the District's legally adopted budget.

***F. Use of Estimates***

The preparation of financial statements in conformity with 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.

***G. Assets, Liabilities, and Net Assets***

***Cash and Cash Equivalents***

For purposes of the Statement of Cash Flows, the Proprietary Fund type considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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*Investments*

In accordance with GASB Statement 31, investments are stated at fair value, except:

- a) Non-participating interest earning investment contracts are recorded at amortized cost;
- b) Money market investments and participating interest earning investment contracts that mature within one year of acquisition are recorded at amortized cost; and,
- c) Investments held in 2a7-like pools (Pennsylvania Local Government Investment Trust, Money Market Funds, Pennsylvania Treasurer's Invest Program, and PA School District Liquid Asset Fund) are recorded at the pool's share price.

*Receivables and Payables*

Activities 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".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

*Property Tax Levy*

Property taxes, which were levied during the fiscal year ended June 30, 2009, are recognized as revenue in the fund financial statements when received by the District during the fiscal year and also estimated to be received by the District within sixty (60) days after the fiscal year ended.

Property taxes that were levied during the current fiscal year, which are not estimated to be received within sixty (60) days after the fiscal year-end, are recorded as receivable and deferred revenue in the fund financial statements.

In the government-wide financial statements, all property taxes levied during the fiscal year are recognized as revenue, net of estimated uncollectible amount.

*Inventories*

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used. As of June 30, 2009, the inventory shown in the governmental activities column of the government-wide statement of net assets is \$13,116 and \$229,939 is shown as inventory in the business-type activities column of the government-wide statement of net assets.

Inventory type items in governmental funds utilize the consumption method, that is, they are charged to expenditures when purchased. There was a physical inventory of \$13,116 taken as of June 30, 2009; therefore, there would be an offsetting reservation of fund balance in the General Fund, if there was a positive fund balance.

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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Inventory type items in Proprietary Funds use the consumption method, in which items are purchased for inventory and charged to expenses when used. The only Proprietary Fund of the District is the Food Service Fund. Inventory within this fund consists of donated commodities, which are valued at U.S.D.A.'s approximate costs. Inventories on hand at June 30, 2009, consist of:

Purchased Food	\$ 116,031
Donated Commodities	18,741
Purchased Supplies	95,167
<b>TOTAL</b>	<b>\$ 229,939</b>

*Prepaid Expenses*

In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

*Capital Assets*

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand dollars (\$2,000) dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise funds is also capitalized.

All reported capital assets except land, certain land improvements, and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>	<b>Business-Type Activities Estimated Lives</b>
Buildings and Improvements	15 - 40 years	15 - 40 years
Furniture and Equipment	5 - 20 years	5 - 12 years
Vehicles	8 years	8 years

*Compensated Absences*

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In enterprise funds, the entire amount of compensated absences is reported as a fund liability.

*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 or proprietary fund type statement of net assets. Bond premiums and discounts, bond issuance costs, and deferred amounts on refundings are deferred and amortized over the life of the bonds using modification of the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and any deferred amount on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

*Reclassification*

Certain amounts have been reclassified to conform to the June 30, 2009, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements reported on the modified accrual basis of accounting.

*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

*Fund Balance Reserves*

The School District reserves, if the overall fund balance is positive, those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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*Contributions of Capital*

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The proprietary funds received no capital contributions during this fiscal year.

**Note 3 - Reconciliation of government-wide and fund financial statements**

*A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.*

The governmental fund balance sheet includes reconciliation between "fund balance - total governmental funds" and "net assets - governmental activities" as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The details of this \$302,528,910 differences are:

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Bonds payable	\$ 301,885,000
Less: Deferred charge on refunding (to be amortized as interest expense)	(8,249,802)
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(3,157,463)
Less: Issuance discount (to be amortized as interest expense)	(1,073,656)
Add: Issuance premium (to be amortized as a contra to interest expense)	2,743,989
Lease Purchase Obligations	2,714,197
Accrued interest payable	1,114,957
Net OPEB Obligation	3,167,077
Compensated absences	<u>3,384,611</u>
Net adjustment to reduce "fund balance - total governmental funds" to arrive at "net assets - governmental activities"	<u><b>\$ 302,528,910</b></u>

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*B. Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities*

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. Differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities fall into one of three broad categories. The amounts shown in the columns on the following page represent:

- a) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities. The long-term expenses reported below recognize the change in vested employee benefits.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

b) Capital related differences include (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation expense on those items as recorded in the statement of activities.

c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

	TOTAL GOVERN- MENTAL FUNDS	LONG-TERM REVENUES/ EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANS- ACTIONS	TOTAL FOR STATEMENT OF ACTIVITIES
<b>REVENUES AND OTHER SOURCES</b>					
<b>LOCAL SOURCES:</b>					
Property Taxes	\$ 106,211,130	\$ 277,736	\$ -	\$ -	\$ 106,488,866
Taxes levied for specific purposes	18,501,530	185,801	-	-	18,687,331
Interest and investment earnings	1,476,309	-	-	(114,735)	1,361,574
Miscellaneous	272,760	-	-	-	272,760
Contributions and Donations	336,733	-	-	-	336,733
Charges for Services	764,132	-	-	-	764,132
Grants, subsidies & contributions not restricted	28,688,474	-	-	-	28,688,474
Transfers in	250,000	-	-	(50,000)	200,000
<b>INTERMEDIATE SOURCES:</b>					
Charges for Services	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-
<b>STATE SOURCES:</b>					
Operating & Capital grants and contributions	21,759,165	-	282,181	-	22,041,346
<b>FEDERAL SOURCES:</b>					
Operating & Capital grants and contributions	8,422,162	-	-	-	8,422,162
<b>SPECIAL AND EXTRAORDINARY SOURCES:</b>					
Proceeds from Bond Issues	179,212,932	-	-	(179,212,932)	-
Proceeds from Extended Term Financing	1,794,115	-	-	(1,794,115)	-
Gain or (Loss) on disposal of assets	10,470	-	-	-	10,470
<b>TOTAL REVENUES</b>	<b>367,699,912</b>	<b>463,537</b>	<b>282,181</b>	<b>(181,171,782)</b>	<b>187,273,848</b>
<b>EXPENDITURES/EXPENSES</b>					
Instruction	111,682,014	1,395,516	5,965,476	-	119,043,006
Instructional Student Support	17,483,762	215,058	179,629	-	17,878,449
Admin. & Fin'l Support Services	15,920,192	111,247	(128,544)	(1,541,746)	14,361,149
Oper. & Maint. Of Plant Svcs.	15,447,846	153,240	(1,267,206)	-	14,333,880
Pupil Transportation	5,495,987	63,322	497,236	-	6,056,545
Student activities	2,098,341	4,739	144,680	-	2,247,760
Community Services	208,588	612	-	-	209,200
Scholarships & Awards	3,188	-	-	-	3,188
Capital Outlay	26,265,089	-	(26,265,089)	-	-
Debt Service	188,278,030	-	-	(161,252,051)	27,025,979
Transfers Out	-	-	-	-	-
Depreciation - unallocated	-	-	179,188	-	179,188
Impairment Loss	-	-	-	-	-
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>382,883,037</b>	<b>1,943,734</b>	<b>(20,694,630)</b>	<b>(162,793,797)</b>	<b>201,338,344</b>
<b>NET CHANGE FOR THE YEAR</b>	<b>\$ (15,183,125)</b>	<b>\$ (1,480,197)</b>	<b>\$ 20,976,811</b>	<b>\$ (18,377,985)</b>	<b>\$ (14,064,496)</b>

**Note 4 - Stewardship, Compliance, and Accountability**

**A. Compliance with finance related legal and contractual provisions**

The District has no material violations of finance related legal and contractual provisions.

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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**B. Deficit fund balance or net assets of individual funds**

No individual fund contains a deficit fund balance or net assets at June 30, 2009, except the General Fund has a year end deficit fund balance of \$1,119,232, the governmental activities has a \$34,437,599 in deficit net assets, the Authority's general fund has a deficit fund balance of \$631,390, and the Athletic Fund has a deficit fund balance of \$27,642.

**C. Excess of expenditures over appropriations in individual funds**

No individual fund which had a legally adopted budget had an excess of expenditures over appropriations.

**D. Budgetary compliance**

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year-end; therefore, it does not have any outstanding encumbrances at June 30, 2009. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

**Note 5 - Detailed notes on all funds and account groups**

**Assets**

*Cash*

*Custodial Credit Risk - Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2009, \$14,512,854 of the District's bank balance of \$16,204,970 was exposed to custodial credit risk as follows:

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Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the District's name	<u>14,512,854</u>
<b>TOTAL</b>	<b><u>\$ 14,512,854</u></b>

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**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

Reconciliation to Financial Statements

Uncollateralized Amount above	\$ 14,512,854
Plus: Insured Amount	1,692,116
Less: Outstanding Checks	<u>(28,667)</u>
Carrying Amount - Cash Balances	16,176,303
Plus: Petty Cash	2,850
Deposit in Pooled Investments Considered Cash Equivalents	15,193,242
Deposit in Money Market Mutual Funds Considered Cash Equivalents	642,893
Less: Certificates of Deposit considered Investments by School Code	<u>(10,938,802)</u>
<b>TOTAL CASH PER FINANCIAL STATEMENTS</b>	<b><u>\$ 21,076,486</u></b>

Investments

As of June 30, 2009, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
PSDLAF/PSDMAX		\$ 14,895,974
PA Treasurer's Invest Program		219,412
PLGIT Class		77,855
Sovereign Bank Money Market		-
Commerce Bank Money Market		641,257
Wachovia Bank Money Market		1,636
Bank of America Money Market		4,747,327
Baird Public Investment Advisors Money Market Fund		<u>10,938,803</u>
<b>TOTAL</b>		<b><u>\$ 31,522,264</u></b>

Interest Rate Risk

The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2009 the District's investment in PLGIT and PSDLAF were rated AAA by Standard & Poor's. The District's investment in the PA Treasurer's Invest Program was rated AAA by Standard & Poor's and Moodys. The District's investment in the Sovereign, Commerce, Wachovia, Bank of America, and Baird Public Investment Advisors money market accounts were rated AAA by Standard & Poor's Investors Service.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Of the District's Investments, 35.55% are in FHLB Discount Notes, 44.47% are in the Federal Home Loan Mtg. Notes, and 6.87% are in U.S. Treasury Notes. In the governmental activities column on the Statement of Net Assets, 35.70% of the investments are in FHLB Discount Notes, 44.66% are

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

invested in Federal Home Loan Mtg. Notes, and 6.90% are invested in U.S. Treasury Notes. Of the Capital Project Fund investments, 40.53% are in FHLB Discount Notes, 50.69% are in Federal Home Loan Mtg. Notes, and 7.84% are invested in U.S. Treasury Notes. All of the fiduciary funds investments are invested in Certificates of Deposit.

**Reconciliation to Financial Statements**

Total Investments Above	\$ 31,522,264
Less: Deposits in Investment Pool Considered Cash Equivalents	(15,193,242)
Deposits in Money Market Funds Considered Cash Equivalents	(642,893)
<b>Total Investments Per Financial Statements</b>	<b><u>\$ 15,686,129</u></b>

**Property Taxes**

Property taxes are levied on July 1, on the assessed value listed, as of that date, for all taxable real property located in the District. Assessed values are established by the County Board of Assessments. All taxable real property was assessed at \$2,761,004,800. The tax rate for the Northampton and Lehigh Counties was \$3.958 per \$100 of assessed valuation or 39.58 mills.

The property tax calendar is:

July 1	-	Full year tax assessed for current year.
July 1 - August 31	-	Discount period during which a 2% discount is allowed.
September 1 - October 31	-	Face amount of tax is due
November 1 - January 15	-	A 10% penalty is added to all payments.
January 15 -	-	All unpaid taxes become delinquent and are turned over to the County Tax Claim Bureau for Collection.

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes was determined by the administration. A portion of the net amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the financial statements.

**Receivables**

Receivables, as of year end, for the government's individual major funds and non-major and fiduciary funds, in the aggregate, including the applicable allowances for uncollectible accounts, are:

	GENERAL FUND	CAPITAL RESERVE FUND	CAPITAL PROJECT FUNDS	FOOD SERVICE FUND	NON- MAJOR FUNDS	FIDUCIARY FUNDS	TOTAL
<b>RECEIVABLES:</b>							
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	6,304,782	-	-	-	-	-	6,304,782
Accounts	202,414	-	14,151	219,428	95,013	-	531,006
Intergovernmental	3,274,084	-	-	101,329	-	-	3,375,413
<b>GROSS RECEIVABLES</b>	<b>9,781,280</b>	<b>-</b>	<b>14,151</b>	<b>320,757</b>	<b>95,013</b>	<b>-</b>	<b>10,211,201</b>
Less: Allowance for Uncollectibles	-	-	-	-	-	-	-
<b>NET RECEIVABLES</b>	<b><u>\$ 9,781,280</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 14,151</u></b>	<b><u>\$ 320,757</u></b>	<b><u>\$ 95,013</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 10,211,201</u></b>

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were:

	<u>UNAVAILABLE</u>	<u>UNEARNED</u>
Delinquent Property Taxes - General Fund	\$ 4,520,361	\$ -
Contributions	-	-
Grants drawdowns prior to meeting eligibility requirements	-	32,408
<b>TOTAL</b>	<b>\$ 4,520,361</b>	<b>\$ 32,408</b>

*Capital Assets*

Capital asset balances and activity for the year ending June 30, 2009, were:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
Capital Assets not being depreciated:				
Land	\$ 75,410	\$ -	\$ -	\$ 75,410
Construction in Progress	110,867,915	27,664,858	(2,517,311)	136,015,462
Total Capital Assets not being depreciated	110,943,325	27,664,858	(2,517,311)	136,090,872
Capital Assets being depreciated:				-
Site Improvements	8,907,917	-	-	8,907,917
Buildings and Improvements	171,624,698	2,862,655	-	174,487,353
Furniture and Equipment	60,217,164	-	(97,325)	60,119,839
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>240,749,779</b>	<b>2,862,655</b>	<b>(97,325)</b>	<b>243,515,109</b>
Less accumulated depreciation for:				
Site Improvements	(4,863,315)	(427,793)	-	(5,291,108)
Buildings and Improvements	(67,093,661)	(4,447,691)	-	(71,541,352)
Furniture and Equipment	(50,519,125)	(2,342,763)	-	(52,861,888)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(122,476,101)</b>	<b>(7,218,247)</b>	<b>-</b>	<b>(129,694,348)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION</b>	<b>118,273,678</b>	<b>(4,355,592)</b>	<b>(97,325)</b>	<b>113,820,761</b>
 <b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>	 <b>\$ 229,217,003</b>	 <b>\$ 23,309,266</b>	 <b>\$ (2,614,636)</b>	 <b>\$ 249,911,633</b>
 <b>BUSINESS-TYPE ACTIVITIES:</b>				
Capital Assets being depreciated:				
Furniture and Equipment	\$ 1,826,059	\$ -	\$ -	\$ 1,826,059
Less accumulated depreciation	(1,681,051)	(46,502)	-	(1,727,553)
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 145,008</b>	<b>\$ (46,502)</b>	<b>\$ -</b>	<b>\$ 98,506</b>

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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**\* DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:**

Regular Instruction	\$ 5,122,539
Special Instruction	832,678
Vocational Instruction	86,415
Other Instruction	-
Adult Instruction	-
Community College Instruction	-
Pupil Services	25,365
Instructional Staff Svcs.	181,078
Administrative Services	70,733
Health Services	37,438
Business Services	-
Operation & Maintenance of Plant Svcs.	28,610
Pupil Transportation	504,217
Central Services	-
Other Support Services	-
Student Activities	149,985
Community Services	-
Depreciation - unallocated	179,188
<b>TOTAL DEPRECIATION FOR GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 7,218,246</u></b>

The District disposed of fully depreciated capital assets during the year and received sale proceeds of \$10,470 resulting in a gain on sale of assets of \$10,470.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

*Long-term construction commitments*

The District has the following construction commitments in the Capital Project Funds:

	CONTRACT AMOUNT	EXPENDED TO 6/30/09	OUTSTANDING COMMITMENTS
<b><u>ASA Packer ES Fire Alarm System</u></b>			
D'Huy Engineering	\$ 6,175	\$ 3,211	\$ 2,964
Advantage Electrical Installations, Inc	58,385	27,045	31,340
<b>TOTAL</b>	<b>64,560</b>	<b>30,256</b>	<b>34,304</b>
<b><u>ASA Packer ES Roof Replacement</u></b>			
D'Huy Engineering	15,738	13,060	2,678
TRS Roofing Inc	262,300	-	262,300
<b>TOTAL</b>	<b>278,038</b>	<b>13,060</b>	<b>264,978</b>
<b><u>Freemansburg ES Roof Replacement</u></b>			
D'Huy Engineering	5,547	4,606	941
Eastern Roofing Systems Inc	92,450	-	92,450
<b>TOTAL</b>	<b>97,997</b>	<b>4,606</b>	<b>93,391</b>
<b><u>Farmersville ES Roof Replacement</u></b>			
D'Huy Engineering	20,408	16,939	3,469
TGW Corporation	340,130	-	340,130
<b>TOTAL</b>	<b>360,538</b>	<b>16,939</b>	<b>343,599</b>
<b><u>NorthEast MS Demo &amp; New Soccer Fields</u></b>			
D'Huy Engineering	260,000	20,800	239,200
<b>TOTAL</b>	<b>260,000</b>	<b>20,800</b>	<b>239,200</b>
<b><u>Freedom High School</u></b>			
Worth & Company	3,868,616	3,868,616	-
Albarell Electric	-	-	-
<b>TOTAL</b>	<b>3,868,616</b>	<b>3,868,616</b>	<b>-</b>
<b><u>Liberty High School</u></b>			
GC Boro	37,351,163	36,829,919	521,244
EC- Albarell	6,154,453	5,999,313	155,140
PC-Dual Temp	4,040,544	3,998,182	42,362
HVAC-Dual Temp	11,039,672	10,910,165	129,507
Asbestos-Sargent	472,000	472,000	-
Teledata- Angelini	431,639	431,639	-
Architect - Spillman Farmer	3,530,861	3,513,207	17,654
RPE- D'Huy Engineering	2,114,833	2,098,972	15,861
<b>TOTAL</b>	<b>65,135,165</b>	<b>64,253,397</b>	<b>881,768</b>
<b><u>Broughal Middle School</u></b>			
GC- Skepton	37,853,100	32,300,076	5,553,024
EC- Albarell	4,600,781	4,090,050	510,731
PC- Dual Temp	2,484,500	2,328,585	155,915
HVAC- Worth & Company	4,809,200	4,532,080	277,120
Asbestos-Sargent	423,924	34,357	389,567
Teledata- Angelini	264,240	-	264,240
Architect- Architecture Furst	2,793,614	2,737,742	55,872
RPE- D'Huy Engineering	1,786,251	1,339,688	446,563
<b>TOTAL</b>	<b>55,015,610</b>	<b>47,362,578</b>	<b>7,653,032</b>
<b>GRAND TOTAL</b>	<b>\$ 125,080,524</b>	<b>\$ 115,570,252</b>	<b>\$ 9,510,272</b>

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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**Short-term debt**

*Interfund receivables and payables*

The following interfund receivables and payables were in existence on June 30, 2009:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ -	\$ -
Special Revenue (Athletic) Fund	-	-
Special Revenue (Capital Reserve) Fund	-	-
Enterprise (Food Service) Fund	-	-
Private Purpose (Trust) Fund	-	-
Agency (Activity) Fund	-	-
	<hr/>	<hr/>
<b>TOTAL</b>	<u>\$ -</u>	<u>\$ -</u>

The District also made the following interfund transfers during the fiscal year ended June 30, 2009:

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ 200,000	\$ 1,421,583
Special Revenue (Athletic) Fund	1,371,583	-
Special Revenue (Authority) Fund	50,000	-
Enterprise (Day Care) Fund	-	200,000
Agency (Activity) Fund	-	-
	<hr/>	<hr/>
<b>TOTAL</b>	<u>\$ 1,621,583</u>	<u>\$ 1,621,583</u>

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

**Long-term liabilities**

Long-term liability balances and activity for the year ended June 30, 2009, were:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ELIMINATION OF REPORTING INTER-ENTITY DEBT	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
<b>GOVERNMENTAL ACTIVITIES</b>						
<b>General Obligation Debt:</b>						
<i>Bonds and notes payable:</i>						
Capital Projects	\$ 278,702,288	\$ 146,829,361	\$ 129,551,118	\$ 670,000	\$ 295,310,531	\$ 8,215,000
Capital Leases	920,082	2,714,197	920,082	-	2,714,197	737,188
Vo-Tech Debt	6,203,505	-	6,203,505	-	-	-
<b>Total general obligation debt</b>	<b>285,825,875</b>	<b>149,543,558</b>	<b>136,674,705</b>	<b>670,000</b>	<b>298,024,728</b>	<b>8,952,188</b>
<i>Other liabilities:</i>						
<i>Vested employee benefits:</i>						
Vacation pay	1,667,562	9,074	-	-	1,676,636	-
Sick pay	1,835,366	-	4,286	-	1,831,080	123,105
Net OPEB Obligation	1,684,174	1,482,903	-	-	3,167,077	-
<b>Total other liabilities</b>	<b>5,187,102</b>	<b>1,491,977</b>	<b>4,286</b>	<b>-</b>	<b>6,674,793</b>	<b>123,105</b>
<b>TOTAL GOVERNMENTAL ACTIVITY</b>						
<b>LONG-TERM LIABILITIES</b>	<b>\$ 291,012,977</b>	<b>\$ 151,035,535</b>	<b>\$ 136,678,991</b>	<b>\$ 670,000</b>	<b>\$ 304,699,521</b>	<b>\$ 9,075,293</b>
<b>BUSINESS TYPE ACTIVITIES</b>						
<i>Other liabilities:</i>						
<i>Vested employee benefits:</i>						
Vacation pay	19,202	1,188	-	-	20,390	-
Sick pay	57,109	-	9,526	-	47,583	-
Net OPEB Obligation	16,782	15,329	-	-	32,111	-
<b>TOTAL BUSINESS-TYPE ACTIVITY</b>						
<b>LONG-TERM LIABILITIES</b>	<b>\$ 93,093</b>	<b>\$ 16,517</b>	<b>\$ 9,526</b>	<b>\$ -</b>	<b>\$ 100,084</b>	<b>\$ -</b>

Payments on bonds and notes are made by the general fund. Vested employee benefits will be liquidated by governmental and proprietary funds. The School District currently does not have any bonds or notes payable in business-type activities.

Total Interest paid and accrued during the year:

<b>GOVERNMENTAL ACTIVITIES:</b>	<b>EXPENSE</b>	<b>PAID</b>
General obligation debt	\$ 27,025,979	\$ 13,570,258
Short-term borrowings	-	-
<b>TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES</b>	<b>\$ 27,025,979</b>	<b>\$ 13,570,258</b>

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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**General Obligation Notes - Series of 1998**

On May 15, 1998, the District issued \$35,000,000 of the General Obligation Bonds – Series of 1998. The proceeds will be used: (1) to provide funds for and toward planning, designing, acquiring, constructing, furnishing, and equipping two middle schools and six elementary schools; and (2) paying the costs and expenses of this issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 1998 to October 15, 2018. Interest rates range from 3.70% to 5.00%, with total interest indebtedness of \$29,842,891. A portion of this issue was advance refunded with the Series of 2003 General Obligation Notes. During this past fiscal year, the note was paid in full.

**General Obligation Bonds - Series A of 2001**

On November 15, 2001, the District issued \$43,000,000, of the General Obligation Bonds - Series A of 2001. The proceeds will be used: (1) to currently refund General Obligation Note - Series of 2000, (2) to design and construct a new middle school and other facilities, and (3) to pay the costs of the issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from March 15, 2003 to March 15, 2022. Interest rates range from 2.50% to 5.25%, with total interest indebtedness of \$40,600,112. A portion of this issue was advance refunded with the issuance of the Series of 2003, General Obligation Notes. The outstanding debt service requirements at June 30, 2009, are:

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>
2009-10	\$ 375,000	\$ 256,942
2010-11	385,000	241,943
2011-12	405,000	226,350
2012-13	420,000	209,542
2013-14	415,000	191,693
2014-19	3,675,000	603,810
<b>SUB-TOTAL</b>	<b>5,675,000</b>	<b>\$ 1,730,280</b>
Unamortized Deferred chgs. on Refundings	(4,227)	
Unamortized Premium	31,058	
<b>TOTAL OUTSTANDING</b>	<b>\$ 5,701,831</b>	

**General Obligation Notes – Series of 2003**

On May 1, 2003, the District issued \$74,175,000 of General Obligation Notes – Series of 2003. The proceeds will be used: (1) to advance refund a portion of the General Obligation Bonds – Series of 1998, (2) to advance refund a portion of the General Obligation Bonds – Series A of 2001, and (3) to pay the costs of the issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 2003 to October 15, 2021. The bonds shall bear interest on a variable weekly rate using the current market rate as determined by the remarketing agent. The issuer, at the request of the School District, shall enter into an Interest Rate Swap Agreement with JPMorgan Chase Bank pursuant to the master agreement. During the 2008-09 fiscal year these Notes were currently refunded with the General Obligation Bonds – Series A of 2009. The underlying interest rate swap agreement was terminated with a \$12,364,000 payment to the counterparty.



**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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**General Obligation Bonds – Series of 2005**

On July 1, 2005, the District issued \$55,000,000 of General Obligation Bonds – Series of 2005. The proceeds will be used: (1) for capital projects, including renovations and expansion to Broughal Middle School and Nitschmann Middle School, and (2) paying the costs of the issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from January 1, 2006 to January 1, 2030. The bonds shall bear interest on a variable weekly rate using the current market rate as determined by the remarketing agent. The School District entered into a forward starting swap agreement.

***Interest Rate Swap***

*Objective of the interest rate swap.* As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in July 1, 2005, the School District entered into an forward starting interest rate swap in connection with its \$55,000,000, Series of 2005 variable-rate general obligation bonds. In addition, the School District entered into a constant maturity swap. The intention of the swaps was to effectively change the School District's variable interest rate on the bonds to a synthetic fixed rate.

*Terms.* The bonds and the related swap agreement mature on January 1, 2030, and the swap's notional amount is \$55,000,000. The swap was entered into on December 8, 2003. Starting on January 1, 2006, the notional value of the swap and the principal amount of the associated debt begin to decline. Under the swap, the School District receives the lesser of 60% of LIBOR (monthly rate) plus 0.345% from the Counterparty (JP Morgan Chase Bank) in exchange for a fixed rate of 3.90%. The variable rate paid on the School District's General Obligation Bonds— Series of 2005 approximates the BMA index. Therefore, if BMA exceeds 60% of LIBOR plus 0.345%, the District pays a net effective interest rate in excess of 3.90%, and if BMA is less than 60% of LIBOR, plus 0.345%, the District pays a net effective interest rate approximately equal to the fixed rate. In the constant maturity swap, the District pays SIFMA and receives 66.9% of 10 year LIBOR.

*Fair Value.* The swap has a negative fair value of \$8,292,437 as of June 30, 2009 and the constant maturity swap has a negative fair value of \$701,012 as of June 30, 2009. The swaps negative fair values may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by DerivActiv, and independent financial advisor.

*Credit Risk.* As of June 30, 2009, the School District was exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, the School District would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA- by Standard & Poor's and AA by Fitch.

*Basis Risk.* The swap exposes the government to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2009. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2009, the BMA rate was 2.10%, whereas 60% of LIBOR was 0.53%.

*Termination Risk.* The School District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the School District, if the counterparty's short-term debt credit rating is withdrawn or reduced to a rating below P-1 for Moody's and the rating by S&P is withdrawn or reduced to a rating that is below A-1. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the School District would be liable to the counterparty for a payment equal to the swap's fair value.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

*Swap payments and associated debt.* Using rates as of June 30, 2009, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The outstanding debt requirements at June 30, 2009, using the variable rate in effect at year end are:

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2009-10	\$ 5,000	\$ 1,154,536	\$ 653,550	\$ 1,813,086
2010-11	5,000	1,154,431	653,491	1,812,922
2011-12	5,000	1,154,326	653,431	1,812,757
2012-13	5,000	1,154,222	653,372	1,812,594
2013-14	5,000	1,154,116	653,312	1,812,428
2014-19	25,000	5,769,006	3,265,670	9,059,676
2019-24	11,975,000	5,539,178	3,135,571	20,649,749
2024-29	34,980,000	2,800,141	1,585,079	39,365,220
2029-30	7,975,000	97,694	55,302	8,127,996
<b>SUB-TOTAL</b>	<b>54,980,000</b>	<b>\$ 19,977,650</b>	<b>\$ 11,308,778</b>	<b>\$ 86,266,428</b>
Unamortized Deferred chgs. on Refundings	-	-	-	-
Unamortized Premium	-	-	-	-
<b>TOTAL OUTSTANDING</b>	<b>\$ 54,980,000</b>			

**General Obligation Bonds – Series of 2007**

On January 1, 2007, the District issued \$55,000,000 of General Obligation Bonds – Series of 2007. The proceeds will be used: (1) for capital projects, including renovations and expansion to Freedom High School and Liberty High School and (2) paying the costs of the issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from January 1, 2008 to January 1, 2032. The bonds shall bear interest on a variable weekly rate using the current market rate as determined by the remarketing agent. The School District entered into a forward starting swap agreement.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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***Interest Rate Swap***

*Objective of the interest rate swap.* As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in January 1, 2007, the School District entered into an forward starting interest rate swap in connection with its \$55,000,000, Series of 2007 variable-rate general obligation bonds. In addition, the School District entered into a constant maturity swap. The intention of the swaps was to effectively change the School District's variable interest rate on the bonds to a synthetic fixed rate.

*Terms.* The bonds and the related swap agreement mature on January 1, 2032, and the swap's notional amount is \$55,000,000. The swap was entered into on December 8, 2003. Starting on January 1, 2008, the notional value of the swap and the principal amount of the associated debt begin to decline. Under the swap, the School District receives the lesser of 60% of LIBOR (monthly rate) plus 0.346% from the Counterparty (Morgan Stanley Capital) in exchange for a fixed rate of 4.145%. The variable rate paid on the School District's General Obligation Bonds— Series of 2007 approximates the BMA index. Therefore, if BMA exceeds 60% of LIBOR plus 0.346%, the District pays a net effective interest rate in excess of 4.145%, and if BMA is less than 60% of LIBOR, plus 0.346%, the District pays a net effective interest rate approximately equal to the fixed rate. In the constant maturity swap, the District pays SIFMA and receives 67.7% of 10 year LIBOR.

*Fair Value.* The interest rate swap has a negative fair value of \$10,624,450 as of June 30, 2009 and the constant maturity swap has a negative fair value of \$949,293 as of June 30, 2009. The swaps negative fair values may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by DerivActiv, and independent financial advisor.

*Credit Risk.* As of June 30, 2009, the School District was exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the School District would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA- by Standard & Poor's and AA by Fitch.

*Basis Risk.* The swap exposes the government to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2009. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2009, the BMA rate was 2.10%, whereas 60% of LIBOR was 0.531%.

*Termination Risk.* The School District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the School District, if the counterparty's short-term debt credit rating is withdrawn or reduced to a rating below P-1 for Moody's and the rating by S&P is withdrawn or reduced to a rating that is below A-1. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the School District would be liable to the counterparty for a payment equal to the swap's fair value.

*Swap payments and associated debt.* Using rates as of June 30, 2009, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary:

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2009-10	\$ 5,000	\$ 1,154,746	\$ 771,107	\$ 1,930,853
2010-11	5,000	1,154,641	771,036	1,930,677
2011-12	5,000	1,154,536	770,966	1,930,502
2012-13	5,000	1,154,432	770,896	1,930,328
2013-14	5,000	1,154,326	770,826	1,930,152
2014-19	25,000	5,770,056	3,853,079	9,648,135
2019-24	6,245,000	5,649,166	3,772,352	15,666,518
2024-29	18,350,000	4,217,623	2,816,408	25,384,031
2029-32	30,345,000	1,201,227	802,145	32,348,372
<b>SUB-TOTAL</b>	<b>54,990,000</b>	<b>\$ 22,610,753</b>	<b>\$ 15,098,815</b>	<b>\$ 92,699,568</b>
Unamortized Deferred chgs. on Refundings	-			
Unamortized Premium	-			
<b>TOTAL OUTSTANDING</b>	<b>\$ 54,990,000</b>			

**General Obligation Bonds – Series A of 2007**

On June 1, 2007, the District issued \$61,630,000 of General Obligation Bonds – Series A of 2007. The proceeds will be used: (1) to currently refund the outstanding General Obligation Bonds – Series of 1997, and (2) to pay the costs of the issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from September 1, 2007 to September 1, 2016. The bonds shall bear interest at 5.0% with total indebtedness of \$14,608,625.

The outstanding debt service requirements at June 30, 2009 are:

FISCAL YEAR	PRINCIPAL	INTEREST
2009-10	\$ 5,855,000	\$ 2,390,875
2010-11	6,155,000	2,090,625
2011-12	6,470,000	1,775,000
2012-13	6,805,000	1,443,125
2013-14	7,735,000	1,079,625
2014-18	17,725,000	974,375
<b>SUB-TOTAL</b>	<b>50,745,000</b>	<b>\$ 9,753,625</b>
Unamortized Deferred chgs. on Refundings	-	
Unamortized Discount	(61,583)	
<b>TOTAL OUTSTANDING</b>	<b>\$ 50,683,417</b>	

***Interest Rate Swap***

*Objective of the interest rate swap.* As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance the School District entered into a forward swaption in connection with its Series of 1997 variable-rate general obligation bonds. The intention of the forward swaption was to effectively change the School District's variable interest rate on the bonds to a synthetic fixed rate.

*Terms.* The bonds and the related swap agreement mature on September 1, 2016, and the swap's notional amount is \$71,215,000. Since the swaption was entered into, the 1997 bonds have been refunded with the Series A Of 2007 bonds.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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*Fair Value.* The forward swaption has a negative fair value of \$751,193, as of June 30, 2009. The counterparty has not elected its option on this swaption as of June 30, 2009. The fair value was estimated by DerivActiv, and independent financial advisor.

*Credit Risk.* As of June 30, 2009, the School District was exposed to credit risk because the forward swaption had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the School District would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA- by Standard & Poor's and AA by Fitch.

*Basis Risk.* The forward swaption does not expose the government, at this time, to basis risk.

*Termination Risk.* The School District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the School District, if the counterparty's short-term debt credit rating is withdrawn or reduced to a rating below P-1 for Moody's and the rating by S&P is withdrawn or reduced to a rating that is below A-1. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the School District would be liable to the counterparty for a payment equal to the swap's fair value.

**General Obligation Notes – Series of 2007**

On September 1, 2007, the District issued \$40,000,000 of General Obligation Notes – Series of 2007. The proceeds will be used: (1) for financing and refinancing the capital costs of designing, constructing, renovating, improving, and further furnishing and equipping school facilities, including Broughal Middle School, and (2) paying the cost of the issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from July 1, 2008 to July 1, 2031. The notes shall bear interest on a variable weekly rate using the current market rate as determined by the remarketing agent. The issuer, at the request of the School District, shall enter into an Interest Rate Swap Agreement with JP Morgan Chase Bank pursuant to the master agreement. During the 2008-09 fiscal year, the Note was refunded with the issuance of \$40,280,000 guaranteed revenue bonds of the Bethlehem Area School District Authority with the underlying interest rate swap assumed by the Authority.

**General Obligation Notes – Series of 2009**

On May 1, 2009, the District issued \$41,000,000 of General Obligation Notes – Series of 2009. The proceeds will be used: (1) to provide funds for refunding the variable rate General Obligation Notes – Series of 2007 by transferring the liability to the BASD Authority; and (2) paying the costs of this issue. These notes are issued to the BASD Authority to guarantee their issuance of the Series of 2009 revenue bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from July 1, 2009 to July 1, 2031. Interest rates are variable using the BMA index. The maximum rate of interest payable shall be 15%, per annum, unless the bonds become bank bonds then the maximum interest rate is 25%, per annum.

Since this Note is between the School District and its component unit (Bethlehem Area School District Authority), it is not shown on the government-wide Statement of Net Assets as obligated debt because the Authority is blended into the financial statements; therefore its long-term receivable equal to the principal outstanding balance of this Note are eliminated for financial reporting purposes. We are reporting the following outstanding debt service requirements at June 30, 2009, for informational purposes only, using 1.728% interest rate in effect at June 30, 2009:

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>
2009-10	\$ 50,000	\$ 667,553
2010-11	50,000	666,738
2011-12	50,000	665,923
2012-13	50,000	665,108
2013-14	50,000	664,293
2014-19	250,000	3,309,240
2019-24	7,030,000	3,133,363
2024-29	19,725,000	1,814,332
2029-31	13,745,000	248,338
<b>TOTAL</b>	<b>\$ 41,000,000</b>	<b>\$ 11,834,888</b>

**General Obligation Bonds – Series A of 2009**

On May 1, 2009, the District issued \$69,710,000 of General Obligation Bonds – Series A of 2009. The proceeds will be used: (1) to currently refund, in conjunction with General Obligation Bonds – Series AA of 2009, the variable rate outstanding debt of the Series of 2003 bonds; (2) pay the termination fee on the related interest rate swaps, and; (3) paying the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 2009 to October 15, 2023. Interest rates range from 1.15% to 4.625%, with total interest indebtedness of \$29,207,397. The outstanding debt service requirements at June 30, 2009, are:

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>
2009-10	\$ 1,530,000	\$ 2,906,150
2010-11	1,415,000	2,998,432
2011-12	1,785,000	2,934,431
2012-13	1,845,000	2,872,231
2013-14	1,360,000	2,825,519
2014-18	30,180,000	11,757,406
2019-24	31,595,000	2,913,227
<b>SUB-TOTAL</b>	<b>69,710,000</b>	<b>\$ 29,207,396</b>
Unamortized Deferred chgs. on Refundings	(6,375,370)	
Unamortized Discount	(580,688)	
Unamortized Premium	2,706,766	
<b>TOTAL OUTSTANDING</b>	<b>\$ 65,460,708</b>	

**General Obligation Bonds – Series AA of 2009**

On May 1, 2009, the District issued \$14,410,000 of General Obligation Bonds – Series AA of 2009. The proceeds will be used: (1) to currently refund, in conjunction with General Obligation Bonds – Series A of 2009, the variable rate outstanding debt of the Series of 2003 bonds; (2) pay the termination fee on the related interest rate swaps, and; (3) paying the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 2018 to October 15, 2020. Interest rates range from 3.80% to 4.20%, with total interest indebtedness of \$6,164,404. The outstanding debt service requirements at June 30, 2009, are:

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2009-10	\$ -	\$ 554,604	\$ 554,604
2010-11	-	580,400	580,400
2011-12	-	580,400	580,400
2012-13	-	580,400	580,400
2013-14	-	580,400	580,400
2014-18	3,000,000	2,845,000	5,845,000
2019-24	11,410,000	443,200	11,853,200
<b>SUB-TOTAL</b>	<b>14,410,000</b>	<b>\$ 6,164,404</b>	<b>\$ 20,574,404</b>
Unamortized Deferred chgs. on Refundings	(1,305,799)		
Unamortized Discount	(294,639)		
<b>TOTAL OUTSTANDING</b>	<b>\$ 12,809,562</b>		

**General Obligation Bonds – Series B of 2009**

On May 1, 2009, the District issued \$11,100,000 of General Obligation Bonds – Series B of 2009. The proceeds will be used: (1) finance a portion of the costs to construct improvements to school buildings and facilities, including the Broughal Middle School and the Northeast Middle School, and; (2) paying the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 2009 to October 15, 2028. Interest rates range from 2.00% to 5.125%, with total interest indebtedness of \$16,473,525. The outstanding debt service requirements at June 30, 2009, are

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2009-10	\$ 435,000	\$ 403,786	\$ 838,786
2010-11	425,000	414,168	839,168
2011-12	435,000	405,568	840,568
2012-13	440,000	396,819	836,819
2013-14	450,000	387,075	837,075
2014-19	2,475,000	1,723,555	4,198,555
2019-24	2,985,000	1,198,113	4,183,113
2024-29	3,455,000	444,441	3,899,441
<b>SUB-TOTAL</b>	<b>11,100,000</b>	<b>\$ 5,373,525</b>	<b>\$ 16,473,525</b>
Unamortized Deferred chgs. on Refundings	6,166		
Unamortized Discount	(136,746)		
<b>TOTAL OUTSTANDING</b>	<b>\$ 10,969,420</b>		

**Component Unit Debt**

**Guaranteed Lease Revenue Bonds – Series of 2009**

On May 1, 2009, the Bethlehem Area School District Authority issued \$40,280,000 of Guaranteed Revenue Bonds – Series of 2009. The purposes of this issue are to: (1) refund the School District's Series of 2007 variable rate General Obligation Bonds purchased by Shippensburg Authority, (2) transfer the two interest rate swap agreements undertaken with the Series of 2007 bonds to the

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

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BASD Authority, and (3) pay the costs of issuance. These bonds are secured by a pledge and assignment of lease rentals by the Bethlehem Area School District, and a guarantee by the School District, under the terms of a General Obligation Note issued by the School District for \$41,000,000, on May 1, 2009. The Authority Bonds were purchased by Wachovia Bank and are for a term of two years at a variable rate. These bonds are scheduled to be refinanced with a Guaranteed Revenue Bonds – Series of 2011.

***Interest Rate Swap***

*Objective of the interest rate swap.* As a means to lower its borrowing costs, when compared against fixed-rate notes at the time of issuance in September 1, 2007, the School District entered into an forward starting interest rate swap in connection with its \$40,000,000, Series of 2007 variable-rate general obligation notes. In addition, the School District entered into a constant maturity swap. The intention of the swaps was to effectively change the School District's variable interest rate on the notes to a synthetic fixed rate.

*Terms.* The notes were refunded by the Bethlehem Area School District's Authority Guaranteed Revenue Bonds this past fiscal year backed by the issuance of the District's \$41,000,000 General Obligation Note to the Authority. The related swap agreement matures on July 1, 2031, and the swap's notional amount is \$40,000,000. The swap was entered into on November 22, 2005. Starting on July 1, 2008, the notional value of the swap and the principal amount of the associated debt begin to decline. Under the swap, the School District receives the lesser of 68% of LIBOR (monthly rate) from the Counterparty (JP Morgan Chase Bank) in exchange for a fixed rate of 3.774%. The variable rate paid on the Authority's Guaranteed Revenue Bonds – Series of 2009 approximates the BMA index. Therefore, if BMA exceeds 68% of LIBOR, the District pays a net effective interest rate in excess of 3.774%, and if BMA is less than 68% of LIBOR, the District pays a net effective interest rate approximately equal to the fixed rate. In the constant maturity swap, the District pays SIFMA and receives 69.1% of 10 year LIBOR.

*Fair Value.* The interest rate swap has a negative fair value of \$5,858,715 as of June 30, 2009 and the constant maturity swap has a negative fair value of \$83,716 as of June 30, 2009. The swaps net negative fair values may be countered by a reduction in total interest payments required under the variable-rate notes, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate notes adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by DerivActiv, and independent financial advisor.

*Credit Risk.* As of June 30, 2009, the School District was exposed to credit risk because the swaps had a net negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the School District would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA- by Standard & Poor's and AA by Fitch.

*Basis Risk.* The swap exposes the government to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the notes. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2009. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2009, the BMA rate was 1.60%, whereas 68% of LIBOR was 0.218%.

*Termination Risk.* The School District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the School District, if the counterparty's short-term debt credit rating is withdrawn or reduced to a rating below P-1 for Moody's and the rating by S&P is withdrawn or reduced to a rating that is below A-1. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swaps have a net negative fair value, the School District would be liable to the counterparty for a payment equal to the swap's fair value.



**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

*Swap payments and associated debt.* Using rates as of June 30, 2009, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. The current debt is scheduled to be refunded in 2011 with a new series matching the term of the swap.

The outstanding debt service requirements at June 30, 2009, using the variable rate in effect at year end are:

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>Interest Rate Swaps, Net</b>	<b>TOTAL</b>
2009-10	\$ 10,000	\$ 656,489	\$ 1,422,219	\$ 2,088,708
2010-11	40,270,000	547,008	1,422,041	42,239,049
2011-12	-	-	1,421,864	1,421,864
2012-13	-	-	1,421,686	1,421,686
2013-14	-	-	1,421,508	1,421,508
2014-19	-	-	7,104,872	7,104,872
2019-24	-	-	6,760,642	6,760,642
2024-29	-	-	3,921,301	3,921,301
2029-34	-	-	537,209	537,209
<b>SUB-TOTAL</b>	<b>40,280,000</b>	<b>\$ 1,203,497</b>	<b>\$ 25,433,342</b>	<b>\$ 66,916,839</b>
Unamortized Deferred chgs. on Refundings	(564,407)			
Unamortized Premium	-			
<b>TOTAL OUTSTANDING</b>	<b>\$ 39,715,593</b>			

***Lease Rental Debt***

On September 1, 2001, the Bethlehem Area Vocational Technical School Authority issued \$500,000 in Guaranteed Lease Revenue Bonds, Improvement Series of 2001. The Bonds are being issued under the Municipality Authorities Act of 1945, as amended, and pursuant to the provisions of a Trust Indenture, dated as of September 15, 2001, between the Authority and First Union National Bank, as trustee. Under the Indenture, the Authority has pledged and assigned to the Trustee the sublease rentals to be paid pursuant to a Lease and Sublease, dated as of September 15, 2001, between the Authority, as lessee and sublessor, and Bethlehem Area Vocational Technical School, as lessor and sublessee.

Bethlehem Area Vocational Technical School (BAVTS) was created and operates under Articles of Agreement by and among three participating school districts located in Northampton County and a portion of Lehigh County, Pennsylvania.

Under the Articles of Agreement, dated June 30, 1995, between BAVTS and the participating school districts, the annual operating expenses of BAVTS are allocated to and paid by the participating school districts.

The proceeds to be realized by the Authority will be used to provide funds for Vocational Technical School Projects.

The lease rental debt owed by the School District to the Authority is equal to the District's pro rata share of the bond principal and interest of the Authority's revenue bonds. This debt is considered lease rental debt of the School District. The bonds mature from September 1, 2002 to September 1, 2021, at interest rates between 2.65% and 5.0%.

On June 1, 2009, the Authority refunded the remaining outstanding revenue bonds with the Series of 2009 Guaranteed Lease Revenue Bonds.

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

On September 1, 2001, the Bethlehem Area Vocational Technical School Authority issued \$12,175,000 in Guaranteed Lease Revenue Bonds, Refunding Series of 2001. The Bonds are being issued under the Municipality Authorities Act of 1945, as amended, and pursuant to the provisions of a Trust Indenture, dated as of September 15, 2001, between the Authority and First Union National Bank, as trustee. Under the Indenture, the Authority has pledged and assigned to the Trustee the sublease rentals to be paid pursuant to a Lease and Sublease, dated as of September 21, 2001, between the Authority, as lessee and sublessor, and Bethlehem Area Vocational Technical School (BAVTS), as lessor and sublessee.

BAVTS was created and operates under Articles of Agreement by and among three participating school districts located in Northampton County and a portion of Lehigh County, Pennsylvania.

Under the Articles of Agreement, dated June 30, 1995, between BAVTS and the participating school districts, the annual operating expenses of BAVTS are allocated to and paid by the participating school districts.

The proceeds to be realized by the Authority will be used to refund the Authority's Guaranteed Lease Revenue Bonds -Series of 1999.

The lease rental debt owed by the School District to the Authority is equal to the District's pro rata share of the bond principal and interest of the Authority's revenue bonds. This debt is considered lease rental debt of the School District. The bonds mature from September 1, 2002 to September 1, 2020, at interest rates between 2.90% and 5.0%.

On June 1, 2009, the Authority currently refunded the Series of 2001 Improvement Revenue Bonds (\$460,000) and the partial refunding of the Series of 2001 Refunding Revenue Bonds (\$8,220,000) with interest ranging from 2.6% to 5.0%, with new debt in the amount of \$9,160,000 with interest rates ranging from 2.0% to 4.0%. The new debt is dated June 15, 2009.

Since market values fluctuate year to year the District's future share of the lease rental debt, as shown below, is an estimate using current market values. The debt is reflected on the Bethlehem Area Vocational-Technical School's financial statements. The remaining debt service requirements of the Guaranteed Lease Bonds – Refunding Series of 2001, at June 30, 2009, are:

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL RENTAL PAYMENT
2009-10	\$ -	\$ 17,867	\$ 17,867
2010-11	376,159	8,934	385,093
<b>TOTAL OUTSTANDING</b>	<b>\$ 376,159</b>	<b>\$ 26,801</b>	<b>\$ 402,960</b>

**Guaranteed Lease Revenue Bonds – Series of 2009**

On June 1, 2009 the Bethlehem Area Vocational-Technical School Authority issued \$9,160,000 of Guaranteed Lease Revenue Bonds – Series of 2009. The purposes of this issue are (1) to currently refund the outstanding guaranteed Lease Revenue Bonds – Series of 2001 Refunding and Improvement Series, and (2) to pay the costs of the issuance. The bonds are being issued under the Municipalities Authorities Act of 1945, as amended, and pursuant to the provisions of a Trust indenture, dated June 1, 2009 (Second Supplemental Indenture).

The Second Supplemental Indenture provides that the bonds shall be secured by a pledge and assignment of the lease rentals payable by the Bethlehem Area School District, the Northampton Area School District, and the Saucon Valley School District, and guaranteed by said school districts, under the terms of a Second Supplementary Lease agreement dated June 1, 2009.

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

Bethlehem Area Vocational-Technical School was created and operates under the Articles of Agreement by and among the three participating school districts located in Northampton County and a portion of Lehigh County, Pennsylvania.

Under the Articles of Agreement dated June 20, 1995, the annual operating expenses of the Vocational-Technical School are allocated to and paid by the participating school districts. The bonds mature between September 1, 2009 and September 1, 2021. Interest rates range from 2.00% to 4.00% with total interest indebtedness of \$2,097,444. This debt is reflected on Bethlehem Area Vocational-Technical School's financial statements. Since market values fluctuate year to year, the District's future share of the lease rental debt, as shown below, is an estimate using current market values.

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL RENTAL PAYMENT</b>
2009-10	\$ 233,914	\$ 126,344	\$ 360,258
2010-11	79,025	166,307	245,332
2011-12	464,667	161,415	626,082
2012-13	477,311	152,344	629,655
2013-14	486,794	142,338	629,132
2014-19	2,645,757	497,575	3,143,332
2019-22	1,403,484	68,302	1,471,786
<b>TOTAL OUTSTANDING</b>	<b>\$ 5,790,952</b>	<b>\$ 1,314,624</b>	<b>\$ 7,105,576</b>

***Extended Term Financing Agreement***

On June 23, 2009, the District modified the previous agreement and purchased Apple Personal Computers and other technology equipment under a financing agreement at an effective interest rate of 5.82% in the amount of \$2,714,197. The agreement requires four annual payments: of \$737,188. The outstanding debt service requirements at June 30, 2009, are:

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>
2009-10	\$ 737,188	\$ -
2010-11	622,081	115,107
2011-12	658,300	78,888
2012-13	696,628	40,559
<b>TOTAL OUTSTANDING</b>	<b>\$ 2,714,197</b>	<b>\$ 234,554</b>

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

*Combined Long-Term Debt*

The combined general long-term debt obligations for subsequent years, except for compensated absences, retirement benefits and extended term financing are:

**SUMMARY OF PRINCIPAL REQUIREMENTS**

FISCAL YEAR	G.O.B. SERIES A OF 2001	G.O.B. SERIES OF 2005	G.O.B. SERIES OF 2007	G.O.B. SERIES A OF 2007	G.R.B. SERIES OF 2009	G.O.B. SERIES A OF 2009	G.O.B. SERIES AA OF 2009	G.O.B. SERIES B OF 2009	TOTAL PRINCIPAL PAYMENTS
2009-10	\$ 375,000	\$ 5,000	\$ 5,000	\$ 5,855,000	\$ 10,000	\$ 1,530,000	\$ -	\$ 435,000	\$ 8,215,000
2010-11	385,000	5,000	5,000	6,155,000	40,270,000	1,415,000	-	425,000	48,660,000
2011-12	405,000	5,000	5,000	6,470,000	-	1,785,000	-	435,000	9,105,000
2012-13	420,000	5,000	5,000	6,805,000	-	1,845,000	-	440,000	9,520,000
2013-14	415,000	5,000	5,000	7,735,000	-	1,360,000	-	450,000	9,970,000
2014-19	3,675,000	25,000	25,000	17,725,000	-	30,180,000	3,000,000	2,475,000	57,105,000
2019-24	-	11,975,000	6,245,000	-	-	31,595,000	11,410,000	2,985,000	64,210,000
2024-29	-	34,980,000	18,350,000	-	-	-	-	3,455,000	56,785,000
2029-35	-	7,975,000	30,345,000	-	-	-	-	-	38,320,000
TOTAL	5,675,000	54,980,000	54,990,000	50,745,000	40,280,000	69,710,000	14,410,000	11,100,000	301,890,000
LESS PAYABLE WITHIN ONE YEAR	375,000	5,000	5,000	5,855,000	10,000	1,530,000	-	435,000	8,215,000
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	\$ 5,300,000	\$ 54,975,000	\$ 54,985,000	\$ 44,890,000	\$ 40,270,000	\$ 68,180,000	\$ 14,410,000	\$ 10,665,000	\$ 293,675,000

**SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS**

FISCAL YEAR	G.O.B. SERIES A OF 2001	G.O.B. SERIES OF 2005	G.O.B. SERIES OF 2007	G.O.B. SERIES A OF 2007	G.R.B. SERIES OF 2009	G.O.B. SERIES A OF 2009	G.O.B. SERIES AA OF 2009	G.O.B. SERIES B OF 2009	TOTAL DEBT SVC. PAYMENTS
2009-10	\$ 631,942	\$ 1,159,536	\$ 1,159,746	\$ 8,245,875	\$ 661,489	\$ 4,436,150	\$ 554,604	\$ 838,786	\$ 17,688,128
2010-11	626,943	1,159,431	1,159,641	8,245,625	40,876,708	4,413,432	580,400	839,168	57,901,348
2011-12	631,350	1,159,326	1,159,536	8,245,000	-	4,719,431	580,400	840,568	17,335,611
2012-13	628,542	1,159,222	1,159,432	8,248,125	-	4,717,231	580,400	836,819	17,330,771
2013-14	606,693	1,159,116	1,159,326	8,814,625	-	4,185,519	580,400	837,075	17,342,754
2014-19	4,278,810	5,794,006	5,795,056	18,698,375	-	41,937,406	5,845,000	4,198,555	86,548,208
2019-24	-	17,514,178	11,894,166	-	-	34,508,227	11,853,200	4,183,113	79,952,684
2024-29	-	37,780,141	22,567,623	-	-	-	-	3,899,441	64,247,205
2029-35	-	8,072,694	31,546,227	-	-	-	-	-	39,618,921
TOTAL	\$ 7,405,280	\$ 74,957,650	\$ 77,600,753	\$ 60,498,625	\$ 41,538,197	\$ 98,917,395	\$ 20,574,404	\$ 16,473,525	\$ 397,965,930

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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***Compensated Absences***

***Sick-Pay***

Under the District's various bargaining agreements and plans, (see below), professional and eligible support personnel accumulate unused sick days from year to year based on their classification. These accumulated sick days are non-vesting during the employee's tenure.

**Clerical/Secretarial Employees** – Employees who retire will receive unused sick leave credit not to exceed 90 days at \$45 per day. Conversion of unused sick leave to health benefits have the following options: (1) if less than the allowed unused sick days have been accrued, payment in cash for the unused sick days will be used; (2) if more than the allowed unused sick days have been accrued, payment will be made for the allowed number, (90), plus all days in excess may be used to receive health care benefits for a period of time equal to a balance of funds credited for unused days multiplied by \$45 per day; (3) if more than the allowed unused sick days have been accrued, all unused sick days may be converted to credit toward health care coverage, as outlined in option 2.

**Custodial and Maintenance Employees** – Employees who retire will receive unused sick leave credit not to exceed 100 days at \$60 per day. Conversions of unused sick leave to health benefits have the following options: Option 1 is the same as above. Option 2 is the same, except the allowed number is 100 days, and the excess is multiplied by \$60. **Option 3 has a requirement that they are only entitled if they have at least 30 years of credited service in PSERS** and who have more than 100 unused sick days, then their health benefits will be calculated at a rate of 55 sick days for one year of health coverage benefits to a maximum of 7 yrs of health coverage or until Medicare eligibility is attained, which ever comes first. In addition, if after calculating the number of years of health care coverage, there are sick days not used, two additional months of health care can be secured for every 9 sick days.

**Food Service Employees** – Employees who retire will receive unused sick leave credit at a rate of \$30 per day for a maximum of 85 days for full-time employees and \$25 per day for a maximum of 85 days for part-time employees. Conversion for only full-time employees to health benefits have the following three options: Option 1: If less than the maximum 85 days is accumulated, payment in cash will ensue. Option 2: If more than the allowed unused sick days have been accrued, payment will be made up to the 85 days, excess will be converted to health benefits for a period of time equal to a balance of funds credited for unused sick days multiplied by \$30 for full-time employees and \$25 for part-time employees. Option 3: If more than the allowed unused sick days have been accrued, they can covert all their unused sick days to the health benefit coverage.

**Teacher Aide Employees** – Will receive unused sick leave credit not to exceed 90 days at \$40 per day. Only available to full-time employees. They can covert to health benefits with three options: (1) if less than the maximum of 90 days is accumulated they will be paid for their sick days; (2) similar to option 2 for the other classes, the first 90 days is received as a payment with the excess over 90 credited for health benefits at a rate of \$35 per day, (3) allows them to convert all their unused accumulated sick days (the first 90 and above) to health benefit coverage at a rate of \$35 per day.

To be eligible for unused sick leave credit, they must meet at least one of the following criteria: (1) served 10 years or more in the School District and be at least 52 years of age, or (2) served at least 10 years in the district and have accrued a minimum of 30 years of credited service in PSERS.

**Teachers** – Upon retirement, members of the bargaining unit shall receive unused sick leave credit up to 90 days at the rate of \$45 per day. **To be eligible for this severance payment they must have 10 yrs. of service at the district and be at least 52 yrs. of age, or have 10 yrs. of service and have accrued a minimum of 30 yrs. of credited service in the PSERS system.**

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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**Note – Employees in the bargaining unit who have at least 30 years of credited service in PSERS, and who have more than 90 days of unused sick days at the time of retirement shall be provided with health benefits computed at the rate of 30 sick days for one year of health care coverage to a maximum of 10 years of benefits or until Medicare kicks in, whichever occurs first. If after calculating the number of years of coverage, there are sick days not used, two additional months of health care coverage can be secured for every 5 sick days, up to a maximum of 25 days equal 10 months of additional coverage. Bargaining members may exchange all of their unused sick days for the benefits of health coverage only if they exceed the minimum of 90 days accumulated.**

The District maintains records of each employee's accumulated sick days that are vested with employees who are able to retire. In accordance with GASB statement No. 16, \$47,583 including FICA tax (net of reimbursement), has been recorded in the Food Service (Enterprise) Fund for sick leave termination benefits earned by Cafeteria employees at June 30, 2009. This amount is also included as a long-term liability in the business type activity column of the government-wide statements of net assets. The amount recorded in the General Fund for governmental employees, which will use currently available financial resources, is \$123,105, including FICA tax (net of reimbursement). This amount is reflected as a current liability in the governmental activities column of the government-wide statement of net assets. The remaining sick leave termination benefit of \$1,707,975, including FICA tax (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net assets.

#### **Vacation Leave**

Unused vacation leave is paid upon an employee's termination. The District maintains records of each employee's accumulated vacation days. In accordance with GASB Statement No. 16, the portion of vacation pay earned at June 30, 2009, that will use currently available financial resources is \$0, including fica tax and retirement contributions (net of reimbursement), which has been recorded in the General Fund. This amount is also shown as a current liability in the governmental activities column of the government-wide statement of net assets. (The Day Care) Fund has recorded \$20,390, including fica tax and retirement contributions (net of reimbursement), which is also reflected as a long-term liability in the business-type activity column of the government-wide statement of net assets. The remaining vacation pay earned at June 30, 2009, of \$1,676,636, including FICA tax and retirement contributions (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net assets.

#### ***Defined benefit pension plans***

##### *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, 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).

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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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, P. O. Box 125, Harrisburg, PA 17108-0125. The report is also available in the publications section of the PSERS website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**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**

Member Contributions: Active members, who joined the System prior to July 22, 1983, contributed at 5.25 percent (Membership Class TC) or at 6.50 percent (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 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50 percent (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, 2009, the rate of employer contribution was 4.76 percent of covered payroll. The 4.76 percent rate is comprised of a pension contribution rate of 4.00 percent for pension benefits and 0.76 for healthcare insurance premium assistance.

The employer's current year covered payroll was \$94,376,121 and total payroll was \$96,944,207.

The total employee and employer contributions for this current year were \$6,810,560 and \$4,681,276, respectively.

**Other Employee Benefits**

**HOSPITALIZATION/MEDICAL/DENTAL/PRESCRIPTION DRUG BENEFITS**

The School District is self-insured for its hospitalization, medical and dental payments and prescription drug benefits. The monthly premium is revised annually in April for the upcoming fiscal year beginning July 1 and is based upon actual cost plus basis per third party administrator.

**Other Post Employment Benefits**

*Plan Description.* Bethlehem Area School District has two single-employer defined benefit plans. The second plan is considered a pension plan in accordance with GASB Statement No. 27, but is shown under Other Post Employment Benefits:

1. In accordance with the PA School Code of 1949, as amended, medical coverage is provided to eligible retirees and spouses with the retiree paying the full active premium rate for coverage until age 65. This benefit has an implicit rate subsidy based upon GASB Statement No. 45, since the retiree pays the premium at the insurance carrier's global rate charged to the School District versus an age-adjusted rate, as defined in the GASB Statement. The following table on the next two pages reflects the Plan provisions by group:

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
I. Administrators	No eligibility requirements	<ul style="list-style-type: none"> <li>• Coverage: Medical, Prescription Drug, and Dental.</li> <li>• Premium Sharing: If the member reaches 35 years of PSERS service, the district will pay the full premium for medical, prescription drug, and dental coverage for the member and spouse.</li> <li>• If the member does not reach 35 years of PSERS service, the member may trade unused sick days at the rate of 30 days per year of medical, prescription drug, and dental benefits for the member and spouse for up to 10 years. If the accrued District subsidy period is exhausted the member and spouse may continue the benefit by paying the full premium as determined for the purpose of COBRA.</li> <li>• Dependents: Spouses included.</li> </ul>	<p>Until the member reaches Medicare eligibility. If the spouse reaches Medicare eligibility prior to the member, spousal coverage will cease.</p> <p>*The duration is longer for one retiree with a special contract.</p>
II. Teachers	30 years of PSERS service, or superannuation retirement (age 60 with 30 years of PSERS service, or age 62 with 1 year of service, or 35 years of PSERS service).	<ul style="list-style-type: none"> <li>• Coverage: Medical, Prescription Drug, and Dental</li> <li>• Premium Sharing: If the member reaches 30 years of PSERS service, the member may trade unused sick days at a rate of 30 days per year of medical, prescription drug, and dental benefits for the member and spouse for up to 10 years. If the accrued district subsidy period is exhausted, the member and spouse may continue the benefit by paying the full premium as determined for the purpose of COBRA.</li> <li>• Dependents: Spouses included.</li> </ul>	Same as I



**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
III. Custodial/Maintenance	Same as II	<ul style="list-style-type: none"> <li>Coverage: Medical, Prescription Drug, and Dental</li> <li>Premium Sharing: If the member reaches 30 years of PSERS service, the member may trade unused sick days at a rate of 50 days per year of medical, prescription drug, and dental benefits for the member for up to 7 years. If the accrued district subsidy period is exhausted, the member may continue the benefit by paying the full premium as determined for the purpose of COBRA.</li> <li>If the member does not reach 30 years of PSERS service, but does reach eligibility through PSERS, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.</li> <li>Dependents: Spouses included.</li> <li>Act 110/43</li> </ul>	Same as I
IV. Food Service And Clerical	10 years of service with the district and age plus service greater than 65, or 30 years of total PSERS service, or superannuation retirement (age 60 with 30 years of PSERS service, or age 62 with 1 year service, or 35 years of PSERS service).		Same as I
V. All Other Support Staff	Age 52 with 10 years of service with the district, or 30 years of total PSERS service, or superannuation retirement (age 60 with 30 years of PSERS service, or age 62 with 1 year of service, or 35 years of PSERS service).	<ul style="list-style-type: none"> <li>Act 110/43</li> </ul>	Same as I

**Notes:** Act 110/43 Benefit: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement (age 60 with 30 years of PSERS service, or age 62 with 1 year of service, or 35 years of PSERS service regardless of age). Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

**Benefits not Included in the Calculation:** Benefits that include conversion of sick leave to dollar value that can be used towards the payment of postretirement medical, prescription drug, and dental benefits are not valued under GASB 45. It is assumed that these benefits are reported under the provisions of GASB 16.

**GASB 27 Disclosures:** Administrators are eligible for service time incentive benefits upon attainment of age 52 with 8 years of service with the district. The amount payable is equal to \$1, 0000 times the administrator's service. The benefits are accounted for under GASB 27 and are contained in the Appendix..

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

**Funding Policy and Annual OPEB Cost.** The first benefit is state mandated via the School Code statute. The second benefit is determined by contractual agreement between the Board of School Directors and each eligible class of employees. The District's annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost, each year, and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's annual OPEB cost for the current year and the related information is as follows:

<b>Contribution Rates:</b>		
	<b>OPEB Benefit Actuarially Determined</b>	<b>Years of Service Actuarially Determined</b>
Interest Rate	4.5%	4.5%
Plan Members	2,379	65
Annual Required Contribution	\$ 3,463,356	\$ 58,278
Interest on net OPEB obligation	73,921	-
Adjustment to annual required contribution	(100,846)	-
Annual OPEB cost	3,436,431	58,278
Contributions made	(1,996,477)	-
Increase in net OPEB obligation	1,439,954	58,278
Net OPEB obligation - beginning of year	1,642,678	58,278
Net OPEB obligation - end of year	<b>\$ 3,082,632</b>	<b>\$ 116,556</b>

The following table shows the two plans segregated by fund:

	Actuarial Valuation by Fund				
	Other Post Employment Benefit Plan				Years of Service Plan
	General Fund	Food Service Fund	Daycare Fund	Total	General Fund
Demographic Information:					
Active Participants	1,993	127	38	2,158	65
Retired Participants	221	0	0	221	0
Total	2,214	127	38	2,379	65
Annual Payroll of Active Participants	\$89,918,963	\$2,231,745	\$620,595	\$92,771,303	\$5,914,658
Annual Required Contributions	\$ 3,446,574	\$ 10,601	\$ 6,181	\$ 3,463,356	\$ 58,278
Interest on Net OPEB Obligation	73,165	477	278	73,920	-
Adjustment to Annual Required Contribution	(99,815)	(651)	(379)	(100,845)	-
Annual OPEB Cost	3,419,924	10,427	6,080	3,436,431	58,278
Contributions made	(1,995,289)	(950)	(228)	(1,996,477)	-
Increase in Net OPEB Obligation	1,424,625	9,477	5,852	1,439,954	58,278
Net OPEB Obligation - beginning of year	1,625,896	10,601	6,181	1,642,678	58,278
Net OPEB Obligation - end of year	\$ 3,050,521	\$ 20,078	\$ 12,033	\$ 3,082,632	\$ 116,556

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2009**

Since this is the second year of implementation for GASB Statement 45, prior year data has been omitted for the one preceding year. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation of the fiscal year ending 6/30/09 for the benefits were as follows:

<u>Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$ 3,463,356	57.6%	\$ 3,082,632
6/30/2008	3,463,356	52.6%	1,642,678
6/30/2007	-	0.0%	-

Funded Status and Funding Process. The funded status of the benefits as of June 30, 2009, was as follows:

	<u>State-mandated Healthcare Benefit</u>	<u>Years of Service Increment Benefit</u>
Actuarial accrued liability (a)	\$ 28,785,879	\$ 435,354
Actuarial value of plan assets (b)	-	-
Unfunded actuarial accrued liability (a) - (b)	<u>\$ 28,785,879</u>	<u>\$ 435,354</u>
Funded Ratio (b) / (a)	0.0%	0.0%
Covered payroll	\$ 92,771,303	\$ 5,914,658
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll.	31.0%	7.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the benefits and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the district and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

	<b>State-mandated Healthcare <u>Benefit</u></b>	<b>Years of Service Increment <u>Benefit</u></b>
Actuarial Valuation Date	7/1/2007	7/1/2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
	Level dollar method over a 30 year period	Level dollar method over a 30 year period
Amortization Method		
Remaining amortization period	28 years	28 years
Asset Valuation Method	pay as you go basis	pay as you go basis
Actuarial Assumptions:		
Investment rate of return	4.5%	4.5%
Projected salary increases	4.25% to 7.25%	4.25% to 7.25%
Healthcare inflation rate		
2008	9.0%	N/A
2009	8.5%	N/A
2010	8.0%	N/A
2011	7.5%	N/A
2012	7.0%	N/A
2013	6.5%	N/A
2014	6.0%	N/A
2015	5.5%	N/A
2016 +	5.0%	N/A

**Note 6 - Risk Management**

The District is subject to risk of loss from employee acts, property damage, personal injury auto accidents, theft, etc. The District covers those risks through the purchase of commercial insurance. The District's Workmen's compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance company. Any settlements received by the District or its employees did not exceed insurance coverage in any of the last three years.

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

**Note 7 - Prior Period Adjustments**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>GENERAL FUND</u>	<u>CAPITAL RESERVE TECHNOLOGY FUND</u>
During the audit for the 2008-09 fiscal year, our auditors brought to our attention the following matters pertaining to corrections in recording transactions for prior years, and recommended, with our agreement, to restate the prior period fund balances and/or net assets.			
<b>Net Assets/Fund Balances, as reported at June 30, 2008</b>	\$ (26,576,608)	\$ (3,169,965)	\$ 100,000
As a result of the prior year's audit, management has eliminated the questionable capital reserve fund and recorded the equity into the general fund.	-	100,000	(100,000)
Subsequent to our adjustment last year on our guarantee of the Vocational Technical School's revenue bond debt, it was discovered the debt was already recorded on their financial statements. As such, we are adding back our remaining portion of this debt.	6,203,505	-	-
<b>Net Assets/Fund Balances, as restated at June 30, 2008</b>	<u>\$ (20,373,103)</u>	<u>\$ (3,069,965)</u>	<u>\$ -</u>

**Note 8 – Fund Balance Designations/Reserves**

*Reserved Fund Balance*

The fund balance reservations, in the general fund totaling \$28,460, represent prepaid expenditure of \$15,344, and inventory of \$13,116, are not shown since there is an overall deficit fund balance.

**Note 9 - Net Asset Restrictions**

The portion of net assets for governmental activities, shown on the government-wide statement of net assets invested in capital assets, net of related debt is a deficit of \$30,650,642. The business-type activities column reflects \$98,506 invested in capital assets with no related debt.

**Note 10 - Contingencies**

*Grants*

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund, or other applicable funds. However, in the opinion of management any such disallowed claims will not have a material adverse effect on the overall financial position of the School District as of June 30, 2009.

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2009**

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*Litigation*

In accordance with management, there are no legal matters that could materially affect the financial position of the District as of June 30, 2009.

**Note 11 – Subsequent Events**

In January 2010, the School Board authorized the refunding of the Series of 2005 General Obligation Bonds, with the issuance of a new variable rate (\$30,000,000) Series of 2010 Note refunding \$29,630,000 of the 2005 issue, and issuance of a new fixed rate (\$28,850,000) Series of 2010 bond issue refunding \$25,345,000 of the 2005 issue. A portion of the interest rate swap agreement is terminated by these new issuances.

**REQUIRED  
SUPPLEMENTAL INFORMATION**

Bethlehem Area School District  
Schedule of Funding Progress  
Fiscal Year Ended June 30, 2009

<u>State mandated healthcare benefit</u>							
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Unit Credit (b)	Unfunded AAL (UALL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	
7/1/2007	\$ -	\$ 28,785,879	\$ 28,785,879	0.0%	\$ 92,771,303	31.03%	
7/1/2006	-	-	-	0.0%	-	0.00%	
7/1/2005	-	-	-	0.0%	-	0.00%	
<u>Years of Service Increment</u>							
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Unit Credit (b)	Unfunded AAL (UALL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	
7/1/2007	\$ -	\$ 435,354	\$ 435,354	0.0%	\$ 5,914,658	7.36%	
7/1/2006	-	-	-	0.0%	-	0.00%	
7/1/2005	-	-	-	0.0%	-	0.00%	



**S U P P L E M E N T A L   I N F O R M A T I O N**  
**S E C T I O N**

Bethlehem Area School District  
Combining Balance Sheet  
Non-Major Governmental Funds  
As of June 30, 2009

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS				TOTAL NON-MAJOR GOVERNMENTAL FUNDS
	ATHLETIC FUND	AUTHORITY GENERAL FUND	CONCESSION FUND	TOTAL SPECIAL REVENUE FUNDS	2009 GON BOND FUND	2009A GOB BOND FUND	2009AA GOB BOND FUND	TOTAL DEBT SERVICE FUNDS	
<b>ASSETS</b>									
Cash and cash equivalents	\$ 9,605	\$ 802,974	\$ 2,143	\$ 814,722	\$ -	\$ 98,935	\$ 96,039	\$ 194,974	\$ 1,009,696
Investments	-	-	-	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Receivables from other governments	-	-	-	-	-	-	-	-	-
Other Recoverable Disbursements	-	-	-	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 9,605</b>	<b>\$ 802,974</b>	<b>\$ 2,143</b>	<b>\$ 814,722</b>	<b>\$ -</b>	<b>\$ 98,935</b>	<b>\$ 96,039</b>	<b>\$ 194,974</b>	<b>\$ 1,009,696</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES:</b>									
Accounts Payable	\$ 35,114	\$ -	\$ -	\$ 35,114	\$ -	\$ -	\$ -	\$ -	\$ 35,114
Due to other funds	-	631,390	-	631,390	-	-	-	-	631,390
Due to Primary Government	-	-	-	-	-	-	-	-	-
Interest Payable	-	797,974	-	797,974	-	-	-	-	797,974
Current Portion of Long-Term Debt	-	5,000	-	5,000	-	-	-	-	5,000
Accrued Salaries and Benefits	2,133	-	-	2,133	-	-	-	-	2,133
Payable to other governments	-	-	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-
Compensated Absences	-	-	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>37,247</b>	<b>1,434,364</b>	<b>-</b>	<b>1,471,611</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,471,611</b>
<b>FUND BALANCES:</b>									
Reserved for:									
Inventories	-	-	-	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-	-	-	-
Unreserved	(27,642)	(631,390)	2,143	(656,889)	-	98,935	96,039	194,974	(461,915)
<b>TOTAL FUND BALANCES</b>	<b>(27,642)</b>	<b>(631,390)</b>	<b>2,143</b>	<b>(656,889)</b>	<b>-</b>	<b>98,935</b>	<b>96,039</b>	<b>194,974</b>	<b>(461,915)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 9,605</b>	<b>\$ 802,974</b>	<b>\$ 2,143</b>	<b>\$ 814,722</b>	<b>\$ -</b>	<b>\$ 98,935</b>	<b>\$ 96,039</b>	<b>\$ 194,974</b>	<b>\$ 1,009,696</b>

Bethlehem Area School District  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Non-Major Governmental Funds  
For the Year Ended June 30, 2009

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS				TOTAL
	ATHLETIC FUND	AUTHORITY GENERAL FUND	CONCESSION FUND	SPECIAL REVENUE FUNDS	2009 GOB BOND FUND	2009A GOB BOND FUND	2009AA GOB BOND FUND	TOTAL DEBT SERVICE FUNDS	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<b>REVENUES</b>									
Local Sources	\$ 133,456	\$ 114,736	\$ 79,600	\$ 327,792	\$ -	\$ -	\$ -	\$ -	\$ 327,792
State Sources	53,071	-	-	53,071	-	-	-	-	53,071
Federal Sources	-	-	-	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<u>186,527</u>	<u>114,736</u>	<u>79,600</u>	<u>380,863</u>	-	-	-	-	<u>380,863</u>
<b>EXPENDITURES</b>									
Instruction	-	-	-	-	-	-	-	-	-
Support Services	-	270,011	-	270,011	-	930,114	194,541	1,124,655	1,394,666
Operation of Non-Instructional Services	1,602,580	-	81,423	1,684,003	-	-	-	-	1,684,003
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	811,115	-	811,115	-	-	-	-	811,115
<b>TOTAL EXPENDITURES</b>	<u>1,602,580</u>	<u>1,081,126</u>	<u>81,423</u>	<u>2,765,129</u>	-	<u>930,114</u>	<u>194,541</u>	<u>1,124,655</u>	<u>3,889,784</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(1,416,053)</u>	<u>(966,390)</u>	<u>(1,823)</u>	<u>(2,384,286)</u>	-	<u>(930,114)</u>	<u>(194,541)</u>	<u>(1,124,655)</u>	<u>(3,508,921)</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Proceeds from Refunding Bond Issues	-	40,280,000	-	40,280,000	41,000,000	69,710,000	14,410,000	125,120,000	165,400,000
Bond Premium	-	-	-	-	-	2,706,766	-	2,706,766	2,706,766
Transfer from Primary Government	-	-	-	-	-	-	-	-	-
Payment to bond refunding escrow agent	-	39,995,000	-	39,995,000	41,000,000	60,462,714	11,805,096	113,267,810	153,262,810
Bond Discount	-	-	-	-	-	580,888	294,639	875,327	875,327
Swap Termination Fee	-	-	-	-	-	10,344,315	2,019,685	12,364,000	12,364,000
Sale/Compensation for Fixed Assets	-	-	-	-	-	-	-	-	-
Transfers in	1,371,583	50,000	-	1,421,583	-	-	-	-	1,421,583
Transfers out	-	-	-	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES AND USES</b>	<u>1,371,583</u>	<u>335,000</u>	<u>-</u>	<u>1,706,583</u>	-	<u>1,029,049</u>	<u>290,580</u>	<u>1,319,629</u>	<u>3,026,212</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(44,470)</u>	<u>(631,390)</u>	<u>(1,823)</u>	<u>(677,683)</u>	-	<u>98,935</u>	<u>96,039</u>	<u>194,974</u>	<u>(482,709)</u>
<b>FUND BALANCES - BEGINNING</b>	<u>16,828</u>	<u>-</u>	<u>3,966</u>	<u>20,794</u>	-	-	-	-	<u>20,794</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ (27,642)</u>	<u>\$ (631,390)</u>	<u>\$ 2,143</u>	<u>\$ (656,889)</u>	<u>\$ -</u>	<u>\$ 98,935</u>	<u>\$ 96,039</u>	<u>\$ 194,974</u>	<u>\$ (461,915)</u>

**Bethlehem Area School District**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Private Purpose Trust Funds**  
**As of June 30, 2009**

SCHOLARSHIP	7/1/08 NET ASSETS	CONTRIBUTIONS REVENUE	INTEREST REVENUE	AWARDS EXPENDED	6/30/09 NET ASSETS
<b>General Scholarship Account</b>					
General Bilingual Awards	\$ 8,643	\$ 495	\$ 2,911	\$ 8,466	\$ 3,583
Shining Stars Scholarship	7,011	1,625	-	5,150	3,486
Teresa Rodriguez Memorial	1,779	1,533	-	1,700	1,612
L.A.C.E.O. Achievement Award	280	-	-	300	(20)
Dario Cruz Memorial Scholarship	-	680	-	650	30
Gloria Lopez Memorial Scholarship	-	500	-	250	250
Angel Torres Memorial Scholarship	-	200	-	250	(50)
Echevarria Moran Scholarship	-	550	-	600	(50)
PNC Bank Latino Scholarship	500	-	-	500	(500)
Figueroa's Family Scholarship	-	1,000	-	2,000	(500)
Bethlehem Partnership for a Healthy Community	300	300	-	-	-
College Textbook Award	100	600	-	1,200	(500)
Just Born Minority Scholarship	500	500	-	1,000	-
P. Albizu Campos & Sojourner Truth Scholars.	100	-	-	-	100
Scholastic Achievement, Service & Leadership	500	-	-	-	500
Ramon Emeterio Betances Scholarship	-	500	-	1,000	(500)
Ella Springs Memorial	2,000	2,000	-	2,000	2,000
Ralph Lopez Scholarship	1,000	3,000	-	3,900	100
Class Scholarship	-	300	-	300	-
Richard Montz Memorial Scholarship	200	200	-	700	(300)
Kathryn & Pedro Bonne Textbook Award	400	550	-	300	650
Puerto Rican Beneficial Scholarship	550	1,150	-	1,900	(200)
Roberto Clemente Scholarship	250	700	-	1,150	(200)
Ann Goldberg Scholarship	450	350	-	800	-
George Maunz School-to-Work Scholarship	500	900	-	500	900
Jesus "Berto" Rivera Scholarship	200	-	-	950	(750)
PR Cultural Coalition Scholarship	1,000	1,500	-	2,650	(150)
CSSOLV Scholarship	2,000	4,500	-	6,800	(300)
Betty Williams Memorial Scholarship	200	200	-	200	200
Rev. Dr. Martin Luther King Award	-	-	-	600	(600)
Thomas K. Washington Family Scholarship	200	-	-	550	(350)
Thurgood Marshall Scholarship	-	-	-	400	(400)
Lee Mae Segel Memorial Scholarship	1,125	-	-	-	1,125
Fowler Scholarship	-	10,000	-	6,400	3,600
Frances Grabish Memorial Textbook Award	150	150	-	950	(650)
Angela Sanchez Memorial Award	-	300	-	150	150
Harold & Dorothy Kram Memorial Award	-	150	-	300	(150)
Scientific Learning	400	-	-	-	400
<b>Non-Expendable Trust Fund</b>	157,223	-	8,526	1,950	163,799
<b>TOTAL</b>	<b>\$ 187,561</b>	<b>\$ 34,433</b>	<b>\$ 11,437</b>	<b>\$ 56,816</b>	<b>\$ 176,615</b>

**Bethlehem Area School District**  
**Combining Balance Sheet - All Capital Reserve Funds**  
**As of June 30, 2009**

	CAPITAL RESERVE FUND	CAPITAL RESERVE TECHNOLOGY FUND	TOTAL CAPITAL RESERVE FUNDS
<b>ASSETS</b>			
Cash	\$ 8,101,559	\$ -	\$ 8,101,559
Investments	-	-	-
Accounts Receivable	-	-	-
Accrued Interest Receivable	-	-	-
Other Receivables	-	-	-
Due from Other Funds	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 8,101,559</b>	<b>\$ -</b>	<b>\$ 8,101,559</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 6,868,895	\$ -	\$ 6,868,895
Due to Other Funds	-	-	-
Other Liabilities	-	-	-
Deferred Revenue	-	-	-
<b>EQUITY</b>			
Unreserved Fund Balances	1,232,664	-	1,232,664
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 8,101,559</b>	<b>\$ -</b>	<b>\$ 8,101,559</b>

Bethlehem Area School District  
Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances - All Capital Reserve Funds  
For the Year Ended June 30, 2009

	CAPITAL RESERVE FUND	CAPITAL RESERVE TECHNOLOGY FUND	TOTAL CAPITAL RESERVE FUNDS
<b>REVENUES</b>			
Local Sources	\$ 26,708	\$ -	\$ 26,708
<b>OTHER FINANCING SOURCES</b>			
Bond Proceeds	-	-	-
Bond Premium	-	-	-
Refund of Prior Yr. Expenditures	-	-	-
Interfund Transfers	-	-	-
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<u>26,708</u>	<u>-</u>	<u>26,708</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>			
Instructional Services	-	-	-
Support Services	546,220	-	546,220
Non-Instructional Services	-	-	-
Capital Outlay	4,870	-	4,870
Debt Service	-	-	-
Bond Discount	-	-	-
Interfund Transfers	-	-	-
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<u>551,090</u>	<u>-</u>	<u>551,090</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(524,382)	-	(524,382)
<b>FUND BALANCE - JULY 1, 2008</b>	1,757,046	100,000	1,857,046
Prior Period Adjustment	-	(100,000)	(100,000)
<b>FUND BALANCE - JUNE 30, 2009</b>	<u>\$ 1,232,664</u>	<u>\$ -</u>	<u>\$ 1,232,664</u>

**Bethlehem Area School District**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2009**

**REVENUES**

**LOCAL SOURCES:**

Current Real Estate Taxes	\$ 98,618,083	
Interim Real Estate Taxes	1,283,876	
Public Utility	153,055	
Payment in Lieu of Taxes	145,266	
Current Per Capita Taxes - 511	241,671	
Current Per Capita Taxes - 679	241,671	
Emergency Municipal Services Tax	333,177	
Earned Income Tax	11,158,288	
Real Estate Transfer Tax	1,991,532	
Act 511 Mercantile Taxes	3,495,608	
Delinquent Real Estate Taxes	6,309,171	
Delinquent Per Capita Taxes	74,444	
Delinquent Mercantile Taxes	666,818	
Interest	862,050	
Fees	16,850	
Other Student Activity Income	8,906	
Revenue from Local Governmental Units	10,000	
State Revenue from other Public Schools	72,000	
State Revenue from Other Sources	236,973	
Federal Revenue from Local Sources	2,132,353	
Rentals	36,432	
Contributions	336,733	
Summer School	140	
Adult Education Tuition	113,309	
Receipts from Other LEA's - Education	467,331	
Other Tuition From Patrons	15,420	
Services provided Other Local Governmental Units	2,000	
All Other Services Provided Other Governments	19,317	
Revenue from Community Services	31,394	
Miscellaneous	48,061	
Refunds of Prior Yr. Expenditures	37,523	
<b>TOTAL LOCAL SOURCE REVENUE</b>	<b>\$ 129,159,452</b>	

**STATE SOURCES:**

Basic Subsidy - ESBE	23,923,219
Read to Succeed	-
Charter Schools	-
Nonpublic Transfers	1,463,457
Orphan Tuition	420,565
Homebound	7,532
Vocational Education	114,299
Driver Education	9,765
Special Education	6,559,042
<b>SUB-TOTAL</b>	<b>32,497,879</b>

**Bethlehem Area School District  
General Fund  
Statement of Revenue, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2009**

**REVENUE (CONT'D)**

<b>SUB-TOTAL (CARRIED FORWARD)</b>	\$ 32,497,879	
Educational Assistance Program	1,026,720	
Pre-K Counts	627,000	
Other Program Revenues	9,800	
Transportation	2,341,710	
Rentals	287,679	
Health Services	372,677	
State Property Tax Reduction Allocation	4,720,061	
Alternative Education	298,168	
Migratory Children	2,320	
Accountability Grants	1,806,167	
Dual Enrollment	49,490	
Project 720 - High School Reform	89,901	
FICA Revenue	3,255,134	
Retirement Revenue	2,246,125	
Classrooms for the Future	246,989	
Other State Grants	162,582	
<b>TOTAL STATE SOURCE REVENUE</b>		\$ 50,040,402

**FEDERAL SOURCES:**

Payments for Federally Impacted Areas	87,131	
Title I	3,720,112	
Title I - ARRA	29,508	
Title IIA, IID	1,049,248	
Title III	282,669	
Title IV	818,721	
Child Care Grants	170,591	
Medical Access	105,293	
Medical Assistance	45,194	
Other Restricted Federal Grants-In-Aid	26,536	
<b>TOTAL FEDERAL SOURCE REVENUE</b>		6,335,003
<b>TOTAL REVENUE</b>		<b>185,534,857</b>

**EXPENDITURES**

Regular Programs - Elem./Secondary	72,888,990
Federally Funded Regular Programs	4,143,415
Special Education	389,233
Life Skills Support - Public	765,863
Life Skills Support - PRRI	-
Deaf or Hearing Impaired Support	8,500
Blind or Visually Impaired Support	11,282
Speech & Language Impaired	709,617
<b>SUB-TOTAL</b>	<b>78,916,900</b>



**Bethlehem Area School District**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2009**

<b>SUB-TOTAL (CARRIED FORWARD)</b>	\$ 78,916,900
Emotional Support	8,023,647
Autistic Support	38,167
Learning Support - Public	9,262,927
Gifted Support	188,427
Other Support	13,938
Physical Support	194,521
Multi-Handicapped Support	227,428
Development Delay Support	-
Early Intervention Support	-
Other Support	307,411
Home Economics	380,205
Industrial Arts Education	722,510
Business Education	1,349,438
Other Vocational Education Programs	5,663,774
Drivers' Education	102,421
Summer School	599,269
Homebound Instruction	186,498
Adjudicated/Court Placed Programs	14,179
Alternative Education Program	272,816
Instructional Programs Outside Established Schools	1,002,733
Additional Other Instructional Program	1,551
Nonpublic School Programs	10,300
Other Adult Education Programs	44,539
Community College Programs	2,029,807
Pre-Kindergarten	1,715,237
Supervision of Pupil Personnel Services	3,372
Guidance Services	4,360,847
Attendance Services	218,679
Psychological Services	825,671
Speech Pathology Services	(2,770)
Social Work Services	1,289,336
Student Accounting Services	299,804
Other Pupil Personnel Services	618,276
Support Services - Instructional Staff	1,156,870
Technology Support Services	78,500
Computer Assisted Instruction Services	4,568,952
School Library Services	1,276,966
Instructional & Curriculum Dev. Service	587,675
Instructional Staff Development Services	223,856
Nonpublic Support Services	253,081
Board Services	125,115
<b>SUB-TOTAL</b>	<b>127,152,873</b>

**Bethlehem Area School District**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2009**

<b>SUB-TOTAL (CARRIED FORWARD)</b>	\$ 127,152,873	
Board Treasurer Services	-	
Tax Assessment & Collection Service	974,145	
Staff Relations	-	
Legal Services	505,891	
Office of the Superintendent Services	1,141,838	
Office of the Principal Services	7,182,893	
Medical Services	1,476,703	
Dental Services	10,032	
Non-Public Health Services	119,578	
Support Services - Business	2,424,970	
Operation and Maintenance of Plant Services	14,414,461	
Supervision of Operation and Maintenance of Plant	61,776	
Vehicle Operation and Maint. Services	110	
Supervision of Student Transportation Services	691,263	
Vehicle Operation Services	3,973,723	
Vehicle Servicing and Maintenance Services	831,001	
Information Services	27,723	
Staff Services	465,193	
Staff Development Services	17,340	
Staff Development-Non-Instruction	14,986	
Data Processing Services	883,735	
State and Federal Agency Liaison Services	294,349	
Other Support Services	98,393	
Pass-Thru Funds	-	
School Sponsored Student Activities	391,592	
School Sponsored Athletics	22,750	
Community Services	208,588	
Scholarships and Awards	3,188	
Architecture and Engineering Services	-	
Debt Service	20,485,258	
Refund of Prior Yr. Receipts	292,774	
<b>TOTAL EXPENDITURES</b>	<u>184,167,126</u>	
 <b>EXCESS (DEFICIENCY) OF REVENUES</b>		
<b>OVER EXPENDITURES</b>	 <b>\$ 1,367,731</b>	

**Bethlehem Area School District  
General Fund  
Statement of Revenue, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2009**

<b>EXCESS (DEFICIENCY) OF REVENUES</b>		
<b>OVER EXPENDITURES (CARRIED FORWARD)</b>	<b>\$</b>	<b>1,367,731</b>

**OTHER FINANCING SOURCES (USES)**

Proceeds from Extended Term Financing	1,794,115	
Sale of or Compensation for Loss of Fixed Assets	10,470	
Special Revenue Fund Transfers In	-	
Enterprise (Day Care) Fund Transfers In	200,000	
Transfer from Activity Funds	-	
Special Revenue Fund Transfers Out	(1,371,583)	
Capital Projects Funds Transfers Out	-	
Special Revenue Fund Transfers Out	(50,000)	
Food Service Fund Transfers Out	-	
Activity Fund Transfers Out	-	

<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	583,002	
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Special Items	-	
Extraordinary Items	-	583,002

<b>NET CHANGE IN FUND BALANCE</b>		1,950,733
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<b>FUND BALANCE - JULY 1, 2008</b>		(3,169,965)
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Prior Period Adjustment		100,000
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<b>FUND BALANCE - JUNE 30, 2009</b>		<b>\$ (1,119,232)</b>
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**Bethlehem Area School District  
Capital Reserve Technology Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2009**

<b>FUND BALANCE - JULY 1, 2008</b>	<b>\$</b>	<b>100,000</b>
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Prior Period Adjustment		(100,000)
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**REVENUES AND OTHER FINANCING SOURCES**

Interest	\$	-	
Refund of Prior Year Expenditures		-	-
<b>TOTAL FUNDS AVAILABLE</b>			<b>-</b>

**EXPENDITURES**

**SUPPORT SERVICES:**

Professional Services		-	
Repairs and Maintenance		-	
Advertising		-	

**CAPITAL OUTLAY:**

Professional Services		-	
Construction Services		-	
Transportation		-	
Equipment		-	-

<b>FUND BALANCE - JUNE 30, 2009</b>	<b>\$</b>	<b>-</b>
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**Bethlehem Area School District  
Capital Reserve Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2009**

**FUND BALANCE - JULY 1, 2008** \$ 1,757,046

**REVENUES AND OTHER FINANCING SOURCES**

Interest	\$ 26,708	
Transfer from General Fund	-	26,708
<b>TOTAL FUNDS AVAILABLE</b>		<u>1,783,754</u>

**EXPENDITURES**

**INSTRUCTIONAL SERVICES:**

Equipment -

**SUPPORT SERVICES:**

Professional Services 225,746

Repairs and Maintenance 70,669

Advertising 1,388

Admin. Software and Fees -

Construction Services -

Equipment 248,417

**CAPITAL OUTLAY:**

Construction Services -

Transportation -

Professional Services 4,870

**Other Financing Uses:**

Transfer to General Fund	-	551,090
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**FUND BALANCE - JUNE 30, 2009** \$ 1,232,664

**Bethlehem Area School District  
Special Revenue (Authority General Fund) Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2009**

**FUND BALANCE - JULY 1, 2008**

\$ -

**REVENUES AND OTHER FINANCING SOURCES**

Proceeds from Refunding Bond Issues	\$ 40,280,000	
Transfer from General Fund	50,000	
Interest Earnings	114,736	40,444,736
<b>TOTAL FUNDS AVAILABLE</b>		<b>40,444,736</b>

**EXPENDITURES AND OTHER FINANCING USES**

**SUPPORT SERVICES:**

Professional Services	270,011	
Advertising	-	
Printing	-	
Dues and Fees	-	

**NON-INSTRUCTIONAL SERVICES:**

Equipment	-	
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**DEBT SERVICE:**

Bond Principal	5,000	
Bond Interest	806,115	

**OTHER FINANCING USES:**

Payment to Refunding Bond Issue Escrow Agent	39,995,000	41,076,126

**FUND BALANCE - JUNE 30, 2009**

**\$ (631,390)**

**Bethlehem Area School District  
05-07 Capital Project Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2009**

**FUND BALANCE - JULY 1, 2008** \$ 28,644,709

**REVENUES AND OTHER FINANCING SOURCES**

Proceeds from Bond Issues	\$ 11,100,000	
Bond Premium	6,166	
Refund of Prior Year Expenditures	17,290	
Interest Earnings	472,680	11,596,136
<b>TOTAL FUNDS AVAILABLE</b>		<b>40,240,845</b>

**EXPENDITURES AND OTHER FINANCING USES**

**INSTRUCTIONAL:**

Repairs and Maintenance	309	
Equipment	413,062	

**SUPPORT SERVICES:**

Salaries	7,129	
Benefits	886	
Professional Services	72,485	
Repairs and Maintenance	15,224	
Advertising	1,011	
Printing	465	
Property and Liability Insurance	74,131	
Disposal Services	60,838	
Utilities	85,865	
Telecommunication Services	34,871	
Supplies	2,343	
Technology Infrastructure	257,427	
Equipment	116,147	
Dues and Fees	25,660	

**NON-INSTRUCTIONAL SERVICES:**

Equipment	-	
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**CAPITAL OUTLAY:**

Professional Services	1,529,717	
Rentals	2,750	
Construction Services	24,718,209	
Insurance	53,915	
Advertising	602	
Other Purchased Services	4,284	
Utilities	8,621	
Technology Infrastructure	100,206	

**DEBT SERVICE:**

Bond Discount	136,746	
Transfer to Food Service Fund	-	27,722,903

**FUND BALANCE - JUNE 30, 2009** **\$ 12,517,942**

**Bethlehem Area School District**  
**Food Service Fund**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2009**

**REVENUES**

Sales	\$	1,983,906	
Donated Commodities		265,744	
Special Events		243,411	
Over or (Short)		-	
State Subsidies		369,797	
Federal Subsidies		3,007,643	
Gain (Loss) on Sale of Fixed Assets		-	
Miscellaneous		15,077	
Contributions		235	
<b>TOTAL REVENUES</b>			\$ 5,885,813

**COST OF COMMODITIES**

Beginning Inventory		282,669	
Food Service Management - Food		2,143,538	
Donated Commodities		265,744	
Ending Inventory		(229,939)	
<b>TOTAL COST OF COMMODITIES SOLD</b>			2,462,012
<b>GROSS PROFIT</b>			3,423,801

**SALARY AND BENEFIT EXPENSES**

Administrative		73,056	
M-2 Salares		61,881	
Overtime		56,154	
Other Salaries		1,575,604	
Benefits		378,563	2,145,258

**OPERATING EXPENSES**

Tech & Other Services		2,380	
Refuse		69,248	
Repairs and Maintenance		48,298	
Rentals		2,130	
Communications		6,553	
Printing		-	
Food Service Management Costs		793,259	
Travel		5,508	
Supplies		79,426	
Electricity		50,000	
Small Tools		5,799	
Depreciation		38,639	
Dues and Fees		6,018	1,107,258
<b>TOTAL EXPENSES</b>			3,252,516

**CHANGES IN NET ASSETS**

**NET ASSETS - JULY 1, 2008** 576,589

**Prior Period Adjustment** -

**NET ASSETS - JUNE 30, 2009** \$ 747,874



**Bethlehem Area School District  
Day Care Fund  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2009**

**REVENUES**

Regular Day School Tuition	\$ 1,826,875	
Revenue from Community Service Activities	651,792	
State Revenue	108,685	
Fica Revenue	57,097	
Retirement Revenue	35,092	
Earnings on Investments	4,558	
<b>TOTAL REVENUES</b>		<b>\$ 2,684,099</b>

**OPERATING EXPENSES**

Salaries - Admin.	716,017	
Salaries - Professional	473,408	
Salaries - Office/Clerk	74,622	
Salaries - Bus Drivers	3,223	
Salaries - Teacher Aides	227,020	
Fica Tax	114,243	
Retirement Contributions	70,004	
Workers Compensation	11,665	
Health Benefits	565,465	
Other Benefits	5,869	
Professional Services	3,290	
Small Equipment	27,295	
Communications	1,401	
Travel	4,449	
Field Trips	6,212	
Conferences	495	
Supplies	86,920	
Food	166,838	
Books and Periodicals	2,824	
Depreciation	7,862	
Miscellaneous	2,608	
Dues and Fees	26	
Transfer to General Fund	200,000	
<b>TOTAL EXPENSES</b>		<b>2,771,756</b>

**CHANGES IN NET ASSETS** (87,657)

**NET ASSETS - JULY 1, 2008** 256,950

**Prior Period Adjustment** -

**NET ASSETS - JUNE 30, 2009** **\$ 169,293**

**Bethlehem Area School District  
Self-Insurance Fund  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2009**

**REVENUES**

Contributions from Other Funds	\$ 19,038,714	
Cobra Payments	1,707,199	
Formulary Rebate	140,982	
Other Misc. Revenue	<u>148,625</u>	
<b>TOTAL REVENUES</b>		<b>\$ 21,035,520</b>

**OPERATING EXPENSES**

Health Benefit Costs	20,796,992	
Life Insurance	226,976	
Salaries	217,528	
Fica Tax	16,622	
Retirement	291	
Unemployment	101,807	
Workers Compensation	132,692	
Other Expenses	<u>3,958</u>	
<b>TOTAL EXPENSES</b>		<u><b>21,496,866</b></u>

**CHANGES IN NET ASSETS** (461,346)

**NET ASSETS - JULY 1, 2008** 1,142,087

**NET ASSETS - JUNE 30, 2009** **\$ 680,741**

**Bethlehem Area School District  
Athletic Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2009**

**REVENUES**

Liberty - Football	\$	42,673	
- Boys Basketball		7,274	
- Girls Basketball		1,247	
- Wrestling		4,168	
- All Sports		5,284	
Freedom - Football		56,782	
- Boys Basketball		7,313	
- Girls Basketball		1,693	
- Wrestling		2,334	
- All Sports		4,688	
Miscellaneous Revenue		-	
Fica Revenue		37,239	
Retirement Revenue		15,832	
			\$ 186,527

**EXPENDITURES**

Salaries - Athletic Directors	49,244	
Salaries - Coaches	54,981	
Salaries - Trainers	630,991	
Salaries - Game Personnel	75,695	
Salaries - Equipment Managers	14,528	
Salaries - Office Clerk	59,183	
Salaries - Bus Drivers	87,229	
Salaries - Clerical Subs	180	
Employee Benefits	134,297	
Game Officials	91,350	
Security	19,419	
Med. - Amb. - Misc.	5,800	
Equipment Refurbishing	18,787	
Other Professional Services	121,888	
Security/Safety Services	-	
Repairs and Maintenance	9,475	
Rentals	-	
Other Insurance	65,776	
Communications	3,637	
Conferences	-	
Printing & Binding	2,847	
Travel	12,681	
Other Purchased Services	463	
Supplies	134,163	
Equipment	-	
Dues and Fees	9,945	
Miscellaneous	21	1,602,580

**EXCESS REVENUES OVER (UNDER) EXPENDITURES** (1,416,053)

Transfer from General Fund 1,371,583

**EXCESS REVENUES AND OTHER FINANCING SOURCES OVER  
(UNDER) EXPENDITURES AND OTHER FINANCING USES** (44,470)

**FUND BALANCE - JULY 1, 2008** 16,828

**FUND BALANCE - JUNE 30, 2009** \$ (27,642)

**Bethlehem Area School District  
Concession Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2009**

**REVENUES**

Concession Revenue	\$ 79,465	
Interest Earnings	<u>135</u>	\$ 79,600

**EXPENDITURES AND OTHER FINANCING USES**

Salaries	11,295	
Fica Tax	864	
Retirement	265	
Technical Services	204	
Other Insurance	-	
Supplies	63,490	
Equipment	5,305	
Miscellaneous	<u>-</u>	<u>81,423</u>

**EXCESS EXPENDITURES AND OTHER FINANCING  
USES OVER REVENUES**

(1,823)

**OTHER FINANCING SOURCES**

Transfer from General Fund	<u>-</u>	
----------------------------	----------	--

**EXCESS REVENUES AND OTHER FINANCING SOURCES OVER  
(UNDER) EXPENDITURES AND OTHER FINANCING USES**

(1,823)

**FUND BALANCE - JULY 1, 2008** 3,966

**FUND BALANCE - JUNE 30, 2009** \$ 2,143

**Non-Expendable Trust Fund  
Statement of Additions and Deductions  
For the Year Ended June 30, 2009**

**NET ASSETS - JULY 1, 2008** \$ 157,223

**ADDITIONS**

Contributions	\$ -	
Interest	<u>8,526</u>	<u>8,526</u>

**TOTAL FUNDS AVAILABLE** 165,749

**DEDUCTIONS**

Awards	1,950	
Interfund Transfers	<u>-</u>	<u>1,950</u>

**NET ASSETS - JUNE 30, 2009** \$ 163,799

**Bethlehem Area School District  
2009 GON Bond Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2009**

<b>FUND BALANCE - JULY 1, 2008</b>		\$ -
<b>REVENUES AND OTHER FINANCING SOURCES</b>		
Proceeds from Refunding Bond Issues	41,000,000	
Bond Premium	-	
Investment Earnings	-	41,000,000
	<u>                    </u>	
<b>TOTAL FUNDS AVAILABLE</b>		41,000,000
<b>EXPENDITURES</b>		
<b>SUPPORT SERVICES</b>		
Professional Services	-	
Insurance	-	
Printing	-	
<b>OTHER FINANCING USES</b>		
Bond Discount	-	
Payment to Refunded Bonds Escrow Agent	41,000,000	41,000,000
	<u>                    </u>	
<b>FUND BALANCE - JUNE 30, 2009</b>		<u>\$ -</u>

**2009A GOB Bond Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2009**

<b>FUND BALANCE - JULY 1, 2008</b>		\$ -
<b>REVENUES AND OTHER FINANCING SOURCES</b>		
Proceeds from Refunding Bond Issues	69,710,000	
Bond Premium	2,706,766	
Investment Earnings	-	72,416,766
	<u>                    </u>	
<b>TOTAL FUNDS AVAILABLE</b>		72,416,766
<b>EXPENDITURES</b>		
<b>SUPPORT SERVICES</b>		
Professional Services	482,066	
Insurance	445,128	
Printing	2,920	
<b>OTHER FINANCING USES</b>		
Bond Discount	580,688	
Swap Termination Fee	10,344,315	
Payment to Refunded Bonds Escrow Agent	60,462,714	72,317,831
	<u>                    </u>	
<b>FUND BALANCE - JUNE 30, 2009</b>		<u>\$ 98,935</u>

**Bethlehem Area School District  
2009AA GOB Bond Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2009**

<b>FUND BALANCE - JULY 1, 2008</b>		\$	-
<b>REVENUES AND OTHER FINANCING SOURCES</b>			
Proceeds from Refunding Bond Issues	14,410,000		
Bond Premium	-		
Investment Earnings	-		14,410,000
			<u>14,410,000</u>
<b>TOTAL FUNDS AVAILABLE</b>			14,410,000
<b>EXPENDITURES</b>			
<b>SUPPORT SERVICES</b>			
Professional Services	101,352		
Insurance	92,585		
Printing	604		
<b>OTHER FINANCING USES</b>			
Bond Discount	294,639		
Swap Termination Fee	2,019,685		
Payment to Refunded Bonds Escrow Agent	11,805,096		14,313,961
			<u>14,313,961</u>
<b>FUND BALANCE - JUNE 30, 2009</b>		\$	<u>96,039</u>

**Bethlehem Area School District**  
**Schedule on General Obligation Bonds - Series A of 2001**  
**For the Year Ended June 30, 2009**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2009-10	\$ 256,942	\$ 375,000
2010-11	241,943	385,000
2011-12	226,350	405,000
2012-13	209,542	420,000
2013-14	191,693	415,000
2014-15	173,640	430,000
2015-16	154,505	445,000
2016-17	134,035	860,000
2017-18	93,615	950,000
2018-19	48,015	990,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 1,730,280</b>	<b>\$ 5,675,000</b>

**Schedule on General Obligation Bonds - Series of 2005**  
**For the Year Ended June 30, 2009**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2009-10	\$ 1,154,536	\$ 5,000
2010-11	1,154,431	5,000
2011-12	1,154,326	5,000
2012-13	1,154,222	5,000
2013-14	1,154,116	5,000
2014-15	1,154,011	5,000
2015-16	1,153,906	5,000
2016-17	1,153,801	5,000
2017-18	1,153,696	5,000
2018-19	1,153,592	5,000
2019-20	1,153,486	5,000
2020-21	1,153,381	5,000
2021-22	1,153,276	5,000
2022-23	1,102,071	5,845,000
2023-24	976,964	6,115,000
2024-25	846,142	6,390,000
2025-26	709,416	6,680,000
2026-27	566,510	6,980,000
2027-28	417,131	7,300,000
2028-29	260,942	7,630,000
2029-30	97,694	7,975,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 19,977,650</b>	<b>\$ 54,980,000</b>

**Bethlehem Area School District**  
**Schedule on General Obligation Bonds - Series of 2007**  
**For the Year Ended June 30, 2009**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2009-10	\$ 1,154,746	\$ 5,000
2010-11	1,154,641	5,000
2011-12	1,154,536	5,000
2012-13	1,154,432	5,000
2013-14	1,154,326	5,000
2014-15	1,154,222	5,000
2015-16	1,154,116	5,000
2016-17	1,154,011	5,000
2017-18	1,153,906	5,000
2018-19	1,153,801	5,000
2019-20	1,153,696	5,000
2020-21	1,153,592	5,000
2021-22	1,153,486	5,000
2022-23	1,126,781	3,045,000
2023-24	1,061,611	3,185,000
2024-25	993,414	3,335,000
2025-26	921,979	3,495,000
2026-27	847,096	3,665,000
2027-28	768,644	3,835,000
2028-29	686,490	4,020,000
2029-30	600,364	4,215,000
2030-31	437,080	12,760,000
2031-32	163,783	13,370,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 22,610,753</b>	<b>\$ 54,990,000</b>

**Schedule on General Obligation Bonds - Series A of 2007**  
**For the Year Ended June 30, 2009**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2009-10	\$ 2,390,875	\$ 5,855,000
2010-11	2,090,625	6,155,000
2011-12	1,775,000	6,470,000
2012-13	1,443,125	6,805,000
2013-14	1,079,625	7,735,000
2014-15	682,875	8,135,000
2015-16	265,625	8,555,000
2031-32	25,875	1,035,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 9,753,625</b>	<b>\$ 50,745,000</b>



**Bethlehem Area School District**  
**Schedule on Guaranteed Revenue Bonds - Series of 2009**  
**For the Year Ended June 30, 2009**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2009-10	\$ 656,489	\$ 5,000
2010-11	601,708	40,275,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 1,258,197</b>	<b>\$ 40,280,000</b>

**Schedule on General Obligation Bonds - Series A of 2009**  
**For the Year Ended June 30, 2009**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2009-10	\$ 2,906,150	\$ 1,530,000
2010-11	2,998,432	1,415,000
2011-12	2,934,431	1,785,000
2012-13	2,872,231	1,845,000
2013-14	2,825,519	1,360,000
2014-15	2,777,106	1,410,000
2015-16	2,724,932	1,465,000
2016-17	2,510,331	8,985,000
2017-18	2,087,456	10,415,000
2018-19	1,657,581	7,905,000
2019-20	1,309,956	6,000,000
2020-21	960,081	7,995,000
2021-22	471,525	13,585,000
2022-23	131,544	2,280,000
2023-24	40,121	1,735,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 29,207,396</b>	<b>\$ 69,710,000</b>

**Schedule on General Obligation Bonds - Series AA of 2009**  
**For the Year Ended June 30, 2009**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2009-10	\$ 554,604	\$ -
2010-11	580,400	-
2011-12	580,400	-
2012-13	580,400	-
2013-14	580,400	-
2014-15	580,400	-
2015-16	580,400	-
2016-17	580,400	-
2017-18	580,400	-
2018-19	523,400	3,000,000
2019-20	338,200	6,410,000
2020-21	105,000	5,000,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 6,164,404</b>	<b>\$ 14,410,000</b>

**Bethlehem Area School District**  
**Schedule on General Obligation Bonds - Series B of 2009**  
**For the Year Ended June 30, 2009**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2009-10	\$ 403,786	\$ 435,000
2010-11	414,168	425,000
2011-12	405,568	435,000
2012-13	396,819	440,000
2013-14	387,075	450,000
2014-15	375,338	465,000
2015-16	361,819	475,000
2016-17	346,526	495,000
2017-18	329,434	510,000
2018-19	310,438	530,000
2019-20	289,369	550,000
2020-21	266,294	575,000
2021-22	241,575	595,000
2022-23	214,869	625,000
2023-24	186,006	640,000
2024-25	155,769	650,000
2025-26	124,000	670,000
2026-27	90,419	690,000
2027-28	55,419	710,000
2028-29	18,834	735,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 5,373,525</b>	<b>\$ 11,100,000</b>

**SINGLE AUDIT SECTION**

**BETHLEHEM AREA SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR/ PROJECT TITLE	SOURCE CODE	CFDA NUMBER	GRANTOR PASS THROUGH NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED	ACCRUED OR (DEFERRED) AT 7/1/08	REVENUE	EXPENDI- TURES	ACCRUED OR (DEFERRED) AT 6/30/09	FOOTNOTES
<b>U. S. DEPARTMENT OF EDUCATION</b> IMPACT AID PUBLIC LAW 81-874	D	84.041	N/A	7/1/08-6/30/09	\$ 87,131	\$ 87,131	\$ -	\$ 87,131	\$ 87,131	\$ -	
<b>PASSED THROUGH THE PA.</b> <b>DEPARTMENT OF EDUCATION</b>											
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-080034	7/1/07-9/30/09	\$ 3,455,513	918,425	\$ 690,068	\$ 228,357	228,357	-	1a
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-090034	7/1/08-9/30/09	\$ 3,320,860	2,453,524	(37,272)	3,195,460	3,195,460	741,936	1a
TITLE I SCHOOL IMPROVEMENT SET ASIDE	I	84.010	042-070034	5/21/07-9/30/08	\$ 249,000	56,471	-	37,272	37,272	-	1a
TITLE I SCHOOL IMPROVEMENT SET ASIDE	I	84.010	042-080034	7/1/08-9/30/09	\$ 80,000	-	-	63,508	63,508	7,037	1a
TITLE I SCHOOL IMPROVEMENT SET ASIDE	I	84.010	042-090034	1/12/09-9/30/10	\$ 235,000	-	-	162,407	162,407	162,407	1a
TITLE I SCHOOL IMPROVEMENT SET ASIDE	I	84.010	N/A	7/1/08-9/30/09	\$ 36,000	36,000	-	26,108	26,108	(9,892)	1a
TITLE I ACADEMIC ACHIEVEMENT AWARDS	I	84.010	077-070034	7/1/07-9/30/08	\$ 6,228	2,076	2,076	-	-	-	1a
TITLE I ACADEMIC ACHIEVEMENT AWARDS	I	84.010	077-090034	7/1/08-9/30/09	\$ 7,000	2,800	-	-	-	-	1a
TITLE I ACADEMIC ACHIEVEMENT AWARDS	I	84.389A	127-100034	5/15/08-9/30/10	\$ 1,987,775	-	-	7,000	7,000	4,200	1a
TITLE I A IMPROVING TEACHER QUALITY	I	84.367	020-090034	7/1/08-9/30/09	\$ 850,410	793,716	-	29,508	29,508	29,508	1a
TITLE II EDUCATION TECHNOLOGY	I	84.318	055-080034	7/1/07-9/30/08	\$ 353,500	212,100	-	850,410	850,410	56,694	1a
TITLE III LEP / IMMIGRANT STUDENTS	I	84.365	010-070034	7/1/06-9/30/07	\$ 280,118	93,373	13,282	198,838	198,838	-	
TITLE III LEP / IMMIGRANT STUDENTS	I	84.365	010-080034	7/1/07-9/30/08	\$ 331,676	51,027	92,124	1,249	1,249	-	
TITLE III LEP / IMMIGRANT STUDENTS	I	84.365	010-090034	7/1/08-9/30/09	\$ 253,281	116,899	19,798	31,229	31,229	-	
SAFE AND DRUG FREE SCHOOLS	I	84.186	100-080034	7/1/07-9/30/08	\$ 64,240	13,766	13,766	250,191	250,191	133,292	
SAFE AND DRUG FREE SCHOOLS	I	84.186	100-090034	7/1/08-9/30/09	\$ 72,429	51,210	-	47,083	47,083	(4,127)	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100042718A	7/1/07-9/30/08	\$ 413,528	233,377	233,376	1	1	-	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100042718	7/1/08-9/30/09	\$ 582,562	454,962	-	581,655	581,655	126,693	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100024595A	7/1/07-9/30/08	\$ 206,783	34,554	34,554	-	-	-	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100024595A	7/1/08-9/30/09	\$ 206,783	145,373	-	189,983	189,983	44,610	
TITLE V INNOVATIVE EDUCATION	I	84.298	011-080034	7/1/07-9/30/08	\$ 21,393	2,852	2,852	-	-	-	
<b>PASSED THROUGH MIDWESTERN LU.IV</b> TITLE I PARENT INVOLVEMENT MINI-GRANT	I	84.010	N/A	7/1/08-6/30/09	\$ 500	300	-	500	500	200	1a
<b>PASSED THROUGH THE COLONIAL LU.#20</b> IDEA	I	84.027	N/A	7/1/07-6/30/08	\$ 1,757,099	440,589	435,334	5,255	5,255	-	1
IDEA	I	84.027	N/A	7/1/08-6/30/09	\$ 1,787,604	1,337,739	-	1,787,607	1,787,607	449,868	1
<b>PASSED THROUGH THE LU.#1</b> IDEA	I	84.027	N/A	7/1/07-6/30/08	\$ 75,525	36,716	36,716	-	-	-	
<b>PASSED THROUGH BETHLEHEM</b> <b>AREA VOCATIONAL TECHNOLOGY SCHOOL</b> VOCATIONAL EDUCATION - L.E.P. PERKINS VOCATIONAL EDUCATION - L.E.P. PERKINS	I	84.048	N/A	7/1/07-6/30/08	\$ 51,949	51,949	51,949	-	-	-	2
COMMUNITY COLLEGE	I	84.002	N/A	7/1/07-6/30/08	\$ 13,190	5,085	5,085	-	-	-	
FEDERAL ADULT EDUCATION (GED)	I	84.002	N/A	7/1/08-6/30/09	\$ 13,190	12,368	-	13,190	13,190	822	3
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>						7,644,382	1,593,688	7,845,891	7,845,891	1,796,197	
<b>U.S. DEPT. OF HEALTH AND HUMAN SERVICES</b> <b>PASSED THROUGH PA</b> <b>DEPT OF WELFARE</b> <b>FAMILY CENTERS:</b> CHILD CARE MANDATORY/MATCH FUNDS CHILD CARE MANDATORY/MATCH FUNDS CHILD CARE MANDATORY/MATCH FUNDS	I	93.556	SAP 4100040318	7/1/07-6/30/08	\$ 198,679	41,113	41,113	-	-	-	
	I	93.556	SAP 4100044212	7/1/08-6/30/09	\$ 154,638	105,339	-	154,638	154,638	45,299	
	I	93.590	SAP 4100044212	7/1/08-6/30/09	\$ 15,953	11,255	-	15,953	15,953	4,698	
<b>PASSED THROUGH NORTHAMPTON COUNTY</b> <b>TIME-LIMITED FAMILY REUNIFICATION SERVICES:</b> CHILD CARE MANDATORY/MATCH FUNDS CHILD CARE MANDATORY/MATCH FUNDS	I	93.590	SAP 4100040318	7/1/07-6/30/08	\$ 159,492	83,721	83,721	-	-	-	4
	I	93.590	SAP 4100044432	7/1/08-6/30/09	\$ 215,000	174,569	-	215,000	215,000	40,431	
<b>PASSED THROUGH THE PA.</b> <b>DEPARTMENT OF PUBLIC WELFARE</b> TITLE 19 MEDICAL ASSISTANCE PROGRAM	I	93.778	N/A	7/1/08-6/30/09	N/A	45,194	-	45,194	45,194	-	
<b>TOTAL U.S. DEPT. OF HEALTH AND HUMAN SERVICES</b>						465,191	124,834	430,785	430,785	90,428	

**BETHLEHEM AREA SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR/ PROJECT TITLE	SOURCE CODE	CFDA NUMBER	GRANTOR PASS THROUGH NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED	ACCRUED OR (DEFERRED) AT 7/01/08	REVENUE	EXPENDI- TURES	ACCRUED OR (DEFERRED) AT 6/30/09	FOOTNOTES
<b>CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICES</b>											
PASSED THROUGH THE PA.											
DEPARTMENT OF EDUCATION											
LEARN & SERVE AMERICA	I	94.004	019-070303	7/1/07-9/30/08	\$ 8,000	\$ 727	\$ 727	\$ -	\$ -	\$ -	
LEARN & SERVE AMERICA	I	94.004	019-080021	10/1/08-6/30/09	\$ 25,000	25,000	-	19,763	19,763	(5,237)	
LEARN & SERVE AMERICA	I	94.004	019-080303	10/1/08-6/30/09	\$ 8,000	8,000	-	6,773	6,773	(1,227)	
<b>TOTAL CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICES</b>						33,727	727	26,536	26,536	(6,464)	
<b>N.A.S.A. NATIONAL AERONAUTICS AND SPACE ADMIN.</b>											
PASSED THROUGH NATIONAL SCIENCE AND TEACHERS ASSOCIATION											
N.A.S.A. EXPLORER SCHOOLS	I	43.001	N/A	7/1/08-6/30/09	\$ 2,500	2,500	-	114	114	(2,386)	6
<b>TOTAL NATIONAL AERONAUTICS AND SPACE ADMIN.</b>						2,500	-	114	114	(2,386)	
<b>U.S. DEPARTMENT OF LABOR</b>											
PASSED THROUGH THE P.A. DEPT. OF PUBLIC WELFARE											
PIC SUMMER MAINTENANCE/ BASIC SKILLS	I	17.269	2109	6/6/07-9/30/08	\$ 66,854	1,902	1,902	-	-	-	
PIC SUMMER MAINTENANCE/ BASIC SKILLS	I	17.269	2131	5/26/09-3/31/10	\$ 89,680	-	-	14,725	14,725	14,725	7
PIC CAREER LINKING ACADEMY	I	17.269	5033	3/3/08-9/30/08	\$ 16,418	14,889	14,517	372	372	26,810	7
PIC CAREER LINKING ACADEMY	I	17.269	5052 & 5055	2/2/09-6/30/09	\$ 33,503	-	-	26,810	26,810	26,810	7
<b>TOTAL U.S. DEPT. OF LABOR</b>						16,791	16,419	41,907	41,907	41,535	
<b>U.S. DEPARTMENT OF JUSTICE</b>											
PASSED THROUGH UNITED WAY											
222 CORRIDOR ANTI-GANG INITIATIVE	I	16.744	N/A	7/1/08-6/30/09	\$ 12,906	12,906	-	12,906	12,906	-	
<b>TOTAL U.S. DEPT. OF JUSTICE</b>						12,906	-	3,925	3,925	3,925	
<b>U. S. DEPT. OF AGRICULTURE</b>											
PASSED THROUGH THE PA.											
DEPT OF EDUCATION											
NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/01/07 - 6/30/08	N/A - F	278,212	278,212	-	-	-	
NATIONAL SCHOOL LUNCH	S	N/A	N/A	7/01/07 - 6/30/08	N/A - F	23,027	23,027	-	-	-	
NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/01/08 - 6/30/09	N/A - F	2,329,134	-	2,362,000	2,362,000	32,866	10
NATIONAL SCHOOL LUNCH	S	N/A	N/A	7/01/08 - 6/30/09	N/A - F	187,197	-	189,779	189,779	2,582	
BREAKFAST PROGRAM	I	10.553	N/A	7/01/07 - 6/30/08	N/A - F	11,463	11,463	-	-	-	
BREAKFAST PROGRAM	S	N/A	N/A	7/01/07 - 6/30/08	N/A - F	4,030	4,030	-	-	-	
BREAKFAST PROGRAM	I	10.553	N/A	7/01/08 - 6/30/09	N/A - F	31,449	-	54,598	54,598	536	10
BREAKFAST PROGRAM	S	N/A	N/A	7/01/08 - 6/30/09	N/A - F	43,205	-	31,974	31,974	525	
SEVERE NEED BREAKFAST	I	10.553	N/A	7/01/07 - 6/30/08	N/A - F	389,119	43,205	396,370	396,370	7,251	10
SEVERE NEED BREAKFAST	S	N/A	N/A	7/01/08 - 6/30/09	N/A - F	3,643	-	-	-	-	
AFTER SCHOOL SNACK	I	10.555	N/A	7/01/07 - 6/30/08	N/A - F	68,224	3,643	68,224	68,224	-	
AFTER SCHOOL SNACK	S	N/A	N/A	7/01/08 - 6/30/09	N/A - F	2,060	-	2,060	2,060	-	
SPECIAL MILK	I	10.556	N/A	7/01/08 - 6/30/09	N/A - F	39,893	-	-	-	-	
SUMMER FOOD	I	10.559	N/A	7/01/07 - 6/30/08	N/A - F	67,332	39,893	-	-	-	
SUMMER FOOD	S	N/A	N/A	7/01/08 - 6/30/09	N/A - F	-	-	124,391	124,391	57,059	10
<b>PASSED THROUGH THE PA</b>											
DEPARTMENT OF AGRICULTURE											
USDA COMMODITIES	I	10.550	N/A	7/01/08 - 6/30/09	N/A	265,744	(18,731)	265,734	265,734	(18,741)	8,9,10
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>						3,797,794	384,742	3,495,130	3,495,130	82,078	
<b>TOTAL AWARDS</b>						\$ 11,973,291	\$ 2,120,410	\$ 11,857,194	\$ 11,857,194	\$ 2,004,313	
LESS: STATE SHARE						(245,703)	(27,057)	(221,753)	(221,753)	(3,107)	
<b>TOTAL FEDERAL AWARDS</b>						\$ 11,727,588	\$ 2,093,353	\$ 11,635,441	\$ 11,635,441	\$ 2,001,206	

SOURCE: D-DIRECT  
I-INDIRECT  
F-FEDERAL SHARE  
S-STATE SHARE

**Bethlehem Area School District**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2009**

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**Note 1 - Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting for all federal awards charged to governmental funds and on the accrual basis of accounting for all federal awards charged to proprietary funds, as contemplated by generally accepted accounting principles.

**Note 2- Organization and Scope**

The District recognized 4.5% of its total general fund revenue in federal awards, and 55.6% of its total enterprise fund revenue.

**Note 3 - Program Disclosure – Footnotes**

***U.S. Department of Education***

1. The IDEA grant, passed through the Colonial I. U. 20, is reflected as local source revenue in the basic financial statements, as per PDE instructions.
- 1a. The Title I grant is a cluster program consisting of CFDA No. 84.810 and CFDA No. 84.389A, which represents the portion of Title I funds coming from the American Recovery and Reinvestment Act.
2. The Vocational Education – L.E.P. Perkins grant, passed through the Bethlehem Area Vocational Technology School is reflected as local source revenue in the basic financial statements, as per PDE instructions.
3. The Federal Adult Education Grant, passed through the Northampton Community College is reflected as local source revenue in the basic financial statements, as per PDE instructions.
4. The Time Limited Family Reunification Services, is reflected as local source revenue in the basic financial statements, as per PDE instructions.
5. The Medical Access grant passed through the PA Department of Education is reflected as federal source revenue on the basic financial statements; however, pursuant to instructions from the Commonwealth of PA, it is not reported as revenue on the Schedule of Federal Awards.

***National Aeronautics and Space Administration***

6. The N.A.S.A. Explorer Schools Grant, passed through the National Science and Teachers Association is reflected as local source revenue in the basic financial statements, as per PDE instructions.

***U.S. Department of Labor***

7. The PIC Summer Maintenance and Career Linking Academy Grants, passed through the PA Department of Public Welfare are reflected as local source revenue in the basic financial statements, as per PDE instructions.

***U.S. Department of Agriculture***

8. The District received non-monetary assistance of \$265,744 in the form of commodities. These commodities are valued at U.S.D.A.'s approximate costs. During the 2008-09 fiscal

**Bethlehem Area School District**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2009**

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year, the District used \$265,734 in commodities and established a year end inventory of \$18,741 at June 30, 2009.

9. The revenues reported on the SEFA represent the commodities used versus the financial statements, which recognize commodity revenue when received.
10. The National School Lunch Program (CFDA No. 10.555), National School Breakfast Program (CFDA No. 10.553), Severe Need Breakfast Program (CFDA No. 10.553), Summer Food Program, (CFDA No. 10.559), and Donated Commodities (CFDA No. 10.550) are considered a cluster program.

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**FINANCIAL STATEMENT RECONCILIATION**

General Fund Federal Source Revenues	\$ 6,335,003
Federal Grants in Local Sources	2,132,353
Food Service Fund Federal Revenue	<u>3,273,387</u>
<b>Total Federal Revenue, per financial statements</b>	<b>11,740,743</b>
Less - Medical Access	(105,293)
Plus: Change in Donated Commodities	<u>(9)</u>
<b>Total Federal Revenue Reported on SEFA</b>	<b><u>\$ 11,635,441</u></b>

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**GORMAN & ASSOCIATES, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

Board of School Directors  
Bethlehem Area School District  
1516 Sycamore Street  
Bethlehem, PA 18017

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the General Fund of Bethlehem Area School District as of and for the year ended June 30, 2009, which collectively comprise Bethlehem Area School District's basic financial statements and have issued our report thereon dated March 19, 2010. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America, and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting (2009-1, 2009-2, 2009-3, 2009-4, 2009-5, 2009-6, 2009-7, 2009-8, 2009-9, 2009-10, 2009-11, 2009-12, 2009-13, 2009-14, and 2009-15).



## BETHLEHEM AREA SCHOOL DISTRICT

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe 2009-1, 2009-6, 2009-8, 2009-9, 2009-11, 2009-12, and 2009-15 of the significant deficiencies described above are material weaknesses.

### **Compliance and Other Matters**

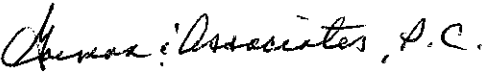
As part of obtaining reasonable assurance about whether Bethlehem Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of Bethlehem Area School District in a separate letter dated March 19, 2010.

Bethlehem Area School District's response to the findings identified in our audit are described in the accompanying corrective action plan schedule. We did not audit Bethlehem Area School District's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,

Arthur J. Associates, P.C.

March 19, 2010



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

Board of School Directors  
Bethlehem Area School District  
1516 Sycamore Street  
Bethlehem, PA 18017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Compliance**

We have audited the compliance of Bethlehem Area School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Bethlehem Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bethlehem Area School District's management. Our responsibility is to express an opinion on Bethlehem Area School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements, referred to above, that could have a direct and material effect on a major federal program, occurred. An audit includes examining, on a test basis, evidence about Bethlehem Area School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Bethlehem Area School District's compliance with those requirements.

In our opinion, Bethlehem Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

**Internal Control over Compliance**

The management of Bethlehem Area School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bethlehem Area School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program, that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Respectfully submitted,



March 19, 2010

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

**Section I - Summary of Auditor Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) Identified? ☒ yes ☐ no
- Significant Deficiencies identified that are not considered to be material weaknesses? ☒ yes ☐ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) Identified? ☐ yes ☒ no
- Significant Deficiencies identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? ☐ yes ☒ no

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.367	Title II A
84.010*	Title I
84.389A*	Title I - ARRA
84.027	IDEA

\* CFDA Numbers 84.010 and 84.389A are considered a cluster Title I program as a result of funding acquired from the American Recovery and Reinvestment Act shown under CFDA No. 84.389A.

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

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**\*These programs are considered a cluster of programs in accordance with OMB Circular A-133.**

Percentage of programs tested to total awards      54.9. %

Dollar threshold used to distinguish between  
type A and type B program:      \$ 349,264

Auditee qualified as low-risk auditee?      ☐ yes      ☒ no

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**Section II - Financial Statement Findings**

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**Significant Deficiency 2009-1 (All Funds Pooled Cash – Bank Reconciliation)**

Criteria:	Control Activities component of internal controls require reconciliations to be performed on material accounts in the general ledger, including the bank accounts on a regular basis.
Condition:	During our review of the account balance in cash at year end, we discovered the general ledger account was plugged to equal the bank statement balance.
Cause:	During our investigation to determine why this was done, we discovered the account was not properly reconciled during the entire year. In addition, the monitoring component of internal controls failed because management did not monitor their staff.
Effect:	The result of this condition is that the General Fund's financial position was overstated. In addition, the auditors spent additional time to reconcile the account, costing the district additional audit costs.
Recommendation:	We recommend the district reconcile the cash balance each month to the bank statement and find any discrepancies. In addition, management needs to properly monitor their staff to ensure this is being accomplished on a timely manner.

**Significant Deficiency 2009-2 (Payroll Fund – Bank Reconciliation)**

Criteria:	Control Activities component of internal controls require reconciliations to be performed on material accounts in the general ledger, including the bank accounts on a regular basis.
Condition:	During our review of the account balance in cash at year end, we discovered the general ledger account was off \$88,632 in equaling the bank statement balance.
Cause:	During our investigation to determine why this was done, we discovered the account was not properly reconciled during the entire year. In addition, the monitoring component of internal controls failed because management did not monitor their staff.

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

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**Effect:** As a result of this condition, the auditors spent additional time to reconcile the account, costing the District additional audit costs.

**Recommendation:** We recommend the district reconcile the cash balance each month to the bank statement and find any discrepancies. In addition, management needs to properly monitor their staff to ensure this is being accomplished on a timely manner.

**Significant Deficiency 2009-3 (Real Estate Tax Collection)**

**Criteria:** Act 169 of 1998 requires all real estate tax collectors to report monthly, on a form approved by the Department of Community and Economic Development, all taxes collected, changes to the duplicate, penalties received, discounts taken, and the uncollectible amount of the duplicate.

**Condition:** During our review of tax revenue, we could find no evidence that the taxes received are properly reconciled to the original tax duplicate.

**Cause:** This condition is created because the appointed tax collector (City of Bethlehem) is not providing timely information for district personnel to reconcile the duplicate or to know whether the collections represent current real estate taxes or interim real estate taxes.

**Effect:** The failure to reconcile to the original duplicate created an account called "undistributed taxes", which cannot be classified by source.

**Recommendation:** We recommend the District meet with the appointed tax collector to discuss a better tax collection system in order to timely reconcile the type of tax collected and for improving continuity with the outstanding duplicate balance.

**Significant Deficiency 2009-4 (General Fund - Missing Documentation)**

**Criteria:** All transactions should be supported with original documentation to support the receipt or disbursements occurring in the General Fund.

**Condition:** During our review of significant items, the staff could not find an invoice for Check no. 255549, made payable to Apple Computer Education dated October 23, 2008. In addition, an application for rental reimbursement of \$119,366.81 could not be found by management.

**Cause:** This condition appears to have been created by human error in not properly filing documentation to support the disbursement and receipt.

**Effect:** The failure to maintain original documentation can create invalid transactions to occur without being detected within a reasonable time period.

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

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Recommendation: We recommend the business office take greater care in managing documents during the course of the year.

**Significant Deficiency 2009-5 (General Fixed Assets)**

Criteria: Management is required to incorporate proper controls to safeguard capital assets of the District, making sure all assets have been properly valued.

Condition: We discovered the District is not maintaining a tagging system in order to locate and keep track of its capital assets, except the technology dept. is maintaining a separate tagging system for technology assets. In addition, it doesn't appear that land owned by the District was assigned values.

Cause: An appraisal company valued the general fixed assets a few years ago for the District, but failed to tag each asset. As a result, the tag no. reported on the VFACS program is arbitrary making the ability to locate moveable assets virtually impossible.

Effect: The failure to properly value all capital assets and maintain a tagging system to locate portable assets creates an understatement of assets owned and can potentially create theft to occur without being detected.

Recommendation: We recommend the District attempt to establish the original purchase price of each parcel of land and to begin using a tagging system for all capital assets.

**Significant Deficiency 2009-6 (General Fund – Accounts Payable)**

Criteria: The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.

Condition: We discovered the account balance for accounts payable was arbitrarily adjusted by \$1,250,422 because management couldn't find out why it was wrong.

Cause: It appears appropriate District personnel could not find the reasons why the balance was incorrect so decided not to look for the difference and adjust the account to the correct balance.

Effect: As is the case with any balance sheet account, the failure to maintain reconciliation procedures can cause an understatement or overstatement of the fund balance.

Recommendation: We recommend the District establish controls to reconcile all balance sheet accounts.

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

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**Significant Deficiency 2009-7 (Governmental Activities – Inventories)**

Criteria: The District should establish controls to evaluate inventories on hand at year end by using a combination of perpetual records and physical counts of items on hand to determine the yearly financial condition.

Condition: During our request for the ending inventory taken on consumable products held on hand at year end, we discovered no ending inventory was taken.

Cause: According to the previous Assistant to the Superintendent of Fiscal Affairs, he did not feel any inventory was necessary because all they had on hand at year end was a truckload of paper.

Effect: The failure to take a physical inventory on hand at year end can materially misstate the financial position of the governmental activities.

Recommendation: We recommend management instruct the appropriate personnel to take an ending inventory in all school facilities of any consumable products on hand at year end and appropriately apply the correct cost to each item.

**Significant Deficiency 2009-8 (Food Service Fund – Inventories)**

Criteria: The District should establish controls to evaluate inventories on hand at year end by using a combination of perpetual records and physical counts of items on hand to determine the yearly financial condition of this enterprise fund.

Condition: During our review of the general ledger account for inventories, we could not find any detail inventory records to substantiate the amount recorded as an asset. The only evidence presented to us was a summary sheet showing totals at each school.

Cause: The food service personnel destroyed the detail records.

Effect: The failure to maintain adequate records of a recorded asset puts into question the validity of amount shown as an asset, which can affect the overall financial position of the fund.

Recommendation: We recommend management instruct the appropriate personnel not to destroy any records that can be used to support the validity of the food service operations.

**Significant Deficiency 2009-9 (Food Service Fund – Other Accounts Receivable)**

Criteria: The District should maintain accurate records to support the validity of assets recorded in the Food Service Fund.



**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

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**Condition:** The only evidence provided to us to validate the balance at year end of \$215,458 was approximately 370 pages of outstanding balances in the amount students owed the District at year end. We were informed that any student owing more than \$50, his or her account is forwarded to a collection agency. The collection agency account only reflected \$43,805 in delinquent accounts. At the date of this report, the balance has been reduced to \$123,000.

**Cause:** We could not find any evidence that personnel were attempting to reconcile the validity of the account balance.

**Effect:** The failure to reconcile this receivable account could overstate or understate the financial position of the Food Service Fund..

**Recommendation:** We recommend the District review the approximate 370 pages for any discrepancies that may need to be written off as bad debts. In addition, we advise the District to consider modifying the policies affecting serving lunches without payment.

**Significant Deficiency 2009-10 (Athletic Fund – Bank Reconciliation)**

**Criteria:** Controls should be in place to make sure the bank balance reconciles to the book balance.

**Condition:** According to the secretary at Freedom High School, no bank reconciliation is performed on the Officials bank account. According to the secretary at Liberty High School, the bank reconciliation is done and then discarded.

**Cause:** It appears controls were never designed to reconcile the bank accounts and to maintain documentation.

**Effect:** The possibility exists that fraud could occur without proper controls to verify the amount of cash that should have been collected and deposited into the bank.

**Recommendation:** We recommend each high school perform a monthly bank reconciliation and provide that evidence to the auditors on an annual basis. In addition, the business office should request such documentation.

**Significant Deficiency 2009-11 (05-07 Capital Projects Fund – Coding)**

**Criteria:** Management is required to incorporate proper controls to safeguard the proper classification of expenditures.

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

---

**Condition:** Construction project costs of \$1,668,998 were coded to the wrong function code reflecting the cost as a repair and maintenance item versus a capital improvement.

**Cause:** This condition appears to have been caused by human error or insufficient knowledge of proper coding of invoices.

**Effect:** The failure to properly code expenditures can cause a material misstatement of the fund's financial statements.

**Recommendation:** We suggest management take greater care in coding expenditures.

**Significant Deficiency 2009-12 (05-07 Capital Project Fund – Accounts Payable)**

**Criteria:** The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.

**Condition:** We discovered the account balance for accounts payable was incorrect by \$1,365,883.

**Cause:** This condition appears to have been caused by management's failure to properly record accounts payable at year end, since the cash basis is maintained during the fiscal year.

**Effect:** As is the case with any balance sheet account, the failure to maintain reconciliation procedures can cause an understatement or overstatement of the fund balance.

**Recommendation:** We recommend the District establish controls to reconcile all balance sheet accounts.

**Significant Deficiency 2009-13 (Capital Reserve Fund – Allowable expenditures)**

**Criteria:** The District is required to abide by Section 1434 of the Municipal Code, which stipulates the allowable expenditures that can be made in this fund.

**Condition:** A check written to Sunguard for the monthly maintenance of the IFAS computer system for \$122,664 was paid by this fund, which is not an allowable expenditure of the Capital Reserve Fund.

**Cause:** This condition appears to have been caused by human error or insufficient knowledge of proper coding of invoices.

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

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**Effect:** The failure to properly report expenditures can cause a material misstatement of the fund's financial statements.

**Recommendation:** We suggest management take greater care in coding expenditures.

**Significant Deficiency 2009-14 (Grant Funds – Contributions/Donations)**

**Criteria:** In accordance with governmental accounting principles, contributions and donations are recorded as revenue in the year received.

**Condition:** The District's multiple federal and state grant funds record outside contributions as matching funds for federal and state grants; however the District personnel attempted to defer revenue recognition on these contributions until a future year.

**Cause:** It appears the business office personnel are trying to defer revenue recognition because they are unaware of accounting principles.

**Effect:** Deferring recognition understates the true revenue for the year.

**Recommendation:** We suggest District personnel stop this practice and recognize all contributions received during the year as revenue.

**Significant Deficiency 2009-15 (Self Insurance Fund – Monitoring)**

**Criteria:** In accordance with the monitoring component of internal controls, management should be monitoring transactions and balances among its accounting funds.

**Condition:** The District is self-funded for medical benefits; as such, other funds contribute to this fund to provide resources for payment of medical claims. This fund showed a major deficit during the year compared to a surplus in the funds providing resources for this fund. Unfortunately, material misstatements occurred, which required adjustments.

**Cause:** Management is not monitoring the activities of this fund.

**Effect:** The incorrect recording is showing an overstatement of the financial position in other funds and the understatement of financial position in this fund.

**Recommendation:** We suggest management monitor the claims made by this fund compared to the resources received. In addition, management should discuss with the governing body the possibility of adopting a policy to establish a reserve balance.

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

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**Section III – Findings and Questioned Costs for Federal Awards**

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There were no findings discovered, relating to the federal awards, which are required to be reported in accordance with OMB Circular A-133, Section 510.

**Audit Follow-up Procedures**

We did perform follow-up procedures on prior year findings shown in the accompanying Schedule of Prior Year Findings.

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2009**

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**Significant Deficiency/ Non Compliance Finding 2008-1 (Capital Reserve Fund  
/General Fund – Transfers)**

Criteria:	The District is required to abide by all laws and regulations affecting public school districts in the Commonwealth of Pennsylvania, including Section 1432 of the Municipal Code. Section 1434 of the Code stipulates the allowable expenditures that can be made from a Capital Reserve Fund, which does not include transfers to other governmental funds.
Condition:	During the course of this past year, the district transferred \$2,500,000 from the Capital Reserve Fund to the General Fund.
Cause:	The District has implied to the PA Dept. of Education that the original transfer of funds into the Capital Reserve Fund should not have been made. Coupled with the current financial situation, the District felt they could transfer the money back to the General Fund.
Effect::	The result of this condition is that the General Fund's financial position is overstated and the Capital Reserve Fund's financial position is understated.
Status:	Corrective Action was taken.

**Significant Deficiency 2008-2 (General Fund – Accounts Payable)**

Criteria:	The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the balance in accounts payable.
Condition:	Prior to our audit procedures, the account balance in accounts payable had a debit balance of \$34,371. After our adjustments, the correct balance is \$1,603,548. We had to re-create the unpaid bills at year end. This condition was prevalent in all governmental funds.
Cause:	The District prints out invoice posting and edit lists after entering unpaid invoices into the computer system. Unfortunately, the District's practice was to destroy these lists rendering the only evidence to determine what the account balance should be obsolete.
Effect::	As a result of this condition, the auditors spent additional time to reconcile the account, otherwise the general fund's expenditures would have been understated and the fund balance would have been overstated.
Status :	Corrective Action was taken.

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2009**

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**Significant Deficiency 2008-3 (General Fund – Accrued Tuition Payable)**

Criteria:	The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.
Condition:	The District has been recording a year end liability in past years incorrectly by reducing one liability account and increasing this liability account without recognizing expenditures.
Cause:	This condition was created by recording a liability before an obligation occurred. In past years, the amount recorded was based upon the number of employees that were taking reimbursable education courses.
Effect:	The effect of incorrectly recording this liability created wrong liability account balances in two accounts.
Status:	Corrective Action was taken.

**Significant Deficiency 2008-4 (General Fund – State Subsidy Receivable)**

Criteria:	The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.
Condition:	During our review of this account balance, we discovered previous year receivables that were not realized and were never reversed. As such, the account balance was overstated by \$1,385,206.
Cause:	District personnel failed to reconcile this account on a yearly basis and recognized a receivable and revenue in prior years that did not meet the criteria required under the modified accrual basis of accounting.
Effect:	The effect of this condition overstated the financial position of the General Fund.
Status:	Corrective Action was taken.

**Significant Deficiency/ Noncompliance Finding 2008-5 (Capital Reserve Technology Fund - Loans Receivable)**

Criteria:	The District should establish a Capital Reserve Fund in accordance with Section 690 of the PA School Code or Section 1432 of the Municipal Code.
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**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2009**

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Condition: During our review of this fund, we discovered the sole purpose of this fund is to act as a financing authority to offer employees an interest free loan to purchase a computer.

Cause: This fund was created years ago and was designed to help employees in purchasing computers.

Effect: The effect of this condition is the creation of a governmental fund that does not appear to fit within the parameters associated with this type of fund as outlined in the respective laws.

Status: Corrective Action was taken.

**Significant Deficiency 2008-6 (Food Service Fund – Inventories)**

Criteria: The District should establish controls to evaluate inventories on hand at year end by using a combination of perpetual records and physical counts of items on hand to determine the yearly financial condition of this enterprise fund.

Condition: During our review of the general ledger account for inventories, we could not find any detail inventory records to substantiate the amount recorded as an asset. The only evidence presented to us was a summary sheet showing totals at each school.

Cause: The food service personnel destroyed the detail records.

Effect: The failure to maintain adequate records of a recorded asset puts into question the validity of the amount shown as an asset, which can affect the overall financial position of the fund.

Status: This condition continues to exist.

**Significant Deficiency 2008-7 (Food Service Fund – Other Accounts Receivable)**

Criteria: The District should maintain accurate records to support the validity of assets recorded in the Food Service Fund.

Condition: The only evidence provided to us to validate the balance at year end of \$168,270 was 371 pages of outstanding balances in the amount students owed the District at year end. We were informed that any student owing more than \$50, his or her account is forwarded to a collection agency. The collection agency account only reflected \$48,359 in delinquent accounts.

Cause: We could not find any evidence that personnel were attempting to reconcile the validity of the account balance.

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2009**

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Effect: The failure to reconcile this receivable account could overstate or understate the financial position of the Food Service Fund.

Status: This condition continues to exist.

**Significant Deficiency 2008-8 (General Fund – Payroll Liabilities)**

Criteria: The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.

Condition: We discovered the account balance for payroll liabilities was incorrect by \$133,248.

Cause: It appears appropriate District personnel were not reconciling this liability account.

Effect: As is the case with any balance sheet account, the failure to maintain reconciliation procedures can cause an understatement or overstatement of the fund balance.

Status: Corrective Action was taken.

**Significant Deficiency 2008-9 (Payroll Account – Reconciliation)**

Criteria: The District should perform a bank reconciliation on every bank account and compare the balance to the general ledger account.

Condition: During our review of reconciliations performed on bank accounts, we discovered the payroll account is not being reconciled. The difference between the bank statement less outstanding checks to the balance in the general ledger is \$19,254.13.

Cause: It does not appear payroll personnel have spent the time necessary to discover this variance.

Effect: The failure to reconcile account balances can create an atmosphere of potential fraud to occur without being detected within a reasonable period of time.

Status: This condition continues to exist.



**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2009**

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**Significant Deficiency 2008-10 (Real Estate Tax Collection)**

Criteria: Act 169 of 1998 requires all real estate tax collectors to report monthly, on a form approved by the Department of Community and Economic Development, all taxes collected, changes to the duplicate, penalties received, discounts taken, and the uncollectible amount of the duplicate.

Condition: During our review of tax revenue, we could find no evidence that the taxes received are reconciled to the original tax duplicates.

Cause: This condition is created because the appointed tax collectors (Berkheimer and the City of Bethlehem) are not providing timely information for district personnel to reconcile the duplicate or to know whether the collections represent current real estate taxes or interim real estate taxes.

Effect: The failure to reconcile to the original duplicate created an account called "undistributed taxes", which cannot be classified by source.

Status: This condition continues to exist

**Significant Deficiency 2008-11 (General Fixed Assets)**

Criteria: Management is required to incorporate proper controls to safeguard capital assets of the District, making sure all assets have been properly valued.

Condition: The balances reported on the prior year financial statements did not correlate to the balances maintained in the fixed asset system used by the District by \$1,853,418. We also discovered the District is not maintaining a tagging system to be able to locate and keep track of its capital assets, except the technology dept. is maintaining a separate tagging system for technology assets. In addition, it doesn't appear the land owned by the District was assigned values.

Cause: An appraisal company valued the general fixed assets a few years ago for the District, but failed to tag each asset. As a result, the tag no. reported on the VFACS program is arbitrary making the ability to locate moveable assets virtually impossible.

Effect: The failure to properly value all capital assets and maintain a tagging system to locate portable assets creates an understatement of assets owned and can potentially create theft to occur without being detected.

Status: This condition continues to exist.

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2009**

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**Significant Deficiency 2008-12 (Athletic Fund – Ticket Sales)**

Criteria:	Controls should be in place to make sure the monies collected for sporting events matches the tickets sold.
Condition:	It appears athletic event volunteers are not keeping tickets sold or portion of tickets sold to be compared to the money collected at each event.
Cause:	It appears controls were never designed to collect the tickets sold.
Effect:	The possibility exists that fraud could occur without proper controls to verify the amount of cash that should have been collected and deposited into the bank.
Status:	Corrective Action was taken.

**Significant Deficiency 2008-13 (Food Service Fund – Fixed Assets)**

Criteria:	Management is required to incorporate proper controls to safeguard capital assets of the District, making sure all assets have been properly valued.
Condition:	The balances reported on the prior year financial statements did not correlate to the balances maintained in the fixed asset system used by the District by \$23,500 on equipment and \$17,439 on accumulated depreciation. We also discovered the District is not maintaining a tagging system to be able to locate and keep track of its capital assets.
Cause:	An appraisal company valued the fixed assets a few years ago for the District, but failed to tag each asset. As a result, the tag no. reported on the VFACS program is arbitrary making the ability to locate moveable assets virtually impossible.
Effect:	The failure to properly value all capital assets and maintain a tagging system to locate portable assets creates an understatement of assets owned and can potentially create theft to occur without being detected.
Status:	Corrective Action was taken, except for the tagging system.

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2009**

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**Significant Deficiency 2008-14 (Day Care Fund – Expenses)**

Criteria:	In the purchasing process, the District should have controls in place making sure documentation is available before any obligation is paid.
Condition:	During our review of expenses occurring in this fund, we discovered 30% of the invoices tested did not have proper documentation to support the payments made. The only documentation was pink requisition forms.
Cause:	It appears personnel responsible for paying these requests were not following proper control procedures to make sure invoices were attached to the requisition.
Effect:	Without proper documentation, errors or fraud can occur without being detected by anyone.
Status:	Corrective Action was taken.



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

Board of Directors  
Bethlehem Area School District  
1516 Sycamore Street  
Bethlehem, Pennsylvania 18017

**Independent Accountant's Report on Applying  
Agreed-Upon Procedures**

We have performed the procedures enumerated below, which were agreed to by the Commonwealth of Pennsylvania, Department of Public Welfare (DPW) and the Bethlehem Area School District solely to assist you with respect to the Supplemental Schedules required by this agreement. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the DPW. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

- a. We have verified by comparison of the amounts and classifications that the supplemental financial schedules and/exhibits listed below for fiscal period ended June 30, 2009, have been accurately compiled in accordance with the provisions of this agreement and reflect the audited books and records of the Bethlehem Area School District. We also have verified by comparison to the sample schedules that these schedules/exhibits are presented, at minimum, at the level of detail and in the format required by the agreement pertaining to this period.
  - Schedule of Revenues and Expenditures of Family Center Grant
  - Schedule of Revenues and Expenditures of Time Limited Family Reunification Grant.
- b. We inquired of management regarding any adjustments to the reported information which should be made and/or were not reflected on the reports submitted to DPW for the period in question.

We were not engaged to, and did not perform an audit, the objective of which would be expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Department of Public Welfare and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Respectfully Submitted,

*Gorman & Associates, P.C.*

March 19, 2010

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**BETHLEHEM AREA SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES AND EXPENDITURES OF FAMILY CENTER GRANT**  
**AS OF JUNE 30, 2009**

<b>REVENUES</b>	<b>DEPARTMENT OF PULBIC WELFARE GRANT</b>	
	<b>BUDGET</b>	<b>ACTUAL</b>
<b>Federal</b>		
CFDA 93.590	154,637.57	154,637.57
CFDA 93.556	15,953.00	15,953.00
<b>State</b>	<u>154,660.84</u>	<u>154,660.84</u>
<b>Total Revenues</b>	<b>\$ <u>325,251.41</u></b>	<b>\$ <u>325,251.41</u></b>
 <b>EXPENDITURES</b>		
<b>Personnel</b>		
Salaries and Benefits	<u>\$ 284,951.00</u>	<u>\$ 284,951.00</u>
 <b>Operating</b>		
Professional/Technical Svcs	18,500.00	17,675.00
Training/Conferences	4,500.00	4,533.95
Transportation/Travel	11,800.00	12,722.05
Service Contracts	300.00	300.00
Communications	400.00	388.08
Facility Expenses	-	-
Supplies	4,800.41	4,681.33
Evaluation	-	-
FC PAT Training	-	-
Other	-	-
Indirect Costs	-	-
<b>Total Operations</b>	<u>40,300.41</u>	<u>40,300.41</u>
<b>Total Expenditures</b>	<b>\$ <u>325,251.41</u></b>	<b>\$ <u>325,251.41</u></b>

**BETHLEHEM AREA SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES AND EXPENDITURES OF TIME-LIMITED FAMILY REUNIFICATION GRANT**  
**AS OF JUNE 30, 2009**

<b>REVENUES</b>	<b>DEPARTMENT OF PULBIC WELFARE GRANT</b>	
	<b>BUDGET</b>	<b>ACTUAL</b>
<b>Federal</b>		
CFDA 93.590	-	-
CFDA 93.556	215,000.00	215,000.00
<b>State</b>	-	-
<b>Total Revenues</b>	<b>\$ 215,000.00</b>	<b>\$ 215,000.00</b>
<b>EXPENDITURES</b>		
<b>Personnel</b>		
Salaries and Benefits	\$ 183,030.00	\$ 183,030.00
<b>Operating</b>		
Professional/Technical Svcs	17,000.00	17,000.00
Training/Conferences	3,000.00	3,264.67
Transportation/Travel	3,600.00	3,335.33
Communications	800.00	784.25
Supplies	2,223.00	2,578.19
Parent Training	-	-
Equipment	3,597.00	3,590.00
Audit Fee	-	-
Indirect Costs	-	-
Other	1,750.00	1,417.56
<b>Total Operations</b>	<b>31,970.00</b>	<b>31,970.00</b>
<b>Total Expenditures</b>	<b>\$ 215,000.00</b>	<b>\$ 215,000.00</b>

Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

## **Current Year Findings for 2008-09**

### **Significant Deficiency 2009-1 (All Funds Pooled Cash – Bank Reconciliation)**

**Criteria:** Control Activities component of internal controls require reconciliations to be performed on material accounts in the general ledger, including the bank accounts on a regular basis.

**Condition:** During our review of the account balance in cash at year end, we discovered the general ledger account was plugged to equal the bank statement balance.

**Cause:** During our investigation to determine why this was done, we discovered the account was not properly reconciled during the entire year. In addition, the monitoring component of internal controls failed because management did not monitor their staff.

**Effect:** The result of this condition is that the General Fund's financial position was overstated. In addition, the auditors spent additional time to reconcile the account, costing the District additional audit costs.

**Recommendation:** We recommend the district reconcile the cash balance each month to the bank statement and find any discrepancies. In addition, management needs to properly monitor their staff to ensure this is being accomplished on a timely manner.

**Response:** Management has implemented a process to monitor and insure timely reconciliation of all accounts. Additionally, management intends to segregate bank accounts by fund as soon as financially feasible to do so.

### **Significant Deficiency 2009-2 (Payroll Fund – Bank Reconciliation)**

**Criteria:** Control Activities component of internal controls require reconciliations to be performed on material accounts in the general ledger, including the bank accounts on a regular basis.

**Condition:** During our review of the account balance in cash at year end, we discovered the general ledger account was off \$88,632 in equaling the bank statement balance.

**Cause:** During our investigation to determine why this was done, we discovered the account was not properly reconciled during the entire year. In addition, the monitoring component of internal controls failed because management did not monitor their staff.

**Effect:** As a result of this condition, the auditors spent additional time to reconcile the account, costing the District additional audit costs.

**Recommendation:** We recommend the district reconcile the cash balance each month to the bank statement and find any discrepancies. In addition, management

Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

needs to properly monitor their staff to ensure this is being accomplished on a timely manner.

Response: Management has implemented a process to monitor and insure timely reconciliation of all accounts.

**Significant Deficiency 2009-3 (Real Estate Tax Collection)**

Criteria: Act 169 of 1998 requires all real estate tax collectors to report monthly, on a form approved by the Department of Community and Economic Development, all taxes collected, changes to the duplicate, penalties received, discounts taken, and the uncollectible amount of the duplicate.

Condition: During our review of tax revenue, we could find no evidence that the taxes received are properly reconciled to the original tax duplicates.

Cause: This condition is created because the appointed tax collector (City of Bethlehem) is not providing timely information for district personnel to reconcile the duplicate or to know whether the collections represent current real estate taxes or interim real estate taxes.

Effect: The failure to reconcile to the original duplicate created an account called "undistributed taxes", which cannot be classified by source.

Recommendation: We recommend the District meet with the appointed tax collector to discuss a better tax collection system in order to timely reconcile the type of tax collected and for improving continuity with the outstanding duplicate balance.

Response: The District will contact the City of Bethlehem to discuss more timely reporting and deposits in accordance with Act 169 and accurate reconciliation of the undistributed account.

**Significant Deficiency 2009-4 (General Fund - Missing Documentation)**

Criteria: All transactions should be supported with original documentation to support the receipt or disbursements occurring in the General Fund.

Condition: During our review of significant items, the staff could not find an invoice for Check no. 255549, made payable to Apple Computer Education dated October 23, 2008. In addition, an application for rental reimbursement of \$119,366.81 could not be found by management.

Cause: This condition appears to have been created by human error in not properly filing documentation to support the disbursement and receipt.

Effect: The failure to maintain original documentation can create invalid transactions to occur without being detected within a reasonable time period.



Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

Recommendation: We recommend the business office take greater care in managing documents during the course of the year.

Response: Management agrees with this recommendation as stated.

**Significant Deficiency 2009-5 (General Fixed Assets)**

Criteria: Management is required to incorporate proper controls to safeguard capital assets of the District, making sure all assets have been properly valued.

Condition: We discovered the District is not maintaining a tagging system in order to locate and keep track of its capital assets, except the technology dept. is maintaining a separate tagging system for technology assets. In addition, it doesn't appear that land owned by the District was assigned values.

Cause: An appraisal company valued the general fixed assets a few years ago for the District, but failed to tag each asset. As a result, the tag no. reported on the VFACS program is arbitrary making the ability to locate moveable assets virtually impossible.

Effect: The failure to properly value all capital assets and maintain a tagging system to locate portable assets creates an understatement of assets owned and can potentially create theft to occur without being detected.

Recommendation: We recommend the District attempt to establish the original purchase price of each parcel of land and to begin using a tagging system for all capital assets.

Response: Management will research available records in an attempt to determine land values.

**Significant Deficiency 2009-6 (General Fund – Accounts Payable)**

Criteria: The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.

Condition: We discovered the account balance for accounts payable was arbitrarily adjusted by \$1,250,422 because management couldn't find out why it was wrong.

Cause: It appears appropriate District personnel could not find the reasons why the balance was incorrect so decided not to look for the difference and adjust the account to the correct balance.

Effect: As is the case with any balance sheet account, the failure to maintain reconciliation procedures can cause an understatement or overstatement of the fund balance.

Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

Recommendation: We recommend the District establish controls to reconcile all balance sheet accounts.

Response: Management will implement a process to monitor and insure timely reconciliation of all accounts.

**Significant Deficiency 2009-7 (Governmental Activities – Inventories)**

Criteria: The District should establish controls to evaluate inventories on hand at year end by using a combination of perpetual records and physical counts of items on hand to determine the yearly financial condition.

Condition: During our request for the ending inventory taken on consumable products held on hand at year end, we discovered no ending inventory was taken.

Cause: According to the previous Assistant to the Superintendent of Fiscal Affairs, he did not feel any inventory was necessary because all they had on hand at year end was a truckload of paper.

Effect: The failure to take a physical inventory on hand at year end can materially misstate the financial position of the governmental activities.

Recommendation: We recommend management instruct the appropriate personnel to take an ending inventory in all school facilities of any consumable products on hand at year end and appropriately apply the correct cost to each item.

Response: Management agrees with this recommendation as stated.

**Significant Deficiency 2009-8 (Food Service Fund – Inventories)**

Criteria: The District should establish controls to evaluate inventories on hand at year end by using a combination of perpetual records and physical counts of items on hand to determine the yearly financial condition of this enterprise fund.

Condition: During our review of the general ledger account for inventories, we could not find any detail inventory records to substantiate the amount recorded as an asset. The only evidence presented to us was a summary sheet showing totals at each school.

Cause: The food service personnel destroyed the detail records.

Effect: The failure to maintain adequate records of a recorded asset puts into question the validity of amount shown as an asset, which can affect the overall financial position of the fund.

Recommendation: We recommend management instruct the appropriate personnel not to destroy any records that can be used to support the validity of the food service operations.

Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

Response: Management agrees with this recommendation as stated.

**Significant Deficiency 2009-9 (Food Service Fund – Other Accounts Receivable)**

Criteria: The District should maintain accurate records to support the validity of assets recorded in the Food Service Fund.

Condition: The only evidence provided to us to validate the balance at year end of \$215,458 was approximately 370 pages of outstanding balances in the amount students owed the District at year end. We were informed that any student owing more than \$50, his or her account is forwarded to a collection agency. The collection agency account only reflected \$43,805 in delinquent accounts.

Cause: We could not find any evidence that personnel were attempting to reconcile the validity of the account balance.

Effect: The failure to reconcile this receivable account could overstate or understate the financial position of the Food Service Fund..

Recommendation: We recommend the District review the approximate 370 pages for any discrepancies that may need to be written off as bad debts. In addition, we advise the District to consider modifying the policies affecting serving lunches without payment.

Response: Management has already implemented modified student lunch charge procedures and increased collection of past due accounts reducing this deficit to approximately \$127,000. Additionally, management will review account aging to determine what amount should be classified as bad debt.

**Significant Deficiency 2009-10 (Athletic Fund – Bank Reconciliation)**

Criteria: Controls should be in place to make sure the bank balance reconciles to the book balance.

Condition: According to the secretary at Freedom High School, no bank reconciliation is performed on the Officials bank account. According to the secretary at Liberty High School, the bank reconciliation is done and then discarded.

Cause: It appears controls were never designed to reconcile the bank accounts and to maintain documentation.

Effect: The possibility exists that fraud could occur without proper controls to verify the amount of cash that should have been collected and deposited into the bank.

Recommendation: We recommend each high school perform a monthly bank reconciliation and provide that evidence to the auditors on an annual basis. In addition, the business office should request such documentation.

Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

Response: Management agrees with this recommendation as stated.

**Significant Deficiency 2009-11 (05-07 Capital Projects Fund – Coding)**

Criteria: Management is required to incorporate proper controls to safeguard the proper classification of expenditures.

Condition: Construction project costs of \$1,668,998 were coded to the wrong function code reflecting the cost as a repair and maintenance item versus a capital improvement.

Cause: This condition appears to have been caused by human error or insufficient knowledge of proper coding of invoices.

Effect: The failure to properly code expenditures can cause a material misstatement of the fund's financial statements.

Recommendation: We suggest management take greater care in coding expenditures.

Response: Management agrees with this recommendation as stated.

**Significant Deficiency 2009-12 (05-07 Capital Project Fund – Accounts Payable)**

Criteria: The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.

Condition: We discovered the account balance for accounts payable was incorrect by \$1,365,883.

Cause: This condition appears to have been caused by management's failure to properly record accounts payable at year end, since the cash basis is maintained during the fiscal year.

Effect: As is the case with any balance sheet account, the failure to maintain reconciliation procedures can cause an understatement or overstatement of the fund balance.

Recommendation: We recommend the District establish controls to reconcile all balance sheet accounts.

Response: Management will implement a process to monitor and insure timely reconciliation of all accounts.

Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

**Significant Deficiency 2009-13 (Capital Reserve Fund – Allowable expenditures)**

Criteria:	The District is required to abide by Section 1434 of the Municipal Code, which stipulates the allowable expenditures that can be made in this fund.
Condition:	A check written to Sunguard for the monthly maintenance of the IFAS computer system for \$122,664 was paid by this fund, which is not an allowable expenditure of the Capital Reserve Fund.
Cause:	This condition appears to have been caused by human error or insufficient knowledge of proper coding of invoices.
Effect:	The failure to properly report expenditures can cause a material misstatement of the fund's financial statements.
Recommendation:	We suggest management take greater care in coding expenditures.
Response:	Management agrees with this recommendation as stated.

**Significant Deficiency 2009-14 (Grant Funds – Contributions/Donations)**

Criteria:	In accordance with governmental accounting principles, contributions and donations are recorded as revenue in the year received.
Condition:	The District's multiple federal and state grant funds record outside contributions as matching funds for federal and state grants; however the District personnel attempted to defer revenue recognition on these contributions until a future year.
Cause:	It appears the business office personnel are trying to defer revenue recognition because they are unaware of accounting principles.
Effect:	Deferring recognition understates the true revenue for the year.
Recommendation:	We suggest District personnel stop this practice and recognize all contributions received during the year as revenue.
Response:	Management agrees with this recommendation as stated.

**Significant Deficiency 2009-15 (Self Insurance Fund – Monitoring)**

Criteria:	In accordance with the monitoring component of internal controls, management should be monitoring transactions and balances among its accounting funds.
Condition:	The District is self-funded for medical benefits; as such, other funds contribute to this fund to provide resources for payment of medical claims. This fund showed a major deficit during the year compared to a

Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

surplus in the funds providing resources for this fund. Unfortunately, material misstatements occurred, which required adjustments.

Cause:	Management is not monitoring the activities of this fund.
Effect:	The incorrect recording is showing an overstatement of the financial position in other funds and the understatement of financial position in this fund.
Recommendation:	We suggest management monitor the claims made by this fund compared to the resources received. In addition, management should discuss with the governing body the possibility of adopting a policy to establish a reserve balance.
Response:	Management agrees with this recommendation as stated.

## **Prior Year Findings for 2007-08**

### **Significant Deficiency 2008-6 (Food Service Fund – Inventories)**

Criteria:	The District should establish controls to evaluate inventories on hand at year end by using a combination of perpetual records and physical counts of items on hand to determine the yearly financial condition of this enterprise fund.
Condition:	During our review of the general ledger account for inventories, we could not find any detail inventory records to substantiate the amount recorded as an asset. The only evidence presented to us was a summary sheet showing totals at each school.
Cause:	The food service personnel destroyed the detail records.
Effect:	The failure to maintain adequate records of a recorded asset puts into question the validity of the amount shown as an asset, which can affect the overall financial position of the fund.
Status:	This condition continues to exist.
Response:	Management will instruct the appropriate personnel not to destroy any records that can be used to support the validity of the food service operations.

Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

**Significant Deficiency 2008-7 (Food Service Fund – Other Accounts Receivable)**

Criteria: The District should maintain accurate records to support the validity of assets recorded in the Food Service Fund.

Condition: The only evidence provided to us to validate the balance at year end of \$168,270 was 371 pages of outstanding balances in the amount students owed the District at year end. We were informed that any student owing more than \$50, his or her account is forwarded to a collection agency. The collection agency account only reflected \$48,359 in delinquent accounts.

Cause: We could not find any evidence that personnel were attempting to reconcile the validity of the account balance.

Effect: The failure to reconcile this receivable account could overstate or understate the financial position of the Food Service Fund.

Status: This condition continues to exist.

Response: Management has already implemented modified student lunch charge procedures and increased collection of past due accounts reducing this deficit to approximately \$127,000. Additionally, management will review account aging to determine what amount should be classified as bad debt.

**Significant Deficiency 2008-9 (Payroll Account – Reconciliation)**

Criteria: The District should perform a bank reconciliation on every bank account and compare the balance to the general ledger account.

Condition: During our review of reconciliations performed on bank accounts, we discovered the payroll account is not being reconciled. The difference between the bank statements less outstanding checks to the balance in the general ledger is \$19,254.13.

Cause: It does not appear payroll personnel have spent the time necessary to discover this variance.

Effect: The failure to reconcile account balances can create an atmosphere of potential fraud to occur without being detected within a reasonable period of time.

Status: This condition continues to exist.

Response: Management has implemented a process to monitor and insure timely reconciliation of all accounts.

Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

**Significant Deficiency 2008-10 (Real Estate Tax Collection)**

Criteria:	Act 169 of 1998 requires all real estate tax collectors to report monthly, on a form approved by the Department of Community and Economic Development, all taxes collected, changes to the duplicate, penalties received, discounts taken, and the uncollectible amount of the duplicate.
Condition:	During our review of tax revenue, we could find no evidence that the taxes received are reconciled to the original tax duplicates.
Cause:	This condition is created because the appointed tax collectors (Berkheimer and the City of Bethlehem) are not providing timely information for district personnel to reconcile the duplicate or to know whether the collections represent current real estate taxes or interim real estate taxes.
Effect:	The failure to reconcile to the original duplicate created an account called "undistributed taxes", which cannot be classified by source.
Status:	This condition continues to exist.
Response:	The District will contact the City of Bethlehem to discuss more timely reporting and deposits in accordance with Act 169 and accurate reconciliation of the undistributed account.

**Significant Deficiency 2008-11 (General Fixed Assets)**

Criteria:	Management is required to incorporate proper controls to safeguard capital assets of the District, making sure all assets have been properly valued.
Condition:	The balances reported on the prior year financial statements did not correlate to the balances maintained in the fixed asset system used by the District by \$1,853,418. We also discovered the District is not maintaining a tagging system to be able to locate and keep track of its capital assets, except the technology dept. is maintaining a separate tagging system for technology assets. In addition, it doesn't appear the land owned by the District was assigned values.
Cause:	An appraisal company valued the general fixed assets a few years ago for the District, but failed to tag each asset. As a result, the tag no. reported on the VFACS program is arbitrary making the ability to locate moveable assets virtually impossible.
Effect:	The failure to properly value all capital assets and maintain a tagging system to locate portable assets creates an understatement of assets owned and can potentially create theft to occur without being detected.
Status:	This condition continues to exist..



Bethlehem Area School District  
Management's Corrective Action Plan  
For the Year Ended June 30, 2009

Response: Management will research available records in an attempt to determine land values.

**Significant Deficiency 2008-13 (Food Service Fund – Fixed Assets)**

Criteria: Management is required to incorporate proper controls to safeguard capital assets of the District, making sure all assets have been properly valued.

Condition: The balances reported on the prior year financial statements did not correlate to the balances maintained in the fixed asset system used by the District by \$23,500 on equipment and \$17,439 on accumulated depreciation. We also discovered the District is not maintaining a tagging system to be able to locate and keep track of its capital assets.

Cause: An appraisal company valued the fixed assets a few years ago for the District, but failed to tag each asset. As a result, the tag no. reported on the VFACS program is arbitrary making the ability to locate moveable assets virtually impossible.

Effect: The failure to properly value all capital assets and maintain a tagging system to locate portable assets creates an understatement of assets owned and can potentially create theft to occur without being detected.

Status: Corrective Action was taken, except for the tagging system.

Response: Management will consider a new appraisal of fixed assets with tagging as budgetary resources permit.