

**REPORT ON
BETHLEHEM AREA SCHOOL DISTRICT
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2011**

BETHLEHEM AREA SCHOOL DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2011

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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, 2011, 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 that could have a direct and material effect on 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.

January 5, 2012



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. Joseph J. Roy, 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, 2011, and have issued our report thereon dated January 5, 2012.

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 June 29, 2011.

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 estimates affecting the financial statements were 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 January 5, 2012. 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 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 2010-11 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 in internal control 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 and correct misstatements on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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.

This letter would be incomplete if we did not mention management has finally made some substantial improvement from last year's management/governance letter. They have reduced the material weaknesses and significant deficiencies reported in last year's report from twenty (20) items to only five (5) items. It is our sincere hope that the new computer software and the willingness of staff and management to follow our remaining recommendations, will enable the District's financial reporting process to excel.

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 and Investment Accounts (Bank Reconciliation)

As was the case in prior years, the account analyst and bookkeeper are suppose to reconcile all the cash and investment accounts on a monthly basis to the cash and investment balances in the computer system. Unfortunately, like last year, this was not done in a correct manner. There were three debt service payments not posted into the computer system, federal revenue from Title 19 (medical reimbursement) was posted twice, and an error was made in posting the wrong amount of retirement revenue.

The failure to properly reconcile these cash accounts on a monthly basis has caused the District additional audit costs. Unlike prior years, the major problems in not properly reconciling cash occurred during the first eight months of this past fiscal year. Subsequent to this time frame, current management has taken steps to correct this problem going forward into the 2011-12 fiscal year. We wish to remind management to stay on top of this situation with their staff on a monthly basis to ensure the corrections made continue to be maintained.

Self-Insurance Fund – Transactions

During our review of the Self – Insurance Fund transactions, we discovered errors in transaction recording that understates the expenditures of this fund. For example, \$1.3 million of unpaid bills owed to Capital Blue Cross and Caremark were not recorded in the computer system at year end. Postings occurred by staff after we were given the balances to audit, which caused delays in performing our audit procedures, and erroneous cash on claim balances existed that should have been eliminated. Although this fund is maintained during the year on a cash basis, we wish to remind management that this fund must be reported on the accrual basis at year end. As such, incurred, but not reported, claims must be reported as accounts payable at year end to properly reflect the correct financial position.

Federal Awards – Allowable Costs

As was the case in the prior year, our review of the IDEA Program, State Fiscal Stabilization Fund, Title I grants, and the 21st Century grants we discovered problems pertaining to the control activities, risk assessment, and the monitoring components of internal controls. Upon the start of our review of these ARRA and Non-ARRA federal programs we requested supporting documentation to show us the personnel's salaries and/or benefits that were charged to this program. The district personnel in charge of these programs could not provide us a complete list of employees and their respective salaries that were charged to these programs.

The failure to have adequate and readily available documentation to support the costs charged to these programs shows material weaknesses in the control activities, risk assessment, and monitoring components of internal control. Although the District segregates federal costs from non-federal costs, the descriptions in the computerized general ledger do not provide sufficient employee information, and the numerous journal entries made by management moving costs in and out of the federal source codes shows no explanation as to the reasons for the entries. As such, separate manually prepared spreadsheets should have been maintained to reflect the proper components of these costs to verify the validity of the charges.

Through a concerted effort from multiple employees, the District was able to re-construct what employees were charged to these federal programs and all charges are allowable costs. In the future, management needs to monitor the activities of their staff to ensure documentation exists to show the detail of the federal costs charged to each federal grant. We advise the staff to maintain separate records keeping track of those employees charged to each of these federal programs, the time allocated to the programs, and the amounts charged to each program from each employee charged to each respective program.

SIGNIFICANT DEFICIENCIES

Fixed Assets

We have explained issues pertaining to general fixed assets in prior years, but the current failure to properly maintain additions and deletions to the appraisal company, including adjustments made by us in the prior year that were not corrected by staff is continually creating problems in proper maintenance of the District's capital assets. Since the changeover of personnel, fixed asset records for the Day Care Fund and Food Service Fund can no longer be found. In addition, 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. In addition, auctions are held with items sold and no reductions from the fixed asset records are done to correlate the disposals.

We wish to recommend multiple solutions to this ongoing problem. First, we can maintain the logs of the District's capital assets that the appraisal company currently has by requesting an excel file of their records and forwarding them to us. If we perform this function, the District will only have to maintain current year additions and deletions to be added or removed from the list of assets our system maintains.

In addition, we would like to suggest the District consider contracting with an outside company to re-appraise the remaining fixed assets to re-establish the true assets maintained by the District, including valuating all parcels of land owned by the District.

Once completed, we recommend the District establish policies and procedures to properly monitor all equipment within the facilities owned by the District with constant updates to filter out disposals and adding new acquisitions. Of course, this revised listing can be given to us to maintain as stated above.

The failure over the years to properly maintain and monitor the capital assets owned by the District could potentially materially misstate the government-wide financial position.

Information and Communication Component of Internal Controls

The internal controls of any entity entail five components. In our prior year report, we reported on a material weakness in the Monitoring component of internal controls that management has corrected in the current year.

The Information and Communication component of internal controls pertains specifically to the accounting system and the proper flow of transactions into the system, including the year-end closing process, as well as having proper channels of communication upstream and downstream between management personnel and staff. As a third party consultant explained in their report to the School Board last year, this component of controls will take time to correct.

Past problems associated with this component pertained to operating a computer system that the majority of personnel did not understand, staff personnel performing their functions without proper supervisory guidance (monitoring), and failure of staff to communicate to management on problems in performing their functions. We are pleased to see management and the School Board has taken steps to replace the current computer system that many failed to understand its' complexities.

We wish to recommend to management and the staff the importance of maintaining an open line of communication upstream and downstream to ensure all personnel perform their respective functions properly in accordance with accounting principles. We recognize not all staff is familiar with the proper methods on following accounting principles, but current management are and can provide valuable insight to their staff. It is imperative that staff understand that errors made at their level that go undetected is causing account balances to be incorrect that can materially misstate the financial position of the District.

CONTROL DEFICIENCIES

General Fund – Undistributed Taxes

During our review of tax revenue account 6115 (undistributed taxes), we discovered a year-end balance of \$34,546. This account should have a zero balance at year end. Upon further investigation, we discovered the majority of the errors made in this account and corrected your records. We were informed by staff that they didn't have time to find out what comprised the erroneous balance in this account.

We would like to recommend that management review this finding with their staff and instruct them to find the necessary time to reconcile this account to a zero balance at year end. We realize this account has to exist during the year until your tax collector submits all required documentation of the various taxes collected during the year.

Athletic Fund – Revenues and Expenditures

During our review of athletic game receipts, we discovered ticket revenue is coded to the wrong function code. The game receipts are currently coded under revenue code 6990 versus the correct revenue code 6710. In addition, we discovered expenditures posted against revenue accounts for the payment of game officials.

We would like to recommend management correct staff from coding revenue to the wrong account and prohibit payments to game officials being charged to any revenue account.

Governmental Activities – Inventory

During our testing of inventory to report on the government-wide financial statements, we discovered problems in recording the copier paper that is remaining in inventory. During this past year, staff attempted to record a perpetual inventory in the computer system by charging the purchase of paper to the inventory account and removing it from inventory upon requisition. Unfortunately, when inventory was physically counted at year-end, the paper on hand were 100 cases less than reported in the computer system.

This error could be a result from not properly submitting requisitions when removing the cases from the inventory account or the shortage could be a result of theft. We suggest management review the requisition procedures in place and make improvements to the perpetual recordkeeping or eliminate the perpetual inventory records and record the actual physical count at year-end.

Capital Project Fund – Expenditures

During our review of how expenditures are coded within this fund, we found errors in posting expenditures to the correct function and object codes. We made adjustments to correct these miscodings to over 50% of the total amount expended this past year. In the future, we recommend management and staff uses the correct function and object codes dictated by the PA School Accounting Manual.

Activity Fund

During our review of the student clubs and organizations, we had difficulty receiving the appropriate records to perform the audit. It took approximately nine (9) days to receive all the information needed to conduct our audit. We discovered the main reason for this delay is because some employees at the various schools have been taking records home removing them from District premises. In addition, we discovered a small certificate of deposit created as a memorial for a previous employee that was never recorded on the books in past years.

We would like to recommend to management to inform each school's employees responsible in maintaining these records to not remove them from the school in the future. In addition, any future memorials established should be done so with School Board approval.

Food Service Fund & Day Care Fund – Expenses

During our review of expenses incurred in the food service and day care funds this past year, we discovered a number of small issues pertaining to recording transactions on the accrual basis of accounting at year-end, using the wrong retirement rate to record accrued salaries, and using the wrong function code for expenses. We have made the appropriate adjustments for the 2010-11 fiscal year.

We would like to suggest management, in conjunction with their staff, properly convert from cash accounting to accrual accounting at year-end and make proper use of the 3100 function code in the food service fund and 3340 function code in the day care fund. No expense within each fund should be coded to any other function code.

Journal Entries

During our review of balances in accounts pertaining to various funds of the District, we discovered a number of issues involving the creation of journal entries and attempts made by personnel to correct errors previously made. Presently, for this past fiscal year, there are at least two personnel below management level with authority to make journal entries. Unfortunately, there were a number of entries made during the course of the year that were incorrect. In addition, there has been no review of these entries made by management or approved by management.

To prevent future errors from occurring without being detected, we wish to recommend that the new computer system not allow anyone below the assistant business manager to make journal entries into the system. We believe other personnel, who detect errors made, should manually write up journal entries to correct the error with detailed explanation for each proposed entry and submit the entry or entries to the assistant business manager for approval and submission into the computer system.

RECOMMENDATIONS

Earned Income Tax Revenue – City of Bethlehem

During our review of earned income tax collected and remitted to the School District by the City of Bethlehem during this past fiscal year, we noticed a considerable decrease (\$2.1 million) in remitted earned income taxes for the 2010-11 fiscal year. As a result of Act 32, tax collectors have changed going forward; however, during the months of January, February, and March of 2011 the City of Bethlehem did not remit any earned income taxes for the City or Freemansburg. The last collection remitted by the City was in June 2011 for the fourth quarter of 2010 taxes. During the transition to Keystone Collection Group during the first quarter of 2011, we have some concern that these tax collections are still owed to the District by the City.

We wish to recommend that management contact officials at the City to discuss this apparent shortfall of remitted taxes and find out whether the District is owed anymore earned income taxes for the 2010-11 fiscal year.

Non-Expendable Trust Fund

During our review of this fund, we had similar delays that we encountered with the student activity fund because of records under the control of individuals not employed in the business office. We discovered errors in recording awards given to students during the year. There are a fairly large number of individual awards given out to students on a yearly basis with contributions coming from individuals and organizations and handled at various buildings.

We would like to recommend the memorial and scholarship contributions and awards given to students each year should be centralized in the business office. Any donations received at each school should be sent to the business office for deposit and proper reporting of each donation to the respective award. When students are nominated for these awards, each school should submit a list of the student recipients and the award they are to receive, and then the business office can properly record the awards and prepare the checks to be given to each recipient.

Concession Fund

We would like to recommend the District close this fund into the Athletic program, since the concession fund is no longer maintained by the District. Any future contribution received from the Booster Club can be reported the same way any other contribution is recorded.

General Fund – Other Liabilities

During our review of a small debit balance in an account within the general fund, we discovered this account is used to record contributions received from outside parties donating money to purchase toys for needy children. In past years, this account had no balance at year end. After discussing the purpose of this account with management, we recommend this account should no longer be used, with any future donations received going into a student club or organization to disburse to needy children.

OTHER INFORMATION

New Accounting Principles

As you may remember, this year's financial statements are prepared using revised fund balance categories and governmental fund definitions required by GASB Statement No. 54. These new categories and definitions are explained in the notes to the basic financial statements.

Since Statement No. 54 was issued, the Governmental Accounting Standards Board has issued nine new statements on governmental accounting principles that can potentially have a future effect on the District. GASB Statements 55 and 56 were effective immediately upon issuance and pertain to removing accounting literature from auditing standards and incorporating them under accounting literature. These new standards deal with the hierarchy of generally accepted accounting principles, related party transactions, subsequent events, and going concern issues.

GASB Statements 57, 59, and 61 pertain to corrections from previous issued standards dealing with Other Post Employment Benefits with agent employers, who belong to a agent multiple employer OPEB Plan, corrections associated with financial instruments, and clarifications dealing with component units and joint ventures. There are presently no transactions of the District that are affected by these corrections.

GASB Statement No. 58 was issued to help governments to properly report and account for filing Chapter 9 bankruptcy under the U.S. Bankruptcy Code. This Chapter of the Bankruptcy Code allows governments to file for bankruptcy protection from creditors by filing a petition.

GASB Statement 60 was issued to address the accounting and reporting issues involved in Service Concession Arrangements. Without getting into the specifics of the criteria needed for this Statement to affect governments, these arrangements occur when one government allows a third party operator to use a government's facilities to generate income. We cannot foresee this statement affecting the District in the future.

GASB Statement 62 was issued to incorporate previous accounting guidance found in the Financial Accounting Standards Board's statements in existence prior to September 1989, which governments are allowed to use as an election. You will notice in this year's financial statements this guidance being used as a result of a change in accounting principles that is described in the notes to the basic financial statements.

Board of School Directors . Dr. Joseph Roy, Superintendent

Last, but certainly not least, the newest GASB Statement No. 63, was issued in June 2011. This statement has far reaching changes in reporting the government-wide financial statements for all governments in the future. The effective date of this standard will be the 2012-13 fiscal year. This Statement will change the Statement of Net Assets on the government-wide financial statements to the Statement of *Net Position*. More importantly, it adds two new elements to what most people know as the Balance Sheet, deferred inflows of resources and deferred outflows of resources.

Deferred Outflows of Resources is a consumption of net assets by the government that is applicable to a future reporting period. Deferred Inflows of Resources is an acquisition of net assets by the government that is applicable to a future reporting period.

As a result of these new elements to the statement of financial position, the net position of the entire government at year end will equal total assets, plus total deferred outflows of resources, minus total liabilities and total deferred inflows of resources.

The Governmental Accounting Standards Board is presently having controversial discussions on changing the measurement focus for governmental funds, which determines when a government recognizes revenues and expenditures, along with discussions on changing the reporting of pension liabilities on governmental financial statements. As an ongoing service to our clients, we constantly stay abreast on these and other potential changes that can be positive or detrimental to you.

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.

Respectfully submitted,



January 5, 2012

REPORT DISTRIBUTION LIST

The Bethlehem Area School District has distributed copies of the Single Audit Act Package to the following:

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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, 2011, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison statement of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2-F to the financial statements, Bethlehem Area School District implemented GASB Statement No. 54 this fiscal year. The new accounting principle is associated with revised classifications of fund balance for governmental funds and revised definitions of governmental funds.

In accordance with Government Auditing Standards we have also issued our report dated January 5, 2012, 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.

Board of School Directors

Management's Discussion and Analysis, on pages 15 to 25, and the Schedule of Funding Progress, on page 84, 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,



January 5, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
(UNAUDITED)
For the Year Ended June 30, 2011**

The discussion and analysis of the Bethlehem Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's 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 in June 1999.

SCHOOL DISTRICT HIGHLIGHTS

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.

The Bethlehem Area School District is located in portions of Northampton and Lehigh Counties, Pennsylvania in an area known as the Lehigh Valley. It is comprised of five municipal subdivisions including the City of Bethlehem, Fountain Hill and Freemansburg Boroughs, and Bethlehem and Hanover Townships covering an area of approximately 43.1 square miles. The School District had an enrollment of 14,685 students in 2010-11.

The Bethlehem Area School District consists of 16 elementary schools for students in kindergarten through 5th grade, four middle schools for grades 6-8, and two 9th through 12th grade high schools.

FINANCIAL HIGHLIGHTS

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The School District uses site-based budgeting, and the budgeting system is designed to tightly control total site budgets but provide flexibility for site management.

Analysis of our revenues and expenditures reveals that actual revenues were higher than budgeted revenues due to unanticipated revenue from the collection of delinquent taxes. Additionally, the revenue sharing agreement with the Bethlehem Redevelopment Authority related to the newly constructed Sands Casino increased the amount of tax revenue retained by the school district for the parcels included in the Tax Increment Financing (TIF) area. These events combined with a planned increase in the fund balance from unexpended reserves yielded a General Fund surplus of \$6,784,330 for the year ended June 30, 2011. When netted against the beginning fund balance of (\$8,891,090), the BASD ended the fiscal year with a positive general fund, fund balance of \$15,675,450.

Overall expenditures for the 2010-2011 school year were \$197,683,607 and were under budget by \$9,563,222. Overall revenues for the 2010-11 school year were \$204,467,937 and were under budget by (\$2,778,892). These differences between budgeted and actual amounts were the result of overall

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

effective management of the budget, staffing vacancies throughout the year, planned fund balance growth and one time revenues that offset the shortfall.

General Fund balance reserves increased for three consecutive years bringing our total fund balance at June 30, 2011, to \$15,675,420 or approximately 7.9% of our General Fund budgeted expenditures.

USING THE ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Bethlehem Area School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

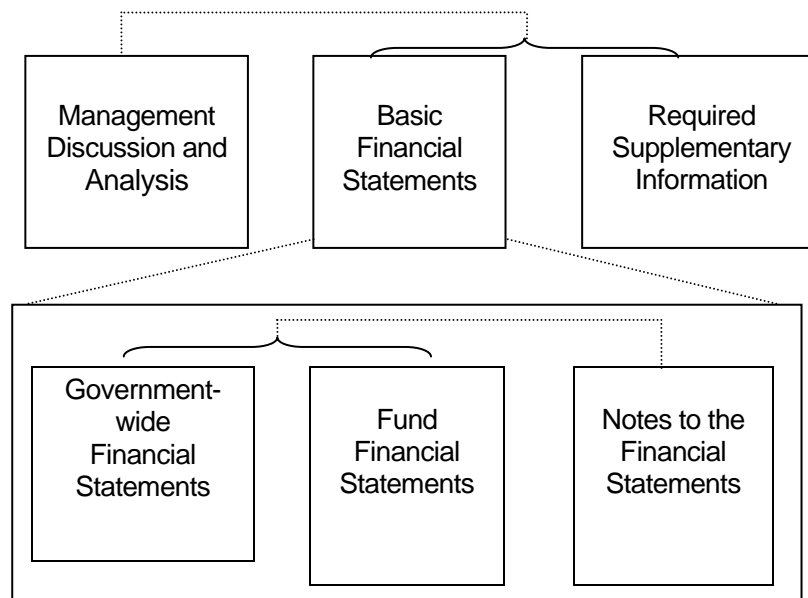
The first two statements are government-wide financial statements - the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how general District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the District operates like a business. For this District this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

**Figure A-1
Required components of Bethlehem Area School District's Financial Report**



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

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2
Major Features of Bethlehem Area School District's
Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration and community services	Activities the District operates similar to private business - Food Services	Instances in which the District is the trustee or agent to someone else's resources - Scholarship Funds
Required financial statements	Statement of net assets Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

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

To assess the overall health of the District, you need to consider additional factors, such as the increasing property tax base, outlook for future growth, strength of financial policies and planning, and student performance and achievement.

The government-wide financial statements of the District are divided into two categories:

- **Governmental activities** - All of the District's basic services are included here, such as instruction, administration and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business type activities** - The District operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds - These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The District's proprietary funds are the Food Service Fund and the Child Care Fund which are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

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

Fiduciary funds - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statement because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net assets were (\$20,298,889) at June 30, 2011. This is an increase in net assets of \$6,822,714 from the net assets for the previous fiscal year.

**Table A-1
Fiscal Year ended June 30, 2011
Net Assets (In Millions)**

	2011			2010		
	Govern- mental Activities	Business- Type Activities	Total Primary Government	Govern- mental Activities	Business- Type Activities	Total Primary Government
Current assets	\$ 42.6	\$ 1.7	\$ 44.3	\$ 36.0	\$ 1.1	\$ 37.1
Non-Current assets	267.2	0.2	267.4	273.5	0.1	273.6
Total Assets	\$ 309.8	\$ 1.9	\$ 311.7	\$ 309.5	\$ 1.2	\$ 310.7
Current and other liabilities	31.3	0.2	31.5	69.5	0.2	69.7
Long-term liabilities	300.2	0.2	300.4	268.0	0.1	268.1
Total Liabilities	331.5	0.4	331.9	337.5	0.3	337.8
Net Assets						
Invested in capital assets, net of related debt	(19.1)	0.2	(18.9)	(32.6)	0.1	(32.5)
Retirement of Long-Term Debt	-	-	-	-	-	-
Capital Projects	-	-	-	3.1	-	3.1
Other Restrictions	-	-	-	1.5	-	1.5
Unrestricted	(2.6)	1.3	(1.3)	(0.0)	0.8	0.8
Total Net Assets	\$ (21.7)	\$ 1.5	\$ (20.2)	\$ (28.0)	\$ 0.9	\$ (27.1)
Total Liabilities and Net Assets	\$ 309.8	\$ 1.9	\$ 311.7	\$ 309.5	\$ 1.2	\$ 310.7

Most of the District's net assets are invested in capital assets (buildings, land, and equipment). The remaining unrestricted net assets are designated or set-aside to fund future capital projects as planned by the district. The overall negative net asset valuation is due to the level of outstanding debt and derivative liabilities as well as the Other Post Employment Benefit (OPEB) obligation reflected in the statements which are funded on an annual cash basis.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

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

Table A-2 takes the information from that Statement and rearranges it slightly, so that you can see our total revenues for the year.

**Table A-2
Fiscal Year ended June 30, 2011
Changes in Net Assets (In Thousands)**

	<u>2011</u>			<u>2010</u>		
	<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>	<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>
<u>REVENUES</u>						
<i>Program revenues</i>						
Charges for services	\$ 754	\$ 5,081	\$ 5,835	\$ 770	\$ 4,335	\$ 5,105
Operating grants and contributions	35,709	4,270	39,979	34,613	4,157	38,770
Capital grants and contributions	2,071	-	2,071	2,743	35	2,778
<i>General revenues</i>						
Property taxes	120,044	-	120,044	111,996	-	111,996
Other taxes	15,398	-	15,398	16,948	-	16,948
Grants, subsidies and contributions, unrestricted	28,946	-	28,946	27,687	-	27,687
Other	4,922	44	4,966	5,336	10	5,346
TOTAL REVENUES	\$ 207,844	\$ 9,395	\$ 217,239	\$ 200,093	\$ 8,537	\$ 208,630
<u>EXPENSES</u>						
Instruction	\$ 125,524	\$ -	\$ 125,524	\$ 117,013	\$ -	\$ 117,013
Instructional student support	14,738	-	14,738	15,098	-	15,098
Administrative and financial support	15,676	-	15,676	14,120	-	14,120
Operation and maintenance of plant	14,319	-	14,319	15,586	-	15,586
Pupil transportation	5,564	-	5,564	5,885	-	5,885
Student activities	1,980	-	1,980	1,868	-	1,868
Community services	156	2,506	2,662	106	2,584	2,690
Scholarships and Awards	1	-	1	-	-	-
Interest on long-term debt	18,651	-	18,651	14,814	-	14,814
Unallocated depreciation expense	4,890	-	4,890	4,916	-	4,916
Food Services	-	6,411	6,411	-	5,954	5,954
TOTAL EXPENSES	201,499	8,917	210,416	189,406	8,538	197,944
Increase (decrease) in net assets	\$ 6,345	\$ 478	\$ 6,823	\$ 10,687	\$ (1)	\$ 10,686

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the District.

Table A-3 shows the District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, food service as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

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

**Table A-3
Fiscal Year ended June 30, 2011
Governmental Activities (In Thousands)**

Functions/Programs	2011		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 125,524	\$ 96,351	\$ 117,013	\$ 89,740
Instructional student support	14,738	11,157	15,098	11,581
Administrative	15,676	14,821	14,120	13,097
Operation and maintenance	14,319	14,141	15,586	15,009
Pupil transportation	5,564	3,209	5,885	3,371
Student activities	1,980	1,676	1,868	1,446
Community services	156	138	106	49
	1	1		
Interest on long-term debt	18,651	16,580	14,814	12,071
Unallocated depreciation expense	4,890	4,890	4,916	4,916
Total governmental activities	\$ 201,499	\$ 162,964	\$ 189,406	\$ 151,280
Less:				
Unrestricted grants, subsidies		28,946		27,687
Total needs from local taxes and other revenues		\$ (134,018)		\$ (123,593)

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

**Table A-4
Fiscal Year ended June 30, 2011
Business –Type Activities**

Functions/Programs	2011		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Food Services	\$ 6,410,907	\$ 173,003	\$ 5,953,712	\$ 86,358
Child Care	2,506,168	260,822	2,583,860	(97,344)
Less:				
Investment earnings & other misc.		43,731		9,923
Total business-type activities		\$ 477,556		\$ (1,063)

DISTRICT FUNDS

At June 30, 2011, the District governmental funds reported a combined fund balance of \$16,919,799, an increase of \$4,357,179 from the previous year

General fund revenues exceeded expenditures by \$6,761,830, with the sale of fixed assets generating \$22,500 resulting in the General Fund showing a final \$6,784,330 increase in fund balance for a net ending fund balance of \$15,675,420.

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

The Capital Projects Fund had a negative change in its fund balance of (\$2,363,839) due to ongoing construction project expenditures in the same amount, resulting in a Capital Project fund balance of \$1,237,409 on June 30, 2011.

General Fund Budget

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is permitted by state law. A statement showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the Annual Financial Report.

Local revenues were greater than budgetary figures due to delinquent real estate tax revenue collected, and mercantile taxes also grew due to the success of the new Sands Casino. State revenue was lower than budgetary figures by \$5,558,953. A large portion of this was due to over-projection of State Basic Education Subsidy and the State share of retirement expense. Additionally, federal revenues increased by, \$574,225 due to the receipt of Education Jobs funding under the American Recovery and Reinvestment Act.

Salaries and benefits, which make up the largest portion of expenditures, were significantly lower than originally budgeted, driving the total expenditures (excluding fund transfers and budgetary reserve) to be \$7,009,963 lower than originally budgeted when combined with the Boards intent to include a budgetary reserve account appropriation of \$2,500,000 in the annual budget appropriation to incrementally rebuild the fund balance to a fiscally sound level which has continued into 2010-11 fiscal year as well. The Board is using this method of budgeting to build and protect the integrity of the fund balance.

Contracted educational services and utility costs were also lower than originally budgeted along with ongoing conservative spending contributed to the operational surplus. Further, there were no significant unexpected expenditures during the year so the budgeted reserve amount was able to be fully utilized to contribute toward improving the fund balance to a positive level.

The Board's intent was to include a budgetary reserve account appropriation of \$2,000,000 in the annual budget appropriation to incrementally rebuild the fund balance to a fiscally sound level which has continued into 2010-11 fiscal year as well. The Board is using this method of budgeting to build and protect the integrity of the fund balance.

Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur due to use of grant funds, whose amounts are not known at the time that the budget must be approved.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2011, the District had \$249,689,155 invested in a broad range of capital assets, including land, buildings and furniture and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$3,575,812, or 1.41% from last year.

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

**Table A-5
Governmental Activities
Fiscal Year Ended June 30, 2011
Capital assets - net of depreciation**

	2011	2010
Land	\$ 75,410	\$ 75,410
Site Improvements	8,935,286	8,935,286
Buildings	319,247,953	175,774,351
Furniture & Equipment	61,480,849	61,346,899
Construction in Progress	2,696,666	143,667,359
Total Capital Assets	\$ 392,436,164	\$ 389,799,305
Less Accumulated Depreciation	(142,747,009)	(136,534,338)
Total Capital Assets Net of Accumulated Depreciation	<u>\$ 249,689,155</u>	<u>\$ 253,264,967</u>

The District did not have any significant additions in capital assets other than construction in progress.

DEBT ADMINISTRATION

As of July 1, 2010, the District had total outstanding debt of \$297,555,000. During the year, the District issued \$40,470,000 in additional debt, but retired and repaid \$48,670,000 resulting in ending outstanding debt as of June 30, 2011, of \$289,355,000:

**Table A-6
Outstanding Debt**

	2011	2010
General Obligation Notes/Bonds:		
- Bonds, Revenue Series of 2011	\$ 40,470,000	\$ -
- Bonds, Revenue Series of 2010	29,995,000	30,000,000
- Bonds, Series of 2010	28,845,000	28,850,000
- Bonds, Series B of 2009	10,240,000	10,665,000
- Bonds, Series AA of 2009	14,410,000	14,410,000
- Bonds, Series A of 2009	66,765,000	68,180,000
- Bonds, Series of 2009	-	40,275,000
- Bonds, Series A of 2007	38,735,000	44,890,000
- Bonds, Series of 2007	54,980,000	54,985,000
- Bonds, Series of 2001	4,915,000	5,300,000
TOTAL	<u>\$ 289,355,000</u>	<u>\$ 297,555,000</u>

Other obligations include accrued vacation pay and sick leave for specific employees of the District as well as the OPEB obligation under GASB 45. More detailed information about our long-term liabilities is included in the notes to the financial statements.

FUTURE ECONOMIC FACTORS

Capital Improvement Plan

Since 1991, the school district has renovated or replaced the majority of its 23 schools and other properties. The Northeast project which required raising of the existing building was completed by the close of 2010. All site improvements are complete and athletic fields are now available for student and community use. 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. In summer of 2011, the boiler systems were replaced at Nitschmann Middle School as well as paving and catch basin repairs were completed at Freedom High School. 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.

Variable Rate Debt and SWAP Concerns

The amount of variable rate debt within the school district's debt portfolio was reduced by approximately \$25.2 million in November 2011, prior to the Dexia liquidity facility expiration, lowering the percentage of variable rate to total debt to 34%. The school directors continue to restructure the debt portfolio by reducing the swap interests and improving the quality of outstanding debt. This was again evidenced by the termination of a Swaption, which had not yet been effectuated, with Morgan Stanley related to the 2007A bonds in October, 2011. The school district also remarketed the bonds relating to its Series of 2010 Note with RBC Capital Markets in December 2011 upon its tender date, reducing the associated interest rate almost in half. The most recent transaction was a traditional refinancing of the fixed rate GOB Series 2001A Bonds at a net present value savings of 8.63%. The financial position of the district on June 30, 2011 makes these refunding opportunities much more positive with this more promising and stable outlook for our financial future.

Future Budgets

The annual operating budget for the 2011-2012 year is \$3,437,565 less than the original budget of 2010-11. The budget of \$203,809,264 is supported by a 0.75-mil or 1.7% real estate tax rate increase. With the passing of Act 1, the District was required to pass a preliminary budget in January and get approval for increasing taxes above an allowed index or pass a resolution stating that we would not exceed the index. For the 2010-2011 budget, this index was 1.7%, and the District was approved for exceptions to exceed that amount for state mandated retirement contributions, grandfathered debt, special education expenditures and maintenance of the school improvement plan but no exceptions were utilized. With the elimination of the ARRA funding and reduced state support for education, 126.5 positions were reduced along with programmatic changes to balance a sustainable budget.

The comparison of original budgeted revenue and expenditure categories is as follow:

**Table A-7
BUDGETED REVENUES**

	2011-2012	2010-2011
Local	71.7%	67.1%
State	25.9%	27.6%
Federal/Other	2.4%	5.3%

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

BUDGETED EXPENDITURES

	2011-2012	2010-2011
Instruction	60.5%	61.0%
Support Services	26.1%	25.9%
Non-Instruction/Community	0.9%	0.1%
Fund Transfers/Debt	12.5%	13.0%

CONTACTING THE DISTRICT 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.

B A S I C F I N A N C I A L S T A T E M E N T S

Bethlehem Area School District
Statement of Net Assets
As of June 30, 2011

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 16,954,272	\$ 788,988	\$ 17,743,260
Investments	10,000,000	-	10,000,000
Receivables, net	8,298,568	-	8,298,568
Internal Balances	-	152,059	- (1)
Due From Other Governments	6,859,325	546,105	7,405,430
Other Receivables	301,173	180,646	481,819
Inventories	239,629	111,682	351,311
Prepaid Expenses	20,893	1,873	22,766
Other Current Assets	9,413	195	9,608
TOTAL CURRENT ASSETS	42,683,273	1,781,548	44,312,762
NON-CURRENT ASSETS:			
Restricted Cash and Cash Equivalents	1,539,000	-	1,539,000
Land	75,410	-	75,410
Site Improvements (net of depreciation)	2,811,803	-	2,811,803
Building and Bldg. Improvements (net of depreciation)	238,733,538	-	238,733,538
Furniture and Equipment (net of depreciation)	5,371,738	83,182	5,454,920
Construction in Progress	2,696,666	-	2,696,666
Deferred Outflows of Resources	13,115,534	-	13,115,534
Bond Issue Costs (net of amortization)	2,869,607	-	2,869,607
TOTAL NON-CURRENT ASSETS	267,213,296	83,182	267,296,478
TOTAL ASSETS	\$ 309,896,569	\$ 1,864,730	\$ 311,609,240
LIABILITIES			
CURRENT LIABILITIES:			
Internal Balances	\$ 152,059	\$ -	\$ - (1)
Due to other governments	82,942	-	82,942
Accounts Payable	6,122,669	115,594	6,238,263
Current Portion of Long-Term Obligations	10,287,064	-	10,287,064
Accrued Salaries and Benefits	9,523,155	14,611	9,537,766
Payroll Deductions and Withholdings	1,638,776	23,711	1,662,487
Deferred Revenue	106,096	110,028	216,124
Other Current Liabilities	3,430,770	-	3,430,770
TOTAL CURRENT LIABILITIES	31,343,531	263,944	31,455,416
NON-CURRENT LIABILITIES:			
Bonds and Notes Payable	262,868,496	-	262,868,496
Derivative Financial Instrument Liability	23,400,356	-	23,400,356
Deferred Gain on Refundings	1,993,093	-	1,993,093
Lease Purchase Obligations	696,628	-	696,628
Long-Term Portion of Compensated Absences	6,120,905	150,107	6,271,012
Net OPEB and Pension Obligation	5,169,455	53,673	5,223,128
TOTAL LIABILITIES	331,592,464	467,724	331,908,129
NET ASSETS			
Invested in capital assets, net of related debt	(19,058,280)	83,182	(18,975,098)
RESTRICTED FOR:			
Retirement of Long-Term Debt	-	-	-
Capital Projects	-	-	-
Other Restrictions	-	-	-
Unrestricted (deficit)	(2,637,615)	1,313,824	(1,323,791)
TOTAL NET ASSETS	(21,695,895)	1,397,006	(20,298,889)
TOTAL LIABILITIES AND NET ASSETS	\$ 309,896,569	\$ 1,864,730	\$ 311,609,240

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, 2011**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instruction	\$ 125,523,696	\$ 500,079	\$ 28,672,318	\$ -	\$ (96,351,299)	\$ -	\$ (96,351,299)
Instructional Student Support	14,737,976	-	3,581,066	-	(11,156,910)	-	(11,156,910)
Admin. & Fin'l Support Services	15,675,919	-	855,373	-	(14,820,546)	-	(14,820,546)
Oper. & Maint. of Plant Svcs.	14,318,977	-	178,075	-	(14,140,902)	-	(14,140,902)
Pupil Transportation	5,564,194	-	2,354,960	-	(3,209,234)	-	(3,209,234)
Student activities	1,980,233	249,647	54,366	-	(1,676,220)	-	(1,676,220)
Community Services	156,133	4,662	13,191	-	(138,280)	-	(138,280)
Scholarships and Awards	500	-	-	-	(500)	-	(500)
Interest on Long-Term Debt	18,651,319	-	-	2,071,440	(16,579,879)	-	(16,579,879)
Unallocated Depreciation Expense	4,890,463	-	-	-	(4,890,463)	-	(4,890,463)
TOTAL GOVERNMENTAL ACTIVITIES	201,499,410	754,388	35,709,349	2,071,440	(162,964,233)	-	(162,964,233)
BUSINESS-TYPE ACTIVITIES:							
Food Services	6,410,907	2,499,033	4,084,877	-	-	173,003	173,003
Day Care	2,506,168	2,582,055	184,935	-	-	260,822	260,822
TOTAL PRIMARY GOVERNMENT	\$ 210,416,485	\$ 5,835,476	\$ 39,979,161	\$ 2,071,440	\$ (162,964,233)	\$ 433,825	\$ (162,530,408)
GENERAL REVENUES:							
Property taxes. Levied for general purposes, net					\$ 120,043,654	\$ -	\$ 120,043,654
Taxes levied for specific purposes					15,397,925	-	15,397,925
Grants, subsidies, & contributions not restricted					28,945,587	-	28,945,587
Investment Earnings					3,880,263	14	3,880,277
Miscellaneous Income					1,039,969	43,717	1,083,686
Special item - Gain (Loss) on sale of capital assets					1,993	-	1,993
Special item - Termination Fee on Derivatives					-	-	-
Extraordinary Items					-	-	-
Transfers					-	-	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					169,309,391	43,731	169,353,122
CHANGE IN NET ASSETS					6,345,158	477,556	6,822,714
NET ASSETS - BEGINNING					(28,041,053)	919,450	(27,121,603)
NET ASSETS - ENDING					\$ (21,695,895)	\$ 1,397,006	\$ (20,298,889)

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

**Bethlehem Area School District
Balance Sheet
Governmental Funds
As of June 30, 2011**

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 14,962,806	\$ 1,299,640	\$ 22,193	\$ 16,284,639
Investments	10,000,000	-	-	10,000,000
Taxes Receivable, net	7,569,993	-	-	7,569,993
Due from other funds	433,007	394,930	882,355	1,710,292
Due from Primary Government	-	-	-	-
Due from Other Governments	6,644,888	-	-	6,644,888
Due from Component Unit	-	-	-	-
Other Receivables	258,109	-	-	258,109
Inventories	239,629	-	-	239,629
Prepaid Expenditures	15,006	-	-	15,006
Other Current Assets	-	-	-	-
TOTAL ASSETS	<u>\$ 40,123,438</u>	<u>\$ 1,694,570</u>	<u>\$ 904,548</u>	<u>\$ 42,722,556</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Due to Other Funds	\$ 4,300,805	\$ 399,260	\$ -	\$ 4,700,065
Due to Other Governments	82,942	-	-	82,942
Due to Primary Government	-	-	-	-
Due to Component Unit	-	-	-	-
Accounts Payable	3,463,916	57,901	-	3,521,817
Current Portion of Long-Term Debt	513,764	-	5,000	518,764
Accrued Salaries and Benefits	9,523,155	-	-	9,523,155
Payroll Deductions and Withholdings	1,637,295	-	-	1,637,295
Deferred Revenues	4,567,953	-	-	4,567,953
Other Current Liabilities	358,188	-	892,578	1,250,766
TOTAL LIABILITIES	<u>24,448,018</u>	<u>457,161</u>	<u>897,578</u>	<u>25,802,757</u>
<u>FUND BALANCES:</u>				
Nonspendable Fund Balance	254,635	-	-	254,635
Restricted Fund Balance	2,058	1,237,409	-	1,239,467
Committed Fund Balance	-	-	-	-
Assigned Fund Balance	-	-	6,970	6,970
Unassigned Fund Balance	15,418,727	-	-	15,418,727
TOTAL FUND BALANCES	<u>15,675,420</u>	<u>1,237,409</u>	<u>6,970</u>	<u>16,919,799</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 40,123,438</u>	<u>\$ 1,694,570</u>	<u>\$ 904,548</u>	<u>\$ 42,722,556</u>

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, 2011**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 16,919,799**

**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 \$392,436,164 and the accumulated depreciation is \$142,747,009. 249,689,155

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. 214,437

This amount represents the deferred outflows net of deferred inflows created from derivative hedging transactions, including long-term receivables. 13,115,534

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. 5,215,242

This amount reflects the elimination of the Internal Service Fund's assets, liabilities, and equity and incorporating them into the Governmental Activities column. 2,477,569

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	\$ (269,108,889)	
Accrued interest on the bonds	(2,180,005)	
Compensated absences	(6,120,905)	
Derivative Instrument Liability	(23,400,356)	
Deferred Gain on Refunding - Derivative Instruments	(1,993,093)	
Net OPEB Obligation	(5,169,455)	
Lease Purchase Obligations	(1,354,928)	(309,327,631)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ (21,695,895)**

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, 2011

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
Local Sources	\$ 141,451,746	\$ 12,101	\$ 3,624,544	\$ 145,088,391
State Sources	51,645,941	-	-	51,645,941
Federal Sources	11,347,750	-	-	11,347,750
TOTAL REVENUES	<u>204,445,437</u>	<u>12,101</u>	<u>3,624,544</u>	<u>208,082,082</u>
EXPENDITURES				
Instruction	122,729,536	14,480	-	122,744,016
Support Services	49,161,933	43,789	180,000	49,385,722
Operation of Non-Instructional Services	2,051,935	-	-	2,051,935
Capital Outlay	677,553	2,317,671	-	2,995,224
Debt Service	<u>23,062,650</u>	<u>-</u>	<u>3,707,856</u>	<u>26,770,506</u>
TOTAL EXPENDITURES	<u>197,683,607</u>	<u>2,375,940</u>	<u>3,887,856</u>	<u>203,947,403</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>6,761,830</u>	<u>(2,363,839)</u>	<u>(263,312)</u>	<u>4,134,679</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Bond Issues	-	-	-	-
Proceeds from Refunded Bond Issues	-	-	80,940,000	80,940,000
Proceeds from Extended Term Financing	-	-	-	-
Bond Premiums	-	-	-	-
Refund of Prior Year Expenditures	-	-	-	-
Interfund Transfers In	-	-	-	-
Sale/Compensation for Fixed Assets	22,500	-	-	22,500
Payment to bond refunding escrow agent	-	-	(80,740,000)	(80,740,000)
Swap Termination Fee	-	-	-	-
Bond Discounts	-	-	-	-
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>22,500</u>	<u>-</u>	<u>200,000</u>	<u>222,500</u>
SPECIAL/EXTRAORDINARY ITEMS				
Special Items	-	-	-	-
Extraordinary Items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	6,784,330	(2,363,839)	(63,312)	4,357,179
FUND BALANCES - BEGINNING	<u>8,891,090</u>	<u>3,601,248</u>	<u>70,282</u>	<u>12,562,620</u>
FUND BALANCES - ENDING	<u>\$ 15,675,420</u>	<u>\$ 1,237,409</u>	<u>\$ 6,970</u>	<u>\$ 16,919,799</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, 2011**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 4,357,179

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	\$ 6,684,894	
less - capital outlays	<u>3,109,081</u>	(3,575,813)

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.

(224,356)

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.

9,022,081

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.

(3,536,800)

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.

(35,655)

SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING

6,006,636

**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, 2011**

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

\$ 6,006,636

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.

(902,894)

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.

(20,000)

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.

1,261,416

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

\$ 6,345,158

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, 2011

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 393,238	\$ 395,750	\$ 788,988	\$ 2,208,629
Investments	-	-	-	-
Due from other funds	164,765	115,329	280,094	2,841,267
Due From Other Governments	546,105	-	546,105	-
Other Receivables	120,197	60,449	180,646	43,064
Inventories	111,682	-	111,682	-
Prepaid expenses	-	1,873	1,873	5,887
Other Current Assets	195	-	195	9,413
TOTAL CURRENT ASSETS	<u>1,336,182</u>	<u>573,401</u>	<u>1,909,583</u>	<u>5,108,260</u>
NON-CURRENT ASSETS:				
Building & Bldg. Improvements (net)	-	-	-	-
Machinery & Equipment (net)	75,988	7,194	83,182	-
Other Long-Term Receivables	-	-	-	-
TOTAL NON-CURRENT ASSETS	<u>75,988</u>	<u>7,194</u>	<u>83,182</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 1,412,170</u></u>	<u><u>\$ 580,595</u></u>	<u><u>\$ 1,992,765</u></u>	<u><u>\$ 5,108,260</u></u>
<u>LIABILITIES</u>				
CURRENT LIABILITIES:				
Due to Other Funds	\$ 33,747	\$ 164,765	\$ 198,512	\$ -
Due to Other Governments	-	-	-	-
Accounts Payable	108,611	6,983	115,594	2,532,353
Compensated Absences	-	-	-	-
Accrued Salaries and Benefits	14,611	-	14,611	1,481
Payroll Deductions and Withholdings	-	23,711	23,711	1,573
Deferred Revenue	53,161	56,867	110,028	24,808
TOTAL CURRENT LIABILITIES	<u>210,130</u>	<u>252,326</u>	<u>462,456</u>	<u>2,560,215</u>
NON-CURRENT LIABILITIES:				
Long-Term Portion of Compensated Absences	132,063	18,044	150,107	-
Net OPEB Obligation	33,090	20,583	53,673	-
TOTAL NON-CURRENT LIABILITIES	<u>165,153</u>	<u>38,627</u>	<u>203,780</u>	<u>-</u>
TOTAL LIABILITIES	<u>375,283</u>	<u>290,953</u>	<u>666,236</u>	<u>2,560,215</u>
<u>NET ASSETS</u>				
Invested in capital assets, with no related debt	75,988	7,194	83,182	-
Restricted for Legal Purposes	-	-	-	-
Unrestricted	960,899	282,448	1,243,347	2,548,045
TOTAL NET ASSETS	<u>1,036,887</u>	<u>289,642</u>	<u>1,326,529</u>	<u>2,548,045</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,412,170</u></u>	<u><u>\$ 580,595</u></u>	<u><u>\$ 1,992,765</u></u>	<u><u>\$ 5,108,260</u></u>

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, 2011

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
OPERATING REVENUES:				
Food Service Revenue	\$ 2,499,033	\$ -	\$ 2,499,033	\$ -
Charges for Services	-	1,811,533	1,811,533	24,326,614
Other Operating Revenues	35,218	779,021	814,239	2,828,520
TOTAL OPERATING REVENUES	<u>2,534,251</u>	<u>2,590,554</u>	<u>5,124,805</u>	<u>27,155,134</u>
	-----	-----	-----	-----
OPERATING EXPENSES:				
Salaries	1,940,164	1,384,502	3,324,666	1,929
Employee Benefits	504,680	885,590	1,390,270	25,693,602
Purchased Professional and Technical Services	721	2,736	3,457	157,151
Purchased Property Service	126,179	-	126,179	-
Other Purchased Services	3,505,022	6,466	3,511,488	-
Supplies	270,822	231,416	502,238	-
Depreciation	10,865	5,500	16,365	-
Dues and Fees	49,051	2,547	51,598	-
Claims and Judgments	-	-	-	-
Other Operating Expenses	12,753	25,100	37,853	-
TOTAL OPERATING EXPENSES	<u>6,420,257</u>	<u>2,543,857</u>	<u>8,964,114</u>	<u>25,852,682</u>
OPERATING INCOME (LOSS)	<u>(3,886,006)</u>	<u>46,697</u>	<u>(3,839,309)</u>	<u>1,302,452</u>
	-----	-----	-----	-----
NON-OPERATING REVENUES (EXPENSES)				
Earnings on investments	1	13	14	68
Contributions and Donations	-	-	-	-
Gain/Loss on Sale of Fixed Assets	-	-	-	-
State Sources	373,143	184,935	558,078	5,935
Federal Sources	3,711,734	-	3,711,734	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>4,084,878</u>	<u>184,948</u>	<u>4,269,826</u>	<u>6,003</u>
	-----	-----	-----	-----
INCOME (LOSS) BEFORE CONTRIBUTIONS	198,872	231,645	430,517	1,308,455
Capital Contributions	-	-	-	-
Transfers in (out)	-	-	-	-
CHANGES IN NET ASSETS	<u>198,872</u>	<u>231,645</u>	<u>430,517</u>	<u>1,308,455</u>
	-----	-----	-----	-----
NET ASSETS - BEGINNING	<u>838,015</u>	<u>57,997</u>	<u>896,012</u>	<u>1,239,590</u>
NET ASSETS - ENDING	<u>\$ 1,036,887</u>	<u>\$ 289,642</u>	<u>\$ 1,326,529</u>	<u>\$ 2,548,045</u>

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, 2011

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Users	\$ 2,594,744	\$ 1,784,630	\$ 4,379,374	\$ -
Cash Received from Assessments made to Other Funds	-	-	-	22,880,894
Cash Received from Earnings on Investments	-	-	-	-
Cash Received from Other Operating Revenue	35,023	777,148	812,171	2,853,328
Cash Payments to Employees for Services	(2,358,658)	(2,273,678)	(4,632,336)	(25,707,982)
Cash Payments for Insurance Claims	-	-	-	-
Cash Payments to Suppliers for Goods and Services	(3,615,694)	(69,241)	(3,684,935)	-
Cash Payments to Other Operating Expenses	(61,772)	(8,257)	(70,029)	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(3,406,357)	210,602	(3,195,755)	26,240
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Local Sources	-	-	-	-
State Sources	369,659	184,935	554,594	5,935
Federal Sources	3,429,636	-	3,429,636	-
Notes and Loans Received	-	-	-	-
Contributions and Donations	-	-	-	-
Operating Transfers In (Out)	-	-	-	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	3,799,295	184,935	3,984,230	5,935
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Equipment	-	-	-	-
Gain/Loss on Sale of Fixed Assets (Proceeds)	-	-	-	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on Investments	-	13	13	68
Purchase of Investment Securities/Deposits to Investment Pools	-	-	-	-
Withdrawals from Investment Pools	-	-	-	-
Proceeds from Sale and Maturity of Investment Securities	-	-	-	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	-	13	13	68
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	392,938	395,550	788,488	32,243
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	300	200	500	2,176,386
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 393,238	\$ 395,750	\$ 788,988	\$ 2,208,629

Bethlehem Area School District
Statement of Cash Flows - Proprietary Funds
As of June 30, 2011

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

	FOOD SER VICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
OPERATING INCOME (LOSS)	\$ (3,886,006)	\$ 46,697	(3,839,309)	\$ 1,302,452
	-----	-----	-----	-----
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Depreciation and Net Amortization	10,865	5,500	16,365	
Provision for Uncollectible Accounts	-	-	-	-
Donated Commodities Used	254,763	-	254,763	-
				-
CHANGE IN ASSETS AND LIABILITIES:				
(Increase) Decrease in Accounts Receivable	(10,028)	(26,903)	(36,931)	(43,064)
(Increase) Decrease in Advances from Other Funds	105,739	-	105,739	(2,841,267)
(Increase) Decrease in Inventories	(29,301)	-	(29,301)	-
(Increase) Decrease in Prepaid Expenses	-	(1,873)	(1,873)	1,445,857
(Increase) Decrease in Other Current Assets	(195)	-	(195)	(7,246)
Increase (Decrease) in Accounts Payable	60,495	1,381	61,876	1,231,661
Increase (Decrease) in Accrued Salaries and Benefits	86,186	(3,586)	82,600	(1,899)
Increase (Decrease) in Advances to Other Funds	-	164,765	164,765	(1,085,062)
Increase (Decrease) in Other Current Liabilities	1,125	24,621	25,746	24,808
TOTAL ADJUSTMENTS	<u>479,649</u>	<u>163,905</u>	<u>643,554</u>	<u>(1,276,212)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (3,406,357)</u>	<u>\$ 210,602</u>	<u>\$ (3,195,755)</u>	<u>\$ 26,240</u>

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, 2011

	PRIVATE PURPOSE TRUST	PENSION AND OTHER EMPLOYEE BENEFIT TRUST	AGENCY FUNDS
ASSETS			
Cash and cash equivalents	\$ 16,436	\$ -	\$ 382,341
Investments	165,933	-	-
Due from Other Funds	35,256	-	31,668
Other Receivables	-	-	20,637
Prepaid Expenses	87	-	-
Other Current Assets	-	-	-
TOTAL ASSETS	<u>\$ 217,712</u>	<u>\$ -</u>	<u>\$ 434,646</u>
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ 6,082
Due to Other Funds	-	-	-
Due to Student Clubs	-	-	428,564
Other Current Liabilities	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>434,646</u>
NET ASSETS			
Restricted	-	-	-
Unrestricted	217,712	-	-
TOTAL NET ASSETS	<u>\$ 217,712</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2011

	PRIVATE-PURPOSE TRUST FUND	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
ADDITIONS		
Contributions	\$ 45,915	\$ -
Transfers from other funds	-	-
INVESTMENT EARNINGS:		
Interest and Dividends	1,616	-
Net increase (decrease) in fair value of investments	-	-
Less investment expense	-	-
TOTAL ADDITIONS	<u>47,531</u>	<u>-</u>
	-----	-----
DEDUCTIONS		
Transfers to other funds	-	-
Administrative charges	-	-
Scholarships	<u>26,249</u>	<u>-</u>
TOTAL DEDUCTIONS	<u>26,249</u>	<u>-</u>
CHANGE IN NET ASSETS	21,282	-
NET ASSETS - BEGINNING OF YEAR	<u>196,430</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 217,712</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, 2011

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH	BUDGET TO	ACTUAL
	ORIGINAL	FINAL	(BUDGETARY BASIS)	FINAL BUDGET POSITIVE (NEGATIVE)	GAAP DIFFERENCE	AMOUNTS GAAP BASIS
REVENUES						
Local Sources	\$ 139,151,410	\$ 139,151,410	\$ 141,451,746	\$ 2,300,336	\$ -	\$ 141,451,746
State Sources	57,204,894	57,204,894	51,645,941	(5,558,953)	-	51,645,941
Federal Sources	10,773,525	10,773,525	11,347,750	574,225	-	11,347,750
TOTAL REVENUES	207,129,829	207,129,829	204,445,437	(2,684,392)	-	204,445,437
EXPENDITURES						
Regular Instruction	89,193,141	87,626,406	85,229,601	2,396,805	-	85,229,601
Special Programs	21,552,670	23,259,905	22,563,186	696,719	-	22,563,186
Vocational Programs	8,153,901	8,811,641	8,807,022	4,619	-	8,807,022
Other Instructional Programs	3,427,113	2,282,568	2,008,520	274,048	-	2,008,520
Nonpublic School Programs		4,000	3,808	192	-	3,808
Adult Education Programs	32,992	5,992	5,628	364	-	5,628
Community/Junior College Ed. Programs	2,124,735	2,144,735	2,142,961	1,774	-	2,142,961
Pre-Kindergarten	2,140,990	2,016,515	1,968,810	47,705	-	1,968,810
Pupil Personnel Services	8,266,984	8,037,294	7,824,715	212,579	-	7,824,715
Instructional Staff Services	5,234,904	5,569,546	5,290,203	279,343	-	5,290,203
Administrative Services	9,956,705	11,184,614	11,157,178	27,436	-	11,157,178
Pupil Health	1,701,504	1,652,337	1,613,594	38,743	-	1,613,594
Business Services	1,863,675	1,435,786	1,417,186	18,600	-	1,417,186
Operation & Maintenance of Plant Services	16,903,669	14,712,559	14,300,790	411,769	-	14,300,790
Student Transportation Services	6,918,338	6,918,338	5,606,156	1,312,182	-	5,606,156
Central Support Services	2,466,964	2,586,260	1,847,860	738,400	-	1,847,860
Other Support Services	103,100	105,100	104,251	849	-	104,251
Student Activities	253,763	1,905,552	1,894,181	11,371	-	1,894,181
Community Services	31,226	164,226	157,254	6,972	-	157,254
Scholarships and Awards	-	1,000	500	500	-	500
Facilities, Acquisition and Construction	-	737,000	677,553	59,447	-	677,553
Debt Service	22,921,926	23,531,926	23,062,650	469,276	-	23,062,650
TOTAL EXPENDITURES	203,248,300	204,693,300	197,683,607	7,009,693	-	197,683,607
Excess (deficiency) of revenues over expenditures	3,881,529	2,436,529	6,761,830	4,325,301	-	6,761,830
OTHER FINANCING SOURCES (USES)						
Proceeds From Extended Term Financing	-	-	-	-	-	-
Interfund Transfers In	25,000	25,000	-	(25,000)	-	-
Sale/Compensation for Fixed Assets	92,000	92,000	22,500	(69,500)	-	22,500
Fund Transfers Out	(1,410,529)	(529)	-	529	-	-
Budgetary Reserve	(2,588,000)	(2,553,000)	-	2,553,000	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(3,881,529)	(2,436,529)	22,500	2,459,029	-	22,500
Special Items	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	6,784,330	6,784,330	-	6,784,330
FUND BALANCE - JULY 1, 2010	3,550,551	\$ 3,550,551	\$ 8,891,090	\$ 5,340,539	\$ -	\$ 8,891,090
FUND BALANCE - JUNE 30, 2011	\$ 3,550,551	\$ 3,550,551	\$ 15,675,420	\$ 12,124,869	\$ -	\$ 15,675,420

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, 2011

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 14,800 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, 2011

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

The Bethlehem Area School District 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 2010-11 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 2010-11 was \$6,189,657.

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, 2011

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 2010-11 was \$2,142,961.

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.

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.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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 direct expenses and program revenues for each program, or function of the School District's governmental activities and for two business-type activities 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 should be used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term proceeds of specific revenue sources establish that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Under this new definition, effective for this year, the District does not have any special revenue funds.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

Capital Project Funds

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. Management has decided to reflect the capital project funds as a major fund, even though they don't meet the major fund criteria established by GASB Statement No. 34.

The District has the following Capital Project Funds:

a) Capital Project Fund

During the 2008-09 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.

b) Capital Reserve Fund

This fund was created in accordance with Section 1432 of the Municipal Code. Because of a change in accounting principles, it is being restated as a Capital Projects Fund. The Municipal Code restricts how the resources are spent within this fund.

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.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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.

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.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011**

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.

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 2010-11 budget transfers.

F. Change in Accounting Principles

During this past fiscal year, the District was required to implement the provisions of GASB Statement No. 54 on Fund Balance Classifications and Definitions. The revised definition for Special Revenue Funds and Capital Project Funds has caused two previous governmental funds to be reclassified or eliminated. The new definitions for governmental funds used by the District can be found in Note 1-B to the financial statements.

In past years, the District reflected the Athletic Fund, which controlled athletic receipts and costs, as a Special Revenue Fund. As a result of a change in accounting principle this fund is being eliminated and is being reclassified as part of the General Fund. Thus, the prior year ending fund balance in the general fund of \$8,940,090, has decreased by \$49,000.

In addition, the Capital Reserve Fund, which was previously categorized as a Special Revenue Fund, is being reclassified as a Capital Project Fund because of this change in accounting principle. As a result, the prior year Combined Capital Project Fund's fund balance of \$3,162,529 is increased by \$438,719.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Since both of these funds are governmental funds, there is no change in the prior year's governmental activities net asset balances.

G. 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.

H. 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.

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".

Property Tax Levy

Property taxes, which were levied during the fiscal year ended June 30, 2011, 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, 2011, the inventory shown in the governmental activities column of the government-wide statement of net assets is \$239,629 and

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

\$111,682 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 \$239,629 taken as of June 30, 2011; therefore, there is a nonspendable fund balance in the General Fund.

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, 2011, consist of:

Purchased Food	\$ 75,078
Donated Commodities	14,825
Purchased Supplies	<u>21,779</u>
Total	<u><u>\$ 111,682</u></u>

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:

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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.

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, 2011, 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.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

Fund Balance Categories

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Below are the potential categories of fund balance the government may use with their definitions, the actual categories used is explained in Note 7 to the financial statements:

Nonspendable Fund Balance

This category 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.

Restricted Fund Balance

Fund balance should be reported as restricted when constraints placed on the use of resources are externally imposed by creditors, grantors, contributors, or other government laws or regulations, or the constraint is imposed by enabling legislation or constitutional provisions.

Committed Fund Balance

This category pertains to amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The 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.

This government's governing body is the School Board and the formal action taken to commit resources is done by resolution.

Assigned Fund Balance

This category includes all remaining amounts that are reported in governmental funds, except the general fund, that are not classified in one of the above-mentioned categories. In the general fund, this category represents the District's intent to use resources for a specific purpose, which does not require formal action by the governing body. The District's policy dictates the business manager is responsible to make these assignments.

Unassigned Fund Balance

This category of fund balance represents the residual classification for the general fund after segregating resources used in the other categories listed above. Unassigned fund balance will only be shown in other governmental funds if those governmental funds have a negative net fund balance.

The District's policy on fund balance does not dictate which category of unrestricted fund balance is spent first, when resources are available to be spent in various categories. As such, committed amounts will be reduced first, followed by assigned amounts, and then unassigned amounts. The District's policy also does not dictate whether restricted (nonspendable or restricted) or unrestricted (committed, assigned, and unassigned) is spent first when resources are available in both categories. As such, in these circumstances, restricted will be assumed to have been spent first followed by the unrestricted categories.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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 \$309,327,631 differences are:

Bonds payable	\$ 289,350,000
Less: Deferred charge on refunding (to be amortized as interest expense)	(19,453,434)
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(2,869,607)
Less: Issuance discount (to be amortized as interest expense)	(852,903)
Add: Issuance premium (to be amortized as a contra to interest expense)	2,934,833
Derivative Instrument Liability	23,400,356
Lease Purchase Obligations	1,354,928
Accrued interest payable	2,180,005
Net OPEB Obligation	5,169,455
Compensated absences	6,120,905
Deferred Gain on Refunding - Derivatives	1,993,093
Net adjustment to reduce "fund balance - total governmental funds" to arrive at "net assets - governmental activities"	<u>\$ 309,327,631</u>

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.
- 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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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
REVENUES AND OTHER SOURCES					
LOCAL SOURCES:					
Property Taxes	\$ 120,336,549	\$ (292,895)	\$ -	\$ -	\$ 120,043,654
Taxes levied for specific purposes	15,329,389	68,536	-	-	15,397,925
Interest and investment earnings	3,771,006	-	-	109,257	3,880,263
Miscellaneous	850,375	-	-	-	850,375
Contributions and Donations	189,594	-	-	-	189,594
Charges for Services	754,388	-	-	-	754,388
Grants, subsidies & contributions not restricted	28,945,587	-	-	-	28,945,587
INTERMEDIATE SOURCES:					
Charges for Services	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-
STATE SOURCES:					
Operating & Capital grants and contributions	22,866,903	(144,913)	-	-	22,721,990
FEDERAL SOURCES:					
Operating & Capital grants and contributions	15,058,799	-	-	-	15,058,799
SPECIAL AND EXTRAORDINARY SOURCES:					
Proceeds from Bond Issues	80,940,000	-	-	(80,940,000)	-
Proceeds from Extended Term Financing	-	-	-	-	-
Special Item - Insurance Recoveries	-	-	-	-	-
Gain or (Loss) on disposal of assets	1,993	-	-	-	1,993
TOTAL REVENUES	289,044,583	(369,272)	-	(80,830,743)	207,844,568
EXPENDITURES/EXPENSES					
Instruction	122,744,017	1,576,121	1,203,558	-	125,523,696
Instructional Student Support	14,728,512	(32,737)	42,201	-	14,737,976
Admin. & Fin'l Support Services	14,706,475	774,756	374,688	(180,000)	15,675,919
Oper. & Maint. Of Plant Svcs.	14,453,947	(10,256)	(124,714)	-	14,318,977
Pupil Transportation	5,606,156	(19,151)	(22,811)	-	5,564,194
Student activities	1,894,181	(12,233)	98,285	-	1,980,233
Community Services	157,254	(1,121)	-	-	156,133
Scholarships & Awards	500	-	-	-	500
Capital Outlay	2,885,857	-	(2,885,857)	-	-
Debt Service	107,510,506	-	-	(88,859,187)	18,651,319
Transfers Out	-	-	-	-	-
Depreciation - unallocated	-	-	4,890,463	-	4,890,463
Special Item - Derivative Termination Fee	-	-	-	-	-
TOTAL EXPENDITURES/EXPENSES	284,687,405	2,275,379	3,575,813	(89,039,187)	201,499,410
NET CHANGE FOR THE YEAR	\$ 4,357,178	\$ (2,644,651)	\$ (3,575,813)	\$ 8,208,444	\$ 6,345,158

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.

B. Deficit fund balance or net assets of individual funds

No individual fund contains a deficit fund balance or net assets at June 30, 2011, except the governmental activities has a \$21,695,895 in deficit net assets.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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, 2011. 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, 2011, \$17,903,862 of the District's bank balance of \$15,093,518 and restricted cash of \$1,539,000 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,539,000
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	15,093,518
TOTAL	<u>\$ 16,632,518</u>

Reconciliation to Financial Statements

Uncollateralized Amount above	\$ 16,632,518
Plus: Insured Amount	1,271,344
Less: Outstanding Checks	<u>(34,586)</u>
Carrying Amount - Cash Balances	17,869,276
Plus: Petty Cash	
Deposit in Pooled Investments Considered Cash Equivalents	225
Deposit in Money Market Mutual Funds Considered Cash Equivalents	11,977,465
Less: Certificates of Deposit considered Investments by School Code	<u>(10,165,933)</u>
TOTAL CASH PER FINANCIAL STATEMENTS	<u>\$ 19,681,033</u>

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

Investments

As of June 30, 2011, the District had the following investments:

<i>Investment</i>	<i>Maturities</i>	<i>Fair Value</i>
PSDLAF/PSDMAX		\$ 9,779,464
PA Treasurer's Invest Program		2,119,968
PLGIT Class		78,033
Bank of America -CD		45,395
Lafayette Ambassador Bank -CD		600
KNBT -CD's		119,938
PSDLAF -CD's		10,000,000
TOTAL		\$ 22,143,398

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, 2011, 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. The General Fund has 50.66% of investments in Certificates of Deposits with PSDLAF. As for the Governmental Activities, the District has 47.53% of investments with PSDLAF in Certificates of Deposits. More than 5% of the Fiduciary's funds are in Certificate of Deposits with KNBT Bank and Bank of America. These investments are 23.91% and 63.17%, respectively. For the entire entity 45.23% of investments are in Certificates of Deposit with PSDLAF.

Reconciliation to Financial Statements

Total Investments Above	\$ 22,143,398
Less: Deposits in Investment Pool Considered Cash Equivalents	(11,977,465)
Total Investments Per Financial Statements	\$ 10,165,933

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 \$2,882,405,100. In accordance with Act of 2006, the District receive \$4,740,869 in property tax reduction funds for the 2010-11 fiscal year. The tax rate for the Northampton and Lehigh Counties was \$4.417 per \$100 of assessed valuation or 44.17 mills.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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 PROJECT FUNDS	FOOD SERVICE FUND	NON- MAJOR FUNDS	FIDUCIARY FUNDS	TOTAL
RECEIVABLES:						
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	7,569,993	-	-	-	-	7,569,993
Accounts	258,109	-	120,197	60,449	20,637	459,392
Intergovernmental	6,644,888	-	546,105	-	-	7,190,993
GROSS RECEIVABLES	14,472,990	-	666,302	60,449	20,637	15,220,378
Less: Allowance for Uncollectibles	-	-	-	-	-	-
NET RECEIVABLES	\$ 14,472,990	\$ -	\$ 666,302	\$ 60,449	\$ 20,637	\$ 15,220,378

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:

	UNAVAILABLE	UNEARNED
Delinquent Property Taxes - General Fund	\$ 4,486,665	\$ -
Deferred Premiums	-	24,808
Grants drawdowns prior to meeting eligibility requirements	-	81,288
TOTAL	\$ 4,486,665	\$ 106,096

Capital Assets

Capital asset balances and activity for the year ending June 30, 2011, were:

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Capital Assets not being depreciated:				
Land	\$ 75,410	\$ -	\$ -	\$ 75,410
Construction in Progress	143,667,359	2,885,857	(143,856,550)	2,696,666
Total Capital Assets not being depreciated	143,742,769	2,885,857	(143,856,550)	2,772,076
Capital Assets being depreciated:				-
Site Improvements	8,935,286	-	-	8,935,286
Buildings and Improvements	175,774,351	143,473,602	-	319,247,953
Furniture and Equipment	61,346,899	606,173	(472,223)	61,480,849
TOTAL CAPITAL ASSETS BEING DEPRECIATED	246,056,536	144,079,775	(472,223)	389,664,088
Less accumulated depreciation for:				
Site Improvements	(5,718,692)	(404,791)	-	(6,123,483)
Buildings and Improvements	(76,030,944)	(4,483,471)	-	(80,514,415)
Furniture and Equipment	(54,784,702)	(1,796,632)	472,223	(56,109,111)
TOTAL ACCUMULATED DEPRECIATION	(136,534,338)	(6,684,894)	472,223	(142,747,009)
TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION	109,522,198	137,394,881	-	246,917,079
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	\$ 253,264,967	\$ 140,280,738	\$ (143,856,550)	\$ 249,689,155
BUSINESS-TYPE ACTIVITIES:				
Capital Assets being depreciated:				
Furniture and Equipment	\$ 1,866,045	\$ -	\$ -	\$ 1,866,045
Less accumulated depreciation	(1,766,499)	(16,364)	-	(1,782,863)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	\$ 99,546	\$ (16,364)	\$ -	\$ 83,182

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

Regular Instruction	\$ 1,009,001
Special Instruction	181,872
Vocational Instruction	17,280
Other Instruction	-
Adult Instruction	-
Community College Instruction	-
Pupil Services	5,072
Instructional Staff Svcs.	29,642
Administrative Services	14,145
Health Services	7,487
Business Services	-
Operation & Maintenance of Plant Svcs.	50,228
Pupil Transportation	381,419
Central Services	-
Other Support Services	-
Student Activities	98,285
Community Services	-
Depreciation - unallocated	4,890,463
TOTAL DEPRECIATION FOR GOVERNMENTAL ACTIVITIES	\$ 6,684,894

The District disposed of \$472,223 in fully depreciated capital assets during the year and received sale proceeds of \$1,993 resulting in a gain on sale of assets of \$1,993.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

Commitments

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. 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.

Long-term construction commitments

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

	CONTRACT AMOUNT	EXPENDED TO 6/30/11	OUTSTANDING COMMITMENTS
<u>Nitschmann MS Boiler Replacement</u>			
Tri-County Mechanical Inc	\$ 489,000	\$ 35,738	\$ 453,262
D'Huy Engineering, Inc	21,938	21,938	-
UGI Utilities	60,000	60,000	-
TOTAL	570,938	117,676	453,262
<u>NorthEast MS Demo & New Soccer Fields</u>			
Vollers Excavating	2,025,000	1,792,042	232,958
TOTAL	2,025,000	1,792,042	232,958
<u>Liberty High School</u>			
GC Boro	37,376,163	37,376,163	-
EC- Albarell	6,154,453	6,154,453	-
PC-Dual Temp	4,040,544	4,040,544	-
HVAC-Dual Temp	11,039,672	11,010,165	29,507
TOTAL	58,610,832	58,581,325	29,507
<u>Broughal Middle School</u>			
GC- Skepton	37,853,100	37,838,100	15,000
EC- Albarell	4,600,781	4,600,781	-
PC- Dual Temp	2,484,500	2,427,936	56,564
HVAC- Worth & Company	4,809,200	4,809,200	-
RPE- D'Huy Engineering	1,884,028	1,865,187	18,840
TOTAL	51,631,609	51,541,204	90,404
GRAND TOTAL	\$ 112,838,379	\$ 112,032,247	\$ 806,131

Short-term debt

Interfund receivables and payables

The following interfund receivables and payables were in existence on June 30, 2011:

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 433,007	\$ 4,300,805
Special Revenue (Authority General) Fund	875,536	\$ -
Capital Projects (Capital Reserve Fund	394,930	399,260
Capital Projects (Construction) Fund	-	-
Enterprise (Food Service) Fund	164,765	33,747
Enterprise (Day Care) Fund	115,329	164,765
Concession Fund	6,819	-
Self - Insurance Fund	2,841,267	-
Private Purpose (Trust) Fund	35,256	-
Agency (Activity) Fund	31,668	-
TOTAL	\$ 4,898,577	\$ 4,898,577

The District also made the following interfund transfers during the fiscal year ended June 30, 2011:

	TRANSFER IN	TRANSFER OUT
General Fund	\$ -	\$ -
Special Revenue (Athletic) Fund	-	-
Special Revenue (Capital Reserve) Fund	-	-
Enterprise (Day Care) Fund	-	-
Agency (Activity) Fund	-	-
TOTAL	\$ -	\$ -

Long-Term Liabilities

Long-term liability balances and activity for the year ended June 30, 2011, were:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
<u>GOVERNMENTAL ACTIVITIES</u>					
<i>General Obligation Debt:</i>					
<i>Bonds and notes payable:</i>					
Capital Projects	\$ 279,454,085	\$ 50,079,101	\$ 57,549,690	\$ 271,983,496	\$ 9,115,000
Capital Leases	1,977,009	-	622,081	1,354,928	658,300
Total general obligation debt	281,431,094	50,079,101	58,171,771	273,338,424	9,773,300
<i>Other liabilities:</i>					
Vested employee benefits:					
Vacation pay	1,649,616	261,116	-	1,910,732	258,838
Sick pay	1,821,134	2,902,803	-	4,723,937	254,926
Net Pension Obligation	168,605	52,049	-	220,654	-
Net OPEB Obligation	4,303,753	645,048	-	4,948,801	-
Deferred Gain on Refundings - Derivatives	-	1,993,093	-	1,993,093	-
Derivative Financial Instruments	28,080,917	-	4,680,561	23,400,356	-
Total other liabilities	36,024,025	5,854,109	4,680,561	37,197,573	513,764
TOTAL GOVERNMENTAL ACTIVITY					
LONG-TERM LIABILITIES	\$ 317,455,119	\$ 55,933,210	\$ 62,852,332	\$ 310,535,997	\$ 10,287,064
<u>BUSINESS TYPE ACTIVITIES</u>					
<i>Other liabilities:</i>					
Vested employee benefits:					
Vacation pay	22,644	-	4,600	18,044	-
Sick pay	53,677	78,386	-	132,063	-
Net OPEB Obligation	46,140	7,533	-	53,673	-
TOTAL BUSINESS-TYPE ACTIVITY					
LONG-TERM LIABILITIES	\$ 122,461	\$ 85,919	\$ 4,600	\$ 203,780	\$ -

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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:

GOVERNMENTAL ACTIVITIES:	EXPENSE	PAID
General obligation debt	\$ 18,468,759	\$ 13,858,009
Lease debt	115,107	115,107
Short-term borrowings	67,453	67,453
TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES	\$ 18,651,319	\$ 14,040,569

Primary Government Debt

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, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 405,000	\$ 226,350
2012-13	420,000	209,542
2013-14	415,000	191,693
2014-15	430,000	173,640
2015-16	445,000	154,505
2016-19	2,800,000	275,665
SUB-TOTAL	4,915,000	\$ 1,231,395
Unamortized Deferred chgs. on Refundings	(3,008)	
Unamortized Premium	22,103	
TOTAL OUTSTANDING	\$ 4,934,095	

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.

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.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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 SIFMA index. Therefore, if SIFMA exceeds 60% of LIBOR plus 0.346%, the District pays a net effective interest rate in excess of 4.145%, and if SIFMA is less than 60% of LIBOR, plus 0.346%, the District pays a net effective interest rate approximately equal to the fixed rate. The constant maturity swap was terminated in a prior fiscal year.

Fair Value. The interest rate swap has a negative fair value of \$11,446,909 as of June 30, 2011. The swap negative fair value 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 PFM, and independent financial advisor.

Credit Risk. As of June 30, 2011, the School District was exposed to credit risk because the swap 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 SIFMA 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, 2011. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2011, the SIFMA rate was 3.0%, whereas 60% of LIBOR plus .346 was 0.457%.

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, 2011, 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:

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate	
			Swaps, Net	TOTAL
2011-12	\$ 5,000	\$ 1,649,325	\$ 2,027,389	\$ 3,681,714
2012-13	5,000	1,649,175	2,027,204	3,681,379
2013-14	5,000	1,649,025	2,027,020	3,681,045
2014-15	5,000	1,648,875	2,026,836	3,680,711
2015-16	5,000	1,648,725	2,026,651	3,680,376
2016-21	25,000	8,241,375	10,130,490	18,396,865
2021-26	13,065,000	7,477,725	9,191,794	29,734,519
2026-31	28,495,000	4,699,725	5,777,012	38,971,737
2031-32	13,370,000	200,550	246,521	13,817,071
SUB-TOTAL	54,980,000	\$ 28,864,500	\$ 35,480,917	\$ 119,325,417
Unamortized Deferred chgs. on Refundings	-	-	-	-
Unamortized Premium	-	-	-	-
TOTAL OUTSTANDING	\$ 54,980,000			

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011**

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, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 6,470,000	\$ 1,775,000
2012-13	6,805,000	1,443,125
2013-14	7,735,000	1,079,625
2014-15	8,135,000	682,875
2015-16	8,555,000	265,625
2015-18	1,035,000	25,875
SUB-TOTAL	38,735,000	\$ 5,272,125
Unamortized Deferred chgs. on Refundings	-	
Unamortized Discount	(33,287)	
TOTAL OUTSTANDING	\$ 38,701,713	

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 was \$71,215,000. Since the swaption was entered into, the 1997 bonds have been refunded with the Series A of 2007 bonds.

Fair Value. The forward swaption has a negative fair value of \$89,965, as of June 30, 2011. The counterparty has not elected its option on this swaption as of June 30, 2011. The fair value was estimated by PFM, and independent financial advisor.

Credit Risk. As of June 30, 2011, 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.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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. During the 2010-11 fiscal year, this Note was refunded with the issuance of the District's Series of 2011 General Obligation Notes of \$40,470,000.

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, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 1,785,000	\$ 2,934,431
2012-13	1,845,000	2,872,231
2013-14	1,360,000	2,825,519
2014-15	1,410,000	2,777,106
2015-16	1,465,000	2,724,932
2016-21	41,300,000	8,525,405
2021-25	17,600,000	643,190
SUB-TOTAL	66,765,000	\$ 23,302,814
Unamortized Deferred chgs. on Refundings	(5,086,522)	
Unamortized Discount	(463,296)	
Unamortized Premium	2,159,565	
TOTAL OUTSTANDING	\$ 63,374,747	

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, 2011, are:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011**

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ -	\$ 580,400
2012-13	-	580,400
2013-14	-	580,400
2014-15	-	580,400
2015-16	-	580,400
2016-21	14,410,000	2,127,400
SUB-TOTAL	14,410,000	\$ 5,029,400
Unamortized Deferred chgs. on Refundings	(1,065,372)	
Unamortized Discount	(240,390)	
TOTAL OUTSTANDING	\$ 13,104,238	

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, 2011, are

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 435,000	\$ 405,568
2012-13	440,000	396,819
2013-14	450,000	387,075
2014-15	465,000	375,338
2015-16	475,000	361,819
2016-21	2,660,000	1,542,061
2021-26	3,180,000	922,219
2026-29	2,135,000	164,672
SUB-TOTAL	10,240,000	\$ 4,555,571
Unamortized Premium	5,228	
Unamortized Discount	(115,931)	
TOTAL OUTSTANDING	\$ 10,129,297	

General Obligation Bonds – Series of 2010

On January 5, 2010, the District issued \$28,850,000 of General Obligation Bonds – Series of 2010. The proceeds will be used: (1) to currently refund and partially redeem \$25,345,000 outstanding principal amount of the School District's General Obligation Bonds, Series of 2005, (2) make a payment to partially terminate (\$25,350,000 notional amount) of an interest rate swap agreement (fixed interest rate payments by the District) associated with the 2005 Bonds, and (3) pay the costs and expenses allocable to the issuance of the Bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from January 15, 2011 to January 15, 2026. Interest rates range from 1.25% to 5.25%, with total interest indebtedness of \$20,568,3537. The outstanding debt service requirements at June 30, 2011, are:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011**

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 5,000	\$ 1,389,238
2012-13	15,000	1,389,160
2013-14	10,000	1,388,860
2014-15	10,000	1,388,650
2015-16	15,000	1,388,400
2016-21	25,000	6,938,291
2021-26	28,765,000	5,258,045
SUB-TOTAL	28,845,000	\$ 19,140,644
Unamortized Deferred Chgs. On Refunding	(2,120,486)	
Unamortized Discount	-	
Unamortized Premium	747,937	
TOTAL OUTSTANDING	\$ 27,472,451	

General Obligation Notes – Series of 2010

On January 5, 2010, the District issued \$30,000,000 of General Obligation Notes – Series of 2010. The proceeds will be used: (1) to currently refund a portion of General Obligation Bonds – Series of 2005 by transferring the liability to the BASD Authority and, (2) paying the costs of the issue. These Notes are issued to the BASD Authority to guarantee their issuance of the Series of 2010 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 January 1, 2011 to January 1, 2030. Interest rates are variable using a weekly index. All principal and interest payments, which includes all amounts required to be paid by the Issuer to the Counterparty under the fixed payor swap. 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, 2011, for informational purposes only, using 1.59% interest rate in effect at June 30, 2011.

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 5,000	\$ 476,887
2012-13	5,000	476,808
2013-14	5,000	476,728
2014-15	5,000	476,649
2015-16	5,000	476,569
2016-21	25,000	2,381,654
2021-26	25,000	2,379,666
2026-30	29,920,000	1,036,335
TOTAL	\$ 29,995,000	\$ 8,181,296

General Obligation Notes – Series of 2011

On April 29, 2011, the District issued \$40,470,000 of General Obligation Notes – Series of 2011. The proceeds will be used: (1) to provide funds for refunding the variable rate General Obligation Notes – Series of 2009; and (2) paying the costs of this issue. These Notes are issued to the BASD Authority to guarantee their issuance of the Series of 2011 revenue bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011**

notes mature from July 1, 2011 to July 1, 2031. Interest rates are variable using the SIFMA index. The maximum rate of interest payable shall be 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, 2011, for informational purposes only, using 0.876% interest rate in effect at June 30, 2011:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 5,000	\$ 354,547
2012-13	5,000	354,504
2013-14	5,000	354,460
2014-15	5,000	354,416
2015-16	5,000	354,372
2016-21	25,000	1,771,204
2021-26	6,615,000	1,642,223
2026-31	27,170,000	820,881
2031-32	6,635,000	4,845
TOTAL	\$ 40,470,000	\$ 6,011,452

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 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 were refinanced with a Guaranteed Revenue Bonds – Series of 2011 during this 2010-11 fiscal year with the corresponding transfer of the related swaps.

Guaranteed Lease Revenue Bonds – Series of 2010

On January 5, 2010, the Bethlehem Area School District Authority issued \$30,000,000 of Guaranteed Lease Revenue Bonds – Series of 2010. The purpose of this issue are (1) to currently refund a portion of the Bethlehem Area School District's General Obligation Bonds, Series of 2005, and (2) to pay the costs and expenses allocable to the issuance of the Bonds. The bonds are being issued under the Municipal Authorities Act of 1945, as amended, and pursuant to the provisions of a Trust Indenture, dated May 1, 2009.

Interest Rate Swap

On January 5, 2010, the Bethlehem Area School District refunded its General Obligation Bonds – Series of 2005 in two issues – General Obligation Bonds – Series of 2010, and the General Obligation Note – Series of 2010, which the notes were issued to the Bethlehem Area School District Authority. The Authority funded this refunding with the Guaranteed Lease Revenue Bonds – Series of 2010. The related interest rate swap that was attached to the School District's General Obligation

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

Bonds – Series of 2005 was transferred to the Authority's Guaranteed Lease Revenue Bonds – Series of 2010.

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 Bethlehem Area School District entered into a forward starting interest rate swap in connection with its \$55,000,000, Series of 2005 variable-rate General Obligation Bonds. The intention of the swap 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 original notional amount was \$55,000,000. The swap was entered into on December 8, 2003. Subsequently, \$25,350,000 of the original notional amount was terminated leaving a remaining notional amount of \$29,650,000. 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 Authority's Guaranteed Revenue Bonds – Series of 2010 approximates the SIFMA index. Therefore, if SIFMA exceeds 60% of LIBOR plus 0.345%, the District pays a net effective interest rate approximately equal to the fixed rate.

Fair Value. The swap has a negative fair value of \$5,134,629 as of June 30, 2011. The swap negative fair value 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 PFM an Independent financial advisor.

Credit Risk. As of June 30, 2011, the Authority was exposed to credit risk because the swap 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 ratedAa2 by Moody's, AA-by Standard & Poor's and AA by Fitch.

Basic Risk. The swap exposes the government to basis risk should the relationship between LIBOR and SIFMA 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, 2011. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2011, the SIFMA rate was 1.59%, whereas 60% of LIBOR was 0.456%.

Termination Risk. The Authority 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 Authority, 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, 2011, 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, 2011, using the variable interest rate in effect at year end are:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011**

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2011-12	\$ 5,000	\$ 476,887	\$ 1,020,359	\$ 1,502,246
2012-13	5,000	476,808	1,020,359	1,502,167
2013-14	5,000	476,728	1,020,359	1,502,087
2014-15	5,000	476,649	1,020,359	1,502,008
2015-16	5,000	476,569	1,020,359	1,501,928
2016-21	25,000	2,381,654	5,101,795	7,508,449
2021-26	25,000	2,379,666	5,101,795	7,506,461
2026-30	29,920,000	1,036,335	2,196,000	33,152,335
SUB-TOTAL	29,995,000	\$ 8,181,296	\$ 17,501,385	\$ 55,677,681
Unamortized Deferred chgs. on Refundings	(2,657,678)			
Unamortized Premium	-			
TOTAL OUTSTANDING	\$ 27,337,322			

Guaranteed Lease Revenue Bonds – Series of 2011

On April 29, 2011, the Bethlehem Area School District Authority issued \$40,470,000 of Guaranteed Revenue Bonds – Series of 2011. The purposes of this issue are to: (1) refund the Authority's Series of 2009 Guaranteed Revenue Bonds, and (2) 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 \$40,700,000, on April 29, 2011. The Authority Bonds were purchased by Wells Fargo Bank and mature between July 1, 2011 and July 1, 2031, at a variable interest rate of interest. The related swaps for the Series of 2009 revenue bonds have been transferred to this issue.

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 Series of 2009 during 2009-10 fiscal year backed by the issuance of the District's \$41,000,000 General Obligation Note to the Authority. These Series of 2009 revenue bonds and related District's Notes have been refunded with the Series of 2011 revenue bonds and related Series of 2011 general obligation bonds of the District that guarantee the Authority's revenue bonds. 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 SIFMA index. Therefore, if SIFMA exceeds 68% of LIBOR, the District pays a net effective interest rate in excess of 3.774%, and if SIFMA is less than 68% of LIBOR, the District pays a net effective interest rate approximately equal to the fixed rate.

Fair Value. The interest rate swap has a negative fair value of \$6,728,853 as of June 30, 2011. The swap negative fair value 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 PFM, and independent financial advisor.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Credit Risk. As of June 30, 2011, the School District was exposed to credit risk because the swap 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 SIFMA 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, 2011. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2011, the SIFMA rate was 0.876%, whereas 68% of LIBOR was 0.126%.

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 net 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, 2011, 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 service requirements at June 30, 2011, using the variable rate in effect at year end are:

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2011-12	\$ 5,000	\$ 354,547	\$ 1,458,416	\$ 1,817,963
2012-13	5,000	354,504	1,458,234	1,817,738
2013-14	5,000	354,460	1,458,051	1,817,511
2014-15	5,000	354,416	1,457,869	1,817,285
2015-16	5,000	354,372	1,457,686	1,817,058
2016-21	25,000	1,771,204	7,285,697	9,081,901
2021-26	6,615,000	1,642,223	6,060,316	14,317,539
2026-31	27,170,000	820,881	2,519,189	30,510,070
2031-32	6,635,000	4,845	14,333	6,654,178
SUB-TOTAL	40,470,000	\$ 6,011,452	\$ 23,169,791	\$ 69,651,243
Unamortized Deferred chgs. on Refundings	(8,520,367)			
Unamortized Premium	-			
TOTAL OUTSTANDING	\$ 31,949,633			

Lease Rental Debt

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).

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2011

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 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.

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL RENTAL PAYMENT
2011-12	\$ 464,667	\$ 161,415	\$ 626,082
2012-13	477,311	152,344	629,655
2013-14	486,794	142,338	629,132
2014-15	496,277	130,902	627,179
2015-16	508,921	117,064	625,985
2016-21	2,835,417	496,263	3,331,680
2021-22	208,626	6,600	215,226
TOTAL OUTSTANDING	\$ 5,478,013	\$ 1,206,927	\$ 6,684,940

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, 2011, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 658,300	\$ 78,888
2012-13	696,628	40,559
TOTAL OUTSTANDING	\$ 1,354,928	\$ 119,447

Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

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 2007	G.O.B. SERIES A OF 2007	G.O.B. SERIES A OF 2009	G.O.B. SERIES AA OF 2009	G.O.B. SERIES B OF 2009	G.O.B. SERIES OF 2010	G.R.B. SERIES OF 2010	G.R.B. SERIES OF 2011	TOTAL PRINCIPAL PAYMENTS
2011-12	\$ 405,000	\$ 5,000	\$ 6,470,000	\$ 1,785,000	\$ -	\$ 435,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 9,115,000
2012-13	420,000	5,000	6,805,000	1,845,000	-	440,000	15,000	5,000	5,000	9,540,000
2013-14	415,000	5,000	7,735,000	1,360,000	-	450,000	10,000	5,000	5,000	9,985,000
2014-15	430,000	5,000	8,135,000	1,410,000	-	465,000	10,000	5,000	5,000	10,465,000
2015-16	445,000	5,000	8,555,000	1,465,000	-	475,000	15,000	5,000	5,000	10,970,000
2016-21	2,800,000	25,000	1,035,000	41,300,000	14,410,000	2,660,000	25,000	25,000	25,000	62,305,000
2021-26	-	13,065,000	-	17,600,000	-	3,180,000	28,765,000	25,000	6,615,000	69,250,000
2026-31	-	28,495,000	-	-	-	2,135,000	-	29,920,000	27,170,000	87,720,000
2031-35	-	13,370,000	-	-	-	-	-	-	6,635,000	20,005,000
TOTAL	4,915,000	54,980,000	38,735,000	66,765,000	14,410,000	10,240,000	28,845,000	29,995,000	40,470,000	289,355,000
LESS PAYABLE WITHIN ONE YEAR	405,000	5,000	6,470,000	1,785,000	-	435,000	5,000	5,000	5,000	9,115,000
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	\$ 4,510,000	\$ 54,975,000	\$ 32,265,000	\$ 64,980,000	\$ 14,410,000	\$ 9,805,000	\$ 28,840,000	\$ 29,990,000	\$ 40,465,000	\$ 280,240,000

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS

FISCAL YEAR	G.O.B. SERIES A OF 2001	G.O.B. SERIES OF 2007	G.O.B. SERIES A OF 2007	G.O.B. SERIES A OF 2009	G.O.B. SERIES AA OF 2009	G.O.B. SERIES B OF 2009	G.O.B. SERIES OF 2010	G.R.B. SERIES OF 2010	G.R.B. SERIES OF 2011	TOTAL DEBT SVC. PAYMENTS
2011-12	\$ 631,350	\$ 3,681,714	\$ 8,245,000	\$ 4,719,431	\$ 580,400	\$ 840,568	\$ 1,394,238	\$ 1,502,246	\$ 1,817,963	\$ 23,412,910
2012-13	629,542	3,681,379	8,248,125	4,717,231	580,400	836,819	1,404,160	1,502,167	1,817,738	23,417,561
2013-14	606,693	3,681,045	8,814,625	4,185,519	580,400	837,075	1,398,860	1,502,087	1,817,511	23,423,815
2014-15	603,640	3,680,711	8,817,875	4,187,106	580,400	840,338	1,398,650	1,502,008	1,817,285	23,428,013
2015-16	599,505	3,680,376	8,820,625	4,189,932	580,400	836,819	1,403,400	1,501,928	1,817,058	23,430,043
2016-21	3,075,665	18,396,865	1,060,875	49,825,405	16,537,400	4,202,061	6,963,291	7,508,449	9,081,901	116,651,912
2021-26	-	29,734,519	-	18,243,190	-	4,102,219	34,023,045	7,506,461	14,317,539	107,926,973
2026-31	-	38,971,737	-	-	-	2,299,672	-	33,152,335	30,510,070	104,933,814
2031-35	-	13,817,071	-	-	-	-	-	-	6,654,178	20,471,249
TOTAL	\$ 6,146,395	\$ 119,325,417	\$ 44,007,125	\$ 90,067,814	\$ 19,439,400	\$ 14,795,571	\$ 47,985,644	\$ 55,677,681	\$ 69,651,243	\$ 467,096,290

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

Derivative Financial Instruments

Primary Government

In accordance with Governmental Accounting Standards Board Statement No. 53, any derivative financial instruments must be recorded on the government-wide financial statements at fair value for periods beginning on or after June 15, 2009. The District has two derivative financial instruments; one associated with its General Obligation Bonds – Series of 2007, and the other one associated with its General Obligation Bonds – Series A of 2007. The fixed payor swap on the Series of 2007 Bonds is designed to create a synthetic fixed rate on the variable rate bond issue by paying the counterparty a fixed rate of 4.145% and receiving 60% of one month LIBOR, plus 0.346%. The value of this derivative instrument embedded into the swap is a negative \$11,446,909, at June 30, 2011.

The forward swaption attached to the Series A of 2007 Bonds was designed to effectively change the variable-rate general obligation bonds to a synthetic fixed rate. The counterparty has not elected its option on this swaption as of June 30, 2011. The fair value of this swaption is a negative \$89,965, at June 30, 2011. In accordance with the definition of a hedging derivative financial instrument in the standard, the forward swaption does not constitute a hedging derivative financial instrument because there is not a notional amount. As such, it is not eligible for hedge accounting treatment (explained below).

GASB Statement No. 53 requires the use of hedge accounting, in which the net change in fair value represents a deferred inflow or outflow of the hedging derivative financial instrument reported on the government-wide Statement of Net Assets. To be considered a hedging derivative financial instrument, the derivative financial instrument must pass an effectiveness test using one of the available methods (consistent critical terms, synthetic instrument, dollar-offset, and regression analysis). If none of the available methods result in the derivative financial instrument being effective, then the net change in fair value should flow to the government-wide Statement of Activities, and the instrument is considered an investment derivative.

Based upon the tests of effectiveness conducted by the District's financial advisor for this fiscal year, the above-mentioned interest rate swap associated with the Series of 2007 Bonds is a hedging derivative financial instrument. As such, its fair value of \$11,446,909 is shown on the Statement of Net Assets as a deferred outflow of resources offset by the long-term liability.

Since the forward swaption did not meet hedge accounting treatment, the change in fair value of \$109,257, is charged against investment income in the government-wide Statement of Activities

Component Unit

In accordance with Governmental Accounting Standards Board Statement No. 53, any derivative financial instruments must be recorded on the government-wide financial statements at fair value for periods beginning on or after June 15, 2009. The Bethlehem Area School District Authority (component unit) has two derivative financial instruments; one associated with its Guaranteed Lease Revenue Bonds – Series of 2010, and the other one associated with its Guaranteed Lease Revenue Bonds – Series of 2011.

The swap associated with the Authority's Guaranteed Lease Revenue Bonds – Series of 2010 originated from the School District's (primary government) General Obligation Bonds – Series of 2005. The swap associated with the Authority's Guaranteed Lease Revenue Bonds – Series of 2011 originated from the School District's (primary government) General Obligation Notes – Series of 2007.

Bethlehem Area School District
Notes To Basic Financial Statements
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The fixed payor swap on the Series of 2010 Revenue Bonds is designed to create a synthetic fixed rate on the variable rate bond issue by paying the counterparty a fixed rate of 3.90% and receiving 60% of one month LIBOR, plus 0.345%. The value of this derivative instrument embedded into the swap is a negative \$5,134,629, at June 30, 2011.

The fixed payor swap on the Series of 2011 Revenue Bonds is designed to create a synthetic fixed rate on the variable rate bond issue by paying the counterparty a fixed rate of 3.774% and receiving 68% of one month LIBOR. The value of this derivative instrument embedded into the swap is a negative \$6,728,853, at June 30, 2011.

GASB Statement No. 53 requires the use of hedge accounting, in which the net change in fair value represents a deferred inflow or outflow of the hedging derivative financial instrument reported on the government-wide Statement of Net Assets. To be considered a hedging derivative financial instrument, the derivative financial instrument must pass an effectiveness test using one of the available methods (consistent critical terms, synthetic instrument, dollar-offset, and regression analysis). If none of the available methods result in the derivative financial instrument being effective, then the net change in fair value should flow to the government-wide Statement of Activities, and the instrument is considered an investment derivative.

Based upon the tests of effectiveness conducted by the District's financial advisor for this fiscal year, the above-mentioned interest rate swaps associated with the Series of 2010 and 2011 Revenue Bonds are hedging derivative financial instruments. As such, its fair values of \$5,134,629, and \$6,728,853, respectively are shown on the Statement of Net Assets as a deferred outflow of resources offset by the long-term liability. The portion of these swaps fair value that is "at the market" is \$516,103 and \$1,152,522, respectively, and is recorded as deferred outflows of resources. The portion of the fair value \$229,050 and \$1,764,043, respectively, has been recorded to deferred gains on refunding because of the termination of hedge accounting caused by the refunding of the original issues.

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 health benefits will be calculated at a rate of 55 sick days for one year of health coverage

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

benefits to a maximum of 7 yrs of health coverage or until Medicare eligibility is attained, whichever 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 has 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 cover 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 convert 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**

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, \$132,063 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, 2011. 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 \$254,926, 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 \$4,469,011, 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.

Bethlehem Area School District
Notes To Basic Financial Statements
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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, 2011, that will use currently available financial resources is \$258,838, 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 \$18,044, 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, 2011, of \$1,651,894, 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).

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 Diane J. Wert, 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.

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, 2011, the rate of employer contribution was 5.64 percent of covered payroll. The 5.64 percent rate is comprised of a pension contribution rate of 5.00 percent for pension benefits and 0.64 for healthcare insurance premium assistance.

**Bethlehem Area School District
Notes To Basic Financial Statements
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The employer's current year covered payroll was \$81,449,158 and total payroll was \$97,458,994.

The total employee and employer contributions for this current year were \$7,032,647 and \$5,463,534, 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, 2011**

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
I. Administrators	No eligibility requirements	<ul style="list-style-type: none"> Coverage: Medical, Prescription Drug, and Dental. 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. 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. Dependents: Spouses included. 	<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"> Coverage: Medical, Prescription Drug, and Dental 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. Dependents: Spouses included. 	Same as I

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
III. Custodial/Maintenance	Same as II	<ul style="list-style-type: none"> Coverage: Medical, Prescription Drug, and Dental 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 <ul style="list-style-type: none"> paying the full premium as determined for the purpose of COBRA. 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. Dependents: Spouses included. 	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).	<ul style="list-style-type: none"> Act 110/43 	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"> Act 110/43 	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 \$1,000 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, 2011

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:

Contribution Rates:		
	OPEB Benefit Actuarially Determined	Years of Service Actuarially Determined
Interest Rate	4.5%	4.5%
Plan Members	2,253	57
Annual Required Contribution	\$ 3,745,789	\$ 52,049
Interest on net OPEB obligation	195,745	-
Adjustment to annual required contribution	(267,046)	-
Annual OPEB cost	3,674,488	52,049
Contributions made	(3,021,907)	-
Increase in net OPEB obligation	652,581	52,049
Net OPEB obligation - beginning of year	4,349,893	168,605
Net OPEB obligation - end of year	\$ 5,002,474	\$ 220,654

The following table shows the two plans segregated by fund:

	Actuarial Valuation by Fund				Years of Service
	Other Post Employment Benefit Plan				Plan
	General Fund	Fd. Service Fd.	Daycare Fund	Total	General Fund
Demographic Information:					
Active Participants	\$ 1,862	139	36	2,037	57
Retired Participants	215	1	-	216	-
Total	\$ 2,077	\$ 140	\$ 36	\$ 2,253	\$ 57
Annual Payroll of Active Participants	\$ 87,895,156	\$ 1,562,545	\$ 594,303	\$ 90,052,004	\$ 5,211,518
Annual Required Contributions	\$ 3,723,675	5,480	16,634	3,745,789	52,049
Interest on Net OPEB Obligation	193,669	779	1,297	195,745	-
Adjustment to Annual Required Contribution	(264,213)	(1,063)	(1,770)	(267,046)	-
Annual OPEB Cost	3,653,131	5,196	16,161	3,674,488	52,049
Contributions made	(3,008,083)	(1,928)	(11,896)	(3,021,907)	-
Increase in Net OPEB Obligation	645,048	3,268	4,265	652,581	52,049
Net OPEB Obligation - beginning of year	4,303,753	17,315	28,825	4,349,893	168,605
Net OPEB Obligation - end of year	\$ 4,948,801	\$ 20,583	\$ 33,090	\$ 5,002,474	\$ 220,654

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation of the four fiscal years ending June 30th, for the benefits were as follows:

Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

<u>Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 3,674,488	82.2%	\$ 5,002,474
6/30/2010	\$ 3,695,260	65.7%	\$ 4,349,893
6/30/2009	\$ 3,463,356	57.6%	\$ 3,082,632
6/30/2008	3,463,356	52.6%	1,642,678

Funded Status and Funding Process. The funded status of the benefits as of June 30, 2011, was as follows:

	<u>State-mandated Healthcare Benefit</u>	<u>Years of Service Increment Benefit</u>
Actuarial accrued liability (a)	\$ 35,034,503	\$ 500,139
Actuarial value of plan assets (b)	-	-
Unfunded actuarial accrued liability (a) - (b)	<u>\$ 35,034,503</u>	<u>\$ 500,139</u>
Funded Ratio (b) / (a)	0.0%	0.0%
Covered payroll	\$ 90,052,004	\$ 5,211,518
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll.	38.9%	9.6%

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, 2011**

	State-mandated Healthcare <u>Benefit</u>	Years of Service Increment <u>Benefit</u>
Actuarial Valuation Date	7/1/2009	7/1/2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level dollar method over a 30 year period	Level dollar method over a 30 year period
Remaining amortization period	15.2889 years	15.2889 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		
2011	7.0%	N/A
2012	6.5%	N/A
2013	6.0%	N/A
2014	5.5%	N/A
2015-2099	5.3% to 4.2%	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.

Note 7 – Fund Balance Allocations

Nonspendable Fund Balance

The General Fund had \$254,635, in nonspendable fund balance at June 30, 2011, comprised of \$239,629, of inventories on hand at year-end and \$15,006, of prepaid expenditures.

Restricted Fund Balance

The two Capital Project Funds have restrictions on the use of the resources at year end. The Capital Reserve Fund's \$394,930 fund balance at year end is restricted because of enabling legislation under the Municipal Code in Pennsylvania. Section 1432 of this Code restricts the use of resources for limited purposes.

In addition, the debt covenant on the bond issues restricts the proceeds shown in the Construction Fund for the purposes outlined in the bond resolution. As such, the \$842,479, in fund balance at year end within this fund is considered restricted.

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

The General Fund's \$2,058 in fund balance is restricted as a result of a Lot program.

Assigned Fund Balance

The fund balance of \$6,970, in the Non Major Funds is assigned for the purpose of the Non-major funds.

Note 8 - 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 \$19,058,280. The business-type activities column reflects \$83,182 invested in capital assets with no related debt. There are unrestricted net assets in governmental activities showing a deficit of \$2,637,615.

Note 9 - 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, 2011.

Litigation

In accordance with management, there are no legal matters that could materially affect the financial position of the District as of June 30, 2011.

Note 10 – Subsequent Events

General Obligation Bonds – Series of 2011

On November 1, 2011, the District issued \$33,330,000 of General Obligation Bonds – Series of 2011. The proceeds will be used: (1) to currently refund a portion (\$25,150,000) of the General Obligation Bonds – Series of 2007; (2) to make a payment to terminate a portion (\$7,470,000) of a related swap agreement; and (3) to pay the costs and expenses of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2012 to November 15, 2029. Interest rates range from 1.0% to 4.125%, with total interest indebtedness of \$18,872,955. The future outstanding debt service obligations are as follows:

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ -	\$ 693,877
2012-13	5,000	1,287,581
2013-14	5,000	1,287,531
2014-15	5,000	1,287,476
2015-16	5,000	1,287,413
2016-21	25,000	6,435,625
2021-26	16,495,000	5,336,038
2026-32	16,790,000	1,257,415
TOTAL	\$ 33,330,000	\$ 18,872,956

Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011

General Obligation Notes – Series A of 2011

On November 1, 2011, the District issued \$30,000,000 of General Obligation Notes – Series A of 2011. The proceeds will be used: (1) to currently refund a portion (\$25,150,000) of the General Obligation Bonds – Series of 2007 by transferring the liability, including the fixed payor swap, to the BASD Authority; and (2) paying the costs of the issue. This Note is issued to the BASD Authority to guarantee their issuance of the Series A of 2011 bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from January 1, 2012 to January 1, 2032 with interest rate at a variable weekly rate of 68% of 1 month LIBOR, plus 75 basis points. Since this Note is between the School District and its component unit (Bethlehem Area School District Authority), it will not be shown on future 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 the Note are eliminated for financial reporting purposes. The future principal obligations are the same as the component unit debt, shown below.

Component Unit Debt - Guaranteed Lease Revenue Bonds – Series A of 2011

On November 1, 2011, the Bethlehem Area School District Authority issued \$30,000,000 of Guaranteed Revenue Bonds-Series A of 2011. The purposes of this issue are to: (1) refund a portion of the School District's Series of 2007 variable rate general obligation bonds; (2) pay related costs and issuance of this issue; and (3) enter into a new ISDA Confirmation with JP Morgan Chase Bank (counterparty) assuming the remaining Series of 2007 fixed payor swap. The future principal obligations, are as follows:

FISCAL YEAR	PRINCIPAL
2011-12	\$ 5,000
2012-13	5,000
2013-14	5,000
2014-15	5,000
2015-16	5,000
2016-21	25,000
2021-26	25,000
2026-31	15,745,000
2031-32	14,180,000
TOTAL	<u>\$ 30,000,000</u>

General Obligation Bonds – Series of 2012

In December 2011, the District issued \$50,070,000 in General Obligation Bonds – Series of 2012. The purposes of this issue are: (1) to currently refund the outstanding Series A of 2001 general obligation bonds; and (2) to pay the costs of the issuance. 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, 2012 to March 15, 2019. Interest rates range from 1.0% to 3.0%, with total interest indebtedness of \$539,257. The future outstanding debt service obligations are as follows:

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2011**

FISCAL YEAR	PRINCIPAL	INTEREST
2011-12	\$ 75,000	\$ 20,122
2012-13	520,000	110,698
2013-14	500,000	106,538
2014-15	505,000	96,538
2015-16	520,000	81,388
2016-19	2,950,000	123,973
TOTAL	\$ 5,070,000	\$ 539,257

**REQUIRED
SUPPLEMENTAL INFORMATION**

**Bethlehem Area School District
Schedule of Funding Progress
Fiscal Year Ended June 30, 2011**

<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)
7/1/2009	\$ -	\$ 35,034,503	\$ 35,034,503	0.0%	\$ 90,052,004	38.90%
7/1/2007	-	28,785,879	28,785,879	0.0%	92,771,303	31.03%
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)
7/1/2009	\$ -	\$ 500,139	\$ 500,139	0.0%	\$ 5,211,518	9.60%
7/1/2007	-	435,354	435,354	0.0%	5,914,658	7.36%
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
All Capital Project Funds
As of June 30, 2011**

	CAPITAL RESERVE FUND	CAPITAL PROJECT FUND	TOTAL CAPITAL PROJECT FUNDS
<u>ASSETS</u>			
Cash and cash equivalents	\$ -	\$ 1,299,640	\$ 1,299,640
Investments	-	-	-
Other Receivables	-	-	-
Due from other funds	394,930	-	394,930
Due from Primary Government	-	-	-
Receivables from other governments	-	-	-
Other Recoverable Disbursements	-	-	-
Prepaid Expenditures	-	-	-
Inventories	-	-	-
TOTAL ASSETS	<u>\$ 394,930</u>	<u>\$ 1,299,640</u>	<u>\$ 1,694,570</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts Payable	\$ -	\$ 57,901	\$ 57,901
Due to other funds	-	399,260	399,260
Due to Primary Government	-	-	-
Interest Payable	-	-	-
Current Portion of Long-Term Debt	-	-	-
Accrued Salaries and Benefits	-	-	-
Payable to other governments	-	-	-
Deferred Revenue	-	-	-
Compensated Absences	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>457,161</u>	<u>457,161</u>
 FUND BALANCES:			
Nonspendable Fund Balance	-	-	-
Restricted Fund Balance	394,930	842,479	1,237,409
Committed Fund Balance	-	-	-
Assigned Fund Balance	-	-	-
TOTAL FUND BALANCES	<u>394,930</u>	<u>842,479</u>	<u>1,237,409</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 394,930</u>	<u>\$ 1,299,640</u>	<u>\$ 1,694,570</u>

Bethlehem Area School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
All Capital Project Funds
For the Year Ended June 30, 2011

	CAPITAL RESERVE FUND	CAPITAL PROJECT FUND	TOTAL CAPITAL PROJECT FUNDS
REVENUES			
Local Sources	\$ -	\$ 12,101	\$ 12,101
State Sources	-	-	-
Federal Sources	-	-	-
TOTAL REVENUES	<u>-</u>	<u>12,101</u>	<u>12,101</u>
	-----	-----	-----
EXPENDITURES			
Instruction	-	14,480	14,480
Support Services	43,789	-	43,789
Operation of Non-Instructional Services	-	-	-
Capital Outlay	-	2,317,671	2,317,671
Debt Service	-	-	-
TOTAL EXPENDITURES	<u>43,789</u>	<u>2,332,151</u>	<u>2,375,940</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(43,789)</u>	<u>(2,320,050)</u>	<u>(2,363,839)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Bond Issues	-	-	-
Bond Premium	-	-	-
Transfer from Primary Government	-	-	-
Payment to bond refunding escrow agent	-	-	-
Bond Discount	-	-	-
Swap Termination Fee	-	-	-
Sale/Compensation for Fixed Assets	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(43,789)	(2,320,050)	(2,363,839)
FUND BALANCES - BEGINNING	<u>438,719</u>	<u>3,162,529</u>	<u>3,601,248</u>
FUND BALANCES - ENDING	<u>\$ 394,930</u>	<u>\$ 842,479</u>	<u>\$ 1,237,409</u>

Bethlehem Area School District
Combining Balance Sheet
Non-Major Governmental Funds
As of June 30, 2011

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS			TOTAL
	AUTHORITY GENERAL FUND	CONCESSION FUND	TOTAL SPECIAL REVENUE FUNDS	2010 GOB BOND FUND	2011 GON BOND FUND	TOTAL DEBT SERVICE FUNDS	NON-MAJOR GOVERNMENTAL FUNDS
ASSETS							
Cash and cash equivalents	\$ 22,193	\$ -	\$ 22,193	\$ -	\$ -	\$ -	\$ 22,193
Investments	-	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-	-
Due from other funds	875,536	6,819	882,355	-	-	-	882,355
Due from Primary Government	-	-	-	-	-	-	-
Receivables from other governments	-	-	-	-	-	-	-
Other Recoverable Disbursements	-	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 897,729	\$ 6,819	\$ 904,548	\$ -	\$ -	\$ -	\$ 904,548
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
Due to Primary Government	-	-	-	-	-	-	-
Interest Payable	892,578	-	892,578	-	-	-	892,578
Current Portion of Long-Term Debt	5,000	-	5,000	-	-	-	5,000
Accrued Salaries and Benefits	-	-	-	-	-	-	-
Payable to other governments	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-
Compensated Absences	-	-	-	-	-	-	-
TOTAL LIABILITIES	897,578	-	897,578	-	-	-	897,578
FUND BALANCES:							
Nonspendable Fund Balance	-	-	-	-	-	-	-
Restricted Fund Balance	-	-	-	-	-	-	-
Committed Fund Balance	-	-	-	-	-	-	-
Assigned Fund Balance	151	6,819	6,970	-	-	-	6,970
TOTAL FUND BALANCES	151	6,819	6,970	-	-	-	6,970
TOTAL LIABILITIES AND FUND BALANCES	\$ 897,729	\$ 6,819	\$ 904,548	\$ -	\$ -	\$ -	\$ 904,548

Bethlehem Area School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2011

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS			TOTAL NON-MAJOR GOVERNMENTAL FUNDS
	AUTHORITY GENERAL FUND	CONCESSION FUND	TOTAL SPECIAL REVENUE FUNDS	2010 GOB BOND FUND	2011 GON BOND FUND	TOTAL DEBT SERVICE FUNDS	
REVENUES							
Local Sources	\$ 3,624,538	\$ -	\$ 3,624,538	\$ 6	\$ -	\$ 6	\$ 3,624,544
State Sources	-	-	-	-	-	-	-
Federal Sources	-	-	-	-	-	-	-
TOTAL REVENUES	<u>3,624,538</u>	<u>-</u>	<u>3,624,538</u>	<u>6</u>	<u>-</u>	<u>6</u>	<u>3,624,544</u>
EXPENDITURES							
Instruction	-	-	-	-	-	-	-
Support Services	180,000	-	180,000	-	-	-	180,000
Operation of Non-Instructional Services	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Debt Service	<u>3,644,387</u>	<u>-</u>	<u>3,644,387</u>	<u>63,469</u>	<u>-</u>	<u>63,469</u>	<u>3,707,856</u>
TOTAL EXPENDITURES	<u>3,824,387</u>	<u>-</u>	<u>3,824,387</u>	<u>63,469</u>	<u>-</u>	<u>63,469</u>	<u>3,887,856</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(199,849)</u>	<u>-</u>	<u>(199,849)</u>	<u>(63,463)</u>	<u>-</u>	<u>(63,463)</u>	<u>(263,312)</u>
OTHER FINANCING SOURCES (USES)							
Proceeds from Refunding Bond Issues	40,470,000	-	40,470,000	-	40,470,000	40,470,000	80,940,000
Bond Premium	-	-	-	-	-	-	-
Transfer from Primary Government	-	-	-	-	-	-	-
Payment to bond refunding escrow agent	40,270,000	-	40,270,000	-	40,470,000	40,470,000	80,740,000
Bond Discount	-	-	-	-	-	-	-
Swap Termination Fee	-	-	-	-	-	-	-
Sale/Compensation for Fixed Assets	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES AND USES	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
NET CHANGE IN FUND BALANCES	151	-	151	(63,463)	-	(63,463)	(63,312)
FUND BALANCES - BEGINNING	<u>-</u>	<u>6,819</u>	<u>6,819</u>	<u>63,463</u>	<u>-</u>	<u>63,463</u>	<u>70,282</u>
FUND BALANCES - ENDING	<u>\$ 151</u>	<u>\$ 6,819</u>	<u>\$ 6,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,970</u>

Bethlehem Area School District
Combining Statement of Changes In Fiduciary Net Assets
Private Purpose Trust Funds
As of June 30, 2011

<u>SCHOLARSHIP</u>	7/1/10 NET ASSETS	CONTRIBUTIONS REVENUE	INTEREST REVENUE	AWARDS EXPENDED	6/30/11 NET ASSETS
General Scholarship Account	\$ 1,977	\$ 17,136	\$ 1	\$ 499	\$ 18,615
General Bilingual Awards	3,486	-	-	-	3,486
Shining Stars Scholarship	3,158	1,429	-	1,400	3,187
Teresa Rodriguez Memorial	120	-	-	-	120
L.A.C.E.O. Achievement Award	90	720	-	800	10
Dario Cruz Memorial Scholarship	600	300	-	300	600
Gloria Lopez Memorial Scholarship	(50)	-	-	200	(250)
Angel Torres Memorial Scholarship	(50)	-	-	-	(50)
Echevarria Moran Scholarship	-	-	-	-	-
PNC Bank Latino Scholarship	500	1,000	-	1,000	500
Figueroa's Family Scholarship	-	-	-	-	-
Bethlehem Partnership for a Healthy Community	600	300	-	300	600
College Textbook Award	(500)	150	-	-	(350)
Just Born Minority Scholarship	500	500	-	500	500
P. Albizu Campos & Sojourner Truth Scholars.	(50)	-	-	550	(600)
Scholastic Achievement, Service & Leadership	500	-	-	-	500
Ramon Emeterio Betances Scholarship	-	500	-	500	-
Ella Springs Memorial	3,000	2,000	-	2,000	3,000
Ralph Lopez Scholarship	2,100	2,000	-	2,000	2,100
Class Scholarship	300	300	-	-	600
Richard Montz Memorial Scholarship	(100)	150	-	50	-
Kathryn & Pedro Bonne Textbook Award	1,050	-	-	-	1,050
Puerto Rican Beneficial Scholarship	600	1,150	-	850	900
Roberto Clemente Scholarship	800	1,200	-	1,050	950
Ann Goldberg Scholarship	414	690	-	500	604
George Maunz School-to-Work Scholarship	1,200	870	-	750	1,320
Jesus "Berto" Rivera Scholarship	225	200	-	350	75
PR Cultural Coalition Scholarship	350	500	-	-	850
CSSOLV Scholarship	1,700	1,500	-	-	3,200
Betty Williams Memorial Scholarship	400	-	-	-	400
Rev. Dr. Martin Luther King Award	(600)	-	-	300	(900)
Thomas K. Washington Family Scholarship	(350)	250	-	-	(100)
Thurgood Marshall Scholarship	(400)	-	-	300	(700)
Fowler Scholarship	7,350	4,000	-	2,500	8,850
Frances Grabish Memorial Textbook Award	(500)	150	-	-	(350)
Angela Sanchez Memorial Award	300	250	-	200	350
Harold & Dorothy Kram Memorial Award	-	150	-	-	150
Scientific Learning	400	-	-	-	400
Landston Hughes Award	(150)	-	-	300	(450)
Manuel & Luis Ramirez Memorial Scholarship	500	-	-	500	-
Ortiz Family Award	100	-	-	100	-
Iris M. Cintron	-	200	-	200	-
Teen Summit	-	350	-	200	150
Raul & Julia Textbook Award	-	150	-	150	-
Al Senevitis	-	7,820	-	500	7,320
Julia De Burgos	-	-	-	1,450	(1,450)
Garcia	-	-	-	200	(200)
Power & Associates	-	-	-	200	(200)
Olivia Palmer - Clark	-	-	-	400	(400)
Rita Moreno	-	-	-	600	(600)
Dr. Loftus	-	-	-	150	(150)
Blanca Smith	-	-	-	500	(500)
Hispanic Center	-	-	-	1,000	(1,000)
Celia Cruz "Azucar"	-	-	-	300	(300)
Non-Expendable Trust Fund	166,860	-	1,615	2,600	165,875
TOTAL	\$ 196,430	\$ 45,915	\$ 1,616	\$ 26,249	\$ 217,712

Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011

REVENUES

LOCAL SOURCES:

Current Real Estate Taxes	\$ 113,983,685	
Interim Real Estate Taxes	1,050,017	
Public Utility	178,848	
Payment in Lieu of Taxes	223,146	
Current Per Capita Taxes - 511	231,744	
Current Per Capita Taxes - 679	231,743	
Local Services Tax	268,533	
Earned Income Tax	9,185,253	
Real Estate Transfer Tax	1,803,797	
Act 511 Mercantile Taxes	2,648,381	
Delinquent Real Estate Taxes	5,302,847	
Delinquent Per Capita Taxes	51,953	
Delinquent Mercantile Taxes	505,991	
Interest	134,361	
Admissions	104,837	
Other Student Activity Income	144,810	
State Revenue from other Public Schools	14,714	
State Revenue from Other Sources	151,835	
Federal Revenue from Local Sources	2,151,453	
Federal ARRA Revenue from Local Sources	1,559,596	
Rentals	61,772	
Contributions	189,594	
Regular Day School Tuition	113,789	
Summer School	51,410	
Adult Education Tuition	67,115	
Receipts from Other LEA's - Education	267,765	
Other Tuition From Patrons	-	
Services provided Other Local Governmental Units	-	
All Other Services Provided Other Governments	-	
Revenue from Community Services	4,662	
Miscellaneous	133,943	
Refunds of Prior Yr. Expenditures	634,152	
TOTAL LOCAL SOURCE REVENUE	<u>634,152</u>	\$ 141,451,746

STATE SOURCES:

Basic Subsidy - ESBE	24,204,718
Read to Succeed	-
Charter Schools	1,723,819
Nonpublic Transfers	-
Orphan Tuition	361,342
School Improvement	-
Vocational Education	34,088
Driver Education	-
Special Education	6,584,843
SUB-TOTAL	<u>32,908,810</u>

Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011

REVENUE (CONT'D)

SUB-TOTAL (CARRIED FORWARD)	\$ 32,908,810	
Educational Assistance Program	736,729	
Pre-K Counts	595,650	
Other Program Revenues	-	
Transportation	2,279,811	
Rentals	2,216,353	
Health Services	352,685	
State Property Tax Reduction Allocation	4,740,869	
Alternative Education	-	
Migratory Children	600	
Accountability Grants	1,693,715	
Dual Enrollment	42,147	
Project 720 - High School Reform	-	
FICA Revenue	3,341,188	
Retirement Revenue	2,544,069	
Classrooms for the Future	-	
Other State Grants	193,315	
TOTAL STATE SOURCE REVENUE	<u>51,645,941</u>	\$ 51,645,941

FEDERAL SOURCES:

Payments for Federally Impacted Areas	18,511	
Title I	3,087,917	
Title I - ARRA	396,132	
Title I - Improvement - ARRA	90,049	
Title IIA, IID	775,651	
Title III	302,250	
Title IV	944,048	
Education Jobs Fund	1,984,053	
Child Care Grants	170,290	
ARRA - State Stabilization Fund	3,352,416	
Medical Assistance	108,326	
Other Restricted Federal Grants-In-Aid	118,107	
TOTAL FEDERAL SOURCE REVENUE	<u>11,347,750</u>	
TOTAL REVENUE		204,445,437

EXPENDITURES

Regular Programs - Elem./Secondary	77,569,029
Federally Funded Regular Programs	7,660,572
Special Education	401,836
Life Skills Support - Public	767,467
Life Skills Support - PRRI	-
Deaf or Hearing Impaired Support	57,634
Blind or Visually Impaired Support	18,071
Speech & Language Impaired	1,047,087
SUB-TOTAL	<u>87,521,696</u>

Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011

SUB-TOTAL (CARRIED FORWARD)	\$ 87,521,696
Emotional Support	4,159,750
Autistic Support	340,435
Learning Support - Public	10,501,789
Gifted Support	120,674
Other Support	-
Physical Support	176,088
Multi-Handicapped Support	321,361
Development Delay Support	-
Early Intervention Support	39,368
Other Support	4,611,626
Home Economics	463,578
Industrial Arts Education	718,617
Business Education	1,435,170
Other Vocational Education Programs	6,189,657
Drivers' Education	71
Summer School	507,841
Homebound Instruction	225,055
Adjudicated/Court Placed Programs	273,981
Alternative Education Program	137,797
Instructional Programs Outside Established Schools	862,859
Additional Other Instructional Program	916
Nonpublic School Programs	3,808
Other Adult Education Programs	5,628
Community College Programs	2,142,961
Pre-Kindergarten	1,968,810
Supervision of Pupil Personnel Services	31,691
Guidance Services	4,503,454
Placement Services	34,114
Attendance Services	199,007
Psychological Services	1,032,208
Speech Pathology Services	-
Social Work Services	1,184,331
Student Accounting Services	354,077
Other Pupil Personnel Services	485,833
Support Services - Instructional Staff	510,171
Technology Support Services	416,418
Computer Assisted Instruction Services	1,519,630
School Library Services	1,773,924
Instructional & Curriculum Dev. Service	809,910
Instructional Staff Development Services	117,771
Nonpublic Support Services	142,379
Board Services	225,282
SUB-TOTAL	136,069,736

Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011

SUB-TOTAL (CARRIED FORWARD)	\$ 136,069,736	
Board Treasurer Services	-	
Tax Assessment & Collection Service	1,133,586	
Staff Relations	-	
Legal Services	499,358	
Office of the Superintendent Services	1,157,855	
Office of the Principal Services	8,104,016	
Other Administration Services	37,081	
Medical Services	28,034	
Dental Services	10,802	
Nursing Services	1,398,431	
Non-Public Health Services	176,327	
Support Services - Business	1,417,186	
Operation and Maintenance of Plant Services	13,359,397	
Supervision of Operation and Maintenance of Plant	215,405	
Vehicle Operation and Maint. Services	143	
Security Services	725,845	
Supervision of Student Transportation Services	520,373	
Vehicle Operation Services	3,805,491	
Monitoring Services	207,611	
Vehicle Servicing and Maintenance Services	1,072,681	
System Wide Technology Services	31,000	
Information Services	19,371	
Staff Services	422,219	
Staff Development Services	31,115	
Staff Development-Non-Instruction	15,976	
Data Processing Services	974,383	
State and Federal Agency Liaison Services	353,796	
Other Support Services	104,251	
Pass-Thru Funds	-	
School Sponsored Student Activities	264,766	
School Sponsored Athletics	1,629,415	
Community Services	157,254	
Scholarships and Awards	500	
Existing Site Improvement Services	65,680	
Architecture and Engineering Services	8,813	
Existing Building Improvement Services	603,060	
Debt Service	22,840,038	
Short-Term Borrowing Costs	67,453	
Refund of Prior Yr. Receipts	155,159	
TOTAL EXPENDITURES	<u>197,683,607</u>	
EXCESS (DEFICIENCY) OF REVENUES		
OVER EXPENDITURES	\$ 6,761,830	

**Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2011**

EXCESS (DEFICIENCY) OF REVENUES		
OVER EXPENDITURES (CARRIED FORWARD)	\$	6,761,830

OTHER FINANCING SOURCES (USES)

Proceeds from Extended Term Financing	-	
Sale of or Compensation for Loss of Fixed Assets	22,500	
Special Revenue Fund Transfers In	-	
Enterprise (Day Care) Fund Transfers In	-	
Transfer from Activity Funds	-	
Special Revenue Fund Transfers Out	-	
Capital Projects Funds Transfers Out	-	
Special Revenue Fund Transfers Out	-	
Food Service Fund Transfers Out	-	
Activity Fund Transfers Out	-	
TOTAL OTHER FINANCING SOURCES (USES)	22,500	
Special Items	-	
Extraordinary Items	-	22,500

NET CHANGE IN FUND BALANCE		6,784,330
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FUND BALANCE - JULY 1, 2010		8,891,090
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FUND BALANCE - JUNE 30, 2011		\$ 15,675,420
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**Bethlehem Area School District
Capital Reserve Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010 \$ 438,719

REVENUES AND OTHER FINANCING SOURCES

Interest	\$ -		
Transfer from General Fund	-		
TOTAL FUNDS AVAILABLE			438,719

EXPENDITURES

INSTRUCTIONAL SERVICES:

Equipment	-		
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SUPPORT SERVICES:

Professional Services	-		
Repairs and Maintenance	43,789		
Advertising	-		
Admin. Software and Fees	-		
Construction Services	-		
Equipment	-		

CAPITAL OUTLAY:

Construction Services	-		
Transportation	-		
Professional Services	-		

Other Financing Uses:

Transfer to General Fund	-		43,789
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FUND BALANCE - JUNE 30, 2011 **\$ 394,930**

**Bethlehem Area School District
Special Revenue (Authority General Fund) Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010 \$ -

REVENUES AND OTHER FINANCING SOURCES

Proceeds from Refunding Bond Issues	\$ 40,470,000	
Transfer from General Fund	-	
Interest Earnings	<u>3,624,538</u>	<u>44,094,538</u>
TOTAL FUNDS AVAILABLE		44,094,538

EXPENDITURES AND OTHER FINANCING USES

SUPPORT SERVICES:

Professional Services	180,000	
Advertising	-	
Printing	-	
Dues and Fees	-	

NON-INSTRUCTIONAL SERVICES:

Equipment	-	
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DEBT SERVICE:

Bond Principal	10,000	
Bond Interest	3,634,387	

OTHER FINANCING USES:

Payment to Refunding Bond Issue Escrow Agent	<u>40,270,000</u>	<u>44,094,387</u>
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FUND BALANCE - JUNE 30, 2011 **\$ 151**

**Bethlehem Area School District
Capital Project Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010 \$ 3,162,529

REVENUES AND OTHER FINANCING SOURCES

Proceeds from Bond Issues	\$ -		
Gain (Loss) on Sale of Investments	-		
Refund of Prior Year Expenditures	-		
Interest Earnings	12,101		12,101
TOTAL FUNDS AVAILABLE			3,174,630

EXPENDITURES AND OTHER FINANCING USES

INSTRUCTIONAL:

Supplies	-		
Equipment	14,480		

SUPPORT SERVICES:

Salaries	-		
Benefits	-		
Professional Services	-		
Repairs and Maintenance	-		
Advertising	-		
Printing	-		
Property and Liability Insurance	-		
Disposal Services	-		
Utilities	-		
Telecommunication Services	-		
Supplies	-		
Technology Infrastructure	-		
Equipment	-		
Dues and Fees	-		

NON-INSTRUCTIONAL SERVICES:

Equipment	-		
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CAPITAL OUTLAY:

Professional Services	312,025		
Existing Site Improvements	899,464		
Construction Services	1,101,548		
Rentals	1,000		
Equipment	-		
Other Purchased Services	-		
Dues and Fees	3,634		
Technology Infrastructure	-		

DEBT SERVICE:

Bond Discount	-		
Transfer to General Fund	-		2,332,151
			842,479

FUND BALANCE - JUNE 30, 2011 **\$ 842,479**

Bethlehem Area School District
Food Service Fund
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011

REVENUES

Sales	\$ 2,001,001	
Donated Commodities	251,645	
Special Events	498,032	
ARRA - NSLP Equipment grant	-	
State Subsidies	373,143	
Federal Subsidies	3,460,089	
Gain (Loss) on Sale of Fixed Assets	-	
Interest earnings	1	
Miscellaneous	35,218	
Contributions	-	
TOTAL REVENUES		\$ 6,619,129

COST OF COMMODITIES

Beginning Inventory	85,500	
Food Service Management - Food	3,440,310	
Donated Commodities	251,644	
Ending Inventory	(111,682)	
TOTAL COST OF COMMODITIES SOLD		3,665,772
GROSS PROFIT		2,953,357

SALARY AND BENEFIT EXPENSES

Administrative	135,036	
M-2 Salares	93,929	
Overtime	57,045	
Other Salaries	1,654,154	
Benefits	504,680	
		2,444,844

OPERATING EXPENSES

Tech & Other Services	721	
Refuse	73,918	
Repairs and Maintenance	49,750	
Rentals	2,511	
Communications	2,972	
Food Service Management Costs	88,333	
Travel	2,708	
Supplies	16,059	
Bottled Gas	32	
Small Tools	12,637	
Depreciation	10,865	
Miscellaneous	84	
Dues and Fees	49,051	
TOTAL EXPENSES		309,641
		2,754,485

CHANGES IN NET ASSETS

198,872

NET ASSETS - JULY 1, 2010

838,015

NET ASSETS - JUNE 30, 2011

\$ 1,036,887

Bethlehem Area School District
Day Care Fund
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011

REVENUES

Regular Day School Tuition	\$ 1,811,533	
Revenue from Community Service Activities	770,522	
State Revenue	91,351	
Fica Revenue	52,893	
Retirement Revenue	40,691	
Rentals	-	
Child Care and Development grant	-	
Miscellaneous	8,499	
Earnings on Investments	13	
TOTAL REVENUES		\$ 2,775,502

OPERATING EXPENSES

Salaries - Admin.	638,952	
Salaries - Professional	73,094	
Salaries - Office/Clerk	91,248	
Salaries - Bus Drivers	4,895	
Salaries - Teacher Aides	542,085	
Salaries - Other	34,228	
Fica Tax	105,617	
Retirement Contributions	81,351	
Workers Compensation	-	
Health Benefits	696,682	
Other Benefits	1,940	
Professional Services	2,736	
Small Equipment	19,390	
Communications	1,210	
Travel	4,440	
Field Trips	-	
Repairs and Maintenance	816	
Supplies	66,651	
Food	164,765	
Depreciation	5,500	
Miscellaneous	5,710	
Dues and Fees	2,547	
Transfer to General Fund	-	
TOTAL EXPENSES		2,543,857
CHANGES IN NET ASSETS		231,645
NET ASSETS - JULY 1, 2010		57,997
NET ASSETS - JUNE 30, 2011		\$ 289,642

Bethlehem Area School District
Self-Insurance Fund
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011

REVENUES

Contributions from Other Funds	\$ 24,326,614	
Cobra Payments	896,105	
State Fica Revenue	5,935	
Interest Earnings	68	
Other Misc. Revenue	<u>1,932,415</u>	
TOTAL REVENUES		\$ 27,161,137

OPERATING EXPENSES

Health Benefit Costs	22,463,163	
Dental Costs	1,776,821	
Drug Costs	1,107,542	
Salaries	1,929	
Fica Tax	11,870	
Retirement	-	
Unemployment	168,833	
Workers Compensation	165,373	
Other Expenses	<u>157,151</u>	
TOTAL EXPENSES		<u>25,852,682</u>

CHANGES IN NET ASSETS	1,308,455
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NET ASSETS - JULY 1, 2010	<u>1,239,590</u>
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NET ASSETS - JUNE 30, 2011	<u>\$ 2,548,045</u>
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**Bethlehem Area School District
Concession Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

REVENUES

Concession Revenue	\$	-	
Interest Earnings		-	\$ -

EXPENDITURES AND OTHER FINANCING USES

Repairs and Maintenance	-	
Other Insurance	-	
Supplies	-	
Equipment	-	
Miscellaneous	-	-

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

-

OTHER FINANCING SOURCES

Transfer from General Fund	-

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

-

FUND BALANCE - JULY 1, 2010 6,819

FUND BALANCE - JUNE 30, 2011 **\$ 6,819**

**Non-Expendable Trust Fund
Statement of Additions and Deductions
For the Year Ended June 30, 2011**

NET ASSETS - JULY 1, 2010 \$ 166,860

ADDITIONS

Contributions	\$	-	
Interest		1,615	1,615

TOTAL FUNDS AVAILABLE 168,475

DEDUCTIONS

Awards	2,600	
Interfund Transfers	-	2,600

NET ASSETS - JUNE 30, 2011 **\$ 165,875**

**Bethlehem Area School District
2010 GOB Bond Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010		\$ 63,463
REVENUES AND OTHER FINANCING SOURCES		
Proceeds from Refunding Bond Issues	-	
Bond Premium	-	
Investment Earnings	6	6
TOTAL FUNDS AVAILABLE		63,469
EXPENDITURES AND OTHER FINANCING USES:		
SUPPORT SERVICES		
Professional Services	-	
Insurance	-	
Printing	-	
OTHER FINANCING USES		
Bond Discount	-	
Debt Service - Bond Interest	63,469	
Swap Termination Fee	-	
Payment to Refunded Bonds Escrow Agent	-	63,469
FUND BALANCE - JUNE 30, 2011		<u>\$ -</u>

**2011 GON Bond Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2011**

FUND BALANCE - JULY 1, 2010		\$ -
REVENUES AND OTHER FINANCING SOURCES		
Proceeds from Refunding Bond Issues	40,470,000	
Bond Premium	-	
Investment Earnings	-	40,470,000
TOTAL FUNDS AVAILABLE		40,470,000
EXPENDITURES AND OTHER FINANCING USES:		
SUPPORT SERVICES		
Professional Services	-	
Insurance	-	
Printing	-	
OTHER FINANCING USES		
Bond Discount	-	
Swap Termination Fee	-	
Payment to Refunded Bonds Escrow Agent	40,470,000	40,470,000
FUND BALANCE - JUNE 30, 2011		<u>\$ -</u>

Bethlehem Area School District
Schedule on General Obligation Bonds - Series A of 2001
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
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
TOTAL OUTSTANDING	\$ 1,231,395	\$ 4,915,000

Schedule on General Obligation Bonds - Series of 2007
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 3,676,714	\$ 5,000
2012-13	3,676,379	5,000
2013-14	3,676,045	5,000
2014-15	3,675,711	5,000
2015-16	3,675,376	5,000
2016-17	3,675,042	5,000
2017-18	3,674,707	5,000
2018-19	3,674,373	5,000
2019-20	3,674,039	5,000
2020-21	3,673,704	5,000
2021-22	3,673,370	5,000
2022-23	3,571,383	3,045,000
2023-24	3,363,062	3,185,000
2024-25	3,145,044	3,335,000
2025-26	2,916,660	3,495,000
2026-27	2,677,241	3,665,000
2027-28	2,426,454	3,835,000
2028-29	2,163,796	4,020,000
2029-30	1,888,431	4,215,000
2030-31	1,320,815	12,760,000
2031-32	447,071	13,370,000
TOTAL OUTSTANDING	\$ 64,345,417	\$ 54,980,000

Bethlehem Area School District
Schedule on General Obligation Bonds - Series A of 2007
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
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
2016-17	25,875	1,035,000
TOTAL OUTSTANDING	\$ 5,272,125	\$ 38,735,000

Schedule on General Obligation Bonds - Series A of 2009
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
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
TOTAL OUTSTANDING	\$ 23,302,814	\$ 66,765,000

Bethlehem Area School District
Schedule on General Obligation Bonds - Series AA of 2009
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
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
TOTAL OUTSTANDING	\$ 5,029,400	\$ 14,410,000

Schedule on General Obligation Bonds - Series B of 2009
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
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
TOTAL OUTSTANDING	\$ 4,555,571	\$ 10,240,000

Bethlehem Area School District
Schedule on General Obligation Bonds - Series of 2010
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 1,389,238	\$ 5,000
2012-13	1,389,160	15,000
2013-14	1,388,860	10,000
2014-15	1,388,650	10,000
2015-16	1,388,400	15,000
2016-17	1,387,987	5,000
2017-18	1,387,837	5,000
2018-19	1,387,672	5,000
2019-20	1,387,498	5,000
2020-21	1,387,297	5,000
2021-22	1,387,098	20,000
2022-23	1,386,297	5,530,000
2023-24	1,154,038	6,475,000
2024-25	878,850	8,135,000
2025-26	451,762	8,605,000
TOTAL OUTSTANDING	\$ 19,140,644	\$ 28,845,000

Schedule on Guaranteed Revenue Bonds - Series of 2010
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 1,497,246	\$ 5,000
2012-13	1,497,167	5,000
2013-14	1,497,087	5,000
2014-15	1,497,008	5,000
2015-16	1,496,928	5,000
2016-17	1,496,849	5,000
2017-18	1,496,769	5,000
2018-19	1,496,690	5,000
2019-20	1,496,610	5,000
2020-21	1,496,531	5,000
2021-22	1,496,451	5,000
2022-23	1,496,372	5,000
2023-24	1,496,292	5,000
2024-25	1,496,213	5,000
2025-26	1,496,133	5,000
2026-27	1,355,172	6,705,000
2027-28	1,005,778	7,150,000
2028-29	632,856	7,620,000
2029-30	238,529	8,445,000
TOTAL OUTSTANDING	\$ 25,682,681	\$ 29,995,000

Bethlehem Area School District
Schedule on Guaranteed Revenue Bonds - Series of 2011
For the Year Ended June 30, 2011

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2011-12	\$ 1,812,963	\$ 5,000
2012-13	1,812,738	5,000
2013-14	1,812,511	5,000
2014-15	1,812,285	5,000
2015-16	1,812,058	5,000
2016-17	1,811,832	5,000
2017-18	1,811,607	5,000
2018-19	1,811,380	5,000
2019-20	1,811,154	5,000
2020-21	1,810,928	5,000
2021-22	1,810,701	5,000
2022-23	1,688,644	1,310,000
2023-24	1,550,723	1,365,000
2024-25	1,403,186	1,925,000
2025-26	1,249,285	2,010,000
2026-27	1,067,825	4,775,000
2027-28	876,995	4,990,000
2028-29	678,627	5,205,000
2029-30	468,129	5,950,000
2030-31	248,494	6,250,000
2031-32	19,178	6,635,000
TOTAL OUTSTANDING	<u>\$ 29,181,243</u>	<u>\$ 40,470,000</u>

S I N G L E A U D I T S E C T I O N

**BETHLEHEM AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR/ PROJECT TITLE	SOURCE CODE	CFDA NUMBER	GRANTOR PASS THROUGH NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED	ACCRUED OR (DEFERRED) AT 7/01/10	REVENUE	EXPENDI- TURES	ACCRUED OR (DEFERRED) AT 6/30/11	FOOTNOTES
<u>U. S. DEPARTMENT OF EDUCATION</u>											
IMPACT AID PUBLIC LAW 81-874	D	84.041	N/A	7/1/10-6/30/11	\$ 18,511	\$ 18,511	\$ -	\$ 18,511	\$ 18,511	\$ -	
READINESS AND EMERGENCY MANAGEMENT FOR SCHOOLS	D	84.184	N/A	8/2/09-6/30/11	\$ 250,000	143,750	78,751	95,550	95,550	30,551	
<u>PASSED THROUGH THE PA. DEPARTMENT OF EDUCATION</u>											
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-100034	7/1/09-9/30/10	\$ 3,051,313	584,860	584,860	-	-	-	5
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-110034	7/1/10-9/30/11	\$ 3,021,175	2,014,117	-	2,957,649	2,957,649	943,532	5
TITLE I SCHOOL IMPROVEMENT SET ASIDE - BASE	I	84.010	042-100034	7/1/09-9/30/10	\$ 159,719	115,353	-	124,946	124,946	9,593	5
TITLE I ACADEMIC ACHIEVEMENT AWARDS	I	84.010	077-100034	7/1/09-9/30/10	\$ 7,200	7,200	1,877	5,323	5,323	-	5
ARRA - TITLE I	I	84.389	127-100034	5/15/09-9/30/10	\$ 1,955,349	450,580	43,196	396,132	396,132	(11,252)	5,9
ARRA - TITLE I SCHOOL IMPROVEMENT	I	84.389	134-100034	4/22/10-9/30/11	\$ 110,833	67,731	-	90,048	90,048	22,317	5,9
TITLE II A IMPROVING TEACHER QUALITY	I	84.367	020-100034	7/1/09-9/30/10	\$ 836,394	223,038	162,833	60,205	60,205	-	
TITLE II A IMPROVING TEACHER QUALITY	I	84.367	020-110034	7/1/10-9/30/11	\$ 847,340	564,893	-	715,446	715,446	150,553	
TITLE III LEP / IMMIGRANT STUDENTS	I	84.365	010-100034	7/1/09-9/30/10	\$ 296,807	63,602	59,062	4,540	4,540	-	
TITLE III LEP / IMMIGRANT STUDENTS	I	84.365	010-110034	7/1/10-9/30/11	\$ 297,710	229,007	-	297,710	297,710	68,703	
SAFE AND DRUG FREE SCHOOLS	I	84.186	100-100034	7/1/09-9/30/10	\$ 52,092	-	(6,360)	6,360	6,360	-	
SAFE AND DRUG FREE SCHOOLS	I	84.186	100-100567	7/1/10-9/30/11	\$ 5,000	2,500	-	1,165	1,165	(1,335)	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100042718	7/1/09-9/30/10	\$ 498,045	217,489	217,489	-	-	-	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100052381	4/1/10-6/30/11	\$ 750,000	395,041	62,500	687,500	687,500	354,959	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100042718	7/1/10-9/30/11	\$ 249,023	150,741	-	249,023	249,023	98,282	
ARRA - STATE FISCAL STABILIZATION FUND	I	84.394	126-100034	7/1/09-6/30/10	\$ 3,089,051	257,421	257,421	-	-	-	9
ARRA - STATE FISCAL STABILIZATION FUND	I	84.394	126-110034	7/1/10-6/30/11	\$ 3,352,416	2,514,312	-	3,352,416	3,352,416	838,104	9
ARRA - EDUCATION JOBS FUND	I	84.410	140-141493	8/10/10-6/30/11	\$ 1,984,053	1,984,053	-	1,984,053	1,984,053	-	9
<u>PASSED THROUGH MIDWESTERN I.U. IV</u>											
TITLE I PARENT INVOLVEMENT MINI-GRANT	I	84.010	N/A	7/1/09-6/30/10	\$ 500	200	200	-	-	-	1
<u>PASSED THROUGH THE COLONIAL I.U. #20</u>											
IDEA	I	84.027	N/A	7/1/09-6/30/10	\$ 1,891,608	484,426	484,426	-	-	-	1,
IDEA	I	84.027	N/A	7/1/10-6/30/11	\$ 1,911,233	1,423,518	-	1,911,233	1,911,233	487,715	1,5
ARRA - IDEA	I	84.391	N/A	2/17/09-9/30/11	\$ 3,033,726	-	434,786	1,559,596	1,559,596	1,994,382	1,5,9
<u>PASSED THROUGH THE I.U. #1</u>											
IDEA - INCLUSIVE PRACTICES	I	84.027	N/A	7/1/09-6/30/10	N/A	9,872	9,541	331	331	-	1,5
<u>PASSED THROUGH NORTHAMPTON COMMUNITY COLLEGE</u>											
FEDERAL ADULT EDUCATION (GED)	I	84.002	N/A	7/1/09-6/30/10	\$ 10,440	21	21	-	-	-	1
<u>PASSED THROUGH PENN STATE UNIVERSITY</u>											
MODELL GRANT	I		N/A	7/1/10-6/30/11	\$ 800	800	-	800	800	-	1
TOTAL U.S. DEPARTMENT OF EDUCATION						11,923,036	2,390,603	14,518,537	14,518,537	4,986,104	
<u>U.S. DEPT. OF HEALTH AND HUMAN SERVICES</u>											
<u>PASSED THROUGH THE P.A. DEPT OF EDUCATION</u>											
<u>FAMILY CENTERS:</u>											
CHILD CARE MANDATORY/MATCH FUNDS	I	93.556	SAP 4100044212	7/1/09-6/30/10	\$ 157,012	66,195	66,195	-	-	-	
CHILD CARE MANDATORY/MATCH FUNDS	I	93.556	SAP 4100044212	7/1/10-6/30/11	\$ 154,337	99,690	-	154,337	154,337	54,647	
CHILD CARE MANDATORY/MATCH FUNDS	I	93.590	SAP 4100044212	7/1/09-6/30/10	\$ 15,953	6,604	6,604	-	-	-	
CHILD CARE MANDATORY/MATCH FUNDS	I	93.590	SAP 4100044212	7/1/10-6/30/11	\$ 15,953	10,281	-	15,953	15,953	5,672	
<u>PASSED THROUGH NORTHAMPTON COUNTY</u>											
<u>TIME-LIMITED FAMILY REUNIFICATION SERVICES:</u>											
CHILD CARE MANDATORY/MATCH FUNDS	I	93.556	SAP 4100044432	7/1/09-6/30/10	\$ 215,000	105,689	105,689	-	-	-	2
CHILD CARE MANDATORY/MATCH FUNDS	I	93.556	SAP 4100044432	7/1/10-6/30/11	\$ 215,000	116,659	-	215,000	215,000	98,341	2
<u>PASSED THROUGH THE PA. DEPARTMENT OF PUBLIC WELFARE</u>											
TITLE 19 MEDICAL ASSISTANCE PROGRAM	I	93.778	N/A	7/1/10-6/30/11	108,326	83,626	-	108,326	108,326	24,700	
TOTAL U.S. DEPT. OF HEALTH AND HUMAN SERVICES						488,744	178,488	493,616	493,616	183,360	

**BETHLEHEM AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2011**

<u>FEDERAL GRANTOR/ PROJECT TITLE</u>	<u>SOURCE CODE</u>	<u>CFDA NUMBER</u>	<u>GRANTOR PASS THROUGH NUMBER</u>	<u>GRANT PERIOD</u>	<u>AWARD AMOUNT</u>	<u>TOTAL RECEIVED</u>	<u>ACCRUED OR (DEFERRED) AT 7/01/09</u>	<u>REVENUE</u>	<u>EXPENDI- TURES</u>	<u>ACCRUED OR (DEFERRED) AT 6/30/10</u>	<u>FOOTNOTE</u>
<u>CORPORATION FOR NATIONAL & COMMUNITY SERVICES</u>											
<u>PASSED THROUGH THE PA.</u>											
<u>DEPARTMENT OF EDUCATION</u>											
LEARN & SERVE AMERICA	I	94.004	019-090021	10/13/09-6/30/10	\$ 20,000	-	(710)	710	710	-	
LEARN & SERVE AMERICA	I	94.004	019-100021	10/15/10-6/30/11	\$ 20,000	10,620	-	10,620	10,620	-	
LEARN & SERVE AMERICA	I	94.004	019-092021	10/13/09-6/30/10	\$ 8,000	1,778	1,550	228	228	-	
LEARN & SERVE AMERICA	I	94.004	019-102021	10/15/10-6/30/11	\$ 11,000	8,556	-	11,000	11,000	2,444	
TOTAL CORPORATION FOR NATIONAL & COMMUNITY SERVICES						20,954	840	22,558	22,558	2,444	
<u>U.S. DEPARTMENT OF LABOR</u>											
<u>PASSED THROUGH THE P.A. DEPT. OF PUBLIC WELFARE</u>											
PIC CAREER LINKING ACADEMY	I	17.269	N/A	8/26/10-6/30/10	\$ 11,282	10,740	10,740	-	-	-	3
PIC CAREER LINKING ACADEMY	I	17.269	N/A	1/03/11-6/30/11	\$ 14,873	252	-	13,586	13,586	13,334	3
PIC CAREER LINKING ACADEMY	I	17.269	N/A	1/03/11-6/30/11	\$ 8,251	3,547	-	4,726	4,726	1,179	3
TOTAL U.S. DEPT. OF LABOR						14,539	10,740	18,312	18,312	14,513	
<u>U.S. DEPARTMENT OF JUSTICE</u>											
<u>PASSED THROUGH UNITED WAY</u>											
222 CORRIDOR ANTI-GANG INITIATIVE	I	16.744	N/A	7/1/09-6/30/10	\$ 2,500	2,021	2,021	-	-	-	
222 CORRIDOR ANTI-GANG INITIATIVE	I	16.744	N/A	7/1/10-6/30/11	\$ 800	-	-	778	778	778	4
TOTAL U.S. DEPT. OF JUSTICE						2,021	2,021	778	778	778	
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>											
<u>PASSED THROUGH PENN STATE UNIVERSITY</u>											
SAFE ROUTES TO SCHOOL	I	20.205	N/A	7/1/09-6/30/10	\$ 5,000	-	(5,000)	5,000	5,000	-	4
TOTAL U.S. DEPT. OF TRANSPORTATION						-	(5,000)	5,000	5,000	-	
<u>U. S. DEPT. OF AGRICULTURE</u>											
<u>PASSED THROUGH THE PA.</u>											
<u>DEPT OF EDUCATION</u>											
NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/01/09 - 6/30/10	N/A - F	319,685	305,865	13,820	13,820	-	8
NATIONAL SCHOOL LUNCH	S	N/A	N/A	7/01/09 - 6/30/10	N/A	22,506	22,506	-	-	-	
NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/01/10 - 6/30/11	N/A - F	2,271,689	-	2,634,999	2,634,999	363,310	8
NATIONAL SCHOOL LUNCH	S	N/A	N/A	7/01/10 - 6/30/11	N/A	158,835	-	183,996	183,996	25,161	
BREAKFAST PROGRAM	I	10.553	N/A	7/01/09 - 6/30/10	N/A - F	6,191	6,191	-	-	-	8
BREAKFAST PROGRAM	S	N/A	N/A	7/01/09 - 6/30/10	N/A	4,037	-	-	-	-	
BREAKFAST PROGRAM	I	10.553	N/A	7/01/10 - 6/30/11	N/A - F	40,118	-	46,284	46,284	6,166	8
BREAKFAST PROGRAM	S	N/A	N/A	7/01/10 - 6/30/11	N/A	26,290	-	30,653	30,653	4,363	
SEVERE NEED BREAKFAST	I	10.553	N/A	7/01/09 - 6/30/10	N/A - F	57,520	57,520	-	-	-	8
SEVERE NEED BREAKFAST	I	10.553	N/A	7/01/10 - 6/30/11	N/A - F	373,824	-	437,791	437,791	63,967	8
AFTER SCHOOL SNACK	I	10.555	N/A	7/01/09 - 6/30/10	N/A - F	6,815	6,815	-	-	-	8
AFTER SCHOOL SNACK	I	10.555	N/A	7/01/10 - 6/30/11	N/A - F	61,866	-	67,375	67,375	5,509	8
SPECIAL MILK	I	10.556	N/A	7/01/09 - 6/30/10	N/A - F	256	256	-	-	-	8
SPECIAL MILK	I	10.556	N/A	7/01/10 - 6/30/11	N/A - F	1,367	-	1,607	1,607	240	8
SUMMER FOOD	I	10.559	N/A	7/01/09 - 6/30/10	N/A - F	81,155	81,155	-	-	-	
SUMMER FOOD	I	10.559	N/A	7/01/10 - 6/30/11	N/A - F	61,017	-	115,408	115,408	54,391	
FRESH FRUIT AND VEGETABLE PROGRAM	I	10.582	N/A	7/01/10 - 6/30/11	N/A - F	124,639	-	142,805	142,805	18,166	
<u>PASSED THROUGH THE PA</u>											
<u>DEPARTMENT OF AGRICULTURE</u>											
USDA COMMODITIES	I	10.555	N/A	7/1/10-6/30/11	N/A	251,645	(17,944)	254,763	254,763	(14,826)	6,7,8
TOTAL U.S. DEPARTMENT OF AGRICULTURE						3,869,455	466,401	3,929,501	3,929,501	526,447	
TOTAL AWARDS						\$ 16,318,749	\$ 3,044,093	\$ 18,988,302	\$ 18,988,302	\$ 5,713,646	
SOURCE: D-DIRECT											
I-INDIRECT											
F-FEDERAL SHARE											
S-STATE SHARE											
TOTAL FEDERAL AWARDS						\$ 16,107,081	\$ 3,017,550	\$ 18,773,653	\$ 18,773,653	\$ 5,684,122	

Bethlehem Area School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

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 7.4% of its total general fund revenue in federal awards, and 56.1% of its total enterprise fund revenue.

Note 3 - Program Disclosure – Footnotes

1. The federal awards passed through the Midwestern IU, Colonial IU, IU #1, Northampton Community College, and Penn State University, under the U.S. Department of Education heading, are part of a consortium of participating school districts. In accordance with directions from the Commonwealth of Pennsylvania, these awards are reported on the basic financial statements as local source revenues.
2. The Time Limited Family Reunification Services, under the U.S. Department of Health and Human Services heading, is reflected as local source revenue in the basic financial statements, as per PDE instructions.
3. 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.
4. The 222 Corridor Anti-Gang Initiative Grant, under the U.S. Department of Justice heading, is reflected as local source revenue in the basic financial statements, as per PDE Instructions. The Safe Routes to School grant, under U.S. Dept. of Transportation heading, is reflected as local source revenue in the basic financial statements as per PDE instructions.
5. The Title I grants using CFDA No. 84.010, under the U.S. Department of Education heading, are part of a cluster program in accordance with OMB Circular A-133 Compliance Supplement with ARRA – Title I grants using CFDA No. 84.389, under the U.S. Department of Education heading. In addition, the IDEA grants using CFDA No. 84.027, under the U.S. Department of Education heading, are part of a cluster program in accordance with OMB Circular A-133 Compliance Supplement with ARRA- IDEA grants using CFDA No. 84.391, under the U.S. Department of Education heading.
6. The District received non-monetary assistance of \$251,645 in the form of commodities. These commodities are valued at U.S.D.A.'s approximate costs. During the 2010-11 fiscal year, the District used \$254,763 in commodities and established a year end inventory of \$14,826 at June 30, 2011.
7. The amount recognized as revenue in the Schedule of Expenditures of Federal Awards, under the U.S. Department of Agriculture heading, represents the commodities used, versus the commodities received, which are recognized as revenue in the basic financial statements.

Bethlehem Area School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

8. The National School Lunch, National School Breakfast, Special Milk and Donated Commodities programs, under the U.S. Department of Agriculture heading, are considered a cluster program in accordance with OMB Circular A-133 Compliance Supplement.
9. The programs reporting this footnote are grants received using funds from the American Recovery and Reinvestment Act.

FINANCIAL STATEMENT RECONCILIATION

General Fund Federal Source Revenues	\$ 11,347,750
Federal Grants in Local Sources	3,711,049
Food Service Fund Federal Revenue	<u>3,711,734</u>
Total Federal Revenue, per financial statements	\$ 18,770,533
Less - Medical Access	-
Plus: Change in Donated Commodities	<u>3,120</u>
Total Federal Revenue Reported on SEFA	<u>\$ 18,773,653</u>



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 statement for the General Fund of Bethlehem Area School District as of and for the year ended June 30, 2011, which collectively comprise Bethlehem Area School District's basic financial statements and have issued our report thereon dated January 5, 2012. 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

Management of Bethlehem Area School District is responsible for establishing and maintaining effective 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bethlehem Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in *internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Bethlehem Area School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* (2011-1, 2011-2, and 2011-3) to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* (2011-4 and 2011-5) to be significant deficiencies.

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 noted certain matters that we reported to management of Bethlehem Area School District in a separate letter dated January 5, 2012.

Bethlehem Area School District's response to the findings identified in our audit is described in the accompanying corrective action plan. 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,

Spina Associates, P.C.

January 5, 2012



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 THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited Bethlehem Area School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Bethlehem Area School District's major federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Bethlehem Area School District's internal control over compliance.

Board of School Directors

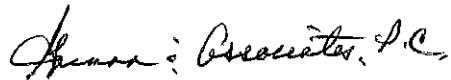
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-3 to be a material weakness.

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

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,



January 5, 2012

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

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
84.010, 84.389	Title I Cluster
84.394	State Fiscal Stabilization Fund
84.027, 84.391	IDEA Cluster
84.287	21 st Century Community Learning Center
84.410	Education Job Funds
10.555, 10.553, 10.559	National School Lunch/ Donated Commodities Cluster

Percentage of programs tested to total awards 90.0%

Dollar threshold used to distinguish between type A and type B program: \$563,210

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

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

Section II – Financial Statement Findings

Significant Deficiency 2011-1 (All Funds Pooled Cash & Investments – Bank Reconciliations)

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 and investments at year end, we discovered the general ledger account was not properly reconciled to the bank statement balance.
Cause:	During our investigation to determine why this was not done, we discovered three debt service payments not posted into the computer system, federal revenue from Title 19 (medical reimbursement) posted twice, and an error was made in posting the wrong amount of retirement revenue.
Effect:	The result of this condition is that the each respective fund's financial position could be understated or overstated with errors or fraud occurring without being detected. 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 2011-2 (Self-Insurance Fund – Transactions)

Criteria:	The District is required to record all transactions correctly to ensure the financial statements are correct and monitor the control activities done by staff.
Condition:	We discovered errors in transaction recording that understates the expenditures of this fund. For example, \$1.3 million of unpaid bills owed to Capital Blue Cross and Caremark were not recorded in the computer system at year end.
Cause:	This condition appears to have been caused because throughout the year this fund is maintained on the cash basis and was not properly converted to the accrual basis at year end.
Effect:	Improper accounting recognition lead to an understatement of the expenditures in this fund.
Recommendation:	We wish to remind management that this fund must be reported on the accrual basis at year end and as such, incurred, but not reported, claims must be reported as accounts payable at year end to properly reflect the correct financial position.

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

Significant Deficiency 2011-4 (General Fixed Assets)

Criteria:	Management is required to incorporate proper controls to safeguard capital assets of the District and making sure all assets have been properly valued.
Condition:	We discovered that in the current year the District stop tracking fixed asset records for the Day Care Fund and Food Service fund. In addition they are 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.
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. There was also a personnel change during the year resulting in misplaced records.
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 improve their controls over disposals and consider having a re-appraisal done using a tagging system for all capital assets.

Significant Deficiency 2011-5 (Information and Communication Component of Internal Controls)

Criteria:	This component of controls is designed to ensure transactions flow through the accounting system in a normal process with proper communication upstream between staff and management and downstream with management giving directives to staff to make sure the financial statements are prepared in accordance with accounting principles.
Condition:	There continues to be problems in recording transactions to enable individual account balances to be correct in preparing the financial statements.
Cause:	It appears there is a failure to systematically perform individual functions accurately with proper communication channels between staff personnel and senior management personnel.
Effect:	The failure to properly follow established steps determined by current management can cause the financial statements to be prepared that would result in misstatements to the financial position of the District.
Recommendation:	We recommend to the staff and management to maintain an open line of communication that staff follows management directives and staff can utilize management's expertise to help with problems in the system.

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

Section III – Findings and Questioned Costs for Federal Awards

Significant Deficiency 2011-3 Federal Awards (Allowable Costs)

Federal Awards:

Passed Through Colonial I.U.20

CDFA No. 84.391 – IDEA – ARRA

Passed Through PA Department of Education

CDFA No. 84.394 – State Fiscal Stabilization Fund

CDFA No. 84.287 – 21st Century Community Learning Center

CDFA No. 84.010 – Title I Improving Basic Programs

CDFA No. 84.389 – Title I - ARRA

Questioned Costs: N/A

Criteria:	The District is to maintain evidence to support that all costs charged to the federal IDEA program, State Fiscal Stabilization Fund, Title I, and 21 st Century grants are allowable under federal cost principles.
Condition:	The grants office failed to maintain sufficient documentation to show that only allowable costs were charged to federal programs. This reflects material weaknesses in control activities, risk assessment, and monitoring components of internal control.
Cause:	The postings in the general ledger do not adequately display information on whose salaries are charged to the programs and there was no manual documents maintained to reflect these costs.
Effect:	The failure to not properly maintain adequate records can cause unallowable costs to be charged to a federal program. However, through exerted efforts the District was able to re-construct the documentation to prove that all costs charged to these programs were allowable under federal cost principles.
Recommendation:	We recommend management properly monitor their staff to ensure supporting documentation is available to support what is charged to the program, and staff maintain spreadsheets showing who was charged, percentage of time spent, the amounts charged, and the type of expenditure charged to the above-mentioned programs.

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, 2011**

Prior Year Findings 2009-2010

Significant Deficiency 2010-1 (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 not properly reconciled to the bank statement balance.
Cause:	During our investigation to determine why this was not done, we discovered the personnel assigned to this function did not know why the balances did not agree. 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 each respective fund's financial position could be understated or overstated with errors or fraud occurring without being detected. In addition, the auditors spent additional time to reconcile the account, costing the District additional audit costs.
Status:	This condition continues to exist during the 2010-2011 fiscal year; however, steps have been taken subsequently to correct this problem going forward.

Significant Deficiency 2010-2 (General Fund – Accounts Payable)

Criteria:	Control Activities component of internal controls require reconciliations to be performed on material accounts in the general ledger, including the accounts payable account on a regular basis.
Condition:	During our review of the account balance in accounts payable at year end, we discovered the general ledger account balance was materially misstated.
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 the additional time to reconcile the account, costing the District additional audit costs. In addition, errors or fraud could occur without being detected.
Status:	Corrective action was taken.

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Significant Deficiency 2010-3 (General Fund - Investment Accounts)

Criteria:	As with any balance sheet account in all funds, the investment accounts should be reconciled to the monthly statements received from the investment advisors on a monthly basis.
Condition:	During our review of investment accounts, we found no evidence to support that these accounts were reconciled during the fiscal year.
Cause:	This condition is created because staff personnel did not perform the reconciliations and management failed to monitor the staff to ensure these procedures were performed.
Effect:	The failure to reconcile the investment accounts can cause an understatement or overstatement of each respective fund's financial position and can cause errors or fraud to occur without being detected.
Status:	The condition continues to exist, but has been combined into one issue that has been corrected in the 2011-2012 fiscal year.

Significant Deficiency 2010-4 (Food Service Fund – Cash Receipts)

Criteria:	All transactions should be recorded on a timely basis supported with original documentation.
Condition:	During our review of receipts for the next fiscal year, we discovered the food service department has not turned over any receipt records to the business office for five months.
Cause:	According to the food service director the receipts were not available to us to review because they had not been summarized at the time of our request.
Effect:	The failure to submit receipts on a timely basis can cause errors or fraud to occur without being detected on a timely basis.
Status:	Corrective Action was taken.

Significant Deficiency 2010-5 (Capital Reserve Fund - Coding)

Criteria:	Proper controls should be in place to ensure expenditures are coded to the correct function and object codes as outlined in the PA School Accounting Manual.
Condition:	We discovered \$654,796 of expenditures that were coded to the wrong function codes.
Cause:	Apparently the individual responsible for coding these expenditures needs additional training to understand the proper codes that should be used

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Effect: The failure to use the proper coding can cause errors in proper reimbursements due the district by the Commonwealth.

Status: Corrective action was taken.

Significant Deficiency 2010-6 (Capital Project Fund – Investments)

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 was arbitrarily adjusted with no supporting evidence.

Cause: It appears appropriate District personnel could not find the reasons why the balance was incorrect.

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 2010-7 (Day Care Fund – Transactions)

Criteria: The District should establish controls to make sure adjustments to various accounts are limited to those accounts within each respective accounting fund.

Condition: During our review of this fund, we discovered entries posted between this fund and other funds that caused incorrect balances.

Cause: It appears business office personnel at staff level have no knowledge in understanding how entries made between funds can affect account balances.

Effect: The failure to post both sides of an entry in the same fund can cause the fund to be out of balance and/or, at the very least, can cause individual account balances to be incorrect.

Status: Corrective action was taken.

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Significant Deficiency 2010-8 (Non-Expendable Trust Fund – Transactions)

Criteria:	The District should maintain control over all reported funds within its computer system.
Condition:	During our review of this fund, we discovered the assistant business manager did not include this fund or its transactions in the new IFAS computer system.
Cause:	According to our investigation, this was an oversight.
Effect:	The failure to maintain adequate records on the transactions within this fund can cause the financial statements to be materially misstated.
Status:	Corrective action was taken.

Significant Deficiency 2010-9 (Activity Fund – Transactions)

Criteria:	The District should maintain accurate records within the computer system to support the transactions occurring in the student clubs during the year.
Condition:	Manual records are maintained by each school with a quarterly report issued to the assistant business manager, who enters the summarized information into the computer system. However, only one entry was entered in the system for the whole year transactions, with one elementary school not reported at all.
Cause:	It appears there is poor monitoring of what each school submits to the business office.
Effect:	The failure to record this information can create material misstatements within the student activity fund's financial statement.
Status:	Corrective action was taken.

Significant Deficiency 2010-10 (Trust and Agency Fund – Transactions)

Criteria:	Contributions and awards to bilingual scholarships should be properly recorded in this fund.
Condition:	During our review of these transactions, we discovered the business office was recording all contributions and awards into one general ledger account in the computer system. As such, it is difficult to determine what contributions and what awards go to which scholarship.
Cause:	It appears controls were never designed to reconcile these transactions by scholarship within the computer system.
Effect:	The failure to show each scholarship account separately can cause the wrong award to go to the wrong scholarship.

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Status: Corrective action was taken.

Significant Deficiency 2010-11 Monitoring Component of Internal Controls

Criteria: Management is required to monitor the staff activities to ensure transactions are recorded properly, accounts are reconciled correctly, and maintaining proper balances.

Condition: Management is either not monitoring the staff correctly or is not correcting the mistakes to ensure account balances are correct in all funds of the District.

Cause: Most, if not all of the above-mentioned deficiencies are occurring without correction because of the failure to properly monitor, train, and adjust errors being made by the staff.

Effect: The failure to not properly monitor staff can cause errors or fraud to occur that can materially misstate the financial statements.

Status: Corrective action was taken.

Significant Deficiency 2010-12 Rental Subsidy Reimbursements

Criteria: Management is needs to submit rental reimbursement vouchers to the Commonwealth each year on debt service payments it makes on PlanCon projects in order to receive partial reimbursement on those costs from the Commonwealth.

Condition: During this fiscal year no reimbursements were received by the District on debt service payments made by the District to the extent that approximately \$778,000 is owed to the District for this past year. Over \$2,665,000 was received subsequent to year end.

Cause: Management failed to submit reimbursements on a timely basis during this year and the prior year preventing the District to receive cash flows timely to pay bills and recognize revenue.

Effect: The failure to not properly monitor staff can cause errors or fraud to occur that can materially misstate the financial statements. In addition the District has lost investment earnings and cash flows.

Status: Corrective action was taken.

Significant Deficiency 2010-13 (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

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

	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. The appointed tax collector is not following mandated monthly reports by DCED.
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.
Status:	Corrective action was taken.

Significant Deficiency 2010-14 (Athletic Fund Expenditures)

Criteria:	The District is required to record payments made to expenditure accounts in accordance with the PA School Accounting Manual.
Condition:	We discovered payments made to officials, certain supplies and other payments were netted against revenue accounts.
Cause:	This condition appears to be an oversight on the part of the individuals coding these payments or a lack of proper training on using the correct account codes.
Effect:	The failure to code disbursements to expenditure accounts understates the true revenues and expenditures occurring within the fund, which can potentially materially misstate the financial statements of the fund.
Status:	Corrective action was taken.

Significant Deficiency 2010-15 (Self-Insurance Fund – Misposting errors)

Criteria:	The District is required to record all transactions correctly to ensure the financial statements are correct and monitor the control activities done by staff.
Condition:	A previous year correction made by the auditors was ignored and a prior year transaction was recorded in the current year records for payments made on prescription coverage.
Cause:	This condition appears to have been caused by human error or insufficient knowledge on the proper handling of transactions.
Effect:	These mispostings and the failure to monitor the recording of this journal entry caused the bank account to have the incorrect balance.

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Status: Corrective action was taken.

Significant Deficiency 2010-16 (General Fixed Assets)

Criteria: Management is required to incorporate proper controls to safeguard capital assets of the District and 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, auctions are held with items sold and no reductions from the fixed asset records are done to correlate the disposals.

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: Condition continues to exist

Significant Deficiency 2010-17 (Day Care Fund – Prepayments)

Criteria: In accordance with governmental accounting principles, prepayments of next year tuition should not be recognized as revenue in the current year.

Condition: The prior year prepayments were not recognized in the current year and the current year prepayments were not correctly set up as such.

Cause: The person responsible for reversing the prior year prepayment and setting up the current year prepayments did not correctly perform these transactions.

Effect: The failure to properly record these transactions understates or overstates the current year revenue, which causes the net assets to be incorrect.

Status: Corrective action was taken.

Significant Deficiency 2010-18 (Food Service Fund – Federal and State Subsidies)

Criteria: The reimbursement of free and reduced lunches and breakfasts should be recorded as revenue in the year of service.

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Condition:	The District personnel made numerous errors in recording the correct subsidies received during the year that we had to make over \$440,000 in corrections to the revenue accounts.
Cause:	Human errors caused these mistakes with poor monitoring and supervision of management.
Effect:	The incorrect recording of these transactions overstated revenue by \$440,000. We have made the appropriate corrections to the records.
Status:	Corrective Action was taken.

Significant Deficiency 2010-19 Federal Awards (Allowable Costs)

Criteria:	The District is to maintain evidence to support that all costs charged to the federal IDEA program, State Fiscal Stabilization Fund, and 21 st Century grants are allowable under federal cost principles.
Condition:	The business office failed to maintain sufficient documentation to show that only allowable costs were charged to the federal programs. This reflects material weaknesses in control activities, risk assessment, and monitoring components of internal control.
Cause:	The postings in the general ledger do not adequately display information on whose salaries are charged to the programs and there was no manual documents maintained to reflect these costs.
Effect:	The failure to not properly maintain adequate records can cause unallowable costs to be charged to a federal program. However, through exerted efforts the District was able to re-construct the documentation to prove that all costs charged to these programs were allowable under federal cost principles.
Status:	Corrective action was taken.

Significant Deficiency 2010-20 Federal Awards (Allowable Costs and Reporting)

Criteria:	The District is to charge allowable costs to the federal State Fiscal Stabilization Fund ARRA grant according to federal cost principles.
Condition:	While testing expenditures charged to this grant, we discovered \$88,419 of unallowable maintenance costs. In addition, the reporting provided to the pass-through entity was incorrect.
Cause:	It appears the pass-through entity approved a budget including maintenance costs; therefore, the District was unaware that maintenance costs are not allowed under this federal program.

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Effect: The failure to follow cost principles associated with this grant can cause the District to remit federal dollars back to the federal government. Fortunately, the District replaced these unallowable costs with allowable costs upon our notification of this problem. As such, there is no compliance issue.

Status: Corrective action was taken.

Prior Year Findings 2008-2009

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.

Status: This condition continues to exist, but corrections have been made in the 2011-12 fiscal year.

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 Prior Year Findings
For the Year Ended June 30, 2011**

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

Status: Corrective action was taken.

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.

Status: Corrective action was taken

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.

Status: This condition continues to exist.

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

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 account balance for accounts payable was arbitrarily adjusted 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 in 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 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.
Status:	Management continues to have problems in monitoring transactions in this fund.

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Prior Year Findings 2007-2008

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, but corrections have been made in the 2011-12 fiscal year.

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:	Corrective action was taken

**Bethlehem Area School District
Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

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, except the balances in the fixed asset system now agrees with the financial statements.



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, 2011, 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,

January 5, 2012

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Northampton, Pennsylvania 18067 - 1573
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Bethlehem Area School District
Schedule of Revenues and Expenditures of Family Center Grant
For the Year Ended June 30, 2011

REVENUES	DEPARTMENT OF PULBIC WELFARE GRANT	
	BUDGET	ACTUAL
Federal		
CFDA 93.556	\$ 154,337	\$ 154,337
CFDA 93.590	15,953	15,953
State	<u>150,484</u>	<u>150,484</u>
Total Revenues	<u>\$ 320,774</u>	<u>\$ 320,774</u>
 EXPENDITURES		
Personnel		
Salaries and Benefits	<u>\$ 316,082</u>	<u>\$ 316,082</u>
Operating		
Professional/Technical Svcs	-	-
Training/Conferences	673	673
Transportation/Travel	1,500	1,500
Service Contracts	-	-
Communications	-	-
Facilty Expenses	-	-
Supplies	1,174	1,174
Evaluation	-	-
FC PAT Training	1,345	1,345
Other	-	-
Indirect Costs	<u>-</u>	<u>-</u>
Total Operations	<u>4,692</u>	<u>4,692</u>
Total Expenditures	<u>\$ 320,774</u>	<u>\$ 320,774</u>

Bethlehem Area School District
Schedule of Revenues and Expenditures of Time-Limited Family Reunification Grant
For the Year Ended June 30, 2011

REVENUES	DEPARTMENT OF PULBIC WELFARE GRANT	
	BUDGET	ACTUAL
Federal		
CFDA 93.556	\$ 215,000	\$ 215,000
CFDA 93.590	-	-
State	-	-
Total Revenues	\$ 215,000	\$ 215,000
EXPENDITURES		
Personnel		
Salaries and Benefits	\$ 210,125	\$ 210,125
Operating		
Professional/Technical Svcs	-	-
Training/Conferences	500	500
Transportation/Travel	2,250	2,250
Communications	1,225	1,225
Supplies	900	900
Parent Training	-	-
Equipment	-	-
Audit Fee	-	-
Indirect Costs	-	-
Other	-	-
Total Operations	4,875	4,875
Total Expenditures	\$ 215,000	\$ 215,000

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Section II – Financial Statement Corrective Action Plan

Significant Deficiency 2011-1 (All Funds Pooled Cash & Investments – Bank Reconciliations)

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 and investments at year end, we discovered the general ledger account was not properly reconciled to the bank statement balance.
Cause:	During our investigation to determine why this was not done, we discovered three debt service payments not posted into the computer system, federal revenue from Title 19 (medical reimbursement) posted twice, and an error was made in posting the wrong amount of retirement revenue.
Effect:	The result of this condition is that the each respective fund's financial position could be understated or overstated with errors or fraud occurring without being detected. 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 segregated many cash accounts by fund using the audited balances as of 6/30/10 with the intention to have transactions processed independently by fund, thereby eliminating the pooled cash account. The completion of this process was materially hampered by key staffing vacancies in the business office and obstacles presented by the accounting software. This did not occur until after the fiscal year was ended, so this deficiency was not able to be fully addressed and corrected until the current fiscal year. Currently beginning July 2011, all fund bank accounts are being reconciled on a monthly basis to the general ledger. New accounting software has been implemented January 2012 that will allow for transaction processing and accounting individually by fund which eliminates any reference to pooled cash or accounting. Management has also been monitoring this process on a monthly basis.

Significant Deficiency 2011-2 (Self-Insurance Fund – Transactions)

Criteria:	The District is required to record all transactions correctly to ensure the financial statements are correct and monitor the control activities done by staff.
Condition:	We discovered errors in transaction recording that understates the expenditures of this fund. For example, \$1.3 million of unpaid bills owed to Capital Blue Cross and Caremark were not recorded in the computer system at year end.

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Cause:	This condition appears to have been caused because throughout the year this fund is maintained on the cash basis and was not properly converted to the accrual basis at year end.
Effect:	Improper accounting recognition lead to an understatement of the expenditures in this fund.
Recommendation:	We wish to remind management that this fund must be reported on the accrual basis at year end and as such, incurred, but not reported, claims must be reported as accounts payable at year end to properly reflect the correct financial position.
Response:	Management agrees with this recommendation as stated and has initiated procedures to ensure that the self insurance fund is reported on the accrual basis at year end.

Significant Deficiency 2011-4 (General Fixed Assets)

Criteria:	Management is required to incorporate proper controls to safeguard capital assets of the District and making sure all assets have been properly valued.
Condition:	We discovered that in the current year the District stopped tracking fixed asset records for the Day Care Fund and Food Service fund. In addition they are not maintaining a tagging system in order to locate and keep track of its capital assets, except the technology department is maintaining a separate tagging system for technology assets.
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. There was also a personnel change during the year resulting in misplaced records.
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 improve their controls over disposals and consider having a re-appraisal done using a tagging system for all capital assets.
Response:	Management has taken steps to ensure that all fixed asset acquisitions and reductions are properly recorded. Management will consider a new appraisal of fixed assets with tagging as budgetary resources permit.

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Significant Deficiency 2011-5 (Information and Communication Component of Internal Controls)

Criteria:	This component of controls is designed to ensure transactions flow through the accounting system in a normal process with proper communication upstream between staff and management and downstream with management giving directives to staff to make sure the financial statements are prepared in accordance with accounting principles.
Condition:	There continues to be problems in recording transactions to enable individual account balances to be correct in preparing the financial statements.
Cause:	It appears there is a failure to systematically perform individual functions accurately with proper communication channels between staff personnel and senior management personnel.
Effect:	The failure to properly follow established steps determined by current management can cause the financial statements to be prepared that would result in misstatements to the financial position of the District.
Recommendation:	We recommend to the staff and management to maintain an open line of communication that staff follows management directives and staff can utilize management's expertise to help with problems in the system.
Response:	Management has amended the automatic posting of entries to mitigate these concerns and has implemented controls to prohibit unbalanced (one sided) entries. With the restoration of full staffing levels in the business office, priority has been placed on continuous staff training of proper accounting procedures and raising awareness on the levels of accountability necessary to eliminate this deficiency.

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Section III – Findings and Questioned Costs for Federal Awards

Significant Deficiency 2011-3 Federal Awards (Allowable Costs)

Federal Awards:

Passed Through Colonial I.U.20

CDFA No. 84.391 – IDEA – ARRA

Passed Through PA Department of Education

CDFA No. 84.394 – State Fiscal Stabilization Fund

CDFA No. 84.287 – 21st Century Community Learning Center

CDFA No. 84.010 – Title I Improving Basic Programs

CDFA No. 84.389 – Title I - ARRA

Questioned Costs: N/A

Criteria:	The District is to maintain evidence to support that all costs charged to the federal IDEA program, State Fiscal Stabilization Fund, Title I, and 21 st Century grants are allowable under federal cost principles.
Condition:	The grants office failed to maintain sufficient documentation to show that only allowable costs were charged to federal programs. This reflects material weaknesses in control activities, risk assessment, and monitoring components of internal control.
Cause:	The postings in the general ledger do not adequately display information on whose salaries are charged to the programs and there was no manual documents maintained to reflect these costs.
Effect:	The failure to not properly maintain adequate records can cause unallowable costs to be charged to a federal program. However, through exerted efforts the District was able to re-construct the documentation to prove that all costs charged to these programs were allowable under federal cost principles.
Recommendation:	We recommend management properly monitor their staff to ensure supporting documentation is available to support what is charged to the program, and staff maintain spreadsheets showing who was charged, percentage of time spent, the amounts charged, and the type of expenditure charged to the above-mentioned programs.
Response:	Management agrees with this recommendation and has taken steps to ensure that current fiscal year federal awards are properly recorded and supporting documentation attached.

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Prior Year Findings 2009-2010

Significant Deficiency 2010-1 (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 not properly reconciled to the bank statement balance.
Cause:	During our investigation to determine why this was not done, we discovered the personnel assigned to this function did not know why the balances did not agree. 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 each respective fund's financial position could be understated or overstated with errors or fraud occurring without being detected. In addition, the auditors spent additional time to reconcile the account, costing the District additional audit costs.
Status:	This condition continues to exist during the 2010-2011 fiscal year; however, steps have been taken subsequently to correct this problem going forward.
Response:	Management segregated many cash accounts by fund using the audited balances as of 6/30/10 with the intention to have transactions processed independently by fund, thereby eliminating the pooled cash account. The completion of this process was materially hampered by key staffing vacancies in the business office and obstacles presented by the accounting software. This did not occur until after the fiscal year was ended, so this deficiency was not able to be fully addressed and corrected until the current fiscal year. Currently beginning July 2011, all fund bank accounts are being reconciled on a monthly basis to the general ledger. New accounting software has been implemented January 2012 that will allow for transaction processing and accounting individually by fund which eliminates any reference to pooled cash or accounting. Management has also been monitoring this process on a monthly basis.

Significant Deficiency 2010-3 (General Fund - Investment Accounts)

Criteria:	As with any balance sheet account in all funds, the investment accounts should be reconciled to the monthly statements received from the investment advisors on a monthly basis.
Condition:	During our review of investment accounts, we found no evidence to support that these accounts were reconciled during the fiscal year.

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Cause:	This condition is created because staff personnel did not perform the reconciliations and management failed to monitor the staff to ensure these procedures were performed.
Effect:	The failure to reconcile the investment accounts can cause an understatement or overstatement of each respective fund's financial position and can cause errors or fraud to occur without being detected.
Status:	The condition continues to exist, but has been combined into one issue that has been corrected in the 2011-2012 fiscal year.
Response:	Management segregated many cash accounts by fund using the audited balances as of 6/30/10 with the intention to have transactions processed independently by fund, thereby eliminating the pooled cash account. The completion of this process was materially hampered by key staffing vacancies in the business office and obstacles presented by the accounting software. This did not occur until after the fiscal year was ended, so this deficiency was not able to be fully addressed and corrected until the current fiscal year. Currently beginning July 2011, all fund bank accounts are being reconciled on a monthly basis to the general ledger. New accounting software has been implemented January 2012 that will allow for transaction processing and accounting individually by fund which eliminates any reference to pooled cash or accounting. Management has also been monitoring this process on a monthly basis.

Significant Deficiency 2010-16 (General Fixed Assets)

Criteria:	Management is required to incorporate proper controls to safeguard capital assets of the District and 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.
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:	Condition continues to exist
Response:	Management has taken steps to ensure that all fixed asset acquisitions and reductions are properly recorded. Management will consider a new appraisal of fixed assets with tagging as budgetary resources permit.

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Prior Year Findings 2008-2009

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.
Status:	This condition continues to exist, but corrections have been made in the 2011-12 fiscal year.
Response:	Management segregated many cash accounts by fund using the audited balances as of 6/30/10 with the intention to have transactions processed independently by fund, thereby eliminating the pooled cash account. The completion of this process was materially hampered by key staffing vacancies in the business office and obstacles presented by the accounting software. This did not occur until after the fiscal year was ended, so this deficiency was not able to be fully addressed and corrected until the current fiscal year. Currently beginning July 2011, all fund bank accounts are being reconciled on a monthly basis to the general ledger. New accounting software has been implemented January 2012 that will allow for transaction processing and accounting individually by fund which eliminates any reference to pooled cash or accounting. Management has also been monitoring this process on a monthly basis.

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.

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

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.

Response: Management has taken steps to ensure that all fixed asset acquisitions and reductions are properly recorded. Management will consider a new appraisal of fixed assets with tagging as budgetary resources permit.

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.

Status: Management continues to have problems in monitoring transactions in this fund.

Response: Management has initiated procedures to ensure that the self insurance fund is reported on the accrual basis at year end. Management segregated many cash accounts by fund using the audited balances as of 6/30/10 with the intention to have transactions processed independently by fund, thereby eliminating the pooled cash account. The completion of this process was materially hampered by key staffing vacancies in the business office and obstacles presented by the accounting software. This did not occur until after the fiscal year was ended, so this deficiency was not able to be fully addressed and corrected until the current fiscal year. Currently beginning July 2011, all fund bank accounts are being reconciled on a monthly basis to the general ledger. New accounting software has been implemented January 2012 that will allow for transaction processing and accounting individually by fund which eliminates any reference to pooled cash or accounting. Management has also been monitoring this process on a monthly basis.

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

Prior Year Findings 2007-2008

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, but corrections have been made in the 2011-12 fiscal year.
Response:	Management segregated many cash accounts by fund using the audited balances as of 6/30/10 with the intention to have transactions processed independently by fund, thereby eliminating the pooled cash account. The completion of this process was materially hampered by key staffing vacancies in the business office and obstacles presented by the accounting software. This did not occur until after the fiscal year was ended, so this deficiency was not able to be fully addressed and corrected until the current fiscal year. Currently beginning July 2011, all fund bank accounts are being reconciled on a monthly basis to the general ledger. New accounting software has been implemented January 2012 that will allow for transaction processing and accounting individually by fund which eliminates any reference to pooled cash or accounting. Management has also been monitoring this process on a monthly basis.

**Bethlehem Area School District
Corrective Action for Schedule of Prior Year Findings
For the Year Ended June 30, 2011**

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, except the balances in the fixed asset system now agrees with the financial statements.
Response:	Management has taken steps to ensure that all fixed asset acquisitions and reductions are properly recorded. Management will consider a new appraisal of fixed assets with tagging as budgetary resources permit.