

**REPORT ON  
BETHLEHEM AREA SCHOOL DISTRICT  
SINGLE AUDIT REPORT  
FISCAL YEAR ENDED JUNE 30, 2010**

# BETHLEHEM AREA SCHOOL DISTRICT

## Single Audit Report

For the Fiscal Year Ended June 30, 2010

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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, 2010, 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 13, 2011



# 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, 2010, and have issued our report thereon dated January 13, 2011.

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 30, 2010.

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 13, 2011. 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 2009-10 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.

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

### **MATERIAL WEAKNESSES**

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

As was the case last year, the account analyst and bookkeeper are suppose to reconcile all the cash accounts on a monthly basis to the cash balances in the computer system. Unfortunately, like last year, this was not done in a correct manner. Items were posted to wrong accounts, transactions occurring during the year were not posted at all, and some were posted twice. The amount of adjustments we had to make are too numerous to mention.

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

#### **General Fund – Accounts Payable**

During our review of this balance sheet account, we requested a listing of what was in this account. The business office could not provide us any listing. We were given a reconciliation report that gave us a listing of vendors and corresponding invoice information of what was suppose to be in this liability account at year end. Unfortunately, this report total did not agree with the balance in the computer system general ledger. We had to trace every transaction in this account to determine where the errors occurred and properly correct them.

The assistant business manager attempted to reverse the additional accounts payable that we set up last year on behalf of the District, since district personnel didn't do this, and unfortunately could not perform this reversal correctly. Specifically, in two items the wrong expenditure accounts were credited, the reversal was made incorrectly twice. Since we had to make over twenty adjustments to this account alone, it is obvious nobody was monitoring or understanding how to correct this account balance.

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

**General Fund – Investment Accounts**

During our review of the District's investment accounts, we discovered these accounts were not properly reconciled the entire fiscal year. If these accounts were reconciled to the general ledger computer system, the account analyst or assistant business manager would have realized that multiple general ledger accounts were being used for the same bank account. When the business office rolled over to the IFAS system, new account codes were created and used during the year, but district personnel failed to merge these accounts with the existing accounts from the previous software containing opening balances.

The PSDLAF investment account had various deposit or withdrawal transactions that were never recorded into the computer system. For example, on October 6, 2009, a \$34,785.30 amount from PDE was deposited into the account, but was never recorded into the accounting system. By the way, this is a federal grant under the American Recovery and Reinvestment Act. There was an \$805,469 debt service payment made from this account, but recorded under Wachovia Cash Management Account. Another example of the errors occurring is the recording into the computer system of a wire transfer (\$3,809) that never happened. If these accounts were properly reconciled these errors and the numerous errors not reported here would have been found and could have been corrected.

The failure to properly reconcile and monitor this process can create material misstatements to the financial statements without being detected by anyone. We recommend the District correct these problems and the issues that created them as soon as possible.

**Food Service Fund – Cash Receipts**

During our review of subsequent receipt testing in the food service area, we requested to see any receipts received from July 2010 through October 2010. We discovered that five months into the 2010-11 fiscal year, the business office had not received any current year receipts from the food service department. We asked the person who does the bank reconciliations if the school lunch monies were deposited? Of course this was a rhetorical question, since bank reconciliations are not being performed nobody in the business office would know if the lunch monies were properly deposited.

As such, we contacted the food service department for the receipts. We were informed that the receipts would not be available until the following week because the food service director needed time to summarize all the deposits that had been made for the current year. Another way of explaining this deficiency is that the food service department is taking four months to turn over deposit records to the business office. We find it amazing that this reporting deficiency goes undetected in the business office.

We wish to recommend management takes the appropriate steps to correct this failure to report transactions into the computer system and properly monitor staff within other departments on a timely basis.

**Capital Reserve Fund – Coding**

During our review of expenditures within this fund, we discovered \$654,796 coded to incorrect expenditure accounts. These costs were coded to repairs and maintenance functions versus capital improvement codes. The failure to properly code these costs can impair future rental subsidy payments from the Commonwealth and create misunderstandings on the purpose of the projects.

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

**Capital Project Fund – Investments**

During our review of the investment account within this fund we asked the account analyst how amounts reported in a certain journal entry were created. The individual's response was that the amounts were numbers that were backed into. In other words, the person had no idea how the amounts shown in the journal entry were created, which could help explain why the investment accounts within this fund are not properly reconciled to the computer system.

We recommend management properly monitors their staff to ensure their performance adds to the validity of account balances within this fund.

**Day Care Fund - Transactions**

During our review of this fund, we discovered the business office was posting journal entries between funds. That is, the debit would go into the General Fund, and the credit would be charged to this fund or vice versa. This practice was being done throughout the computer system and caused various accounts within each fund to be out of balance. This caused enormous time on our part to find the errors. In addition, the Keystone Star Grant from the Commonwealth was recorded in the General Fund and should have been recorded in the Day Care Fund. We corrected this miscoding of revenue and expenditures.

We suggest management improve the monitoring of this fund and eliminate the ability for any staff member to record journal entries between funds in the computer system.

**Non-Expendable Trust Fund - Transactions**

During our review of this trust fund, we discovered the new IFAS system did not have this fund included onto the computer system. As such, no transactions pertaining to the scholarships were recorded the entire year. We made the necessary corrections and journalized all the transactions pertaining to this fund that were inadvertently recorded in the general fund into fund 73.

In the future, we suggest management review each fund reported on their financial statements when converting to new software. We also like to recommend that this fund be used to pay all future scholarships.

**Activity Fund – Transactions**

During our review of the student accounts maintained in this fund, we discovered that the assistant business manager records one entry at year end for all student clubs among the various schools. Each school maintains manual records. Each school then submits a quarterly report to the business office where they are summarized into the yearly journal entry. The problem with the present system is that there is poor monitoring on an ongoing basis with the manual records at each school. In fact, one school (Marvine Elementary) did not submit quarterly reports all year.

We would like to recommend that each school submit monthly reports to the business office with adequate documentation showing the reconciliation of the monthly bank statements to the club balances. The business office should then take that monthly statement and record the transactions for each club at each school. Presently, the one time entry does not show the receipts or disbursements by club.

**Trust and Agency Fund – Transactions**

During our review of awards and contributions for bilingual scholarships that flow through this fund, we discovered all contributions and payments of awards are recorded to accounts payable. As such, the financial position of the fund is materially misstated because contributions should be recorded to function 6920, as revenues, and awards should be charged as expenditures to function 3400. Although the assistant business manager attempted to correct the errors in posting these transactions, the adjustments were incorrect. We have made the appropriate adjustments to eliminate the material misstatements.

We would like to recommend management instruct and monitor their staff to ensure the contributions received are recorded to revenue accounts and the awards given are charged to expenditure accounts.

**Monitoring Component of Internal Controls**

The monitoring component of internal controls represents management's attempt to supervise the control activities performed by their staff to ensure transactions are properly recorded and accounts maintain the proper balances within each fund of the District. Most, if not all, of the above-mentioned material weaknesses are initially caused by staff not performing their duties correctly because of inability to understand the functions of the computer system, a poor attitude or lack of proper training in the performance of their duties. However, included in all of the weaknesses is the failure of management to properly monitor and/or correct errors made by staff during the course of the year.

The failure to maintain control over the proper balances within balance sheet accounts has a material effect on the recorded revenues and expenditures for all funds. After all, the corresponding accounts affected by increases in assets are normally an increase in revenues. Any increase in liabilities normally results in increases in expenditures/expenses. Management needs to monitor these balance sheet accounts for all funds on a monthly basis and correct any errors made on a timely basis. This continuing failure has caused additional audit costs and improper information to filter into the computer system.

One of the main reasons found in all of these problems has been the continual use by staff and certain management employees of recording transactions between funds by debiting one fund and crediting another fund. The ability to perform these types of transactions has caused funds to be out of balance and accounts to reflect erroneous balances within most funds of the District. A fund in governmental accounting represents a separate accounting entity where debits must equal credits for each fund. By posting a debit to one fund and the corresponding credit to another fund and past management not correcting this problem through proper monitoring is the main reasons these conditions do not improve from year to year.

We would like to highly recommend that the District do whatever is necessary to resolve these issues. The elimination of posting between funds should be abolished immediately by asking the computer software manufacturer to put controls in place to prevent these types of transactions. Second, the elimination of pooled cash accounts must occur immediately by creating a separate checking account for each governmental, proprietary, and fiduciary fund of the District, which will eliminate the need to make so many journal entries in each fund.

**General Fund – Rental Subsidy Reimbursements**

During our review of rental subsidy revenue recorded in the General Fund, we discovered that there were no subsidy payments received in the 2009-10 fiscal year. We were shocked considering the debt service payments being made by the District on past PlanCon projects so we started an investigation to find out why no reimbursements were received. We made inquiries of the Assistant Business Manager, who

has the responsibility to submit for reimbursement. She provided us folders for each lease number for us to review. We noticed a payment letter dated July 29, 2010 on lease no. 071523 from the Commonwealth of Pennsylvania reflecting a \$2,665,952 payment for reimbursement of 2007-08, 2008-09, and 2009-10 debt service payments. Since this money was received within 30 days after the current year end, we appropriately adjusted your records to record this payment as an open receivable and revenue at June 30, 2010, contrary to instructions given to the staff by the assistant business manager.

Two additional folders showed evidence of rental reimbursement sheets for lease no. 073071 dated December 23, 2009, and lease no. 073300 dated December 23, 2009. Unfortunately, we could not understand why no reimbursement was received during the year on these lease numbers. We requested answers from the assistant business manager that she never responded to us, so we initiated a call to the Comptroller's Office in Harrisburg, who provided us a complete chart showing the last reimbursement requests they had received from the District. Further investigation revealed these reimbursement sheets were submitted, but the state requested additional information that the District never provided. Although we were told no requests were received from the state requesting additional information, we found evidence to the contrary. Finally we discovered reimbursement requests were missing on some leases going back to 2007-08 that have never been submitted.

According to our present estimates, outstanding amounts owed to the District approximate \$778,000, which the state cannot provide until correct reimbursement requests are submitted by the District.

The failure to submit timely requests for reimbursement for debt service payments made on reimbursable projects has caused undue hardships from lost investment earnings and cash flows that could have been utilized by the District. As such, we highly recommend the District take appropriate action to remedy this problem in the future.

### **Federal Awards – Allowable Costs**

During our review of the IDEA Program, State Fiscal Stabilization Fund, and the 21<sup>st</sup> 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.

## **SIGNIFICANT DEFICIENCIES**

### **Real Estate Tax Collection**

As we explained in prior year reports, current and interim real estate taxes collected by the City of Bethlehem, is not following Tax Collection Law or not providing timely information to reconcile the taxes collected.

After reviewing the City of Bethlehem's monthly reports, we discovered the tax collector's office at the City is not reconciling the collections to the tax duplicate. The reports only contain the taxes collected for the month with discounts and penalties shown. Personnel at the business office attempts to reconcile to the duplicate based upon the information the City provides. Unfortunately, this person is unable to reconcile the taxes collected to the original duplicate with applicable changes during the year. At year end, there was a balance of \$10,905 undistributed to a tax revenue account because the business office was unable to determine the allocation.

To help correct part of this problem, we are suggesting a change in how the undistributed funds are recorded in the system. We believe the tax department within the business office should prepare the entries to distribute taxes to the respective accounts, since they are more familiar in the types of taxes collected by the City and the City's reports, than the current person performing this function. In addition, we highly recommend the District consider charging the monthly penalty, allowed under Act 169, for the City of Bethlehem's tax office failure to abide by their fiduciary responsibility, under the Act, and the failure to use the approved tax form required by the PA Department of Community and Economic Development.

### **Athletic Fund – Expenditures**

During our review of athletic expenditures, we discovered numerous payments to officials, purchases of supplies, and other payments were coded against revenue accounts. As examples, check nos. 267441, 266416, 266060, and 268688 were all charged to revenue accounts in error. By recording disbursements against revenue accounts, the District is understating the true revenues and expenditures of the athletic program. In addition, on two occasions two expenditures were charged to other functions besides function 3250.

We wish to recommend all future disbursements be charged to function 3250 to prevent significant misstatements of revenues and expenditures.

### **Self-Insurance Fund – Misposting errors**

On January 7, 2009, there was a wire transfer made from the Wachovia bank account to Caremark for prescription coverage. The business office failed to record this transaction during the 2008-09 fiscal year, which is part of the reason cash did not reconcile last year. Ironically, even though we adjusted this error in last year's audit, the business office decided to record this transfer as a 2009-10 expense, which, of course caused the cash balance to be incorrect for the current fiscal year.

We find it amazing that management did not bother to monitor the staff or the fund to prevent and detect this error. There were also posting errors made with other journal entries attempting to correct errors made in recording disbursements that management did not properly monitor or approve the entries.

In the future, we would like to recommend all journal entries made by staff personnel be approved by the assistant business manager. Management may want to consider restricting access to posting adjustments to the system without appropriate approval.

### **General Fixed Assets**

As explained in last year's report, the tag numbers reported in the VFACS program are arbitrary and have never been labeled onto each asset. As such, the inventory system is flawed because management cannot correlate its records to any particular location. In addition, auctions are held with items sold and no reductions from the fixed asset records are done to correlate the disposals.

As such, 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.

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.

### **Day Care Fund – Pre-payments**

During the course of reviewing the transactions affecting this fund, we discovered prior year prepayments were not properly reversed in the current year, and current year prepayments were not properly recorded. Upon further investigation, we were told by the person that adjusts these payments that he or she was too busy to correct this problem. In addition, this is another example of poor monitoring of management over staff since these errors were not detected prior to the audit. We have made the appropriate adjustments for the District. We did discover management's attempt to correct the accounts receivable balance by arbitrarily adjusting the account to zero.

In the future, we would like to suggest that management review the work done by staff to ensure all transactions have been recorded and/or corrected during the course of the year.

### **Food Service Fund – Federal & State Subsidies**

During the course of reviewing the federal and state subsidy revenue accounts, we discovered numerous entries posted by the client that were incorrect, backwards, doubled in amount, and one-sided entries between funds causing the balances to be significantly incorrect.

We would like to recommend that staff receive additional training to understand how to record these subsidy payments and management properly monitor these accounts on an ongoing basis.



**Federal Awards – Allowable Costs and Reporting**

During our review of the State Fiscal Stabilization Fund ARRA grant, we discovered problems pertaining to the control activities, risk assessment, information and communication, and the monitoring components of internal controls. While testing expenditures charged to this grant, we discovered \$88,419 of maintenance costs were charged to this program, including salaries and benefits of two janitors (\$52,068) and service contract costs (\$36,351) pertaining to Apple computers. In accordance with the American Recovery and Reinvestment Act, maintenance costs are not allowed to be charged to this program, as such management agreed to make appropriate adjustments to their records to eliminate these costs.

As such, there is no compliance finding; however, there is internal control issues associated with allowing these costs to be charged against this federal program and reported to the pass-through entity (Commonwealth of Pennsylvania) in required financial reports.

We would like to recommend the District send the Commonwealth a revision of the financial reports reflecting the change in what costs were charged to this program. In addition, we suggest management improve their risk assessment process and provide additional training to staff explaining what costs can be charged to individual federal programs.

**CONTROL DEFICIENCIES**

**General Fund – Delinquent Real Estate Taxes**

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

**RECOMMENDATIONS**

**Self Insurance Fund**

Since the District is self-funded for medical claims, we would like to recommend the District purchase stop loss insurance for claims exceeding \$400,000. Presently, the District does not have stop loss insurance that can protect the District from any future catastrophic claims. Without such insurance, there is the potential that any covered employee with an unfortunate future illness could create an undue hardship on the property tax base of the District.

## **Board of School Directors . Dr. Joseph Roy, Superintendent**

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We would also like to suggest the Board adopt a policy mandating a certain amount of reserve be maintained in this fund as further protection against a rash of future medical claims straining future budgets.

### **Board Minutes**

Since our recommendation last year there has been improvement in the current upkeep of the board minutes; however, we would like to recommend the Board consider the remaining recommendation from last year pertaining to using a summary format in the published minutes versus the detailed typing of all words spoken, by each school director, at each meeting. Most school districts board minutes are prepared in summary format with an electronic format (tape) maintained as supporting documentation in the event someone wishes to challenge or question a statement that was given. In preparing a summary format of what was said, with detail on legal resolutions, reviewing the board minutes and maintaining current completed minutes is much easier to accomplish.

### **Day Care Fund – Operating Losses**

During the course of the last three years, we have noticed a reduction in day care tuition of 18.89%, since the fiscal year 2007-2008. Ironically, related salaries and benefits associated with providing day care have escalated by 4.77% over the same time period. The Day Care Fund is considered an enterprise fund, as such; it should be operating in a business environment. Over the last two years, this fund had net losses totaling \$198,951. Our concern is that management is not taking any action to address the costs of the operation exceeding the tuition revenue charged to make this a viable business operation.

We would like to recommend management and the District analyzes this program for continued viability and to make any necessary reduction to costs or raising tuition revenue to offset the costs to operate the program.

## **OTHER INFORMATION**

### **Reclassification of Funds**

As a result of implementing GASB Statement No. 54 on fund balance reporting, certain special revenue funds will be reclassified starting with the 2010-11 fiscal year. The Capital Reserve Fund will be reclassified as a Capital Project Fund. Keep in mind, there are legal limitations on what items can be expended from this fund regardless of the type of governmental fund it is classified. You have a choice pertaining to the Athletic Fund. For external financial reporting purposes, the Athletic Fund must be eliminated and be reported as part of the General Fund.

However, for internal purposes you may choose to keep this fund active. In this case, we will consolidate the Athletic Fund with the General Fund in preparation of your external financial statements.

If you choose the latter option, be careful in preparing your General Fund budget to include athletic appropriations in function 3250 and a corresponding estimated revenue account for game revenue. Any portion the general fund contributes to the Athletic Fund, should be coded and budgeted to function 3250.

### **New Federal Reporting Requirements**

Starting in the 2012 calendar, optional for the 2011 calendar year, the employer's share of health insurance premiums paid on behalf of each employee will be required to go on each employee's W-2 that is filed with the IRS. In addition, beginning January 1, 2011, non-prescription over-the-counter health aids

**Board of School Directors . Dr. Joseph Roy, Superintendent**

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will no longer be allowed to be paid or reimbursed through a Flexible Spending Arrangement (FSA) Plan. In addition, starting in the 2012 calendar year, year end reporting requirements pertaining to Form 1099s will be expanded to include: all payments made in excess of \$600, per year, to any vendor (individual, partnership, corporation, LLC or LLP) for services rendered or goods purchased will require the filing of Form 1099 with all pertinent information including taxpayer identification numbers. These federal reporting requirements are always subject to future changes by the U.S. Congress.

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

Respectively submitted,



Gorman & Associates, P.C.

January 13, 2011

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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, 2010, 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, 2010, 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. 53 this fiscal year. This new accounting principle, generally accepted in the United States of America, is associated with Derivative Financial Statements.

In accordance with Government Auditing Standards we have also issued our report dated January 13, 2011, on our consideration of the Bethlehem Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, on pages 18 to 28, and the Schedule of Funding Progress, on page 89, 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.

## Board of School Directors

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,

*Spencer & Associates, P.C.*

January 13, 2011



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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
(UNAUDITED)  
For the Year Ended June 30, 2010**

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, 2010. 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 14,819 students in 2009-10.

The Bethlehem Area School District consists of 16 elementary schools for students in kindergarten through 5<sup>th</sup> 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 mercantile taxes, and interim real estate tax on the newly constructed Sands Casino. Additionally, revenue generated from termination of a SWAP transaction not only generated positive revenue but also reduced debt expenditures while the 2009 bond refunding generated a retroactive rental reimbursement subsidy from the PA Department of Education. These events combined with a planned increase in the fund balance from unexpended reserves yielded a General Fund surplus of \$10,059,322 for the year ended June 30, 2010. When netted against the beginning fund balance of (\$1,119,232), the BASD ended the fiscal year with a positive general fund, fund balance of \$8,940,090.

Overall expenditures for the 2009-2010 school year were \$187,614,179 and were under budget by \$10,547,352. Overall revenues for the 2009-10 school year were \$197,673,501 and were under budget by (\$488,030). These differences between budgeted and actual amounts were the result of debt

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

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reduction through effective bond refunding, planned fund balance growth and one time revenues that offset the shortfall in state subsidy and reduced federal program grants.

General Fund balance reserves increased for two consecutive years bringing our total fund balance at June 30, 2010, to \$8,940,090 or approximately 4.8% 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.

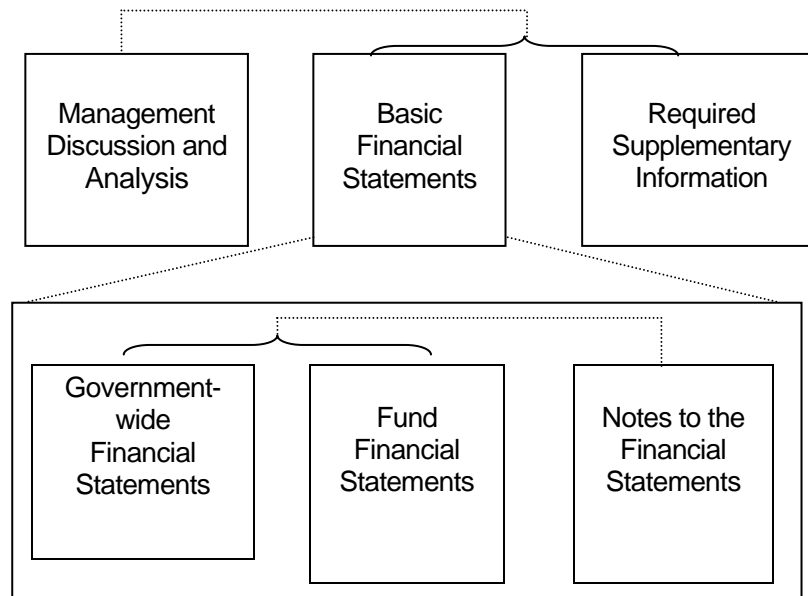
The first two statements are government-wide financial statements - the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

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**

|   | <b>Government-wide<br/>Statements</b>  | <b>Fund Statements</b>   |   |   |
|---|--|--|---|---|
|   |  | <b>Governmental<br/>Funds</b>  | <b>Proprietary<br/>Funds</b>  | <b>Fiduciary Funds</b>  |
| <b>Scope</b>                                  | 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 |
| <b>Required financial statements</b>          | Statement of net assets<br>Statement of activities                                   | Balance Sheet<br>Statement of revenues, expenditures, and changes in fund balance  | Statement of net assets<br>Statement of revenues, expenses and changes in net assets<br>Statement of cash flows | Statement of fiduciary net assets<br>Statement of changes in fiduciary net assets                       |
| <b>Accounting basis and measurement focus</b> | 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   |
| <b>Type of asset/liability information</b>    | 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                    |
| <b>Type of inflow-outflow information</b>     | 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**

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*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 (\$27,121,603) at June 30, 2010. This is an increase in net assets of \$6,395,483 from the net assets for the previous fiscal year.

**Table A-1  
Fiscal Year ended June 30, 2010  
Net Assets (In Millions)**

|  | <b>2010</b>                              |  |   | <b>2009</b>                              |  |   |
|--|--|--|---|--|--|---|
|  | <b>Govern-<br/>mental<br/>Activities</b> | <b>Business-<br/>Type<br/>Activities</b> | <b>Total<br/>Primary<br/>Government</b> | <b>Govern-<br/>mental<br/>Activities</b> | <b>Business-<br/>Type<br/>Activities</b> | <b>Total<br/>Primary<br/>Government</b> |
| Current assets                                     | \$ 36.0                                  | \$ 1.1                                   | \$ 37.1                                 | \$ 44.9                                  | \$ 1.2                                   | \$ 46.1                                 |
| Non-Current assets                                 | 273.5                                    | 0.1                                      | 273.6                                   | 254.4                                    | 0.1                                      | 254.5                                   |
| <b>Total Assets</b>                                | <b>\$ 309.5</b>                          | <b>\$ 1.2</b>                            | <b>\$ 310.7</b>                         | <b>\$ 299.3</b>                          | <b>\$ 1.3</b>                            | <b>\$ 300.6</b>                         |
| Current and other liabilities                      | 69.5                                     | 0.2                                      | 69.7                                    | 38.1                                     | 0.3                                      | 38.4                                    |
| Long-term liabilities                              | 268.0                                    | 0.1                                      | 268.1                                   | 295.6                                    | 0.1                                      | 295.7                                   |
| <b>Total Liabilities</b>                           | <b>337.5</b>                             | <b>0.3</b>                               | <b>337.8</b>                            | <b>333.7</b>                             | <b>0.4</b>                               | <b>334.1</b>                            |
| Net Assets   |  |  |   |  |  |   |
| Invested in capital assets,<br>net of related debt | (32.6)                                   | 0.1                                      | (32.5)                                  | (30.6)                                   | 0.1                                      | (30.5)                                  |
| Retirement of Long-Term Debt                       | -  | -  | -                                       | -  | -  | -                                       |
| Capital Projects                                   | 3.1                                      | -  | 3.1                                     | -  | -  | -                                       |
| Other Restrictions                                 | 1.5                                      | -  | 1.5                                     | -  | -  | -                                       |
| Unrestricted                                       | (0.0)                                    | 0.8                                      | 0.8                                     | (3.8)                                    | 0.8                                      | (3.0)                                   |
| <b>Total Net Assets</b>                            | <b>\$ (28.0)</b>                         | <b>\$ 0.9</b>                            | <b>\$ (27.1)</b>                        | <b>\$ (34.4)</b>                         | <b>\$ 0.9</b>                            | <b>\$ (33.5)</b>                        |
| <b>Total Liabilities<br/>and Net Assets</b>        | <b>\$ 309.5</b>                          | <b>\$ 1.2</b>                            | <b>\$ 310.7</b>                         | <b>\$ 299.3</b>                          | <b>\$ 1.3</b>                            | <b>\$ 300.6</b>                         |

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, 2010  
Changes in Net Assets (In Thousands)**

|  | <u>2010</u>                              |  |   | <u>2009</u>                              |  |   |
|--|--|--|---|--|--|---|
|  | <u>Govern-<br/>mental<br/>Activities</u> | <u>Business-<br/>Type<br/>Activities</u> | <u>Total<br/>Primary<br/>Government</u> | <u>Govern-<br/>mental<br/>Activities</u> | <u>Business-<br/>Type<br/>Activities</u> | <u>Total<br/>Primary<br/>Government</u> |
| <b><u>REVENUES</u></b>                               |  |  |   |  |  |   |
| <i>Program revenues</i>                              |  |  |   |  |  |   |
| Charges for services                                 | \$ 770                                   | \$ 4,335                                 | \$ 5,105                                | \$ 764                                   | \$ 4,721                                 | \$ 5,485                                |
| Operating grants and contributions                   | 34,613                                   | 4,157                                    | 38,770                                  | 29,888                                   | 3,844                                    | 33,732                                  |
| Capital grants and contributions                     | 2,743                                    | 35                                       | 2,778                                   | 576                                      | -  | 576                                     |
| <i>General revenues</i>                              |  |  |   |  |  |   |
| Property taxes                                       | 111,996                                  | -  | 111,996                                 | 106,489                                  | -  | 106,489                                 |
| Other taxes  | 16,948                                   | -  | 16,948                                  | 18,687                                   | -  | 18,687                                  |
| Grants, subsidies and contributions,<br>unrestricted | 27,687                                   | -  | 27,687                                  | 28,688                                   | -  | 28,688                                  |
| Other  | <u>5,336</u>                             | <u>10</u>                                | <u>5,346</u>                            | <u>2,182</u>                             | <u>(195)</u>                             | <u>1,987</u>                            |
| <b>TOTAL REVENUES</b>                                | <b>\$ 200,093</b>                        | <b>\$ 8,537</b>                          | <b>\$ 208,630</b>                       | <b>\$ 187,274</b>                        | <b>\$ 8,370</b>                          | <b>\$ 195,644</b>                       |
| <b><u>EXPENSES</u></b>                               |  |  |   |  |  |   |
| Instruction  | \$ 117,013                               | \$ -                                     | \$ 117,013                              | \$ 119,043                               | \$ -                                     | \$ 119,043                              |
| Instructional student support                        | 15,098                                   | -  | 15,098                                  | 17,878                                   | -  | 17,878                                  |
| Administrative and financial support                 | 14,120                                   | -  | 14,120                                  | 14,361                                   | -  | 14,361                                  |
| Operation and maintenance of plant                   | 15,586                                   | -  | 15,586                                  | 14,334                                   | -  | 14,334                                  |
| Pupil transportation                                 | 5,885                                    | -  | 5,885                                   | 6,057                                    | -  | 6,057                                   |
| Student activities                                   | 1,868                                    | -  | 1,868                                   | 2,248                                    | -  | 2,248                                   |
| Community services                                   | 106                                      | 2,584                                    | 2,690                                   | 209                                      | 2,585                                    | 2,794                                   |
| Scholarships and Awards                              | -  | -  | -                                       | 3  | -  | 3                                       |
| Interest on long-term debt                           | 14,814                                   | -  | 14,814                                  | 27,026                                   | -  | 27,026                                  |
| Unallocated depreciation expense                     | 4,916                                    | -  | 4,916                                   | 179                                      | -  | 179                                     |
| Food Services  | -  | 5,954                                    | 5,954                                   | -  | 5,718                                    | 5,718                                   |
| <b>TOTAL EXPENSES</b>                                | <b>189,406</b>                           | <b>8,538</b>                             | <b>197,944</b>                          | <b>201,338</b>                           | <b>8,303</b>                             | <b>209,641</b>                          |
| <b>Increase (decrease) in net assets</b>             | <b>\$ 10,687</b>                         | <b>\$ (1)</b>                            | <b>\$ 10,686</b>                        | <b>\$ (14,064)</b>                       | <b>\$ 67</b>                             | <b>\$ (13,997)</b>                      |

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, 2010  
Governmental Activities (In Thousands)**

| <b>Functions/Programs</b>                                  | <b>2010</b>                       |                                 | <b>2009</b>                       |                                 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|  | <b>Total Cost<br/>of Services</b> | <b>Net Cost<br/>of Services</b> | <b>Total Cost<br/>of Services</b> | <b>Net Cost<br/>of Services</b> |
| Instruction  | \$ 117,013                        | \$ 89,740                       | \$ 119,043                        | \$ 95,457                       |
| Instructional student support                              | 15,098                            | 11,581                          | 17,878                            | 14,632                          |
| Administrative   | 14,120                            | 13,097                          | 14,361                            | 13,690                          |
| Operation and maintenance                                  | 15,586                            | 15,009                          | 14,334                            | 13,944                          |
| Pupil transportation                                       | 5,885                             | 3,371                           | 6,057                             | 3,520                           |
| Student activities   | 1,868                             | 1,446                           | 2,248                             | 2,066                           |
| Community services   | 106                               | 49                              | 209                               | 163                             |
|  |                                   |                                 | 3                                 | 3                               |
| Interest on long-term debt                                 | 14,814                            | 12,071                          | 27,026                            | 26,456                          |
| Unallocated depreciation expense                           | 4,916                             | 4,916                           | 179                               | 179                             |
| <b>Total governmental activities</b>                       | <b>\$ 189,406</b>                 | <b>\$ 151,280</b>               | <b>\$ 201,338</b>                 | <b>\$ 170,110</b>               |
| Less:  |                                   |                                 |                                   |                                 |
| Unrestricted grants, subsidies                             |                                   | 27,687                          |                                   | 28,688                          |
| <b>Total needs from local<br/>taxes and other revenues</b> |                                   | <b>\$ (123,593)</b>             |                                   | <b>\$ (141,422)</b>             |

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, 2010  
Business –Type Activities**

| <b>Functions/Programs</b>             | <b>2010</b>                       |                                 | <b>2009</b>                       |                                 |
|---------------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|                                       | <b>Total Cost<br/>of Services</b> | <b>Net Cost<br/>of Services</b> | <b>Total Cost<br/>of Services</b> | <b>Net Cost<br/>of Services</b> |
| Food Services                         | \$ 5,953,712                      | \$ 86,358                       | \$ 5,717,849                      | \$ 167,963                      |
| Child Care                            | 2,583,860                         | (97,344)                        | 2,585,319                         | 94,221                          |
| Less:                                 |                                   |                                 |                                   |                                 |
| Investment earnings & other misc.     |                                   | 9,923                           |                                   | (195,442)                       |
| <b>Total business-type activities</b> |                                   | <b>\$ (1,063)</b>               |                                   | <b>\$ 66,742</b>                |

### *DISTRICT FUNDS*

At June 30, 2010, the District governmental funds reported a combined fund balance of \$12,562,620, a increase of \$393,161 from the previous year

General fund revenues exceeded expenditures by \$11,344,266, but transfers to the athletic fund caused the General Fund to show a final \$10,059,322 increase in fund balance for a net ending fund balance of \$8,940,090.

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

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The Capital Projects Fund had a negative change in its fund balance of (\$9,355,413) due to ongoing construction project expenditures that amounted to \$9,790,506, resulting in a Capital Project fund balance of \$3,162,529 on June 30, 2010.

***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 interim real estate tax revenue collected from the assessment of the newly completed Sands Casino. Delinquent real estate tax exceeded budgetary figures and merchantile taxes also grew due to the success of the new Sands Casino. State revenue was lower than budgetary figures by \$3,802,572. A large portion of this was due to over-projection of State Basic Education Subsidy which was offset by the receipt of a retroactive adjustment in the rental subsidy due to refinancing of the 2007 GO Bonds. Additionally, revenues increased by \$2,515,610 due to proceeds realized from the termination of the 2007 constant maturity swap.

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 \$5,653,926 lower than originally budgeted when combined with debt service costs that were also significantly lower than budgeted as a result of the termination of the 2007 swap as mentioned above.

Contracted educational services were significantly 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, 2010, the District had \$253,264,967 invested in a broad range of capital assets, including land, buildings and furniture and equipment. This amount represents a net increase (including additions, deletions and depreciation) of \$3,353,334, or 1.34% from last year.



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

**Table A-5  
Governmental Activities  
Fiscal Year Ended June 30, 2010  
Capital assets - net of depreciation**

|  | <b>2010</b>           | <b>2009</b>           |
|--|-----------------------|-----------------------|
| Land   | \$ 75,410             | \$ 75,410             |
| Site Improvements                                    | 8,935,286             | 8,907,917             |
| Buildings  | 175,774,351           | 174,487,353           |
| Furniture & Equipment                                | 61,346,899            | 60,119,839            |
| Construction in Progress                             | 143,667,359           | 136,015,462           |
| Total Capital Assets                                 | \$ 389,799,305        | \$ 379,605,981        |
| Less Accumulated Depreciation                        | (136,534,338)         | (129,694,348)         |
| Total Capital Assets Net of Accumulated Depreciation | <u>\$ 253,264,967</u> | <u>\$ 249,911,633</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 \$301,890,000. During the year, the District issued \$58,850,000 in additional debt, but retired and repaid \$63,185,000 resulting in ending outstanding debt as of June 30, 2010, of \$297,555,000:

**Table A-6  
Outstanding Debt**

|                                 | <b>2010</b>                  | <b>2009</b>                  |
|---------------------------------|------------------------------|------------------------------|
| General Obligation Notes/Bonds: |                              |                              |
| - Bonds, Revenue Series of 2010 | \$ 30,000,000                | \$ -                         |
| - Bonds, Series of 2010         | 28,850,000                   | -                            |
| - Bonds, Series B of 2009       | 10,665,000                   | 11,100,000                   |
| - Bonds, Series AA of 2009      | 14,410,000                   | 14,410,000                   |
| - Bonds, Series A of 2009       | 68,180,000                   | 69,710,000                   |
| - Bonds, Revenue Series of 2009 | 40,275,000                   | 40,280,000                   |
| - Bonds, Series A of 2007       | 44,890,000                   | 50,745,000                   |
| - Bonds, Series of 2007         | 54,985,000                   | 54,990,000                   |
| - Bonds, Series of 2005         | -                            | 54,980,000                   |
| - Bonds, Series of 2001         | 5,300,000                    | 5,675,000                    |
| <b>TOTAL</b>                    | <u><b>\$ 297,555,000</b></u> | <u><b>\$ 301,890,000</b></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 planned replacements of Broughal and Northeast Middle Schools and renovations to Liberty High School are completed and students attended classes in the new facilities for 2009-10. The Northeast project required the school district utilize the remainder of the \$6 million in additional financing for raising of the existing building, which was completed by the close of 2010. Nitschmann Middle School has been identified for major renovation costing approximately \$65 million, however, funding has not been obtained and the timeline for commencement of that project has not been determined. The school district continues to annually fund and complete capital improvement projects that are designed to maintain all existing structures. However, it is anticipated that the lack of additional capital funds may delay advancement of future capital improvement projects.

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

The percentage of variable rate debt within the school district's debt portfolio was reduced by approximately \$75 million during 2009-2010, lowering the percentage of variable rate to total debt from 79% to 42%. The Constant Maturity Swaps became producers of positive cash flow in late 2009 to the financial benefit of the District. The school directors continue to restructure the debt portfolio by reducing the swap interests and improving the quality of outstanding debt. The school district will refinance its Series 2009 Note in spring 2011 upon its maturity May 1, 2011. The Dexia liquidity facility will expire on January 4, 2012 and the District has been notified that Dexia will not be renewing due to a change in their corporate objectives. That facility will be refinanced in fall 2011. The financial position of the district on June 30, 2010 makes these refunding opportunities much more positive with this more promising and stable outlook for our financial future.

### ***Future Budgets***

The revenue budget for the 2010-2011 year is \$2,651,357 higher than the original budget of 2009-2010. This represents a 1.8% increase in budgeted revenues and includes a 2.57-mil or 6.17% 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 3.6%, and the District was approved for exceptions to exceed that amount for state mandated retirement contributions and maintenance of local revenues. The expenditure budget for the 2010-2011 year is \$9,519,581 higher than the original budget for 2009-2010, or a 4.8% increase. The budgetary reserve accounts for \$2,588,000 of the total expenditure budget.

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

**Table A-7  
BUDGETED REVENUES**

|               | 2010-2011 | 2009-2010 |
|---------------|-----------|-----------|
| Local         | 67.1%     | 65.5%     |
| State         | 27.6%     | 27.6%     |
| Federal/Other | 5.3%      | 6.9%      |

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

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**BUDGETED EXPENDITURES**

|                           | <b>2010-2011</b> | <b>2009-2010</b> |
|---------------------------|------------------|------------------|
| Instruction               | 61.0%            | 60.5%            |
| Support Services          | 25.9%            | 26.2%            |
| Non-Instruction/Community | 0.1%             | 0.2%             |
| Fund Transfers/Debt       | 13.0%            | 13.1%            |

**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, 2010**

|   | PRIMARY GOVERNMENT         |                             |                       |
|---|----------------------------|-----------------------------|-----------------------|
|   | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                 |
| <b>ASSETS</b>   |                            |                             |                       |
| <b>CURRENT ASSETS:</b>                                |                            |                             |                       |
| Cash and cash equivalents                             | \$ 11,857,760              | \$ 500                      | \$ 11,858,260         |
| Investments   | 6,200,000                  | -                           | 6,200,000             |
| Receivables, net                                      | 9,503,830                  | -                           | 9,503,830             |
| Internal Balances                                     | -                          | 413,641                     | - (1)                 |
| Due From Other Governments                            | 6,544,089                  | 512,168                     | 7,056,257             |
| Other Receivables                                     | 148,654                    | 139,345                     | 287,999               |
| Inventories   | 229,948                    | 85,499                      | 315,447               |
| Prepaid Expenses                                      | 1,451,744                  | -                           | 1,451,744             |
| Other Current Assets                                  | 3,227                      | -                           | 3,227                 |
| <b>TOTAL CURRENT ASSETS</b>                           | <b>35,939,252</b>          | <b>1,151,153</b>            | <b>36,676,764</b>     |
| <b>NON-CURRENT ASSETS:</b>                            |                            |                             |                       |
| Restricted Cash and Cash Equivalents                  | 1,539,000                  | -                           | 1,539,000             |
| Land  | 75,410                     | -                           | 75,410                |
| Site Improvements (net of depreciation)               | 3,216,594                  | -                           | 3,216,594             |
| Building and Bldg. Improvements (net of depreciation) | 99,743,407                 | -                           | 99,743,407            |
| Furniture and Equipment (net of depreciation)         | 6,562,197                  | 99,546                      | 6,661,743             |
| Construction in Progress                              | 143,667,359                | -                           | 143,667,359           |
| Deferred Outflows of Resources                        | 15,693,745                 | -                           | 15,693,745            |
| Bond Issue Costs (net of amortization)                | 3,018,207                  | -                           | 3,018,207             |
| <b>TOTAL NON-CURRENT ASSETS</b>                       | <b>273,515,919</b>         | <b>99,546</b>               | <b>273,615,465</b>    |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 309,455,171</b>      | <b>\$ 1,250,699</b>         | <b>\$ 310,292,229</b> |
| <b>LIABILITIES</b>                                    |                            |                             |                       |
| <b>CURRENT LIABILITIES:</b>                           |                            |                             |                       |
| Internal Balances                                     | \$ 413,641                 | \$ -                        | \$ - (1)              |
| Due to other governments                              | -                          | -                           | -                     |
| Accounts Payable                                      | 4,290,266                  | 87,466                      | 4,377,732             |
| Current Portion of Long-Term Obligations              | 49,481,629                 | -                           | 49,481,629            |
| Accrued Salaries and Benefits                         | 9,478,157                  | 11,076                      | 9,489,233             |
| Payroll Deductions and Withholdings                   | 1,569,909                  | 25,965                      | 1,595,874             |
| Deferred Revenue                                      | 40,294                     | 84,281                      | 124,575               |
| Other Current Liabilities                             | 4,248,838                  | -                           | 4,248,838             |
| <b>TOTAL CURRENT LIABILITIES</b>                      | <b>69,522,734</b>          | <b>208,788</b>              | <b>69,317,881</b>     |
| <b>NON-CURRENT LIABILITIES:</b>                       |                            |                             |                       |
| Bonds and Notes Payable                               | 230,784,085                | -                           | 230,784,085           |
| Derivative Financial Instrument Liability             | 28,080,917                 | -                           | 28,080,917            |
| Lease Purchase Obligations                            | 1,354,928                  | -                           | 1,354,928             |
| Long-Term Portion of Compensated Absences             | 3,281,202                  | 76,321                      | 3,357,523             |
| Authority Lease Obligations                           | -                          | -                           | -                     |
| Net OPEB Obligation                                   | 4,472,358                  | 46,140                      | 4,518,498             |
| <b>TOTAL LIABILITIES</b>                              | <b>337,496,224</b>         | <b>331,249</b>              | <b>337,413,832</b>    |
| <b>NET ASSETS</b>                                     |                            |                             |                       |
| Invested in capital assets, net of related debt       | (32,615,661)               | 99,546                      | (32,516,115)          |
| <b>RESTRICTED FOR:</b>                                |                            |                             |                       |
| Retirement of Long-Term Debt                          | -                          | -                           | -                     |
| Capital Projects                                      | 3,162,529                  | -                           | 3,162,529             |
| Other Restrictions                                    | 1,541,010                  | -                           | 1,541,010             |
| Unrestricted (deficit)                                | (128,931)                  | 819,904                     | 690,973               |
| <b>TOTAL NET ASSETS</b>                               | <b>(28,041,053)</b>        | <b>919,450</b>              | <b>(27,121,603)</b>   |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>               | <b>\$ 309,455,171</b>      | <b>\$ 1,250,699</b>         | <b>\$ 310,292,229</b> |

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

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

**Bethlehem Area School District  
Statement of Activities  
For the Year Ended June 30, 2010**

| FUNCTIONS/PROGRAMS   | EXPENSES              | PROGRAM REVENUES        |  |  | NET (EXPENSE) REVENUE<br>AND CHANGES IN NET ASSETS |                             |                         |
|--|-----------------------|-------------------------|--|--|--|-----------------------------|-------------------------|
|  |                       | CHARGES FOR<br>SERVICES | OPERATING<br>GRANTS AND<br>CONTRIBUTIONS | CAPITAL<br>GRANTS AND<br>CONTRIBUTIONS | GOVERNMENTAL<br>ACTIVITIES                         | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                   |
| <b>GOVERNMENTAL ACTIVITIES:</b>  |                       |                         |  |  |  |                             |                         |
| Instruction  | \$ 117,012,879        | \$ 379,668              | \$ 26,893,445                            | \$ -                                   | \$ (89,739,766)                                    | \$ -                        | \$ (89,739,766)         |
| Instructional Student Support  | 15,097,884            | -                       | 3,516,969                                | -                                      | (11,580,915)                                       | -                           | (11,580,915)            |
| Admin. & Fin'l Support Services  | 14,120,004            | -                       | 1,023,206                                | -                                      | (13,096,798)                                       | -                           | (13,096,798)            |
| Oper. & Maint. of Plant Svcs.  | 15,585,892            | -                       | 577,035                                  | -                                      | (15,008,857)                                       | -                           | (15,008,857)            |
| Pupil Transportation   | 5,885,494             | -                       | 2,514,564                                | -                                      | (3,370,930)  | -                           | (3,370,930)             |
| Student activities   | 1,867,925             | 358,502                 | 63,505                                   | -                                      | (1,445,918)  | -                           | (1,445,918)             |
| Community Services   | 105,640               | 31,340                  | 24,679                                   | -                                      | (49,621)   | -                           | (49,621)                |
| Scholarships and Awards  | -                     | -                       | -  | -                                      | -  | -                           | -                       |
| Interest on Long-Term Debt   | 14,814,234            | -                       | -  | 2,743,121                              | (12,071,113)                                       | -                           | (12,071,113)            |
| Unallocated Depreciation Expense   | 4,916,442             | -                       | -  | -                                      | (4,916,442)  | -                           | (4,916,442)             |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b>   | <b>189,406,394</b>    | <b>769,510</b>          | <b>34,613,403</b>                        | <b>2,743,121</b>                       | <b>(151,280,360)</b>                               | <b>-</b>                    | <b>(151,280,360)</b>    |
| <b>BUSINESS-TYPE ACTIVITIES:</b>   |                       |                         |  |  |  |                             |                         |
| Food Services  | 5,953,712             | 2,041,217               | 3,964,068                                | 34,785                                 | -  | 86,358                      | 86,358                  |
| Day Care   | 2,583,860             | 2,293,915               | 192,601                                  | -                                      | -  | (97,344)                    | (97,344)                |
| <b>TOTAL PRIMARY GOVERNMENT</b>  | <b>\$ 197,943,966</b> | <b>\$ 5,104,642</b>     | <b>\$ 38,770,072</b>                     | <b>\$ 2,777,906</b>                    | <b>\$ (151,280,360)</b>                            | <b>\$ (10,986)</b>          | <b>\$ (151,291,346)</b> |
| <b>GENERAL REVENUES:</b>   |                       |                         |  |  |  |                             |                         |
| Property taxes. Levied for general purposes, net                                     |                       |                         |  |  | \$ 111,995,676                                     | \$ -                        | \$ 111,995,676          |
| Taxes levied for specific purposes   |                       |                         |  |  | 16,948,358   | -                           | 16,948,358              |
| Grants, subsidies, & contributions not restricted                                    |                       |                         |  |  | 27,686,772   | -                           | 27,686,772              |
| Investment Earnings  |                       |                         |  |  | 1,013,907  | 2,760                       | 1,016,667               |
| Miscellaneous Income   |                       |                         |  |  | 924,585  | 7,163                       | 931,748                 |
| Special item - Gain (Loss) on sale of capital assets                                 |                       |                         |  |  | 107,947  | -                           | 107,947                 |
| Special item - Termination Fee on Derivatives  |                       |                         |  |  | 3,280,517  | -                           | 3,280,517               |
| Extraordinary Items  |                       |                         |  |  | 9,488  | -                           | 9,488                   |
| Transfers  |                       |                         |  |  | -  | -                           | -                       |
| <b>TOTAL GENERAL REVENUES, SPECIAL ITEMS,<br/>EXTRAORDINARY ITEMS, AND TRANSFERS</b> |                       |                         |  |  | <b>161,967,250</b>                                 | <b>9,923</b>                | <b>161,977,173</b>      |
| <b>CHANGE IN NET ASSETS</b>  |                       |                         |  |  | <b>10,686,890</b>                                  | <b>(1,063)</b>              | <b>10,685,827</b>       |
| <b>NET ASSETS - BEGINNING</b>  |                       |                         |  |  | <b>(34,437,599)</b>                                | <b>920,513</b>              | <b>(33,517,086)</b>     |
| <b>Prior Period Adjustment</b>   |                       |                         |  |  | <b>(4,290,344)</b>                                 | <b>-</b>                    | <b>(4,290,344)</b>      |
| <b>NET ASSETS - ENDING</b>   |                       |                         |  |  | <b>\$ (28,041,053)</b>                             | <b>\$ 919,450</b>           | <b>\$ (27,121,603)</b>  |

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

**Bethlehem Area School District  
Balance Sheet  
Governmental Funds  
As of June 30, 2010**

|   | <b>GENERAL</b>              | <b>CAPITAL<br/>RESERVE</b> | <b>CAPITAL<br/>PROJECTS</b> | <b>NON-MAJOR<br/>GOVERNMENTAL<br/>FUNDS</b> | <b>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</b> |
|---|-----------------------------|----------------------------|-----------------------------|---|---|
| <b><u>ASSETS</u></b>                        |                             |                            |                             |   |   |
| Cash and cash equivalents                   | \$ 8,903,720                | \$ -                       | \$ 2,246,826                | \$ 69,826                                   | \$ 11,220,372                           |
| Investments                                 | -                           | -                          | 6,200,000                   | -   | 6,200,000                               |
| Taxes Receivable, net                       | 8,183,756                   | -                          | -                           | -   | 8,183,756                               |
| Due from other funds                        | 6,224,781                   | 470,020                    | -                           | 921,898                                     | 7,616,699                               |
| Due from Primary Government                 | -                           | -                          | -                           | -   | -                                       |
| Due from Other Governments                  | 6,184,740                   | -                          | -                           | -   | 6,184,740                               |
| Due from Component Unit                     | -                           | -                          | -                           | -   | -                                       |
| Other Receivables                           | 138,787                     | -                          | 867                         | 9,000                                       | 148,654                                 |
| Inventories                                 | 229,948                     | -                          | -                           | -   | 229,948                                 |
| Prepaid Expenditures                        | -                           | -                          | -                           | -   | -                                       |
| Other Current Assets                        | -                           | -                          | 1,000                       | 60  | 1,060                                   |
| <b>TOTAL ASSETS</b>                         | <b><u>\$ 29,865,732</u></b> | <b><u>\$ 470,020</u></b>   | <b><u>\$ 8,448,693</u></b>  | <b><u>\$ 1,000,784</u></b>                  | <b><u>\$ 39,785,229</u></b>             |
| <b><u>LIABILITIES AND FUND BALANCES</u></b> |                             |                            |                             |   |   |
| <b><u>LIABILITIES:</u></b>                  |                             |                            |                             |   |   |
| Due to Other Funds                          | \$ 1,858,173                | \$ -                       | \$ 5,106,901                | \$ 32,818                                   | \$ 6,997,892                            |
| Due to Primary Government                   | -                           | -                          | -                           | -   | -                                       |
| Due to Component Unit                       | -                           | -                          | -                           | -   | -                                       |
| Accounts Payable                            | 2,676,600                   | 31,301                     | 179,263                     | 24,786                                      | 2,911,950                               |
| Current Portion of Long-Term Debt           | 189,548                     | -                          | -                           | 5,000                                       | 194,548                                 |
| Accrued Salaries and Benefits               | 9,478,157                   | -                          | -                           | -   | 9,478,157                               |
| Payroll Deductions and Withholdings         | 1,566,529                   | -                          | -                           | -   | 1,566,529                               |
| Deferred Revenues                           | 4,159,818                   | -                          | -                           | -   | 4,159,818                               |
| Other Current Liabilities                   | 996,817                     | -                          | -                           | 916,898                                     | 1,913,715                               |
| <b>TOTAL LIABILITIES</b>                    | <b><u>20,925,642</u></b>    | <b><u>31,301</u></b>       | <b><u>5,286,164</u></b>     | <b><u>979,502</u></b>                       | <b><u>27,222,609</u></b>                |
| <b><u>FUND BALANCES:</u></b>                |                             |                            |                             |   |   |
| Standard Fund Balance Reserves              | 229,948                     | -                          | -                           | -   | 229,948                                 |
| Reserve for Next Year Appropriations        | -                           | -                          | -                           | -   | -                                       |
| Specific Fund Balance Reserves              | -                           | -                          | -                           | -   | -                                       |
| Unreserved-Designated Fund Balances         | -                           | -                          | -                           | -   | -                                       |
| Unreserved-Undesignated Fund Balances -     |                             |                            |                             |   |   |
| - General Fund                              | 8,710,142                   | -                          | -                           | -   | 8,710,142                               |
| - Capital Projects Fund                     | -                           | -                          | 3,162,529                   | -   | 3,162,529                               |
| - Capital Reserve Fund                      | -                           | 438,719                    | -                           | -   | 438,719                                 |
| - Authority General Fund                    | -                           | -                          | -                           | -   | -                                       |
| - Concession Fund                           | -                           | -                          | -                           | 6,819                                       | 6,819                                   |
| - Debt Service Funds                        | -                           | -                          | -                           | 63,463                                      | 63,463                                  |
| - Athletic Fund                             | -                           | -                          | -                           | (49,000)                                    | (49,000)                                |
| <b>TOTAL FUND BALANCES</b>                  | <b><u>8,940,090</u></b>     | <b><u>438,719</u></b>      | <b><u>3,162,529</u></b>     | <b><u>21,282</u></b>                        | <b><u>12,562,620</u></b>                |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>  | <b><u>\$ 29,865,732</u></b> | <b><u>\$ 470,020</u></b>   | <b><u>\$ 8,448,693</u></b>  | <b><u>\$ 1,000,784</u></b>                  | <b><u>\$ 39,785,229</u></b>             |

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

**Bethlehem Area School District  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets  
As of June 30, 2010**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 12,562,620

**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 \$389,799,305 and the accumulated depreciation is \$136,534,338. 253,264,967

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. 359,349

This amount represents the deferred outflows net of deferred inflows created from derivative hedging transactions 15,693,745

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. 5,439,598

This amount reflects the elimination of the Internal Service Fund's assets, liabilities, and equity and incorporating them into the Governmental Activities column. 1,216,156

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                   | \$ (276,430,879) |               |
| Accrued interest on the bonds   | (2,335,123)      |               |
| Compensated absences            | (3,281,202)      |               |
| Derivative Instrument Liability | (28,080,917)     |               |
| Net OPEB Obligation             | (4,472,358)      |               |
| Lease Purchase Obligations      | (1,977,009)      | (316,577,488) |

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES** **\$ (28,041,053)**

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, 2010**

|  | <u>GENERAL</u>      | <u>CAPITAL<br/>RESERVE</u> | <u>CAPITAL<br/>PROJECTS</u> | <u>NON-MAJOR<br/>GOVERNMENTAL<br/>FUNDS</u> | <u>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u> |
|--|---------------------|----------------------------|-----------------------------|---|---|
| <b>REVENUES</b>  |                     |                            |                             |   |   |
| Local Sources  | \$ 133,891,127      | \$ 5,031                   | \$ 151,325                  | \$ 3,570,452                                | \$ 137,617,935                          |
| State Sources  | 50,929,924          | -                          | -                           | 50,740                                      | 50,980,664                              |
| Federal Sources  | 10,128,061          | -                          | -                           | -   | 10,128,061                              |
| <b>TOTAL REVENUES</b>                                    | <u>194,949,112</u>  | <u>5,031</u>               | <u>151,325</u>              | <u>3,621,192</u>                            | <u>198,726,660</u>                      |
| <b>EXPENDITURES</b>                                      |                     |                            |                             |   |   |
| Instruction  | 115,020,410         | -                          | 417,236                     | -   | 115,437,646                             |
| Support Services   | 49,785,114          | 145,743                    | 994,212                     | 895,056                                     | 51,820,125                              |
| Operation of Non-Instructional Services                  | 397,167             | -                          | -                           | 1,476,707                                   | 1,873,874                               |
| Capital Outlay   | -                   | 653,233                    | 8,379,058                   | -   | 9,032,291                               |
| Debt Service   | 21,035,200          | -                          | -                           | 3,080,947                                   | 24,116,147                              |
| <b>TOTAL EXPENDITURES</b>                                | <u>186,237,891</u>  | <u>798,976</u>             | <u>9,790,506</u>            | <u>5,452,710</u>                            | <u>202,280,083</u>                      |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> | <u>8,711,221</u>    | <u>(793,945)</u>           | <u>(9,639,181)</u>          | <u>(1,831,518)</u>                          | <u>(3,553,423)</u>                      |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                     |                            |                             |   |   |
| Proceeds from Bond Issues                                | -                   | -                          | -                           | -   | -                                       |
| Proceeds from Refunded Bond Issues                       | -                   | -                          | -                           | 88,850,000                                  | 88,850,000                              |
| Proceeds from Extended Term Financing                    | -                   | -                          | -                           | -   | -                                       |
| Bond Premiums  | -                   | -                          | -                           | 803,734                                     | 803,734                                 |
| Refund of Prior Year Expenditures                        | -                   | -                          | 283,768                     | -   | 283,768                                 |
| Interfund Transfers In                                   | 91,344              | -                          | -                           | 1,376,288                                   | 1,467,632                               |
| Sale/Compensation for Fixed Assets                       | 107,947             | -                          | -                           | -   | 107,947                                 |
| Payment to bond refunding escrow agent                   | -                   | -                          | -                           | (84,979,963)                                | (84,979,963)                            |
| Swap Termination Fee                                     | -                   | -                          | -                           | (3,644,000)                                 | (3,644,000)                             |
| Bond Discounts   | -                   | -                          | -                           | -   | -                                       |
| Refunds of Prior Year Receipts                           | -                   | -                          | -                           | -   | -                                       |
| Operating Transfers Out                                  | (1,376,288)         | -                          | -                           | (91,344)                                    | (1,467,632)                             |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>              | <u>(1,176,997)</u>  | <u>-</u>                   | <u>283,768</u>              | <u>2,314,715</u>                            | <u>1,421,486</u>                        |
| <b>SPECIAL/EXTRAORDINARY ITEMS</b>                       |                     |                            |                             |   |   |
| Special Items  | 2,515,610           | -                          | -                           | -   | 2,515,610                               |
| Extraordinary Items                                      | 9,488               | -                          | -                           | -   | 9,488                                   |
| <b>NET CHANGE IN FUND BALANCES</b>                       | <u>10,059,322</u>   | <u>(793,945)</u>           | <u>(9,355,413)</u>          | <u>483,197</u>                              | <u>393,161</u>                          |
| <b>FUND BALANCES - BEGINNING</b>                         | <u>(1,119,232)</u>  | <u>1,232,664</u>           | <u>12,517,942</u>           | <u>(461,915)</u>                            | <u>12,169,459</u>                       |
| <b>FUND BALANCES - ENDING</b>                            | <u>\$ 8,940,090</u> | <u>\$ 438,719</u>          | <u>\$ 3,162,529</u>         | <u>\$ 21,282</u>                            | <u>\$ 12,562,620</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, 2010**

|   |           |                |
|---|-----------|----------------|
| <b>NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b> | <b>\$</b> | <b>393,161</b> |
|---|-----------|----------------|

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   | \$ | 6,839,991         |           |
| less - capital outlays |    | <u>10,193,325</u> | 3,353,334 |

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.

388,955

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.

8,942,188

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.

103,409

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.

404,574

|   |  |                   |
|---|--|-------------------|
| <b>SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING</b> |  | <b>13,585,621</b> |
|---|--|-------------------|

**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, 2010**

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

**\$ 13,585,621**

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.

354,726

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.

(3,792,216)

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.

538,759

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**

**\$ 10,686,890**

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, 2010**

|  | <b>FOOD<br/>SERVICE</b> | <b>NON-MAJOR<br/>FUNDS</b> | <b>TOTAL</b>        | <b>INTERNAL<br/>SERVICE<br/>FUND</b> |
|--|-------------------------|----------------------------|---------------------|--------------------------------------|
| <b><u>ASSETS</u></b>                             |                         |                            |                     |                                      |
| <b>CURRENT ASSETS:</b>                           |                         |                            |                     |                                      |
| Cash and cash equivalents                        | \$ 300                  | \$ 200                     | \$ 500              | \$ 2,176,386                         |
| Investments                                      | -                       | -                          | -                   | -                                    |
| Due from other funds                             | 270,504                 | 119,700                    | 390,204             | -                                    |
| Due From Other Governments                       | 512,168                 | -                          | 512,168             | -                                    |
| Other Receivables                                | 110,169                 | 29,175                     | 139,344             | -                                    |
| Inventories                                      | 85,499                  | -                          | 85,499              | -                                    |
| Prepaid expenses                                 | -                       | -                          | -                   | 1,451,744                            |
| Other Current Assets                             | -                       | -                          | -                   | 2,167                                |
| <b>TOTAL CURRENT ASSETS</b>                      | <b>978,640</b>          | <b>149,075</b>             | <b>1,127,715</b>    | <b>3,630,297</b>                     |
| <b>NON-CURRENT ASSETS:</b>                       |                         |                            |                     |                                      |
| Building & Bldg. Improvements (net)              | -                       | -                          | -                   | -                                    |
| Machinery & Equipment (net)                      | 86,852                  | 12,694                     | 99,546              | -                                    |
| Other Long-Term Receivables                      | -                       | -                          | -                   | -                                    |
| <b>TOTAL NON-CURRENT ASSETS</b>                  | <b>86,852</b>           | <b>12,694</b>              | <b>99,546</b>       | <b>-</b>                             |
| <b>TOTAL ASSETS</b>                              | <b>\$ 1,065,492</b>     | <b>\$ 161,769</b>          | <b>\$ 1,227,261</b> | <b>\$ 3,630,297</b>                  |
| <b><u>LIABILITIES</u></b>                        |                         |                            |                     |                                      |
| <b>CURRENT LIABILITIES:</b>                      |                         |                            |                     |                                      |
| Due to Other Funds                               | \$ -                    | \$ -                       | \$ -                | \$ 1,085,062                         |
| Due to Other Governments                         | -                       | -                          | -                   | -                                    |
| Accounts Payable                                 | 81,864                  | 5,602                      | 87,466              | 1,300,692                            |
| Compensated Absences                             | -                       | -                          | -                   | -                                    |
| Accrued Salaries and Benefits                    | 11,076                  | -                          | 11,076              | 3,380                                |
| Payroll Deductions and Withholdings              | -                       | 25,965                     | 25,965              | 1,573                                |
| Deferred Revenue                                 | 52,035                  | 32,246                     | 84,281              | -                                    |
| <b>TOTAL CURRENT LIABILITIES</b>                 | <b>144,975</b>          | <b>63,813</b>              | <b>208,788</b>      | <b>2,390,707</b>                     |
| <b>NON-CURRENT LIABILITIES:</b>                  |                         |                            |                     |                                      |
| Long-Term Portion of Compensated Absences        | 53,677                  | 22,644                     | 76,321              | -                                    |
| Net OPEB Obligation                              | 28,825                  | 17,315                     | 46,140              | -                                    |
| <b>TOTAL NON-CURRENT LIABILITIES</b>             | <b>82,502</b>           | <b>39,959</b>              | <b>122,461</b>      | <b>-</b>                             |
| <b>TOTAL LIABILITIES</b>                         | <b>227,477</b>          | <b>103,772</b>             | <b>331,249</b>      | <b>2,390,707</b>                     |
| <b><u>NET ASSETS</u></b>                         |                         |                            |                     |                                      |
| Invested in capital assets, with no related debt | 86,852                  | 12,694                     | 99,546              | -                                    |
| Restricted for Legal Purposes                    | -                       | -                          | -                   | -                                    |
| Unrestricted                                     | 751,163                 | 45,303                     | 796,466             | 1,239,590                            |
| <b>TOTAL NET ASSETS</b>                          | <b>838,015</b>          | <b>57,997</b>              | <b>896,012</b>      | <b>1,239,590</b>                     |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>          | <b>\$ 1,065,492</b>     | <b>\$ 161,769</b>          | <b>\$ 1,227,261</b> | <b>\$ 3,630,297</b>                  |

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

**Bethlehem Area School District**  
**Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds**  
**For the Year Ended June 30, 2010**

|  | <b>FOOD<br/>SERVICE</b> | <b>NON-MAJOR<br/>FUNDS</b> | <b>TOTAL</b>       | <b>INTERNAL<br/>SERVICE<br/>FUND</b> |
|--|-------------------------|----------------------------|--------------------|--------------------------------------|
| <b>OPERATING REVENUES:</b>                     |                         |                            |                    |                                      |
| Food Service Revenue                           | \$ 2,041,217            | \$ -                       | \$ 2,041,217       | \$ -                                 |
| Charges for Services                           | -                       | 1,672,063                  | 1,672,063          | 22,064,403                           |
| Other Operating Revenues                       | <u>6,683</u>            | <u>622,332</u>             | <u>629,015</u>     | <u>2,295,616</u>                     |
| <b>TOTAL OPERATING REVENUES</b>                | <u>2,047,900</u>        | <u>2,294,395</u>           | <u>4,342,295</u>   | <u>24,360,019</u>                    |
| <b>OPERATING EXPENSES:</b>                     |                         |                            |                    |                                      |
| Salaries                                       | 1,801,794               | 1,487,472                  | 3,289,266          | 3,947                                |
| Employee Benefits                              | 401,075                 | 835,807                    | 1,236,882          | 23,627,988                           |
| Purchased Professional and Technical Services  | 5,610                   | 5,550                      | 11,160             | 169,311                              |
| Purchased Property Service                     | 122,873                 | -                          | 122,873            | -                                    |
| Other Purchased Services                       | 3,075,821               | 4,880                      | 3,080,701          | -                                    |
| Supplies                                       | 510,669                 | 230,619                    | 741,288            | -                                    |
| Depreciation                                   | 31,418                  | 7,528                      | 38,946             | -                                    |
| Dues and Fees                                  | 5,477                   | 536                        | 6,013              | -                                    |
| Claims and Judgments                           | -                       | -                          | -                  | -                                    |
| Other Operating Expenses                       | <u>2,970</u>            | <u>27,565</u>              | <u>30,535</u>      | <u>-</u>                             |
| <b>TOTAL OPERATING EXPENSES</b>                | <u>5,957,707</u>        | <u>2,599,957</u>           | <u>8,557,664</u>   | <u>23,801,246</u>                    |
| <b>OPERATING INCOME (LOSS)</b>                 | <u>(3,909,807)</u>      | <u>(305,562)</u>           | <u>(4,215,369)</u> | <u>558,773</u>                       |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>       |                         |                            |                    |                                      |
| Earnings on investments                        | 1,095                   | 1,665                      | 2,760              | 76                                   |
| Contributions and Donations                    | -                       | -                          | -                  | -                                    |
| Gain/Loss on Sale of Fixed Assets              | -                       | -                          | -                  | -                                    |
| State Sources                                  | 366,466                 | 192,529                    | 558,995            | -                                    |
| Federal Sources                                | <u>3,632,387</u>        | <u>72</u>                  | <u>3,632,459</u>   | <u>-</u>                             |
| <b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b> | <u>3,999,948</u>        | <u>194,266</u>             | <u>4,194,214</u>   | <u>76</u>                            |
| <b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>      | 90,141                  | (111,296)                  | (21,155)           | 558,849                              |
| Capital Contributions                          | -                       | -                          | -                  | -                                    |
| Transfers in (out)                             | <u>-</u>                | <u>-</u>                   | <u>-</u>           | <u>-</u>                             |
| <b>CHANGES IN NET ASSETS</b>                   | <u>90,141</u>           | <u>(111,296)</u>           | <u>(21,155)</u>    | <u>558,849</u>                       |
| <b>NET ASSETS - BEGINNING</b>                  | <u>747,874</u>          | <u>169,293</u>             | <u>917,167</u>     | <u>680,741</u>                       |
| <b>NET ASSETS - ENDING</b>                     | <u>\$ 838,015</u>       | <u>\$ 57,997</u>           | <u>\$ 896,012</u>  | <u>\$ 1,239,590</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, 2010**

|   | <b>FOOD<br/>SERVICE</b> | <b>NON-MAJOR<br/>FUNDS</b> | <b>TOTAL</b>       | <b>INTERNAL<br/>SERVICE<br/>FUND</b> |
|---|-------------------------|----------------------------|--------------------|--------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                     |                         |                            |                    |                                      |
| Cash Received from Users  | \$ 1,879,972            | \$ 1,618,201               | \$ 3,498,173       | \$ -                                 |
| Cash Received from Assessments made to Other Funds                              | -                       | -                          | -                  | 20,610,492                           |
| Cash Received from Earnings on Investments                                      | -                       | -                          | -                  | -                                    |
| Cash Received from Other Operating Revenue                                      | 6,683                   | 622,332                    | 629,015            | 2,295,616                            |
| Cash Payments to Employees for Services   | (2,214,867)             | (2,370,840)                | (4,585,707)        | (22,725,055)                         |
| Cash Payments for Insurance Claims  | -                       | -                          | -                  | -                                    |
| Cash Payments to Suppliers for Goods and Services                               | (3,189,737)             | (255,784)                  | (3,445,521)        | -                                    |
| Cash Payments to Other Operating Expenses                                       | (8,447)                 | (6,604)                    | (15,051)           | -                                    |
| <b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>                     | <b>(3,526,396)</b>      | <b>(392,695)</b>           | <b>(3,919,091)</b> | <b>181,053</b>                       |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>                         |                         |                            |                    |                                      |
| Local Sources   | -                       | -                          | -                  | -                                    |
| State Sources   | 339,211                 | 192,529                    | 531,740            | -                                    |
| Federal Sources   | 2,909,316               | 72                         | 2,909,388          | -                                    |
| Notes and Loans Received  | -                       | -                          | -                  | -                                    |
| Contributions and Donations   | -                       | -                          | -                  | -                                    |
| Operating Transfers In (Out)  | -                       | -                          | -                  | -                                    |
| <b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES</b>         | <b>3,248,527</b>        | <b>192,601</b>             | <b>3,441,128</b>   | <b>-</b>                             |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                 |                         |                            |                    |                                      |
| Purchase of Equipment   | (39,986)                | -                          | (39,986)           | -                                    |
| Gain/Loss on Sale of Fixed Assets (Proceeds)                                    | -                       | -                          | -                  | -                                    |
| <b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b> | <b>(39,986)</b>         | <b>-</b>                   | <b>(39,986)</b>    | <b>-</b>                             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                     |                         |                            |                    |                                      |
| Earnings on Investments   | 1,095                   | 1,665                      | 2,760              | 76                                   |
| Purchase of Investment Securities/Deposits to Investment Pools                  | -                       | -                          | -                  | -                                    |
| Withdrawals from Investment Pools   | -                       | -                          | -                  | -                                    |
| Proceeds from Sale and Maturity of Investment Securities                        | -                       | -                          | -                  | -                                    |
| <b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>                     | <b>1,095</b>            | <b>1,665</b>               | <b>2,760</b>       | <b>76</b>                            |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                     | <b>(316,760)</b>        | <b>(198,429)</b>           | <b>(515,189)</b>   | <b>181,129</b>                       |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>                            | <b>317,060</b>          | <b>198,629</b>             | <b>515,689</b>     | <b>1,995,257</b>                     |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>                                  | <b>\$ 300</b>           | <b>\$ 200</b>              | <b>\$ 500</b>      | <b>\$ 2,176,386</b>                  |

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

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

|   | <b>FOOD<br/>SERVICE</b> | <b>NON-MAJOR<br/>FUNDS</b> | <b>TOTAL</b>          | <b>INTERNAL<br/>SERVICE<br/>FUND</b> |
|---|-------------------------|----------------------------|-----------------------|--------------------------------------|
| <b>OPERATING INCOME (LOSS)</b>  | \$ (3,909,807)          | \$ (305,562)               | (4,215,369)           | \$ 558,773                           |
| <b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH<br/>PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b> |                         |                            |                       |                                      |
| Depreciation and Net Amortization   | 31,418                  | 7,528                      | 38,946                |                                      |
| Provision for Uncollectible Accounts  | -                       | -                          | -                     | -                                    |
| Donated Commodities Used  | 340,284                 | -                          | 340,284               | -                                    |
| <b>CHANGE IN ASSETS AND LIABILITIES:</b>  |                         |                            |                       |                                      |
| (Increase) Decrease in Accounts Receivable  | 109,259                 | (53,862)                   | 55,397                |                                      |
| (Increase) Decrease in Advances from Other Funds  | (270,504)               | -                          | (270,504)             | -                                    |
| (Increase) Decrease in Inventories  | 143,643                 | -                          | 143,643               | -                                    |
| (Increase) Decrease in Prepaid Expenses   | -                       | -                          | -                     | (1,451,744)                          |
| (Increase) Decrease in Other Current Assets   | -                       | -                          | -                     | (2,167)                              |
| Increase (Decrease) in Accounts Payable   | 26,659                  | (618)                      | 26,041                | (12,251)                             |
| Increase (Decrease) in Accrued Salaries and Benefits  | (11,998)                | (47,561)                   | (59,559)              | 3,380                                |
| Increase (Decrease) in Advances to Other Funds  | -                       | -                          | -                     | 1,085,062                            |
| Increase (Decrease) in Other Current Liabilities  | 14,650                  | 7,380                      | 22,030                | -                                    |
| <b>TOTAL ADJUSTMENTS</b>  | 383,411                 | (87,133)                   | 296,278               | (377,720)                            |
| <b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>   | <b>\$ (3,526,396)</b>   | <b>\$ (392,695)</b>        | <b>\$ (3,919,091)</b> | <b>\$ 181,053</b>                    |

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, 2010**

|                           | <b>PRIVATE<br/>PURPOSE<br/>TRUST</b> | <b>PENSION AND<br/>OTHER EMPLOYEE<br/>BENEFIT<br/>TRUST</b> | <b>AGENCY<br/>FUNDS</b>  |
|---------------------------|--------------------------------------|---|--------------------------|
| <b>ASSETS</b>             |                                      |   |                          |
| Cash and cash equivalents | \$ -                                 | \$ -  | \$ 454,871               |
| Investments               | 165,118                              | -   | -                        |
| Due from Other Funds      | 31,225                               | -   | 44,826                   |
| Other Receivables         | -                                    | -   | -                        |
| Prepaid Expenses          | 87                                   | -   | -                        |
| Other Current Assets      | -                                    | -   | -                        |
| <b>TOTAL ASSETS</b>       | <b><u>\$ 196,430</u></b>             | <b><u>\$ -</u></b>  | <b><u>\$ 499,697</u></b> |
| <b>LIABILITIES</b>        |                                      |   |                          |
| Accounts Payable          | \$ -                                 | \$ -  | \$ 45,538                |
| Due to Other Funds        | -                                    | -   | -                        |
| Due to Student Clubs      | -                                    | -   | 454,159                  |
| Other Current Liabilities | -                                    | -   | -                        |
| <b>TOTAL LIABILITIES</b>  | <b><u>-</u></b>                      | <b><u>-</u></b>   | <b><u>499,697</u></b>    |
| <b>NET ASSETS</b>         |                                      |   |                          |
| Restricted                | -                                    | -   | -                        |
| Unrestricted              | 196,430                              | -   | -                        |
| <b>TOTAL NET ASSETS</b>   | <b><u>\$ 196,430</u></b>             | <b><u>\$ -</u></b>  | <b><u>\$ -</u></b>       |

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



**Bethlehem Area School District**  
**Statement of Changes in Net Assets - Fiduciary Funds**  
**For the Year Ended June 30, 2010**

|  | <b>PRIVATE-PURPOSE<br/>TRUST FUND</b> | <b>PENSION AND<br/>OTHER EMPLOYEE<br/>BENEFIT<br/>TRUST FUNDS</b> |
|--|---------------------------------------|---|
| <b>ADDITIONS</b>                                     |                                       |   |
| Contributions  | \$ 23,625                             | \$ -  |
| Transfers from other funds                           | -                                     | -   |
| <b>INVESTMENT EARNINGS:</b>                          |                                       |   |
| Interest and Dividends                               | 2,248                                 | -   |
| Net increase (decrease) in fair value of investments | -                                     | -   |
| Less investment expense                              | -                                     | -   |
| <b>TOTAL ADDITIONS</b>                               | <u>25,873</u>                         | <u>-</u>  |
|  | -----                                 | -----   |
| <b>DEDUCTIONS</b>                                    |                                       |   |
| Transfers to other funds                             | -                                     | -   |
| Administrative charges                               | -                                     | -   |
| Scholarships   | 6,058                                 | -   |
| <b>TOTAL DEDUCTIONS</b>                              | <u>6,058</u>                          | <u>-</u>  |
| <b>CHANGE IN NET ASSETS</b>                          | 19,815                                | -   |
| <b>NET ASSETS - BEGINNING OF YEAR</b>                | 176,615                               | -   |
| <b>NET ASSETS - END OF YEAR</b>                      | <u>\$ 196,430</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, 2010**

|   | <b>BUDGET AMOUNTS</b> |                       | <b>ACTUAL</b>            | <b>VARIANCE WITH</b>                            | <b>BUDGET TO</b>           | <b>ACTUAL</b>                 |
|---|-----------------------|-----------------------|--------------------------|---|----------------------------|-------------------------------|
|   | <b>ORIGINAL</b>       | <b>FINAL</b>          | <b>(BUDGETARY BASIS)</b> | <b>FINAL BUDGET<br/>POSITIVE<br/>(NEGATIVE)</b> | <b>GAAP<br/>DIFFERENCE</b> | <b>AMOUNTS<br/>GAAP BASIS</b> |
| <b>REVENUES</b>                                   |                       |                       |                          |   |                            |                               |
| Local Sources                                     | \$ 129,618,799        | \$ 132,666,029        | \$ 133,891,127           | \$ 1,225,098                                    | \$ -                       | \$ 133,891,127                |
| State Sources                                     | 53,138,125            | 54,732,496            | 50,929,924               | (3,802,572)                                     | -                          | 50,929,924                    |
| Federal Sources                                   | 12,303,739            | 10,396,006            | 10,128,061               | (267,945)                                       | -                          | 10,128,061                    |
| <b>TOTAL REVENUES</b>                             | <b>195,060,663</b>    | <b>197,794,531</b>    | <b>194,949,112</b>       | <b>(2,845,419)</b>                              | <b>-</b>                   | <b>194,949,112</b>            |
| <b>EXPENDITURES</b>                               |                       |                       |                          |   |                            |                               |
| Regular Instruction                               | 99,924,900            | 80,671,766            | 80,669,255               | 2,511   | -                          | 80,669,255                    |
| Special Programs                                  | 13,388,746            | 23,009,669            | 20,451,914               | 2,557,755                                       | -                          | 20,451,914                    |
| Vocational Programs                               | 5,497,856             | 7,871,342             | 7,788,945                | 82,397  | -                          | 7,788,945                     |
| Other Instructional Programs                      | 2,432,551             | 2,438,627             | 2,222,866                | 215,761   | -                          | 2,222,866                     |
| Nonpublic School Programs                         |                       | 17,348                | 16,704                   | 644   | -                          | 16,704                        |
| Adult Education Programs                          | 46,651                | 30,374                | 27,798                   | 2,576   | -                          | 27,798                        |
| Community/Junior College Ed. Programs             | 2,090,822             | 2,087,978             | 2,087,957                | 21  | -                          | 2,087,957                     |
| Pre-Kindergarten                                  | 1,712,311             | 1,851,952             | 1,754,971                | 96,981  | -                          | 1,754,971                     |
| Pupil Personnel Services                          | 3,049,250             | 8,085,086             | 7,594,544                | 490,542   | -                          | 7,594,544                     |
| Instructional Staff Services                      | 4,516,894             | 6,473,990             | 5,679,865                | 794,125   | -                          | 5,679,865                     |
| Administrative Services                           | 10,075,449            | 10,355,714            | 10,134,272               | 221,442   | -                          | 10,134,272                    |
| Pupil Health                                      | 620,054               | 1,759,452             | 1,633,488                | 125,964   | -                          | 1,633,488                     |
| Business Services                                 | 2,710,368             | 2,330,707             | 2,225,709                | 104,998   | -                          | 2,225,709                     |
| Operation & Maintenance of Plant Services         | 15,689,439            | 16,583,596            | 15,387,931               | 1,195,665                                       | -                          | 15,387,931                    |
| Student Transportation Services                   | 5,740,083             | 5,915,705             | 5,415,473                | 500,232   | -                          | 5,415,473                     |
| Central Support Services                          | 1,446,458             | 1,706,218             | 1,609,356                | 96,862  | -                          | 1,609,356                     |
| Other Support Services                            | 103,285               | 105,285               | 104,476                  | 809   | -                          | 104,476                       |
| Student Activities                                | 239,944               | 296,765               | 291,181                  | 5,584   | -                          | 291,181                       |
| Community Services                                | 221,530               | 219,463               | 105,986                  | 113,477   | -                          | 105,986                       |
| Scholarships and Awards                           | -                     | -                     | -                        | -   | -                          | -                             |
| Facilities, Acquisition and Construction          | -                     | -                     | -                        | -   | -                          | -                             |
| Debt Service                                      | 22,385,226            | 22,750,226            | 21,035,200               | 1,715,026                                       | -                          | 21,035,200                    |
| <b>TOTAL EXPENDITURES</b>                         | <b>191,891,817</b>    | <b>194,561,263</b>    | <b>186,237,891</b>       | <b>8,323,372</b>                                | <b>-</b>                   | <b>186,237,891</b>            |
| Excess (deficiency) of revenues over expenditures | 3,168,846             | 3,233,268             | 8,711,221                | 5,477,953                                       | -                          | 8,711,221                     |
| <b>OTHER FINANCING SOURCES (USES)</b>             |                       |                       |                          |   |                            |                               |
| Proceeds From Extended Term Financing             | -                     | -                     | -                        | -   | -                          | -                             |
| Interfund Transfers In                            | 250,000               | -                     | 91,344                   | 91,344  | -                          | 91,344                        |
| Sale/Compensation for Fixed Assets                | 92,000                | -                     | 107,947                  | 107,947   | -                          | 107,947                       |
| Fund Transfers Out                                | (1,455,469)           | (1,446,521)           | (1,376,288)              | 70,233  | -                          | (1,376,288)                   |
| Budgetary Reserve                                 | (2,055,377)           | (2,153,747)           | -                        | 2,153,747                                       | -                          | -                             |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>       | <b>(3,168,846)</b>    | <b>(3,600,268)</b>    | <b>(1,176,997)</b>       | <b>2,423,271</b>                                | <b>-</b>                   | <b>(1,176,997)</b>            |
| Special Items                                     | -                     | -                     | 2,515,610                | 2,515,610                                       | -                          | 2,515,610                     |
| Extraordinary Items                               | -                     | 367,000               | 9,488                    | (357,512)                                       | -                          | 9,488                         |
| <b>NET CHANGE IN FUND BALANCES</b>                | <b>-</b>              | <b>-</b>              | <b>10,059,322</b>        | <b>10,059,322</b>                               | <b>-</b>                   | <b>10,059,322</b>             |
| <b>FUND BALANCE - JULY 1, 2009</b>                | <b>(8,100,000)</b>    | <b>(8,100,000)</b>    | <b>(1,119,232)</b>       | <b>6,980,768</b>                                | <b>-</b>                   | <b>(1,119,232)</b>            |
| <b>FUND BALANCE - JUNE 30, 2010</b>               | <b>\$ (8,100,000)</b> | <b>\$ (8,100,000)</b> | <b>\$ 8,940,090</b>      | <b>\$ 17,040,090</b>                            | <b>\$ -</b>                | <b>\$ 8,940,090</b>           |

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

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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

***School District***

The Bethlehem Area School District (BASD), located 50 miles north of Philadelphia in eastern Pennsylvania, serves five communities in Bethlehem with demographics ranging from small suburban schools to severely distressed urban schools. It is the sixth largest school district in the state, with an approximate enrollment of 14,819 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, 2010**

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***Reporting Entity***

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

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

***Component Unit***

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 2009-10 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 2009-10 was \$5,327,419.

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 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

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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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 2009-10 was \$2,087,957.

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.

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

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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

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

**B. Fund Accounting**

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

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

*General Fund*

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

*Special Revenue Funds*

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

*Capital Reserve Fund*

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

*Capital Project Funds*

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

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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The District has the following Capital Project Fund:

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.

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

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

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

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

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

### **C. Measurement Focus**

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

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

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

#### **D. Basis of Accounting**

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

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

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

#### **E. Budgetary Process**

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

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

#### **Accelerated Budget Process Option**

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

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

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



**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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**Board Resolution Option**

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

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2009-10 budget transfers, including the re-opening of the budget to account for \$2,758,868 in additional federal and state grants.

*Encumbrances*

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

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

***F. Change in Accounting Principle***

During the past fiscal year, the District was required to implement the provisions of GASB Statement No. 53 on Derivative Financial Instruments. The Derivative Instruments and disclosures are more fully explained in Note No. 5.

***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.

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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***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".

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

*Property Tax Levy*

Property taxes, which were levied during the fiscal year ended June 30, 2010, 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, 2010, the inventory shown in the governmental activities column of the government-wide statement of net assets is \$229,948 and \$85,499 is shown as inventory in the business-type activities column of the government-wide statement of net assets.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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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 \$229,948 taken as of June 30, 2010; therefore, there is an offsetting reservation of 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, 2010, consist of:

|                     |                   |
|---------------------|-------------------|
| Purchased Food      | \$ 166,933        |
| Donated Commodities | 18,731            |
| Purchased Supplies  | 97,005            |
| <b>TOTAL</b>        | <b>\$ 282,669</b> |

*Prepaid Expenses*

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

*Capital Assets*

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

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

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

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

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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*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, 2010, 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, 2010**

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*Fund Balance Reserves*

The School District reserves, if the overall fund balance is positive, those portions of fund equity which are

legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

*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 \$316,577,488 differences are:

|  |                              |
|--|------------------------------|
| Bonds payable  | \$ 297,550,000               |
| Less: Deferred charge on refunding (to be amortized as interest expense)   | (20,410,240)                 |
| Less: Deferred charge for issuance costs (to be amortized over life of debt)   | (3,018,207)                  |
| Less: Issuance discount (to be amortized as interest expense)  | (963,998)                    |
| Add: Issuance premium (to be amortized as a contra to interest expense)  | 3,273,324                    |
| Derivative Instrument Liability  | 28,080,917                   |
| Lease Purchase Obligations   | 1,977,009                    |
| Accrued interest payable   | 2,335,123                    |
| Net OPEB Obligation  | 4,472,358                    |
| Compensated absences   | <u>3,281,202</u>             |
| Net adjustment to reduce "fund balance - total governmental funds" to arrive at "net assets - governmental activities" | <u><b>\$ 316,577,488</b></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:

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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- 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 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.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

|  | TOTAL<br>GOVERN-<br>MENTAL<br>FUNDS | LONG-TERM<br>REVENUES/<br>EXPENSES | CAPITAL<br>RELATED<br>ITEMS | LONG-TERM<br>DEBT<br>TRANS-<br>ACTIONS | TOTAL FOR<br>STATEMENT<br>OF<br>ACTIVITIES |
|--|-------------------------------------|------------------------------------|-----------------------------|--|--|
| <b>REVENUES AND OTHER SOURCES</b>                |                                     |                                    |                             |  |  |
| <b>LOCAL SOURCES:</b>                            |                                     |                                    |                             |  |  |
| Property Taxes                                   | \$ 111,623,841                      | \$ 371,835                         | \$ -                        | \$ -                                   | \$ 111,995,676                             |
| Taxes levied for specific purposes               | 16,931,238                          | 17,120                             | -                           | -                                      | 16,948,358                                 |
| Interest and investment earnings                 | 3,795,129                           | -                                  | -                           | (2,781,222)                            | 1,013,907                                  |
| Miscellaneous                                    | 723,117                             | -                                  | -                           | -                                      | 723,117                                    |
| Contributions and Donations                      | 201,468                             | -                                  | -                           | -                                      | 201,468                                    |
| Charges for Services                             | 769,510                             | -                                  | -                           | -                                      | 769,510                                    |
| Grants, subsidies & contributions not restricted | 27,686,772                          | -                                  | -                           | -                                      | 27,686,772                                 |
| <b>INTERMEDIATE SOURCES:</b>                     |                                     |                                    |                             |  |  |
| Charges for Services                             | -                                   | -                                  | -                           | -                                      | -  |
| Operating grants and contributions               | -                                   | -                                  | -                           | -                                      | -  |
| <b>STATE SOURCES:</b>                            |                                     |                                    |                             |  |  |
| Operating & Capital grants and contributions     | 23,446,109                          | -                                  | 77,169                      | -                                      | 23,523,278                                 |
| <b>FEDERAL SOURCES:</b>                          |                                     |                                    |                             |  |  |
| Operating & Capital grants and contributions     | 13,833,246                          | -                                  | -                           | -                                      | 13,833,246                                 |
| <b>SPECIAL AND EXTRAORDINARY SOURCES:</b>        |                                     |                                    |                             |  |  |
| Proceeds from Bond Issues                        | 89,653,734                          | -                                  | -                           | (89,653,734)                           | -  |
| Proceeds from Extended Term Financing            | -                                   | -                                  | -                           | -                                      | -  |
| Special Item - Insurance Recoveries              | 9,488                               | -                                  | -                           | -                                      | 9,488                                      |
| Gain or (Loss) on disposal of assets             | 107,947                             | -                                  | -                           | -                                      | 107,947                                    |
| <b>TOTAL REVENUES</b>                            | <b>288,781,599</b>                  | <b>388,955</b>                     | <b>77,169</b>               | <b>(92,434,956)</b>                    | <b>196,812,767</b>                         |
| <b>EXPENDITURES/EXPENSES</b>                     |                                     |                                    |                             |  |  |
| Instruction                                      | 115,437,647                         | 519,308                            | 1,055,924                   | -                                      | 117,012,879                                |
| Instructional Student Support                    | 15,013,878                          | 89,908                             | (5,902)                     | -                                      | 15,097,884                                 |
| Admin. & Fin'l Support Services                  | 15,048,577                          | 17,132                             | (64,150)                    | (881,555)                              | 14,120,004                                 |
| Oper. & Maint. Of Plant Svcs.                    | 15,781,809                          | 12,626                             | (208,543)                   | -                                      | 15,585,892                                 |
| Pupil Transportation                             | 6,172,330                           | 22,599                             | (309,435)                   | -                                      | 5,885,494                                  |
| Student activities                               | 1,767,889                           | 1,885                              | 98,151                      | -                                      | 1,867,925                                  |
| Community Services                               | 105,986                             | (346)                              | -                           | -                                      | 105,640                                    |
| Scholarships & Awards                            | -                                   | -                                  | -                           | -                                      | -  |
| Capital Outlay                                   | 8,835,821                           | -                                  | (8,835,821)                 | -                                      | -  |
| Debt Service                                     | 109,096,110                         | -                                  | -                           | (94,281,876)                           | 14,814,234                                 |
| Transfers Out                                    | -                                   | -                                  | -                           | -                                      | -  |
| Depreciation - unallocated                       | -                                   | -                                  | 4,916,442                   | -                                      | 4,916,442                                  |
| Special Item - Derivative Termination Fee        | 1,128,390                           | -                                  | -                           | (4,408,907)                            | (3,280,517)                                |
| <b>TOTAL EXPENDITURES/EXPENSES</b>               | <b>288,388,437</b>                  | <b>663,112</b>                     | <b>(3,353,334)</b>          | <b>(99,572,338)</b>                    | <b>186,125,877</b>                         |
| <b>NET CHANGE FOR THE YEAR</b>                   | <b>\$ 393,162</b>                   | <b>\$ (274,157)</b>                | <b>\$ 3,430,503</b>         | <b>\$ 7,137,382</b>                    | <b>\$ 10,686,890</b>                       |

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

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

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

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

No individual fund contains a deficit fund balance or net assets at June 30, 2010, except the Athletic Fund has a year end deficit fund balance of \$49,000 and the governmental activities has a \$28,041,053 in deficit net assets.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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**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, 2010. 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, 2010, \$11,242,877 of the District's bank balance of \$12,811,831 was exposed to custodial credit risk as follows:

|  |                             |
|--|-----------------------------|
| Uninsured and uncollateralized   | \$ -                        |
| Collateralized with securities held by the pledging financial institution                        | -                           |
| Uninsured and collateral held by the pledging bank's trust department not in the District's name | 11,242,877                  |
| <b>TOTAL</b>   | <b><u>\$ 11,242,877</u></b> |

*Reconciliation to Financial Statements*

|   |                             |
|---|-----------------------------|
| Uncollateralized Amount above                                       | \$ 11,242,877               |
| Plus: Insured Amount  | 1,568,954                   |
| Less: Outstanding Checks  | <u>(1,733,532)</u>          |
| Carrying Amount - Cash Balances                                     | 11,078,299                  |
| Plus: Petty Cash  | 2,850                       |
| Deposit in Pooled Investments Considered Cash Equivalents           | 8,497,075                   |
| Deposit in Money Market Mutual Funds Considered Cash Equivalents    | 639,024                     |
| Less: Certificates of Deposit considered Investments by School Code | <u>(6,365,118)</u>          |
| <b>TOTAL CASH PER FINANCIAL STATEMENTS</b>                          | <b><u>\$ 13,852,130</u></b> |



**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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**Investments**

As of June 30, 2010, the District had the following investments:

| <i>Investment</i>                                  | <i>Maturities</i> | <i>Fair Value</i>    |
|--|-------------------|----------------------|
| PSDLAF/PSDMAX                                      |                   | \$ 6,366,053         |
| PA Treasurer's Invest Program                      |                   | 2,052,688            |
| PLGIT Class  |                   | 77,997               |
| Sovereign Bank Money Market                        |                   | -                    |
| Commerce Bank Money Market                         |                   | 637,386              |
| Wachovia Bank Money Market                         |                   | 1,638                |
| Bank of America Money Market                       |                   | -                    |
| Baird Public Investment Advisors Money Market Fund |                   | 6,365,118            |
| <b>TOTAL</b>                                       |                   | <b>\$ 15,500,880</b> |

**Interest Rate Risk**

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

**Credit Risk**

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2010, 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.

All of the District's investments are in Certificates of Deposit. In the governmental activities column on the Statement of Net Assets, all of the investments are in Certificates of Deposit. Of the Capital Project Funds investments, all are in Certificates of Deposit. All of the fiduciary funds investments are vested in Certificates of Deposit.

**Reconciliation to Financial Statements**

|   |                     |
|---|---------------------|
| Total Investments Above                                       | \$ 15,500,880       |
| Less: Deposits in Investment Pool Considered Cash Equivalents | (8,496,738)         |
| Deposits in Money Market Funds Considered Cash Equivalents    | (639,024)           |
| <b>Total Investments Per Financial Statements</b>             | <b>\$ 6,365,118</b> |

**Property Taxes**

Property taxes are levied on July 1, on the assessed value listed, as of that date, for all taxable real property located in the District. Assessed values are established by the County Board of Assessments. All taxable real property was assessed at \$2,783,967,800. The tax rate for the Northampton and Lehigh Counties was \$4.160 per \$100 of assessed valuation or 41.60 mills.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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<br>FUND      | CAPITAL<br>RESERVE<br>FUND | CAPITAL<br>PROJECT<br>FUNDS | FOOD<br>SERVICE<br>FUND | NON-<br>MAJOR<br>FUNDS | FIDUCIARY<br>FUNDS | TOTAL                |
|---------------------------------------|----------------------|----------------------------|-----------------------------|-------------------------|------------------------|--------------------|----------------------|
| <b>RECEIVABLES:</b>                   |                      |                            |                             |                         |                        |                    |                      |
| Interest                              | \$ -                 | \$ -                       | \$ -                        | \$ -                    | \$ -                   | \$ -               | \$ -                 |
| Taxes                                 | 8,183,756            | -                          | -                           | -                       | -                      | -                  | 8,183,756            |
| Accounts                              | 138,787              | -                          | 867                         | 110,169                 | 38,175                 | -                  | 287,998              |
| Intergovernmental                     | 6,184,740            | -                          | -                           | 512,168                 | -                      | -                  | 6,696,908            |
| <b>GROSS RECEIVABLES</b>              | 14,507,283           | -                          | 867                         | 622,337                 | 38,175                 | -                  | 15,168,662           |
| Less: Allowance for<br>Uncollectibles | -                    | -                          | -                           | -                       | -                      | -                  | -                    |
| <b>NET RECEIVABLES</b>                | <b>\$ 14,507,283</b> | <b>\$ -</b>                | <b>\$ 867</b>               | <b>\$ 622,337</b>       | <b>\$ 38,175</b>       | <b>\$ -</b>        | <b>\$ 15,168,662</b> |

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                      | \$ 4,119,524        | \$ -             |
| Contributions   | -                   | -                |
| Grants drawdowns prior to meeting<br>eligibility requirements | -                   | 40,294           |
| <b>TOTAL</b>  | <b>\$ 4,119,524</b> | <b>\$ 40,294</b> |

*Capital Assets*

Capital asset balances and activity for the year ending June 30, 2010, were:

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

|   | <b>BEGINNING<br/>BALANCE</b> | <b>INCREASES</b>    | <b>DECREASES</b>      | <b>ENDING<br/>BALANCE</b> |
|---|------------------------------|---------------------|-----------------------|---------------------------|
| <b>GOVERNMENTAL ACTIVITIES:</b>   |                              |                     |                       |                           |
| Capital Assets not being depreciated:   |                              |                     |                       |                           |
| Land  | \$ 75,410                    | \$ -                | \$ -                  | \$ 75,410                 |
| Construction in Progress  | 136,015,462                  | 8,938,895           | (1,286,998)           | 143,667,359               |
| Total Capital Assets not being depreciated  | 136,090,872                  | 8,938,895           | (1,286,998)           | 143,742,769               |
| Capital Assets being depreciated:   |                              |                     |                       | -                         |
| Site Improvements   | 8,907,917                    | 27,369              | -                     | 8,935,286                 |
| Buildings and Improvements  | 174,487,353                  | 1,286,998           | -                     | 175,774,351               |
| Furniture and Equipment   | 60,119,839                   | 1,227,060           | -                     | 61,346,899                |
| <b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>                                       | 243,515,109                  | 2,541,427           | -                     | 246,056,536               |
| Less accumulated depreciation for:  |                              |                     |                       |                           |
| Site Improvements   | (5,291,108)                  | (427,584)           | -                     | (5,718,692)               |
| Buildings and Improvements  | (71,541,352)                 | (4,489,592)         | -                     | (76,030,944)              |
| Furniture and Equipment   | (52,861,888)                 | (1,922,814)         | -                     | (54,784,702)              |
| <b>TOTAL ACCUMULATED DEPRECIATION</b>   | (129,694,348)                | (6,839,990)         | -                     | (136,534,338)             |
| <b>TOTAL CAPITAL ASSETS BEING DEPRECIATED<br/>NET OF ACCUMULATED DEPRECIATION</b>   | 113,820,761                  | (4,298,563)         | -                     | 109,522,198               |
| <b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS,<br/>NET OF ACCUMULATED DEPRECIATION</b>  | <b>\$ 249,911,633</b>        | <b>\$ 4,640,332</b> | <b>\$ (1,286,998)</b> | <b>\$ 253,264,967</b>     |
| <b>BUSINESS-TYPE ACTIVITIES:</b>  |                              |                     |                       |                           |
| Capital Assets being depreciated:   |                              |                     |                       |                           |
| Furniture and Equipment   | \$ 1,826,059                 | \$ 39,986           | \$ -                  | \$ 1,866,045              |
| Less accumulated depreciation   | (1,727,553)                  | (38,946)            | -                     | (1,766,499)               |
| <b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS,<br/>NET OF ACCUMULATED DEPRECIATION</b> | <b>\$ 98,506</b>             | <b>\$ 1,040</b>     | <b>\$ -</b>           | <b>\$ 99,546</b>          |

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

|   |                     |
|---|---------------------|
| Regular Instruction                                   | \$ 1,097,423        |
| Special Instruction                                   | 165,845             |
| Vocational Instruction                                | 18,331              |
| Other Instruction                                     | -                   |
| Adult Instruction                                     | -                   |
| Community College Instruction                         | -                   |
| Pupil Services  | 5,381               |
| Instructional Staff Svcs.                             | 31,443              |
| Administrative Services                               | 15,004              |
| Health Services                                       | 7,942               |
| Business Services                                     | -                   |
| Operation & Maintenance of Plant Svcs.                | 36,607              |
| Pupil Transportation                                  | 447,422             |
| Central Services                                      | -                   |
| Other Support Services                                | -                   |
| Student Activities                                    | 98,150              |
| Community Services                                    | -                   |
| Depreciation - unallocated                            | 4,916,442           |
| <b>TOTAL DEPRECIATION FOR GOVERNMENTAL ACTIVITIES</b> | <b>\$ 6,839,990</b> |

The District disposed of fully depreciated capital assets during the year and received sale proceeds of \$107,947 resulting in a gain on sale of assets of \$107,947.

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

*Long-term construction commitments*

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

|   | CONTRACT<br>AMOUNT    | EXPENDED<br>TO 6/30/10 | OUTSTANDING<br>COMMITMENTS |
|---|-----------------------|------------------------|----------------------------|
| <b><u>ASA Packer ES Fire Alarm System</u></b>           |                       |                        |                            |
| D'Huy Engineering                                       | \$ 3,795              | \$ 3,795               | \$ -                       |
| Advantage Electrical Installations, Inc                 | 50,381                | 50,381                 | -                          |
| <b>TOTAL</b>  | <b>54,176</b>         | <b>54,176</b>          | <b>-</b>                   |
| <b><u>ASA Packer ES Roof Replacement</u></b>            |                       |                        |                            |
| D'Huy Engineering                                       | 15,738                | 15,738                 | -                          |
| TRS Roofing Inc   | 237,300               | 237,300                | -                          |
| <b>TOTAL</b>  | <b>253,038</b>        | <b>253,038</b>         | <b>-</b>                   |
| <b><u>Freemansburg ES Roof Replacement</u></b>          |                       |                        |                            |
| D'Huy Engineering                                       | 5,547                 | 5,547                  | -                          |
| Eastern Roofing Systems Inc                             | 89,515                | 89,515                 | -                          |
| <b>TOTAL</b>  | <b>95,062</b>         | <b>95,062</b>          | <b>-</b>                   |
| <b><u>Farmersville ES Roof Replacement</u></b>          |                       |                        |                            |
| D'Huy Engineering                                       | 20,408                | 20,408                 | -                          |
| TGW Corporation   | 319,330               | 319,330                | -                          |
| <b>TOTAL</b>  | <b>339,738</b>        | <b>339,738</b>         | <b>-</b>                   |
| <b><u>NorthEast MS Demo &amp; New Soccer Fields</u></b> |                       |                        |                            |
| Vollers Excavating                                      | 1,995,000             | 223,839                | 1,771,161                  |
| <b>TOTAL</b>  | <b>1,995,000</b>      | <b>223,839</b>         | <b>1,771,161</b>           |
| <b><u>Liberty High School</u></b>                       |                       |                        |                            |
| GC Boro   | 37,351,163            | 37,281,163             | 70,000                     |
| EC- Albarell  | 6,154,453             | 5,999,313              | 155,140                    |
| PC-Dual Temp  | 4,040,544             | 3,998,182              | 42,362                     |
| HVAC-Dual Temp  | 11,039,672            | 10,910,165             | 129,507                    |
| Architect - Spillman Farmer                             | 3,534,714             | 3,534,714              | -                          |
| RPE- D'Huy Engineering                                  | 2,222,499             | 2,222,499              | -                          |
| <b>TOTAL</b>  | <b>64,343,045</b>     | <b>63,946,036</b>      | <b>397,009</b>             |
| <b><u>Broughal Middle School</u></b>                    |                       |                        |                            |
| GC- Skepton   | 37,853,100            | 37,556,938             | 296,162                    |
| EC- Albarell  | 4,600,781             | 4,453,058              | 147,723                    |
| PC- Dual Temp   | 2,484,500             | 2,427,936              | 56,564                     |
| HVAC- Worth & Company                                   | 4,809,200             | 4,784,200              | 25,000                     |
| Asbestos- Sargent                                       | 423,924               | 423,924                | -                          |
| Architect- Architecture Furst                           | 2,793,614             | 2,793,614              | -                          |
| RPE- D'Huy Engineering                                  | 1,786,251             | 1,723,732              | 62,519                     |
| <b>TOTAL</b>  | <b>54,751,370</b>     | <b>54,163,401</b>      | <b>587,968</b>             |
| <b>GRAND TOTAL</b>                                      | <b>\$ 121,831,429</b> | <b>\$ 119,075,290</b>  | <b>\$ 2,756,138</b>        |

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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**Short-term debt**

*Interfund receivables and payables*

The following interfund receivables and payables were in existence on June 30, 2010:

|  | <b>INTERFUND<br/>RECEIVABLES</b> | <b>INTERFUND<br/>PAYABLES</b> |
|--|----------------------------------|-------------------------------|
| General Fund                             | \$ 6,224,781                     | \$ 1,858,173                  |
| Special Revenue (Authority General) Fund | 921,898                          | \$ -                          |
| Special Revenue (Athletic) Fund          | -                                | 30,637                        |
| Special Revenue (Capital Reserve) Fund   | 470,020                          | -                             |
| Capital Projects Fund                    | -                                | 5,106,901                     |
| Enterprise (Food Service) Fund           | 270,504                          | -                             |
| Enterprise (Day Care) Fund               | 119,700                          | -                             |
| Concession Fund                          | -                                | 2,181                         |
| Self - Insurance Fund                    | -                                | 1,085,062                     |
| Private Purpose (Trust) Fund             | 31,225                           | -                             |
| Agency (Activity) Fund                   | 44,826                           | -                             |
| <b>TOTAL</b>                             | <b>\$ 8,082,954</b>              | <b>\$ 8,082,954</b>           |

The District also made the following interfund transfers during the fiscal year ended June 30, 2010:

|                                  | <b>TRANSFER IN</b>  | <b>TRANSFER OUT</b> |
|----------------------------------|---------------------|---------------------|
| General Fund                     | \$ 91,344           | \$ 1,376,288        |
| Special Revenue (Athletic) Fund  | 1,376,288           | 91,344              |
| Special Revenue (Authority) Fund | -                   | -                   |
| Enterprise (Day Care) Fund       | -                   | -                   |
| Agency (Activity) Fund           | -                   | -                   |
| <b>TOTAL</b>                     | <b>\$ 1,467,632</b> | <b>\$ 1,467,632</b> |

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

**Long-term liabilities**

Long-term liability balances and activity for the year ended June 30, 2010, were:

|                                      | BEGINNING<br>BALANCE  | ADDITIONS            | REDUCTIONS           | ELIMINATION OF<br>REPORTING<br>INTER-ENTITY<br>DEBT | ENDING<br>BALANCE     | AMOUNTS<br>DUE WITHIN<br>ONE YEAR |
|--------------------------------------|-----------------------|----------------------|----------------------|---|-----------------------|-----------------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>       |                       |                      |                      |   |                       |                                   |
| <b>General Obligation Debt:</b>      |                       |                      |                      |   |                       |                                   |
| <i>Bonds and notes payable:</i>      |                       |                      |                      |   |                       |                                   |
| Capital Projects                     | \$ 295,310,531        | \$ 60,516,542        | \$ 77,042,988        | \$ (670,000)  | \$ 279,454,085        | \$ 48,670,000                     |
| Capital Leases                       | 2,714,197             | -                    | 737,188              | -   | 1,977,009             | 622,081                           |
| <b>Total general obligation debt</b> | <b>298,024,728</b>    | <b>60,516,542</b>    | <b>77,780,176</b>    | <b>(670,000)</b>                                    | <b>281,431,094</b>    | <b>49,292,081</b>                 |
| <i>Other liabilities:</i>            |                       |                      |                      |   |                       |                                   |
| <i>Vested employee benefits:</i>     |                       |                      |                      |   |                       |                                   |
| Vacation pay                         | 1,676,636             | -                    | 27,020               | -   | 1,649,616             | 70,036                            |
| Sick pay                             | 1,831,080             | -                    | 9,946                | -   | 1,821,134             | 119,512                           |
| Net Pension Obligation               | 116,556               | 52,049               | -                    | -   | 168,605               | -                                 |
| Net OPEB Obligation                  | 3,050,521             | 1,253,232            | -                    | -   | 4,303,753             | -                                 |
| Derivative Financial Instruments     | -                     | 28,080,917           | -                    | -   | 28,080,917            | -                                 |
| <b>Total other liabilities</b>       | <b>6,674,793</b>      | <b>29,386,198</b>    | <b>36,966</b>        | <b>-</b>  | <b>36,024,025</b>     | <b>189,548</b>                    |
| <b>TOTAL GOVERNMENTAL ACTIVITY</b>   |                       |                      |                      |   |                       |                                   |
| <b>LONG-TERM LIABILITIES</b>         | <b>\$ 304,699,521</b> | <b>\$ 89,902,740</b> | <b>\$ 77,817,142</b> | <b>\$ (670,000)</b>                                 | <b>\$ 317,455,119</b> | <b>\$ 49,481,629</b>              |
| <b>BUSINESS TYPE ACTIVITIES</b>      |                       |                      |                      |   |                       |                                   |
| <i>Other liabilities:</i>            |                       |                      |                      |   |                       |                                   |
| <i>Vested employee benefits:</i>     |                       |                      |                      |   |                       |                                   |
| Vacation pay                         | 20,390                | 2,254                | -                    | -   | 22,644                | -                                 |
| Sick pay                             | 47,583                | 6,094                | -                    | -   | 53,677                | -                                 |
| Net OPEB Obligation                  | 32,111                | 14,029               | -                    | -   | 46,140                | -                                 |
| <b>TOTAL BUSINESS-TYPE ACTIVITY</b>  |                       |                      |                      |   |                       |                                   |
| <b>LONG-TERM LIABILITIES</b>         | <b>\$ 100,084</b>     | <b>\$ 22,377</b>     | <b>\$ -</b>          | <b>\$ -</b>   | <b>\$ 122,461</b>     | <b>\$ -</b>                       |

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

Total Interest paid and accrued during the year:

| GOVERNMENTAL ACTIVITIES:                              | EXPENSE              | PAID                 |
|---|----------------------|----------------------|
| General obligation debt                               | \$ 14,814,234        | \$ 12,088,012        |
| Short-term borrowings                                 | -                    | -                    |
| <b>TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES</b> | <b>\$ 14,814,234</b> | <b>\$ 12,088,012</b> |

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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**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, 2010, are:

| <b>FISCAL YEAR</b>                       | <b>PRINCIPAL</b>    | <b>INTEREST</b>     |
|--|---------------------|---------------------|
| 2010-11                                  | \$ 385,000          | \$ 241,943          |
| 2011-12                                  | 405,000             | 226,350             |
| 2012-13                                  | 420,000             | 209,542             |
| 2013-14                                  | 415,000             | 191,693             |
| 2014-15                                  | 430,000             | 173,640             |
| 2015-19                                  | 3,245,000           | 430,170             |
| <b>SUB-TOTAL</b>                         | <b>5,300,000</b>    | <b>\$ 1,473,338</b> |
| Unamortized Deferred chgs. on Refundings | (3,600)             |                     |
| Unamortized Premium                      | 26,445              |                     |
| <b>TOTAL OUTSTANDING</b>                 | <b>\$ 5,322,845</b> |                     |

**General Obligation Bonds – Series of 2005**

On July 1, 2005, the District issued \$55,000,000 of General Obligation Bonds – Series of 2005. The proceeds will be used: (1) for capital projects, including renovations and expansion to Broughal Middle School and Nitschmann Middle School, and (2) paying the costs of the issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from January 1, 2006 to January 1, 2030. The bonds shall bear interest on a variable weekly rate using the current market rate as determined by the remarketing agent. The School District entered into a forward starting swap agreement. During the fiscal year, the District issued General Obligation Bonds – Series of 2010 to refund this issue, along with the issuance of Guaranteed Revenue Bonds of the Bethlehem Area School District Authority. Included with this refunding was the termination of the constant maturity swap, and a portion of the fixed payor swap that was terminated. The remaining portion of the fixed payor swap was assumed by the Authority.

**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, 2010**

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

*Fair Value.* The interest rate swap has a negative fair value of \$13,525,698 as of June 30, 2010. 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, 2010, 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 BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2010. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2010, the BMA rate was 0.50%, whereas 60% of LIBOR plus .346 was 0.6808%.

*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, 2010, 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:

| <b>FISCAL YEAR</b>                       | <b>PRINCIPAL</b>     | <b>INTEREST</b>     | <b>Interest Rate<br/>Swaps, Net</b> | <b>TOTAL</b>         |
|--|----------------------|---------------------|-------------------------------------|----------------------|
| 2010-11                                  | \$ 5,000             | \$ 274,913          | \$ 1,972,085                        | \$ 2,251,998         |
| 2011-12                                  | 5,000                | 274,888             | 1,971,905                           | 2,251,793            |
| 2012-13                                  | 5,000                | 274,863             | 1,971,726                           | 2,251,589            |
| 2013-14                                  | 5,000                | 274,838             | 1,971,547                           | 2,251,385            |
| 2014-15                                  | 5,000                | 274,813             | 1,971,367                           | 2,251,180            |
| 2015-20                                  | 25,000               | 1,373,690           | 9,854,147                           | 11,252,837           |
| 2020-25                                  | 9,575,000            | 1,302,890           | 7,722,943                           | 18,600,833           |
| 2025-30                                  | 19,230,000           | 902,602             | 6,474,802                           | 26,607,404           |
| 2030-32                                  | 26,130,000           | 132,175             | 948,157                             | 27,210,332           |
| <b>SUB-TOTAL</b>                         | <b>54,985,000</b>    | <b>\$ 5,085,672</b> | <b>\$ 34,858,679</b>                | <b>\$ 94,929,351</b> |
| Unamortized Deferred chgs. on Refundings | -                    | -                   | -                                   | -                    |
| Unamortized Premium                      | -                    | -                   | -                                   | -                    |
| <b>TOTAL OUTSTANDING</b>                 | <b>\$ 54,985,000</b> |                     |                                     |                      |



**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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**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, 2010 are:

| <b>FISCAL YEAR</b>                       | <b>PRINCIPAL</b>     | <b>INTEREST</b>     |
|--|----------------------|---------------------|
| 2010-11                                  | \$ 6,155,000         | \$ 2,090,625        |
| 2011-12                                  | 6,470,000            | 1,775,000           |
| 2012-13                                  | 6,805,000            | 1,443,125           |
| 2013-14                                  | 7,735,000            | 1,079,625           |
| 2014-15                                  | 8,135,000            | 682,875             |
| 2015-18                                  | 9,590,000            | 291,500             |
| <b>SUB-TOTAL</b>                         | 44,890,000           | <b>\$ 7,362,750</b> |
| Unamortized Deferred chgs. on Refundings | -                    |                     |
| Unamortized Discount                     | (46,487)             |                     |
| <b>TOTAL OUTSTANDING</b>                 | <b>\$ 44,843,513</b> |                     |

**Interest Rate Swap**

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

*Terms.* The bonds and the related swap agreement mature on September 1, 2016, and the swap's notional amount 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 \$199,222, as of June 30, 2010. The counterparty has not elected its option on this swaption as of June 30, 2010. The fair value was estimated by PFM, and independent financial advisor.

*Credit Risk.* As of June 30, 2010, 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, 2010**

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**General Obligation Notes – Series of 2009**

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

Since this Note is between the School District and its component unit (Bethlehem Area School District Authority), it is not shown on the government-wide Statement of Net Assets as obligated debt because the Authority is blended into the financial statements; therefore its long-term receivable equal to the principal outstanding balance of this Note are eliminated for financial reporting purposes. We are reporting the following outstanding debt service requirements at June 30, 2010, for informational purposes only, using 1.658% interest rate in effect at June 30, 2010:

| <b>FISCAL YEAR</b> | <b>PRINCIPAL</b>     | <b>INTEREST</b>      |
|--------------------|----------------------|----------------------|
| 2010-11            | \$ 50,000            | \$ 678,371           |
| 2011-12            | 50,000               | 677,542              |
| 2012-13            | 50,000               | 676,713              |
| 2013-14            | 50,000               | 675,883              |
| 2014-15            | 50,000               | 675,054              |
| 2015-20            | 250,000              | 3,362,833            |
| 2020-25            | 10,630,000           | 3,016,717            |
| 2025-30            | 20,485,000           | 1,507,308            |
| 2030-32            | 9,335,000            | 91,761               |
| <b>TOTAL</b>       | <b>\$ 40,950,000</b> | <b>\$ 11,362,182</b> |

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

On May 1, 2009, the District issued \$69,710,000 of General Obligation Bonds – Series A of 2009. The proceeds will be used: (1) to currently refund, in conjunction with General Obligation Bonds – Series AA of 2009, the variable rate outstanding debt of the Series of 2003 bonds; (2) pay the termination fee on the related interest rate swaps, and; (3) paying the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 2009 to October 15, 2023. Interest rates range from 1.15% to 4.625%, with total interest indebtedness of \$29,207,397. The outstanding debt service requirements at June 30, 2010, are:

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

| <b>FISCAL YEAR</b>                       | <b>PRINCIPAL</b>     | <b>INTEREST</b>      |
|--|----------------------|----------------------|
| 2010-11                                  | \$ 1,415,000         | \$ 2,998,432         |
| 2011-12                                  | 1,785,000            | 2,934,431            |
| 2012-13                                  | 1,845,000            | 2,872,231            |
| 2013-14                                  | 1,360,000            | 2,825,519            |
| 2014-15                                  | 1,410,000            | 2,777,106            |
| 2015-20                                  | 34,770,000           | 10,290,256           |
| 2020-25                                  | 25,595,000           | 1,603,271            |
| <b>SUB-TOTAL</b>                         | 68,180,000           | <b>\$ 26,301,246</b> |
| Unamortized Deferred chgs. on Refundings | (5,741,018)          |                      |
| Unamortized Discount                     | (522,909)            |                      |
| Unamortized Premium                      | 2,437,442            |                      |
| <b>TOTAL OUTSTANDING</b>                 | <b>\$ 64,353,515</b> |                      |

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

On May 1, 2009, the District issued \$14,410,000 of General Obligation Bonds – Series AA of 2009. The proceeds will be used: (1) to currently refund, in conjunction with General Obligation Bonds – Series A of 2009, the variable rate outstanding debt of the Series of 2003 bonds; (2) pay the termination fee on the related interest rate swaps, and; (3) paying the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 2018 to October 15, 2020. Interest rates range from 3.80% to 4.20%, with total interest indebtedness of \$6,164,404. The outstanding debt service requirements at June 30, 2010, are:

| <b>FISCAL YEAR</b>                       | <b>PRINCIPAL</b>     | <b>INTEREST</b>     |
|--|----------------------|---------------------|
| 2010-11                                  | \$ -                 | \$ 580,400          |
| 2011-12                                  | -                    | 580,400             |
| 2012-13                                  | -                    | 580,400             |
| 2013-14                                  | -                    | 580,400             |
| 2014-15                                  | -                    | 580,400             |
| 2015-20                                  | 9,410,000            | 2,602,800           |
| 2020-25                                  | 5,000,000            | 105,000             |
| <b>SUB-TOTAL</b>                         | 14,410,000           | <b>\$ 5,609,800</b> |
| Unamortized Deferred chgs. on Refundings | (1,188,317)          |                     |
| Unamortized Discount                     | (268,131)            |                     |
| <b>TOTAL OUTSTANDING</b>                 | <b>\$ 12,953,552</b> |                     |

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

On May 1, 2009, the District issued \$11,100,000 of General Obligation Bonds – Series B of 2009. The proceeds will be used: (1) finance a portion of the costs to construct improvements to school buildings and facilities, including the Broughal Middle School and the Northeast Middle School, and; (2) paying the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 2009 to October 15, 2028. Interest rates range from 2.00% to 5.125%, with total interest indebtedness of \$16,473,525. The outstanding debt service requirements at June 30, 2010, are

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

| <b>FISCAL YEAR</b>       | <b>PRINCIPAL</b>     | <b>INTEREST</b>     |
|--------------------------|----------------------|---------------------|
| 2010-11                  | \$ 425,000           | \$ 414,168          |
| 2011-12                  | 435,000              | 405,568             |
| 2012-13                  | 440,000              | 396,819             |
| 2013-14                  | 450,000              | 387,075             |
| 2014-15                  | 465,000              | 375,338             |
| 2015-20                  | 2,560,000            | 1,637,586           |
| 2020-25                  | 3,085,000            | 1,064,513           |
| 2025-29                  | 2,805,000            | 288,672             |
| <b>SUB-TOTAL</b>         | 10,665,000           | <b>\$ 4,969,739</b> |
| Unamortized Premium      | 5,703                |                     |
| Unamortized Discount     | (126,470)            |                     |
| <b>TOTAL OUTSTANDING</b> | <b>\$ 10,544,233</b> |                     |

**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, 2010, are:

| <b>FISCAL YEAR</b>                      | <b>PRINCIPAL</b>     | <b>INTEREST</b>      |
|---|----------------------|----------------------|
| 2010-11                                 | \$ 5,000             | \$ 1,427,892         |
| 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            |
| 2015-20                                 | 35,000               | 6,939,394            |
| 2020-25                                 | 20,165,000           | 6,193,580            |
| 2025-29                                 | 8,605,000            | 451,762              |
| <b>SUB-TOTAL</b>                        | 28,850,000           | <b>\$ 20,568,536</b> |
| Unamortized Deferred Chgs. On Refunding | (2,278,675)          |                      |
| Unamortized Discount                    | -                    |                      |
| Unamortized Premium                     | 803,734              |                      |
| <b>TOTAL OUTSTANDING</b>                | <b>\$ 27,375,059</b> |                      |

**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 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 the BMA 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

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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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, 2010, for informational purposes only using 1.810% interest rate in effect at June 30, 2010.

| <b>FISCAL YEAR</b> | <b>PRINCIPAL</b>     | <b>INTEREST</b>     |
|--------------------|----------------------|---------------------|
| 2010-11            | \$ 5,000             | \$ 540,212          |
| 2011-12            | 5,000                | 542,872             |
| 2012-13            | 5,000                | 542,781             |
| 2013-14            | 5,000                | 542,691             |
| 2014-15            | 5,000                | 542,600             |
| 2015-20            | 25,000               | 2,711,644           |
| 2020-25            | 25,000               | 2,709,382           |
| 2025-29            | 29,925,000           | 1,721,333           |
| <b>TOTAL</b>       | <b>\$ 30,000,000</b> | <b>\$ 9,853,515</b> |

**Component Unit Debt**

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

On May 1, 2009, the Bethlehem Area School District Authority issued \$40,280,000 of Guaranteed Revenue Bonds – Series of 2009. The purposes of this issue are to: (1) refund the School District's Series of 2007 variable rate General Obligation Bonds purchased by Shippensburg Authority, (2) transfer the two interest rate swap agreements undertaken with the Series of 2007 bonds to the BASD Authority, and (3) pay the costs of issuance. These bonds are secured by a pledge and assignment of lease rentals by the Bethlehem Area School District, and a guarantee by the School District, under the terms of a General Obligation Note issued by the School District for \$41,000,000, on May 1, 2009. The Authority Bonds were purchased by Wachovia Bank and are for a term of two years at a variable rate. These bonds are scheduled to be refinanced with a Guaranteed Revenue Bonds – Series of 2011.

**Interest Rate Swap**

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

*Terms.* The notes were refunded by the Bethlehem Area School District's Authority Guaranteed Revenue Bonds this past fiscal year backed by the issuance of the District's \$41,000,000 General Obligation Note to the Authority. The related swap agreement matures on July 1, 2031, and the swap's notional amount is \$40,000,000. The swap was entered into on November 22, 2005. Starting on July 1, 2008, the notional value of the swap and the principal amount of the associated debt begin to decline. Under the swap, the School District receives the lesser of 68% of LIBOR (monthly rate) from the Counterparty (JP Morgan Chase Bank) in exchange for a fixed rate of 3.774%. The variable rate paid on the Authority's Guaranteed

**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

Revenue Bonds – Series of 2009 approximates the BMA index. Therefore, if BMA exceeds 68% of LIBOR, the District pays a net effective interest rate in excess of 3.774%, and if BMA is less than 68% of LIBOR, the District pays a net effective interest rate approximately equal to the fixed rate. During the 2009-10 fiscal year the constant maturity swap was terminated.

*Fair Value.* The interest rate swap has a negative fair value of \$8,151,997 as of June 30, 2010. 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.

*Credit Risk.* As of June 30, 2010, 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 BMA converge, changing the synthetic rate on the notes. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2010. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2010, the BMA rate was 1.658%, whereas 68% of LIBOR was 0.241%.

*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, 2010, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. The current debt is scheduled to be refunded in 2011 with a new series matching the term of the swap.

The outstanding debt service requirements at June 30, 2010, using the variable rate in effect at year end are:

| <b>FISCAL YEAR</b>                       | <b>PRINCIPAL</b>     | <b>INTEREST</b>   | <b>Interest Rate<br/>Swaps, Net</b> | <b>TOTAL</b>         |
|--|----------------------|-------------------|-------------------------------------|----------------------|
| 2010-11                                  | \$ 40,275,000        | \$ 614,166        | \$ 1,412,865                        | \$ 42,302,031        |
| 2011-12                                  | -                    | -                 | 1,412,688                           | 1,412,688            |
| 2012-13                                  | -                    | -                 | 1,412,511                           | 1,412,511            |
| 2013-14                                  | -                    | -                 | 1,412,335                           | 1,412,335            |
| 2014-15                                  | -                    | -                 | 1,412,158                           | 1,412,158            |
| 2015-20                                  | -                    | -                 | 7,058,140                           | 7,058,140            |
| 2020-25                                  | -                    | -                 | 6,359,603                           | 6,359,603            |
| 2025-30                                  | -                    | -                 | 3,182,019                           | 3,182,019            |
| 2030-32                                  | -                    | -                 | 193,854                             | 193,854              |
| <b>SUB-TOTAL</b>                         | 40,275,000           | <b>\$ 614,166</b> | <b>\$ 23,856,173</b>                | <b>\$ 64,745,339</b> |
| Unamortized Deferred chgs. on Refundings | (8,540,511)          |                   |                                     |                      |
| Unamortized Premium                      | -                    |                   |                                     |                      |
| <b>TOTAL OUTSTANDING</b>                 | <b>\$ 31,734,489</b> |                   |                                     |                      |

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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**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 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 BMA index. Therefore, if BMA 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 \$6,204,000 as of June 30, 2010. 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, 2010, 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 rated Aa2 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 BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2010. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2010, the BMA rate was 1.75%, whereas 60% of LIBOR was 0.553%.

*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



**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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, 2010, 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, 2010, using the variable rate in effect at year end are:

| <b>FISCAL YEAR</b>                       | <b>PRINCIPAL</b>     | <b>INTEREST</b>     | <b>Interest Rate Swaps, Net</b> | <b>TOTAL</b>         |
|--|----------------------|---------------------|---------------------------------|----------------------|
| 2010-11                                  | \$ 5,000             | \$ 540,212          | \$ 991,624                      | \$ 1,536,836         |
| 2011-12                                  | 5,000                | 542,872             | 991,624                         | 1,539,496            |
| 2012-13                                  | 5,000                | 542,781             | 991,624                         | 1,539,405            |
| 2013-14                                  | 5,000                | 542,691             | 991,624                         | 1,539,315            |
| 2014-15                                  | 5,000                | 542,600             | 991,624                         | 1,539,224            |
| 2015-20                                  | 25,000               | 2,711,644           | 4,958,120                       | 7,694,764            |
| 2020-25                                  | 25,000               | 2,709,381           | 4,958,120                       | 7,692,501            |
| 2025-30                                  | 29,925,000           | 1,721,333           | 3,125,780                       | 34,772,113           |
| <b>SUB-TOTAL</b>                         | 30,000,000           | <b>\$ 9,853,514</b> | <b>\$ 18,000,140</b>            | <b>\$ 57,853,654</b> |
| Unamortized Deferred chgs. on Refundings | (2,658,121)          |                     |                                 |                      |
| Unamortized Premium                      | -                    |                     |                                 |                      |
| <b>TOTAL OUTSTANDING</b>                 | <b>\$ 27,341,879</b> |                     |                                 |                      |

#### **Lease Rental Debt**

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

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

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

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

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

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



**Bethlehem Area School District**  
**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

Since market values fluctuate year to year the District's future share of the lease rental debt, as shown below, is an estimate using current market values. The debt is reflected on the Bethlehem Area Vocational-Technical School's financial statements. The remaining debt service requirements of the Guaranteed Lease Bonds – Refunding Series of 2001, at June 30, 2010, are:

| <b>FISCAL YEAR</b> | <b>PRINCIPAL</b> | <b>INTEREST</b> | <b>TOTAL<br/>RENTAL<br/>PAYMENT</b> |
|--------------------|------------------|-----------------|-------------------------------------|
| 2010-11            | \$ 376,159       | \$ 8,934        | \$ 385,093                          |

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

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

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

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

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

| <b>FISCAL YEAR</b>       | <b>PRINCIPAL</b>    | <b>INTEREST</b>     | <b>TOTAL<br/>RENTAL<br/>PAYMENT</b> |
|--------------------------|---------------------|---------------------|-------------------------------------|
| 2010-11                  | \$ 79,025           | \$ 166,307          | \$ 245,332                          |
| 2011-12                  | 464,667             | 161,415             | 626,082                             |
| 2012-13                  | 477,311             | 152,344             | 629,655                             |
| 2013-14                  | 486,794             | 142,338             | 629,132                             |
| 2014-15                  | 496,277             | 130,902             | 627,179                             |
| 2015-20                  | 2,737,426           | 410,319             | 3,147,745                           |
| 2020-22                  | 815,538             | 24,656              | 840,194                             |
| <b>TOTAL OUTSTANDING</b> | <b>\$ 5,557,038</b> | <b>\$ 1,188,281</b> | <b>\$ 6,745,319</b>                 |

**Bethlehem Area School District  
Notes to Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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***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, 2010, are:

| <b>FISCAL YEAR</b>       | <b>PRINCIPAL</b>           | <b>INTEREST</b>          |
|--------------------------|----------------------------|--------------------------|
| 2010-11                  | \$ 622,081                 | \$ 115,107               |
| 2011-12                  | 658,300                    | 78,888                   |
| 2012-13                  | <u>696,628</u>             | <u>40,559</u>            |
| <b>TOTAL OUTSTANDING</b> | <b><u>\$ 1,977,009</u></b> | <b><u>\$ 234,554</u></b> |

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

*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**

| <b><u>FISCAL YEAR</u></b>                     | <b><u>G.O.B.<br/>SERIES A<br/>OF 2001</u></b> | <b><u>G.O.B.<br/>SERIES<br/>OF 2007</u></b> | <b><u>G.O.B.<br/>SERIES A<br/>OF 2007</u></b> | <b><u>G.R.B.<br/>SERIES<br/>OF 2009</u></b> | <b><u>G.O.B.<br/>SERIES A<br/>OF 2009</u></b> | <b><u>G.O.B.<br/>SERIES AA<br/>OF 2009</u></b> | <b><u>G.O.B.<br/>SERIES B<br/>OF 2009</u></b> | <b><u>G.O.B.<br/>SERIES<br/>OF 2010</u></b> | <b><u>G.R.B.<br/>SERIES<br/>OF 2010</u></b> | <b><u>TOTAL<br/>PRINCIPAL<br/>PAYMENTS</u></b> |
|---|---|---|---|---|---|--|---|---|---|--|
| 2010-11                                       | \$ 385,000                                    | \$ 5,000                                    | \$ 6,155,000                                  | \$ 40,275,000                               | \$ 1,415,000                                  | \$ -   | \$ 425,000                                    | \$ 5,000                                    | \$ 5,000                                    | \$ 48,670,000                                  |
| 2011-12                                       | 405,000                                       | 5,000                                       | 6,470,000                                     | -   | 1,785,000                                     | -  | 435,000                                       | 5,000                                       | 5,000                                       | 9,110,000                                      |
| 2012-13                                       | 420,000                                       | 5,000                                       | 6,805,000                                     | -   | 1,845,000                                     | -  | 440,000                                       | 15,000                                      | 5,000                                       | 9,535,000                                      |
| 2013-14                                       | 415,000                                       | 5,000                                       | 7,735,000                                     | -   | 1,360,000                                     | -  | 450,000                                       | 10,000                                      | 5,000                                       | 9,980,000                                      |
| 2014-15                                       | 430,000                                       | 5,000                                       | 8,135,000                                     | -   | 1,410,000                                     | -  | 465,000                                       | 10,000                                      | 5,000                                       | 10,460,000                                     |
| 2015-20                                       | 3,245,000                                     | 25,000                                      | 9,590,000                                     | -   | 34,770,000                                    | 9,410,000                                      | 2,560,000                                     | 35,000                                      | 25,000                                      | 59,660,000                                     |
| 2020-25                                       | -   | 9,575,000                                   | -   | -   | 25,595,000                                    | 5,000,000                                      | 3,085,000                                     | 20,165,000                                  | 25,000                                      | 63,445,000                                     |
| 2025-30                                       | -   | 19,230,000                                  | -   | -   | -   | -  | 2,805,000                                     | 8,605,000                                   | 29,925,000                                  | 60,565,000                                     |
| 2030-35                                       | -   | 26,130,000                                  | -   | -   | -   | -  | -   | -   | -   | 26,130,000                                     |
| <b>TOTAL</b>                                  | <b>5,300,000</b>                              | <b>54,985,000</b>                           | <b>44,890,000</b>                             | <b>40,275,000</b>                           | <b>68,180,000</b>                             | <b>14,410,000</b>                              | <b>10,665,000</b>                             | <b>28,850,000</b>                           | <b>30,000,000</b>                           | <b>297,555,000</b>                             |
| LESS PAYABLE WITHIN ONE YEAR                  | 385,000                                       | 5,000                                       | 6,155,000                                     | 40,275,000                                  | 1,415,000                                     | -  | 425,000                                       | 5,000                                       | 5,000                                       | 48,670,000                                     |
| <b>LONG-TERM PRINCIPAL DUE AFTER ONE YEAR</b> | <b>\$ 4,915,000</b>                           | <b>\$ 54,980,000</b>                        | <b>\$ 38,735,000</b>                          | <b>\$ -</b>                                 | <b>\$ 66,765,000</b>                          | <b>\$ 14,410,000</b>                           | <b>\$ 10,240,000</b>                          | <b>\$ 28,845,000</b>                        | <b>\$ 29,995,000</b>                        | <b>\$ 248,885,000</b>                          |

**SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS**

| <b><u>FISCAL YEAR</u></b> | <b><u>G.O.B.<br/>SERIES A<br/>OF 2001</u></b> | <b><u>G.O.B.<br/>SERIES<br/>OF 2007</u></b> | <b><u>G.O.B.<br/>SERIES A<br/>OF 2007</u></b> | <b><u>G.R.B.<br/>SERIES<br/>OF 2009</u></b> | <b><u>G.O.B.<br/>SERIES A<br/>OF 2009</u></b> | <b><u>G.O.B.<br/>SERIES AA<br/>OF 2009</u></b> | <b><u>G.O.B.<br/>SERIES B<br/>OF 2009</u></b> | <b><u>G.O.B.<br/>SERIES<br/>OF 2010</u></b> | <b><u>G.R.B.<br/>SERIES<br/>OF 2010</u></b> | <b><u>TOTAL<br/>DEBT SVC.<br/>PAYMENTS</u></b> |
|---------------------------|---|---|---|---|---|--|---|---|---|--|
| 2010-11                   | \$ 626,943                                    | \$ 279,913                                  | \$ 8,245,625                                  | \$ 40,889,166                               | \$ 4,413,432                                  | \$ 580,400                                     | \$ 839,168                                    | \$ 1,432,892                                | \$ 545,212                                  | \$ 57,852,751                                  |
| 2011-12                   | 631,350                                       | 279,888                                     | 8,245,000                                     | -   | 4,719,431                                     | 580,400  | 840,568                                       | 1,394,238                                   | 547,872                                     | 17,238,747                                     |
| 2012-13                   | 629,542                                       | 279,863                                     | 8,248,125                                     | -   | 4,717,231                                     | 580,400  | 836,819                                       | 1,404,160                                   | 547,781                                     | 17,243,921                                     |
| 2013-14                   | 606,693                                       | 279,838                                     | 8,814,625                                     | -   | 4,185,519                                     | 580,400  | 837,075                                       | 1,398,860                                   | 547,691                                     | 17,250,701                                     |
| 2014-15                   | 603,640                                       | 279,813                                     | 8,817,875                                     | -   | 4,187,106                                     | 580,400  | 840,338                                       | 1,398,650                                   | 547,600                                     | 17,255,422                                     |
| 2015-20                   | 3,675,170                                     | 1,398,690                                   | 9,881,500                                     | -   | 45,060,256                                    | 12,012,800                                     | 4,197,586                                     | 6,974,394                                   | 2,736,644                                   | 85,937,040                                     |
| 2020-25                   | -   | 10,877,890                                  | -   | -   | 27,198,271                                    | 5,105,000                                      | 4,149,513                                     | 26,358,580                                  | 2,734,381                                   | 76,423,635                                     |
| 2025-30                   | -   | 20,132,602                                  | -   | -   | -   | -  | 3,093,672                                     | 9,056,762                                   | 31,646,333                                  | 63,929,369                                     |
| 2030-35                   | -   | 26,262,175                                  | -   | -   | -   | -  | -   | -   | -   | 26,262,175                                     |
| <b>TOTAL</b>              | <b>\$ 6,773,338</b>                           | <b>\$ 60,070,672</b>                        | <b>\$ 52,252,750</b>                          | <b>\$ 40,889,166</b>                        | <b>\$ 94,481,246</b>                          | <b>\$ 20,019,800</b>                           | <b>\$ 15,634,739</b>                          | <b>\$ 49,418,536</b>                        | <b>\$ 39,853,514</b>                        | <b>\$ 379,393,761</b>                          |

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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***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 \$13,525,698, at June 30, 2010.

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, 2010. The fair value of this swaption is a negative \$199,222, at June 30, 2010. 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.

In the first year of implementation of this standard, if the derivative instrument proves ineffective at year end, the effectiveness tests must also be calculated on the fair values existing at the beginning of the fiscal year. If those tests prove the derivative instrument was effective at the start of the year, then a prior period adjustment must be made to the net assets reported on at June 30, 2009, based on the fair value of the derivative instrument at that date. The change of fair values occurring during this fiscal year will be charged to investment income in the Statement of Activities. If those same tests prove ineffective at both the start and end of this fiscal year, then the entire fair value of the derivative instrument will be charged to investment income for the current fiscal year. The effectiveness tests must be performed at the end of each future year in which the hedging derivative instrument exists.

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 \$13,525,698 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 \$357,215, is charged against investment income in the government-wide Statement of Activities and a prior period adjustment to Net Assets for governmental activities was made to reflect the prior year fair value of \$593,579.

*Component Unit*

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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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 2009, and the other one associated with its Guaranteed Lease Revenue Bonds – Series of 2010.

The swap associated with the Authority's Guaranteed Lease Revenue Bonds – Series of 2009 originated from the School District's (primary government) General Obligation Notes – Series of 2007. 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 fixed payor swap on the Series of 2009 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 \$8,151,997, at June 30, 2010.

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 \$6,204,000, at June 30, 2010.

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.

In the first year of implementation of this standard, if the derivative instrument proves ineffective at year end, the effectiveness tests must also be calculated on the fair values existing at the beginning of the fiscal year. If those tests prove the derivative instrument was effective at the start of the year, then a prior period adjustment must be made to the net assets reported on at June 30, 2009, based on the fair value of the derivative instrument at that date. The change of fair values occurring during this fiscal year will be charged to investment income in the Statement of Activities. If those same tests prove ineffective at both the start and end of this fiscal year, then the entire fair value of the derivative instrument will be charged to investment income for the current fiscal year. The effectiveness tests must be performed at the end of each future year in which the hedging derivative instrument exists.

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 2009 and 2010 Revenue Bonds are hedging derivative financial instruments. As such, its fair values of \$8,151,997, and \$6,204,000, 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 \$175,204 and \$1,992,843, respectively, and is recorded as deferred outflows of resources. The portion of the fair value \$7,976,793 and \$4,211,157, respectively, has been recorded to deferred amounts on refunding because of the termination of hedge accounting caused by the refunding of the original issues.

### ***Compensated Absences***

#### ***Sick-Pay***

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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

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

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

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

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

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

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

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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**Note – Employees in the bargaining unit who have at least 30 years of credited service in PSERS, and who have more than 90 days of unused sick days at the time of retirement shall be provided with health benefits computed at the rate of 30 sick days for one year of health care coverage to a**

**maximum of 10 years of benefits or until Medicare kicks in, whichever occurs first. If after calculating the number of years of coverage, there are sick days not used, two additional months of health care coverage can be secured for every 5 sick days, up to a maximum of 25 days equal 10 months of additional coverage. Bargaining members may exchange all of their unused sick days for the benefits of health coverage only if they exceed the minimum of 90 days accumulated.**

The District maintains records of each employee's accumulated sick days that are vested with employees who are able to retire. In accordance with GASB statement No. 16, \$53,677 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, 2010. 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 \$119,512, including FICA tax (net of reimbursement). This amount is reflected as a current liability in the governmental activities column of the government-wide statement of net assets. The remaining sick leave termination benefit of \$1,701,622, including FICA tax (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net assets.

#### **Vacation Leave**

Unused vacation leave is paid upon an employee's termination. The District maintains records of each employee's accumulated vacation days. In accordance with GASB Statement No. 16, the portion of vacation pay earned at June 30, 2010, that will use currently available financial resources is \$70,036, 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 \$22,644, 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, 2010, of \$1,579,580, including FICA tax and retirement contributions (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net assets.

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

##### **Plan Description**

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

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

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

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA C.S. 8101-8535).

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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Annual Financial Report: The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to 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](http://www.psers.state.pa.us).

**Funding Policy**

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

**Contribution Rates**

Member Contributions: Active members, who joined the System prior to July 22, 1983, contributed at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2010, the rate of employer contribution was 4.78 percent of covered payroll. The 4.78 percent rate is comprised of a pension contribution rate of 4.00 percent for pension benefits and 0.78 for healthcare insurance premium assistance.

The employer's current year covered payroll was \$79,755,162 and total payroll was \$97,149,499.

The total employee and employer contributions for this current year were \$7,117,708 and \$4,637,861, 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, 2010**

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

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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

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

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

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

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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

| <b>Contribution Rates:</b>                 |  |  |
|--|--|--|
|  | <b>OPEB Benefit<br/>Actuarially<br/>Determined</b> | <b>Years of Service<br/>Actuarially<br/>Determined</b> |
| Interest Rate                              | 4.5%   | 4.5%   |
| Plan Members                               | 2,253  | 57   |
| Annual Required Contribution               | \$ 3,745,789                                       | \$ 52,049  |
| Interest on net OPEB obligation            | 138,718  | -  |
| Adjustment to annual required contribution | (189,247)  | -  |
| Annual OPEB cost                           | 3,695,260  | 52,049   |
| Contributions made                         | (2,427,999)  | -  |
| Increase in net OPEB obligation            | 1,267,261  | 52,049   |
| Net OPEB obligation - beginning of year    | 3,082,632  | 116,556  |
| Net OPEB obligation - end of year          | <b>\$ 4,349,893</b>                                | <b>\$ 168,605</b>                                      |

The following table shows the two plans segregated by fund:

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

| <b>Actuarial Valuation by Fund</b>         |   |                        |                     |                     |                     |
|--|---|------------------------|---------------------|---------------------|---------------------|
|  | <b>Other Post Employment Benefit Plan</b> |                        |                     |                     | <b>Years of</b>     |
|  | <b>General Fund</b>                       | <b>Fd. Service Fd.</b> | <b>Daycare Fund</b> | <b>Total</b>        | <b>Service Plan</b> |
| <b>Demographic Information:</b>            |   |                        |                     |                     | <b>General Fund</b> |
| Active Participants                        | \$ 1,862                                  | 139                    | 36                  | 2,037               | 57                  |
| Retired Participants                       | 215                                       | 1                      | -                   | 216                 | -                   |
| Total                                      | <u>\$ 2,077</u>                           | <u>\$ 140</u>          | <u>\$ 36</u>        | <u>\$ 2,253</u>     | <u>\$ 57</u>        |
| 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            | 137,273                                   | 541                    | 904                 | 138,718             | -                   |
| Adjustment to Annual Required Contribution | <u>(187,275)</u>                          | <u>(739)</u>           | <u>(1,233)</u>      | <u>(189,247)</u>    | <u>-</u>            |
| Annual OPEB Cost                           | 3,673,673                                 | 5,282                  | 16,305              | 3,695,260           | 52,049              |
| Contributions made                         | <u>(2,420,441)</u>                        | <u>-</u>               | <u>(7,558)</u>      | <u>(2,427,999)</u>  | <u>-</u>            |
| Increase in Net OPEB Obligation            | 1,253,232                                 | 5,282                  | 8,747               | 1,267,261           | 52,049              |
| Net OPEB Obligation - beginning of year    | <u>3,050,521</u>                          | <u>12,033</u>          | <u>20,078</u>       | <u>3,082,632</u>    | <u>116,556</u>      |
| Net OPEB Obligation - end of year          | <u>\$ 4,303,753</u>                       | <u>\$ 17,315</u>       | <u>\$ 28,825</u>    | <u>\$ 4,349,893</u> | <u>\$ 168,605</u>   |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation of the fiscal year ending 6/30/10 for the benefits were as follows:

| <b>Year ended</b> | <b>Annual OPEB Cost</b> | <b>Percentage of OPEB Cost Contributed</b> | <b>Net OPEB Obligation</b> |
|-------------------|-------------------------|--|----------------------------|
| <b>6/29/2010</b>  | <b>\$ 3,695,260</b>     | <b>65.7%</b>                               | <b>\$ 4,349,893</b>        |
| <b>6/30/2009</b>  | <b>\$ 3,463,356</b>     | <b>57.6%</b>                               | <b>\$ 3,082,632</b>        |
| <b>6/30/2008</b>  | <b>3,463,356</b>        | <b>52.6%</b>                               | <b>1,642,678</b>           |

Funded Status and Funding Process. The funded status of the benefits as of June 30, 2010, was as follows:

**Bethlehem Area School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2010**

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|   | <b>State-mandated<br/>Healthcare<br/><u>Benefit</u></b> | <b>Years of<br/>Service<br/>Increment<br/><u>Benefit</u></b> |
|---|---|--|
| 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, 2010**

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|                               | <b>State-mandated<br/>Healthcare<br/><u>Benefit</u></b> | <b>Years of<br/>Service<br/>Increment<br/><u>Benefit</u></b> |
|-------------------------------|---|--|
| Actuarial Valuation Date      | 7/1/2009  | 7/1/2009   |
| Actuarial Cost Method         | Entry Age Normal  | Entry Age Normal   |
| Amortization Method           | Level dollar method<br>over a 30 year<br>period         | Level dollar method<br>over a 30 year<br>period              |
| Remaining amortization period | 16.2889 years   | 16.2889 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     |   |  |
| 2009                          | 8.0%  | N/A  |
| 2010                          | 7.5%  | N/A  |
| 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.

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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**Note 7 - Prior Period Adjustments**

**GOVERNMENTAL  
ACTIVITIES**

During the audit for the 2009-10 fiscal year, the District instituted GASB Statement No. 53 and recorded the fair value of derivative financial instruments. There were derivative financial instruments that were not considered effective, in accordance with Statement 53, as such a prior period adjustment had to be made to reflect the fair value of these instruments at June 30, 2009.

|   |                        |
|---|------------------------|
| <b>Net Assets, as reported at June 30, 2009</b> | <b>\$ (34,437,599)</b> |
|---|------------------------|

Fair Value of ineffective derivative financial instruments at June 30, 2009:

|  |                    |
|--|--------------------|
| Forward Swaption attached to GOB - Series A of 2007          | (593,579)          |
| Constant Maturity Swap with GOB - Series of 2007             | (1,699,177)        |
| Constant Maturity Swap with Authority's GRB - Series of 2009 | (556,437)          |
| Constant Maturity Swap with Authority's GRB - Series of 2010 | (1,441,151)        |
|  | <u>(1,441,151)</u> |

|   |                               |
|---|-------------------------------|
| <b>Net Assets, as restated at June 30, 2009</b> | <b><u>\$ (38,727,943)</u></b> |
|---|-------------------------------|

**Note 8 – Special Items**

During the 2009-10 fiscal year, the District terminated Constant Maturity Swaps that were in positive balances. As a result the counterparty paid the District \$3,280,517, which is shown as a special item in the government-wide Statement of Activities and \$2,515,610 on the governmental funds Statements of Revenue, Expenditures, and Changes in Fund Balance. The difference pertains to CMS's belonging to the Bethlehem Area School District Authority.

**Note 9 – Extraordinary Items**

During the 2009-10 fiscal year, the District received insurance proceeds of \$9,488 pertaining to damage from the previous year. Since the costs to fix the damage also occurred in the prior year, the recovery proceeds is reflected as an extraordinary item, since the damage was unusual in nature and infrequent in occurrence.

**Note 10 - Fund Balance Designations/Reserves**

*Reserved Fund Balance*

The fund balance reservations, in the general fund totaling \$229,948, represent inventory on hand at June 30, 2010.

**Bethlehem Area School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2010**

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**Note 11 - 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 \$32,615,661. The business-type activities column reflects \$99,546 invested in capital assets with no related debt. There are net assets restricted for capital projects of \$3,612,529 and \$1,541,010 for federal grants.

**Note 12 - 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, 2010.

*Litigation*

In accordance with management, there are no legal matters that could materially affect the financial position of the District as of June 30, 2010.



**REQUIRED  
SUPPLEMENTAL INFORMATION**

**Bethlehem Area School District  
Schedule of Funding Progress  
Fiscal Year Ended June 30, 2010**

| <b><u>State mandated healthcare benefit</u></b> |  |   |                                      |                            |                             |   |
|---|--|---|--------------------------------------|----------------------------|-----------------------------|---|
| Actuarial<br>Valuation<br>Date                  | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)-<br>Unit Credit<br>(b) | Unfunded<br>AAL<br>(UALL)<br>(b - a) | Funded<br>Ratio<br>(a / b) | Covered<br>Payroll<br>( c ) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>((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%   |
| <b><u>Years of Service Increment</u></b>        |  |   |                                      |                            |                             |   |
| Actuarial<br>Valuation<br>Date                  | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)-<br>Unit Credit<br>(b) | Unfunded<br>AAL<br>(UALL)<br>(b - a) | Funded<br>Ratio<br>(a / b) | Covered<br>Payroll<br>( c ) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>((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  
Non-Major Governmental Funds  
As of June 30, 2010

|  | SPECIAL REVENUE FUNDS |                              |                    |                                      | DEBT SERVICE FUNDS           |                               |                             |                             |                                   |   |
|--|-----------------------|------------------------------|--------------------|--------------------------------------|------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------------|---|
|  | ATHLETIC<br>FUND      | AUTHORITY<br>GENERAL<br>FUND | CONCESSION<br>FUND | TOTAL<br>SPECIAL<br>REVENUE<br>FUNDS | 2009A<br>GOB<br>BOND<br>FUND | 2009AA<br>GOB<br>BOND<br>FUND | 2010<br>GON<br>BOND<br>FUND | 2010<br>GOB<br>BOND<br>FUND | TOTAL<br>DEBT<br>SERVICE<br>FUNDS | TOTAL<br>NON-MAJOR<br>GOVERNMENTAL<br>FUNDS |
| <b>ASSETS</b>                              |                       |                              |                    |                                      |                              |                               |                             |                             |                                   |   |
| Cash and cash equivalents                  | \$ 6,363              | \$ -                         | \$ -               | \$ 6,363                             | \$ -                         | \$ -                          | \$ -                        | \$ 63,463                   | \$ 63,463                         | \$ 69,826                                   |
| Investments                                | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Other Receivables                          | -                     | -                            | 9,000              | 9,000                                | -                            | -                             | -                           | -                           | -                                 | 9,000                                       |
| Due from other funds                       | -                     | 921,898                      | -                  | 921,898                              | -                            | -                             | -                           | -                           | -                                 | 921,898                                     |
| Due from Primary Government                | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Receivables from other governments         | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Other Recoverable Disbursements            | 60                    | -                            | -                  | 60                                   | -                            | -                             | -                           | -                           | -                                 | 60  |
| Prepaid Expenditures                       | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Inventories                                | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| <b>TOTAL ASSETS</b>                        | <b>\$ 6,423</b>       | <b>\$ 921,898</b>            | <b>\$ 9,000</b>    | <b>\$ 937,321</b>                    | <b>\$ -</b>                  | <b>\$ -</b>                   | <b>\$ -</b>                 | <b>\$ 63,463</b>            | <b>\$ 63,463</b>                  | <b>\$ 1,000,784</b>                         |
| <b>LIABILITIES AND FUND BALANCES</b>       |                       |                              |                    |                                      |                              |                               |                             |                             |                                   |   |
| <b>LIABILITIES:</b>                        |                       |                              |                    |                                      |                              |                               |                             |                             |                                   |   |
| Accounts Payable                           | \$ 24,786             | \$ -                         | \$ -               | \$ 24,786                            | \$ -                         | \$ -                          | \$ -                        | \$ -                        | \$ -                              | \$ 24,786                                   |
| Due to other funds                         | 30,637                | -                            | 2,181              | 32,818                               | -                            | -                             | -                           | -                           | -                                 | 32,818                                      |
| Due to Primary Government                  | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Interest Payable                           | -                     | 916,898                      | -                  | 916,898                              | -                            | -                             | -                           | -                           | -                                 | 916,898                                     |
| Current Portion of Long-Term Debt          | -                     | 5,000                        | -                  | 5,000                                | -                            | -                             | -                           | -                           | -                                 | 5,000                                       |
| Accrued Salaries and Benefits              | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Payable to other governments               | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Deferred Revenue                           | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Compensated Absences                       | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| <b>TOTAL LIABILITIES</b>                   | <b>55,423</b>         | <b>921,898</b>               | <b>2,181</b>       | <b>979,502</b>                       | <b>-</b>                     | <b>-</b>                      | <b>-</b>                    | <b>-</b>                    | <b>-</b>                          | <b>979,502</b>                              |
| <b>FUND BALANCES:</b>                      |                       |                              |                    |                                      |                              |                               |                             |                             |                                   |   |
| Reserved for:                              |                       |                              |                    |                                      |                              |                               |                             |                             |                                   |   |
| Inventories                                | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Prepaid Expenditures                       | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Unreserved                                 | (49,000)              | -                            | 6,819              | (42,181)                             | -                            | -                             | -                           | 63,463                      | 63,463                            | 21,282                                      |
| <b>TOTAL FUND BALANCES</b>                 | <b>(49,000)</b>       | <b>-</b>                     | <b>6,819</b>       | <b>(42,181)</b>                      | <b>-</b>                     | <b>-</b>                      | <b>-</b>                    | <b>63,463</b>               | <b>63,463</b>                     | <b>21,282</b>                               |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 6,423</b>       | <b>\$ 921,898</b>            | <b>\$ 9,000</b>    | <b>\$ 937,321</b>                    | <b>\$ -</b>                  | <b>\$ -</b>                   | <b>\$ -</b>                 | <b>\$ 63,463</b>            | <b>\$ 63,463</b>                  | <b>\$ 1,000,784</b>                         |

Bethlehem Area School District  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Non-Major Governmental Funds  
For the Year Ended June 30, 2010

|  | SPECIAL REVENUE FUNDS |                              |                    |                                      | DEBT SERVICE FUNDS           |                               |                             |                             |                                   |   |
|--|-----------------------|------------------------------|--------------------|--------------------------------------|------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------------|---|
|  | ATHLETIC<br>FUND      | AUTHORITY<br>GENERAL<br>FUND | CONCESSION<br>FUND | TOTAL<br>SPECIAL<br>REVENUE<br>FUNDS | 2009A<br>GOB<br>BOND<br>FUND | 2009AA<br>GOB<br>BOND<br>FUND | 2010<br>GON<br>BOND<br>FUND | 2010<br>GOB<br>BOND<br>FUND | TOTAL<br>DEBT<br>SERVICE<br>FUNDS | TOTAL<br>NON-MAJOR<br>GOVERNMENTAL<br>FUNDS |
| <b>REVENUES</b>  |                       |                              |                    |                                      |                              |                               |                             |                             |                                   |   |
| Local Sources  | \$ 115,332            | \$ 3,446,111                 | \$ 9,009           | \$ 3,570,452                         | \$ -                         | \$ -                          | \$ -                        | \$ -                        | \$ -                              | \$ 3,570,452                                |
| State Sources  | 50,740                | -                            | -                  | 50,740                               | -                            | -                             | -                           | -                           | -                                 | 50,740                                      |
| Federal Sources  | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| <b>TOTAL REVENUES</b>  | <u>166,072</u>        | <u>3,446,111</u>             | <u>9,009</u>       | <u>3,621,192</u>                     | <u>-</u>                     | <u>-</u>                      | <u>-</u>                    | <u>-</u>                    | <u>-</u>                          | <u>3,621,192</u>                            |
| <b>EXPENDITURES</b>  |                       |                              |                    |                                      |                              |                               |                             |                             |                                   |   |
| Instruction  | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Support Services   | -                     | 296,073                      | -                  | 296,073                              | -                            | -                             | -                           | 598,983                     | 598,983                           | 895,056                                     |
| Operation of Non-Instructional Services                      | 1,472,374             | -                            | 4,333              | 1,476,707                            | -                            | -                             | -                           | -                           | -                                 | 1,476,707                                   |
| Capital Outlay   | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Debt Service   | -                     | 2,885,973                    | -                  | 2,885,973                            | 98,935                       | 96,039                        | -                           | -                           | 194,974                           | 3,080,947                                   |
| <b>TOTAL EXPENDITURES</b>                                    | <u>1,472,374</u>      | <u>3,182,046</u>             | <u>4,333</u>       | <u>4,658,753</u>                     | <u>98,935</u>                | <u>96,039</u>                 | <u>-</u>                    | <u>598,983</u>              | <u>793,957</u>                    | <u>5,452,710</u>                            |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <u>(1,306,302)</u>    | <u>264,065</u>               | <u>4,676</u>       | <u>(1,037,561)</u>                   | <u>(98,935)</u>              | <u>(96,039)</u>               | <u>-</u>                    | <u>(598,983)</u>            | <u>(793,957)</u>                  | <u>(1,831,518)</u>                          |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                       |                              |                    |                                      |                              |                               |                             |                             |                                   |   |
| Proceeds from Refunding Bond Issues                          | -                     | 30,000,000                   | -                  | 30,000,000                           | -                            | -                             | 30,000,000                  | 28,850,000                  | 58,850,000                        | 88,850,000                                  |
| Bond Premium   | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | 803,734                     | 803,734                           | 803,734                                     |
| Transfer from Primary Government                             | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Payment to bond refunding escrow agent                       | -                     | 29,632,675                   | -                  | 29,632,675                           | -                            | -                             | 30,000,000                  | 25,347,288                  | 55,347,288                        | 84,979,963                                  |
| Bond Discount  | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Swap Termination Fee   | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | 3,644,000                   | 3,644,000                         | 3,644,000                                   |
| Sale/Compensation for Fixed Assets                           | -                     | -                            | -                  | -                                    | -                            | -                             | -                           | -                           | -                                 | -   |
| Transfers in   | 1,376,288             | -                            | -                  | 1,376,288                            | -                            | -                             | -                           | -                           | -                                 | 1,376,288                                   |
| Transfers out  | 91,344                | -                            | -                  | 91,344                               | -                            | -                             | -                           | -                           | -                                 | 91,344                                      |
| <b>TOTAL OTHER FINANCING SOURCES AND USES</b>                | <u>1,284,944</u>      | <u>367,325</u>               | <u>-</u>           | <u>1,652,269</u>                     | <u>-</u>                     | <u>-</u>                      | <u>-</u>                    | <u>662,446</u>              | <u>662,446</u>                    | <u>2,314,715</u>                            |
| <b>NET CHANGE IN FUND BALANCES</b>                           | (21,358)              | 631,390                      | 4,676              | 614,708                              | (98,935)                     | (96,039)                      | -                           | 63,463                      | (131,511)                         | 483,197                                     |
| <b>FUND BALANCES - BEGINNING</b>                             | (27,642)              | (631,390)                    | 2,143              | (656,889)                            | 98,935                       | 96,039                        | -                           | -                           | 194,974                           | (461,915)                                   |
| <b>FUND BALANCES - ENDING</b>                                | <u>\$ (49,000)</u>    | <u>\$ -</u>                  | <u>\$ 6,819</u>    | <u>\$ (42,181)</u>                   | <u>\$ -</u>                  | <u>\$ -</u>                   | <u>\$ -</u>                 | <u>\$ 63,463</u>            | <u>\$ 63,463</u>                  | <u>\$ 21,282</u>                            |

**Bethlehem Area School District**  
**Combining Statement of Changes In Fiduciary Net Assets**  
**Private Purpose Trust Funds**  
**As of June 30, 2010**

| <b>SCHOLARSHIP</b>                            | <b>7/1/09<br/>NET<br/>ASSETS</b> | <b>CONTRIBUTIONS<br/>REVENUE</b> | <b>INTEREST<br/>REVENUE</b> | <b>AWARDS<br/>EXPENDED</b> | <b>6/30/10<br/>NET<br/>ASSETS</b> |
|---|----------------------------------|----------------------------------|-----------------------------|----------------------------|-----------------------------------|
| <b>General Scholarship Account</b>            | \$ 3,583                         | \$ 1,052                         | \$ -                        | \$ 2,658                   | \$ 1,977                          |
| General Bilingual Awards                      | 3,486                            | -                                | -                           | -                          | 3,486                             |
| Shining Stars Scholarship                     | 1,612                            | 1,546                            | -                           | -                          | 3,158                             |
| Teresa Rodriguez Memorial                     | (20)                             | 140                              | -                           | -                          | 120                               |
| L.A.C.E.O. Achievement Award                  | 30                               | 60                               | -                           | -                          | 90                                |
| Dario Cruz Memorial Scholarship               | 250                              | 350                              | -                           | -                          | 600                               |
| Gloria Lopez Memorial Scholarship             | (50)                             | -                                | -                           | -                          | (50)                              |
| Angel Torres Memorial Scholarship             | (50)                             | -                                | -                           | -                          | (50)                              |
| Echevarria Moran Scholarship                  | (500)                            | 500                              | -                           | -                          | -                                 |
| PNC Bank Latino Scholarship                   | (500)                            | 1,000                            | -                           | -                          | 500                               |
| Figueroa's Family Scholarship                 | -                                | -                                | -                           | -                          | -                                 |
| Bethlehem Partnership for a Healthy Community | 300                              | 300                              | -                           | -                          | 600                               |
| College Textbook Award                        | (500)                            | -                                | -                           | -                          | (500)                             |
| Just Born Minority Scholarship                | -                                | 500                              | -                           | -                          | 500                               |
| P. Albizu Campos & Sojourner Truth Scholars.  | 100                              | -                                | -                           | 150                        | (50)                              |
| Scholastic Achievement, Service & Leadership  | 500                              | -                                | -                           | -                          | 500                               |
| Ramon Emeterio Betances Scholarship           | (500)                            | 500                              | -                           | -                          | -                                 |
| Ella Springs Memorial                         | 2,000                            | 2,000                            | -                           | 1,000                      | 3,000                             |
| Ralph Lopez Scholarship                       | 100                              | 2,000                            | -                           | -                          | 2,100                             |
| Class Scholarship                             | -                                | 300                              | -                           | -                          | 300                               |
| Richard Montz Memorial Scholarship            | (300)                            | 200                              | -                           | -                          | (100)                             |
| Kathryn & Perdro Bonne Textbook Award         | 650                              | 550                              | -                           | 150                        | 1,050                             |
| Puerto Rican Beneficial Scholarship           | (200)                            | 1,150                            | -                           | 350                        | 600                               |
| Roberto Clemente Scholarship                  | (200)                            | 1,000                            | -                           | -                          | 800                               |
| Ann Goldberg Scholarship                      | -                                | 414                              | -                           | -                          | 414                               |
| George Maunz School-to-Work Scholarship       | 900                              | 800                              | -                           | 500                        | 1,200                             |
| Jesus "Berto" Rivera Scholarship              | (750)                            | 200                              | -                           | 350                        | (900)                             |
| PR Cultural Coalition Scholarship             | (150)                            | 500                              | -                           | -                          | 350                               |
| CSSOLV Scholarship                            | (300)                            | 2,000                            | -                           | -                          | 1,700                             |
| Betty Williams Memorial Scholarship           | 200                              | 200                              | -                           | -                          | 400                               |
| Rev. Dr. Martin Luther King Award             | (600)                            | -                                | -                           | -                          | (600)                             |
| Thomas K. Washington Family Scholarship       | (350)                            | -                                | -                           | -                          | (350)                             |
| Thurgood Marshall Scholarship                 | (400)                            | -                                | -                           | -                          | (400)                             |
| Lee Mae Segel Memorial Scholarship            | 1,125                            | -                                | -                           | -                          | 1,125                             |
| Fowler Scholarship                            | 3,600                            | 4,500                            | -                           | 750                        | 7,350                             |
| Frances Grabish Memorial Textbook Award       | (650)                            | 150                              | -                           | -                          | (500)                             |
| Angela Sanchez Memorial Award                 | 150                              | 150                              | -                           | -                          | 300                               |
| Harold & Dorothy Kram Memorial Award          | (150)                            | 150                              | -                           | -                          | -                                 |
| Scientific Learning                           | 400                              | -                                | -                           | -                          | 400                               |
| Landston Hughes Award                         | -                                | -                                | -                           | 150                        | (150)                             |
| Manuel & Luis Ramirez Memorial Scholarship    | -                                | 500                              | -                           | -                          | 500                               |
| Ortiz Family Award                            | -                                | 100                              | -                           | -                          | 100                               |
| <b>Non-Expendable Trust Fund</b>              | <b>163,799</b>                   | <b>813</b>                       | <b>2,248</b>                | <b>-</b>                   | <b>166,860</b>                    |
| <b>TOTAL</b>                                  | <b>\$ 176,615</b>                | <b>\$ 23,625</b>                 | <b>\$ 2,248</b>             | <b>\$ 6,058</b>            | <b>\$ 196,430</b>                 |

**Bethlehem Area School District**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2010**

**REVENUES**

**LOCAL SOURCES:**

|  |                    |                       |
|--|--------------------|-----------------------|
| Current Real Estate Taxes                        | \$ 105,221,193     |                       |
| Interim Real Estate Taxes                        | 2,770,002          |                       |
| Public Utility                                   | 166,715            |                       |
| Payment in Lieu of Taxes                         | 130,379            |                       |
| Current Per Capita Taxes - 511                   | 234,558            |                       |
| Current Per Capita Taxes - 679                   | 234,558            |                       |
| Local Services Tax                               | 290,067            |                       |
| Earned Income Tax                                | 11,320,449         |                       |
| Real Estate Transfer Tax                         | 1,493,020          |                       |
| Act 511 Mercantile Taxes                         | 2,607,406          |                       |
| Delinquent Real Estate Taxes                     | 3,632,646          |                       |
| Delinquent Per Capita Taxes                      | 87,569             |                       |
| Delinquent Mercantile Taxes                      | 366,517            |                       |
| Interest   | 192,651            |                       |
| Fees   | 50                 |                       |
| Other Student Activity Income                    | 243,316            |                       |
| State Revenue from other Public Schools          | 12,211             |                       |
| State Revenue from Other Sources                 | 140,006            |                       |
| Federal Revenue from Local Sources               | 2,231,055          |                       |
| Federal ARRA Revenue from Local Sources          | 1,474,130          |                       |
| Rentals  | 80,728             |                       |
| Contributions                                    | 201,468            |                       |
| Regular Day School Tuition                       | 127,976            |                       |
| Summer School                                    | 127,866            |                       |
| Adult Education Tuition                          | 44,986             |                       |
| Receipts from Other LEA's - Education            | 78,840             |                       |
| Other Tuition From Patrons                       | -                  |                       |
| Services provided Other Local Governmental Units | -                  |                       |
| All Other Services Provided Other Governments    | -                  |                       |
| Revenue from Community Services                  | 31,340             |                       |
| Miscellaneous                                    | 137,492            |                       |
| Refunds of Prior Yr. Expenditures                | 211,933            |                       |
| <b>TOTAL LOCAL SOURCE REVENUE</b>                | <b>133,891,127</b> | <b>\$ 133,891,127</b> |

**STATE SOURCES:**

|                      |                   |
|----------------------|-------------------|
| Basic Subsidy - ESBE | 22,953,439        |
| Read to Succeed      | -                 |
| Charter Schools      | -                 |
| Nonpublic Transfers  | 1,710,538         |
| Orphan Tuition       | 381,605           |
| School Improvement   | 9,892             |
| Vocational Education | 70,055            |
| Driver Education     | 11,025            |
| Special Education    | 6,632,724         |
| <b>SUB-TOTAL</b>     | <b>31,769,278</b> |

**Bethlehem Area School District  
General Fund  
Statement of Revenue, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2010**

**REVENUE (CONT'D)**

|   |                |               |
|---|----------------|---------------|
| <b>SUB-TOTAL (CARRIED FORWARD)</b>      | \$ 31,769,278  |               |
| Educational Assistance Program          | 872,809        |               |
| Pre-K Counts                            | 627,000        |               |
| Other Program Revenues                  | -              |               |
| Transportation                          | 2,355,898      |               |
| Rentals                                 | 2,665,952      |               |
| Health Services                         | 364,439        |               |
| State Property Tax Reduction Allocation | 4,733,333      |               |
| Alternative Education                   | -              |               |
| Migratory Children                      | 1,484          |               |
| Accountability Grants                   | 1,806,167      |               |
| Dual Enrollment                         | 49,289         |               |
| Project 720 - High School Reform        | 31,016         |               |
| FICA Revenue                            | 3,294,386      |               |
| Retirement Revenue                      | 2,195,275      |               |
| Classrooms for the Future               | -              |               |
| Other State Grants                      | 163,598        |               |
| <b>TOTAL STATE SOURCE REVENUE</b>       | <u>163,598</u> | \$ 50,929,924 |

**FEDERAL SOURCES:**

|  |                   |                    |
|--|-------------------|--------------------|
| Payments for Federally Impacted Areas  | 45,165            |                    |
| Title I                                | 3,267,675         |                    |
| Title I - ARRA                         | 1,518,457         |                    |
| Title IIA, IID                         | 776,189           |                    |
| Title III                              | 295,357           |                    |
| Title IV                               | 680,769           |                    |
| Child Care Grants                      | 172,965           |                    |
| ARRA - State Stabilization Fund        | 3,089,051         |                    |
| Medical Assistance                     | 94,457            |                    |
| Other Restricted Federal Grants-In-Aid | 187,976           |                    |
| <b>TOTAL FEDERAL SOURCE REVENUE</b>    | <u>10,128,061</u> |                    |
| <b>TOTAL REVENUE</b>                   |                   | <b>194,949,112</b> |

**EXPENDITURES**

|                                    |                   |
|------------------------------------|-------------------|
| Regular Programs - Elem./Secondary | 74,137,975        |
| Federally Funded Regular Programs  | 6,531,280         |
| Special Education                  | 8,542             |
| Life Skills Support - Public       | 736,340           |
| Life Skills Support - PRRI         | -                 |
| Deaf or Hearing Impaired Support   | 6,264             |
| Blind or Visually Impaired Support | 27,643            |
| Speech & Language Impaired         | 730,228           |
| <b>SUB-TOTAL</b>                   | <u>82,178,272</u> |



**Bethlehem Area School District**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2010**

|  |                    |
|--|--------------------|
| <b>SUB-TOTAL (CARRIED FORWARD)</b>                 | \$ 82,178,272      |
| Emotional Support                                  | 6,383,195          |
| Autistic Support                                   | 169,951            |
| Learning Support - Public                          | 9,939,770          |
| Gifted Support                                     | 114,788            |
| Other Support                                      | 14,350             |
| Physical Support                                   | 174,460            |
| Multi-Handicapped Support                          | 256,444            |
| Development Delay Support                          | -                  |
| Early Intervention Support                         | 14,958             |
| Other Support                                      | 1,874,981          |
| Home Economics                                     | 397,487            |
| Industrial Arts Education                          | 747,799            |
| Business Education                                 | 1,316,240          |
| Other Vocational Education Programs                | 5,327,419          |
| Drivers' Education                                 | 66,238             |
| Summer School                                      | 711,116            |
| Homebound Instruction                              | 205,745            |
| Adjudicated/Court Placed Programs                  | 276,558            |
| Alternative Education Program                      | 369,832            |
| Instructional Programs Outside Established Schools | 591,029            |
| Additional Other Instructional Program             | 2,348              |
| Nonpublic School Programs                          | 16,704             |
| Other Adult Education Programs                     | 27,798             |
| Community College Programs                         | 2,087,957          |
| Pre-Kindergarten                                   | 1,754,971          |
| Supervision of Pupil Personnel Services            | 4,022              |
| Guidance Services                                  | 4,441,101          |
| Attendance Services                                | 151,958            |
| Psychological Services                             | 876,104            |
| Speech Pathology Services                          | 4,021              |
| Social Work Services                               | 1,192,406          |
| Student Accounting Services                        | 348,369            |
| Other Pupil Personnel Services                     | 576,563            |
| Support Services - Instructional Staff             | 961,882            |
| Technology Support Services                        | 130,929            |
| Computer Assisted Instruction Services             | 1,824,095          |
| School Library Services                            | 1,544,527          |
| Instructional & Curriculum Dev. Service            | 942,847            |
| Instructional Staff Development Services           | 145,532            |
| Nonpublic Support Services                         | 130,053            |
| Board Services                                     | 242,826            |
| <b>SUB-TOTAL</b>                                   | <b>128,537,645</b> |

**Bethlehem Area School District**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2010**

|   |                     |  |
|---|---------------------|--|
| <b>SUB-TOTAL (CARRIED FORWARD)</b>                | \$ 128,537,645      |  |
| Board Treasurer Services                          | 750                 |  |
| Tax Assessment & Collection Service               | 863,848             |  |
| Staff Relations                                   | -                   |  |
| Legal Services                                    | 344,803             |  |
| Office of the Superintendent Services             | 1,088,483           |  |
| Office of the Principal Services                  | 7,593,562           |  |
| Medical Services                                  | 1,447,823           |  |
| Dental Services                                   | 10,722              |  |
| Nursing Services                                  | 1,750               |  |
| Non-Public Health Services                        | 173,193             |  |
| Support Services - Business                       | 2,225,709           |  |
| Operation and Maintenance of Plant Services       | 14,859,743          |  |
| Supervision of Operation and Maintenance of Plant | 97,940              |  |
| Vehicle Operation and Maint. Services             | 270                 |  |
| Security Services                                 | 429,978             |  |
| Supervision of Student Transportation Services    | 711,676             |  |
| Vehicle Operation Services                        | 3,909,691           |  |
| Vehicle Servicing and Maintenance Services        | 794,106             |  |
| Information Services                              | 26,514              |  |
| Staff Services                                    | 346,719             |  |
| Staff Development Services                        | 15,450              |  |
| Staff Development-Non-Instruction                 | 14,783              |  |
| Data Processing Services                          | 926,296             |  |
| State and Federal Agency Liaison Services         | 279,594             |  |
| Other Support Services                            | 104,476             |  |
| Pass-Thru Funds                                   | -                   |  |
| School Sponsored Student Activities               | 274,161             |  |
| School Sponsored Athletics                        | 17,020              |  |
| Community Services                                | 105,986             |  |
| Scholarships and Awards                           | -                   |  |
| Architecture and Engineering Services             | -                   |  |
| Debt Service                                      | 20,660,739          |  |
| Short-Term Borrowing Costs                        | 200,792             |  |
| Refund of Prior Yr. Receipts                      | 173,669             |  |
| <b>TOTAL EXPENDITURES</b>                         | <u>186,237,891</u>  |  |
| <b>EXCESS (DEFICIENCY) OF REVENUES</b>            |                     |  |
| <b>OVER EXPENDITURES</b>                          | <b>\$ 8,711,221</b> |  |

**Bethlehem Area School District**  
**General Fund**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2010**

|  |           |                  |
|--|-----------|------------------|
| <b>EXCESS (DEFICIENCY) OF REVENUES</b>     |           |                  |
| <b>OVER EXPENDITURES (CARRIED FORWARD)</b> | <b>\$</b> | <b>8,711,221</b> |

**OTHER FINANCING SOURCES (USES)**

|  |                    |  |
|--|--------------------|--|
| Proceeds from Extended Term Financing            | -                  |  |
| Sale of or Compensation for Loss of Fixed Assets | 107,947            |  |
| Special Revenue Fund Transfers In                | 91,344             |  |
| Enterprise (Day Care) Fund Transfers In          | -                  |  |
| Transfer from Activity Funds                     | -                  |  |
| Special Revenue Fund Transfers Out               | (1,376,288)        |  |
| Capital Projects Funds Transfers Out             | -                  |  |
| Special Revenue Fund Transfers Out               | -                  |  |
| Food Service Fund Transfers Out                  | -                  |  |
| Activity Fund Transfers Out                      | -                  |  |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>      | <b>(1,176,997)</b> |  |

|                            |           |           |
|----------------------------|-----------|-----------|
| <b>Special Items</b>       | 2,515,610 |           |
| <b>Extraordinary Items</b> | 9,488     | 1,348,101 |

|                                   |  |            |
|-----------------------------------|--|------------|
| <b>NET CHANGE IN FUND BALANCE</b> |  | 10,059,322 |
|-----------------------------------|--|------------|

|                                    |  |             |
|------------------------------------|--|-------------|
| <b>FUND BALANCE - JULY 1, 2009</b> |  | (1,119,232) |
|------------------------------------|--|-------------|

|                                     |           |                  |
|-------------------------------------|-----------|------------------|
| <b>FUND BALANCE - JUNE 30, 2010</b> | <b>\$</b> | <b>8,940,090</b> |
|-------------------------------------|-----------|------------------|

**Bethlehem Area School District  
Capital Reserve Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2010**

**FUND BALANCE - JULY 1, 2009** \$ 1,232,664

**REVENUES AND OTHER FINANCING SOURCES**

|                              |          |                  |
|------------------------------|----------|------------------|
| Interest                     | \$ 5,031 |                  |
| Transfer from General Fund   | -        | 5,031            |
| <b>TOTAL FUNDS AVAILABLE</b> |          | <b>1,237,695</b> |

**EXPENDITURES**

**INSTRUCTIONAL SERVICES:**

|           |   |
|-----------|---|
| Equipment | - |
|-----------|---|

**SUPPORT SERVICES:**

|                          |         |
|--------------------------|---------|
| Professional Services    | 35,912  |
| Repairs and Maintenance  | 108,268 |
| Advertising              | 1,563   |
| Admin. Software and Fees | -       |
| Construction Services    | -       |
| Equipment                | -       |

**CAPITAL OUTLAY:**

|                       |         |
|-----------------------|---------|
| Construction Services | 646,145 |
| Transportation        | -       |
| Professional Services | 7,088   |

**Other Financing Uses:**

|                          |   |         |
|--------------------------|---|---------|
| Transfer to General Fund | - | 798,976 |
|--------------------------|---|---------|

**FUND BALANCE - JUNE 30, 2010** **\$ 438,719**

**Bethlehem Area School District  
Special Revenue (Authority General Fund) Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2010**

**FUND BALANCE - JULY 1, 2009** \$ (631,390)

**REVENUES AND OTHER FINANCING SOURCES**

|                                     |                  |                   |
|-------------------------------------|------------------|-------------------|
| Proceeds from Refunding Bond Issues | \$ 30,000,000    |                   |
| Transfer from General Fund          | -                |                   |
| Interest Earnings                   | <u>3,446,111</u> | <u>33,446,111</u> |
| <b>TOTAL FUNDS AVAILABLE</b>        |                  | <b>32,814,721</b> |

**EXPENDITURES AND OTHER FINANCING USES**

**SUPPORT SERVICES:**

|                       |         |  |
|-----------------------|---------|--|
| Professional Services | 296,073 |  |
| Advertising           | -       |  |
| Printing              | -       |  |
| Dues and Fees         | -       |  |

**NON-INSTRUCTIONAL SERVICES:**

|           |   |  |
|-----------|---|--|
| Equipment | - |  |
|-----------|---|--|

**DEBT SERVICE:**

|                |           |  |
|----------------|-----------|--|
| Bond Principal | 5,000     |  |
| Bond Interest  | 2,880,973 |  |

**OTHER FINANCING USES:**

|  |                   |                   |
|--|-------------------|-------------------|
| Payment to Refunding Bond Issue Escrow Agent | <u>29,632,675</u> | <u>32,814,721</u> |
|--|-------------------|-------------------|

**FUND BALANCE - JUNE 30, 2010** **\$ -**

**Bethlehem Area School District  
Capital Project Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2010**

**FUND BALANCE - JULY 1, 2009** \$ 12,517,942

**REVENUES AND OTHER FINANCING SOURCES**

|                                    |          |            |
|------------------------------------|----------|------------|
| Proceeds from Bond Issues          | \$ -     |            |
| Gain (Loss) on Sale of Investments | (43,233) |            |
| Refund of Prior Year Expenditures  | 283,768  |            |
| Interest Earnings                  | 194,558  | 435,093    |
| <b>TOTAL FUNDS AVAILABLE</b>       |          | 12,953,035 |

**EXPENDITURES AND OTHER FINANCING USES**

**INSTRUCTIONAL:**

|           |         |
|-----------|---------|
| Supplies  | 40,154  |
| Equipment | 377,082 |

**SUPPORT SERVICES:**

|                                  |         |
|----------------------------------|---------|
| Salaries                         | 4,197   |
| Benefits                         | 522     |
| Professional Services            | 4,819   |
| Repairs and Maintenance          | 9,430   |
| Advertising                      | -       |
| Printing                         | -       |
| Property and Liability Insurance | -       |
| Disposal Services                | 10,273  |
| Utilities                        | 52,167  |
| Telecommunication Services       | 3,875   |
| Supplies                         | 347     |
| Technology Infrastructure        | -       |
| Equipment                        | 908,027 |
| Dues and Fees                    | 555     |

**NON-INSTRUCTIONAL SERVICES:**

|           |   |
|-----------|---|
| Equipment | - |
|-----------|---|

**CAPITAL OUTLAY:**

|                           |           |
|---------------------------|-----------|
| Professional Services     | 796,031   |
| Advertising               | 2,382     |
| Construction Services     | 7,514,010 |
| Supplies                  | 165       |
| Equipment                 | 210       |
| Other Purchased Services  | 27,858    |
| Utilities                 | 1,943     |
| Technology Infrastructure | 36,459    |

**DEBT SERVICE:**

|                          |   |           |
|--------------------------|---|-----------|
| Bond Discount            | - |           |
| Transfer to General Fund | - | 9,790,506 |

**FUND BALANCE - JUNE 30, 2010** **\$ 3,162,529**

**Bethlehem Area School District**  
**Food Service Fund**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2010**

**REVENUES**

|                                     |                             |              |
|-------------------------------------|-----------------------------|--------------|
| Sales                               | \$ 1,831,295                |              |
| Donated Commodities                 | 339,487                     |              |
| Special Events                      | 209,922                     |              |
| ARRA - NSLP Equipment grant         | 34,785                      |              |
| State Subsidies                     | 366,466                     |              |
| Federal Subsidies                   | 3,258,115                   |              |
| Gain (Loss) on Sale of Fixed Assets | -                           |              |
| Interest earnings                   | 1,095                       |              |
| Miscellaneous                       | 6,683                       |              |
| Contributions                       | -                           |              |
| <b>TOTAL REVENUES</b>               | <u>                    </u> | \$ 6,047,848 |

**COST OF COMMODITIES**

|                                       |                 |                  |
|---------------------------------------|-----------------|------------------|
| Beginning Inventory                   | 229,939         |                  |
| Food Service Management - Food        | 2,927,513       |                  |
| Donated Commodities                   | 339,487         |                  |
| Ending Inventory                      | <u>(85,499)</u> |                  |
| <b>TOTAL COST OF COMMODITIES SOLD</b> |                 | <u>3,411,440</u> |
| <b>GROSS PROFIT</b>                   |                 | <u>2,636,408</u> |
|                                       |                 | -----            |

**SALARY AND BENEFIT EXPENSES**

|                |                |           |
|----------------|----------------|-----------|
| Administrative | 90,103         |           |
| M-2 Salares    | 94,302         |           |
| Overtime       | 57,045         |           |
| Other Salaries | 1,560,344      |           |
| Benefits       | <u>401,075</u> | 2,202,869 |

**OPERATING EXPENSES**

|                               |              |                  |
|-------------------------------|--------------|------------------|
| Tech & Other Services         | 5,610        |                  |
| Refuse                        | 67,439       |                  |
| Repairs and Maintenance       | 53,329       |                  |
| Rentals                       | 2,105        |                  |
| Communications                | 868          |                  |
| Transport                     | 592          |                  |
| Food Service Management Costs | -            |                  |
| Travel                        | 3,205        |                  |
| Supplies                      | 170,385      |                  |
| Electricity                   | -            |                  |
| Small Tools                   | 2,970        |                  |
| Depreciation                  | 31,418       |                  |
| Dues and Fees                 | <u>5,477</u> | 343,398          |
| <b>TOTAL EXPENSES</b>         |              | <u>2,546,267</u> |

**CHANGES IN NET ASSETS** 90,141

**NET ASSETS - JULY 1, 2009** 747,874

**NET ASSETS - JUNE 30, 2010** \$ 838,015

**Bethlehem Area School District**  
**Day Care Fund**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2010**

**REVENUES**

|   |              |                     |
|---|--------------|---------------------|
| Regular Day School Tuition                | \$ 1,672,063 |                     |
| Revenue from Community Service Activities | 621,852      |                     |
| State Revenue                             | 100,800      |                     |
| Fica Revenue                              | 56,565       |                     |
| Retirement Revenue                        | 35,164       |                     |
| Rentals                                   | 433          |                     |
| Child Care and Development grant          | 72           |                     |
| Miscellaneous                             | 47           |                     |
| Earnings on Investments                   | 1,665        |                     |
| <b>TOTAL REVENUES</b>                     |              | <b>\$ 2,488,661</b> |

**OPERATING EXPENSES**

|                                   |         |                  |
|-----------------------------------|---------|------------------|
| Salaries - Admin.                 | 757,385 |                  |
| Salaries - Professional           | 414,298 |                  |
| Salaries - Office/Clerk           | 85,005  |                  |
| Salaries - Bus Drivers            | 6,466   |                  |
| Salaries - Teacher Aides          | 224,318 |                  |
| Fica Tax                          | 113,210 |                  |
| Retirement Contributions          | 70,382  |                  |
| Workers Compensation              | 10,271  |                  |
| Health Benefits                   | 632,887 |                  |
| Other Benefits                    | 9,057   |                  |
| Professional Services             | 5,550   |                  |
| Small Equipment                   | 21,497  |                  |
| Communications                    | 586     |                  |
| Travel                            | 3,677   |                  |
| Field Trips                       | 22      |                  |
| Repairs and Maintenance           | 595     |                  |
| Supplies                          | 75,319  |                  |
| Food                              | 153,002 |                  |
| Books and Periodicals             | 2,298   |                  |
| Depreciation                      | 7,528   |                  |
| Miscellaneous                     | 6,068   |                  |
| Dues and Fees                     | 536     |                  |
| Transfer to General Fund          | -       |                  |
| <b>TOTAL EXPENSES</b>             |         | <b>2,599,957</b> |
| <b>CHANGES IN NET ASSETS</b>      |         | <b>(111,296)</b> |
| <b>NET ASSETS - JULY 1, 2009</b>  |         | <b>169,293</b>   |
| <b>NET ASSETS - JUNE 30, 2010</b> |         | <b>\$ 57,997</b> |



**Bethlehem Area School District  
Self-Insurance Fund  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2010**

**REVENUES**

|                                |                |               |
|--------------------------------|----------------|---------------|
| Contributions from Other Funds | \$ 22,064,403  |               |
| Cobra Payments                 | 1,781,456      |               |
| Formulary Rebate               | 221,598        |               |
| Interest Earnings              | 76             |               |
| Other Misc. Revenue            | <u>292,562</u> |               |
| <b>TOTAL REVENUES</b>          |                | \$ 24,360,095 |

**OPERATING EXPENSES**

|                       |                |                   |
|-----------------------|----------------|-------------------|
| Health Benefit Costs  | 21,516,429     |                   |
| Dental Costs          | 1,554,636      |                   |
| Life Insurance        | 221,598        |                   |
| Salaries              | 3,947          |                   |
| Fica Tax              | 12,952         |                   |
| Retirement            | 168            |                   |
| Unemployment          | 209,312        |                   |
| Workers Compensation  | 112,893        |                   |
| Other Expenses        | <u>169,311</u> |                   |
| <b>TOTAL EXPENSES</b> |                | <u>23,801,246</u> |

**CHANGES IN NET ASSETS** 558,849

**NET ASSETS - JULY 1, 2009** 680,741

**NET ASSETS - JUNE 30, 2010** **\$ 1,239,590**

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

**REVENUES**

|                       |               |            |
|-----------------------|---------------|------------|
| Admissions            | \$ 115,136    |            |
| Miscellaneous Revenue | 196           |            |
| Fica Revenue          | 35,944        |            |
| Retirement Revenue    | <u>14,796</u> | \$ 166,072 |

**EXPENDITURES**

|                               |            |                  |
|-------------------------------|------------|------------------|
| Salaries - Athletic Directors | 21,468     |                  |
| Salaries - Coaches            | 151,554    |                  |
| Salaries - Trainers           | 538,371    |                  |
| Salaries - Game Personnel     | 68,181     |                  |
| Salaries - Equipment Managers | 12,490     |                  |
| Salaries - Maintenance O.T.   | 2,359      |                  |
| Salaries - Office Clerk       | 63,808     |                  |
| Salaries - Bus Drivers        | 80,782     |                  |
| Salaries - Clerical Subs      | 210        |                  |
| Employee Benefits             | 132,970    |                  |
| Game Officials                | 84,811     |                  |
| Security                      | 21,763     |                  |
| Med. - Amb. - Misc.           | 4,798      |                  |
| Equipment Refurbishing        | 659        |                  |
| Other Professional Services   | 97,348     |                  |
| Laundry Services              | 52         |                  |
| Repairs and Maintenance       | 19,016     |                  |
| Rentals                       | 175        |                  |
| Other Insurance               | 67,200     |                  |
| Communications                | 2,497      |                  |
| Conferences                   | -          |                  |
| Printing & Binding            | 2,627      |                  |
| Travel                        | 7,010      |                  |
| Other Purchased Services      | 224        |                  |
| Supplies                      | 80,866     |                  |
| Equipment                     | 1,500      |                  |
| Dues and Fees                 | 9,197      |                  |
| Miscellaneous                 | <u>438</u> | <u>1,472,374</u> |

***EXCESS REVENUES OVER (UNDER) EXPENDITURES***

(1,306,302)

Transfer to General Fund

(91,344)

Transfer from General Fund

1,376,288

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

(21,358)

**FUND BALANCE - JULY 1, 2009**

(27,642)

**FUND BALANCE - JUNE 30, 2010**

**\$ (49,000)**

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

**REVENUES**

|                    |          |          |
|--------------------|----------|----------|
| Concession Revenue | \$ 9,000 |          |
| Interest Earnings  | <u>9</u> | \$ 9,009 |

**EXPENDITURES AND OTHER FINANCING USES**

|                         |          |              |
|-------------------------|----------|--------------|
| Repairs and Maintenance | 4,300    |              |
| Other Insurance         | -        |              |
| Supplies                | 33       |              |
| Equipment               | -        |              |
| Miscellaneous           | <u>-</u> | <u>4,333</u> |

***EXCESS EXPENDITURES AND OTHER FINANCING***

***USES OVER REVENUES*** 4,676

**OTHER FINANCING SOURCES**

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

***EXCESS REVENUES AND OTHER FINANCING SOURCES OVER  
(UNDER) EXPENDITURES AND OTHER FINANCING USES*** 4,676

**FUND BALANCE - JULY 1, 2009** 2,143

**FUND BALANCE - JUNE 30, 2010** \$ 6,819

**Non-Expendable Trust Fund  
Statement of Additions and Deductions  
For the Year Ended June 30, 2010**

**NET ASSETS - JULY 1, 2009** \$ 163,799

**ADDITIONS**

|               |              |              |
|---------------|--------------|--------------|
| Contributions | \$ 813       |              |
| Interest      | <u>2,248</u> | <u>3,061</u> |

**TOTAL FUNDS AVAILABLE** 166,860

**DEDUCTIONS**

|                     |          |          |
|---------------------|----------|----------|
| Awards              | -        |          |
| Interfund Transfers | <u>-</u> | <u>-</u> |

**NET ASSETS - JUNE 30, 2010** \$ 166,860

**Bethlehem Area School District  
2009A GOB Bond Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2010**

|   |                   |                    |
|---|-------------------|--------------------|
| <b>FUND BALANCE - JULY 1, 2009</b>            |                   | \$ 98,935          |
| <b>REVENUES AND OTHER FINANCING SOURCES</b>   |                   |                    |
| Proceeds from Refunding Bond Issues           | -                 |                    |
| Bond Premium                                  | -                 |                    |
| Investment Earnings                           | -                 | -                  |
|   | <u>          </u> | <u>          </u>  |
| <b>TOTAL FUNDS AVAILABLE</b>                  |                   | 98,935             |
| <b>EXPENDITURES AND OTHER FINANCING USES:</b> |                   |                    |
| <b>SUPPORT SERVICES</b>                       |                   |                    |
| Professional Services                         | -                 |                    |
| Insurance                                     | -                 |                    |
| Printing                                      | -                 |                    |
| <b>OTHER FINANCING USES</b>                   |                   |                    |
| Bond Discount                                 | -                 |                    |
| Debt Service - Interest                       | 98,935            |                    |
| Payment to Refunded Bonds Escrow Agent        | -                 | 98,935             |
|   | <u>          </u> | <u>          </u>  |
| <b>FUND BALANCE - JUNE 30, 2010</b>           |                   | <u><u>\$ -</u></u> |

**2009AA GOB Bond Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2010**

|   |                   |                    |
|---|-------------------|--------------------|
| <b>FUND BALANCE - JULY 1, 2009</b>            |                   | \$ 96,039          |
| <b>REVENUES AND OTHER FINANCING SOURCES</b>   |                   |                    |
| Proceeds from Refunding Bond Issues           | -                 |                    |
| Bond Premium                                  | -                 |                    |
| Investment Earnings                           | -                 | -                  |
|   | <u>          </u> | <u>          </u>  |
| <b>TOTAL FUNDS AVAILABLE</b>                  |                   | 96,039             |
| <b>EXPENDITURES AND OTHER FINANCING USES:</b> |                   |                    |
| <b>SUPPORT SERVICES</b>                       |                   |                    |
| Professional Services                         | -                 |                    |
| Insurance                                     | -                 |                    |
| Printing                                      | -                 |                    |
| <b>OTHER FINANCING USES</b>                   |                   |                    |
| Bond Discount                                 | -                 |                    |
| Debt Service - Interest                       | 96,039            |                    |
| Payment to Refunded Bonds Escrow Agent        | -                 | 96,039             |
|   | <u>          </u> | <u>          </u>  |
| <b>FUND BALANCE - JUNE 30, 2010</b>           |                   | <u><u>\$ -</u></u> |

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

|   |            |             |
|---|------------|-------------|
| <b>FUND BALANCE - JULY 1, 2009</b>            |            | \$ -        |
| <b>REVENUES AND OTHER FINANCING SOURCES</b>   |            |             |
| Proceeds from Refunding Bond Issues           | 30,000,000 |             |
| Bond Premium                                  | -          |             |
| Investment Earnings                           | -          | 30,000,000  |
| <b>TOTAL FUNDS AVAILABLE</b>                  |            | 30,000,000  |
| <b>EXPENDITURES AND OTHER FINANCING USES:</b> |            |             |
| <b>SUPPORT SERVICES</b>                       |            |             |
| Professional Services                         | -          |             |
| Insurance                                     | -          |             |
| Printing                                      | -          |             |
| <b>OTHER FINANCING USES</b>                   |            |             |
| Bond Discount                                 | -          |             |
| Swap Termination Fee                          | -          |             |
| Payment to Refunded Bonds Escrow Agent        | 30,000,000 | 30,000,000  |
| <b>FUND BALANCE - JUNE 30, 2010</b>           |            | <u>\$ -</u> |

**2010 GOB Bond Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2010**

|   |            |                  |
|---|------------|------------------|
| <b>FUND BALANCE - JULY 1, 2009</b>            |            | \$ -             |
| <b>REVENUES AND OTHER FINANCING SOURCES</b>   |            |                  |
| Proceeds from Refunding Bond Issues           | 28,850,000 |                  |
| Bond Premium                                  | 803,734    |                  |
| Investment Earnings                           | -          | 29,653,734       |
| <b>TOTAL FUNDS AVAILABLE</b>                  |            | 29,653,734       |
| <b>EXPENDITURES AND OTHER FINANCING USES:</b> |            |                  |
| <b>SUPPORT SERVICES</b>                       |            |                  |
| Professional Services                         | 275,715    |                  |
| Insurance                                     | 321,221    |                  |
| Printing                                      | 2,047      |                  |
| <b>OTHER FINANCING USES</b>                   |            |                  |
| Bond Discount                                 | -          |                  |
| Swap Termination Fee                          | 3,644,000  |                  |
| Payment to Refunded Bonds Escrow Agent        | 25,347,288 | 29,590,271       |
| <b>FUND BALANCE - JUNE 30, 2010</b>           |            | <u>\$ 63,463</u> |

**Bethlehem Area School District**  
**Schedule on General Obligation Bonds - Series A of 2001**  
**For the Year Ended June 30, 2010**

| <b><u>FISCAL YEAR</u></b> | <b><u>INTEREST</u></b> | <b><u>PRINCIPAL</u></b> |
|---------------------------|------------------------|-------------------------|
| 2010-11                   | \$ 241,943             | \$ 385,000              |
| 2011-12                   | 226,350                | 405,000                 |
| 2012-13                   | 209,542                | 420,000                 |
| 2013-14                   | 191,693                | 415,000                 |
| 2014-15                   | 173,640                | 430,000                 |
| 2015-16                   | 154,505                | 445,000                 |
| 2016-17                   | 134,035                | 860,000                 |
| 2017-18                   | 93,615                 | 950,000                 |
| 2018-19                   | 48,015                 | 990,000                 |
| <b>TOTAL OUTSTANDING</b>  | <b>\$ 1,473,338</b>    | <b>\$ 5,300,000</b>     |

**Schedule on General Obligation Bonds - Series of 2007**  
**For the Year Ended June 30, 2010**

| <b><u>FISCAL YEAR</u></b> | <b><u>INTEREST</u></b> | <b><u>PRINCIPAL</u></b> |
|---------------------------|------------------------|-------------------------|
| 2010-11                   | \$ 274,913             | \$ 5,000                |
| 2011-12                   | 274,888                | 5,000                   |
| 2012-13                   | 274,863                | 5,000                   |
| 2013-14                   | 274,838                | 5,000                   |
| 2014-15                   | 274,813                | 5,000                   |
| 2015-16                   | 274,788                | 5,000                   |
| 2016-17                   | 274,763                | 5,000                   |
| 2017-18                   | 274,738                | 5,000                   |
| 2018-19                   | 274,713                | 5,000                   |
| 2019-20                   | 274,688                | 5,000                   |
| 2020-21                   | 274,663                | 5,000                   |
| 2021-22                   | 274,638                | 5,000                   |
| 2022-23                   | 267,013                | 3,045,000               |
| 2023-24                   | 251,438                | 3,185,000               |
| 2024-25                   | 235,138                | 3,335,000               |
| 2025-26                   | 218,063                | 3,495,000               |
| 2026-27                   | 200,163                | 3,665,000               |
| 2027-28                   | 181,413                | 3,835,000               |
| 2028-29                   | 161,775                | 4,020,000               |
| 2029-30                   | 141,188                | 4,215,000               |
| 2030-31                   | 98,750                 | 12,760,000              |
| 2031-32                   | 33,425                 | 13,370,000              |
| <b>TOTAL OUTSTANDING</b>  | <b>\$ 5,085,672</b>    | <b>\$ 54,985,000</b>    |

**Bethlehem Area School District**  
**Schedule on General Obligation Bonds - Series A of 2007**  
**For the Year Ended June 30, 2010**

| <b><u>FISCAL YEAR</u></b> | <b><u>INTEREST</u></b> | <b><u>PRINCIPAL</u></b> |
|---------------------------|------------------------|-------------------------|
| 2010-11                   | \$ 2,090,625           | \$ 6,155,000            |
| 2011-12                   | 1,775,000              | 6,470,000               |
| 2012-13                   | 1,443,125              | 6,805,000               |
| 2013-14                   | 1,079,625              | 7,735,000               |
| 2014-15                   | 682,875                | 8,135,000               |
| 2015-16                   | 265,625                | 8,555,000               |
| 2031-32                   | 25,875                 | 1,035,000               |
| <b>TOTAL OUTSTANDING</b>  | <b>\$ 7,362,750</b>    | <b>\$ 44,890,000</b>    |

**Schedule on Guaranteed Revenue Bonds - Series of 2009**  
**For the Year Ended June 30, 2010**

| <b><u>FISCAL YEAR</u></b> | <b><u>INTEREST</u></b> | <b><u>PRINCIPAL</u></b> |
|---------------------------|------------------------|-------------------------|
| 2010-11                   | \$ 614,166             | \$ 40,275,000           |

**Schedule on General Obligation Bonds - Series A of 2009**  
**For the Year Ended June 30, 2010**

| <b><u>FISCAL YEAR</u></b> | <b><u>INTEREST</u></b> | <b><u>PRINCIPAL</u></b> |
|---------------------------|------------------------|-------------------------|
| 2010-11                   | \$ 2,998,432           | \$ 1,415,000            |
| 2011-12                   | 2,934,431              | 1,785,000               |
| 2012-13                   | 2,872,231              | 1,845,000               |
| 2013-14                   | 2,825,519              | 1,360,000               |
| 2014-15                   | 2,777,106              | 1,410,000               |
| 2015-16                   | 2,724,932              | 1,465,000               |
| 2016-17                   | 2,510,331              | 8,985,000               |
| 2017-18                   | 2,087,456              | 10,415,000              |
| 2018-19                   | 1,657,581              | 7,905,000               |
| 2019-20                   | 1,309,956              | 6,000,000               |
| 2020-21                   | 960,081                | 7,995,000               |
| 2021-22                   | 471,525                | 13,585,000              |
| 2022-23                   | 131,544                | 2,280,000               |
| 2023-24                   | 40,121                 | 1,735,000               |
| <b>TOTAL OUTSTANDING</b>  | <b>\$ 26,301,246</b>   | <b>\$ 68,180,000</b>    |

**Bethlehem Area School District**  
**Schedule on General Obligation Bonds - Series AA of 2009**  
**For the Year Ended June 30, 2010**

| <b><u>FISCAL YEAR</u></b> | <b><u>INTEREST</u></b>     | <b><u>PRINCIPAL</u></b>     |
|---------------------------|----------------------------|-----------------------------|
| 2010-11                   | \$ 580,400                 | \$ -                        |
| 2011-12                   | 580,400                    | -                           |
| 2012-13                   | 580,400                    | -                           |
| 2013-14                   | 580,400                    | -                           |
| 2014-15                   | 580,400                    | -                           |
| 2015-16                   | 580,400                    | -                           |
| 2016-17                   | 580,400                    | -                           |
| 2017-18                   | 580,400                    | -                           |
| 2018-19                   | 523,400                    | 3,000,000                   |
| 2019-20                   | 338,200                    | 6,410,000                   |
| 2020-21                   | 105,000                    | 5,000,000                   |
| <b>TOTAL OUTSTANDING</b>  | <b><u>\$ 5,609,800</u></b> | <b><u>\$ 14,410,000</u></b> |

**Schedule on General Obligation Bonds - Series B of 2009**  
**For the Year Ended June 30, 2010**

| <b><u>FISCAL YEAR</u></b> | <b><u>INTEREST</u></b>     | <b><u>PRINCIPAL</u></b>     |
|---------------------------|----------------------------|-----------------------------|
| 2010-11                   | \$ 414,168                 | \$ 425,000                  |
| 2011-12                   | 405,568                    | 435,000                     |
| 2012-13                   | 396,819                    | 440,000                     |
| 2013-14                   | 387,075                    | 450,000                     |
| 2014-15                   | 375,338                    | 465,000                     |
| 2015-16                   | 361,819                    | 475,000                     |
| 2016-17                   | 346,526                    | 495,000                     |
| 2017-18                   | 329,434                    | 510,000                     |
| 2018-19                   | 310,438                    | 530,000                     |
| 2019-20                   | 289,369                    | 550,000                     |
| 2020-21                   | 266,294                    | 575,000                     |
| 2021-22                   | 241,575                    | 595,000                     |
| 2022-23                   | 214,869                    | 625,000                     |
| 2023-24                   | 186,006                    | 640,000                     |
| 2024-25                   | 155,769                    | 650,000                     |
| 2025-26                   | 124,000                    | 670,000                     |
| 2026-27                   | 90,419                     | 690,000                     |
| 2027-28                   | 55,419                     | 710,000                     |
| 2028-29                   | 18,834                     | 735,000                     |
| <b>TOTAL OUTSTANDING</b>  | <b><u>\$ 4,969,739</u></b> | <b><u>\$ 10,665,000</u></b> |



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

| <b><u>FISCAL YEAR</u></b> | <b><u>INTEREST</u></b> | <b><u>PRINCIPAL</u></b> |
|---------------------------|------------------------|-------------------------|
| 2010-11                   | \$ 1,427,892           | \$ 5,000                |
| 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               |
| <b>TOTAL OUTSTANDING</b>  | <b>\$ 20,568,536</b>   | <b>\$ 28,850,000</b>    |

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

| <b><u>FISCAL YEAR</u></b> | <b><u>INTEREST</u></b> | <b><u>PRINCIPAL</u></b> |
|---------------------------|------------------------|-------------------------|
| 2010-11                   | \$ 540,212             | \$ 5,000                |
| 2011-12                   | 542,872                | 5,000                   |
| 2012-13                   | 542,781                | 5,000                   |
| 2013-14                   | 542,691                | 5,000                   |
| 2014-15                   | 542,600                | 5,000                   |
| 2015-16                   | 542,510                | 5,000                   |
| 2016-17                   | 542,419                | 5,000                   |
| 2017-18                   | 542,329                | 5,000                   |
| 2018-19                   | 542,238                | 5,000                   |
| 2019-20                   | 542,148                | 5,000                   |
| 2020-21                   | 542,057                | 5,000                   |
| 2021-22                   | 541,967                | 5,000                   |
| 2022-23                   | 541,876                | 5,000                   |
| 2023-24                   | 541,786                | 5,000                   |
| 2024-25                   | 541,695                | 5,000                   |
| 2025-26                   | 541,605                | 5,000                   |
| 2026-27                   | 490,985                | 6,705,000               |
| 2027-28                   | 366,269                | 7,150,000               |
| 2028-29                   | 233,309                | 7,620,000               |
| 2029-30                   | 89,165                 | 8,445,000               |
| <b>TOTAL OUTSTANDING</b>  | <b>\$ 9,853,514</b>    | <b>\$ 30,000,000</b>    |

## **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, 2010**

| FEDERAL GRANTOR/<br>PROJECT TITLE   | SOURCE<br>CODE | CFDA<br>NUMBER | GRANTOR<br>PASS<br>THROUGH<br>NUMBER | GRANT PERIOD    | AWARD<br>AMOUNT | TOTAL<br>RECEIVED | ACCRUED OR<br>(DEFERRED)<br>AT 7/01/09 | REVENUE    | EXPENDI-<br>TURES | ACCRUED OR<br>(DEFERRED)<br>AT 6/30/10 | FOOTNOTES |
|---|----------------|----------------|--------------------------------------|-----------------|-----------------|-------------------|--|------------|-------------------|--|-----------|
| <b><u>U. S. DEPARTMENT OF EDUCATION</u></b>                                 |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| IMPACT AID PUBLIC LAW 81-874  | D              | 84.041         | N/A                                  | 7/1/09-6/30/10  | \$ 45,165       | \$ 45,165         | \$ -                                   | \$ 45,165  | \$ 45,165         | \$ -                                   |           |
| READINESS AND EMERGENCY MANAGEMENT FOR SCHOOLS                              | D              | 84.184         | N/A                                  | 8/1/09-1/31/11  | \$ 250,000      | 75,699            | -                                      | 154,450    | 154,450           | 78,751                                 |           |
| <b><u>PASSED THROUGH THE PA.<br/>DEPARTMENT OF EDUCATION</u></b>            |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| TITLE I IMPROVING BASIC PROGRAMS  | I              | 84.010         | 013-090034                           | 7/1/08-9/30/09  | \$ 3,320,860    | 867,336           | 741,936                                | 125,400    | 125,400           | -                                      | 6         |
| TITLE I IMPROVING BASIC PROGRAMS  | I              | 84.010         | 013-100034                           | 7/1/09-9/30/10  | \$ 3,051,313    | 2,466,453         | -                                      | 3,051,313  | 3,051,313         | 584,860                                | 6         |
| TITLE I SCHOOL IMPROVEMENT SET ASIDE  | I              | 84.010         | 042-080034                           | 7/1/08-9/30/09  | \$ 80,000       | 23,529            | 7,037                                  | 16,492     | 16,492            | -                                      | 6         |
| TITLE I SCHOOL IMPROVEMENT SET ASIDE - BASE                                 | I              | 84.010         | 042-090034                           | 7/1/08-9/30/09  | \$ 235,000      | 131,449           | 131,449                                | -          | -                 | -                                      | 6         |
| TITLE I SCHOOL IMPROVEMENT SET ASIDE - SUPPLEMENT                           | I              | 84.377         | 042-090034                           | 7/1/08-9/30/09  | \$ 235,000      | 103,551           | 30,958                                 | 72,593     | 72,593            | -                                      |           |
| TITLE I ACADEMIC ACHIEVEMENT AWARDS   | I              | 84.010         | 077-090034                           | 7/1/08-9/30/09  | \$ 7,000        | 4,200             | 4,200                                  | -          | -                 | -                                      | 6         |
| TITLE I ACADEMIC ACHIEVEMENT AWARDS   | I              | 84.010         | 077-100034                           | 7/1/09-9/30/10  | \$ 7,200        | -                 | -                                      | 1,877      | 1,877             | 1,877                                  | 6         |
| ARRA - TITLE I  | I              | 84.389         | 127-100034                           | 5/15/09-9/30/10 | \$ 1,955,349    | 1,504,769         | 29,508                                 | 1,518,457  | 1,518,457         | 43,196                                 | 6,10      |
| TITLE II A IMPROVING TEACHER QUALITY  | I              | 84.367         | 020-090034                           | 7/1/08-9/30/09  | \$ 850,410      | 56,694            | 56,694                                 | -          | -                 | -                                      |           |
| TITLE II A IMPROVING TEACHER QUALITY  | I              | 84.367         | 020-100034                           | 7/1/09-9/30/10  | \$ 836,394      | 613,356           | -                                      | 776,189    | 776,189           | 162,833                                |           |
| TITLE III LEP / IMMIGRANT STUDENTS  | I              | 84.365         | 010-090034                           | 7/1/08-9/30/09  | \$ 253,281      | 136,382           | 133,292                                | 3,090      | 3,090             | -                                      |           |
| TITLE III LEP / IMMIGRANT STUDENTS  | I              | 84.365         | 010-100034                           | 7/1/09-9/30/10  | \$ 296,807      | 233,206           | -                                      | 292,267    | 292,267           | 59,061                                 |           |
| SAFE AND DRUG FREE SCHOOLS  | I              | 84.186         | 100-090034                           | 7/1/08-9/30/09  | \$ 72,429       | 21,219            | (4,127)                                | 25,346     | 25,346            | -                                      |           |
| SAFE AND DRUG FREE SCHOOLS  | I              | 84.186         | 100-100034                           | 7/1/09-9/30/10  | \$ 52,092       | 52,092            | -                                      | 45,732     | 45,732            | (6,360)                                |           |
| 21st CENTURY COMMUNITY LEARNING CENTERS                                     | I              | 84.287         | 4100024595A                          | 7/1/08-9/30/09  | \$ 206,783      | 92,849            | 44,609                                 | 48,240     | 48,240            | -                                      |           |
| 21st CENTURY COMMUNITY LEARNING CENTERS                                     | I              | 84.287         | 4100042718                           | 7/1/08-9/30/09  | \$ 582,562      | 127,600           | 126,693                                | 907        | 907               | -                                      |           |
| 21st CENTURY COMMUNITY LEARNING CENTERS                                     | I              | 84.287         | 4100042718                           | 7/1/09-9/30/10  | \$ 498,045      | 280,556           | -                                      | 498,045    | 498,045           | 217,489                                |           |
| 21st CENTURY COMMUNITY LEARNING CENTERS                                     | I              | 84.287         | 4100052381                           | 4/1/10-6/30/11  | \$ 750,000      | -                 | -                                      | 62,500     | 62,500            | 62,500                                 |           |
| ARRA - STATE FISCAL STABILIZATION FUND                                      | I              | 84.394         | 126-100034                           | 7/1/09-6/30/10  | \$ 3,089,051    | 2,831,630         | -                                      | 3,089,051  | 3,089,051         | 257,421                                | 10        |
| <b><u>PASSED THROUGH MIDWESTERN I.U. IV</u></b>                             |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| TITLE I PARENT INVOLVEMENT MINI-GRANT                                       | I              | 84.010         | N/A                                  | 7/1/08-6/30/09  | \$ 500          | 200               | 200                                    | -          | -                 | -                                      |           |
| TITLE I PARENT INVOLVEMENT MINI-GRANT                                       | I              | 84.010         | N/A                                  | 7/1/09-6/30/10  | \$ 500          | 300               | -                                      | 500        | 500               | 200                                    | 1         |
| <b><u>PASSED THROUGH THE COLONIAL I.U. #20</u></b>                          |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| IDEA  | I              | 84.027         | N/A                                  | 7/1/08-6/30/09  | \$ 1,787,604    | 449,869           | 449,869                                | -          | -                 | -                                      |           |
| IDEA  | I              | 84.027         | N/A                                  | 7/1/09-6/30/10  | \$ 1,891,608    | 1,407,182         | -                                      | 1,891,608  | 1,891,608         | 484,426                                | 1,6       |
| ARRA - IDEA   | I              | 84.391         | N/A                                  | 2/17/09-9/30/11 | \$ 3,033,726    | 1,039,344         | -                                      | 1,474,130  | 1,474,130         | 434,786                                | 1,6,10    |
| <b><u>PASSED THROUGH THE I.U. #1</u></b>                                    |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| IDEA - INCLUSIVE PRACTICES  | I              | 84.027         | N/A                                  | 7/1/09-6/30/10  | N/A             | -                 | -                                      | 9,541      | 9,541             | 9,541                                  | 1,6       |
| <b><u>PASSED THROUGH THE ALLEGHENY INTERMEDIATE UNIT</u></b>                |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| IDEA - INCLUSIVE PRACTICES  | I              | 84.027         | N/A                                  | 7/1/08-6/30/09  | N/A             | 9,138             | -                                      | 9,138      | 9,138             | -                                      | 1         |
| <b><u>PASSED THROUGH BETHLEHEM<br/>AREA VOCATIONAL TECHNICAL SCHOOL</u></b> |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| VOCATIONAL EDUCATION - L.E.P. PERKINS                                       | I              | 84.048         | N/A                                  | 7/1/08-6/30/09  | \$ 51,949       | 51,949            | -                                      | -          | -                 | (51,949)                               |           |
| <b><u>PASSED THROUGH NORTHAMPTON<br/>COMMUNITY COLLEGE</u></b>              |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| FEDERAL ADULT EDUCATION (GED)   | I              | 84.002         | N/A                                  | 7/1/08-6/30/09  | \$ 13,190       | 822               | 822                                    | -          | -                 | -                                      |           |
| FEDERAL ADULT EDUCATION (GED)   | I              | 84.002         | N/A                                  | 7/1/09-6/30/09  | \$ 10,440       | 10,419            | -                                      | 10,440     | 10,440            | 21                                     | 1         |
| <b><u>PASSED THROUGH PENN STATE UNIVERSITY</u></b>                          |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| MODELL GRANT  | I              | 84.XXX         | N/A                                  | 7/1/09-6/30/10  | \$ 2,400        | 2,400             | -                                      | 2,400      | 2,400             | -                                      | 1         |
| <b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>                                   |                |                |                                      |                 |                 | 12,639,358        | 1,753,140                              | 13,224,871 | 13,224,871        | 2,338,653                              |           |
| <b><u>U.S. DEPT. OF HEALTH AND HUMAN SERVICES</u></b>                       |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| <b><u>PASSED THROUGH THE P.A.<br/>DEPT OF EDUCATION</u></b>                 |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| <b><u>FAMILY CENTERS:</u></b>   |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| CHILD CARE MANDATORY/MATCH FUNDS  | I              | 93.556         | SAP 4100044212                       | 7/1/08-6/30/09  | \$ 154,638      | 45,299            | 45,299                                 | -          | -                 | -                                      |           |
| CHILD CARE MANDATORY/MATCH FUNDS  | I              | 93.556         | SAP 4100044212                       | 7/1/09-6/30/10  | \$ 157,012      | 90,817            | -                                      | 157,012    | 157,012           | 66,195                                 |           |
| CHILD CARE MANDATORY/MATCH FUNDS  | I              | 93.590         | SAP 4100044212                       | 7/1/08-6/30/09  | \$ 15,953       | 4,698             | 4,698                                  | -          | -                 | -                                      |           |
| CHILD CARE MANDATORY/MATCH FUNDS  | I              | 93.590         | SAP 4100044212                       | 7/1/09-6/30/10  | \$ 15,953       | 9,349             | -                                      | 15,953     | 15,953            | 6,604                                  |           |
| <b><u>PASSED THROUGH NORTHAMPTON COUNTY</u></b>                             |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| <b><u>TIME-LIMITED FAMILY REUNIFICATION SERVICES:</u></b>                   |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| CHILD CARE MANDATORY/MATCH FUNDS  | I              | 93.590         | SAP 4100044432                       | 7/1/08-6/30/09  | \$ 215,000      | 40,431            | 40,431                                 | -          | -                 | -                                      |           |
| CHILD CARE MANDATORY/MATCH FUNDS  | I              | 93.590         | SAP 4100044432                       | 7/1/09-6/30/10  | \$ 215,000      | 109,311           | -                                      | 215,000    | 215,000           | 105,689                                | 2         |
| <b><u>PASSED THROUGH THE PA.<br/>DEPARTMENT OF PUBLIC WELFARE</u></b>       |                |                |                                      |                 |                 |                   |  |            |                   |  |           |
| TITLE 19 MEDICAL ASSISTANCE PROGRAM   | I              | 93.778         | N/A                                  | 7/1/09-6/30/10  | N/A             | 94,457            | -                                      | 94,457     | 94,457            | -                                      |           |
| <b>TOTAL U.S. DEPT. OF HEALTH AND HUMAN SERVICES</b>                        |                |                |                                      |                 |                 | 394,362           | 90,428                                 | 482,422    | 482,422           | 178,488                                |           |

**BETHLEHEM AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2010**

| <u>FEDERAL GRANTOR/<br/>PROJECT TITLE</u>                       | <u>SOURCE<br/>CODE</u> | <u>CFDA<br/>NUMBER</u> | <u>GRANTOR<br/>PASS<br/>THROUGH<br/>NUMBER</u> | <u>GRANT PERIOD</u> | <u>AWARD<br/>AMOUNT</u> | <u>TOTAL<br/>RECEIVED</u> | <u>ACCRUED OR<br/>(DEFERRED)<br/>AT 7/01/09</u> | <u>REVENUE</u> | <u>EXPENDI-<br/>TURES</u> | <u>ACCRUED OR<br/>(DEFERRED)<br/>AT 6/30/10</u> | <u>FOOTNOTES</u> |
|---|------------------------|------------------------|--|---------------------|-------------------------|---------------------------|---|----------------|---------------------------|---|------------------|
| <b><u>CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICES</u></b> |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>PASSED THROUGH THE PA.</u></b>                            |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>DEPARTMENT OF EDUCATION</u></b>                           |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| LEARN & SERVE AMERICA   | I                      | 94.004                 | 019-080021                                     | 10/1/08-6/30/09     | \$ 25,000               | -                         | (5,237)   | 5,237          | 5,237                     | -   |                  |
| LEARN & SERVE AMERICA   | I                      | 94.004                 | 019-090021                                     | 10/13/09-6/30/10    | \$ 20,000               | 20,000                    | -   | 19,290         | 19,290                    | (710)   |                  |
| LEARN & SERVE AMERICA   | I                      | 94.004                 | 019-080303                                     | 10/1/08-6/30/09     | \$ 8,000                | -                         | (1,227)   | 1,227          | 1,227                     | -   |                  |
| LEARN & SERVE AMERICA   | I                      | 94.004                 | 019-092021                                     | 10/13/09-6/30/10    | \$ 8,000                | 6,222                     | -   | 7,772          | 7,772                     | 1,550   |                  |
| <b>TOTAL CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICES</b>  |                        |                        |  |                     |                         | 26,222                    | (6,464)   | 33,526         | 33,526                    | 840   |                  |
| <b><u>N.A.S.A. NATIONAL AERONAUTICS AND SPACE ADMIN.</u></b>    |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>PASSED THROUGH NATIONAL SCIENCE AND</u></b>               |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>TEACHERS ASSOCIATION</u></b>                              |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| N.A.S.A. EXPLORER SCHOOLS                                       | I                      | 43.001                 | N/A  | 7/1/08-6/30/09      | \$ 2,500                | -                         | (2,386)   | 2,386          | 2,386                     | -   | 3                |
| <b>TOTAL NATIONAL AERONAUTICS AND SPACE ADMIN.</b>              |                        |                        |  |                     |                         | -                         | (2,386)   | 2,386          | 2,386                     | -   |                  |
| <b><u>U.S. DEPARTMENT OF LABOR</u></b>                          |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>PASSED THROUGH THE P.A. DEPT. OF PUBLIC WELFARE</u></b>   |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| PIC SUMMER MAINTENANCE/ BASIC SKILLS                            | I                      | 17.269                 | 2131   | 5/26/09-3/31/10     | \$ 89,680               | 85,204                    | 14,725  | 70,478         | 70,478                    | -   | 4                |
| PIC CAREER LINKING ACADEMY                                      | I                      | 17.269                 | 5052 & 5055                                    | 2/2/09-6/30/09      | \$ 33,503               | 27,252                    | 26,810  | 443            | 443                       | -   | 4                |
| PIC CAREER LINKING ACADEMY                                      | I                      | 17.269                 | 5075   | 4/26/10-6/30/10     | \$ 11,282               | -                         | -   | 10,740         | 10,740                    | 10,740  | 4                |
| PIC CAREER LINKING ACADEMY - ADDITIONAL FUNDING                 | I                      | 17.269                 | 5067   | 2/1/09-12/31/09     | \$ 10,000               | 6,359                     | -   | 6,359          | 6,359                     | -   | 4                |
| <b>TOTAL U.S. DEPT. OF LABOR</b>                                |                        |                        |  |                     |                         | 118,815                   | 41,535  | 88,020         | 88,020                    | 10,740  |                  |
| <b><u>U.S DEPARTMENT OF JUSTICE</u></b>                         |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>PASSED THROUGH UNITED WAY</u></b>                         |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| 222 CORRIDOR ANTI-GANG INITIATIVE                               | I                      | 16.744                 | N/A  | 7/1/08-6/30/09      | \$ 4,996                | 3,925                     | 3,925   | -              | -                         | -   |                  |
| 222 CORRIDOR ANTI-GANG INITIATIVE                               | I                      | 16.744                 | N/A  | 7/1/09-6/30/10      | \$ 2,500                | -                         | -   | 2,021          | 2,021                     | 2,021   | 5                |
| <b>TOTAL U.S. DEPT. OF JUSTICE</b>                              |                        |                        |  |                     |                         | 3,925                     | 3,925   | 2,021          | 2,021                     | 2,021   |                  |
| <b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>                 |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>PASSED THROUGH PENN STATE UNIVERSITY</u></b>              |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| SAFE ROUTES TO SCHOOL   | I                      | 20.205                 | N/A  | 7/1/09-6/30/10      | \$ 5,000                | 5,000                     | -   | -              | -                         | (5,000)   |                  |
| <b>TOTAL U.S. DEPT. OF TRANSPORTATION</b>                       |                        |                        |  |                     |                         | 5,000                     | -   | -              | -                         | (5,000)   |                  |
| <b><u>U. S. DEPT. OF AGRICULTURE</u></b>                        |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>PASSED THROUGH THE PA.</u></b>                            |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>DEPT OF EDUCATION</u></b>                                 |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| NATIONAL SCHOOL LUNCH   | I                      | 10.555                 | N/A  | 7/01/08 - 6/30/09   | N/A - F                 | 32,866                    | 32,866  | -              | -                         | -   | 9                |
| NATIONAL SCHOOL LUNCH   | S                      | N/A                    | N/A  | 7/01/08 - 6/30/09   | N/A                     | 2,582                     | 2,582   | -              | -                         | -   |                  |
| NATIONAL SCHOOL LUNCH   | I                      | 10.555                 | N/A  | 7/01/09 - 6/30/10   | N/A - F                 | 2,202,676                 | -   | 2,522,360      | 2,522,360                 | 319,684   | 9                |
| NATIONAL SCHOOL LUNCH   | S                      | N/A                    | N/A  | 7/01/09 - 6/30/10   | N/A                     | 165,624                   | -   | 188,130        | 188,130                   | 22,506  |                  |
| BREAKFAST PROGRAM   | I                      | 10.553                 | N/A  | 7/01/08 - 6/30/09   | N/A - F                 | 536                       | 536   | -              | -                         | -   | 9                |
| BREAKFAST PROGRAM   | S                      | N/A                    | N/A  | 7/01/08 - 6/30/09   | N/A                     | 525                       | 525   | -              | -                         | -   |                  |
| BREAKFAST PROGRAM   | I                      | 10.553                 | N/A  | 7/01/09 - 6/30/10   | N/A - F                 | 45,140                    | -   | 51,331         | 51,331                    | 6,191   | 9                |
| BREAKFAST PROGRAM   | S                      | N/A                    | N/A  | 7/01/09 - 6/30/10   | N/A                     | 26,524                    | -   | 30,561         | 30,561                    | 4,037   |                  |
| SEVERE NEED BREAKFAST   | I                      | 10.553                 | N/A  | 7/01/08 - 6/30/09   | N/A - F                 | 7,251                     | 7,251   | -              | -                         | -   | 9                |
| SEVERE NEED BREAKFAST   | I                      | 10.553                 | N/A  | 7/01/09 - 6/30/10   | N/A - F                 | 357,698                   | -   | 415,218        | 415,218                   | 57,520  | 9                |
| AFTER SCHOOL SNACK  | I                      | 10.555                 | N/A  | 7/01/09 - 6/30/10   | N/A - F                 | 43,630                    | -   | 50,445         | 50,445                    | 6,815   | 9                |
| SPECIAL MILK  | I                      | 10.556                 | N/A  | 7/01/09 - 6/30/10   | N/A - F                 | 1,504                     | -   | 1,760          | 1,760                     | 256   | 9                |
| SUMMER FOOD   | I                      | 10.559                 | N/A  | 7/01/08 - 6/30/09   | N/A - F                 | 57,059                    | 57,059  | -              | -                         | -   |                  |
| SUMMER FOOD   | I                      | 10.559                 | N/A  | 7/01/09 - 6/30/10   | N/A - F                 | 66,568                    | -   | 147,723        | 147,723                   | 81,155  |                  |
| FRESH FRUIT AND VEGETABLE PROGRAM                               | I                      | 10.582                 | N/A  | 7/1/09 - 6/30/10    | N/A - F                 | 59,603                    | -   | 69,277         | 69,277                    | 9,674   |                  |
| ARRA - FNS EQUIPMENT GRANT                                      | I                      | 10.579                 | N/A  | 7/1/09 - 6/30/10    | N/A - F                 | 34,785                    | -   | 34,785         | 34,785                    | -   | 10               |
| <b><u>PASSED THROUGH THE PA</u></b>                             |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b><u>DEPARTMENT OF AGRICULTURE</u></b>                         |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| USDA COMMODITIES  | I                      | 10.555                 | N/A  | 7/1/09-6/30/10      | N/A                     | 339,487                   | (18,741)  | 340,284        | 340,284                   | (17,944)  | 7,8,9            |
| <b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>                     |                        |                        |  |                     |                         | 3,444,058                 | 82,078  | 3,851,874      | 3,851,874                 | 489,894   |                  |
| <b>TOTAL AWARDS</b>   |                        |                        |  |                     |                         | \$ 16,631,740             | \$ 1,962,256                                    | \$ 17,685,120  | \$ 17,685,120             | \$ 3,015,636                                    |                  |
| <b>LESS: STATE SHARE</b>  |                        |                        |  |                     |                         | (195,255)                 | (3,107)   | (218,691)      | (218,691)                 | (26,543)  |                  |
| <b>TOTAL FEDERAL AWARDS</b>                                     |                        |                        |  |                     |                         | \$ 16,436,485             | \$ 1,959,149                                    | \$ 17,466,429  | \$ 17,466,429             | \$ 2,989,093                                    |                  |
| <b>SOURCE: D-DIRECT</b>   |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b>I- INDIRECT</b>  |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b>F-FEDERAL SHARE</b>  |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |
| <b>S-STATE SHARE</b>  |                        |                        |  |                     |                         |                           |   |                |                           |   |                  |

**Bethlehem Area School District**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2010**

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**Note 1 - Significant Accounting Policies**

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

**Note 2- Organization and Scope**

The District recognized 7.1% of its total general fund revenue in federal awards, and 42.6% of its total enterprise fund revenue.

**Note 3 - Program Disclosure – Footnotes**

1. The federal awards passed through the Midwestern IU, Colonial IU, Allegheny 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 N.A.S.A. Explorer Schools Grant, passed through the National Science and Teachers Association is reflected as local source revenue in the basic financial statements, as per PDE instructions.
4. 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.
5. 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.
6. 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.
7. The District received non-monetary assistance of \$339,487 in the form of commodities. These commodities are valued at U.S.D.A.'s approximate costs. During the 2009-10 fiscal year, the District used \$340,284 in commodities and established a year end inventory of \$17,944 at June 30, 2010.
8. 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

**Bethlehem Area School District**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2010**

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the commodities received, which are recognized as revenue in the basic financial statements.

9. 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.
10. The programs reporting this footnote are grants received using funds from the American Recovery and Reinvestment Act.

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**FINANCIAL STATEMENT RECONCILIATION**

|  |                             |
|--|-----------------------------|
| General Fund Federal Source Revenues                   | \$ 10,128,061               |
| Federal Grants in Local Sources                        | 3,705,185                   |
| Food Service Fund Federal Revenue                      | <u>3,632,387</u>            |
| <b>Total Federal Revenue, per financial statements</b> | 17,465,633                  |
| Less - Medical Access                                  | -                           |
| Plus: Change in Donated Commodities                    | <u>796</u>                  |
| <b>Total Federal Revenue Reported on SEFA</b>          | <b><u>\$ 17,466,429</u></b> |

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison statement for the General Fund of Bethlehem Area School District as of and for the year ended June 30, 2010, which collectively comprise Bethlehem Area School District's basic financial statements and have issued our report thereon dated January 13, 2011. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America, and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered Bethlehem Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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* (2010-1, 2010-2, 2010-3, 2010-4, 2010-5, 2010-6, 2010-7, 2010-8, 2010-9, 2010-10, 2010-11, and 2010-12) 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* (2010-13, 2010-14, 2010-15, 2010-16, 2010-17, and 2010-18) to be significant deficiencies.

**Compliance and Other Matters**

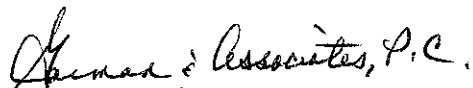
As part of obtaining reasonable assurance about whether Bethlehem Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 13, 2011.

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,

 *Shuman & Associates, P.C.*

January 13, 2011





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, 2010. 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, 2010.

**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**

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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 certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.


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 2010-19 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-20 to be a significant deficiency.

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,

 *Assessors, P.C.*

January 13, 2011

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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**Section I - Summary of Auditor Results**

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**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 <sup>st</sup> Century Community Learning Center |

Percentage of programs tested to total awards 67.5%

Dollar threshold used to distinguish between type A and type B program: \$523,993

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

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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**Section II - Financial Statement Findings**

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

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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**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.  |
| Recommendation: | We recommend the district reconcile the investment balances each month to the investment statements 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 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 for 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.  |
| Recommendation: | We recommend the business office investigate why the food service lunch receipts are not submitted daily or weekly and put procedures in place to prevent this from happening in the future. |

**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.   |

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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|                 |   |
|-----------------|---|
| Cause:          | Apparently the individual responsible for coding these expenditures needs additional training to understand the proper codes that should be used. |
| Effect:         | The failure to use the proper coding can cause errors in proper reimbursements due to the district by the Commonwealth.                           |
| Recommendation: | We recommend the personnel responsible for coding expenditures in the Capital Reserve Fund receive further training.                              |

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

**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. |
| Recommendation: | We recommend management improve the monitoring of journal entries made to this fund.  |

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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**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.                |
| Recommendation: | We recommend management review the audited financial statements when converting to new software.  |

**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.  |
| Recommendation: | We recommend each school submit monthly reports reflecting the transactions by club, with reconciliation to the monthly bank statement instead of on a quarterly basis. Further, we suggest the business office record these transactions, by club, in the computer system on a monthly basis.                    |

**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.  |

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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Effect: The failure to show each scholarship account separately can cause the wrong award to go to the wrong scholarship.

Recommendation: We recommend management instruct their staff and monitor their staff to ensure the contributions received are recorded to revenue accounts and the awards given are charged to expenditure accounts for each scholarship.

**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.

Recommendation: We recommend the District do whatever is necessary to resolve these issues by eliminating posting between funds, eliminate pooled cash, and provide proper training on the new computer system and accounting principles.

**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.



**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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Recommendation: We recommend the District take appropriate action to remedy this problem in the future.

**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 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.

Recommendation: We recommend the District meet with the appointed tax collector to discuss a better tax collection system in order to timely reconcile the type of tax collected and for improving continuity with the outstanding duplicate balance. In addition, we suggest the District consider fining the appointed tax collector in accordance with Act 169.

**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.

Recommendation: We recommend the personnel assigned to code these costs follow the PA School Accounting Manual.

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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**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.                                       |
| Recommendation: | We suggest management take greater care in monitoring journal entries.  |

**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.   |
| 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 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.           |

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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|                 |  |
|-----------------|--|
| 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.       |
| Recommendation: | We suggest District personnel properly record these transactions with proper monitoring by management.   |

**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.  |
| 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.  |
| Recommendation: | We have made the appropriate corrections to the records. We would like to recommend that staff receive additional training to understand these transactions and management improve their monitoring of this fund. |

**Bethlehem Area School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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

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**Significant Deficiency 2010-19 Federal Awards (Allowable Costs)**

Federal Awards:

Passed Through Colonial I.U. 20

CDFA No. 84.027 – IDEA

CDFA No. 84.391 – IDEA – ARRA

Passed Through PA Department of Education

CDFA No. 84.394 – State Fiscal Stabilization Fund

CDFA No. 84.287 – 21<sup>st</sup> Century Community Learning Center

|                 |  |
|-----------------|--|
| Criteria:       | The District is to maintain evidence to support that all costs charged to the federal IDEA program, State Fiscal Stabilization Fund, and 21 <sup>st</sup> 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. |
| Recommendation: | We recommend management properly monitor their staff to ensure supporting documentation is available to support what is charged to the program.  |

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

Federal Awards:

Passed through PA Department of Education

CDFA No. 84.394 – State Fiscal Stabilization Fund

|            |  |
|------------|--|
| 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 Findings and Questioned Costs  
For the Year Ended June 30, 2010**

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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.

Recommendation: We recommend management, in the future, review the required federal guidelines to make sure what costs are allowable.

**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, 2010**

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**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.   |

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

|            |  |
|------------|--|
| Criteria:  | Control Activities component of internal controls require reconciliations to be performed on material accounts in the general ledger, including the bank accounts on a regular basis.  |
| Condition: | During our review of the account balance in cash at year end, we discovered the general ledger account was off \$88,632 in equaling the bank statement balance.  |
| Cause:     | During our investigation to determine why this was done, we discovered the account was not properly reconciled during the entire year. In addition, the monitoring component of internal controls failed because management did not monitor their staff. |
| Effect:    | As a result of this condition, the auditors spent additional time to reconcile the account, costing the District additional audit costs.   |
| Status:    | This condition continues to exist.   |

**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. |
|-----------|---|

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2010**

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|            |  |
|------------|--|
| 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:    | This condition continues to exist.   |

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

|            |   |
|------------|---|
| Criteria:  | All transactions should be supported with original documentation to support the receipt or disbursements occurring in the General Fund.   |
| Condition: | During our review of significant items, the staff could not find an invoice for Check no. 255549, made payable to Apple Computer Education dated October 23, 2008. In addition, an application for rental reimbursement of \$119,366.81 could not be found by management. |
| Cause:     | This condition appears to have been created by human error in not properly filing documentation to support the disbursement and receipt.  |
| Effect:    | The failure to maintain original documentation can create invalid transactions to occur without being detected within a reasonable time period.   |
| 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.  |

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2010**

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Status: This condition continues to exist.

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

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

Condition: We discovered the account balance for accounts payable was arbitrarily adjusted because management couldn't find out why it was wrong.

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

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

Status: This condition continues to exist.

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

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

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

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

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

Status: Corrective Action was taken.

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

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

Condition: During our review of the general ledger account for inventories, we could not find any detail inventory records to substantiate the amount recorded



**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2010**

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as an asset. The only evidence presented to us was a summary sheet showing totals at each school.

Cause: The food service personnel destroyed the detail records.

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

Status: Corrective Action was taken.

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

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

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

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

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

Status: Corrective Action was taken.

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

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

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

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

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

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2010**

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Status: Corrective Action was taken.

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

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

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

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

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

Status: Corrective Action was taken.

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

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

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

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

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

Status: Corrective Action was taken .

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

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

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2010**

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|            |   |
|------------|---|
| Condition: | A check written to Sunguard for the monthly maintenance of the IFAS computer system for \$122,664 was paid by this fund, which is not an allowable expenditure of the Capital Reserve Fund. |
| Cause:     | This condition appears to have been caused by human error or insufficient knowledge of proper coding of invoices.   |
| Effect:    | The failure to properly report expenditures can cause a material misstatement of the fund's financial statements.   |
| Status:    | Corrective Action was taken.  |

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

|            |  |
|------------|--|
| Criteria:  | In accordance with governmental accounting principles, contributions and donations are recorded as revenue in the year received.   |
| Condition: | The District's multiple federal and state grant funds record outside contributions as matching funds for federal and state grants; however the District personnel attempted to defer revenue recognition on these contributions until a future year. |
| Cause:     | It appears the business office personnel are trying to defer revenue recognition because they are unaware of accounting principles.  |
| Effect:    | Deferring recognition understates the true revenue for the year.   |
| 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, 2010**

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**Prior Year Findings 2007-2008**

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

|            |   |
|------------|---|
| Criteria:  | The District should establish controls to evaluate inventories on hand at year end by using a combination of perpetual records and physical counts of items on hand to determine the yearly financial condition of this enterprise fund.              |
| Condition: | During our review of the general ledger account for inventories, we could not find any detail inventory records to substantiate the amount recorded as an asset. The only evidence presented to us was a summary sheet showing totals at each school. |
| Cause:     | The food service personnel destroyed the detail records.  |
| Effect:    | The failure to maintain adequate records of a recorded asset puts into question the validity of the amount shown as an asset, which can affect the overall financial position of the fund.  |
| Status:    | Corrective Action was taken.  |

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

|            |   |
|------------|---|
| Criteria:  | The District should maintain accurate records to support the validity of assets recorded in the Food Service Fund.  |
| Condition: | The only evidence provided to us to validate the balance at year end of \$168,270 was 371 pages of outstanding balances in the amount students owed the District at year end. We were informed that any student owing more than \$50, his or her account is forwarded to a collection agency. The collection agency account only reflected \$48,359 in delinquent accounts. |
| Cause:     | We could not find any evidence that personnel were attempting to reconcile the validity of the account balance.   |
| Effect:    | The failure to reconcile this receivable account could overstate or understate the financial position of the Food Service Fund.   |
| Status:    | Corrective Action was taken   |

**Significant Deficiency 2008-9 (Payroll Account – Reconciliation)**

|            |  |
|------------|--|
| Criteria:  | The District should perform a bank reconciliation on every bank account and compare the balance to the general ledger account.             |
| Condition: | During our review of reconciliations performed on bank accounts, we discovered the payroll account is not being reconciled. The difference |

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2010**

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between the bank statement less outstanding checks to the balance in the general ledger is \$19,254.13.

Cause: It does not appear payroll personnel have spent the time necessary to discover this variance.

Effect: The failure to reconcile account balances can create an atmosphere of potential fraud to occur without being detected within a reasonable period of time.

Status: This condition continues to exist.

**Significant Deficiency 2008-10 (Real Estate Tax Collection)**

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

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

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

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

Status: This condition continues to exist.

**Significant Deficiency 2008-11 (General Fixed Assets)**

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

Condition: The balances reported on the prior year financial statements did not correlate to the balances maintained in the fixed asset system used by the District by \$1,853,418. We also discovered the District is not maintaining a tagging system to be able to locate and keep track of its capital assets, except the technology dept. is maintaining a separate tagging system for technology assets. In addition, it doesn't appear the land owned by the District was assigned values.

Cause: An appraisal company valued the general fixed assets a few years ago for the District, but failed to tag each asset. As a result, the tag no.

**Bethlehem Area School District  
Schedule of Prior Year Findings  
For the Year Ended June 30, 2010**

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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.

**Significant Deficiency 2008-13 (Food Service Fund – Fixed Assets)**

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

Condition: The balances reported on the prior year financial statements did not correlate to the balances maintained in the fixed asset system used by the District by \$23,500 on equipment and \$17,439 on accumulated depreciation. We also discovered the District is not maintaining a tagging system to be able to locate and keep track of its capital assets.

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

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

Status: Corrective Action was taken.



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, 2010, have been accurately compiled in accordance with the provisions of this agreement and reflect the audited books and records of the Bethlehem Area School District. We also have verified by comparison to the sample schedules that these schedules/exhibits are presented, at minimum, at the level of detail and in the format required by the agreement pertaining to this period.
  - Schedule of Revenues and Expenditures of Family Center Grant
  - Schedule of Revenues and Expenditures of Time Limited Family Reunification Grant.
- b. We inquired of management regarding any adjustments to the reported information which should be made and/or were not reflected on the reports submitted to DPW for the period in question.

We were not engaged to, and did not perform an audit, the objective of which would be expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Department of Public Welfare and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Respectfully Submitted,

*Gorman & Associates, P.C.*

January 13, 2011

Bethlehem Area School District  
Schedule of Revenues and Expenditures of Family Center Grant  
For the Year Ended June 30, 2010

| REVENUES                    | DEPARTMENT OF PULBIC WELFARE GRANT |                          |
|-----------------------------|------------------------------------|--------------------------|
|                             | BUDGET                             | ACTUAL                   |
| <b>Federal</b>              |                                    |                          |
| CFDA 93.590                 | \$ 157,012                         | \$ 157,012               |
| CFDA 93.556                 | 15,953                             | 15,953                   |
| <b>State</b>                | <u>154,234</u>                     | <u>154,234</u>           |
| Total Revenues              | <u><b>\$ 327,199</b></u>           | <u><b>\$ 327,199</b></u> |
| <br><b>EXPENDITURES</b>     |                                    |                          |
| <b>Personnel</b>            |                                    |                          |
| Salaries and Benefits       | <u>\$ 306,714</u>                  | <u>\$ 306,714</u>        |
| <b>Operating</b>            |                                    |                          |
| Professional/Technical Svcs | 2,500                              | 2,500                    |
| Training/Conferences        | 1,150                              | 1,150                    |
| Transportation/Travel       | 11,800                             | 11,800                   |
| Service Contracts           | -                                  | -                        |
| Communications              | 800                                | 800                      |
| Facility Expenses           | -                                  | -                        |
| Supplies                    | 3,675                              | 3,675                    |
| Evaluation                  | -                                  | -                        |
| FC PAT Training             | 560                                | 560                      |
| Other                       | -                                  | -                        |
| Indirect Costs              | <u>-</u>                           | <u>-</u>                 |
| <b>Total Operations</b>     | <u>20,485</u>                      | <u>20,485</u>            |
| <b>Total Expenditures</b>   | <u><b>\$ 327,199</b></u>           | <u><b>\$ 327,199</b></u> |



**Bethlehem Area School District**  
**Schedule of Revenues and Expenditures of Time-Limited Family Reunification Grant**  
**For the Year Ended June 30, 2010**

| <b>REVENUES</b>             | <b>DEPARTMENT OF PULBIC WELFARE GRANT</b> |                       |
|-----------------------------|---|-----------------------|
|                             | <b>BUDGET</b>                             | <b>ACTUAL</b>         |
| <b>Federal</b>              |   |                       |
| CFDA 93.590                 | -   | -                     |
| CFDA 93.556                 | \$ 215,000                                | \$ 215,000            |
| <b>State</b>                | -   | -                     |
| <br>Total Revenues          | <br><b>\$ 215,000</b>                     | <br><b>\$ 215,000</b> |
| <br><b>EXPENDITURES</b>     |   |                       |
| <b>Personnel</b>            |   |                       |
| Salaries and Benefits       | \$ 196,430                                | \$ 196,430            |
| <b>Operating</b>            |   |                       |
| Professional/Technical Svcs | 7,000                                     | 7,000                 |
| Training/Conferences        | 991                                       | 1,032                 |
| Transportation/Travel       | 3,241                                     | 3,200                 |
| Communications              | 1,090                                     | 1,090                 |
| Supplies                    | 1,000                                     | 1,000                 |
| Parent Training             | -   | -                     |
| Equipment                   | -   | -                     |
| Audit Fee                   | -   | -                     |
| Indirect Costs              | -   | -                     |
| Other                       | 5,248                                     | 5,248                 |
| <b>Total Operations</b>     | <b>18,570</b>                             | <b>18,570</b>         |
| <br>Total Expenditures      | <br><b>\$ 215,000</b>                     | <br><b>\$ 215,000</b> |

## **CURRENT YEAR FINDINGS 2009-10**

### **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.  |
| 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 intends to segregate cash accounts by fund using the audited balances as of 06/30/2010 allowing for transactions to be processed independently by fund thereby eliminating the pooled cash account. Upon completion of adjusting entries related to the above and following restoration of full staffing levels, routine and complete bank reconciliations will be completed on a timely basis. |

### **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. |

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|                 |  |
|-----------------|--|
| 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.                  |
| Recommendation: | We recommend the district reconcile the accounts payable account each month and find any discrepancies. In addition, management needs to properly monitor their staff to ensure this is being accomplished on a timely manner. |
| Response:       | Management has revised the automated posting of accounts payable entries to mitigate this concern and will implement a process to monitor and insure timely reconciliation of all accounts.                                    |

**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.  |
| Recommendation: | We recommend the district reconcile the investment balances each month to the investment statements 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 agrees with this recommendation as stated.  |

**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.                           |

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|                 |  |
|-----------------|--|
| Effect:         | The failure to submit receipts on a timely basis can cause errors or fraud to occur without being detected on a timely basis.  |
| Recommendation: | We recommend the business office investigate why the food service lunch receipts are not submitted daily or weekly and put procedures in place to prevent this from happening in the future. |
| Response:       | Management agrees with this recommendation as stated.  |

**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  |
| Effect:         | The failure to use the proper coding can cause errors in proper reimbursements due the district by the Commonwealth.  |
| Recommendation: | We recommend the personnel responsible for coding expenditures in the Capital Reserve Fund receive further training.  |
| Response:       | Management agrees with this recommendation as stated and has amended the payment process to include verification of coding for compliance. Additionally, all staff have been provided with the PDE chart of accounts and training regarding compliant accounting. |

**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.   |

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

Response: Management agrees with this recommendation as stated.

**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.

Recommendation: We recommend management improve the monitoring of journal entries made to this fund.

Response: Management has amended the automated posting of accounts payable entries to mitigate this concern and has implemented controls to prohibit unbalanced (one sided) entries.

**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.

Recommendation: We recommend management review the audited financial statements when converting to new software.

Response: Management had prepared the necessary correcting entries prior to the audit which were not posted timely. This issue has been resolved and the transactions are within the appropriate Trust Fund.

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**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.  |
| Recommendation: | We recommend each school submit monthly reports reflecting the transactions by club, with reconciliation to the monthly bank statement instead of on a quarterly basis. Further, we suggest the business office record these transactions, by club, in the computer system on a monthly basis.                    |
| Response:       | Management plans to implement procedures to document activity fund transactions at the building level within the accounting system for consistency.   |

**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.   |
| Recommendation: | We recommend management instruct their staff and monitor their staff to ensure the contributions received are recorded to revenue accounts and the awards given are charged to expenditure accounts for each scholarship.   |
| Response:       | Management plans to implement procedures to separately code transactions to each scholarship account at the building level within the accounting system for consistency.  |

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**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.   |
| Recommendation: | We recommend the District do whatever is necessary to resolve these issues by eliminating posting between funds, eliminate pooled cash, and provide proper training on the new computer system and accounting principles.   |
| Response:       | Management concurs with this recommendation as stated and has amended the automated posting of entries to mitigate these concerns and has implemented controls to prohibit unbalanced (one sided) entries. Staff training is ongoing to explain proper accounting procedures and create an awareness of the required level of accountability. |

**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.  |
| Recommendation: | We recommend the District take appropriate action to remedy this problem in the future.  |
| Response:       | Management agrees with this recommendation as stated.  |

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**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 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.  |
| Recommendation: | We recommend the District meet with the appointed tax collector to discuss a better tax collection system in order to timely reconcile the type of tax collected and for improving continuity with the outstanding duplicate balance. In addition, we suggest the District consider fining the appointed tax collector in accordance with Act 169. |
| Response:       | Management agrees with this recommendation as stated and did receive Act 169 reports for the 2010 tax year that facilitated timely reconciliation of property tax duplicate.   |

**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. |
| Recommendation: | We recommend the personnel assigned to code these costs follow the PA School Accounting Manual.   |
| Response:       | Management agrees with this recommendation as stated and has provided all staff with the PDE chart of accounts and training regarding compliant accounting.   |



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**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.                                       |
| Recommendation: | We suggest management take greater care in monitoring journal entries.  |
| Response:       | Management agrees with this recommendation as stated.   |

**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.   |
| 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 will consider a new appraisal of fixed assets with tagging as budgetary resources permit.   |

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**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.       |
| Recommendation: | We suggest District personnel properly record these transactions with proper monitoring by management.   |
| Response:       | Management agrees with this recommendation as stated and has begun to implement new procedures to more concisely track student payments .                |

**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.   |
| 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.  |
| Recommendation: | We would like to recommend that staff receive additional training to understand these transactions and management improve their monitoring of this fund.                           |
| Response:       | Management agrees with this recommendation as stated.  |

**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 <sup>st</sup> Century grants are allowable under federal cost principles. |
|-----------|---|

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|                 |  |
|-----------------|--|
| 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. |
| Recommendation: | We recommend management properly monitor their staff to ensure supporting documentation is available to support what is charged to the program.  |
| Response:       | Management agrees with this recommendation as stated and a practice of attaching all back-up to related adjusting entries has been implemented.  |

**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.   |
| 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. |
| Recommendation: | We recommend management, in the future, review the required federal guidelines to make sure what costs are allowable.  |
| Response:       | Expenditures were charged in accordance with the state approved program guidelines which conflicted with the ARRA provisions in this unique application. The necessary corrections have been made.   |

## **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.   |
| Response:  | Management intends to segregate cash accounts by fund using the audited balances as of 06/30/2010 allowing for transactions to be processed independently by fund thereby eliminating the pooled cash account. Upon completion of adjusting entries related to the above and following restoration of full staffing levels, routine and complete bank reconciliations will be completed on a timely basis. |

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

|            |  |
|------------|--|
| Criteria:  | Control Activities component of internal controls require reconciliations to be performed on material accounts in the general ledger, including the bank accounts on a regular basis.  |
| Condition: | During our review of the account balance in cash at year end, we discovered the general ledger account was off \$88,632 in equaling the bank statement balance.  |
| Cause:     | During our investigation to determine why this was done, we discovered the account was not properly reconciled during the entire year. In addition, the monitoring component of internal controls failed because management did not monitor their staff. |
| Effect:    | As a result of this condition, the auditors spent additional time to reconcile the account, costing the District additional audit costs.   |
| Status:    | This condition continues to exist.   |

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Response: Following restoration of full staffing levels, management intends to complete bank reconciliations on a timely basis.

**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: This condition continues to exist.

Response: Management agrees with this recommendation as stated and did receive Act 169 reports for the 2010 tax year that facilitated timely reconciliation of property tax duplicate.

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

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

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

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

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

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.

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|            |   |
|------------|---|
| 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.  |
| Response:  | Management will consider a new appraisal of fixed assets with tagging as budgetary resources permit.  |

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

|            |  |
|------------|--|
| Criteria:  | The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles. |
| Condition: | We discovered the account balance for accounts payable was arbitrarily adjusted because management couldn't find out why it was wrong.   |
| Cause:     | It appears appropriate District personnel could not find the reasons why the balance was incorrect so decided not to look for the difference and adjust the account to the correct balance.                                  |
| Effect:    | As is the case with any balance sheet account, the failure to maintain reconciliation procedures can cause an understatement or overstatement of the fund balance.   |
| Status:    | This condition continues to exist.   |
| Response:  | Management has revised the automated posting of accounts payable entries to mitigate this concern and will implement a process to monitor and insure timely reconciliation of all accounts.                                  |

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

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

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

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

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

Status: Corrective Action was taken.

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

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

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

Cause: The food service personnel destroyed the detail records.

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

Status: Corrective Action was taken.

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

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

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

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

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

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Status: Corrective Action was taken.

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

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

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

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

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

Status: Corrective Action was taken.

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

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

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

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

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

Status: Corrective Action was taken.

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

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

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



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

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

Status: Corrective Action was taken .

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

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

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

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

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

Status: Corrective Action was taken.

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

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

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

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

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

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.

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|------------|---|
| 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:  | The use of pooled cash accounting masks the deficit position of minor funds so management will segregate cash accounts by fund allowing for transactions to be processed independently by fund thereby eliminating the pooled cash account.   |

## **Prior Year Findings 2007-2008**

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

|            |   |
|------------|---|
| Criteria:  | The District should establish controls to evaluate inventories on hand at year end by using a combination of perpetual records and physical counts of items on hand to determine the yearly financial condition of this enterprise fund.              |
| Condition: | During our review of the general ledger account for inventories, we could not find any detail inventory records to substantiate the amount recorded as an asset. The only evidence presented to us was a summary sheet showing totals at each school. |
| Cause:     | The food service personnel destroyed the detail records.  |
| Effect:    | The failure to maintain adequate records of a recorded asset puts into question the validity of the amount shown as an asset, which can affect the overall financial position of the fund.  |
| Status:    | Corrective Action was taken.  |

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

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| Criteria: | The District should maintain accurate records to support the validity of assets recorded in the Food Service Fund. |
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| Condition: | The only evidence provided to us to validate the balance at year end of \$168,270 was 371 pages of outstanding balances in the amount students owed the District at year end. We were informed that any student owing more than \$50, his or her account is forwarded to a collection agency. The collection agency account only reflected \$48,359 in delinquent accounts. |
| Cause:     | We could not find any evidence that personnel were attempting to reconcile the validity of the account balance.   |
| Effect:    | The failure to reconcile this receivable account could overstate or understate the financial position of the Food Service Fund.   |
| Status:    | Corrective Action was taken   |

**Significant Deficiency 2008-9 (Payroll Account – Reconciliation)**

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|------------|--|
| Criteria:  | The District should perform a bank reconciliation on every bank account and compare the balance to the general ledger account.   |
| Condition: | During our review of reconciliations performed on bank accounts, we discovered the payroll account is not being reconciled. The difference between the bank statement less outstanding checks to the balance in the general ledger is \$19,254.13. |
| Cause:     | It does not appear payroll personnel have spent the time necessary to discover this variance.  |
| Effect:    | The failure to reconcile account balances can create an atmosphere of potential fraud to occur without being detected within a reasonable period of time.  |
| Status:    | This condition continues to exist.   |
| Response:  | Following restoration of full staffing levels, management intends to complete bank reconciliations on a timely basis.  |

**Significant Deficiency 2008-10 (Real Estate Tax Collection)**

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|------------|---|
| 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   |

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|           | whether the collections represent current real estate taxes or interim real estate taxes.  |
| Effect:   | The failure to reconcile to the original duplicate created an account called "undistributed taxes", which cannot be classified by source.                                    |
| Status:   | This condition continues to exist.   |
| Response: | Management agrees with this recommendation as stated and did receive Act 169 reports for the 2010 tax year that facilitated timely reconciliation of property tax duplicate. |

**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 will consider a new appraisal of fixed assets with tagging as budgetary resources permit.   |

**Significant Deficiency 2008-13 (Food Service Fund – Fixed Assets)**

|            |  |
|------------|--|
| Criteria:  | Management is required to incorporate proper controls to safeguard capital assets of the District, making sure all assets have been properly valued.   |
| Condition: | The balances reported on the prior year financial statements did not correlate to the balances maintained in the fixed asset system used by the District by \$23,500 on equipment and \$17,439 on accumulated depreciation. We also discovered the District is not maintaining a tagging system to be able to locate and keep track of its capital assets. |

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| Cause:  | An appraisal company valued the fixed assets a few years ago for the District, but failed to tag each asset. As a result, the tag no. reported on the VFACS program is arbitrary making the ability to locate moveable assets virtually impossible. |
| Effect: | The failure to properly value all capital assets and maintain a tagging system to locate portable assets creates an understatement of assets owned and can potentially create theft to occur without being detected.                                |
| Status: | Corrective Action was taken.  |