

**REPORT ON
BETHLEHEM AREA SCHOOL DISTRICT
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2008**

BETHLEHEM AREA SCHOOL DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2008

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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, 2008, and have enclosed the Single Audit reporting package.

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

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

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

Respectfully submitted,

Gorman & Associates, P.C.

December 22, 2008



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 A. Lewis, 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, 2008, and have issued our report thereon dated December 22, 2008.

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 August 20, 2008.

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 letters provided to us on December 22, 2008. We advise the governing body to request these letters 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 letters 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 2007-08 basic financial statements.

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

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

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

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

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

There are inherent limitations that should be recognized in considering the potential effectiveness of internal control over financial reporting. Errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, fatigue, and other personnel factors. Control procedures whose effectiveness depends upon the segregation of duties can be circumvented by collusion or by management. What's

more, any projection of internal control evaluations to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or due to the deterioration of the degree of compliance with control procedures.

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

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

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

MATERIAL WEAKNESSES

Capital Reserve Fund/General Fund – Transfers

During our review of disbursements made from the Capital Reserve Fund, we discovered the District transferred \$2,500,000 to the General Fund. This transfer represents a material violation of laws and regulations, specifically in 53 PS 1432 of the municipal code. Section 1434 stipulates allowable expenditures in the capital reserve fund are for capital improvements, and for replacement of and additions to public works and improvements, and for deferred maintenance thereof, and for the purchase or the replacement of school buses, and for **no other purpose**. The failure to properly review the laws and regulations pertaining to the type of capital reserve fund used by the district and the expenditures allowed within the fund created this violation. We wish to recommend the Board of School Directors instruct management to seek legal counsel and/or auditor counsel on future interfund transfers.

General Fund – Accounts Payable

During our attempt to review recorded year end unpaid bills, we discovered the business office could not provide invoices to show what made up the recorded liability debited balance of \$34,370.71, which includes the grant funds. In reality, after we spent an additional forty (40) plus hours in re-creating the unpaid bills at year end, the liability was a credited balance of \$1,603,548.27. The reason the business office could not provide us with the unpaid bills at year end is because the accounts payable clerks never retained invoice posting lists or invoice edit lists. Their previous practice was to destroy these lists after inputting invoices for payment. Because bills are not paid on the same day that the service was performed or the product was received, these invoice lists are the only record to determine what bills are outstanding at year end. The computer system does not provide this information. Although this control problem is shown under the title "General Fund", it pertains to all funds used in the District's computer system.

We have recommended to management to retain these invoice posting and edit lists to determine what invoices are incurred and unpaid at any point in time, which provides the necessary sufficient appropriate evidence to substantiate the liability balance.

General Fund – Accrued Tuition Payable

During our review of a year end liability of \$380,405, we discovered this liability is created at the end of each year based upon an estimate provided by the asst. superintendent on how much is anticipated to reimburse staff who is taking tuition credit courses. This liability is incorrect for two reasons. First, this liability was created by reducing another liability account for an amount that was never set up in the first place. Second, this transaction hasn't met the criteria to be recorded as a liability until the staff submits an actual reimbursement for classes taken and completed the course based upon district policy.

We have adjusted this account with a prior year adjustment and recommend management not record this anticipated amount in future years but wait for the reimbursement process, as the obligating event, to occur.

General Fund – State Subsidy Receivable

During our review of the balance in the State Subsidy Receivable asset account at year end, we discovered previous year receivables that were never realized or not properly reversed in prior years. Management could not provide us with documentation to support the recorded balance. Based upon our own investigation, there is good indication this account balance has been incorrect for five years. As a result, we had to make a prior period adjustment to the opening fund balance of \$1,385,205.92. In the future, we recommend management take greater care in reconciling balance sheet accounts.

Capital Reserve Technology Fund – Loans Receivable

During our review of this fund, we discovered the sole purpose to this fund is to act as a financing authority to offer employees an interest free loan for up to \$2,000, for the purchase of a computer. The repayment of the loan is deducted from each employee's pay check each month for the next two years. Based upon our knowledge of the establishment of capital reserve funds, we have to question the validity of having this fund or acting as a financing institution. We highly recommend management seek legal counsel to determine the validity of this fund and the purpose behind establishing the fund. The outstanding loan balance is \$48,506 at June 30, 2008.

Food Service Fund – Inventories

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

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

Food Service Fund – Other Accounts Receivable

During our testing of recorded revenue and assets in the food service fund, we reviewed 371 pages of outstanding balances owed by students or parents of students on previous meals provided in the cafeteria and not paid at the time of service. The total amount shown on your general ledger as owed from students is \$168,269.93 at June 30, 2008. This amount appeared very high so we made further inquiry to discover additional information. We were told by the food service director that any student who owes over \$50, their account is sent to a collection agency called "Credittech". After receiving the statement from Credittech for the balance owed at June 30, 2008, their statement showed only \$48,359 owed.

We wish to recommend management analyze the 371 pages to determine any discrepancies that may have to be written off as bad debts. We also wish to advise management to consider modifying the policies associated with providing lunches without payment.

SIGNIFICANT DEFICIENCIES

General Fund – Payroll Liabilities

During the course of reviewing accrued salaries and benefits, we noticed the district records accrued salaries, FICA tax, and retirement contributions in the same liability account. During our review we discovered the prior year ending balance for payroll liabilities was incorrect by \$133,247.75. We would like to recommend the district segregate the FICA tax and employer's retirement contributions on salaries into separate accounts to make it easier to calculate the correct balance. We have made a prior period adjustment to correct the prior year amounts.

Payroll PSDLAF Account – Reconciliation

During our review of the District's bank accounts, we discovered the payroll account with the Pennsylvania School District Liquid Asset Fund is not being reconciled. As a result, at year end this account's bank statement less outstanding checks does not agree with the balance in the computer system by \$19,254.13. We recommend management determine why this account does not reconcile and, accordingly, correct the records.

Real Estate Tax Collection

During our review of current and interim real estate taxes collected by Berkheimer Associates and the City of Bethlehem, we discovered a number of problems in the tax collectors not following Tax Collection Law or not providing timely information to reconcile the taxes collected, as follows:

1. Berkheimer Associates

During our review of Bernheimer reports, we discovered deposits did not match the amount stated on the reports as taxes collected. We were informed by district personnel, when Bernheimer cannot figure out a certain payment they just hold onto it until they can determine what to do with it. Berkheimer's reports did not tie to the amounts remitted to the District, which is a fundamental requirement of Act 169 required reporting. Management has informed us Berheimer will no longer be used for the collection of real estate taxes. As a result, the taxes collected were not reconciled to the original tax duplicate.

2. City of Bethlehem

During our review of real estate taxes collected by the City of Bethlehem on behalf of the School District, we discovered the taxes received are not timely reconciled to the original tax duplicate. This collection requirement is not being done by the tax collector and we could not find any evidence that it was done by district personnel. In addition, during our testing of subsequent receipts to determine what receipts should be recorded as revenue in the 2007-08 fiscal year, we discovered the City could not tell the district whether the taxes remitted were for 2007-08 interim real estate taxes or 2008-09 current real estate taxes. The City informed district personnel they couldn't provide information on the type of tax collected due to the high volume of taxes being received at the time.

During this recording process of taxes collected, we discovered the district records the collections into an account called "undistributed" until the tax collector informs the district what taxes were actually remitted and deposited to the district. Unfortunately, each year there is a balance in this undistributed account which implies the tax duplicates are not being reconciled. At June 30, 2008, the balance in this account was \$49,318.29. After spending numerous hours, we have reconciled the majority of this difference and corrected your books and records.

We recommend the district and the appointed tax collectors meet and discuss a better tax collection system that can account for what taxes are deposited and what portion of the duplicate remains uncollected at any point in time taking into account additions or reductions to the original duplicates and having the ability to segregate interim real estate taxes from current duplicate real estate taxes on a current basis.

General Fixed Assets

During our review of the general fixed assets that are reported in the government-wide Statement of Net Assets, we discovered the beginning balances in the VFACS program did not match the reported amounts on the 2006-07 financial statements. After investigating why this didn't agree, we discovered nobody could explain the variance; as such, we made a prior period adjustment to the net asset balance reported in the governmental activities column of last year's Statement of Net Assets for \$1,853,418. Our next step in verifying the accuracy of the district's fixed asset records is to take a sample of assets and find where they are located. Unfortunately, we were informed by district personnel that the tag numbers reported in the VFACS program are arbitrary and have never been labeled onto each asset. As such, the inventory system is flawed because management cannot correlate its records to any particular location.

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

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

Athletic Fund – Ticket Sales

During our process of testing ticket revenue, we discovered there is no evidence to support the number of tickets sold at each sporting event. Upon inquiries of athletic directors and reviewing the game reports, we noticed the individuals involved in the process are reconciling to the amount of cash that they received at the end of each event. The beginning and ending ticket numbers shown on the game report do not have any validity to them because there is no evidence to support the numbers reported.

In the future, we suggest tickets sold should be torn in half retaining one half of each ticket sold for each game. At the end of collection, the ticket taker should count all tickets sold, put into a lunch bag, sealed, and write the number of tickets sold on the outside of the bags. The tickets should be segregated between student and adult. The total count should agree with the difference between the beginning ticket number on the game report and the ending ticket number on the game report. The total tickets multiplied by their respective price should equal the cash counted and deposited for the event.

Following our suggestion will help improve the controls in handling cash receipts for athletic events. We are recommending these controls partially due to the following circumstance we encountered during our testing: We came across a deposit slip for the Freedom High School football game in the amount of \$6,479.00. The revenue for this football game was not recorded in the athletic fund. Upon several inquiries, district staff was unable to determine where this deposit was recorded or if the deposit was recorded at all. The receipt of cash was not in the receipt records.

Food Service Fund – Fixed Assets

During our review of the list of fixed assets provided to us by management, we discovered the internal records did not agree with the audited financial statements for last year. As such, we had to make a prior period adjustment of \$23,499.70 to Machinery & Equipment, and an adjustment of \$17,439.37 to accumulated depreciation. Your internal records will now match the audited financial statements. As is the case with general fixed assets, capital assets maintained in proprietary funds requires tagging all items and keeping track of the location where these assets are being used. We suggest management perform an annual inspection or inventory at each cafeteria in the district to compare to the maintained records.

Day Care Fund – Expenses

During our testing of expenses in the day care fund, 30% of the expenses tested did not have proper documentation to support the payments made. Check nos. 245131, 248022, 251132, 251515, and 251536 are examples of items paid to vendors with no invoices or receipts showing what were purchased. The only documentation was pink payment requisitions with approval signatures and a blank piece of paper attached. Without proper documentation management and auditors have no written evidence to support the validity of payments made.

In the future, we recommend management instruct appropriate personnel to not pay any requisition unless supported with proper documentation of what was purchased.

CONTROL DEFICIENCIES

General Fund - Delinquent Real Estate Taxes

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 15th. As such, any collection of the current year duplicate after January 15th should be credited against delinquent real estate tax revenue account 6411.

Self-Insurance Fund – Expenses

During our review of expenses paid from the self-insurance fund, we discovered FICA tax, retirement contributions, and unemployment compensation charges from the payroll system are being charged to this fund. We cannot find any logical reason for these types of items to be charged to this fund. We suggest management determine and correct the discrepancies of charging these employer costs to the self-insured fund. The only expenses to this fund should be for any benefit that is self-administered by the district.

Athletic Fund – Reimbursements

During our testing of athletic expenses, we came across a reimbursement check for meals that did not provide sufficient evidence or detail as to what was purchased. The invoice specified the number of players times twenty dollars (\$20), per day, which was the amount of the check issued to the coach. We would like to suggest all payments for reimbursements should have proper documentation, including receipts of purchases, to determine the validity of the reimbursement. Without this control in place, purchases could be made that are not allowed by the School Code.

Athletic Fund – Bank Reconciliations

During the process of reviewing the cash balances recorded in the Athletic Fund, we discovered the Freedom High School Bank of America Officials account was not reconciled by the person required to do the reconciliation. We were informed the reconciliation was not performed at the time of our audit because it is done by a ten (10) month employee. After several days of waiting, we were provided the reconciliation. However, the bank reconciliation did not agree to the cash balance reported in the computer system. As such, the district personnel could not account for \$433.34 in the cash account.

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

Food Service Fund – Interfund Transfers

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

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

Activity Fund – Invoices

During our testing of invoices paid in the activity fund, we discovered several invoices that were missing supporting documentation. The requisition form was attached to the check stub without the invoice attached. The failure to provide proper documentation to support the payment can cause invalid payments to be made. We would like to recommend management instruct the appropriate officials to attach invoices or receipts to the requisitions before any payment is made.

In addition, there are two community service organizations listed in the student activity fund that should not be included as part of student clubs or organizations. The Community Communication Committee and Arts Jam transactions belong in the General Fund. Expenditures should be charged to the Function Series 3300 with corresponding revenue reported under Local Sources.

OTHER AUDITOR RECOMMENDATIONS

Grant Funds

Prior to our visit to conduct audit fieldwork, we requested management to provide us with an electronic file of all year end funds, accounts, and account balances so we could import your unaudited balances into our trial balance software. We requested management not to make any further adjustments to the books and records after the soft close in order to protect the integrity of what we were auditing. Management was instructed to provide us with any further adjustments that we would post and make part of our adjustments. Subsequent to our arrival and the start of our audit work, we discovered district personnel had made numerous adjustments to the grant funds subsequent to the soft close, which required us to spend an additional eighteen (18) hours to re-import the files on all grant funds.

The business administrator informed us that he gave instructions to everyone not to post any adjustments to the computer system. Obviously, there is a breakdown in communications between employees. In future audits, since there are only a few personnel authorized to make journal entries, we suggest management improve the communication process with those personnel.

Future Audits

At the start of our audit, we encountered difficulty during our interim visit with district personnel providing to us information we requested prior to our arrival. One of the major issues in the beginning was that we requested certain invoices to be pulled over a certain dollar amount for each fund, but this was not done by the time we arrived. In addition, personnel were photocopying all documents we had requested instead of providing us with original documents. We asked Mr. Majewski why this was being done and he informed us that they didn't want to give up the original documents. After we explained to Mr. Majewski that a client's failure to provide original documents causes an auditor to question whether or not fraud could be occurring, since photocopies can be manipulated, he instructed his staff to provide us with all original documents. Fortunately, we believe this issue has been resolved for future audits.

During the course of our initial fieldwork during the end of August and beginning of September, we discovered the District was not prepared for the audit. The grant funds required numerous adjustments by us to match revenues against what was expended, Eden balance accounts had to be eliminated by us because district personnel didn't have time to perform these adjustments, bank reconciliations were not completed for June 30, 2008, fixed asset records were not updated or completed until November 2008. We realize this was the first audit we conducted for the District and district personnel may not have been familiar with our audit approach, but management was aware in June 2008 that we would be conducting our fieldwork beginning on August 26, 2008.

In future audits, if management needs more time to close out the fiscal year, we request management let us know at the time of scheduling fieldwork to select a later date. We would prefer to complete the entire financial statement audit during our interim testing visit in June and our subsequent year end visit, which occurred this past year starting on August 26th.

Eden Computer System

It is our understanding talking to management; the district is in the process of purchasing new software to replace the antiquated Eden computer system. Your current system is not capable of utilizing the entire PA School Accounting Manual's chart of accounts. As such, this is why the grant funds were created. Normally grants are handled in the General Fund. In fact, all grant funds are consolidated into the General Fund for financial reporting purposes because generally accepted accounting principles does not allow these funds to exist for external financial reporting purposes.

We would like to suggest management abolish all grant funds once the new system comes on line and utilize the source code portion of the state's account number structure to keep track of each grant individually, yet allow all revenue and expenditures to be recorded in the General Fund. This one suggestion has the potential to save the district numerous hours in posting computer adjustments. In case those employees working in the state and federal liaison office are concerned about tracking each grant's transactions, management should explain to them the new system's capability in running specific reports by source code, which has the effect of changing the two digit fund number on each grant to a three digit source code number that is supposed to be used in accordance with PDE's School Accounting Manual.

OTHER INFORMATION

GASB Statement No. 53 – Derivatives

During this past summer, the Governmental Accounting Standards Board issued the latest accounting principle standard for all governments to follow. GASB Statement No. 53 is associated with the proper accounting and reporting of derivative instruments. The only derivative instruments to be acquired, in the

Dr. Joseph A. Lewis, Superintendent • Board of School Directors

Commonwealth of Pennsylvania, by governments are derivatives pertaining to debt; i.e. interest rate swaps, forward swaptions, constant maturity basis swaps, and etc.

Governments who use this type of financial instrument are now required to record the fair value of the derivative onto the government-wide financial statements reflected as an asset or liability. The recording of the net change in fair value depends on the effectiveness of the hedge. These types of financial instruments can potentially save governments money, but are as risky as adjustable rate mortgages versus fixed rate mortgages. If the District would like further clarification of this accounting standard, we will be happy to discuss it with you.

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

Respectively submitted,



Gorman & Associates, P.C.

December 22, 2008

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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, 2008, 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.

As discussed in Note 4 to the basic financial statements, Bethlehem Area School District has a material violation of laws and regulations associated with an interfund transfer made from the major Capital Reserve Fund to the major General Fund of \$2,500,000. This violation has the effect of arbitrarily increases the fund balance of the General Fund and decreasing the fund balance of the Capital Reserve Fund. The budgetary comparison information is also affected by showing this transfer as an other financing source.

In our opinion, except for the effects of this interfund transfer between the General Fund, Capital Reserve Fund, and the budgetary comparison statement as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General fund, Capital Reserve Fund, and the budgetary comparison statement of Bethlehem Area School District, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, 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, the Capital Project Funds, the Food Service Fund, the Internal Service Fund, and the aggregate remaining fund information of the Bethlehem Area School District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, 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 was required to implement GASB Statement No. 45 this fiscal year. This new accounting principle, generally accepted in the United States of America is associated with Other Post Employment Benefits.

It should be noted, accounting principles, generally accepted in the United States of America requires disclosing future debt requirements on variable rate debt, including interest rate swap payments, at the variable rate in effect at year end. Subsequent to June 30, 2008, there has materialized an economic crisis of global proportions that could negatively impact the future financial position of Bethlehem Area School District as a whole. This economic crisis has created a credit crunch causing interest rates to rise, which is having an adverse effect on budgeted appropriations. This potential impact could have a future adverse affect on the need to substantially increase the tax burden on the citizens of the District.

In accordance with Government Auditing Standards we have also issued our report dated December 22, 2008, 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 16 to 20, and the Schedule of Funding Progress, on page 77, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Respectfully submitted,



December 22, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
(UNAUDITED)
For the Year Ended June 30, 2008**

Our discussion and analysis of Bethlehem Area School District's financial performance provides an overview of the school district's financial activities for the fiscal year ended June 30, 2008. The MD&A should be read in conjunction with the financial statements and footnotes.

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

THE SCHOOL DISTRICT

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

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

FINANCIAL HIGHLIGHTS

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

Governmental funds reported a deficit of \$11,717,252, which includes a deficit of \$4,146,558 in the general fund. The deficit for all governmental funds was the result of deficits in all governmental funds during this period; General, \$4,146,558, Capital Reserve, \$3,884,726, Capital Projects, \$3,604,983 and Non-Major Governmental Funds, \$80,985.

The school district had four prior period adjustments that affected the General Fund balance; payroll liability balances, \$133,247, Commonwealth receivables, (\$1,385,206), deferred revenue, \$56,285 and other liability, \$376,314.

The General Fund reported a deficit fund balance, as of June 30, 2008 of \$3,169,965, or 1.71% of the 2008-2009 \$185.9 million operating budget.

Revenues

The school district's general fund received 70.25% of its funding from local sources, 26.08% from state sources and 3.67% from federal sources. Real estate tax receipts continue to be the primary source of revenue for the general fund. The property assessments, from which real estate tax receipts are based, increased 2.875% from 2006-2007, but not at a rate sufficient to maintain millage rates. Collection of current real estate taxes was 96.53%, consistent with the most recent five year average of 96.30%. Without a significant increase in state funding it is anticipated that future annual millage rate increase and expenditure reductions will both be significant. Earned Income Tax is the second largest local revenue source funding general fund operations and it has increased at a rate at or above the Consumer Price Index (CPI). The strength of the diverse local tax base has allowed each of these necessary funding mechanisms to continue to increase instead of decline. However, the current economic downturn is resulting in increased unemployment, which will reduce the incremental increase in receipts from this tax. It is anticipated that the local economy will deteriorate somewhat, but less than the national economy. The sub prime banking issues are causing more foreclosures and credit tightening, has brought anticipated assessment increases to approximately one-percent (1%). The completion of the Las Vegas Sands casino project prior to summer of 2009

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

will generate additional revenue, but that project has several components that have been delayed. Because the financial health of the local economy is not dependent on any one or several major employers it has and will continue to perform better than many communities. Additionally, there have been improvements and additions to the highways, increasing access to major markets, and making the Bethlehem Area School District a location that business will find attractive. Additionally, the development of the commerce park located in the City of Bethlehem on one of the larger production sites of the former Bethlehem Steel is progressing. The timing of the development of these properties will likely be tied to the local, state and national economics and will need to be monitored carefully.

Expenditures

Total general fund expenditures for 2007-2008 was \$184.6 million for the year. Instructional programs, excluding support for the community college, expended \$110.9 million, or 60.07% of all general fund spending. Community college funding was \$1.97 million and supports residents of the school district who are enrolled in credit programs at Northampton Community College.

Actual general fund expenditures exceeded budgeted expenditures for the year by \$1,565,903 or 0.9%. Actual spending by category was as follows:

	2007-2008	Percent	2006-2007	Percent
Instruction, not including post-secondary	\$ 110,898,211	60.07%	\$ 106,703,407	61.21%
Community College	1,972,585	1.07%	1,907,842	1.09%
Pupil Personnel Services	7,829,196	4.24%	5,996,500	3.44%
Instructional Staff Services	7,971,751	4.32%	5,873,334	3.37%
Administrative Services	10,090,842	5.47%	10,206,069	5.85%
Pupil Health Services	1,659,297	0.90%	1,495,387	0.86%
Business Services	2,606,512	1.41%	2,530,941	1.45%
Operation and Maintenance of Plant	14,984,110	8.12%	14,777,349	8.48%
Student Transportation	5,230,142	2.83%	4,746,499	2.72%
Central Support Services	2,010,784	1.09%	1,638,490	0.94%
Other Support Services	97,924	0.05%	149,797	0.09%
Student Activities	469,286	0.25%	482,678	0.28%
Community Services	200,627	0.11%	200,680	0.12%
Debt Service	17,178,724	9.30%	15,364,955	8.81%
Refund of Prior Year Receipts	-	0.00%	86,274	0.05%
Facilities, Acquisition and Construction	887	0.00%	-	0.00%
Fund Transfers Out	1,418,521	0.77%	2,170,902	1.25%
	\$ 184,619,399	100.00%	\$ 174,331,104	100.00%

Explanation of Category Content:

Pupil Personnel Services - guidance, attendance, psychological, speech and audio, student accounting, and other related services.

Instructional Staff Services - educational media and computer services, curriculum, and staff development.

Administrative Services - school board, tax collection, legal, superintendent, and building administration.

Business Services - fiscal, purchasing, and printing services.

Operation and Maintenance of Plant - building and grounds, equipment upkeep, utilities, and energy.

Student Transportation - conveyance of students.

Central Support Services - data processing, public information, and human resource services.

Other Support Services - Colonial Intermediate Unit 20 administrative operation funding.

Student Activities - co-curricular student activities, not including interscholastic athletics.

Community Services - crossing guards, and civic services.

Scholarships - student scholarships

Debt Service - payment of principal and interest on outstanding bonds and other debt obligations.

Refund of Prior Year Receipts - tax refunds as a result of assessment appeals.

Facilities, Acquisition and Construction-capital expenditures incurred to purchase land, buildings, service systems, and built-in equipment..

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

ASSETS, LIABILITIES & NET ASSETS

As of June 30, 2008, the school district governmental funds had total current assets of \$53.83 million with 22.74% in cash and cash equivalents, 60.82% in investments, and 6.71% as receivables for delinquent taxes. The remaining 9.73% is mostly attributable to receivables from federal and state sources, and prepayments for workers compensation insurance.

	2007-2008	Percent	2006-2007	Percent
Cash and Cash Equivalents	\$ 12,242,028	22.74%	\$ 7,159,954	11.74%
Investments	32,741,130	60.82%	42,666,029	69.98%
Taxes Receivable	3,611,244	6.71%	3,698,203	6.07%
Due From Other Governments	4,202,448	7.81%	6,535,607	10.72%
Other Receivables	166,790	0.31%	94,326	0.15%
Inventories	24,053	0.04%	14,294	0.02%
Prepaid Expenses/Expenditures	843,080	1.57%	802,170	1.32%
Total Current Assets	\$ 53,830,773	100.00%	\$ 60,970,583	100.00%

Liabilities as of June 30, 2008 totaled 26.48 million and include \$12.10 million accounts payable, \$10.85 million salaries and benefits payable plus payroll deduction withholdings, and \$3.38 million of deferred revenue. Due to other governments primarily represents grant payments received but not spent by June 30, 2008, accounts payable balances are primarily the result of expenditures incurred prior to June 30, 2008 and paid subsequent to June 30, 2008. Accrued salaries and benefits and payroll withholdings withheld are primarily the result of salaries earned by teachers as of June 30, 2008 and paid during the summer 2008. Deferred revenue of \$3.38 million is primarily due to the recording of delinquent taxes

	2007-2008	Percent	2006-2007	Percent
Due to Other Governments	\$ 9,725	0.04%	\$ 242,935	1.15%
Accounts Payable	12,101,828	45.70%	6,456,284	30.63%
Current Portion of Long-Term Debt	134,684	0.51%	-	0.00%
Accrued Salaries and Benefits	9,666,650	36.51%	9,410,832	44.64%
Payroll Withholdings	1,180,163	4.46%	1,156,436	5.49%
Deferred Revenue	3,376,248	12.75%	3,793,509	17.99%
Other Current Liabilities	8,891	0.03%	21,391	0.10%
Total Current Liabilities	\$ 26,478,189	100.00%	\$ 21,081,387	100.00%

The resulting \$27.35 million in fund balance include a net of \$28.64 million reserve for capital projects partially completed where financing has been obtained, \$1.86 capital reserve funds designated for use on future capital projects and a \$4.0 million deficit in unreserved funds, \$0.8 million in standard reserves, and \$20.8 thousand unreserved funds in the athletic program and the concession accounts.

	2007-2008	Percent	2006-2007	Percent
Standard fund balance reserves	\$ 834,261	3.05%	\$ 2,196,576	5.51%
Unreserved	26,518,323	96.95%	37,692,620	94.49%
Total Fund Balances	\$ 27,352,584	100.00%	\$ 39,889,196	100.00%

FUTURE ECONOMIC FACTORS

Capital Improvement Plan

Since 1991 the school district had renovated or replaced the majority of its 23 schools and other properties. The planned replacements of Broughal Middle School and renovations to Liberty High School begun are scheduled for completion June 2009 and Spring 2009 respectively. It has been projected that up to \$5 million will be needed to finance the completion of the Broughal project and the razing of the existing building. This funding will likely be needed in the Fall of 2009. Nitschmann Middle School has been identified for major renovations, however, funding has not been obtained and the timeline for commencement of that project has not been determined. The school district continues to annually fund and complete capital improvement projects that are designed to maintain all existing structures.. However, it is anticipated that the lack of additional capital funds may delay advancement of future capital improvement projects.

Pennsylvania School Employees Retirement System

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

Health Care Benefits To Employees, Dependents, and Retirees

The cost of funding existing health care benefits, even with increases in employee contributions, is rising much more rapidly than revenue sources. Since health care benefits are contractually required, the school district must provide funding for these benefits. The annual increases are expected to approximate \$1.2 million. If local and state funding becomes restricted it may be necessary to reduce or eliminate other programs and services.

Technology

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

Revenue Uncertainty

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

Act 1 of 2006

This legislation will have a major impact on all Pennsylvania school districts by altering the timeline for preliminary budgets, the likely shift to more income based taxes used to fund operations, limitations on real estate tax increases not requiring voter approval, and a costing study of school district expenditures that may lead to funding changes. The Bethlehem Area School District will likely be limited to increases of the millage rate to 3-5% annually.

Variable Rate Debt and SWAP Concerns

The school district has been struggling with its existing \$222 million in variable rate debt because of the inability to re-marketed these issues, the loss of financially sound bond insurers, and the downgrading of the district's liquidity provider. This issue has persisted from September 2008 and will likely result in

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

excess spending on debt service in 2008-2009 by \$5 million. There are signs that the credit markets are improving and the school district may have opportunities to restructure the existing debt in an effort to reduce cost and add budgeting stability.

Future Budgets

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

CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

Our financial report is designed to provide citizens, taxpayers, students, investors and creditors, and other interested parties with a general overview of the School Board's finances and to illustrate the School Board's accountability for the funds it receives. Questions concerning this report or a request for additional information should be addressed to Stanley J. Majewski, Jr., Assistant to the Superintendent for Finance and Administration, Bethlehem Area School District, 1516 Sycamore Street, Bethlehem, PA 18017, telephone number (610) 861-0500 ext. 60202.

BASIC FINANCIAL STATEMENTS

**Bethlehem Area School District
Statement of Net Assets
As of June 30, 2008**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 13,928,257	\$ 292,084	\$ 14,220,341
Investments	32,741,130	-	32,741,130
Receivables, net	4,859,375	-	4,859,375
Internal Balances	-	20,232	-
Due From Other Governments	4,202,448	407,909	4,610,357
Other Receivables	166,790	268,227	435,017
Inventories	24,053	282,669	306,722
Prepaid Expenses	810,208	220	810,428
Other Current Assets	32,872	-	32,872
TOTAL CURRENT ASSETS	56,765,133	1,271,341	58,016,242
NON-CURRENT ASSETS:			
Restricted Cash and Cash Equivalents	-	-	-
Land	75,410	-	75,410
Site Improvements (net of depreciation)	4,044,602	-	4,044,602
Building and Bldg. Improvements (net of depreciation)	104,531,037	-	104,531,037
Furniture and Equipment (net of depreciation)	9,698,039	145,008	9,843,047
Construction in Progress	110,867,915	-	110,867,915
Bond Issue Costs (net of amortization)	3,146,193	-	3,146,193
TOTAL NON-CURRENT ASSETS	232,363,196	145,008	232,508,204
TOTAL ASSETS	\$ 289,128,329	\$ 1,416,349	\$ 290,524,446
LIABILITIES			
CURRENT LIABILITIES:			
Internal Balances	\$ 20,232	\$ -	\$ -
Due to other governments	9,725	-	9,725
Accounts Payable	12,641,691	335,490	12,977,181
Current Portion of Long-Term Obligations	7,396,954	-	7,396,954
Accrued Salaries and Benefits	9,666,650	18,525	9,685,175
Payroll Deductions and Withholdings	1,184,441	38,400	1,222,841
Deferred Revenue	37,272	77,070	114,342
Other Current Liabilities	1,131,950	-	1,131,950
TOTAL CURRENT LIABILITIES	32,088,915	469,485	32,538,168
NON-CURRENT LIABILITIES:			
Bonds and Notes Payable	271,787,287	-	271,787,287
Extended Term Financing Agreements Payable	-	-	-
Lease Purchase Obligations	920,082	-	920,082
Long-Term Portion of Compensated Absences	3,368,244	76,311	3,444,555
Authority Lease Obligations	5,856,235	-	5,856,235
Net OPEB Obligation	1,684,174	16,782	1,700,956
TOTAL LIABILITIES	315,704,937	562,578	316,247,283
NET ASSETS			
Invested in capital assets, net of related debt	(23,897,888)	145,008	(23,752,880)
RESTRICTED FOR:			
Retirement of Long-Term Debt	-	-	-
Capital Projects	28,644,709	-	28,644,709
Other Restrictions	1,735,717	-	1,735,717
Unrestricted (deficit)	(33,059,146)	708,763	(32,350,383)
TOTAL NET ASSETS	(26,576,608)	853,771	(25,722,837)
TOTAL LIABILITIES AND NET ASSETS	\$ 289,128,329	\$ 1,416,349	\$ 290,524,446

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, 2008**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instruction	\$ 117,587,797	\$ 377,893	\$ 24,007,009	\$ 5,995	\$ (93,196,900)	\$ -	\$ (93,196,900)
Instructional Student Support	18,627,734	-	3,353,518	23,672	(15,250,544)	-	(15,250,544)
Admin. & Fin'l Support Services	15,544,592	-	915,176	-	(14,629,416)	-	(14,629,416)
Oper. & Maint. of Plant Svcs.	25,124,102	-	467,971	-	(24,656,131)	-	(24,656,131)
Pupil Transportation	5,825,509	22,020	2,463,037	-	(3,340,452)	-	(3,340,452)
Student activities	2,348,752	90,891	82,862	-	(2,174,999)	-	(2,174,999)
Community Services	200,627	72,645	21,709	-	(106,273)	-	(106,273)
Interest on Long-Term Debt	10,782,069	-	-	1,307,669	(9,474,400)	-	(9,474,400)
Unallocated Depreciation Expense	184,864	-	-	-	(184,864)	-	(184,864)
TOTAL GOVERNMENTAL ACTIVITIES	196,226,046	563,449	31,311,282	1,337,336	(163,013,979)	-	(163,013,979)
BUSINESS-TYPE ACTIVITIES:							
Food Services	5,698,924	-	5,765,890	-	-	66,966	66,966
Day Care	2,368,851	2,602,971	191,410	-	-	425,530	425,530
TOTAL PRIMARY GOVERNMENT	\$ 204,293,821	\$ 3,166,420	\$ 37,268,582	\$ 1,337,336	\$ (163,013,979)	\$ 492,496	\$ (162,521,483)
GENERAL REVENUES:							
Property taxes. Levied for general purposes, net					\$ 102,760,994	\$ -	\$ 102,760,994
Taxes levied for specific purposes					16,937,798	-	16,937,798
Grants, subsidies, & contributions not restricted					22,033,163	-	22,033,163
Investment Earnings					4,214,297	4,767	4,219,064
Miscellaneous Income					539,576	-	539,576
Special item - Gain (Loss) on sale of capital assets					13,642	-	13,642
Extraordinary Items					-	-	-
Transfers					300,000	(300,000)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					146,799,470	(295,233)	146,504,237
CHANGE IN NET ASSETS					(16,214,509)	197,263	(16,017,246)
NET ASSETS - BEGINNING					(4,480,386)	720,533	(3,759,853)
Prior Period Adjustment					(5,881,713)	(64,025)	(5,945,738)
NET ASSETS - ENDING					\$ (26,576,608)	\$ 853,771	\$ (25,722,837)

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

**Bethlehem Area School District
Balance Sheet
Governmental Funds
As of June 30, 2008**

	<u>GENERAL</u>	<u>CAPITAL RESERVE</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS					
Cash and cash equivalents	\$ 4,011,835	\$ 8,153,053	\$ 9,160	\$ 67,980	\$ 12,242,028
Investments	-	-	32,741,130	-	32,741,130
Taxes Receivable, net	3,611,244	-	-	-	3,611,244
Due from other funds	-	-	-	-	-
Due from Other Governments	4,202,448	-	-	-	4,202,448
Other Receivables	118,284	48,506	-	-	166,790
Inventories	24,053	-	-	-	24,053
Prepaid Expenditures	810,208	-	-	-	810,208
Other Current Assets	31,872	-	1,000	-	32,872
TOTAL ASSETS	\$ 12,809,944	\$ 8,201,559	\$ 32,751,290	\$ 67,980	\$ 53,830,773
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Other Governments	9,725	-	-	-	9,725
Accounts Payable	1,603,548	6,344,513	4,106,581	47,186	12,101,828
Current Portion of Long-Term Debt	134,684	-	-	-	134,684
Accrued Salaries and Benefits	9,666,650	-	-	-	9,666,650
Payroll Deductions and Withholdings	1,180,163	-	-	-	1,180,163
Deferred Revenues	3,376,248	-	-	-	3,376,248
Other Current Liabilities	8,891	-	-	-	8,891
TOTAL LIABILITIES	15,979,909	6,344,513	4,106,581	47,186	26,478,189
FUND BALANCES:					
Standard Fund Balance Reserves	834,261	-	-	-	834,261
Reserve for Next Year Appropriations	-	-	-	-	-
Specific Fund Balance Reserves	-	-	-	-	-
Unreserved-Designated Fund Balances	-	-	-	-	-
Unreserved-Undesignated Fund Balances -					
- General Fund	(4,004,226)	-	-	-	(4,004,226)
- Capital Projects Fund	-	-	28,644,709	-	28,644,709
- Capital Reserve Fund	-	1,857,046	-	-	1,857,046
- Concession Fund	-	-	-	3,966	3,966
- Athletic Fund	-	-	-	16,828	16,828
TOTAL FUND BALANCES	(3,169,965)	1,857,046	28,644,709	20,794	27,352,584
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,809,944	\$ 8,201,559	\$ 32,751,290	\$ 67,980	\$ 53,830,773

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, 2008**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 27,352,584

**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 \$351,693,104 and the accumulated depreciation is \$122,476,101. 229,217,003

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. -

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. 4,587,107

This amount reflects the elimination of the Internal Service Fund's assets, liabilities, and equity and incorporating them into the Governmental Activities column. 1,121,856

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	\$ (275,556,094)	
Accrued interest on the bonds	(1,123,059)	
Compensated absences	(3,368,244)	
Authority Lease Obligations	(6,203,505)	
Net OPEB Obligation	(1,684,174)	
Lease Purchase Obligations	(920,082)	(288,855,158)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ (26,576,608)**

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, 2008

	<u>GENERAL</u>	<u>CAPITAL RESERVE</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES					
Local Sources	\$ 123,599,394	\$ 104,918	\$ 2,423,544	\$ 193,095	\$ 126,320,951
State Sources	45,886,165	-	-	63,049	45,949,214
Federal Sources	6,466,296	-	-	-	6,466,296
TOTAL REVENUES	<u>175,951,855</u>	<u>104,918</u>	<u>2,423,544</u>	<u>256,144</u>	<u>178,736,461</u>
EXPENDITURES					
Instruction	112,870,796	-	295,287	-	113,166,083
Support Services	52,480,558	1,464,356	1,191,395	35,451	55,171,760
Operation of Non-Instructional Services	669,913	-	11,199	1,720,199	2,401,311
Capital Outlay	887	25,288	43,045,537	-	43,071,712
Debt Service	17,178,724	-	1,485,109	-	18,663,833
TOTAL EXPENDITURES	<u>183,200,878</u>	<u>1,489,644</u>	<u>46,028,527</u>	<u>1,755,650</u>	<u>232,474,699</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(7,249,023)</u>	<u>(1,384,726)</u>	<u>(43,604,983)</u>	<u>(1,499,506)</u>	<u>(53,738,238)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from Bond Issues	-	-	40,000,000	-	40,000,000
Proceeds from Extended Term Financing	1,707,344	-	-	-	1,707,344
Bond Premiums	-	-	-	-	-
Refund of Prior Year Expenditures	-	-	-	-	-
Interfund Transfers In	2,800,000	-	-	1,418,521	4,218,521
Sale/Compensation for Fixed Assets	13,642	-	-	-	13,642
Payment to bond refunding escrow agent	-	-	-	-	-
Bond Discounts	-	-	-	-	-
Refunds of Prior Year Receipts	-	-	-	-	-
Operating Transfers Out	(1,418,521)	(2,500,000)	-	-	(3,918,521)
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,102,465</u>	<u>(2,500,000)</u>	<u>40,000,000</u>	<u>1,418,521</u>	<u>42,020,986</u>
SPECIAL/EXTRAORDINARY ITEMS					
Special Items	-	-	-	-	-
Extraordinary Items	-	-	-	-	-
NET CHANGE IN FUND BALANCES	(4,146,558)	(3,884,726)	(3,604,983)	(80,985)	(11,717,252)
FUND BALANCES - BEGINNING	1,795,953	5,741,772	32,249,692	101,779	39,889,196
Prior Period Adjustment	(819,360)	-	-	-	(819,360)
FUND BALANCES - ENDING	<u>\$ (3,169,965)</u>	<u>\$ 1,857,046</u>	<u>\$ 28,644,709</u>	<u>\$ 20,794</u>	<u>\$ 27,352,584</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, 2008**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (11,717,252)

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

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

Depreciation expense	\$ 7,500,906	
less - capital outlays	<u>36,582,381</u>	29,081,475

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.

961,434

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.

7,844,832

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

(1,816,260)

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.

-

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.

601,481

SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING **24,955,710**

**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, 2008**

**SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING
 (cont'd)** \$ 24,955,710

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. (41,707,344)

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. 537,125

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 **\$ (16,214,509)**

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, 2008

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 300	\$ 291,784	\$ 292,084	\$ 1,686,229
Investments	-	-	-	-
Due from other funds	-	-	-	-
Due From Other Governments	407,909	-	407,909	-
Other Receivables	174,036	94,191	268,227	-
Inventories	282,669	-	282,669	-
Prepaid expenses	220	-	220	-
Other Current Assets	-	-	-	-
TOTAL CURRENT ASSETS	865,134	385,975	1,251,109	1,686,229
NON-CURRENT ASSETS:				
Building & Bldg. Improvements (net)	-	-	-	-
Machinery & Equipment (net)	116,924	28,084	145,008	-
Other Long-Term Receivables	-	-	-	-
TOTAL NON-CURRENT ASSETS	116,924	28,084	145,008	-
TOTAL ASSETS	\$ 982,058	\$ 414,059	\$ 1,396,117	\$ 1,686,229
LIABILITIES				
CURRENT LIABILITIES:				
Due to Other Funds	\$ -	\$ -	\$ -	\$ -
Due to Other Governments	-	-	-	-
Accounts Payable	280,043	55,447	335,490	544,142
Compensated Absences	-	-	-	-
Accrued Salaries and Benefits	18,525	-	18,525	-
Payroll Deductions and Withholdings	-	38,400	38,400	-
Deferred Revenue	39,191	37,879	77,070	-
TOTAL CURRENT LIABILITIES	337,759	131,726	469,485	544,142
NON-CURRENT LIABILITIES:				
Long-Term Portion of Compensated Absences	57,109	19,202	76,311	-
Net OPEB Obligation	10,601	6,181	16,782	-
TOTAL NON-CURRENT LIABILITIES	67,710	25,383	93,093	-
TOTAL LIABILITIES	405,469	157,109	562,578	544,142
NET ASSETS				
Invested in capital assets, with no related debt	116,924	28,084	145,008	-
Restricted for Legal Purposes	-	-	-	-
Unrestricted	459,665	228,866	688,531	1,142,087
TOTAL NET ASSETS	576,589	256,950	833,539	1,142,087
TOTAL LIABILITIES AND NET ASSETS	\$ 982,058	\$ 414,059	\$ 1,396,117	\$ 1,686,229

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, 2008

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
OPERATING REVENUES:				
Food Service Revenue	\$ 2,299,732	\$ -	\$ 2,299,732	\$ -
Charges for Services	-	1,987,898	1,987,898	20,333,713
Other Operating Revenues	<u>77,506</u>	<u>615,073</u>	<u>692,579</u>	<u>1,518,346</u>
TOTAL OPERATING REVENUES	<u>2,377,238</u>	<u>2,602,971</u>	<u>4,980,209</u>	<u>21,852,059</u>
OPERATING EXPENSES:				
Salaries	1,763,382	1,417,332	3,180,714	-
Employee Benefits	416,839	791,593	1,208,432	21,294,702
Purchased Professional and Technical Services	2,144	630	2,774	-
Purchased Property Service	111,669	-	111,669	-
Other Purchased Services	2,992,032	9,351	3,001,383	-
Supplies	319,953	149,847	469,800	-
Depreciation	40,140	7,563	47,703	-
Dues and Fees	6,440	3,021	9,461	-
Claims and Judgments	-	-	-	-
Other Operating Expenses	<u>50,617</u>	<u>5,454</u>	<u>56,071</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>5,703,216</u>	<u>2,384,791</u>	<u>8,088,007</u>	<u>21,294,702</u>
OPERATING INCOME (LOSS)	<u>(3,325,978)</u>	<u>218,180</u>	<u>(3,107,798)</u>	<u>557,357</u>
NON-OPERATING REVENUES (EXPENSES)				
Earnings on investments	-	4,767	4,767	-
Contributions and Donations	-	-	-	-
Gain/Loss on Sale of Fixed Assets	5,700	-	5,700	-
State Sources	361,040	191,410	552,450	-
Federal Sources	<u>3,021,912</u>	<u>-</u>	<u>3,021,912</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>3,388,652</u>	<u>196,177</u>	<u>3,584,829</u>	<u>-</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	62,674	414,357	477,031	557,357
Capital Contributions	-	-	-	-
Transfers in (out)	<u>-</u>	<u>(300,000)</u>	<u>(300,000)</u>	<u>-</u>
CHANGES IN NET ASSETS	62,674	114,357	177,031	557,357
NET ASSETS - BEGINNING	554,854	143,050	697,904	584,730
Prior Period Adjustment	<u>(40,939)</u>	<u>(457)</u>	<u>(41,396)</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 576,589</u>	<u>\$ 256,950</u>	<u>\$ 833,539</u>	<u>\$ 1,142,087</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, 2008

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL INTERNAL FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Users	\$ 2,125,696	\$ 1,893,707	\$ 4,019,403	\$ -
Cash Received from Assessments made to Other Funds	-	-	-	20,333,713
Cash Received from Earnings on Investments	-	-	-	-
Cash Received from Other Operating Revenue	77,506	616,049	693,555	1,518,346
Cash Payments to Employees for Services	(2,158,771)	(2,195,616)	(4,354,387)	(20,772,256)
Cash Payments for Insurance Claims	-	-	-	-
Cash Payments to Suppliers for Goods and Services	(2,946,841)	(161,490)	(3,108,331)	-
Cash Payments to Other Operating Expenses	(6,440)	(4,056)	(10,496)	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(2,908,850)</u>	<u>148,594</u>	<u>(2,760,256)</u>	<u>1,079,803</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Local Sources	-	-	-	-
State Sources	331,353	226,586	557,939	-
Federal Sources	2,391,272	-	2,391,272	-
Notes and Loans Received	-	-	-	-
Interest Paid on Notes/Loans	-	-	-	-
Operating Transfers In (Out)	-	(300,000)	(300,000)	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	<u>2,722,625</u>	<u>(73,414)</u>	<u>2,649,211</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Equipment	(53,785)	(4,654)	(58,439)	-
Gain/Loss on Sale of Fixed Assets (Proceeds)	5,700	-	5,700	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(48,085)</u>	<u>(4,654)</u>	<u>(52,739)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on Investments	-	4,767	4,767	-
Purchase of Investment Securities/Deposits to Investment Pools	-	-	-	-
Withdrawals from Investment Pools	-	-	-	-
Proceeds from Sale and Maturity of Investment Securities	-	-	-	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>-</u>	<u>4,767</u>	<u>4,767</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(234,310)	75,293	(159,017)	1,079,803
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>234,610</u>	<u>216,491</u>	<u>451,101</u>	<u>606,426</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 300</u>	<u>\$ 291,784</u>	<u>\$ 292,084</u>	<u>\$ 1,686,229</u>

Bethlehem Area School District
Statement of Cash Flows - Proprietary Funds
As of June 30, 2008

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

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL	INTERNAL SERVICE FUND
OPERATING INCOME (LOSS)	\$ (3,325,978)	\$ 218,180	(3,107,798)	\$ 557,357
	-----	-----	-----	-----
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Depreciation and Net Amortization	40,140	7,563	47,703	
Provision for Uncollectible Accounts	-	-	-	-
Donated Commodities Used	251,353	-	251,353	-
				-
CHANGE IN ASSETS AND LIABILITIES:				
(Increase) Decrease in Accounts Receivable	(174,036)	(94,191)	(268,227)	
(Increase) Decrease in Advances from Other Funds	-	-	-	-
(Increase) Decrease in Inventories	46,414	-	46,414	-
(Increase) Decrease in Prepaid Expenses	-	976	976	-
(Increase) Decrease in Other Current Assets	-	-	-	-
Increase (Decrease) in Accounts Payable	192,616	242	192,858	522,446
Increase (Decrease) in Accrued Salaries and Benefits	21,450	13,309	34,759	-
Increase (Decrease) in Advances to Other Funds	-	-	-	-
Increase (Decrease) in Other Current Liabilities	39,191	2,515	41,706	-
TOTAL ADJUSTMENTS	<u>417,128</u>	<u>(69,586)</u>	<u>347,542</u>	<u>522,446</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (2,908,850)</u>	<u>\$ 148,594</u>	<u>\$ (2,760,256)</u>	<u>\$ 1,079,803</u>

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

Bethlehem Area School District
Statement of Net Assets - Fiduciary Funds
As of June 30, 2008

	PRIVATE PURPOSE TRUST	PENSION AND OTHER EMPLOYEE BENEFIT TRUST	AGENCY FUNDS
ASSETS			
Cash and cash equivalents	\$ 29,502	\$ -	\$ 449,727
Investments	157,972	-	-
Due from Other Funds	-	-	-
Other Receivables	-	-	-
Prepaid Expenses	-	-	-
Other Current Assets	87	-	-
TOTAL ASSETS	\$ 187,561	\$ -	\$ 449,727
 LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ 1,200
Due to Other Funds	-	-	-
Due to Student Clubs	-	-	412,429
Other Current Liabilities	-	-	36,098
TOTAL LIABILITIES	-	-	449,727
 NET ASSETS			
Restricted	-	-	-
Unrestricted	187,561	-	-
TOTAL NET ASSETS	\$ 187,561	\$ -	\$ -

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, 2008

	PRIVATE-PURPOSE TRUST FUND	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
ADDITIONS		
Contributions	\$ 140,258	\$ -
Transfers from other funds	-	-
INVESTMENT EARNINGS:		
Interest and Dividends	660	-
Net increase (decrease) in fair value of investments	-	-
Less investment expense	-	-
TOTAL ADDITIONS	140,918	-
 DEDUCTIONS		
Transfers to other funds	-	-
Administrative charges	-	-
Scholarships	8,795	-
TOTAL DEDUCTIONS	8,795	-
 CHANGE IN NET ASSETS	132,123	-
 NET ASSETS - BEGINNING OF YEAR	55,438	-
 NET ASSETS - END OF YEAR	\$ 187,561	\$ -

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, 2008

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u> <u>(BUDGETARY BASIS)</u>	<u>VARIANCE WITH</u> <u>FINAL BUDGET</u> <u>POSITIVE</u>	<u>BUDGET TO</u> <u>GAAP</u>	<u>ACTUAL</u> <u>AMOUNTS</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>	<u>DIFFERENCE</u>	<u>GAAP BASIS</u>
REVENUES						
Local Sources	\$ 126,660,248	\$ 126,657,597	\$ 123,599,394	\$ (3,058,203)	\$ -	\$ 123,599,394
State Sources	43,981,239	44,908,526	45,886,165	977,639	-	45,886,165
Federal Sources	4,968,654	6,642,373	6,466,296	(176,077)	-	6,466,296
TOTAL REVENUES	<u>175,610,141</u>	<u>178,208,496</u>	<u>175,951,855</u>	<u>(2,256,641)</u>	<u>-</u>	<u>175,951,855</u>
EXPENDITURES						
Regular Instruction	79,333,288	78,604,543	78,604,226	317	-	78,604,226
Special Programs	19,178,506	20,131,006	20,126,655	4,351	-	20,126,655
Vocational Programs	9,004,454	7,704,954	7,703,642	1,312	-	7,703,642
Other Instructional Programs	1,910,313	2,939,311	2,937,125	2,186	-	2,937,125
Adult Education Programs	60,476	43,533	43,074	459	-	43,074
Community/Junior College Ed. Programs	1,907,222	1,972,791	1,972,585	206	-	1,972,585
Pre-Kindergarten	677,661	1,483,940	1,483,489	451	-	1,483,489
Pupil Personnel Services	5,662,858	7,832,189	7,829,196	2,993	-	7,829,196
Instructional Staff Services	5,785,237	7,974,086	7,971,751	2,335	-	7,971,751
Administrative Services	10,326,342	10,093,342	10,090,842	2,500	-	10,090,842
Pupil Health	1,604,358	1,660,958	1,659,297	1,661	-	1,659,297
Business Services	2,924,377	2,606,777	2,606,512	265	-	2,606,512
Operation & Maintenance of Plant Services	15,669,578	14,985,578	14,984,110	1,468	-	14,984,110
Student Transportation Services	5,008,859	5,231,528	5,230,142	1,386	-	5,230,142
Central Support Services	1,555,789	2,012,561	2,010,784	1,777	-	2,010,784
Other Support Services	103,000	99,000	97,924	1,076	-	97,924
Student Activities	458,952	469,602	469,286	316	-	469,286
Community Services	196,200	201,200	200,627	573	-	200,627
Facilities, Acquisition and Construction	-	1,000	887	113	-	887
Debt Service	17,054,308	17,005,597	17,178,724	(173,127)	-	17,178,724
TOTAL EXPENDITURES	<u>178,421,778</u>	<u>183,053,496</u>	<u>183,200,878</u>	<u>(147,382)</u>	<u>-</u>	<u>183,200,878</u>
Excess (deficiency) of revenues over expenditures	(2,811,637)	(4,845,000)	(7,249,023)	(2,404,023)	-	(7,249,023)
OTHER FINANCING SOURCES (USES)						
Proceeds From Extended Term Financing	-	-	1,707,344	1,707,344	-	1,707,344
Interfund Transfers In	2,850,000	2,850,000	2,800,000	(50,000)	-	2,800,000
Sale/Compensation for Fixed Assets	1,000	1,000	13,642	12,642	-	13,642
Fund Transfers Out	(1,657,801)	-	(1,418,521)	(1,418,521)	-	(1,418,521)
Budgetary Reserve	(375,562)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>817,637</u>	<u>2,851,000</u>	<u>3,102,465</u>	<u>251,465</u>	<u>-</u>	<u>3,102,465</u>
Special Items	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	<u>(1,994,000)</u>	<u>(1,994,000)</u>	<u>(4,146,558)</u>	<u>(2,152,558)</u>	<u>-</u>	<u>(4,146,558)</u>
FUND BALANCE - JULY 1, 2007	<u>4,500,000</u>	<u>\$ 4,500,000</u>	<u>\$ 1,795,953</u>	<u>\$ (2,704,047)</u>	<u>\$ -</u>	<u>\$ 1,795,953</u>
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>(819,360)</u>	<u>(819,360)</u>	<u>-</u>	<u>(819,360)</u>
FUND BALANCE - JUNE 30, 2008	<u>\$ 2,506,000</u>	<u>\$ 2,506,000</u>	<u>\$ (3,169,965)</u>	<u>\$ (5,675,965)</u>	<u>\$ -</u>	<u>\$ (3,169,965)</u>

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, 2008**

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 enrollment of 15,392 students. BASD facilities include two high schools, four middle schools, 16 elementary schools, and a school building which houses the District's preschool program.

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

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

Board of School Directors

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

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

The Board of School Directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such district, between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any schools herein provided, or to pay any school indebtedness which the school district is required to pay, or to pay any indebtedness that may at any time hereafter be created by the school district, the board of school directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual State appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

Administration

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

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

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

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 does not have any component units.

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 2007-08 was \$4,873,349.

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 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 2007-08 was \$1,972,585.

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008

that should not be reflected on the basic financial statements. Complete financial statements for NCC can be obtained from the NCC's Administrative office at 3835 Green Pond Road, Bethlehem, PA 18020.

Jointly Governed Organizations

Colonial Intermediate Unit

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

Note 2 - Summary of significant accounting policies

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

A. *Basis of Presentation*

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

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

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008

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).

The District has the following Capital Project Funds:

a) 01-03 Capital Project Fund

This fund was closed and fully expended during the 2007-08 fiscal year.

b) 05-07 Capital Project Fund

During this fiscal year this fund received the proceeds from the \$40,000,000 General Obligation Note – Series of 2007. The purpose of this issue is to finance the capital costs of designing, constructing, renovating, improving, and furnishing & equipping school facilities, including Broughal Middle School.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008

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.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

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.

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

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

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 2007-08 budget transfers, including the re-opening of the budget in May 2008 to account for \$2,598,355 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 this past fiscal year, the District was required to implement the provisions of GASB Statement No 45 on Other Post Employment Benefits. The Net OPEB Obligation and disclosures are more fully explained in Note 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.

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.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008

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, 2008, 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, 2008, the inventory shown in the governmental activities column of the government-wide statement of net assets is \$24,053 and \$282,669 is shown as inventory in the business-type activities column of the government-wide statement of net assets.

Inventory type items in governmental funds utilize the consumption method, that is, they are charged to expenditures when purchased. There was a physical inventory of \$24,053 taken as of June 30, 2008; therefore, there is an offsetting reservation of fund balance in the General Fund.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

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, 2008, consist of:

Purchased Food	\$	166,933
Donated Commodities		18,731
Purchased Supplies		97,005
TOTAL	\$	282,669

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 seven hundred and fifty dollars (\$750) dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise funds is also capitalized.

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

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

Compensated Absences

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008

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, 2008, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements reported on the modified accrual basis of accounting.

Net Assets

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

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

Fund Balance Reserves

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

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

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 \$288,855,158 differences are:

Bonds payable	\$ 285,465,000
Less: Deferred charge on refunding (to be amortized as interest expense)	(7,882,656)
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(3,146,193)
Less: Issuance discount (to be amortized as interest expense)	(79,584)
Add: Issuance premium (to be amortized as a contra to interest expense)	1,199,527
Lease Purchase Obligations	920,082
Accrued interest payable	1,123,059
Net OPEB Obligation	1,684,174
Authority Lease Obligation	6,203,505
Compensated absences	3,368,244
Net adjustment to reduce "fund balance - total governmental funds" to arrive at "net assets - governmental activities"	\$ 288,855,158

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

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

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008

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

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

	TOTAL GOVERN- MENTAL FUNDS	LONG-TERM REVENUES/ EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANS- ACTIONS	TOTAL FOR STATEMENT OF ACTIVITIES
REVENUES AND OTHER SOURCES					
LOCAL SOURCES:					
Property Taxes	\$ 102,126,057	\$ 634,937	\$ -	\$ -	\$ 102,760,994
Taxes levied for specific purposes	16,611,302	326,496	-	-	16,937,798
Interest and investment earnings	4,214,297	-	-	-	4,214,297
Miscellaneous	322,640	-	-	-	322,640
Contributions and Donations	216,936	-	-	-	216,936
Charges for Services	563,449	-	-	-	563,449
Grants, subsidies & contributions not restricted	22,033,163	-	-	-	22,033,163
Transfers in	300,000	-	-	-	300,000
Proceeds from Bond Issues	40,000,000	-	-	(40,000,000)	-
Proceeds from Extended Term Financing	1,707,344	-	-	(1,707,344)	-
INTERMEDIATE SOURCES:					
Charges for Services	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-
STATE SOURCES:					
Operating & Capital grants and contributions	24,289,901	-	-	-	24,289,901
FEDERAL SOURCES:					
Operating & Capital grants and contributions	8,358,717	-	-	-	8,358,717
SPECIAL AND EXTRAORDINARY SOURCES:					
Gain or (Loss) on disposal of assets	13,642	-	-	-	13,642
TOTAL REVENUES	220,757,448	961,433	-	(41,707,344)	180,011,537
EXPENDITURES/EXPENSES					
Instruction	113,166,084	707,079	3,714,634	-	117,587,797
Instructional Student Support	17,464,610	106,773	1,056,351	-	18,627,734
Admin. & Fin'l Support Services	15,759,670	331,954	17,515	(564,547)	15,544,592
Oper. & Maint. Of Plant Svcs.	25,228,554	92,980	(197,432)	-	25,124,102
Pupil Transportation	5,324,648	36,966	463,895	-	5,825,509
Student activities	2,200,318	3,381	145,053	-	2,348,752
Community Services	200,627	-	-	-	200,627
Capital Outlay	34,466,356	-	(34,466,356)	-	-
Debt Service	18,663,833	-	-	(7,881,764)	10,782,069
Transfers Out	-	-	-	-	-
Depreciation - unallocated	-	-	184,864	-	184,864
Impairment Loss	-	-	-	-	-
TOTAL EXPENDITURES/EXPENSES	232,474,700	1,279,133	(29,081,476)	(8,446,311)	196,226,046
NET CHANGE FOR THE YEAR	\$ (11,717,252)	\$ (317,700)	\$ 29,081,476	\$ (33,261,033)	\$ (16,214,509)

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, except for the \$2,500,000 transferred from the Section 1432 Capital Reserve Fund to the General Fund that is not allowed.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

B. Deficit fund balance or net assets of individual funds

No individual fund contains a deficit fund balance or net assets at June 30, 2008, except the General Fund has a year end deficit fund balance of \$3,169,965, and the governmental activities has a \$26,576,608 in deficit net assets.

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, except the General Fund's expenditures exceeded appropriations by \$1,565,903. This excess spending was a result of excess debt service and interfund transfers. In accordance with the Commonwealth of Pennsylvania's Department of Education interpretation of the PA School Code, this excess spending is not considered a violation of school laws. In addition \$1,707,344 in expenditures is a result of a capital lease, which generally accepted accounting principles requires the recording of the present value of the leased equipment.

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, 2008. 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, 2008, \$2,599,327 of the District's bank balance of \$2,981,423 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		<u>2,599,327</u>
TOTAL	\$	<u>2,599,327</u>

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Reconciliation to Financial Statements

Uncollateralized Amount above	\$ 2,599,327
Plus: Insured Amount	382,096
Less: Outstanding Checks	<u>(35,026)</u>
Carrying Amount - Cash Balances	2,946,397
Plus: Petty Cash	5,762
Deposit in Pooled Investments Considered Cash Equivalents	8,463,658
Deposit in Money Market Mutual Funds Considered Cash Equivalents	3,441,725
Less: Certificates of Deposit considered Investments by School Code	<u>(157,972)</u>
TOTAL CASH PER FINANCIAL STATEMENTS	<u>\$ 14,699,570</u>

Investments

Permitted investments for Pennsylvania School Districts are defined in the Public School Code of 1949 as:

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C; and,
4. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

As of June 30, 2008, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
PSDLAF/PSDMAX		\$ 1,574,423
PA Treasurer's Invest Program		130,885
PLGIT Class		76,722
Sovereign Bank Money Market		28,665
Commerce Bank Money Market		1,120
Wachovia Bank Money Market		696,441
Bank of America Money Market		9,387,944
Baird Public Investment Advisors Money Market Fund		9,159
FHLB Discount Notes		13,272,570
FHLMC Discount Notes		299,498
Federal Home Loan Mortgage Notes		16,602,289
U.S. Treasury Notes		2,566,773
Certificates of Deposit		<u>157,972</u>
TOTAL		<u>\$ 44,804,461</u>

Interest Rate Risk

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

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, 2008 the District's investment in PLGIT and PSDLAF were rated AAA by Standard & Poor's. The District's investment in the PA Treasurer's Invest Program was rated AAA by Standard & Poor's and Moodys. The District's investment in the Sovereign, Commerce, Wachovia, Bank of America, and Baird Public Investment Advisors money market accounts were rated AAA by Standard & Poor's Investors Service.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. Of the District's Investments, 35.55% are in FHLB Discount Notes, 44.47% are in the Federal Home Loan Mtg. Notes, and 6.87% are in U.S. Treasury Notes. In the governmental activities column on the Statement of Net Assets, 35.70% of the investments are in FHLB Discount Notes, 44.66% are invested in Federal Home Loan Mtg. Notes, and 6.90% are invested in U.S. Treasury Notes. Of the Capital Project Fund investments, 40.53% are in FHLB Discount Notes, 50.69% are in Federal Home Loan Mtg. Notes, and 7.84% are invested in U.S. Treasury Notes. All of the fiduciary funds investments are invested in Certificates of Deposit.

Reconciliation to Financial Statements

Total Investments Above	\$ 44,804,461
Less: Deposits in Investment Pool Considered Cash Equivalents	(8,463,658)
Deposits in Money Market Funds Considered Cash Equivalents	(3,441,701)
Total Investments Per Financial Statements	<u>\$ 32,899,102</u>

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 \$2,724,811,500. The tax rate for the Northampton and Lehigh Counties was \$3.756 per \$100 of assessed valuation or 37.56 mills.

The property tax calendar is:

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

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

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Receivables

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

	GENERAL FUND	CAPITAL RESERVE FUND	CAPITAL PROJECT FUNDS	FOOD SERVICE FUND	NON- MAJOR FUNDS	FIDUCIARY FUNDS	TOTAL
RECEIVABLES:							
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	3,611,244	-	-	-	-	-	3,611,244
Accounts	118,284	48,506	-	174,036	94,191	-	435,017
Intergovernmental	<u>4,202,448</u>	-	-	<u>407,909</u>	-	-	<u>4,610,357</u>
GROSS RECEIVABLES	7,931,976	48,506	-	581,945	94,191	-	8,656,618
Less: Allowance for Uncollectibles	-	-	-	-	-	-	-
NET RECEIVABLES	<u>\$ 7,931,976</u>	<u>\$ 48,506</u>	<u>\$ -</u>	<u>\$581,945</u>	<u>\$ 94,191</u>	<u>\$ -</u>	<u>\$ 8,656,618</u>

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	\$ 3,338,976	\$ -
Contributions	-	-
Grants drawdowns prior to meeting eligibility requirements	-	<u>37,272</u>
TOTAL	<u>\$ 3,338,976</u>	<u>\$ 37,272</u>

Capital Assets

Capital asset balances and activity for the year ending June 30, 2008, were:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES:				
Capital Assets not being depreciated:				
Land	\$ 75,410	\$ -	\$ -	\$ 75,410
Construction in Progress	<u>76,420,572</u>	<u>34,447,343</u>	-	<u>110,867,915</u>
Total Capital Assets not being depreciated	<u>76,495,982</u>	<u>34,447,343</u>	-	<u>110,943,325</u>
Capital Assets being depreciated:				
Site Improvements	8,907,917	-	-	8,907,917
Buildings and Improvements	171,624,698	-	-	171,624,698
Furniture and Equipment	<u>58,082,126</u>	<u>2,135,038</u>	-	<u>60,217,164</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>238,614,741</u>	<u>2,135,038</u>	-	<u>240,749,779</u>
Less accumulated depreciation for:				
Site Improvements	(4,434,771)	(428,544)	-	(4,863,315)
Buildings and Improvements	(62,701,290)	(4,392,371)	-	(67,093,661)
Furniture and Equipment	<u>(47,839,134)</u>	<u>(2,679,991)</u>	-	<u>(50,519,125)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(114,975,195)</u>	<u>(7,500,906)</u>	-	<u>(122,476,101)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION	<u>123,639,546</u>	<u>(5,365,868)</u>	-	<u>118,273,678</u>
 GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	 <u>\$ 200,135,528</u>	 <u>\$ 29,081,475</u>	 <u>\$ -</u>	 <u>\$ 229,217,003</u>
 BUSINESS-TYPE ACTIVITIES:				
Capital Assets being depreciated:				
Furniture and Equipment	\$ 1,767,620	\$ 58,439	\$ -	\$ 1,826,059
Less accumulated depreciation	<u>(1,633,348)</u>	<u>(47,703)</u>	-	<u>(1,681,051)</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	 <u>\$ 134,272</u>	 <u>\$ 10,736</u>	 <u>\$ -</u>	 <u>\$ 145,008</u>

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

Regular Instruction	\$ 4,552,330
Special Instruction	739,989
Vocational Instruction	76,796
Other Instruction	-
Adult Instruction	-
Community College Instruction	-
Pupil Services	22,542
Instructional Staff Svcs.	1,082,635
Administrative Services	62,860
Health Services	33,271
Business Services	-
Operation & Maintenance of Plant Svcs.	28,170
Pupil Transportation	560,534
Central Services	-
Other Support Services	-
Student Activities	156,915
Community Services	-
Depreciation - unallocated	<u>184,864</u>
TOTAL DEPRECIATION FOR GOVERNMENTAL ACTIVITIES	<u>\$ 7,500,906</u>

The District disposed of fully depreciated capital assets during the year and received sale proceeds of \$13,642 resulting in a gain on sale of assets of \$13,642.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Long-term construction commitments

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

	<u>CONTRACT AMOUNT</u>	<u>EXPENDED TO 6/30/08</u>	<u>OUTSTANDING COMMITMENTS</u>
<u>Liberty High School</u>			
GC Boro	37,309,163	34,399,734	2,909,429
EC- Albarell	6,154,453	4,925,876	1,228,577
PC-Dual Temp	4,040,544	3,689,013	351,531
HVAC-Dual Temp	11,039,672	9,770,164	1,269,508
Asbestos-Sargent	472,000	394,671	77,329
Teledata- Angelini	431,639	361,313	70,326
Architect - Spillman Farmer	3,530,861	3,437,604	93,257
RPE- D'Huy Engineering	2,114,833	1,480,383	634,450
TOTAL	<u>65,093,165</u>	<u>58,458,758</u>	<u>6,634,407</u>
<u>Broughal Middle School</u>			
GC- Skepton	37,853,100	22,440,948	15,412,152
EC- Albarell	4,600,781	546,435	4,054,346
PC- Dual Temp	2,484,500	1,289,607	1,194,893
HVAC- Dual Temp	4,809,200	1,614,627	3,194,573
Asbestos-Sargent	423,924	34,357	389,567
Teledata- Angelini	264,240	-	264,240
Architect- Spillman Farmer	2,793,614	2,458,380	335,234
RPE- D'Huy Engineering	1,786,251	902,056	884,195
	<u>55,015,610</u>	<u>29,286,410</u>	<u>25,729,200</u>
 GRAND TOTAL	 <u>\$ 120,108,775</u>	 <u>\$ 87,745,168</u>	 <u>\$ 32,363,607</u>

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Short-term debt

Interfund receivables and payables

The following interfund receivables and payables were in existence on June 30, 2008:

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

The District also made the following interfund transfers during the fiscal year ended June 30, 2008:

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ 2,800,000	\$ 1,418,521
Special Revenue (Athletic) Fund	1,418,521	-
Special Revenue (Capital Reserve) Fund	-	2,500,000
Enterprise (Day Care) Fund	-	300,000
Agency (Activity) Fund	-	-
	<hr/>	<hr/>
TOTAL	<u>\$ 4,218,521</u>	<u>\$ 4,218,521</u>

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Long-term liabilities

Long-term liability balances and activity for the year ended June 30, 2008, were:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
GOVERNMENTAL ACTIVITIES					
<i>General Obligation Debt:</i>					
<i>Bonds and notes payable:</i>					
Capital Projects	\$ 245,259,201	\$ 40,053,798	\$ 6,610,711	\$ 278,702,288	\$ 6,915,000
Capital Leases	126,085	1,707,344	913,347	920,082	-
Vo-Tech Debt	6,534,990	-	331,485	6,203,505	347,270
Total general obligation debt	251,920,276	41,761,142	7,855,543	285,825,875	7,262,270
<i>Other liabilities:</i>					
<i>Vested employee benefits:</i>					
Vacation pay	1,451,810	215,752	-	1,667,562	-
Sick pay	1,784,348	51,018	-	1,835,366	134,684
Net OPEB Obligation	-	1,684,174	-	1,684,174	-
Total other liabilities	3,236,158	1,950,944	-	5,187,102	134,684
TOTAL GOVERNMENTAL ACTIVITY LONG-TERM LIABILITIES	\$ 255,156,434	\$ 43,712,086	\$ 7,855,543	\$ 291,012,977	\$ 7,396,954
BUSINESS TYPE ACTIVITIES					
<i>Other liabilities:</i>					
<i>Vested employee benefits:</i>					
Vacation pay	16,216	2,986	-	19,202	-
Sick pay	48,960	8,149	-	57,109	-
Net OPEB Obligation	-	16,782	-	16,782	-
TOTAL BUSINESS-TYPE ACTIVITY LONG-TERM LIABILITIES	\$ 65,176	\$ 27,917	\$ -	\$ 93,093	\$ -

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	\$ 10,782,069	\$ 10,739,498
Short-term borrowings	-	-
TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES	\$ 10,782,069	\$ 10,739,498

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

General Obligation Notes - Series of 1998

On May 15, 1998, the District issued \$35,000,000 of the General Obligation Bonds – Series of 1998. The proceeds will be used: (1) to provide funds for and toward planning, designing, acquiring, constructing, furnishing, and equipping two middle schools and six elementary schools; and (2) paying the costs and expenses of this issue. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 1998 to October 15, 2018. Interest rates range from 3.70% to 5.00%, with total interest indebtedness of \$29,842,891. A portion of this issue was advance refunded with the Series of 2003 General Obligation Notes. The outstanding debt service requirements at June 30, 2008, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2008-09	\$ 605,000	\$ 13,764
Unamortized Discount	(1,101)	
TOTAL OUTSTANDING	\$ 603,899	

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, 2008, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2008-09	\$ 355,000	\$ 270,788
2009-10	375,000	256,942
2010-11	385,000	241,943
2011-12	405,000	226,350
2012-13	420,000	209,542
2013-18	3,100,000	747,488
2018-23	990,000	48,015
SUB-TOTAL	6,030,000	\$ 2,001,068
Unamortized Deferred chgs. on Refundings	(4,889)	
Unamortized Premium	35,918	
TOTAL OUTSTANDING	\$ 6,061,029	

General Obligation Notes – Series of 2003

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008

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 May 1, 2003, the School District entered into an interest rate swap in connection with its \$74,175,000, Series of 2003 variable-rate general obligation notes. The intent of the swap was to effectively change the School District's variable interest rate on the notes to a synthetic fixed rate.

Terms. The notes and the related swap agreement mature on October 15, 2021, and the swap's notional amount is \$74,175,000. The swap was entered into on May 11, 2003. Starting on October 15, 2003, 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 and the Bond Rate through 2012, (68% of LIBOR thereafter) from the Counterparty (JP Morgan Chase Bank) in exchange for a fixed rate of 3.80%. The variable rate paid on the School District's General Obligation Notes – Series of 2003 approximates the BMA index. Therefore, if BMA exceeds 68% of the LIBOR, the District pays a net effective interest rate in excess of 3.8%, and if BMA is less than 68% of LIBOR, the District pays a net effective interest rate approximately equal to the fixed rate.

Fair Value. The swap has a negative fair value of \$4,104,446 as of June 30, 2008. The swap's 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 notes do not have a corresponding fair value increase. The fair value was estimated by DerivActiv, and independent financial advisor.

Credit Risk. As of June 30, 2008, 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, 2008. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2008, the BMA rate was 1.68%, whereas 68% of LIBOR was 2.13%.

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, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2008-09	\$ 365,000	\$ 1,126,123	\$ 1,467,936	\$ 2,959,059
2009-10	1,020,000	1,215,245	1,519,414	3,754,659
2010-11	1,065,000	1,197,395	1,497,096	3,759,491
2011-12	1,110,000	1,178,780	1,473,822	3,762,602
2012-13	1,160,000	1,159,343	1,449,520	3,768,863
2013-18	20,155,000	5,290,712	6,614,945	32,060,657
2018-23	47,655,000	1,553,715	1,942,601	51,151,316
SUB-TOTAL	72,530,000	\$ 12,721,313	\$ 15,965,334	\$ 101,216,647
Unamortized Deferred chgs. on Refundings	(7,877,767)			
Unamortized Premium	1,163,609			
TOTAL OUTSTANDING	\$ 65,815,842			

General Obligation Bonds – Series of 2005

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

Interest Rate Swap

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

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

Fair Value. The swap has a negative fair value of \$6,555,894 as of June 30, 2008 and the constant maturity swap has a negative fair value of \$239,939 as of June 30, 2008. The swaps negative fair values may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by DerivActiv, and independent financial advisor.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Credit Risk. As of June 30, 2008, the School District was exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, the School District would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA- by Standard & Poor's and AA by Fitch.

Basis Risk. The swap exposes the government to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2008. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2008, the BMA rate was 1.68%, whereas 60% of LIBOR was 1.88%.

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, 2008, 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, 2008, using the variable rate in effect at year end are:

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2008-09	\$ 5,000	\$ 856,814	\$ 252,135	\$ 1,113,949
2009-10	5,000	934,625	275,032	1,214,657
2010-11	5,000	934,540	275,007	1,214,547
2011-12	5,000	934,455	274,982	1,214,437
2012-13	5,000	934,370	274,957	1,214,327
2013-18	25,000	4,670,573	1,374,411	6,069,984
2018-23	5,865,000	4,627,081	1,361,613	11,853,694
2023-28	33,465,000	2,846,415	837,616	37,149,031
2028-30	15,605,000	290,325	85,434	15,980,759
SUB-TOTAL	54,985,000	\$ 17,029,198	\$ 5,011,187	\$ 77,025,385
Unamortized Deferred chgs. on Refundings	-			
Unamortized Premium	-			
TOTAL OUTSTANDING	\$ 54,985,000			

General Obligation Bonds – Series of 2007

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008

Interest Rate Swap

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

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

Fair Value. The interest rate swap has a negative fair value of \$4,659,288 as of June 30, 2008 and the constant maturity swap has a negative fair value of \$225,388 as of June 30, 2008. The swaps negative fair values may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by DerivActiv, and independent financial advisor.

Credit Risk. As of June 30, 2008, the School District was exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the School District would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA- by Standard & Poor's and AA by Fitch.

Basis Risk. The swap exposes the government to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2008. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2008, the BMA rate was 1.68%, whereas 60% of LIBOR was 1.88%.

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, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2008-09	\$ 5,000	\$ 856,970	\$ 356,330	\$ 1,218,300
2009-10	5,000	934,795	388,690	1,328,485
2010-11	5,000	934,710	388,654	1,328,364
2011-12	5,000	934,625	388,619	1,328,244
2012-13	5,000	934,540	388,583	1,328,123
2013-18	25,000	4,671,423	1,942,387	6,638,810
2018-23	3,065,000	4,647,765	1,932,550	9,645,315
2023-28	17,515,000	3,717,935	1,545,925	22,778,860
2028-32	34,365,000	1,528,150	635,408	36,528,558
SUB-TOTAL	54,995,000	\$ 19,160,913	\$ 7,967,146	\$ 82,123,059
Unamortized Deferred chgs. on Refundings	-			
Unamortized Premium	-			
TOTAL OUTSTANDING	\$ 54,995,000			

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, 2008 are:

FISCAL YEAR	PRINCIPAL	INTEREST
2008-09	\$ 5,575,000	\$ 2,676,625
2009-10	5,855,000	2,390,875
2010-11	6,155,000	2,090,625
2011-12	6,470,000	1,775,000
2012-13	6,805,000	1,443,125
2013-18	25,460,000	2,054,000
SUB-TOTAL	56,320,000	\$ 12,430,250
Unamortized Deferred chgs. on Refundings	-	
Unamortized Discount	(78,482)	
TOTAL OUTSTANDING	\$ 56,241,518	

General Obligation Notes – Series of 2007

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008

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 and the related swap agreement mature 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 School District's General Obligation Notes – Series of 2007 approximates the BMA index. Therefore, if BMA exceeds 68% of LIBOR, the District pays a net effective interest rate in excess of 3.774%, and if BMA is less than 68% of LIBOR, the District pays a net effective interest rate approximately equal to the fixed rate. In the constant maturity swap, the District pays SIFMA and receives 69.1% of 10 year LIBOR.

Fair Value. The interest rate swap has a negative fair value of \$2,757,872 as of June 30, 2008 and the constant maturity swap has a positive fair value of \$336,716 as of June 30, 2008. The swaps net negative fair values may be countered by a reduction in total interest payments required under the variable-rate notes, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate notes adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by DerivActiv, and independent financial advisor.

Credit Risk. As of June 30, 2008, the School District was exposed to credit risk because the swaps had a net negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the School District would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA- by Standard & Poor's and AA by Fitch.

Basis Risk. The swap exposes the government to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the notes. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2008. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2008, the BMA rate was 1.68%, whereas 68% of LIBOR was 2.13%.

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

Swap payments and associated debt. Using rates as of June 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2008-09	\$ 5,000	\$ 679,922	\$ 116,082	\$ 801,004
2009-10	5,000	679,837	167,728	852,565
2010-11	5,000	679,752	167,707	852,459
2011-12	5,000	679,667	167,686	852,353
2012-13	5,000	679,582	167,665	852,247
2013-18	25,000	3,396,635	838,011	4,259,646
2018-23	3,355,000	3,342,618	824,684	7,522,302
2023-28	18,765,000	2,204,964	544,004	21,513,968
2028-32	17,830,000	494,375	121,971	18,446,346
SUB-TOTAL	40,000,000	\$ 12,837,352	\$ 3,115,538	\$ 55,952,890
Unamortized Deferred chgs. on Refundings	-	-	-	-
Unamortized Premium	-	-	-	-
TOTAL OUTSTANDING	\$ 40,000,000			

Lease Rental Debt

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

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

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

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

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

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:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL RENTAL PAYMENT
2008-09	\$ 3,157	\$ 14,353	\$ 17,510
2009-10	6,314	14,159	20,473
2010-11	6,314	13,894	20,208
2011-12	6,314	13,629	19,943
2012-13	3,157	13,425	16,582
2013-18	31,570	63,076	94,646
2018-22	236,775	39,069	275,844
TOTAL OUTSTANDING	\$ 293,601	\$ 171,605	\$ 465,206

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 general obligation 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%.

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.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2008**

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL RENTAL PAYMENT
2008-09	\$ 344,113	\$ 267,630	\$ 611,743
2009-10	353,584	252,350	605,934
2010-11	375,683	235,030	610,713
2011-12	388,311	217,953	606,264
2012-13	410,410	200,974	611,384
2013-18	2,339,337	704,922	3,044,259
2018-21	1,698,466	129,730	1,828,196
TOTAL OUTSTANDING	<u>\$ 5,909,904</u>	<u>\$ 2,008,589</u>	<u>\$ 7,918,493</u>

Extended Term Financing Agreement

On August 31, 2007, the District purchased Apple Personal Computers and other technology equipment under a financing agreement at an effective interest rate of 5.56% in the amount of \$1,707,344. The agreement requires four annual payments: (1) \$832,469; (2) \$2,500; (3) \$488,110, and (4) \$488,110. The outstanding debt service requirements at June 30, 2008, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2008-09	\$ -	\$ 25,000
2009-10	434,202	53,908
2010-11	485,880	2,230
TOTAL OUTSTANDING	<u>\$ 920,082</u>	<u>\$ 81,138</u>

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Combined Long-Term Debt

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

SUMMARY OF PRINCIPAL REQUIREMENTS

FISCAL YEAR								<u>Guaranteed Revenue Bonds</u>		TOTAL PRINCIPAL PAYMENTS
	G.O.B. SERIES OF 1998	G.O.B. SERIES A OF 2001	G.O.N. SERIES OF 2003	G.O.B. SERIES OF 2005	G.O.B. SERIES OF 2007	G.O.B. SERIES A OF 2007	G.O.N. SERIES OF 2007	RFDNG SERIES OF 2001	IMPROVE. SERIES OF 2001	
2008-09	\$ 605,000	\$ 355,000	\$ 365,000	\$ 5,000	\$ 5,000	\$ 5,575,000	\$ 5,000	\$ 344,113	\$ 3,157	\$ 7,262,270
2009-10	-	375,000	1,020,000	5,000	5,000	5,855,000	5,000	353,584	6,314	7,624,898
2010-11	-	385,000	1,065,000	5,000	5,000	6,155,000	5,000	375,683	6,314	8,001,997
2011-12	-	405,000	1,110,000	5,000	5,000	6,470,000	5,000	388,311	6,314	8,394,625
2012-13	-	420,000	1,160,000	5,000	5,000	6,805,000	5,000	410,410	3,157	8,813,567
2013-18	-	3,100,000	20,155,000	25,000	25,000	25,460,000	25,000	2,339,337	31,570	51,160,907
2018-23	-	990,000	47,655,000	5,865,000	3,065,000	-	3,355,000	1,698,466	236,775	62,865,241
2023-28	-	-	-	33,465,000	17,515,000	-	18,765,000	-	-	69,745,000
2028-33	-	-	-	15,605,000	34,365,000	-	17,830,000	-	-	67,800,000
TOTAL	605,000	6,030,000	72,530,000	54,985,000	54,995,000	56,320,000	40,000,000	5,909,904	293,601	291,668,505
LESS PAYABLE WITH- IN ONE YEAR LONG-TERM PRINC. DUE AFTER ONE YEAR	<u>605,000</u>	<u>355,000</u>	<u>365,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,575,000</u>	<u>5,000</u>	<u>344,113</u>	<u>3,157</u>	<u>7,262,270</u>
ONE YEAR	\$ -	\$ 5,675,000	\$ 72,165,000	\$ 54,980,000	\$ 54,990,000	\$ 50,745,000	\$ 39,995,000	\$ 5,565,791	\$ 290,444	\$ 284,406,235

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS

FISCAL YEAR								<u>Guaranteed Revenue Bonds</u>		TOTAL DEBT SVC. PAYMENTS
	G.O.B. SERIES OF 1998	G.O.B. SERIES A OF 2001	G.O.N. SERIES OF 2003	G.O.B. SERIES OF 2005	G.O.B. SERIES OF 2007	G.O.B. SERIES A OF 2007	G.O.N. SERIES OF 2007	RFDNG SERIES OF 2001	IMPROVE. SERIES OF 2001	
2008-09	\$ 618,764	\$ 625,788	\$ 1,491,123	\$ 861,814	\$ 861,970	\$ 8,251,625	\$ 684,922	\$ 611,743	\$ 17,510	\$ 14,025,259
2009-10	-	631,942	2,235,245	939,625	939,795	8,245,875	684,837	605,934	20,473	14,303,726
2010-11	-	626,943	2,262,395	939,540	939,710	8,245,625	684,752	610,713	20,208	14,329,886
2011-12	-	631,350	2,288,780	939,455	939,625	8,245,000	684,667	606,264	19,943	14,355,084
2012-13	-	629,542	2,319,343	939,370	939,540	8,248,125	684,582	611,384	16,582	14,388,468
2013-18	-	3,847,488	25,445,712	4,695,573	4,696,423	27,514,000	3,421,635	3,044,259	94,646	72,759,736
2018-23	-	1,038,015	49,208,715	10,492,081	7,712,765	-	6,697,618	1,828,196	275,844	77,253,234
2023-28	-	-	-	36,311,415	21,232,935	-	20,969,964	-	-	78,514,314
2028-33	-	-	-	15,895,325	35,893,150	-	18,324,375	-	-	70,112,850
TOTAL	\$ 618,764	\$ 8,031,068	\$ 85,251,313	\$ 72,014,198	\$ 74,155,913	\$ 68,750,250	\$ 52,837,352	\$ 7,918,493	\$ 465,206	\$ 370,042,557

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Compensated Absences

Sick-Pay

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

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

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

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

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

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

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

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

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, \$57,109 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, 2008. 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 \$134,684, 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 \$1,700,682, 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, 2008, that will use currently available financial resources is \$0, including fica tax and retirement contributions (net of reimbursement), which has been recorded in the General Fund. This amount is also shown as a current liability in the governmental activities column of the government-wide statement of net assets. The Enterprise (Food Service) Fund has recorded \$19,202, 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, 2008, of \$1,667,562, 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, 2008**

Annual Financial Report: The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System, P. O. Box 125, Harrisburg, PA 17108-0125. The report is also available in the publications section of the PSERS website at www.psers.state.pa.us.

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, 2008, the rate of employer contribution was 7.13 percent of covered payroll. The 7.13 percent rate is comprised of a pension contribution rate of 6.44 percent for pension benefits and 0.69 for healthcare insurance premium assistance.

The employer's current year covered payroll was \$92,761,412 and total payroll was \$96,467,316.

The total employee and employer contributions for this current year were \$6,823,174 and \$6,458,745, 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, 2008**

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

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

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

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

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 determine for the purpose of COBRA.

2. **Service Time Incentive** - Upon retirement, an incentive payment of \$1,000 for each year of administrative employment in the district will be provided. Prorated by months. This pension benefit is explained below by group:

a. Instructional Meet and Discuss Employees (Administration) –To be eligible for the severance benefits included, an employee of this class must have served 8 or more yrs. of service with the district and be at least 52 years of age.

Retirees with 35 years of service or more – with PSERS will be offered two options: (1) health care coverage will be provided to age 65. In addition, each unused sick day up to 150 days will be reimbursed at the rate of \$100 per day; (2) this option applies if and only if the retiree has 110 or more accumulated unused sick days. Under this option, the member will receive payment for 110 days at the rate of \$60 per day. The days beyond 110, at the rate of \$60 per day, will be converted to a credit towards the purchase of health care benefits.

Retirees with less than 35 years of service in PSERS - and with less than 110 days of unused sick days will be reimbursed at the rate of \$100 per day. Conversion is not available for members with 110 days or less. Those with more than 110 unused sick days have four options: (1) Members may be reimbursed at \$100 per day up to a maximum of 150 days; (2) Members may convert all unused sick days, at the rate of \$100 per day, to a credit toward purchase of health coverage. This option does not include reimbursement for any unused sick days; (3) Members will receive payment for 110 days at the rate of \$60 per day. The days beyond 110, at the rate of \$60 per day will be converted to a credit towards the purchase of health care benefits; (4) Members may convert all unused sick days to health coverage, at the rate of 30 days for one year of coverage, to a maximum of 10 years of health coverage or until medicare kicks in, whichever occurs first. If after calculating the number of years of coverage, there are any sick days not used, 2 additional months of coverage can be secured for every 5 sick days.

b. Non-Instructional Meet and Discuss (Administration) – To be eligible for this severance payment, an employee shall meet at least one of the following criteria; (a) have served 10 or more yrs. in the district and be at least 52 yrs. of age; or (b) served 10 or more yrs. in the district and accrued a minimum of 30 yrs. of credited service in PSERS regardless of age. Employees in groups 1 or 2 will have the following options:

Upon retirement, the employee may receive a severance benefit for unused sick days up to 150 days at the rate of 1/3 of their per diem pay or \$60, whichever is greater. Accumulated sick leave in excess of 150 days shall be credited towards health care benefits at the rate of 1/3 of their respective per diem pay or \$60, whichever is greater; (2) exchange all of their unused sick days for credit towards the purchase of health care benefits with the same provisions as Instructional Meet & Discuss personnel receive.

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

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost, each year, and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's annual OPEB cost for the current year and the related information is as follows:

Contribution Rates:		
	OPEB Benefit Actuarially Determined	Years of Service Actuarially Determined
Interest Rate	4.5%	4.5%
Plan Members	2,379	65
Annual Required Contribution	\$ 3,463,356	\$ 58,278
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	3,463,356	58,278
Contributions made	(1,820,678)	-
Increase in net OPEB obligation	1,642,678	58,278
Net OPEB obligation - beginning of year	-	-
Net OPEB obligation - end of year	\$ 1,642,678	\$ 58,278

The following table shows the two plans segregated by fund:

Actuarial Valuation by Fund

	Other Post Employment Benefit Plan				Years of Service Plan
	General Fund	Food Service Fund	Daycare Fund	Total	General Fund
Demographic Information:					
Active Participants	1,993	127	38	2,158	65
Retired Participants	221	0	0	221	0
Total	<u>2,214</u>	<u>127</u>	<u>38</u>	<u>2,379</u>	<u>65</u>
Annual Payroll of Active Participants	\$89,918,963	\$2,231,745	\$620,595	\$92,771,303	\$5,914,658
Annual Required Contributions	\$ 3,446,574	\$ 10,601	\$ 6,181	\$ 3,463,356	\$ 58,278
Interest on Net OPEB Obligation	-	-	-	-	-
Adjustment to Annual Required Contribution	-	-	-	-	-
Annual OPEB Cost	3,446,574	10,601	6,181	3,463,356	58,278
Contributions made	(1,820,678)	-	-	(1,820,678)	-
Increase in Net OPEB Obligation	1,625,896	10,601	6,181	1,642,678	58,278
Net OPEB Obligation - beginning of year	-	-	-	-	-
Net OPEB Obligation - end of year	<u>\$ 1,625,896</u>	<u>\$ 10,601</u>	<u>\$ 6,181</u>	<u>\$ 1,642,678</u>	<u>\$ 58,278</u>

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Since this is the first year of implementation for GASB Statement 45, prior year data has been omitted for the two preceding years. 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 6/30/08 for the benefits were as follows:

<u>Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$ 3,463,356	52.6%	\$ 1,642,678
6/30/2007	-	0.0%	-
6/30/2006	-	0.0%	-

Funded Status and Funding Process. The funded status of the benefits as of June 30, 2008, was as follows:

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

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

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

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

	State-mandated Healthcare Benefit	Years of Service Increment Benefit
Actuarial Valuation Date	7/1/2007	7/1/2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level dollar method over a 30 year period	Level dollar method over a 30 year period
Remaining amortization period	29 years	29 years
Asset Valuation Method	pay as you go basis	pay as you go basis
Actuarial Assumptions:		
Investment rate of return	4.5%	4.5%
Projected salary increases	4.25% to 7.25%	4.25% to 7.25%
Healthcare inflation rate		
2008	9.0%	N/A
2009	8.5%	N/A
2010	8.0%	N/A
2011	7.5%	N/A
2012	7.0%	N/A
2013	6.5%	N/A
2014	6.0%	N/A
2015	5.5%	N/A
2016 +	5.0%	N/A

Note 6 - Risk Management

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

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Note 7 – Prior Period Adjustments

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>GENERAL FUND</u>	<u>FOOD SERVICE FUND</u>	<u>DAY CARE FUND</u>
During the audit for the 2007-08 fiscal year, our auditors brought to our attention the following matters pertaining to errors in recording transactions for prior periods, and recommended, with our agreement, to restate the prior period fund balances and/or net assets.					
Net Assets/Fund Balances, as reported at June 30, 2007	\$ (4,480,386)	\$ 720,533	\$ 1,795,953	\$ 554,854	\$ 143,050
During the auditor's review of the liability balances for payroll liability accounts, they discovered the beginning balances were not correct and made the following adjustment.	133,247		133,247		
During the auditor's review of state receivable balances, they discovered the beginning balance had been overstated.	(1,385,206)		(1,385,206)		
During the auditor's review of a liability balance, it was discovered the balance recorded in the prior year was not correct.	376,314		376,314		
During the auditor's review of deferred revenue, a portion of the prior year balance was incorrect.	56,285		56,285		
During the auditor's review of capital assets in enterprise funds and general capital assets, it was discovered the balances reported for cost and accumulated depreciation in the prior year financial statements did not agree with the district's internal records. As such, this adjustment is made to correlate to the correct amount.	(1,853,418)	(41,396)		(40,939)	(457)
During the auditor's review of long term debt, they discovered the general obligation debt guaranteed by the district on the Vocational Technical School was not included on the District's financial statements.	(6,534,990)				
During the auditor's review of unamortized bond issuance costs, unamortized deferred charges on refundings, unamortized bond discounts, and unamortized bond premiums on previous year bond issuances, the amount reported in prior years was incorrect.	3,303,426				
The auditor's review of the elimination of the internal service fund for 2006-07 was incorrect by this amount.	22,629	(22,629)	-	-	-
Net Assets/Fund Balances, as restated at June 30, 2007	<u>\$ (10,362,099)</u>	<u>\$ 656,508</u>	<u>\$ 976,593</u>	<u>\$ 513,915</u>	<u>\$ 142,593</u>

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2008**

Note 8 – Fund Balance Designations/Reserves

Reserved Fund Balance

The fund balance reservations, in the general fund totaling \$834,261, represent prepaid expenditure of \$810,208, and inventory of \$24,053.

Note 9 - Net Asset Restrictions

The portion of net assets for governmental activities, shown on the government-wide statement of net assets invested in capital assets, net of related debt is a deficit of \$23,897,888. The governmental activities column has \$1,735,717 restricted for federal grants and \$28,644,709 for capital projects. The business-type activities column reflects \$145,008 invested in capital assets with no related debt.

Note 10 - Contingencies

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund, or other applicable funds. However, in the opinion of management any such disallowed claims will not have a material adverse effect on the overall financial position of the School District as of June 30, 2008.

Litigation

In accordance with management, there are no legal matters that could materially affect the financial position of the District as of June 30, 2008.

**REQUIRED
SUPPLEMENTAL INFORMATION**

**Bethlehem Area School District
Schedule of Funding Progress
Fiscal Year Ended June 30, 2008**

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

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

**Bethlehem Area School District
Combining Balance Sheet
Non-Major Governmental Funds
As of June 30, 2008**

	<u>SPECIAL REVENUE FUNDS</u>			<u>DEBT SERVICE FUNDS</u>		<u>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</u>
	<u>ATHLETIC FUND</u>	<u>CONCESSION FUND</u>	<u>TOTAL SPECIAL REVENUE FUNDS</u>	<u>BOND FUND</u>	<u>TOTAL DEBT SERVICE FUNDS</u>	
<u>ASSETS</u>						
Cash and cash equivalents	\$ 63,289	\$ 4,691	\$ 67,980	\$ -	\$ -	\$ 67,980
Investments	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Receivables from other governments	-	-	-	-	-	-
Other Recoverable Disbursements	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
TOTAL ASSETS	\$ 63,289	\$ 4,691	\$ 67,980	\$ -	\$ -	\$ 67,980
<u>LIABILITIES AND FUND BALANCES</u>						
<u>LIABILITIES:</u>						
Accounts Payable	\$ 46,461	\$ 725	\$ 47,186	\$ -	\$ -	\$ 47,186
Due to other funds	-	-	-	-	-	-
Interest Payable	-	-	-	-	-	-
Payable to other governments	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-
Compensated Absences	-	-	-	-	-	-
TOTAL LIABILITIES	46,461	725	47,186	-	-	47,186
<u>FUND BALANCES:</u>						
Reserved for:						
Inventories	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-
Unreserved	16,828	3,966	20,794	-	-	20,794
TOTAL FUND BALANCES	16,828	3,966	20,794	-	-	20,794
TOTAL LIABILITIES AND FUND BALANCES	\$ 63,289	\$ 4,691	\$ 67,980	\$ -	\$ -	\$ 67,980

Bethlehem Area School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2008

	<u>SPECIAL REVENUE FUNDS</u>			<u>DEBT SERVICE FUNDS</u>		<u>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</u>
	<u>ATHLETIC FUND</u>	<u>CONCESSION FUND</u>	<u>TOTAL SPECIAL REVENUE FUNDS</u>	<u>BOND FUND</u>	<u>TOTAL DEBT SERVICE FUNDS</u>	
REVENUES						
Local Sources	\$ 114,267	\$ 78,828	\$ 193,095	\$ -	\$ -	\$ 193,095
State Sources	63,049	-	63,049	-	-	63,049
Federal Sources	-	-	-	-	-	-
TOTAL REVENUES	<u>177,316</u>	<u>78,828</u>	<u>256,144</u>	<u>-</u>	<u>-</u>	<u>256,144</u>
EXPENDITURES						
Instruction	-	-	-	-	-	-
Support Services	-	-	-	35,451	35,451	35,451
Operation of Non-Instructional Services	1,636,981	83,218	1,720,199	-	-	1,720,199
Capital Outlay	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>1,636,981</u>	<u>83,218</u>	<u>1,720,199</u>	<u>35,451</u>	<u>35,451</u>	<u>1,755,650</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,459,665)</u>	<u>(4,390)</u>	<u>(1,464,055)</u>	<u>(35,451)</u>	<u>(35,451)</u>	<u>(1,499,506)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from Refunding Bond Issues	-	-	-	-	-	-
Bond Premium	-	-	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-	-	-
Bond Discount	-	-	-	-	-	-
Sale/Compensation for Fixed Assets	-	-	-	-	-	-
Transfers in	1,418,521	-	1,418,521	-	-	1,418,521
Transfers out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>1,418,521</u>	<u>-</u>	<u>1,418,521</u>	<u>-</u>	<u>-</u>	<u>1,418,521</u>
NET CHANGE IN FUND BALANCES	(41,144)	(4,390)	(45,534)	(35,451)	(35,451)	(80,985)
FUND BALANCES - BEGINNING	<u>57,972</u>	<u>8,356</u>	<u>66,328</u>	<u>35,451</u>	<u>35,451</u>	<u>101,779</u>
FUND BALANCES - ENDING	<u>\$ 16,828</u>	<u>\$ 3,966</u>	<u>\$ 20,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,794</u>

Bethlehem Area School District
Combining Statement of Changes In Fiduciary Net Assets
Private Purpose Trust Funds
As of June 30, 2008

<u>SCHOLARSHIP</u>	<u>7/1/07</u> <u>NET</u> <u>ASSETS</u>	<u>CONTRIBUTIONS</u> <u>REVENUE</u>	<u>INTEREST</u> <u>REVENUE</u>	<u>AWARDS</u> <u>EXPENDED</u>	<u>6/30/08</u> <u>NET</u> <u>ASSETS</u>
General Scholarship Account	\$ 5,413	\$ 5,775	\$ -	\$ 2,545	\$ 8,643
General Bilingual Awards	5,601	750	660	-	7,011
Shining Stars Scholarship	-	1,779	-	-	1,779
Teresa Rodriguez Memorial	-	280	-	-	280
PNC Bank Latino Scholarship	-	1,000	-	500	500
Figueroa's Family Scholarship	-	200	-	200	-
Bethlehem Partnership for a Healthy Community	-	300	-	-	300
College Textbook Award	-	550	-	450	100
Just Born Minority Scholarship	-	500	-	-	500
P. Albizu Campos & Sojourner Truth Scholars.	-	100	-	-	100
Scholastic Achievement, Service & Leadership	-	500	-	-	500
Ramon Emeterio Betances Scholarship	-	500	-	500	-
Ella Springs Memorial	-	2,000	-	-	2,000
Ralph Lopez Scholarship	-	1,000	-	-	1,000
Class Scholarship	-	300	-	300	-
Richard Montz Memorial Scholarship	-	200	-	-	200
Kathryn & Pedro Bonne Textbook Award	-	400	-	-	400
Puerto Rican Beneficial Scholarship	-	1,150	-	600	550
Roberto Clemente Scholarship	-	750	-	500	250
Ann Goldberg Scholarship	-	450	-	-	450
George Maunz School-to-Work Scholarship	-	500	-	-	500
Jesus "Berto" Rivera Scholarship	-	200	-	-	200
PR Cultural Coalition Scholarship	-	1,000	-	-	1,000
CSSOLV Scholarship	-	2,550	-	550	2,000
Betty Williams Memorial Scholarship	-	200	-	-	200
Rev. Dr. Martin Luther King Award	-	150	-	150	-
Thomas K. Washington Family Scholarship	-	200	-	-	200
Thurgood Marshall Scholarship	-	200	-	200	-
Lee Mae Segel Memorial Scholarship	-	1,125	-	-	1,125
Fowler Scholarship	-	500	-	500	-
Frances Grabish Memorial Textbook Award	-	150	-	-	150
Angela Sanchez Memorial Award	-	150	-	150	-
Harold & Dorothy Kram Memorial Award	-	150	-	150	-
Scientific Learning	-	400	-	-	400
Non-Expendable Trust Fund	44,424	114,299	-	1,500	157,223
TOTAL	\$ 55,438	\$ 140,258	\$ 660	\$ 8,795	\$ 187,561

Bethlehem Area School District
Combining Balance Sheet - All Capital Project Funds
As of June 30, 2008

	01-03 CAPITAL PROJECT FUND	05-07 CAPITAL PROJECT FUND	TOTAL CAPITAL PROJECT FUNDS
ASSETS			
Cash	\$ -	\$ 9,160	\$ 9,160
Investments	-	32,741,130	32,741,130
Accounts Receivable	-	-	-
Accrued Interest Receivable	-	-	-
Other Recoverable Disbursements	-	1,000	1,000
Due from Other Funds	-	-	-
TOTAL ASSETS	\$ -	\$ 32,751,290	\$ 32,751,290
LIABILITIES			
Accounts Payable	\$ -	\$ 4,106,581	\$ 4,106,581
Due to Other Funds	-	-	-
Other Liabilities	-	-	-
Deferred Revenue	-	-	-
EQUITY			
Unreserved Fund Balances	-	28,644,709	28,644,709
TOTAL LIABILITIES AND FUND EQUITY	\$ -	\$ 32,751,290	\$ 32,751,290

**Bethlehem Area School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - All Capital Project Funds
For the Year Ended June 30, 2008**

	<u>01-03 CAPITAL PROJECT FUND</u>	<u>05-07 CAPITAL PROJECT FUND</u>	<u>TOTAL CAPITAL PROJECT FUNDS</u>
REVENUES			
Local Sources	\$ 13,545	\$ 2,409,999	\$ 2,423,544
OTHER FINANCING SOURCES			
Bond Proceeds	-	40,000,000	40,000,000
Bond Premium	-	-	-
Refund of Prior Yr. Expenditures	-	-	-
Interfund Transfers	-	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>13,545</u>	<u>42,409,999</u>	<u>42,423,544</u>
	-----	-----	-----
EXPENDITURES AND OTHER FINANCING USES			
Instructional Services	-	295,287	295,287
Support Services	250,382	941,013	1,191,395
Non-Instructional Services	-	11,199	11,199
Capital Outlay	-	43,045,537	43,045,537
Debt Service	832,469	652,640	1,485,109
Bond Discount	-	-	-
Interfund Transfers	-	-	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>1,082,851</u>	<u>44,945,676</u>	<u>46,028,527</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(1,069,306)	(2,535,677)	(3,604,983)
FUND BALANCE - JULY 1, 2007	<u>1,069,306</u>	<u>31,180,386</u>	<u>32,249,692</u>
FUND BALANCE - JUNE 30, 2008	<u>\$ -</u>	<u>\$ 28,644,709</u>	<u>\$ 28,644,709</u>

Bethlehem Area School District
Combining Balance Sheet - All Capital Reserve Funds
As of June 30, 2008

	CAPITAL RESERVE FUND	CAPITAL RESERVE TECHNOLOGY FUND	TOTAL CAPITAL RESERVE FUNDS
ASSETS			
Cash	\$ 8,101,559	\$ 51,494	\$ 8,153,053
Investments	-	-	-
Accounts Receivable	-	-	-
Accrued Interest Receivable	-	-	-
Other Receivables	-	48,506	48,506
Due from Other Funds	-	-	-
TOTAL ASSETS	\$ 8,101,559	\$ 100,000	\$ 8,201,559
LIABILITIES			
Accounts Payable	\$ 6,344,513	\$ -	\$ 6,344,513
Due to Other Funds	-	-	-
Other Liabilities	-	-	-
Deferred Revenue	-	-	-
EQUITY			
Unreserved Fund Balances	1,757,046	100,000	1,857,046
TOTAL LIABILITIES AND FUND EQUITY	\$ 8,101,559	\$ 100,000	\$ 8,201,559

**Bethlehem Area School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - All Capital Reserve Funds
For the Year Ended June 30, 2008**

	CAPITAL RESERVE FUND	CAPITAL RESERVE TECHNOLOGY FUND	TOTAL CAPITAL RESERVE FUNDS
REVENUES			
Local Sources	\$ 104,918	\$ -	\$ 104,918
OTHER FINANCING SOURCES			
Bond Proceeds	-	-	-
Bond Premium	-	-	-
Refund of Prior Yr. Expenditures	-	-	-
Interfund Transfers	-	-	-
	-	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	104,918	-	104,918
EXPENDITURES AND OTHER FINANCING USES			
Instructional Services	-	-	-
Support Services	1,464,356	-	1,464,356
Non-Instructional Services	-	-	-
Capital Outlay	25,288	-	25,288
Debt Service	-	-	-
Bond Discount	-	-	-
Interfund Transfers	2,500,000	-	2,500,000
	2,500,000	-	2,500,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	3,989,644	-	3,989,644
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(3,884,726)	-	(3,884,726)
FUND BALANCE - JULY 1, 2007	5,641,772	100,000	5,741,772
FUND BALANCE - JUNE 30, 2008	\$ 1,757,046	\$ 100,000	\$ 1,857,046

**Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2008**

REVENUES

LOCAL SOURCES:

Current Real Estate Taxes	\$ 97,165,864	
Interim Real Estate Taxes	1,566,283	
Public Utility	162,642	
Payment in Lieu of Taxes	120,798	
Current Per Capita Taxes - 511	242,396	
Current Per Capita Taxes - 679	242,396	
Emergency Municipal Services Tax	136,722	
Earned Income Tax	10,400,810	
Real Estate Transfer Tax	2,508,341	
Act 511 Mercantile Taxes	2,414,521	
Delinquent Real Estate Taxes	3,393,910	
Delinquent Per Capita Taxes	58,890	
Delinquent Mercantile Taxes	323,786	
Interest	1,685,398	
Fees	12,500	
State Revenue from other Public Schools	169,578	
State Revenue from Other Sources	151,133	
Federal Revenue from Local Sources	1,945,559	
Rentals	10,148	
Contributions	216,936	
Regular Day School Tuition	-	
Summer School	60,545	
Adult Education Tuition	107,217	
Receipts from Other LEA's - Education	210,131	
Services provided Other Local Governmental Units	22,020	
Revenue from Community Services	72,645	
Miscellaneous	185,312	
Refunds of Prior Yr. Expenditures	12,913	
TOTAL LOCAL SOURCE REVENUE	123,599,394	\$ 123,599,394

STATE SOURCES:

Basic Subsidy - ESBE	21,980,025
Read to Succeed	-
Charter Schools	1,286,786
School Performance	-
Orphan Tuition	349,693
Homebound	-
Vocational Education	182,650
Driver Education	10,605
Special Education	6,453,560
SUB-TOTAL	30,263,319

**Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2008**

REVENUE (CONT'D)

SUB-TOTAL (CARRIED FORWARD)	\$ 30,263,319	
Additional Educational Program Revenue	314,000	
Educational Assistance Program	1,040,243	
Other Program Revenues	9,800	
Transportation	2,180,482	
Rentals	1,307,669	
Health Services	390,767	
Alternative Education	2,989	
Migratory Children	3,520	
Accountability Grants	1,831,270	
Dual Enrollment	65,364	
Project 720 - High School Reform	89,901	
FICA Revenue	3,743,887	
Retirement Revenue	3,172,473	
Classrooms for the Future	1,240,631	
Other State Grants	229,850	
	<u>229,850</u>	
TOTAL STATE SOURCE REVENUE		\$ 45,886,165

FEDERAL SOURCES:

Payments for Federally Impacted Areas	62,930	
Title I	3,597,371	
Title IIA, IID	1,083,252	
Title III	339,940	
Title IV	943,810	
Title V	21,393	
Child Care Grants	327,207	
Medical Access	29,105	
Medical Assistance	53,138	
Other Restricted Federal Grants-In-Aid	8,150	
	<u>8,150</u>	
TOTAL FEDERAL SOURCE REVENUE		<u>6,466,296</u>
TOTAL REVENUE		175,951,855

EXPENDITURES

Regular Programs - Elem./Secondary	74,488,808
Federally Funded Regular Programs	4,115,418
Special Education	391,211
Life Skills Support - Public	740,126
Life Skills Support - PRRI	-
Deaf or Hearing Impaired Support	18,394
Blind or Visually Impaired Support	18,056
Speech & Language Impaired	878,844
	<u>878,844</u>
SUB-TOTAL	80,650,857

Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2008

SUB-TOTAL (CARRIED FORWARD)	\$ 80,650,857
Emotional Support	7,578,517
Autistic Support	122
Learning Support - Public	9,330,578
Gifted Support	225,202
Other Support	12,509
Physical Support	321,624
Multi-Handicapped Support	225,438
Development Delay Support	-
Early Intervention Support	100,069
Other Support	285,965
Home Economics	568,586
Industrial Arts Education	730,173
Business Education	1,531,534
Other Vocational Education Programs	4,873,349
Drivers' Education	59,226
Summer School	797,503
Homebound Instruction	242,446
Adjudicated/Court Placed Programs	269,379
Alternative Education Program	607,580
Instructional Programs Outside Established Schools	951,141
Additional Other Instructional Program	9,850
Other Adult Education Programs	43,074
Community College Programs	1,972,585
Pre-Kindergarten	1,483,489
Supervision of Pupil Personnel Services	4,531
Guidance Services	4,586,368
Attendance Services	244,837
Psychological Services	837,213
Speech Pathology Services	10,434
Social Work Services	1,116,152
Student Accounting Services	309,264
Other Pupil Personnel Services	720,397
Support Services - Instructional Staff	1,264,383
Technology Support Services	116,780
Computer Assisted Instruction Services	4,564,953
School Library Services	1,236,499
Instructional & Curriculum Dev. Service	325,886
Instructional Staff Development Services	200,695
Nonpublic Support Services	262,555
Board Services	136,683
SUB-TOTAL	128,808,426

**Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2008**

SUB-TOTAL (CARRIED FORWARD)	\$	128,808,426	
Board Treasurer Services		1,500	
Tax Assessment & Collection Service		814,389	
Staff Relations		11,593	
Legal Services		154,964	
Office of the Superintendent Services		1,595,373	
Office of the Principal Services		7,376,340	
Medical Services		1,529,841	
Dental Services		193	
Non-Public Health Services		129,263	
Support Services - Business		2,606,512	
Operation and Maintenance of Plant Services		14,897,709	
Supervision of Operation and Maintenance of Plant		85,901	
Security Services		500	
Supervision of Student Transportation Services		724,219	
Vehicle Operation and Maint. Services		3,712,467	
Vehicle Servicing and Maintenance Services		793,456	
Information Services		225,726	
Staff Services		496,225	
Staff Development Services		75,045	
Staff Development-Non-Instruction		15,282	
Data Processing Services		907,155	
State and Federal Agency Liaison Services		291,351	
Other Support Services		97,258	
Pass-Thru Funds		666	
School Sponsored Student Activities		441,368	
School Sponsored Athletics		27,918	
Community Services		200,627	
Architecture and Engineering Services		887	
Debt Service		17,099,221	
Refund of Prior Yr. Receipts		79,503	
TOTAL EXPENDITURES		<u>183,200,878</u>	
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 \$	 (7,249,023)	

**Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2008**

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (CARRIED FORWARD)	\$	(7,249,023)
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OTHER FINANCING SOURCES (USES)

Proceeds from Extended Term Financing	1,707,344	
Sale of or Compensation for Loss of Fixed Assets	13,642	
Capital Reserve Fund Transfers In	2,500,000	
Enterprise (Day Care) Fund Transfers In	300,000	
Transfer from Activity Funds	-	
Special Revenue Fund Transfers Out	(1,418,521)	
Capital Projects Funds Transfers Out	-	
Debt Service Fund Transfers Out	-	
Food Service Fund Transfers Out	-	
Activity Fund Transfers Out	-	
TOTAL OTHER FINANCING SOURCES (USES)	3,102,465	

Special Items	-	
Extraordinary Items	-	<u>3,102,465</u>

NET CHANGE IN FUND BALANCE		(4,146,558)
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FUND BALANCE - JULY 1, 2007		1,795,953
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Prior Period Adjustment		<u>(819,360)</u>
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FUND BALANCE - JUNE 30, 2008		<u>\$ (3,169,965)</u>
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**Bethlehem Area School District
 Capital Reserve Technology Fund
 Statement of Revenues and Expenditures
 For the Year Ended June 30, 2008**

FUND BALANCE - JULY 1, 2007 \$ 100,000

REVENUES AND OTHER FINANCING SOURCES

Interest	\$	-	
Refund of Prior Year Expenditures		-	-
		-	-
TOTAL FUNDS AVAILABLE			100,000

EXPENDITURES

SUPPORT SERVICES:

Professional Services		-	
Repairs and Maintenance		-	
Advertising		-	

CAPITAL OUTLAY:

Professional Services		-	
Construction Services		-	
Transportation		-	
Equipment		-	
		-	-

FUND BALANCE - JUNE 30, 2008 **\$ 100,000**

**Bethlehem Area School District
Capital Reserve Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2008**

FUND BALANCE - JULY 1, 2007 \$ 5,641,772

REVENUES AND OTHER FINANCING SOURCES

Interest	\$ 104,918	
Transfer from General Fund	-	<u>104,918</u>
TOTAL FUNDS AVAILABLE		5,746,690

EXPENDITURES

INSTRUCTIONAL SERVICES:

Equipment -

SUPPORT SERVICES:

Professional Services	104,319	
Repairs and Maintenance	811,017	
Advertising	6,265	
Admin. Software and Fees	61,508	
Construction Services	180,036	
Equipment	301,211	

CAPITAL OUTLAY:

Construction Services	-	
Transportation	-	
Professional Services	25,288	

Other Financing Uses:

Transfer to General Fund	<u>2,500,000</u>	<u>3,989,644</u>
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FUND BALANCE - JUNE 30, 2008 **\$ 1,757,046**

**Bethlehem Area School District
01-03 Capital Project Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2008**

FUND BALANCE - JULY 1, 2007 \$ 1,069,306

REVENUES AND OTHER FINANCING SOURCES

Proceeds from Bond Issues	\$ -	
Interest Earnings	13,545	13,545

TOTAL FUNDS AVAILABLE 1,082,851

EXPENDITURES AND OTHER FINANCING USES

INSTRUCTIONAL:

Equipment	-	
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SUPPORT SERVICES:

Professional Services	3,972	
Repairs and Maintenance	189,993	
Advertising	2,064	
Dues and Fees	-	
Construction Services	54,353	

CAPITAL OUTLAY:

Architect	-	
Engineer/Surveyor	-	
General Construction	-	
Electrical Construction	-	
Plumbing Construction	-	
HVAC Construction	-	
Equipment	-	
Miscellaneous	-	

DEBT SERVICE:

Lease Principal	787,262	
Lease Interest	45,207	1,082,851

FUND BALANCE - JUNE 30, 2008 \$ -

**Bethlehem Area School District
05-07 Capital Project Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2008**

FUND BALANCE - JULY 1, 2007 \$ 31,180,386

REVENUES AND OTHER FINANCING SOURCES

Proceeds from Bond Issues	\$ 40,000,000	
Interest Earnings	2,409,999	42,409,999

TOTAL FUNDS AVAILABLE 73,590,385

EXPENDITURES AND OTHER FINANCING USES

INSTRUCTIONAL:

Equipment	295,287	
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SUPPORT SERVICES:

Professional Services	583,769	
Repairs and Maintenance	-	
Advertising	1,549	
Property and Liability Insurance	75,631	
Disposal Services	12,569	
Natural Gas	11,932	
Electricity	10,755	
Construction Services	233,369	
Supplies	7,073	
Equipment	4,366	

NON-INSTRUCTIONAL SERVICES:

Repairs and Maintenance	1,246	
Equipment	9,953	

CAPITAL OUTLAY:

Professional Services	2,001,321	
Rentals	3,500	
Construction Services	40,948,619	
Other Purchased Services	64,580	
Electricity	8,504	
Technology Infrastructure	19,013	

DEBT SERVICE:

Lease Principal	-	
Lease Interest	652,640	44,945,676

FUND BALANCE - JUNE 30, 2008 **\$ 28,644,709**

**Bethlehem Area School District
Food Service Fund
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008**

REVENUES

Sales	\$ 2,077,359	
Donated Commodities	264,354	
Special Events	222,373	
Over or (Short)	-	
State Subsidies	361,040	
Federal Subsidies	2,757,558	
Gain (Loss) on Sale of Fixed Assets	5,700	
Miscellaneous	77,506	
Transfer from General Fund	-	
TOTAL REVENUES	-	\$ 5,765,890

COST OF COMMODITIES

Beginning Inventory	316,081	
Food Service Management - Food	2,136,065	
Donated Commodities	264,355	
Ending Inventory	(282,669)	
TOTAL COST OF COMMODITIES SOLD	-	2,433,832
GROSS PROFIT		3,332,058

SALARY AND BENEFIT EXPENSES

Administrative	86,467	
M-2 Salares	50,800	
Overtime	54,397	
Other Salaries	1,571,718	
Benefits	416,839	2,180,221

OPERATING EXPENSES

Tech & Other Services	2,144	
Refuse	61,403	
Repairs and Maintenance	49,351	
Rentals	915	
Communications	4,710	
Printing	1,390	
Food Service Management Costs	798,625	
Travel	4,828	
Supplies	68,600	
Electricity	50,000	
Small Tools	617	
Depreciation	40,140	
Dues and Fees	6,440	1,089,163
TOTAL EXPENSES	-	3,269,384

CHANGES IN NET ASSETS **62,674**

NET ASSETS - JULY 1, 2007 **554,854**

Prior Period Adjustment **(40,939)**

NET ASSETS - JUNE 30, 2008 **\$ 576,589**

**Bethlehem Area School District
Day Care Fund
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008**

REVENUES

Regular Day School Tuition	\$ 1,987,898	
Revenue from Community Service Activities	615,073	
State Revenue	91,665	
Fica Revenue	52,193	
Retirement Revenue	47,552	
Earnings on Investments	4,767	
TOTAL REVENUES	4,767	\$ 2,799,148

OPERATING EXPENSES

Salaries - Admin.	670,532	
Salaries - Professional	428,248	
Salaries - Office/Clerk	67,256	
Salaries - Bus Drivers	9,049	
Salaries - Teacher Aides	242,247	
Fica Tax	107,354	
Retirement Contributions	97,870	
Health Benefits	586,369	
Professional Services	630	
Small Equipment	4,419	
Communications	455	
Travel	2,092	
Field Trips	6,804	
Supplies	92,552	
Food	57,065	
Books and Periodicals	230	
Depreciation	7,563	
Miscellaneous	1,035	
Dues and Fees	3,021	
Transfer to General Fund	300,000	
TOTAL EXPENSES	300,000	2,684,791
CHANGES IN NET ASSETS		114,357
NET ASSETS - JULY 1, 2007		143,050
Prior Period Adjustment		(457)
NET ASSETS - JUNE 30, 2008		\$ 256,950

**Bethlehem Area School District
Athletic Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2008**

REVENUES

Liberty - Football	\$	59,466	
- Boys Basketball		8,569	
- Girls Basketball		1,406	
- Wrestling		3,704	
- All Sports		5,963	
Freedom - Football		18,782	
- Boys Basketball		7,577	
- Girls Basketball		925	
- Wrestling		3,224	
- All Sports		3,968	
Miscellaneous Revenue		683	
Fica Revenue		37,476	
Retirement Revenue		25,573	
		25,573	\$ 177,316

EXPENDITURES AND OTHER FINANCING USES

Salaries - Athletic Directors		46,631	
Salaries - Coaches		202,056	
Salaries - Trainers		454,448	
Salaries - Game Personnel		75,065	
Salaries - Equipment Managers		23,912	
Salaries - Office Clerk		55,765	
Salaries - Bus Drivers		115,223	
Employee Benefits		147,805	
Game Officials		92,416	
Security		22,409	
Med. - Amb. - Misc.		5,175	
Equipment Refurbishing		23,001	
Other Professional Services		144,964	
Security/Safety Services		-	
Repairs and Maintenance		15,175	
Rentals		672	
Other Insurance		24,500	
Communications		4,118	
Conferences		1,152	
Printing & Binding		10,240	
Travel		30,040	
Other Purchased Services		1,521	
Supplies		118,038	
Equipment		7,739	
Dues and Fees		14,763	
Miscellaneous		153	
		153	1,636,981

EXCESS EXPENDITURES AND OTHER FINANCING USES OVER REVENUES

(1,459,665)

OTHER FINANCING SOURCES

Transfer from General Fund		1,418,521	
		1,418,521	

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

(41,144)

FUND BALANCE - JULY 1, 2007

57,972

FUND BALANCE - JUNE 30, 2008

\$ 16,828

**Bethlehem Area School District
Concession Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2008**

REVENUES

Concession Revenue	\$	78,391	
Interest Earnings		437	\$ 78,828

EXPENDITURES AND OTHER FINANCING USES

Salaries		11,160	
Fica Tax		854	
Retirement		407	
Technical Services		2,943	
Other Insurance		2,501	
Supplies		59,784	
Equipment		5,569	
Miscellaneous		-	83,218

EXCESS EXPENDITURES AND OTHER FINANCING USES OVER REVENUES (4,390)

OTHER FINANCING SOURCES

Transfer from General Fund			-
----------------------------	--	--	---

EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES (4,390)

FUND BALANCE - JULY 1, 2007 8,356

FUND BALANCE - JUNE 30, 2008 \$ 3,966

**Non-Expendable Trust Fund
Statement of Additions and Deductions
For the Year Ended June 30, 2008**

NET ASSETS - JULY 1, 2007 \$ 44,424

ADDITIONS

Contributions	\$	114,299	
Interest		-	114,299

TOTAL FUNDS AVAILABLE 158,723

DEDUCTIONS

Awards		1,500	
Interfund Transfers		-	1,500

NET ASSETS - JUNE 30, 2008 \$ 157,223

Bethlehem Area School District
Schedule on General Obligation Bonds - Series of 1998
For the Year Ended June 30, 2008

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2008-09	\$ 13,764	\$ 605,000
	-	-
TOTAL OUTSTANDING	\$ 13,764	\$ 605,000

Schedule on General Obligation Bonds - Series A of 2001
For the Year Ended June 30, 2008

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2008-09	\$ 270,788	\$ 355,000
2009-10	256,942	375,000
2010-11	241,943	385,000
2011-12	226,350	405,000
2012-13	209,542	420,000
2013-14	191,693	415,000
2014-15	173,640	430,000
2015-16	154,505	445,000
2016-17	134,035	860,000
2017-18	93,615	950,000
2018-19	48,015	990,000
TOTAL OUTSTANDING	\$ 2,001,068	\$ 6,030,000

Schedule on General Obligation Notes - Series of 2003
For the Year Ended June 30, 2008

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2008-09	\$ 1,126,123	\$ 365,000
2009-10	1,215,245	1,020,000
2010-11	1,197,395	1,065,000
2011-12	1,178,780	1,110,000
2012-13	1,159,343	1,160,000
2013-14	1,146,053	650,000
2014-15	1,134,836	675,000
2015-16	1,126,168	705,000
2016-17	1,020,392	8,360,000
2017-18	863,263	9,765,000
2018-19	695,555	10,190,000
2019-20	502,614	12,120,000
2020-21	291,597	12,645,000
2021-22	63,949	12,700,000
TOTAL OUTSTANDING	\$ 12,721,313	\$ 72,530,000

Bethlehem Area School District
Schedule on General Obligation Bonds - Series of 2005
For the Year Ended June 30, 2008

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2008-09	\$ 856,814	\$ 5,000
2009-10	934,625	5,000
2010-11	934,540	5,000
2011-12	934,455	5,000
2012-13	934,370	5,000
2013-14	933,780	5,000
2014-15	933,698	5,000
2015-16	936,114	5,000
2016-17	933,532	5,000
2017-18	933,449	5,000
2018-19	934,644	5,000
2019-20	937,059	5,000
2020-21	934,478	5,000
2021-22	934,396	5,000
2022-23	886,504	5,845,000
2023-24	787,816	6,115,000
2024-25	682,102	6,390,000
2025-26	573,655	6,680,000
2026-27	460,310	6,980,000
2027-28	342,532	7,300,000
2028-29	209,904	7,630,000
2029-30	80,421	7,975,000
TOTAL OUTSTANDING	<u>\$ 17,029,198</u>	<u>\$ 54,985,000</u>

**Bethlehem Area School District
Schedule on General Obligation Bonds - Series of 2007
For the Year Ended June 30, 2008**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2008-09	\$ 856,970	\$ 5,000
2009-10	934,795	5,000
2010-11	934,710	5,000
2011-12	934,625	5,000
2012-13	934,540	5,000
2013-14	933,951	5,000
2014-15	933,868	5,000
2015-16	936,283	5,000
2016-17	933,702	5,000
2017-18	933,619	5,000
2018-19	934,196	5,000
2019-20	936,613	5,000
2020-21	934,030	5,000
2021-22	933,948	5,000
2022-23	908,978	3,045,000
2023-24	858,537	3,185,000
2024-25	802,224	3,335,000
2025-26	745,553	3,495,000
2026-27	686,144	3,665,000
2027-28	625,477	3,835,000
2028-29	557,447	4,020,000
2029-30	489,119	4,215,000
2030-31	349,197	12,760,000
2031-32	132,387	13,370,000
TOTAL OUTSTANDING	\$ 19,160,913	\$ 54,995,000

**Schedule on General Obligation Bonds - Series A of 2007
For the Year Ended June 30, 2008**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2008-09	\$ 2,676,625	\$ 5,575,000
2009-10	2,390,875	5,855,000
2010-11	2,090,625	6,155,000
2011-12	1,775,000	6,470,000
2012-13	1,443,125	6,805,000
2013-14	1,079,625	7,735,000
2014-15	682,875	8,135,000
2015-16	265,625	8,555,000
2031-32	25,875	1,035,000
TOTAL OUTSTANDING	\$ 12,430,250	\$ 56,320,000

Bethlehem Area School District
Schedule on General Obligation Notes - Series of 2007
For the Year Ended June 30, 2008

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2008-09	\$ 679,922	\$ 5,000
2009-10	679,837	5,000
2010-11	679,752	5,000
2011-12	679,667	5,000
2012-13	679,582	5,000
2013-14	679,129	5,000
2014-15	679,047	5,000
2015-16	680,781	5,000
2016-17	678,881	5,000
2017-18	678,797	5,000
2018-19	679,351	5,000
2019-20	681,086	5,000
2020-21	679,185	5,000
2021-22	679,103	5,000
2022-23	623,893	3,335,000
2023-24	566,556	3,465,000
2024-25	505,213	3,605,000
2025-26	442,969	3,750,000
2026-27	378,319	3,895,000
2027-28	311,907	4,050,000
2028-29	235,238	4,205,000
2029-30	162,704	4,370,000
2030-31	87,346	4,540,000
2031-32	9,087	4,715,000
TOTAL OUTSTANDING	<u>\$ 12,837,352</u>	<u>\$ 40,000,000</u>

Bethlehem Area School District
Schedule on Guaranteed Revenue Bonds - Refunding Series of 2001
For the Year Ended June 30, 2008

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2008-09	\$ 267,630	\$ 344,113
2009-10	252,350	353,584
2010-11	235,030	375,683
2011-12	217,953	388,311
2012-13	200,974	410,410
2013-14	182,669	426,195
2014-15	163,170	445,137
2015-16	142,422	464,079
2016-17	120,191	489,335
2017-18	96,470	514,591
2018-19	71,089	539,847
2019-20	43,803	565,103
2020-21	14,838	593,516
TOTAL OUTSTANDING	\$ 2,008,589	\$ 5,909,904

Schedule on Guaranteed Revenue Bonds - Improvement Series of 2001
For the Year Ended June 30, 2008

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2008-09	\$ 14,353	\$ 3,157
2009-10	14,159	6,314
2010-11	13,894	6,314
2011-12	13,629	6,314
2012-13	13,425	3,157
2013-14	13,212	6,314
2014-15	12,928	6,314
2015-16	12,628	6,314
2016-17	12,312	6,314
2017-18	11,996	6,314
2018-19	11,681	6,314
2019-20	11,287	9,471
2020-21	10,813	9,471
2021-22	5,288	211,519
TOTAL OUTSTANDING	\$ 171,605	\$ 293,601

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, 2008**

<u>FEDERAL GRANTOR/ PROJECT TITLE</u>	<u>SOURCE CODE</u>	<u>CFDA NUMBER</u>	<u>GRANTOR PASS THROUGH NUMBER</u>	<u>GRANT PERIOD</u>	<u>AWARD AMOUNT</u>	<u>TOTAL RECEIVED</u>	<u>ACCRUED OR (DEFERRED) AT 7/01/07</u>	<u>REVENUE</u>	<u>EXPENDI- TURES</u>	<u>ACCRUED OR (DEFERRED) AT 6/30/08</u>	<u>FOOTNOTES</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>											
IMPACT AID PUBLIC LAW 81-874	D	84.041	N/A	7/1/07-6/30/08	62,930	62,930	-	62,930	62,930	-	
<u>PASSED THROUGH THE PA. DEPARTMENT OF EDUCATION</u>											
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-070034	7/1/06-9/30/07	3,192,928	836,068	\$ 686,944	\$ 149,124	149,124	-	
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-080034	7/1/07-9/30/08	3,455,513	2,537,088	-	3,227,156	3,227,156	690,068	
TITLE I SCHOOL IMPROVEMENT SET ASIDE	I	84.010	042-060034	7/1/05-9/30/07	96,442	-	(3,465)	3,465	3,465	-	
TITLE I SCHOOL IMPROVEMENT SET ASIDE	I	84.010	042-070034	7/1/07-9/30/08	249,000	249,000	38,324	173,405	173,405	(37,271)	
TITLE I SCHOOL IMPROVEMENT SET ASIDE	I	84.010	N/A	7/1/06-9/30/07	57,000	57,000	47,506	9,494	9,494	-	
TITLE I SCHOOL IMPROVEMENT SET ASIDE	I	84.010	N/A	7/1/07-9/30/08	28,500	28,500	-	28,500	28,500	-	
TITLE I ACADEMIC ACHIEVEMENT AWARDS	I	84.010	077-070034	7/1/07-9/30/08	6,228	4,152	-	6,228	6,228	2,076	
TITLE II A IMPROVING TEACHER QUALITY	I	84.367	020-070034	7/1/06-9/30/07	845,697	225,390	225,390	-	-	-	
TITLE II A IMPROVING TEACHER QUALITY	I	84.367	020-080034	7/1/07-9/30/08	856,724	856,724	-	856,724	856,724	-	
TITLE II D EDUCATION TECHNOLOGY	I	84.318	055-070034	7/1/06-9/30/07	380,325	380,325	308,460	71,865	71,865	-	
TITLE II D EDUCATION TECHNOLOGY	I	84.318	055-080034	7/1/07-9/30/08	353,500	141,400	-	154,662	154,662	13,262	
TITLE III LEP / IMMIGRANT STUDENTS	I	84.365	010-070034	7/1/06-9/30/07	280,118	186,745	239,375	39,494	39,494	92,124	
TITLE III LEP / IMMIGRANT STUDENTS	I	84.365	010-080034	7/1/07-9/30/08	331,676	280,649	-	300,447	300,447	19,798	
SAFE AND DRUG FREE SCHOOLS	I	84.186	100-070034	7/1/06-9/30/07	61,643	13,209	(28,432)	41,641	41,641	-	
SAFE AND DRUG FREE SCHOOLS	I	84.186	100-080034	7/1/07-9/30/08	64,240	50,474	-	64,240	64,240	13,766	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100011410	7/1/06-9/30/07	350,000	270,151	166,741	103,410	103,410	-	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100042718A	7/1/07-9/30/08	413,528	180,152	-	413,528	413,528	233,376	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100024595A	7/1/06-9/30/07	480,361	372,756	227,108	145,648	145,648	-	
21st CENTURY COMMUNITY LEARNING CENTERS	I	84.287	4100024595A	7/1/07-9/30/08	206,783	140,790	-	175,343	175,343	34,553	
TITLE V INNOVATIVE EDUCATION	I	84.298	011-070034	7/1/06-9/30/07	36,334	11,250	11,250	-	-	-	
TITLE V INNOVATIVE EDUCATION	I	84.298	011-080034	7/1/07-9/30/08	21,393	18,541	-	21,393	21,393	2,852	
LEARN & SERVE AMERICA	I	94.004	019-060302	7/1/06-9/30/07	18,000	4,909	4,759	150	150	-	
LEARN & SERVE AMERICA	I	94.004	019-070303	7/1/07-9/30/08	8,000	7,273	-	8,000	8,000	727	
<u>PASSED THROUGH THE COLONIAL I.U. #20</u>											
IDEA	I	84.027	N/A	7/1/06-6/30/07	1,783,919	901,326	901,326	-	-	-	
IDEA	I	84.027	N/A	7/1/07-6/30/08	1,751,844	1,316,511	-	1,751,844	1,751,844	435,333	1
<u>PASSED THROUGH THE I.U. #1</u>											
IDEA	I	84.027	N/A	7/1/06-6/30/07	56,275	6,090	6,090	-	-	-	
IDEA	I	84.027	N/A	7/1/07-6/30/08	75,525	20,971	-	57,686	57,686	36,715	1
<u>PASSED THROUGH BETHLEHEM AREA VOCATIONAL TECHNOLOGY SCHOOL</u>											
VOCATIONAL EDUCATION - L.E.P. PERKINS	I	84.048	N/A	7/1/06-6/30/07	51,949	51,949	51,949	-	-	-	
VOCATIONAL EDUCATION - L.E.P. PERKINS	I	84.048	N/A	7/1/07-6/30/08	51,949	-	-	51,949	51,949	51,949	2
<u>PASSED THROUGH NORTHAMPTON COMMUNITY COLLEGE</u>											
FEDERAL ADULT EDUCATION (GED)	I	84.002	N/A	7/1/06-6/30/07	22,527	6,716	6,716	-	-	-	
FEDERAL ADULT EDUCATION (GED)	I	84.002	N/A	7/1/07-6/30/08	13,190	8,055	-	13,190	13,190	5,135	3
TOTAL U.S. DEPARTMENT OF EDUCATION						9,227,094	2,890,041	7,931,516	7,931,516	1,594,463	
<u>U.S. DEPT. OF HEALTH AND HUMAN SERVICES</u>											
<u>PASSED THROUGH THE P.A. DEPT OF EDUCATION</u>											
FAMILY CENTERS:											
CHILD CARE MANDATORY/MATCH FUNDS	I	93.556	SAP 4100034526	7/1/06-6/30/07	196,679	87,442	87,442	-	-	-	
CHILD CARE MANDATORY/MATCH FUNDS	I	93.590	SAP 4100040318	7/1/07-6/30/08	152,699	111,586	-	152,699	152,699	41,113	
CHILD CARE MANDATORY/MATCH FUNDS	I	93.556	SAP 4100040318	7/1/07-6/30/08	15,016	15,016	-	15,016	15,016	-	
TIME-LIMITED FAMILY REUNIFICATION SERVICES:											
CHILD CARE MANDATORY/MATCH FUNDS	I	93.590	SAP 4100034526	7/1/06-6/30/07	155,087	64,372	64,372	-	-	-	
CHILD CARE MANDATORY/MATCH FUNDS	I	93.590	SAP 4100040318	7/1/07-6/30/08	159,492	75,771	-	159,492	159,492	83,721	

**BETHLEHEM AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR/ PROJECT TITLE	SOURCE CODE	CFDA NUMBER	GRANTOR PASS THROUGH NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED	ACCRUED OR (DEFERRED) AT 7/01/07	REVENUE	EXPEN- DITURES	ACCRUED OR (DEFERRED) AT 6/30/08	FOOTNOTES
TITLE 19 MEDICAL ASSISTANCE PROGRAM	I	93.778	N/A	7/1/07-6/30/08	N/A	53,138	-	53,138	53,138	-	
TOTAL U.S. DEPT. OF HEALTH AND HUMAN SERVICES						407,325	151,814	380,345	380,345	124,834	
<u>N.A.S.A. NATIONAL AERONAUTICS AND SPACE ADMIN. PASSED THROUGH NATIONAL SCIENCE AND TEACHERS ASSOCIATION</u>											
N.A.S.A. EXPLORER SCHOOLS	I	43.001	N/A	7/1/06-6/30/07	10,000	-	(7,351)	7,351	7,351	-	4
N.A.S.A. EXPLORER SCHOOLS	I	43.001	N/A	7/1/07-6/30/08	5,000	5,000	-	5,000	5,000	-	4
TOTAL NATIONAL AERONAUTICS AND SPACE ADMIN.						5,000	(7,351)	12,351	12,351	-	
<u>U.S. DEPARTMENT OF LABOR PASSED THROUGH THE P.A. DEPT. OF PUBLIC WELFARE</u>											
PIC SUMMER MAINTENANCE/ BASIC SKILLS	I	17.269	2099	4/3/06-9/30/07	63,578	20,034	20,034	-	-	-	
PIC SUMMER MAINTENANCE/ BASIC SKILLS	I	17.269	2109	6/6/07-9/30/08	66,854	42,120	-	44,022	44,022	1,902	5
PIC CAREER LINKING ACADEMY	I	17.269	5026	4/3/07-6/22/08	9,321	7,496	-	-	-	-	
PIC CAREER LINKING ACADEMY	I	17.269	5033	3/3/08-9/30/08	16,418	-	-	14,517	14,517	14,517	5
TOTAL U.S. DEPT. OF LABOR						69,650	27,530	58,539	58,539	16,419	
<u>U. S. DEPT. OF AGRICULTURE PASSED THROUGH THE PA. DEPT OF EDUCATION</u>											
NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/01/06 - 6/30/07	N/A - F	8,271	8,271	-	-	-	
NATIONAL SCHOOL LUNCH	S	N/A	N/A	7/01/06 - 6/30/07	N/A	665	665	-	-	-	
NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/01/07 - 6/30/08	N/A - F	1,877,412	-	2,155,624	2,155,624	278,212	8
NATIONAL SCHOOL LUNCH	S	N/A	N/A	7/01/07 - 6/30/08	N/A	155,681	-	178,708	178,708	23,027	
BREAKFAST PROGRAM	I	10.553	N/A	7/01/06 - 6/30/07	N/A - F	184	184	-	-	-	
BREAKFAST PROGRAM	S	N/A	N/A	7/01/06 - 6/30/07	N/A	143	143	-	-	-	
BREAKFAST PROGRAM	I	10.553	N/A	7/01/07 - 6/30/08	N/A - F	67,218	-	78,680	78,680	11,462	8
BREAKFAST PROGRAM	S	N/A	N/A	7/01/07 - 6/30/08	N/A	24,584	-	28,614	28,614	4,030	
SEVERE NEED BREAKFAST	I	10.553	N/A	7/01/06 - 6/30/07	N/A - F	1,674	1,674	-	-	-	
SEVERE NEED BREAKFAST	I	10.553	N/A	7/01/07 - 6/30/08	N/A - F	259,228	-	302,433	302,433	43,205	
AFTER SCHOOL SNACK	I	10.555	N/A	7/01/07 - 6/30/08	N/A - F	68,132	-	71,774	71,774	3,642	
SUMMER FOOD	I	10.559	N/A	7/01/07 - 6/30/08	N/A - F	109,155	-	149,048	149,048	39,893	
<u>PASSED THROUGH THE PA DEPARTMENT OF AGRICULTURE</u>											
USDA COMMODITIES	I	10.550	N/A	7/01/07 - 6/30/08	N/A	264,354	(5,729)	251,353	251,353	(18,731)	6 & 7
TOTAL U.S. DEPARTMENT OF AGRICULTURE						2,836,701	5,208	3,216,234	3,216,234	384,740	
TOTAL AWARDS						\$ 12,545,770	\$ 3,067,242	\$ 11,598,985	\$ 11,598,985	\$ 2,120,456	
LESS: STATE SHARE						(181,073)	(808)	(207,322)	(207,322)	(27,057)	
TOTAL FEDERAL AWARDS						\$ 12,364,697	\$ 3,066,434	\$ 11,391,663	\$ 11,391,663	\$ 2,093,399	

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

Bethlehem Area School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Note 1 - Significant Accounting Policies

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

Note 2- Organization and Scope

The District recognized 4.7% of its total general fund revenue in federal awards, and 52.4% of its total enterprise fund revenue.

Note 3 - Program Disclosure – Footnotes

U.S. Department of Education

1. The IDEA grant, passed through the Carbon-Lehigh I. U., is reflected as local source revenue in the basic financial statements, as per PDE instructions.
2. The Vocational Education – L.E.P. Perkins grant, passed through the Bethlehem Area Vocational Technology School is reflected as local source revenue in the basic financial statements, as per PDE instructions.
3. The Federal Audit Education Grant, passed through the Northampton Community College is reflected as local source revenue in the basic financial statements, as per PDE instructions.

The Medical Access grant passed through the PA Department of Education is reflected as federal source revenue on the basic financial statements; however, pursuant to instructions from the Commonwealth of PA, it is not reported as revenue on the Schedule of Federal Awards.

National Aeronautics and Space Administration

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

U.S. Department of Labor

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

U.S. Department of Agriculture

6. The District received non-monetary assistance of \$264,354 in the form of commodities. These commodities are valued at U.S.D.A.'s approximate costs. During the 2007-08 fiscal year, the District used \$251,353 in commodities and established a year end inventory of \$18,731 at June 30, 2008.
7. The revenues reported on the SFA represent the commodities used versus the financial statements, which recognize commodity revenue when received.

**Bethlehem Area School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008**

8. The National School Lunch Program (CFDA No. 10.555) and the National School Breakfast Program (FDA No. 10.553) are considered a cluster program.

FINANCIAL STATEMENT RECONCILIATION

General Fund Federal Source Revenues	\$ 6,466,296
Federal Grants in Local Sources	1,945,559
Food Service Fund Federal Revenue	<u>3,021,912</u>
Total Federal Revenue, per financial statements	11,433,767
Less - Medical Access	(29,105)
Plus: Change in Donated Commodities	<u>(12,999)</u>
Total Federal Revenue Reported on SEFA	<u>\$ 11,391,663</u>



GORMAN & ASSOCIATES, P.C.

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Pennsylvania Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants

Board of School Directors
Bethlehem Area School District
1516 Sycamore Street
Emmaus, PA 18079-2131

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the General Fund of Bethlehem Area School District as of and for the year ended June 30, 2008, which collectively comprise Bethlehem Area School District's basic financial statements and have issued our report thereon dated December 22, 2008. We issued a qualified opinion for the General Fund and Capital Reserve Fund as a result of a transfer between funds that should not have occurred. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America, and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements, that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting (2008-1, 2008-2, 2008-3, 2008-4, 2008-5, 2008-6, 2008-7, 2008-8, 2008-9, 2008-10, 2008-11, 2008-12, 2008-13, and 2008-14.

BETHLEHEM AREA SCHOOL DISTRICT

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe 2001-1, 2008-2, 2008-3, 2008-4, 2008-5, 2008-6, and 2008-7 of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bethlehem Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and, which are described in the accompanying schedules of findings and questioned costs as items 2008-1 and 2008-5.

We also noted certain matters that we reported to management of Bethlehem Area School District in a separate letter dated December 22, 2008.

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

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

Respectfully submitted,

 *Spencer Associates, P.C.*

December 22, 2008



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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
Emmaus, PA 18079-2131

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

Compliance

We have audited the compliance of Bethlehem Area School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Bethlehem Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bethlehem Area School District's management. Our responsibility is to express an opinion on Bethlehem Area School District's compliance based on our audit.

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

In our opinion, Bethlehem Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

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

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

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

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

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

Respectfully submitted,



December 22, 2008

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

Section I - Summary of Auditor Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

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

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.367	Title II A
84.365	Title III
84.027	IDEA
10.555	National School Lunch
10.553	National School Breakfast
10.559	Summer Food
10.550	USDA Commodities

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

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

Percentage of programs tested to total awards 52.8%

Dollar threshold used to distinguish between
type A and type B program: \$ 333,652

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

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

Criteria: The District is required to abide by all laws and regulations affecting public school districts in the Commonwealth of Pennsylvania, including Section 1432 of the Municipal Code. Section 1434 of the Code stipulates the allowable expenditures that can be made from a Capital Reserve Fund, which does not include transfers to other governmental funds.

Condition: During the course of this past year, the district transferred \$2,500,000 from the Capital Reserve Fund to the General Fund.

Cause: The District has implied to the PA Dept. of Education that the original transfer of funds into the Capital Reserve Fund should not have been made. Coupled with the current financial situation, the District felt they could transfer the money back to the General Fund.

Effect: The result of this condition is that the General Fund's financial position is overstated and the Capital Reserve Fund's financial position is understated.

Recommendation: We recommend management seek legal counsel and/or auditor counsel on any future transfers between funds.

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

Criteria: The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the balance in accounts payable.

Condition: Prior to our audit procedures, the account balance in accounts payable had a debit balance of \$34,371. After our adjustments, the correct balance is \$1,603,548. We had to re-create the unpaid bills at year end. This condition was prevalent in all governmental funds.

Cause: The District prints out invoice posting and edit lists after entering unpaid invoices into the computer system. Unfortunately, the District's practice was to destroy these lists rendering the only evidence to determine what the account balance should be obsolete.

Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Effect: As a result of this condition, the auditors spent the additional time to reconcile the account, otherwise the general fund's expenditures would have been understated and the fund balance would have been overstated.

Recommendation: We have recommended to the District to retain all invoice posting/edit lists until the year end audit is finished and to use these lists to reconcile the account.

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

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

Condition: The District has been recording a year end liability in past years incorrectly by reducing one liability account and increasing this liability account without recognizing expenditures.

Cause: This condition was created by recording a liability before an obligation occurred. In past years, the amount recorded was based upon the number of employees that were taking reimbursable education courses.

Effect: The effect of incorrectly recording this liability created wrong liability account balances in two accounts.

Recommendation: We have recommended to the District not to record this liability until the employees' have completed the course and submitted a request for reimbursement. Only at this point has the District incurred an obligation.

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

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

Condition: During our review of this account balance, we discovered previous year receivables that were not realized and were never reversed. As such, the account balance was overstated by \$1,385,206.

Cause: District personnel failed to reconcile this account on a yearly basis and recognized a receivable and revenue in prior years that did not meet the criteria required under the modified accrual basis of accounting.

Effect: The effect of this condition overstated the financial position of the General Fund.

Recommendation: We have recommended to management to take greater care in reconciling balance sheet accounts, since they have an effect of overstating or understating the financial condition of the fund.

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

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

Criteria: The District should establish a Capital Reserve Fund in accordance with Section 690 of the PA School Code or Section 1432 of the Municipal Code.

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

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

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

Recommendation: Since we are not attorneys, we have recommended management to seek legal counsel to determine the validity of creating this fund for the purpose outlined.

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.

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

Significant Deficiency 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.

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

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.

Recommendation: We recommend the District review the 371 pages for any discrepancies that may need to be written off as bad debts. In addition, we advise the District to consider modifying the policies affecting serving lunches without payment.

Significant Deficiency 2008-8 (General Fund – Payroll Liabilities)

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

Condition: We discovered the account balance for payroll liabilities was incorrect by \$133,248.

Cause: It appears appropriate District personnel were not reconciling this liability account.

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

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

Significant Deficiency 2008-9 (Payroll Account – Reconciliation)

Criteria: The District should perform a bank reconciliation on every bank account and compare the balance to the general ledger account.

Condition: During our review of reconciliations performed on bank accounts, we discovered the payroll account is not being reconciled. The difference between the bank statement less outstanding checks to the balance in the general ledger is \$19,254.13.

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

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.

Recommendation: We have recommended to management to investigate why the bank reconciliation does not agree with the recorded balance and make the appropriate corrections.

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.

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

Significant Deficiency 2008-11 (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: 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.

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

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

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

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

Significant Deficiency 2008-12 (Athletic Fund – Ticket Sales)

Criteria: Controls should be in place to make sure the monies collected for sporting events matches the tickets sold.

Condition: It appears athletic event volunteers are not keeping tickets sold or portion of tickets sold to be compared to the money collected at each event.

Cause: It appears controls were never designed to collect the tickets sold.

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

Recommendation: We recommend the District maintain the ticket stubs after each athletic event, which multiplied by the price of each ticket should equal the cash collected.

Significant Deficiency 2008-13 (Food Service Fund – 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: 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.

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

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 suggest management perform an annual inspection of inventory at each cafeteria and compare to the recorded assets.

Significant Deficiency 2008-14 (Day Care Fund – Expenses)

Criteria: In the purchasing process, the District should have controls in place making sure documentation is available before any obligation is paid.

Condition: During our review of expenses occurring in this fund, we discovered 30% of the invoices tested did not have proper documentation to support the payments made. The only documentation was pink requisition forms.

Cause: It appears personnel responsible for paying these requests were not following proper control procedures to make sure invoices were attached to the requisition.

Effect: Without proper documentation, errors or fraud can occur without being detected by anyone.

Recommendation: We recommend management instruct appropriate personnel to not pay any requisition without supporting documentation to explain what was purchased and for what reason.

Section III – Findings and Questioned Costs for Federal Awards

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

Audit Follow-up Procedures

We did not perform any follow-up procedures, since there were no findings from the previous year.



Board of Directors
Bethlehem Area School District
1516 Sycamore Street
Bethlehem, Pennsylvania

**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 Schedule 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, 2008, 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
- 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.
- c. The processes detailed in paragraphs (a) and (b) above led us to discover the following line items budget to actual expenditures in excess of 10% which is in violation of the grant agreement:
 - Professional/Technical Svcs
 - Service Contracts
 - Communications
 - Supplies
 - Evaluations
 - FC PAT Training
 - Other

Since the total actual expenditures equal the total budgeted, to correct this finding, it is our recommendation that management submit a budget revision request to the Department of Public Welfare as stated in the grant agreement.

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,



December 22, 2008

**BETHLEHEM AREA SCHOOL DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES OF FAMILY CENTER GRANT
AS OF JUNE 30, 2008**

REVENUES	DEPARTMENT OF PULBIC WELFARE GRANT	
	BUDGET	ACTUAL
Federal		
CFDA 93.590	312,191.00	312,191.00
CFDA 93.556	15,016.00	15,016.00
State Sources	151,850.00	151,850.00
 Total Revenues	\$ 479,057.00	\$ 479,057.00
 EXPENDITURES		
Personnel		
Salries and Benefits	\$ 411,785.00	\$ 422,199.74
 Operating		
Professional/Technical Svcs	29,000.00	26,828.30
Training/Conferences	4,900.00	803.25
Transportation/Travel	14,800.00	16,002.98
Service Contracts	300.00	-
Communications	3,700.00	1,642.34
Facilty Expenses	-	-
Supplies	6,700.00	5,617.33
Evaluation	500.00	405.17
FC PAT Training	1,022.00	743.78
Other	6,350.00	4,814.11
Indirect Costs	-	-
Total Operations	67,272.00	56,857.26
 Total Expenditures	\$ 479,057.00	\$ 479,057.00

**Bethlehem Area School District
1516 Sycamore St..
Bethlehem, PA 18017**

CORRECTIVE ACTION PLAN

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

- Criteria:** The District is required to abide by all laws and regulations affecting public school districts in the Commonwealth of Pennsylvania, including Section 1432 of the Municipal Code. Section 1434 of the Code stipulates the allowable expenditures that can be made from a Capital Reserve Fund, which does not include transfers to other governmental funds.
- Condition:** During the course of this past year, the district transferred \$2,500,000 from the Capital Reserve Fund to the General Fund.
- Cause:** The District has implied to the PA Dept. of Education that the original transfer of funds into the Capital Reserve Fund should not have been made. Coupled with the current financial situation, the District felt they could transfer the money back to the General Fund.
- Effect:** The result of this condition is that the General Fund's financial position is overstated and the Capital Reserve Fund's financial position is understated.
- Recommendation:** We recommend management seek legal counsel and/or auditor counsel on any future transfers between funds.
- Response:** The Bethlehem Area School District has and will continue to seek legal counsel's opinion and/or auditor counsel on any transfers between funds. The school district, however, submitted the following to Mary Kay Beer, PDE, concerning this matter which was acceptable:

During the 2003-2004 fiscal year two separate additions to the Capital Reserve Fund were made; one in the amount of \$2,427,305.12 and the other \$79,275.82. These funds in the Capital Reserve Fund were to be used for the Nitschmann Middle School renovation/new construction project. As a result of the dismal fund balance position of the school district, current debt market conditions and the unwillingness of a new board to discuss the Nitschmann project, the project has failed to materialize and therefore these funds need to be returned to the General Fund. The origin of the funds came from payments by counterparties to enter into swap arrangements, and probably did not belong in the Capital Reserve Fund. These funds were legally unencumbered and should have been deposited into the General Fund. I hope this explanation provides sufficient clarity to explain the need for the transfer to the General Fund

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

- Criteria:** The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the balance in accounts payable.

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Condition:	Prior to our audit procedures, the account balance in accounts payable had a debit balance of \$34,371. After our adjustments, the correct balance is \$1,603,548. We had to re-create the unpaid bills at year end. This condition was prevalent in all governmental funds.
Cause:	The District prints out invoice posting and edit lists after entering unpaid invoices into the computer system. Unfortunately, the District's practice was to destroy these lists rendering the only evidence to determine what the account balance should be obsolete.
Effect:	As a result of this condition, the auditors spent the additional time to reconcile the account, otherwise the general fund's expenditures would have been understated and the fund balance would have been overstated.
Recommendation:	We have recommended to the District to retain all invoice posting/edit lists until the year end audit is finished and to use these lists to reconcile the account.
Response:	<p>The school district will retain all invoice posting/edit lists until the year end audit is finished. This requirement is new to the audits at the school district and we will now comply with this auditors' request. The failure to have them available at audit time is not viewed as a weakness of the school district, but rather a change in documentation requirements by the new audit firm.</p> <p>The school district used these lists to reconcile the account. Once reconciled the lists were discarded to prevent the accumulation of additional paper files.</p>

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

Criteria:	The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.
Condition:	The District has been recording a year end liability in past years incorrectly by reducing one liability account and increasing this liability account without recognizing expenditures.
Cause:	This condition was created by recording a liability before an obligation occurred. In past years, the amount recorded was based upon the number of employees that were taking reimbursable education courses.
Effect:	The effect of incorrectly recording this liability created wrong liability account balances in two accounts.
Recommendation:	We have recommended to the District not to record this liability until the employees' have completed the course and submitted a request for reimbursement. Only at this point has the District incurred an obligation.
Response:	The school district had taken a more conservative approach to the posting of this liability, by recognizing the potential liability and

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subsequently reducing it when it was determined that the reduction was warranted. We prefer to continue the more conservative approach of the prior years, but will change the liability recognition practice to reflect posting after the course is completed and a reimbursement request is determined to be valid and payable.

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

- Criteria:** The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.
- Condition:** During our review of this account balance, we discovered previous year receivables that were not realized and were never reversed. As such, the account balance was overstated by \$1,385,206.
- Cause:** District personnel failed to reconcile this account on a yearly basis and recognized a receivable and revenue in prior years that did not meet the criteria required under the modified accrual basis of accounting.
- Effect:** The effect of this condition overstated the financial position of the General Fund.
- Recommendation:** We have recommended to management to take greater care in reconciling balance sheet accounts, since they have an effect of overstating or understating the financial condition of the fund.
- Response:** The balance sheet reconciliation process is done several times per year, but it is agreed that there is no acceptable reason why this receivable was maintained on the financial records. The reconciliation process and expectations of maintaining current and accurate balance sheet accounts has been discussed with the staff involved, and there is a clearer understanding of responsibility for this review.

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

- Criteria:** The District should establish a Capital Reserve Fund in accordance with Section 690 of the PA School Code or Section 1432 of the Municipal Code.
- Condition:** During our review of this fund, we discovered the sole purpose of this fund is to act as a financing authority to offer employees an interest free loan to purchase a computer.
- Cause:** This fund was created years ago and was designed to help employees in purchasing computers.
- Effect:** The effect of this condition is the creation of a governmental fund that does not appear to fit within the parameters associated with this type of fund as outlined in the respective laws.

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Recommendation: Since we are not attorneys, we have recommended management to seek legal counsel to determine the validity of creating this fund for the purpose outlined.

Response: The administration has recommended to the school directors that this fund be discontinued. If the administrative recommendation is endorsed by the school directors, the computer loan program will end. It may take up to two years to eliminate the receivable for outstanding loan commitments.

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.

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

Response: Management shall instruct appropriate personnel not to destroy any records that can be used to support the validity of the food service operations. The audit requirements of the current independent auditors' differs than the past audit firm's requirements. The failure of the operation to not provide the documentation should not be viewed as a management deficiency, but rather a change in documentation requirements by the new audit firm.

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.

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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.
Recommendation:	We recommend the District review the 371 pages for any discrepancies that may need to be written off as bad debts. In addition, we advise the District to consider modifying the policies affecting serving lunches without payment.
Response:	Prior to this year, the financial records of the food service operation did not include a receivable for the unpaid balances. The position of the school district was to consider the full receivable amount as Allowance for Doubtful Accounts. This is viewed as a very conservative approach, and likely understated the revenue for that year. The amount collected on the receivable and the net of these transactions were determined by the administration to be immaterial.

Significant Deficiency 2008-8 (General Fund – Payroll Liabilities)

Criteria:	The District is required to reconcile balance sheet accounts on an ongoing basis and maintain controls in place to validate the accuracy of the account balance in accordance with generally accepted accounting principles.
Condition:	We discovered the account balance for payroll liabilities was incorrect by \$133,248.
Cause:	It appears appropriate District personnel were not reconciling this liability account.
Effect:	As is the case with any balance sheet account, the failure to maintain reconciliation procedures can cause an understatement or overstatement of the fund balance.
Recommendation:	We recommend the District establish controls to reconcile all balance sheet accounts.
Response:	The reconciliation process and expectations of maintaining current and accurate balance sheet accounts has been discussed with the staff involved, and there is a clearer understanding of responsibility for this review and the need to reconcile no less than monthly.

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Significant Deficiency 2008-9 (Payroll Account – Reconciliation)

Criteria:	The District should perform bank reconciliation on every bank account and compare the balance to the general ledger account.
Condition:	During our review of reconciliations performed on bank accounts, we discovered the payroll account is not being reconciled. The difference between the bank statements less outstanding checks to the balance in the general ledger is \$19,254.13.
Cause:	It does not appear payroll personnel have spent the time necessary to discover this variance.
Effect:	The failure to reconcile account balances can create an atmosphere of potential fraud to occur without being detected within a reasonable period of time.
Recommendation:	We have recommended to management to investigate why the bank reconciliation does not agree with the recorded balance and make the appropriate corrections.
Response:	The payroll account reconciliation process is done monthly, but it is agreed that there is no acceptable reason why this account contained any unexplained variances. The reconciliation process and expectations of maintaining current and accurate balance sheet accounts has been discussed with the staff involved, and there is a clearer understanding of responsibility for this review. It is further considered that this account be adjusted to remove any prior year reconciling items that cannot be identified.

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.
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

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of tax collected and for improving continuity with the outstanding duplicate balance.

Response: There were some problems with Berkheimer reporting, that ultimately factored into their removal as a real estate tax collector. The City of Bethlehem is somewhat better with their reporting and we will continue to work closely with their collection staff on improving reporting.

Significant Deficiency 2008-11 (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: 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.

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

Response: The failure of the school district accounting records from many years in the past, to properly record historical land values, is accurate. The records to establish values may not exist.

It is agreed that the school district does not have a tagging system that will identify and track all assets. There is a stand-alone system for technology, but it is not tied to the financial system and therefore prevents a comparison of assets purchased to assets in the field. The lack of a central warehouse for receiving of all goods creates a system-wide weakness in implementing a tagging system that could accurately identify assets. Additionally, the school district does not have a computerized asset management system that would satisfactorily implement inventory control of these assets, even if there was a central warehouse, with proper staffing.

Corrective action would involve the commitment of adequate financial, technology, and facility resources to improve the asset recording and tracking system; resources that may not be immediately available to the school district without grant funding.

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Significant Deficiency 2008-12 (Athletic Fund – Ticket Sales)

Criteria:	Controls should be in place to make sure the monies collected for sporting events matches the tickets sold.
Condition:	It appears athletic event volunteers are not keeping tickets sold or portion of tickets sold to be compared to the money collected at each event.
Cause:	It appears controls were never designed to collect the tickets sold.
Effect:	The possibility exists that fraud could occur without proper controls to verify the amount of cash that should have been collected and deposited into the bank.
Recommendation:	We recommend the District maintain the ticket stubs after each athletic event, which multiplied by the price of each ticket should equal the cash collected.
Response:	<p>The Athletic Directors will provide training for all ticket workers on the proper handling of tickets and cash. Further, there will instructions provided to these workers that any person who approaches them concerning deviation from their assigned task of ticket sales and/or ticket collection will be immediately reported to the Athletic Director of that school.</p> <p>Tickets stubs will be maintained after each athletic event, with the first sold and the last sold stapled together. These will be used to determine the number of tickets sold. The tickets sold will be multiplied by the sales price to obtain the value of the sales, which will be compared to the cash collected.</p> <p>If problems exist with cash collections, the Athletic Directors will access the videos from the cameras located in the lobbies where tickets are sold. The knowledge that cameras will be used to view the transaction activity may be used as a deterrent to individuals considering unlawful activities.</p>

Significant Deficiency 2008-13 (Food Service Fund – 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:	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

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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 suggest management perform an annual inspection of inventory at each cafeteria and compare to the recorded assets.

Response: It is agreed that the school district does not have a tagging system that will identify and track all assets. Additionally, the school district does not have a computerized asset management system that would satisfactorily implement inventory control of these assets. It is possible to perform an annual inspection of inventory at each cafeteria and compare that to the recorded assets, but it is still possible, without a proper asset management system, to have unreliable results.

Corrective action would involve the commitment of adequate financial, and technology resources to improve the asset recording and tracking system; resources that may not be immediately available to the school district without grant funding.

Significant Deficiency 2008-14 (Day Care Fund – Expenses)

Criteria: In the purchasing process, the District should have controls in place making sure documentation is available before any obligation is paid.

Condition: During our review of expenses occurring in this fund, we discovered 30% of the invoices tested did not have proper documentation to support the payments made. The only documentation was pink requisition forms.

Cause: It appears personnel responsible for paying these requests were not following proper control procedures to make sure invoices were attached to the requisition.

Effect: Without proper documentation, errors or fraud can occur without being detected by anyone.

Recommendation: We recommend management instruct appropriate personnel to not pay any requisition without supporting documentation to explain what was purchased and for what reason.

Response: Not all checks identified by the auditor lacked supporting documentation. However, there were documentation issues that required school district attention. When checks are written to obtain postage or supplies that do not have receipts provided in advance of the check, the accounts payable department will maintain a log of these transactions and prompt the individuals for these receipts. It was discovered that the receipts existed for these few checks, but they were not forwarded to the Business Office.