

**REPORT ON
BETHLEHEM AREA SCHOOL DISTRICT
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2017**

BETHLEHEM AREA SCHOOL DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2017

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BETHLEHEM AREA SCHOOL DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2017

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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, 2017, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, which entailed:

1. An audit of the basic financial statements, and our opinion thereon;
2. A review of compliance and of 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 the Uniform Guidance, explained above, and our report thereon.

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

Respectfully submitted,

Gorman & Associates, P.C.

December 18, 2017



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of School Directors
Dr. Joseph J. Roy, Superintendent
Bethlehem Area School District
1516 Sycamore Street
Bethlehem, PA 18017-6099

We have audited the financial statements of the governmental activities; business-type activities, each major fund, and the aggregate remaining fund information of the Bethlehem Area School District for the year ended June 30, 2017, and have issued our report thereon dated December 18, 2017.

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

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matter on June 20, 2017.

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 and Net Pension Liability. 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 and long term debt.

Board of School Directors - Dr. Joseph Roy, Superintendent

We have requested certain representations from management that are included in the management representation letter provided to us on December 18, 2017. We advise the governing body to request this letter from management for their review. In conjunction with their representations, we wish to inform you we did not encounter any significant difficulties in dealing with management and had no disagreements with your management. To our knowledge, management did not find a need to converse with any other independent accountant on any related accounting or auditing issue.

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

In accordance with auditing standards, generally accepted in the United States of America, we have acquired a sufficient understanding of the District and its environment, including its internal control, to assess the risk of material misstatements of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures that were necessary to express an opinion on the 2016-17 basic financial statements.

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

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

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

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

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

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

Board of School Directors - Dr. Joseph Roy, Superintendent

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:

OTHER INFORMATION

Activity Funds

GASB Statement No. 84 on Fiduciary Activities becomes effective for the 2019-20 fiscal year. Since this date is a few years away, you might wonder why we are bringing it to your attention now. The reason is to provide the District ample time to change their recordkeeping on Student Clubs. When this Statement goes into effect, the Student Clubs will be considered Custodial Funds and there will be two financial statements: Statement of Net Position and Statement of Changes in Net Position. To make this easier think of a balance sheet and income statement.

Currently, most Districts report their disbursements as Deletions by School without breaking the disbursements into categories similar to the Food Service Fund. Receipts are reported as Additions without breaking out the categories of receipts. This new Statement will require management to separate receipts into revenue categories and disbursements into expense categories.

We wanted to give our clients ample time to revise their recordkeeping and computer systems to accommodate these changes.

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 School District.

Respectively submitted,

Hammer & Associates, P.C.

December 18, 2017

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

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|--|--|
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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Bethlehem Area School District
1516 Sycamore Street
Bethlehem, PA 18017-6099

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the general fund budgetary comparison statement of the Bethlehem Area School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the general fund budgetary comparison statement of the Bethlehem Area School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2-G to the financial statements, effective July 1, 2016, the Bethlehem Area School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures, Governmental Accounting Standards Board Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Plans, Governmental Accounting Standards Board Statement No. 80, Blending Requirements for Certain Component Units, and Governmental Accounting Standards Board Statement No. 82, An amendment of GASB Statements Nos. 67, 68, and 73

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 9-20, the Schedule of Funding Progress, the Schedule of the District's Proportionate Share of Net Pension Liability, and the Schedule of District's Contributions-Pensions on pages 94-96, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 *combining and individual fund statements and schedules, and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

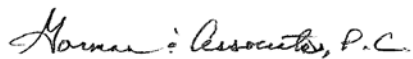
Bethlehem Area School District

The *combining and individual fund financial statements, schedules, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards*, are the responsibility of management and were derived from and related to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *the combining and individual fund financial statements, schedules, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards*, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bethlehem Area School District's internal control over financial reporting and compliance.

Respectfully submitted,



December 18, 2017

**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, 2017**

The discussion and analysis of the Bethlehem Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

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

SCHOOL DISTRICT HIGHLIGHTS

Bethlehem Area School District is a School District of the Second Class, organized and existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth"). The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors.

The Bethlehem Area School District is located in portions of Northampton and Lehigh Counties, Pennsylvania in an area known as the Lehigh Valley. It is comprised of five municipal subdivisions including the City of Bethlehem, Fountain Hill and Freemansburg Boroughs, and Bethlehem and Hanover Townships covering an area of approximately 43.1 square miles. The School District had enrollment of 13,647 students in our 22 schools for 2016-17. Students are additionally enrolled in out of district placements for vocational education and special education.

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

FINANCIAL HIGHLIGHTS

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

Analysis of our actual revenues shows higher than budgeted interim real estate and Act 511 taxes of \$2,598,872 plus increased PlanCon reimbursement of \$867,426. Other revenues such as Ready to Learn Subsidy and delinquent taxes were lower than budgeted by \$1,116,776. Overall operating revenues were \$258,425,163 for the 2016-17 school year, \$2,588,526 or 1.01% more than budgeted.

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

Operating expenditures for the 2016-17 school year of \$253,220,243 were \$4,535,746 or 1.7% under budget. Transfers to other funds in the amount of \$5,089,413 resulted in total expenditures of \$258,309,656.

These events yielded a net General Fund surplus of less than .05% or \$117,792 for the year ended June 30, 2017. Together with the beginning fund balance of \$31,562,150, the BASD ended the fiscal year with a total general fund balance of \$31,679,942. This fund balance is reduced by \$177,867 in non-spendable assets, \$6,000,000 committed to the capital reserve fund for future capital improvements, \$1,000,000 assigned to the BASD Self Insurance Fund for recommended reserves to fund future employee benefits, \$3,000,000 assigned to mitigate upcoming increases in the state pension rates for school employees, \$5,441,428 allocated toward one-time expenditures in the 2016-17 operating budget and \$18,900 assigned for future Nitschmann MS equipment. The resulting undesignated fund balance on June 30, 2017 is \$16,041,747 or 6.3% of expenditures.

USING THE ANNUAL FINANCIAL REPORT

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

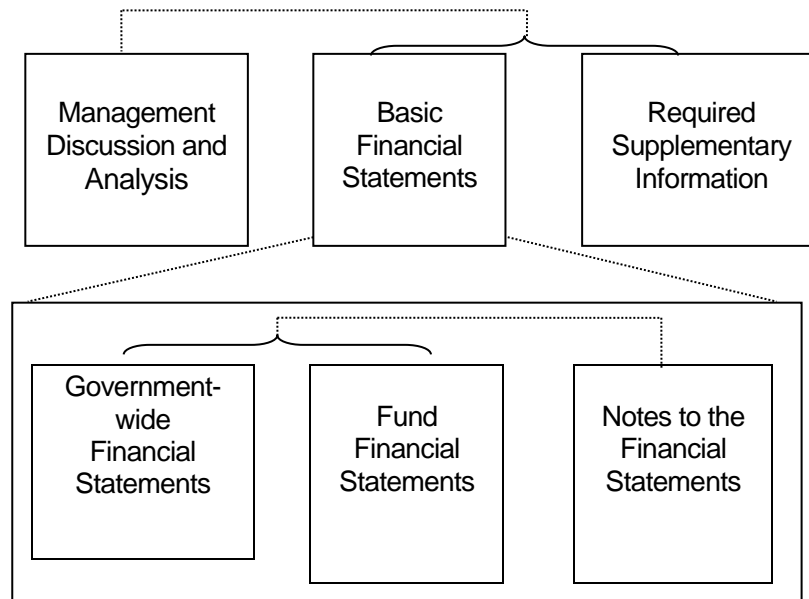
The first two statements are government-wide financial statements - the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

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

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

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

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



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

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

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

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

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net position was (\$310,691,507) at June 30, 2017. This is a decrease from the previous fiscal year of \$5,851.988

**Table A-1
Fiscal Year ended June 30, 2017
Net Position (In Millions)**

	<u>2017</u>			<u>2016</u>		
	Govern- mental Activities	Business- Type Activities	Total Primary Government	Govern- mental Activities	Business- Type Activities	Total Primary Government
Current assets	\$ 81.2	\$ 2.6	\$ 83.8	\$ 88.3	\$ 2.5	\$ 90.8
Non-Current assets	260.1	0.1	260.2	235.8	0.1	235.9
Deferred Outflow of Resources	100.6	1.9	102.5	69.0	0.9	69.9
Total Assets & Deferred Outflow of Resources	\$ 441.9	\$ 4.6	\$ 446.5	\$ 393.1	\$ 3.5	\$ 396.6
Current and other liabilities	\$ 41.5	\$ 0.7	\$ 42.2	\$ 41.9	\$ 0.8	\$ 42.7
Long-term liabilities	693.6	12.4	706.0	635.8	10.9	646.7
Deferred Inflow of Resources	8.9	0.1	9.0	11.7	0.3	12.0
Total Liabilities & Deferred Inflow of Resources	744.0	13.2	757.2	689.4	12.0	701.4
Net Position						
Net Investment in Capital Assets	\$ -	\$ 0.1	\$ 0.1	\$ -	\$ 0.1	\$ 0.1
Unrestricted	(302.1)	(8.7)	(310.8)	(296.3)	(8.6)	(304.9)
Total Net Position	\$ (302.1)	\$ (8.6)	\$ (310.7)	\$ (296.3)	\$ (8.5)	\$ (304.9)
Total Liabilities, Deferred Inflow of Resources, & Net Position	\$ 441.9	\$ 4.6	\$ 446.5	\$ 393.1	\$ 3.5	\$ 396.6

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

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

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

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

**Table A-2
Fiscal Year ended June 30, 2017
Changes in Net Position (In Thousands)**

	<u>2017</u>			<u>2016</u>		
	Govern- mental Activities	Business- Type Activities	Total Primary Government	Govern- mental Activities	Business- Type Activities	Total Primary Government
<u>REVENUES</u>						
<i>Program revenues</i>						
Charges for services	\$ 685	\$ 3,981	\$ 4,666	\$ 716	\$ 4,036	\$ 4,752
Operating grants and contributions	39,074	6,089	45,163	37,398	5,652	43,050
Capital grants and contributions	2,464	-	2,464	1,740	-	1,740
<i>General revenues</i>						
Property taxes	157,525	-	157,525	150,402	-	150,402
Other taxes	22,696	-	22,696	22,618	-	22,618
Grants, subsidies and contributions, unrestricted	35,657	-	35,657	33,962	-	33,962
Other	1,876	16	1,892	2,995	9	3,004
TOTAL REVENUES	\$ 259,977	\$ 10,086	\$ 270,063	\$ 249,831	\$ 9,697	\$ 259,528
<u>EXPENSES</u>						
Instruction	\$ 171,332	\$ -	\$ 171,332	\$ 155,422	\$ -	\$ 155,422
Instructional student support	20,262	-	20,262	17,764	-	17,764
Administrative and financial support	21,666	-	21,666	17,824	-	17,824
Operation and maintenance of plant	19,023	-	19,023	18,360	-	18,360
Pupil transportation	8,412	-	8,412	8,605	-	8,605
Student activities	3,203	-	3,203	2,833	-	2,833
Community services	107	-	107	72	-	72
Scholarships and Awards	1	-	1	-	-	-
Interest on long-term debt	13,721	-	13,721	13,031	-	13,031
Unallocated depreciation expense	7,967	-	7,967	7,917	-	7,917
Food Services	-	10,221	10,221	-	9,789	9,789
TOTAL EXPENSES	265,694	10,221	275,915	241,828	9,789	251,617
Increase (decrease) in net position	\$ (5,717)	\$ (135)	\$ (5,852)	\$ 8,003	\$ (92)	\$ 7,911

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

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

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

**Table A-3
Fiscal Year ended June 30, 2017
Governmental Activities (In Thousands)**

Functions/Programs	2017		2016	
	Total Cost of Services	Net Cost 128383	Total Cost of Services	Net Cost of Services
Instruction	\$ 171,332	\$ 142,221	\$ 155,422	\$ 128,384
Instructional student support	20,262	16,335	17,764	12,701
Administrative	21,666	19,789	17,824	16,127
Operation and maintenance	19,023	17,722	18,360	17,281
Pupil transportation	8,412	5,389	8,605	5,857
Student activities	3,203	2,720	2,833	2,379
Community services	108	72	72	37
Interest on long-term debt	13,721	11,257	13,031	11,291
Unallocated depreciation expense	7,967	7,967	7,917	7,917
Total governmental activities	\$ 265,694	\$ 223,472	\$ 241,828	\$ 201,974
Less:				
Unrestricted grants, subsidies		35,657		33,962
Total needs from local taxes and other revenues		\$ (187,815)		\$ (168,012)

Table A-4 reflects the activities of the Food Service and Child Care programs, the Business-type activities of the District.

**Table A-4
Fiscal Year ended June 30, 2017
Business –Type Activities**

Functions/Programs	2017		2016	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Food Services	\$ 7,434,549	\$ (157,436)	\$ 7,160,399	\$ 39,501
Child Care	2,787,047	308,555	2,628,060	(140,458)
Less:				
Investment earnings & other misc.		16,300		9,343
Total business-type activities		\$ 134,819		\$ (91,614)

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

DISTRICT FUNDS

At June 30, 2017, the District governmental funds reported a combined fund balance of \$49,602,259, a decrease of \$4,709,007 from the previous year.

General fund operating revenues exceeded expenditures by \$117,792 which resulted in the final General Fund net ending fund balance of \$31,679,942.

Capital Projects Funds, including Capital Reserve Fund and Capital Projects Fund, had a decrease in fund balance of \$4,829,707 due to the Nitschmann Middle School project, athletic stadium projects at both high schools, and HVAC improvements at East Hills Middle School, resulting in a Capital Project fund balance of \$17,919,406 on June 30, 2017.

General Fund Budget

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

Analysis of our actual revenues shows higher than budgeted interim real estate and Act 511 taxes of \$2,598,872 plus increased PlanCon reimbursement of \$867,426. Other revenues such as Ready to Learn Subsidy and delinquent taxes were lower than budgeted by \$1,116,776. Overall operating revenues were \$258,425,163 for the 2016-17 school year, \$2,588,526 or 1.01% more than budgeted.

Operating expenditures for the 2016-17 school year of \$253,220,243 were \$4,535,746 or 1.7% under budget. Transfers to other funds in the amount of \$5,089,413 resulted in total expenditures of \$258,309,657.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2017, the District had \$256,419,157 invested in a broad range of capital assets, including land, buildings and furniture and equipment. This amount represents a net increase (including additions, deletions and depreciation) of \$20,645,102 or 8.76% from last year. This is primarily due to the construction progress on the new Nitschmann Middle School where students will attend for the 2017-18 school year. Construction demolition and site work continues with full project completion anticipated in Summer 2018.

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

**Table A-5
Governmental Activities
Fiscal Year Ended June 30, 2017
Capital assets - net of depreciation**

	<u>2017</u>	<u>2016</u>
Land	\$ 75,410	\$ 75,410
Site Improvements	13,604,393	9,097,894
Buildings	324,810,389	323,982,198
Furniture & Equipment	65,274,958	65,850,349
Construction in Progress	45,779,314	22,439,704
Total Capital Assets	\$ 449,546,481	\$ 421,445,555
Less Accumulated Depreciation	<u>(193,125,307)</u>	<u>(185,671,500)</u>
Total Capital Assets Net of Accumulated Depreciation	<u>\$ 256,421,174</u>	<u>\$ 235,774,055</u>

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

DEBT ADMINISTRATION

As of July 1, 2016, the District had total outstanding debt of \$280,220,000. During the year, the District retired and repaid \$9,135,000 refunding debt and issued new bonds for a net increase of \$17,175,000, resulting in ending outstanding debt as of June 30, 2017, of \$288,260,000.

**Table A-6
Outstanding Debt**

	<u>2017</u>	<u>2016</u>
General Obligation Notes/Bonds:		
- Bonds, Series B of 2016	\$ 19,700,000	-
- Bonds, Series A of 2016	34,240,000	-
- Notes, Series C of 2015	9,575,000	9,580,000
- Notes, Series B of 2015	3,725,000	3,725,000
- Bonds, Series A of 2015	30,000,000	30,000,000
- Bonds, Revenue Series of 2014	30,175,000	30,210,000
- Bonds, Revenue Series A of 2011	29,970,000	29,975,000
- Bonds, Series of 2011	33,305,000	33,310,000
- Bonds, Revenue Series of 2011	40,440,000	40,445,000
- Bonds, Series of 2010	-	28,790,000
- Bonds, Series B of 2009	-	7,975,000
- Bonds, Series AA of 2009	14,410,000	14,410,000
- Bonds, Series A of 2009	42,720,000	50,765,000
- Bonds, Series A of 2007	-	1,035,000
TOTAL	<u>\$ 288,260,000</u>	<u>\$ 280,220,000</u>

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

FUTURE ECONOMIC FACTORS

Capital Improvement Plan

Since 1991, the school district has renovated or replaced the majority of its 22 schools and other properties. Nitschmann Middle School has been authorized by the Board of School Directors to proceed with a newly constructed school costing approximately \$53.7 million. Construction commenced in June 2015 with building completion in 2017 and final site work complete in 2018. In 2017, construction continued on the new Nitschmann Middle School and students attended in August 2017. In summer 2016, the field turf was replaced at the BASD Stadium as well as resurfacing of the all-weather track. A new artificial field was installed at Freedom High School expanding outdoor athletic spaces for use beginning August 2016. A new all-weather track was also added at Freedom High School during Spring 2017 to complete their athletic fields. Improvements to the HVAC systems at East Hills Middle School occurred Summer 2017 along with a new chiller at Fountain Hill Elementary. The school district continues to annually fund and complete capital improvement projects that are designed to maintain all existing structures.

Variable Rate Debt and SWAP Concerns

The amount of variable rate debt within the school district's debt portfolio continues to be a focus of the school board and administration with the percentage of variable rate to total debt 35%. The school directors continue to restructure its debt and swap portfolio by reducing the swap interests and improving the quality of outstanding debt. The school district also continues to monitor opportunities to refinance any existing debt as economic conditions warrant.

In March 2017, the District remarked the 2011 and 2011A private Floating Rate Notes through Wells Fargo Bank reducing the applicable spread on both from 55 basis points to 53 basis points for a three-year period, after which these Notes will have a Mandatory Tender Date. In December 2017, the District refunded the 2014 public Floating Rate Note with RBC Capital Markets with a new applicable spread of 49 basis points, which was an increase from the previous 43 basis points. The new 2017 Floating Rate Note has a Mandatory Tender Date of November 2021.

The District currently has a 3 remaining Fixed Payer Swaps outstanding, with a total notional amount of \$99,415,000 outstanding as of June 30, 2017. They are related to the Series of 2017, Series of 2011, and Series A of 2011 Floating Rate Notes, which are all based on a uniform LIBOR index with the same maturity date as the related bonds. While heavily dependent upon current market conditions, the financial position of the district on June 30, 2017 makes these refunding opportunities much more positive due to the improved financial position, large tax base, and stable outlook for our financial future.

Future Budgets

The annual operating budget for the 2017-2018 year of \$271,832,434 is supported by a 0.50 mil increase for Northampton County and a 0.47 mil increase for Lehigh County, or 1.24% average real estate tax rate increase. With the passage of Act 1, the District is required to adopt a preliminary budget in January to authorize increasing taxes above an allowed index or pass a resolution stating that we would not exceed the index. For the 2017-2018 budget, this index was 3.1%, and the District was approved for exceptions to exceed that amount by \$3,359,702 for state mandated retirement contributions, and special education expenditures; however, none of the allowed exceptions were used to balance the final budget as the final millage rate was below the allowable Act 1 maximum. The focus continues to be balancing the educational needs with the financial and economic realities. We continue to work to responsibly implement much needed academic programs with the focus of sustainability and improved outcomes.

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

The final budget represents a 3.48% overall increase in expenditures excluding PSERS and charter school tuition costs. For 2016-17, this BASD internal operational increase was only 2.98% and only 1.6% for 2015-16 which demonstrates our ongoing commitment to maintaining cost effective and efficient programs to meet the needs of our students while respecting the demands on our community and taxpayers. BASD's most significant educational impact for 2017-18 is the continuation of the Reading by Grade 3 initiative together with full day kindergarten district wide to serve all students. Additionally, this budget supports the continued development of key educational initiatives including Project Lead the Way, middle school math and science, online hybrid learning, professional development, Equity in Education, College and Career Pathways, Community Schools, Leader in Me, and AP course offerings. We continue to seek ways to address long-term needs in areas such as transportation, facilities and technology in future operating budgets and long-term planning while understanding the need to balance a sustainable budget.

The District plans to continue capital improvements in Summer, 2017 with upgrades to the HVAC system at East Hills Middle School and a chiller replacement at Fountain Hill Elementary. Construction of the new Nitschmann Middle School was completed June 2017 with student occupancy of the new school for 2017-18 school year. This will include upgrades to the district network infrastructure providing network reliability in the event of a failure in our primary network hub for the school district.

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

**Table A-7
BUDGETED REVENUES**

	2017-2018	2016-2017
Local	69.1%	68.8%
State	26.9%	27.2%
Federal	2.0%	2.1%
Other	2.0%	1.9%

BUDGETED EXPENDITURES

	2017-2018	2016-2017
Instruction	63.9%	64.2%
Support Services	25.6%	24.7%
Non-Instruction/Community	1.2%	1.1%
Fund Transfers	0.0%	0.0%
Debt	9.3%	10.0%

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

Bethlehem Area School District
Statement of Net Position
As of June 30, 2017

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 55,324,997	\$ 1,067,190	\$ 56,392,187
Investments	9,175,000	-	9,175,000
Receivables, net	6,798,684	-	6,798,684
Internal Balances	395,516	601,737	-
Due From Other Governments	8,787,892	745,977	9,533,869
Other Receivables, net	480,303	73,996	554,299
Inventories	157,823	73,596	231,419
Prepaid Expenses	20,044	-	20,044
Other Current Assets	29,328	-	29,328
Total Current Assets	81,169,587	2,562,496	82,734,830
Non-Current Assets:			
Restricted Cash and Investments	3,644,552	-	3,644,552
Land	75,410	-	75,410
Site Improvements (net of depreciation)	5,576,495	-	5,576,495
Building and Bldg. Improvements (net of depreciation)	198,764,237	-	198,764,237
Furniture and Equipment (net of depreciation)	6,223,701	131,488	6,355,189
Construction in Progress	45,779,314	-	45,779,314
Total Non-Current Assets	260,063,709	131,488	260,195,197
TOTAL ASSETS	\$ 341,233,296	\$ 2,693,984	\$ 342,930,027
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow of Resources - Derivatives	5,433,296	-	5,433,296
Deferred Charges on Bond Refundings, net	19,810,696	-	19,810,696
Deferred Cost on Refundings - Derivatives	10,551,434	-	10,551,434
Deferred Outflows of Resources - Change in Proportion of NPL	2,850,927	93,073	2,944,000
Deferred Outflows of Resources - Current Year Pension Contributions	28,558,482	839,807	29,398,289
Deferred Outflows of Resources - Change in Assumptions	13,113,234	392,766	13,506,000
Deferred Outflows of Resources - Diff. in Projected vs Actual Contributions	-	-	-
Deferred Outflows of Resources - Diff. in Projected vs Actual Invest. Earnings	20,263,216	590,784	20,854,000
Deferred Outflows of Resources - Diff. between Expected vs Actual Experience	-	-	-
Deferred Outflows of Resources - Diff. in Proportionate Share vs Actual - POS	48,239	-	48,239
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 441,862,820	\$ 4,610,414	\$ 445,475,981
LIABILITIES			
Current Liabilities:			
Internal Balances	\$ 601,737	\$ 395,516	\$ -
Due to other governments	1,150,898	-	1,150,898
Accounts Payable	3,691,814	100,117	3,791,931
Current Portion of Long-Term Obligations	9,945,792	-	9,945,792
Accrued Salaries and Benefits	12,097,598	19,875	12,117,473
Payroll Deductions and Withholdings	10,603,973	63,626	10,667,599
Prepayments	-	123,180	123,180
Other Current Liabilities	3,422,643	19,817	3,442,460
Total Current Liabilities	41,514,455	722,131	41,239,333
Non-Current Liabilities:			
Bonds and Notes Payable	289,603,469	-	289,603,469
Derivative Financial Instrument Liability	23,110,054	-	23,110,054
Lease Purchase Obligations	1,088,942	-	1,088,942
Long-Term Portion of Compensated Absences	5,518,986	162,547	5,681,533
Net Defined Benefit Pension Liability	360,202,996	12,090,441	372,293,437
Net Defined Contribution Pension Liability	539,898	-	539,898
Net OPEB Obligation	13,473,452	115,855	13,589,307
TOTAL LIABILITIES	735,052,252	13,090,974	747,145,973
DEFERRED INFLOWS OF RESOURCES			
Deferred Gain on Refundings - Derivatives	5,062,626	-	5,062,626
Deferred Inflows of Resources - Diff. in Projected vs Actual Invest. Earnings	-	-	-
Deferred Inflows of Resources - Diff. in Projected vs Actual Contributions	766,548	24,341	790,889
Deferred Inflows of Resources - Change in Proportion - NPL	-	-	-
Deferred Inflows of Resources - Change in Assumptions	-	-	-
Deferred Inflows of Resources - Diff. in Expected vs Actual Experience	3,021,892	95,108	3,117,000
Deferred Inflows of Resources - Unearned Revenue	51,000	-	51,000
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	743,954,318	13,210,423	756,167,488
NET POSITION			
Net Investment in Capital Assets	-	131,488	131,488
Restricted For:			
Retirement of Long-Term Debt	-	-	-
Capital Projects	-	-	-
Other Restrictions	-	-	-
Unrestricted (deficit)	(302,091,498)	(8,731,497)	(310,822,995)
TOTAL NET POSITION	(302,091,498)	(8,600,009)	(310,691,507)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 441,862,820	\$ 4,610,414	\$ 445,475,981

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, 2017**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instruction	\$ 171,332,139	\$ 452,580	\$ 28,658,311	\$ -	\$ (142,221,248)	\$ -	\$ (142,221,248)
Instructional Student Support	20,262,122	-	3,926,631	-	(16,335,491)	-	(16,335,491)
Admin. & Fin'l Support Services	21,666,250	-	1,876,665	-	(19,789,585)	-	(19,789,585)
Oper. & Maint. of Plant Svcs.	19,022,929	-	1,301,121	-	(17,721,808)	-	(17,721,808)
Pupil Transportation	8,412,361	-	3,023,580	-	(5,388,781)	-	(5,388,781)
Student activities	3,203,004	231,172	251,970	-	(2,719,862)	-	(2,719,862)
Community Services	107,437	1,500	35,400	-	(70,537)	-	(70,537)
Scholarships and Awards	612	-	-	-	(612)	-	(612)
Interest on Long-Term Debt	13,720,874	-	-	2,464,026	(11,256,848)	-	(11,256,848)
Unallocated Depreciation Expense	7,967,021	-	-	-	(7,967,021)	-	(7,967,021)
TOTAL GOVERNMENTAL ACTIVITIES	265,694,749	685,252	39,073,678	2,464,026	(223,471,793)	-	(223,471,793)
BUSINESS-TYPE ACTIVITIES:							
Food Services	7,434,549	1,810,971	5,781,014	-	-	157,436	157,436
Day Care	2,787,047	2,170,424	308,068	-	-	(308,555)	(308,555)
TOTAL PRIMARY GOVERNMENT	\$ 275,916,345	\$ 4,666,647	\$ 45,162,760	\$ 2,464,026	\$ (223,471,793)	\$ (151,119)	\$ (223,622,912)
GENERAL REVENUES:							
Property taxes. Levied for general purposes, net					\$ 157,525,128	\$ -	\$ 157,525,128
Taxes levied for specific purposes					22,696,048	-	22,696,048
Grants, subsidies, & contributions not restricted					35,657,541	-	35,657,541
Investment Earnings					710,937	6,271	717,208
Miscellaneous Income					1,154,246	10,029	1,164,275
Special item - Gain (Loss) on sale of capital assets					10,724	-	10,724
Extraordinary Items					-	-	-
Transfers					-	-	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					217,754,624	16,300	217,770,924
CHANGES IN NET POSITION					(5,717,169)	(134,819)	(5,851,988)
NET POSITION - BEGINNING					(296,374,329)	(8,465,190)	(304,839,519)
NET POSITION - ENDING					\$ (302,091,498)	\$ (8,600,009)	\$ (310,691,507)

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

**Bethlehem Area School District
Balance Sheet
Governmental Funds
As of June 30, 2017**

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 37,542,563	\$ 16,782,446	\$ 999,988	\$ 55,324,997
Restricted Cash	-	3,644,552	-	3,644,552
Investments	6,175,000	3,000,000	-	9,175,000
Restricted Investments	-	-	-	-
Taxes Receivable, net	6,798,684	-	-	6,798,684
Due from other funds	4,058,492	18,588	-	4,077,080
Due from Primary Government	-	-	-	-
Due from Other Governments	8,672,507	-	-	8,672,507
Due from Component Unit	-	-	-	-
Other Receivables	273,187	106,699	-	379,886
Inventories	157,823	-	-	157,823
Prepaid Expenditures	20,044	-	-	20,044
Other Current Assets	29,328	-	-	29,328
TOTAL ASSETS	\$ 63,727,628	\$ 23,552,285	\$ 999,988	\$ 88,279,901
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred Charges on Refundings, net	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 63,727,628	\$ 23,552,285	\$ 999,988	\$ 88,279,901
<u>LIABILITIES</u>				
Due to Other Funds	\$ 626,367	\$ 3,644,552	\$ -	\$ 4,270,919
Due to Other Governments	1,150,898	-	-	1,150,898
Due to Primary Government	-	-	-	-
Due to Component Unit	-	-	-	-
Accounts Payable	1,697,445	1,988,327	-	3,685,772
Current Portion of Long-Term Debt	339,008	-	5,000	344,008
Accrued Salaries and Benefits	12,097,598	-	-	12,097,598
Payroll Deductions and Withholdings	10,603,973	-	-	10,603,973
Prepayments	-	-	-	-
Other Current Liabilities	8,607	-	992,077	1,000,684
TOTAL LIABILITIES	26,523,896	5,632,879	997,077	33,153,852
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unearned/Unavailable Property Taxes and Grants	5,523,790	-	-	5,523,790
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	32,047,686	5,632,879	997,077	38,677,642
FUND BALANCES:				
Nonspendable Fund Balance	177,867	-	-	177,867
Restricted Fund Balance	-	17,919,406	-	17,919,406
Committed Fund Balance	6,000,000	-	-	6,000,000
Assigned Fund Balance	9,460,328	-	2,911	9,463,239
Unassigned Fund Balance	16,041,747	-	-	16,041,747
TOTAL FUND BALANCES	31,679,942	17,919,406	2,911	49,602,259
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 63,727,628	\$ 23,552,285	\$ 999,988	\$ 88,279,901

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 Position
As of June 30, 2017**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	49,602,259
Amounts reported for governmental activities in the statement of net position 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 \$449,544,464 and the accumulated depreciation is \$193,125,307.		256,419,157
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.		197,378
This amount represents the deferred outflows, net of deferred inflows, created from derivative hedging transactions, including derivative instrument assets, deferred gains on derivative refundings, and deferred costs on refundings.		10,922,104
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		5,472,790
This represents deferred outflows of resources resulting in deferred charges on refunding prior bond issues. This amount was previously reported as a contra to Bonds Payable under long-term debt; however GASB Statement No. 65 changed the classification of this item to deferred outflows of resources.		19,810,696
The governmental funds follow the purchase method of inventory; therefore no inventory is reflected on the balance sheet. However, the statement of net position uses the consumption method of inventory.		-
This represents the deferred outflows of resources, net of deferred inflows of resources pertaining to the Net Pension Liability		61,045,658
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	\$ (298,668,469)	
Accrued interest on the bonds	(2,421,959)	
Intergovernmental Payable	-	
Compensated absences	(5,518,986)	
Derivative Instrument Liability	(23,110,054)	
Net Defined Benefit Pension Liability	(360,202,996)	
Net Defined Contribution Pension Liability	(539,898)	
Net OPEB Obligation	(13,473,452)	
Lease Purchase Obligations	(1,625,726)	(705,561,540)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u>(302,091,498)</u>

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, 2017

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
Local Sources	\$ 183,643,304	\$ 115,360	\$ 4,333,323	\$ 188,091,987
State Sources	69,230,281	418,125	-	69,648,406
Federal Sources	5,539,587	-	-	5,539,587
TOTAL REVENUES	<u>258,413,172</u>	<u>533,485</u>	<u>4,333,323</u>	<u>263,279,980</u>
EXPENDITURES				
Instruction	162,773,814	581,870	-	163,355,684
Support Services	63,971,309	1,792,748	362,407	66,126,464
Operation of Non-Instructional Services	3,051,581	-	-	3,051,581
Capital Outlay	18,939	28,722,557	-	28,741,496
Debt Service	23,404,600	285,365	4,330,818	28,020,783
TOTAL EXPENDITURES	<u>253,220,243</u>	<u>31,382,540</u>	<u>4,693,225</u>	<u>289,296,008</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>5,192,929</u>	<u>(30,849,055)</u>	<u>(359,902)</u>	<u>(26,016,028)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Bond Issues	-	19,700,000	-	19,700,000
Proceeds from Refunded Bond Issues	-	-	34,240,000	34,240,000
Proceeds from Extended Term Financing	-	1,357,740	-	1,357,740
Bond Premiums	-	-	7,180,324	7,180,324
Interfund Transfers In	-	5,089,413	-	5,089,413
Sale/Compensation for Fixed Assets	11,991	-	-	11,991
Payment to bond refunding escrow agent	-	-	(41,057,514)	(41,057,514)
Bond Discount	-	(127,805)	-	(127,805)
Operating Transfers Out	(5,089,413)	-	-	(5,089,413)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,077,422)</u>	<u>26,019,348</u>	<u>362,810</u>	<u>21,304,736</u>
SPECIAL/EXTRAORDINARY ITEMS				
Special Items	-	-	-	-
Extraordinary Items - Insurance Recoveries	2,285	-	-	2,285
NET CHANGE IN FUND BALANCES	117,792	(4,829,707)	2,908	(4,709,007)
FUND BALANCES - BEGINNING	<u>31,562,150</u>	<u>22,749,113</u>	<u>3</u>	<u>54,311,266</u>
FUND BALANCES - ENDING	<u>\$ 31,679,942</u>	<u>\$ 17,919,406</u>	<u>\$ 2,911</u>	<u>\$ 49,602,259</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, 2017**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (4,709,007)**

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	\$ 9,901,965	
less - capital outlays	<u>30,547,067</u>	20,645,102

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 position 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 inflows of resources decreased by this amount this year.

891,405

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 position.

10,544,438

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.

(2,014,105)

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.

(4,143,008)

SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING **21,214,825**

**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, 2017**

SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING (cont'd)	\$ 21,214,825
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.	3,710,471
Bond and lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. 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 position. This figure represents the difference between bond and lease proceeds and refunding payments made to paying agents.	(21,292,746)
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.	-
The difference between current year pension expense reported on the governmental activities column of the government-wide financial statements and the pension contributions made this past year reported as expenditures in the governmental funds.	<u>(9,349,719)</u>
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (5,717,169)</u>

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

Bethlehem Area School District
Statement of Fund Net Position - Proprietary Funds
As of June 30, 2017

	FOOD SERVICE	DAY CARE FUND	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 133,767	\$ 933,423	\$ 1,067,190
Investments	-	-	-
Due from other funds	393,677	211,988	605,665
Due From Other Governments	745,977	-	745,977
Other Receivables (net)	22,859	47,209	70,068
Inventories	73,596	-	73,596
Prepaid expenses	-	-	-
Other Current Assets	-	-	-
TOTAL CURRENT ASSETS	1,369,876	1,192,620	2,562,496
NON-CURRENT ASSETS:			
Building & Bldg. Improvements (net)	-	-	-
Machinery & Equipment (net)	131,488	-	131,488
Other Long-Term Receivables	-	-	-
TOTAL NON-CURRENT ASSETS	131,488	-	131,488
TOTAL ASSETS	\$ 1,501,364	\$ 1,192,620	\$ 2,693,984
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources - Change in Proportion to NPL	58,004	35,069	93,073
Deferred Outflows of Resources - Current Year Contributions	512,147	327,660	839,807
Deferred Outflows of Resources - Change in Assumptions	234,368	158,398	392,766
Deferred Outflows of Resources - Diff. in Projected vs Actual Contributions	-	-	-
Deferred Outflows of Resources - Diff. in Projected vs Actual Invest. Earnings	346,003	244,781	590,784
Deferred Outflows of Resources - Diff. between Expected vs Actual Experience	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 2,651,886	\$ 1,958,528	\$ 4,610,414
LIABILITIES			
CURRENT LIABILITIES:			
Due to Other Funds	\$ 88,389	\$ 311,460	\$ 399,849
Due to Other Governments	-	-	-
Accounts Payable	91,799	3,985	95,784
Compensated Absences	-	-	-
Accrued Salaries and Benefits	19,875	-	19,875
Payroll Deductions and Withholdings	35,721	27,905	63,626
Other Current Liabilities	19,817	-	19,817
Prepayments	60,677	62,503	123,180
TOTAL CURRENT LIABILITIES	316,278	405,853	722,131
NON-CURRENT LIABILITIES:			
Long-Term Portion of Compensated Absences	102,423	60,124	162,547
Net Pension Liability	7,171,297	4,919,144	12,090,441
Net OPEB Obligation	68,287	47,568	115,855
TOTAL NON-CURRENT LIABILITIES	7,342,007	5,026,836	12,368,843
TOTAL LIABILITIES	7,658,285	5,432,689	13,090,974
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources - Change in Assumptions	-	-	-
Deferred Inflows of Resources - Diff. in Projected vs Actual Invest. Earnings	-	-	-
Deferred Inflows of Resources - Diff. in Projected vs Actual Contributions	14,425	9,916	24,341
Deferred Inflows of Resources - Change in Proportion of NPL	-	-	-
Deferred Inflows of Resources - Diff. in Expected vs Actual Experience	56,177	38,931	95,108
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	7,728,887	5,481,536	13,210,423
FUND NET POSITION			
Net Investment in Capital Assets	131,488	-	131,488
Restricted for Legal Purposes	-	-	-
Unrestricted	(5,208,489)	(3,523,008)	(8,731,497)
TOTAL FUND NET POSITION	(5,077,001)	(3,523,008)	(8,600,009)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, & FUND NET POSITION	\$ 2,651,886	\$ 1,958,528	\$ 4,610,414

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

Bethlehem Area School District
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2017

	FOOD SERVICE	DAY CARE FUND	TOTAL
OPERATING REVENUES:			
Food Service Revenue	\$ 1,801,764	\$ -	\$ 1,801,764
Charges for Services	-	1,543,336	1,543,336
Other Operating Revenues	396	636,721	637,117
TOTAL OPERATING REVENUES	1,802,160	2,180,057	3,982,217
OPERATING EXPENSES:			
Salaries	1,754,930	1,183,962	2,938,892
Employee Benefits	1,373,011	1,237,669	2,610,680
Purchased Professional and Technical Services	118	2,011	2,129
Purchased Property Service	170,422	299,965	470,387
Other Purchased Services	3,652,322	2,718	3,655,040
Supplies	454,977	47,689	502,666
Depreciation	23,729	-	23,729
Dues and Fees	5,040	9,052	14,092
Claims and Judgments	-	-	-
Other Operating Expenses	-	3,981	3,981
TOTAL OPERATING EXPENSES	7,434,549	2,787,047	10,221,596
OPERATING INCOME (LOSS)	(5,632,389)	(606,990)	(6,239,379)
NON-OPERATING REVENUES (EXPENSES)			
Earnings on investments	2,208	4,063	6,271
Contributions and Donations	9,207	-	9,207
Gain/Loss on Sale of Fixed Assets	-	-	-
State Sources	560,089	308,068	868,157
Federal Sources	5,220,925	-	5,220,925
TOTAL NON-OPERATING REVENUES (EXPENSES)	5,792,429	312,131	6,104,560
INCOME (LOSS) BEFORE CONTRIBUTIONS	160,040	(294,859)	(134,819)
Capital Contributions	-	-	-
Transfers in (out)	-	-	-
CHANGES IN FUND NET POSITION	160,040	(294,859)	(134,819)
FUND NET POSITION - BEGINNING	(5,237,041)	(3,228,149)	(8,465,190)
FUND NET POSITION - ENDING	\$ (5,077,001)	\$ (3,523,008)	\$ (8,600,009)

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, 2017

	FOOD SERVICE	DAY CARE FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Users	\$ 1,749,699	\$ 1,531,575	\$ 3,281,274
Cash Received from Assessments made to Other Funds	-	-	-
Cash Received from Earnings on Investments	-	-	-
Cash Received from Other Operating Revenue	396	636,721	637,117
Cash Payments to Employees for Services	(3,007,451)	(2,247,817)	(5,255,268)
Cash Payments for Insurance Claims	-	-	-
Cash Payments to Suppliers for Goods and Services	(3,930,642)	(350,731)	(4,281,373)
Cash Payments to Other Operating Expenses	(1,060)	(9,052)	(10,112)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(5,189,058)</u>	<u>(439,304)</u>	<u>(5,628,362)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Local Sources	-	-	-
State Sources	559,266	308,068	867,334
Federal Sources	4,759,896	-	4,759,896
Notes and Loans Received	-	-	-
Contributions and Donations	9,207	-	9,207
Operating Transfers In (Out)	-	-	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	<u>5,328,369</u>	<u>308,068</u>	<u>5,636,437</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Equipment	(7,752)	-	(7,752)
Gain/Loss on Sale of Fixed Assets (Proceeds)	-	-	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(7,752)</u>	<u>-</u>	<u>(7,752)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on Investments	2,208	4,063	6,271
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>2,208</u>	<u>4,063</u>	<u>6,271</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	133,767	(127,173)	6,594
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>-</u>	<u>1,060,596</u>	<u>1,060,596</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 133,767</u>	<u>\$ 933,423</u>	<u>\$ 1,067,190</u>

Bethlehem Area School District
Statement of Cash Flows - Proprietary Funds
As of June 30, 2017

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

	<u>FOOD SERVICE</u>	<u>DAY CARE FUND</u>	<u>TOTAL</u>
OPERATING INCOME (LOSS)	\$ (5,632,389)	\$ (606,990)	\$ (6,239,379)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Depreciation and Net Amortization	23,729	-	23,729
Provision for Uncollectible Accounts	-	-	-
Donated Commodities Used	415,029	-	415,029
CHANGE IN ASSETS AND LIABILITIES:			
(Increase) Decrease in Accounts Receivable	3,966	6,074	10,040
(Increase) Decrease in Advances to Other Funds	(56,031)	(17,835)	(73,866)
(Increase) Decrease in Inventories	37,835	-	37,835
(Increase) Decrease in Prepaid Expenses	-	-	-
(Increase) Decrease in Other Current Assets	-	-	-
(Increase) Decrease in Deferred Outflows of Resources - Change in Proportion to NPL	72,519	53,323	125,842
(Increase) Decrease in Deferred Outflows of Resources - Current Year Contributions	(86,117)	(39,728)	(125,845)
(Increase) Decrease in Deferred Outflows of Resources - Change in Assumptions	(234,368)	(158,398)	(392,766)
(Increase) Decrease in Deferred Outflows of Resources - Diff. in Projected vs Actual Contributions	-	-	-
(Increase) Decrease in Deferred Outflows of Resources - Diff. in Projected vs Actual Invest. Earnings	(346,003)	(244,781)	(590,784)
(Increase) Decrease in Deferred Outflows of Resources - Diff. between Expected vs Actual Experience	-	-	-
Increase (Decrease) in Accounts Payable	(123,155)	324	(122,831)
Increase (Decrease) in Accrued Salaries and Benefits	(44,308)	44,019	(289)
Increase (Decrease) in Advances from Other Funds	11,432	1,510	12,942
Increase (Decrease) in Net Pension Liability	863,497	583,597	1,447,094
Increase (Decrease) in Deferred Inflows of Resources - Change in Assumptions	-	-	-
Increase (Decrease) in Deferred Inflows of Resources - Diff. in Projected vs Actual Invest. Earnings	(27,240)	(7,476)	(34,716)
Increase (Decrease) in Deferred Inflows of Resources - Diff. in Projected vs Actual Contributions	4,538	3,008	7,546
Increase (Decrease) in Deferred Inflows of Resources - Change in Proportion of NPL	(112,951)	(80,649)	(193,600)
Increase (Decrease) in Deferred Inflows of Resources - Diff. in Expected vs Actual Experience	30,923	20,899	51,822
Increase (Decrease) in Other Current Liabilities	10,036	3,799	13,835
TOTAL ADJUSTMENTS	<u>443,331</u>	<u>167,686</u>	<u>611,017</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (5,189,058)	\$ (439,304)	\$ (5,628,362)

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

Bethlehem Area School District
Statement of Net Position - Fiduciary Funds
As of June 30, 2017

	PRIVATE PURPOSE TRUST	PENSION AND OTHER EMPLOYEE BENEFIT TRUST	AGENCY FUNDS
ASSETS			
Cash and cash equivalents	\$ 234,081	\$ 19,493,464	\$ 665,817
Restricted Cash	-	-	-
Investments	1,902	-	-
Due from Other Funds	-	10,373	-
Other Receivables	920	251,255	6,400
Prepaid Expenses	-	-	-
Other Current Assets	-	-	-
TOTAL ASSETS	\$ 236,903	\$ 19,755,092	\$ 672,217
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charges on Refundings, net	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 236,903	\$ 19,755,092	\$ 672,217
LIABILITIES			
Accounts Payable	\$ 24,470	\$ 1,497,377	\$ 28,295
Due to Other Funds	-	10,700	11,650
Due to Student Clubs	-	-	632,272
Other Current Liabilities	-	65,629	-
TOTAL LIABILITIES	24,470	1,573,706	672,217
DEFERRED INFLOWS OF RESOURCES			
Unearned Revenue	-	-	-
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	24,470	1,573,706	672,217
NET POSITION			
Restricted	-	-	-
Unrestricted	212,433	18,181,386	-
TOTAL NET POSITION	\$ 212,433	\$ 18,181,386	\$ -

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

Bethlehem Area School District
Statement of Changes in Net Position - Fiduciary Funds
For the Year Ended June 30, 2017

	PRIVATE-PURPOSE TRUST FUND	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
ADDITIONS		
Contributions	\$ 33,197	\$ 31,098,745
Transfers from Other Funds	-	-
Miscellaneous	-	14,541
INVESTMENT EARNINGS:		
Interest and Dividends	965	84,708
Net increase (decrease) in fair value of investments	-	-
Less investment expense	-	-
TOTAL ADDITIONS	34,162	31,197,994
 DEDUCTIONS		
Transfers to other funds	-	-
PA Trust - Stop Loss Ins.	-	516,254
Medical and Dental Claims	-	25,342,651
Unemployment Costs	-	4,122
Workers Compensation Costs	-	38,575
Dues and Fees	-	102,795
Rental of Equipment	-	1,482
Administrative charges	-	2,749
Scholarships	45,355	-
TOTAL DEDUCTIONS	45,355	26,008,628
CHANGES IN NET POSITION	(11,193)	5,189,366
NET POSITION - BEGINNING OF YEAR	223,626	12,992,020
NET POSITION - END OF YEAR	\$ 212,433	\$ 18,181,386

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, 2017

	BUDGET AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE	BUDGET TO GAAP DIFFERENCE	ACTUAL
	ORIGINAL	FINAL		(NEGATIVE)		AMOUNTS GAAP BASIS
REVENUES						
Local Sources	\$ 180,868,457	\$ 180,868,457	\$ 183,643,304	\$ 2,774,847	\$ -	\$ 183,643,304
State Sources	69,475,831	69,475,831	69,230,281	(245,550)	-	69,230,281
Federal Sources	5,472,349	5,472,349	5,539,587	67,238	-	5,539,587
TOTAL REVENUES	<u>255,816,637</u>	<u>255,816,637</u>	<u>258,413,172</u>	<u>2,596,535</u>	<u>-</u>	<u>258,413,172</u>
EXPENDITURES						
Regular Instruction	120,724,300	115,156,929	115,129,140	27,789	-	115,129,140
Special Programs	34,354,564	35,970,241	35,963,845	6,396	-	35,963,845
Vocational Programs	7,292,827	7,286,372	7,286,372	-	-	7,286,372
Other Instructional Programs	1,812,621	1,278,055	1,270,583	7,472	-	1,270,583
Nonpublic School Programs	-	71,821	71,821	-	-	71,821
Adult Education Programs	-	-	-	-	-	-
Community College Sponsorship	2,401,276	2,401,276	2,401,276	-	-	2,401,276
Pre-Kindergarten	709,879	655,320	650,777	4,543	-	650,777
Pupil Personnel Services	9,799,893	9,870,343	9,864,417	5,926	-	9,864,417
Instructional Staff Services	6,616,334	6,766,287	6,757,233	9,054	-	6,757,233
Administrative Services	11,635,784	11,595,870	11,591,100	4,770	-	11,591,100
Pupil Health	2,403,834	2,470,945	2,463,600	7,345	-	2,463,600
Business Services	2,144,864	2,008,126	2,000,028	8,098	-	2,000,028
Operation & Maintenance of Plant Services	17,869,966	17,940,827	17,933,824	7,003	-	17,933,824
Student Transportation Services	8,350,945	7,591,685	7,586,556	5,129	-	7,586,556
Central Support Services	5,670,729	5,667,380	5,660,663	6,717	-	5,660,663
Other Support Services	109,199	113,888	113,888	-	-	113,888
Student Activities	2,864,842	2,945,854	2,944,623	1,231	-	2,944,623
Community Services	52,775	107,879	106,346	1,533	-	106,346
Scholarships and Awards	-	612	612	-	-	612
Facilities, Acquisition and Construction	-	18,939	18,939	-	-	18,939
Debt Service	22,941,358	23,406,181	23,404,600	1,581	-	23,404,600
TOTAL EXPENDITURES	<u>257,755,990</u>	<u>253,324,830</u>	<u>253,220,243</u>	<u>104,587</u>	<u>-</u>	<u>253,220,243</u>
Excess (deficiency) of revenues over expenditures	(1,939,353)	2,491,807	5,192,929	2,701,122	-	5,192,929
OTHER FINANCING SOURCES (USES)						
Proceeds From Extended Term Financing	-	-	-	-	-	-
Interfund Transfers In	-	-	-	-	-	-
Other Financing Sources Not Listed Elsewhere	4,919,353	-	-	-	-	-
Sale/Compensation for Fixed Assets	20,000	20,000	11,991	(8,009)	-	11,991
Fund Transfers Out	-	(5,090,000)	(5,089,413)	587	-	(5,089,413)
Transfer to Component Units	-	-	-	-	-	-
Budgetary Reserve	(3,000,000)	(2,341,160)	-	2,341,160	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,939,353</u>	<u>(7,411,160)</u>	<u>(5,077,422)</u>	<u>2,333,738</u>	<u>-</u>	<u>(5,077,422)</u>
Special Items	-	-	-	-	-	-
Extraordinary Items - Insurance Recoveries	-	4,919,353	2,285	(4,917,068)	-	2,285
NET CHANGE IN FUND BALANCES	-	-	117,792	117,792	-	117,792
FUND BALANCE - JULY 1, 2016	<u>29,251,717</u>	<u>\$ 29,251,717</u>	<u>\$ 31,562,150</u>	<u>\$ 2,310,433</u>	<u>\$ -</u>	<u>\$ 31,562,150</u>
FUND BALANCE - JUNE 30, 2017	<u>\$ 29,251,717</u>	<u>\$ 29,251,717</u>	<u>\$ 31,679,942</u>	<u>\$ 2,428,225</u>	<u>\$ -</u>	<u>\$ 31,679,942</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, 2017

Note 1 - Description of the School District and Reporting Entity

School District

The Bethlehem Area School District (BASD), located 50 miles north of Philadelphia in eastern Pennsylvania, serves five communities in Bethlehem with demographics ranging from small suburban schools to severely distressed urban schools. It is the sixth largest school district in the state, with an approximate enrollment of 13,600 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 Chief Financial Officer 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 Chief Financial Officer is directly responsible to the Superintendent.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

Reporting Entity

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

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

Component Units

Bethlehem Area School District Authority

The Bethlehem Area School District Authority is created under the Pennsylvania Municipality Authorities Act of 1945, as amended, by the School Districts, and is empowered under the Act to acquire, hold, construct, improve, maintain, operate, and lease school buildings and other school projects acquired, constructed or improved for public school purposes. The Authority, at the request of the Bethlehem Area School District, has undertaken reconstruction, modifying, and improving the financing of school buildings and facilities. As such, this component unit's transactions during the 2016-17 fiscal year are blended into the School District's basic financial statements.

Bethlehem Area School District Employee Benefit Trust

During the 2011-12 fiscal year, the District took its Self-Insurance Internal Service Fund, and created an IRC 501 (c) (9) tax exempt trust for their employees self-funded health, prescription, dental, and related benefits. As such, the Bethlehem Area School District Employee Benefit Trust is now a separate legal entity, and is considered a component unit. The Bethlehem Area School District Employee Trust's transactions have been blended into the School District's basic financial statements as a Fiduciary Fund.

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 2016-17 was \$7,286,372.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

On dissolution of the Bethlehem Area Vocational Technical School, the net position 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 position 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 2016-17 was \$2,401,276.

On dissolution of the Northampton Community College, the net position 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 position upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for NCC can be obtained from the NCC's Administrative office at 3835 Green Pond Road, Bethlehem, PA 18020.

Jointly Governed Organizations

Colonial Intermediate Unit

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

Note 2 - Summary of significant accounting policies

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. GASB Statement No. 62 was issued to include all prior Financial Accounting Standards Board's statements and interpretations pertaining to governments into the hierarchy of the Governmental Accounting Standards Board's jurisdiction. The most significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

A. Basis of Presentation

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

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

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Deferred outflows of resources is recorded in a particular governmental fund where costs are spent for a future period. Current Liabilities are assigned to the governmental fund from which they will be paid. Deferred inflows of resources is recorded in a particular governmental fund that has received resources for a future period. The difference between the sum of assets and deferred outflows of resources minus the sum of liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

General Fund

The General Fund should be used to account for and report all financial resources not accounted for and reported in another fund.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

Special Revenue Funds

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

Under this definition, the District does not have any special revenue funds. However, its blended component unit's (BASD Authority) general fund is brought into these basic financial statements as a non-major special revenue fund.

Capital Project Funds

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

The District has the following Capital Project Funds:

a) Capital Project Fund

During the 2014-15 fiscal year this fund received the proceeds from the \$30,000,000 General Obligation Bonds – Series A of 2015, and in 2016-17 fiscal year received \$19,700,000 in General Obligation Bonds – Series B of 2016. purpose of this issue is to finance the capital costs of designing, constructing, renovating, improving, and furnishing & equipping school facilities, including the Nitschmann Middle School project.

b) Capital Reserve Fund

This fund was created in accordance with Section 1432 of the Municipal Code. The Municipal Code restricts how the resources are spent within this fund.

Proprietary Funds Proprietary funds focus on the determination of changes in net position, 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.

Fiduciary Funds Fiduciary funds reporting focuses on net position and changes in net position. 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, and a Self-Insured Employee Benefit Trust (Component Unit). Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

C. Measurement Focus

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

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, along with deferred outflows of resources or deferred inflows of resources required to be reported. 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, including required deferred outflows of resources or required deferred inflows of resources, associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds 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 inflows of resources, and in the presentation of expenses versus expenditures.

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

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

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 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 2016-17 budget transfers.

F. Use of Estimates

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

G. Changes in Accounting Principles

During the 2016-17 fiscal year the District implemented the following new generally accepted accounting principles:

- GASB Statement No. 74 (*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*), which establishes new reporting requirements about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans.
- GASB Statement No. 77 (*Tax Abatement Disclosures*). The purpose of these disclosures is intended, among other things, to assist the users of these financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services, (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. Financial statement users need information about certain limitations on a government's ability to raise resources, including limitations imposed by tax abatement programs.
- GASB Statement No. 78 (*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*). This Statement amends Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer.
- GASB Statement No. 80 (*Blending Requirements for Certain Component Units*). This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. As such, it amends Statement No. 14. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.
- GASB Statement No. 82 (*An amendment of GASB Statements Nos. 67, 68, and 73*). This Statement addresses certain issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

H. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System and additions to/deductions from the Public School Employees' Retirement System's fiduciary net position have been determined on the same basis as they are reported by the Public School Employees' Retirement System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

I. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

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

Investments

In accordance to GASB Statement No. 72, investments generally are to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has the present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts.

A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets. These assets were previously required to be measured at fair value.

Fair Value is measured using a hierarchy of inputs using valuation techniques. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount.

Receivables and Payables

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

Property Tax Levy

Property taxes, which were levied during the fiscal year ended June 30, 2017, 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.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

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 inflows of resources 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, 2017, the inventory shown in the governmental activities column of the government-wide statement of net position is \$157,823 and \$73,596, is shown as inventory in the business-type activities column of the government-wide statement of net position.

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 \$157,823, taken as of June 30, 2017; therefore, there is a nonspendable fund balance in the General Fund.

Inventory type items in Proprietary Funds use the consumption method, in which items are purchased for inventory and charged to expenses when used. The only Proprietary Fund of the District that has inventory 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, 2017, consist of:

Purchased Food	\$ 34,231
Donated Commodities	10,417
Purchased Supplies	<u>28,948</u>
Total	<u><u>\$ 73,596</u></u>

Prepaid Expenses

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, 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 position 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 acquisition values as of the date received. The School District maintains a capitalization threshold of two thousand (\$2,000) dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise funds is also capitalized.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

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.

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 position. Bond premiums and discounts, 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. Any deferred amount on refundings are reported as deferred outflows of resources and amortized over the life of the bond issue. Bond issuance costs are expensed in the year they are incurred.

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, 2017, 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.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net Investment in Capital Assets component of Net Position is comprised 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. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall Net Investment in Capital Assets. The restricted component of Net Position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of Net Position is unrestricted.

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

Fund Balance Categories

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Below are the potential categories of fund balance the government may use with their definitions, the actual categories used is explained in Note 8 to the financial statements:

Nonspendable Fund Balance

This category includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance

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

Committed Fund Balance

This category pertains to amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action.

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

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

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 position.*

The governmental fund balance sheet includes reconciliation between "fund balance - total governmental funds" and "net position - governmental activities" as reported in the government-wide statement of net position. 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 \$705,561,540 differences are:

Bonds payable	\$ 288,255,000
Less: Issuance discount (to be amortized as interest expense)	(478,309)
Add: Issuance premium (to be amortized as a contra to interest expense)	10,891,778
Derivative Instrument Liability	23,110,054
Lease Purchase Obligations	1,625,726
Accrued interest payable	2,421,959
Net Defined Benefit Pension Liability	360,202,996
Net Defined Contribution Pension Liability	539,898
Net OPEB Obligation	13,473,452
Compensated absences	5,518,986
Net adjustment to reduce "fund balance - total governmental funds" to arrive at "net assets - governmental activities"	\$ 705,561,540

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

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

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

- a) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities. The long-term expenses reported below recognize the change in vested employee benefits.
- b) Capital related differences include (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation expense on those items as recorded in the statement of activities.
- c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

	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	\$ 156,633,723	\$ 891,405	\$ -	\$ -	\$ 157,525,128
Taxes levied for specific purposes	22,696,048	-	-	-	22,696,048
Interest and investment earnings	5,003,740	-	-	(4,292,803)	710,937
Miscellaneous	673,936	-	3,553	-	677,489
Contributions and Donations	476,757	-	-	-	476,757
Charges for Services	600,531	84,721	-	-	685,252
Grants, subsidies & contributions not restricted	35,657,541	-	-	-	35,657,541
INTERMEDIATE SOURCES:					
Charges for Services	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-
STATE SOURCES:					
Operating & Capital grants and contributions	33,990,865	-	-	-	33,990,865
FEDERAL SOURCES:					
Operating & Capital grants and contributions	7,546,839	-	-	-	7,546,839
SPECIAL AND EXTRAORDINARY SOURCES:					
Proceeds from Bond Issues	53,940,000	-	-	(53,940,000)	-
Bond Premiums	7,180,324	-	-	(7,180,324)	-
Proceeds from Extended Term Financing	1,357,740	-	-	(1,357,740)	-
Extraordinary Item - Insurance Recoveries	2,285	-	(2,285)	-	-
Gain or (Loss) on disposal of assets	11,991	-	(1,267)	-	10,724
TOTAL REVENUES	325,772,320	976,126	1	(66,770,867)	259,977,580
EXPENDITURES/EXPENSES					
Instruction	163,355,685	7,545,910	430,544	-	171,332,139
Instructional Student Support	19,162,460	1,094,542	5,120	-	20,262,122
Admin. & Fin'l Support Services	20,083,784	1,233,600	348,866	-	21,666,250
Oper. & Maint. Of Plant Svcs.	17,935,923	984,892	102,114	-	19,022,929
Pupil Transportation	8,944,296	333,171	(865,106)	-	8,412,361
Student activities	2,944,623	150,544	107,837	-	3,203,004
Community Services	106,346	1,091	-	-	107,437
Scholarships & Awards	612	-	-	-	612
Capital Outlay	28,741,497	-	(28,741,497)	-	-
Debt Service	69,206,101	-	-	(55,485,227)	13,720,874
Transfers Out	-	-	-	-	-
Depreciation - unallocated	-	-	7,967,021	-	7,967,021
Special Item - Derivative Termination Fee	-	-	-	-	-
TOTAL EXPENDITURES/EXPENSES	330,481,327	11,343,750	(20,645,101)	(55,485,227)	265,694,749
NET CHANGE FOR THE YEAR	\$ (4,709,007)	\$ (10,367,624)	\$ 20,645,102	\$ (11,285,640)	\$ (5,717,169)

Note 4 - Stewardship, Compliance, and Accountability

A. Compliance with finance related legal and contractual provisions

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

B. Deficit fund balance or net position of individual funds

No individual fund contains a deficit fund balance or net position at June 30, 2017, except the governmental activities has a \$302,091,498 in deficit net position, and the business-type activities (comprised of food service fund (\$5,077,001) and day care fund (\$3,523,008)) have a deficit Net Position of \$8,600,009.

C. Excess of expenditures over appropriations in individual funds

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

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

D. Budgetary compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year-end; therefore, it does not have any outstanding encumbrances at June 30, 2017.

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, 2017, \$999,988 of the District's bank balance of \$5,343,467 was exposed to custodial credit risk as follows, and \$3,644,552 held in a pooled account is restricted.

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		999,988
TOTAL	\$	999,988

Reconciliation to Financial Statements

Uncollateralized Amount above	\$	999,988
Plus: Insured Amount		4,243,479
Less: Outstanding Checks		(319)
Carrying Amount - Cash Balances		5,243,148
Plus: Petty Cash		6,479
Deposit in Pooled Investments Considered Cash Equivalents		79,357,376
Less: Certificates of Deposit considered Investments by School Code		(4,176,902)
TOTAL CASH PER FINANCIAL STATEMENTS	\$	80,430,101

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

Investments

Permitted investments for Bethlehem Area School District are defined in the Public School Code of 1949, as amended by Act 10 of 2016 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.
5. Obligations, participations or other instruments of any Federal Agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
6. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government sponsored enterprise.
7. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
8. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
9. Commercial paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days, if the paper is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
10. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933 and, if all of the following conditions are met:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

- The investments of the company are the authorized investments listed above.
- The investment company is managed in accordance with 17 CFR 270.2a-7 (related to money market funds.)
- The investment company is rated in the highest category by a nationally recognized rating agency.

11. Savings or demand deposits placed in accordance with the following conditions:

- The money is initially deposited and invested through a federally insured institution having a place of business in this Commonwealth, which is selected by the public corporation or municipal authority.
- The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, for the account of the public corporation or municipal authority.
- The full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation.
- On the same date that the money is redeposited pursuant to above, the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the public corporation or municipal authority.

As of June 30, 2017, the District had the following investments:

<i>Investment</i>	Maturities	Fair Value
PSDLAF/PSDMAX		\$ 74,903,252
PSDMAX - Restricted		3,644,552
PA Treasurer's Invest Program		1,295
PLGIT Class		808,277
PLGIT- CD's		2,970,000
Lafayette Ambassador Bank -CD		600
KNBT - CD's		1,302
PSDLAF - CD's		6,205,000
TOTAL		\$ 88,534,278

Interest Rate Risk

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2017, 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.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. The General Fund has 7.33% and 6.79% of investments in Certificates of Deposit with PSDLAF and PLGIT, respectively. The Capital Projects Fund has 12.81% of investments in Certificates of Deposits with PSDLAF. As for the Governmental Activities, the District has 9.24% and 4.42% of investments in Certificates of Deposits with PSDLA and PLGIT, respectively. Of the investments held entity wide, 7.01% and 3.35% are held in Certificates of Deposit with PSDLAF and PLGIT, respectively.

Reconciliation to Financial Statements

Total Investments Above	\$ 88,534,278
Less: Deposits in Investment Pool Considered Cash Equivalents	<u>(79,357,376)</u>
Total Investments Per Financial Statements	<u>\$ 9,176,902</u>

Fair Value Reporting

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District did not have any recurring fair value investments at June 30, 2017. The District did have Cash Equivalents in 2a7-like external investment pools, which GASB Statement No. 72 allows to be recorded at amortized cost as provided in paragraph 16 of GASB Statement No. 31.

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 \$4,213,579,650. In accordance with Act I of 2006, the District receives \$4,743,340 in property tax reduction funds for the 2016-17 fiscal year. The tax rate for the Northampton and Lehigh Counties were \$5.405 and \$1.696, respectively per \$100 of assessed valuation or 54.05 mills and 16.96 mills, respectively.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

The property tax calendar is:

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

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

Receivables

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

	GENERAL FUND	CAPITAL PROJECT FUNDS	FOOD SERVICE FUND	DAY CARE FUND	FIDUCIARY FUNDS	TOTAL
RECEIVABLES:						
Interest	\$ -	\$ -	\$ -	\$ -	\$ 920	\$ 920
Taxes	6,798,684	-	-	-	-	6,798,684
Accounts	273,187	106,699	22,859	47,209	257,655	707,609
Intergovernmental	8,672,507	-	745,977	-	-	9,418,484
GROSS RECEIVABLES	15,744,378	106,699	768,836	47,209	258,575	16,925,697
Less: Allowance for Uncollectibles	-	-	-	-	-	-
NET RECEIVABLES	\$ 15,744,378	\$ 106,699	\$ 768,836	\$ 47,209	\$ 258,575	\$ 16,925,697

Governmental funds report deferred inflows of resources 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 inflows of resources reported in the governmental funds were:

	UNAVAILABLE	UNEARNED
Delinquent Property Taxes - General Fund	\$ 5,472,790	\$ -
Grants drawdowns prior to meeting eligibility requirements	-	51,000
TOTAL	\$ 5,472,790	\$ 51,000

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

Capital Assets

Capital asset balances and activity for the year ending June 30, 2017, were:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Capital Assets not being depreciated:				
Land	\$ 75,410	\$ -	\$ -	\$ 75,410
Construction in Progress	22,439,704	28,638,275	(5,298,665)	45,779,314
Total Capital Assets not being depreciated	22,515,114	28,638,275	(5,298,665)	45,854,724
Capital Assets being depreciated:				-
Site Improvements	9,097,894	4,506,499	-	13,604,393
Buildings and Improvements	323,982,198	834,140	(5,949)	324,810,389
Furniture and Equipment	65,850,349	1,866,818	(2,442,209)	65,274,958
TOTAL CAPITAL ASSETS BEING DEPRECIATED	398,930,441	7,207,457	(2,448,158)	403,689,740
Less accumulated depreciation for:				
Site Improvements	(7,650,358)	(377,540)	-	(8,027,898)
Buildings and Improvements	(117,967,423)	(8,084,678)	5,949	(126,046,152)
Furniture and Equipment	(60,053,719)	(1,439,747)	2,442,209	(59,051,257)
TOTAL ACCUMULATED DEPRECIATION	(185,671,500)	(9,901,965)	2,448,158	(193,125,307)
TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION	213,258,941	(2,694,508)	-	210,564,433
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	\$ 235,774,055	\$ 25,943,767	\$ (5,298,665)	\$ 256,419,157
BUSINESS-TYPE ACTIVITIES:				
Capital Assets being depreciated:				
Furniture and Equipment	\$ 1,974,357	\$ 7,752	\$ -	\$ 1,982,109
Less accumulated depreciation	(1,826,892)	(23,729)	-	(1,850,621)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	\$ 147,465	\$ (15,977)	\$ -	\$ 131,488

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

Regular Instruction	\$ 517,907
Special Instruction	1,793
Vocational Instruction	1,687
Other Instruction	1,020
Adult Instruction	-
Community College Instruction	-
Pre-Kindergarten	107
Pupil Services	-
Instructional Staff Svcs.	4,726
Administrative Services	1,669
Health Services	394
Business Services	2,364
Operation & Maintenance of Plant Svcs.	473,318
Pupil Transportation	492,634
Central Services	319,728
Other Support Services	-
Student Activities	117,597
Community Services	-
Depreciation - unallocated	7,967,021
TOTAL DEPRECIATION FOR GOVERNMENTAL ACTIVITIES	\$ 9,901,965

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

The governmental activities disposed of \$2,448,158, with \$2,448,158 in accumulated depreciation during the year, showing a gain of disposition of \$10,724, representing the sale of the Monocacy Property. The business-type activities disposed of \$-0-, with accumulated depreciation of \$-0-reflecting a \$-0- gain on disposition.

Commitments

Encumbrances

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

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

Long-term construction commitments

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

	CONTRACT AMOUNT	EXPENDED TO 6/30/17	OUTSTANDING COMMITMENTS
<u>Nitschmann Middle School</u>			
D'Huy Engineering, Inc	\$ 1,759,103	\$ 1,293,764	\$ 465,339
Jay R. Reynolds, Inc.	1,865,300	1,773,159	92,141
Penn Builders, Inc.	34,061,200	29,079,454	4,981,746
Wind Gap Electric, Inc.	4,677,358	4,156,707	520,651
B.R.F. Architects	2,250,000	2,050,000	200,000
Johnson Controls, Inc.	347,500	145,500	202,000
Sargent Enterprises, Inc.	376,850	27,067	349,783
Myco Mechanical, Inc.	5,179,000	4,865,827	313,173
SUB-TOTAL	50,516,311	43,391,478	7,124,833
<u>East Hills - HVAC</u>			
D'Huy Engineering	203,294	162,635	40,659
Johnson Controls, Inc.	347,500	107,500	240,000
Myco Mechanical, Inc.	3,038,000	1,202,288	1,835,712
Sargent Enterprises, Inc.	43,230	34,520	8,710
SUB-TOTAL	3,632,024	1,506,943	2,125,081
<u>Track & Turf Fields</u>			
D'Huy Engineering	265,065	262,755	2,310
SUB-TOTAL	265,065	262,755	2,310
<u>Fountain Hill Chiller</u>			
ASL Refrigeration, Inc.	353,889	32,669	321,220
SUB-TOTAL	353,889	32,669	321,220
GRAND TOTAL	\$ 54,767,289	\$ 45,193,845	\$ 9,573,444

Short-term debt

Interfund receivables and payables

The following interfund receivables and payables were in existence on June 30, 2017:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 4,058,492	\$ 626,367
Enterprise (Food Service) Fund	393,677	88,389
Enterprise (Day Care) Fund	211,988	311,460
Capital Project Funds	18,588	3,644,552
Special Revenue (BASD Authority General Fd) Fund	-	-
Self - Insurance Trust Fund (Blended Component Unit)	10,373	10,700
Agency (Activity) Fund	-	11,650
TOTAL	<u>\$ 4,693,118</u>	<u>\$ 4,693,118</u>

The District also made the following interfund transfers during the fiscal year ended June 30, 2017:

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ -	\$ 5,089,413
Capital Projects (Capital Reserve) Fund	5,089,413	-
Self - Insurance Trust Fund (Blended Component Unit)	-	-
Enterprise (Food Service) Fund	-	-
TOTAL	<u>\$ 5,089,413</u>	<u>\$ 5,089,413</u>

Long-Term Liabilities

Long-term liability balances and activity for the year ended June 30, 2017 were:

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
<u>GOVERNMENTAL ACTIVITIES</u>					
<i>General Obligation Debt:</i>					
<i>Bonds and notes payable:</i>					
Capital Projects	\$ 284,686,314	\$ 61,276,811	\$ 47,289,656	\$ 298,673,469	\$ 9,070,000
Capital Leases	1,182,423	1,357,740	914,437	1,625,726	536,784
Total general obligation debt	285,868,737	62,634,551	48,204,093	300,299,195	9,606,784
<i>Other liabilities:</i>					
<i>Vested employee benefits:</i>					
Vacation pay	1,603,087	333,772	-	1,936,859	177,976
Sick pay	4,010,194	-	89,059	3,921,135	161,032
Net Defined Contribution Pension Obligation	539,898	-	-	539,898	-
Net Defined Benefit Pension Liability	311,878,739	48,324,257	-	360,202,996	-
Net OPEB Obligation	11,831,016	1,642,436	-	13,473,452	-
Derivative Financial Instruments	30,837,054	-	7,727,000	23,110,054	-
Total other liabilities	360,699,988	50,300,465	7,816,059	403,184,394	339,008
TOTAL GOVERNMENTAL ACTIVITY					
LONG-TERM LIABILITIES	\$ 646,568,725	\$ 112,935,016	\$ 56,020,152	\$ 703,483,589	\$ 9,945,792
 <u>BUSINESS TYPE ACTIVITIES</u>					
<i>Other liabilities:</i>					
<i>Vested employee benefits:</i>					
Vacation pay	29,880	-	12,408	17,472	-
Sick pay	145,980	-	905	145,075	-
Net Defined Benefit Pension Liability	10,643,347	1,447,094	-	12,090,441	-
Net OPEB Obligation	112,526	3,329	-	115,855	-
TOTAL BUSINESS-TYPE ACTIVITY					
LONG-TERM LIABILITIES	\$ 10,931,733	\$ 1,450,423	\$ 13,313	\$ 12,368,843	\$ -

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:	<u>EXPENSE</u>	<u>PAID</u>
General obligation debt	\$ 12,468,993	\$ 11,895,056
Lease debt	28,705	28,705
Refund of Prior Year Receipts	1,223,176	1,223,176
TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES	\$ 13,720,874	\$ 13,146,937

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

General Obligation Bonds – Series A of 2009

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

On June 4, 2015 the District refunded a portion of the Series A of 2009 (\$8,420,000), with interest rates ranging from 3.00% to 5.00%, with new debt in the amount of \$9,580,000, with interest rates ranging from 2.868% to 4.114% also extending the payoff of the debt from October 15, 2023 to August 1, 2029.

The remaining outstanding debt service requirements at June 30, 2017, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 9,005,000	\$ 1,763,819
2018-19	6,410,000	1,406,569
2019-20	3,435,000	1,160,444
2020-21	6,385,000	914,943
2021-22	13,470,000	469,081
2022-25	4,015,000	171,665
SUB-TOTAL	42,720,000	\$ 5,886,521
Unamortized Discount	(114,944)	
Unamortized Premium	535,787	
TOTAL OUTSTANDING	\$ 43,140,843	

General Obligation Bonds – Series AA of 2009

On May 1, 2009, the District issued \$14,410,000 of General Obligation Bonds – Series AA of 2009. The proceeds will be used: (1) to currently refund, in conjunction with General Obligation Bonds – Series A of 2009, the variable rate outstanding debt of the Series of 2003 bonds; (2) pay the termination fee on the related interest rate swaps, and; (3) paying the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 2018 to October 15, 2020. Interest rates range from 3.80% to 4.20%, with total interest indebtedness of \$6,164,404. The outstanding debt service requirements at June 30, 2017, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ -	\$ 580,400
2018-19	3,000,000	523,400
2019-20	6,410,000	338,200
2020-21	5,000,000	105,000
SUB-TOTAL	14,410,000	\$ 1,547,000
Unamortized Discount	(73,942)	
TOTAL OUTSTANDING	\$ 14,336,058	

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

General Obligation Bonds – Series B of 2009

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

On August 31, 2016, the District refunded the Series of 2010 (\$28,790,000), with interest rates ranging from 3.0% to 5.25%, and a portion of the Series of 2009B (\$7,480,000) with interest rates ranging from 3.5% to 5.125% with new debt in the amount of \$34,240,000 with fixed interest rates that range from 2.0% to 5.0%.

SOURCES

Gross Proceeds of Bonds	\$ 34,240,000
Plus: Accrued Interest	-
Premium	7,180,324
Less: Original Issue Discount	-
Underwriter's Discount	(145,520)
TOTAL SOURCES	<u>\$ 41,274,804</u>

USES

Escrow Deposit	\$ 41,057,513
Issuance Costs	215,887
Sinking Fund Deposit	1,404
TOTAL USES	<u>\$ 41,274,804</u>

DIFFERENCE IN CASH FLOW REQUIREMENTS

Old Debt Service Cash Flows		\$ 50,393,128
Cash Flows From New Debt:		
New Debt Service Cash Flow	\$ 47,110,945	
Less: Excess Funds Deposited in Sinking Fund	(1,404)	
Net Cash Flows From New Debt		<u>47,109,541</u>
Net Difference in Cash Flows		<u>3,283,587</u>

ECONOMIC GAIN/LOSS

Present Value of Old Debt Service Cash Flows		\$ 44,205,680
Present Value of New Debt Service Cash Flows	\$ 41,058,918	
Less: Excess Funds Deposited in Sinking Fund	(1,404)	
Total		<u>41,057,514</u>
Economic Gain		<u>\$ 3,148,166</u>

General Obligation Bonds – Series of 2010

On January 5, 2010, the District issued \$28,850,000 of General Obligation Bonds – Series of 2010. The proceeds will be used: (1) to currently refund and partially redeem \$25,345,000 outstanding principal amount of the School District's General Obligation Bonds, Series of 2005, (2) make a

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

payment to partially terminate (\$25,350,000 notional amount) of an interest rate swap agreement (fixed interest rate payments by the District) associated with the 2005 Bonds, and (3) pay the costs and expenses allocable to the issuance of the Bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from January 15, 2011 to January 15, 2026. Interest rates range from 1.25% to 5.25%, with total interest indebtedness of \$20,568,353

On August 31, 2016, the District refunded the Series of 2010 (\$28,790,000), with interest rates ranging from 3.0% to 5.25%, and a portion of the Series of 2009B (\$7,480,000) with interest rates ranging from 3.5% to 5.125% with new debt in the amount of \$34,240,000 with fixed interest rates that range from 2.0% to 5.0%.

SOURCES

Gross Proceeds of Bonds	\$ 34,240,000
Plus: Accrued Interest	-
Premium	7,180,324
Less: Original Issue Discount	-
Underwriter's Discount	(145,520)
TOTAL SOURCES	<u>\$ 41,274,804</u>

USES

Escrow Deposit	\$ 41,057,513
Issuance Costs	215,887
Sinking Fund Deposit	1,404
TOTAL USES	<u>\$ 41,274,804</u>

DIFFERENCE IN CASH FLOW REQUIREMENTS

Old Debt Service Cash Flows	\$ 50,393,128
Cash Flows From New Debt:	
New Debt Service Cash Flow	\$ 47,110,945
Less: Excess Funds Deposited in Sinking Fund	(1,404)
Net Cash Flows From New Debt	<u>47,109,541</u>
Net Difference in Cash Flows	<u>3,283,587</u>

ECONOMIC GAIN/LOSS

Present Value of Old Debt Service Cash Flows	\$ 44,205,680
Present Value of New Debt Service Cash Flows	\$ 41,058,918
Less: Excess Funds Deposited in Sinking Fund	(1,404)
Total	<u>41,057,514</u>
Economic Gain	<u>\$ 3,148,166</u>

General Obligation Notes – Series of 2011

On April 29, 2011, the District issued \$40,470,000 of General Obligation Notes – Series of 2011. The proceeds will be used: (1) to provide funds for refunding the variable rate General Obligation Notes – Series of 2009; and (2) paying the costs of this issue. These Notes are issued to the BASD Authority to guarantee their issuance of the Series of 2011 revenue bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from July 1, 2011 to July 1, 2031. Interest rates are variable using the SIFMA index. The maximum rate of interest payable shall be 25%, per annum.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

Since this Note is between the School District and its component unit (Bethlehem Area School District Authority), it is not shown on the government-wide Statement of Net Position as obligated debt because the Authority is blended into the financial statements; therefore, its long-term receivable equal to the principal outstanding balance of this Note are eliminated for financial reporting purposes. **We are reporting the following outstanding debt service requirements at June 30, 2017, for informational purposes only, using 1.3622% interest rate in effect at June 30, 2017:**

FISCAL YEAR	PRINCIPAL	INTEREST
2018-19	\$ 5,000	\$ 550,830
2019-20	5,000	550,761
2020-21	5,000	550,693
2021-22	5,000	550,625
2022-23	5,000	550,557
2023-28	11,385,000	2,403,596
2028-30	29,030,000	882,928
Sub-Total	\$ 40,440,000	\$ 6,039,990
Unamortized Bond Discount	-	
Total Outstanding	\$ 40,440,000	

General Obligation Bonds – Series of 2011

On November 1, 2011, the District issued \$33,330,000 of General Obligation Bonds – Series of 2011. The proceeds will be used: (1) to currently refund a portion (\$25,150,000) of the General Obligation Bonds – Series of 2007; (2) to make a payment to terminate a portion (\$7,470,000) of a related swap agreement; and; (3) to pay the costs and expenses of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2012 to November 15, 2029. Interest rates range from 1.0% to 4.125%, with total interest indebtedness of \$18,872,955. The outstanding debt service obligations, at June 30, 2017, are as follows:

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 5,000	\$ 1,287,244
2018-19	5,000	1,287,137
2019-20	5,000	1,287,019
2020-21	5,000	1,286,887
2021-22	5,000	1,286,744
2022-27	20,975,000	4,629,194
2027-30	12,305,000	677,515
Sub-Total	\$ 33,305,000	\$ 11,741,740
Unamortized Bond Discount	(85,000)	
Total Outstanding	\$ 33,220,000	

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

General Obligation Notes – Series A of 2011

On November 1, 2011, the District issued \$30,000,000 of General Obligation Bonds – Series A of 2011. The proceeds will be used: (1) to provide funds for refunding a portion of the General Obligation Bonds – Series of 2007 by transferring the liability, including the fixed payor swap, to the BASD Authority; and (2) paying the cost of this issue. The Note is issued to the BASD Authority to guarantee their issuance of the Series A of 2011 revenue bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Notes mature from January 1, 2012 to January 1, 2032, with interest at a variable weekly rate of 68% of 1 month LIBOR, plus 75 basis points.

Since this Note is between the School District and its component unit (Bethlehem Area School District Authority), it will not be shown on the government-wide Statement of Net Position as obligated debt because the Authority is blended into the financial statements; therefore its long-term receivable equal to the principal outstanding balance of the Note are eliminated for financial reporting purposes. **We are reporting the following outstanding debt service obligations at June 30, 2017, for informational purposes only, using 0.8605% interest rate in effect at June 30, 2017.**

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 5,000	\$ 408,237
2018-19	5,000	408,168
2019-20	5,000	408,100
2020-21	5,000	408,032
2021-22	5,000	407,964
2022-27	25,000	2,038,799
2027-32	29,920,000	1,624,318
TOTAL	\$ 29,970,000	\$ 5,703,618

General Obligation Notes of 2014

On December 1, 2014, the District issued \$30,250,000 of General Obligation Bonds – Series of 2014. The proceeds will be used: (1) to currently refund a portion General Obligation Notes – Series of 2010 by transferring the liability to the BASD Authority; and (2) paying the cost of this issue. These Notes are issued to the BASD Authority to guarantee their issuance of the Series of 2014 revenue bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Notes mature from January 1, 2015 to January 1, 2030. Interest rates are variable using the SIFMA Index. All principal and interest payments, which includes all amounts required to be paid by the issuer to the Counterparty under the fixed payor swap. The maximum rate of interest payable shall be 15%, per annum, unless the bonds become bank bonds then the maximum interest rate is 25%, per annum.

Since this Note is between the School District and its component unit (Bethlehem Area School District Authority), it will not be shown on the government-wide Statement of Net Position as obligated debt because the Authority is blended into the financial statements; therefore its long-term receivable equal to the principal outstanding balance of the Note are eliminated for financial reporting purposes. **We are reporting the following outstanding debt service obligations at June 30, 2017, for informational purposes only, using 1.2867% interest rate in effect at June 30, 2017:**

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 40,000	\$ 388,054
2018-19	40,000	387,540
2019-20	40,000	387,025
2020-21	40,000	386,510
2021-22	40,000	385,995
2022-27	6,890,000	1,886,390
2027-32	23,085,000	486,076
TOTAL	\$ 30,175,000	\$ 4,307,590

General Obligation Bonds – Series A of 2015

On June 4, 2015, the District issued \$30,000,000 in General Obligation Bonds - Series A of 2015. The proceeds will be used : (1) for capital projects including planning, designing, acquiring, construction and furnishing alterations and renovations to the Nitschmann Middle School and other public school facilities of the District, and (2) to pay the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from August 1, 2025 to August 1, 2035. The bonds shall bear interest at 5.0%, with total interest indebtedness of \$28,080,750. The outstanding debt service requirements at June 30, 2017, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ -	\$ 1,500,000
2018-19	-	1,500,000
2019-20	-	1,500,000
2020-21	-	1,500,000
2021-22	-	1,500,000
2022-27	-	7,500,000
2027-32	-	7,500,000
2032-36	30,000,000	3,093,250
Sub-Total	\$ 30,000,000	\$ 25,593,250
Unamortized Bond Premium	3,547,764	
Total Outstanding	\$ 33,547,764	

General Obligation Notes – Series B of 2015

On June 4, 2015, the District issued \$3,470,000 of General Obligation Notes - Series B of 2015. The proceeds will be used: (1) to advance refund and restructure all of the Districts' General Obligation Bonds, Series of 2012 currently outstanding in the aggregate principal amount of \$3,470,000, and (2) to pay the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from August 1, 2029, to August 1, 2031. The bonds bear interest from 3.25% to 3.37%, with total indebtedness of \$1,911,770. The outstanding debt service requirements at June 30, 2017, are:

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ -	\$ 124,706
2018-19	-	124,706
2019-20	-	124,706
2020-21	-	124,707
2021-22	-	124,706
2022-27	-	623,531
2027-32	<u>3,725,000</u>	<u>457,904</u>
Sub-Total	\$ 3,725,000	\$ 1,704,966
Unamortized Bond Discount	<u>(79,603)</u>	
Total Outstanding	\$ 3,645,397	

General Obligation Notes – Series C of 2015

On June 4, 2015, the District issued \$9,580,000 of General Obligation Notes - Series C of 2015. The proceeds will be used: (1) to advance refund and restructure all of the Districts' General Obligation Bonds, Series A of 2009 currently outstanding in the aggregate principal amount of \$60,365,000, of which \$8,420,000 was refunded, and (2) to pay the costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from August 1, 2016, to August 1, 2029. The bonds bear interest from 2.868%% to 4.114%, with total indebtedness of \$3,656,622. This issue is considered federally taxable. The outstanding debt service requirements at June 30, 2017, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 5,000	\$ 347,221
2018-19	5,000	347,078
2019-20	5,000	346,934
2020-21	5,000	346,790
2021-22	5,000	346,647
2022-27	6,520,000	1,204,399
2027-30	<u>3,030,000</u>	<u>141,460</u>
Sub-Total	\$ 9,575,000	\$ 3,080,529
Unamortized Bond Discount	-	
Total Outstanding	\$ 9,575,000	

General Obligation Bonds – Series A of 2016

On August 31, 2016, the District issued \$34,240,000 of General Obligation Bonds – Series A of 2016. The proceeds will be used to (1) advance refund a portion of the School District's General Obligation Bonds, Series B of 2009, currently outstanding in the aggregate principal amount of \$7,975,000; if which \$7,480,000 shall be refunded, (2) advance refund all of the Districts, Series of 2010, currently outstanding in the aggregate principal amount of \$28,790,000 and (3) pay the costs and expenses of issuing and insuring the 2016A Bonds. We are reporting the outstanding debt service at June 30, 2017. Interest rates range from 2.0% to 5.0%.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 5,000	\$ 1,590,188
2018-19	5,000	1,590,038
2019-20	5,000	1,589,887
2020-21	265,000	1,589,738
2021-22	505,000	1,579,137
2022-27	31,955,000	4,218,085
2027-31	<u>1,500,000</u>	<u>46,875</u>
Sub-Total	34,240,000	<u>\$ 12,203,948</u>
Unamortized Bond Premium	<u>6,808,227</u>	
Total Outstanding	<u>\$41,048,227</u>	

Guaranteed Obligation Bonds – Series B of 2016

On August 31, 2016, the District issued \$19,700,000 of General Obligation Bonds – Series B of 2016. The proceeds will be used to (1) plan, design, acquire, constructing and furnishing alterations and renovations to the Nitschmann Middle School and other public school facilities of the School District, (2) replacement of turf and other athletic field improvements at the Freedom High School, (3) HVAC and related improvements to the East Hills Middle School, and (4) paying the costs and expenses of issuing and insuring the 2016B Bonds. We are reporting the outstanding debt service requirements at June 30, 2017. Interest rates range from 2.375% to 3.0%.

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ -	\$ 590,925
2018-19	-	590,925
2019-20	-	590,925
2020-21	-	590,925
2021-22	-	590,925
2022-27	-	2,954,625
2027-32	10,000	2,954,262
2032-35	<u>19,690,000</u>	<u>1,501,350</u>
Sub-Total	19,700,000	<u>\$ 10,364,862</u>
Unamortized Bond Discount	<u>(124,820)</u>	
Total Outstanding	<u>\$ 19,575,180</u>	

Guaranteed Lease Revenue Bonds – Series of 2011

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

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

Interest Rate Swap

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

Terms. The notes were refunded by the Bethlehem Area School District's Authority Guaranteed Revenue Bonds Series of 2009 during 2009-10 fiscal year backed by the issuance of the District's \$41,000,000 General Obligation Note to the Authority. These Series of 2009 revenue bonds and related District's Notes have been refunded with the Series of 2011 revenue bonds and related Series of 2011 general obligation bonds of the District that guarantee the Authority's revenue bonds. The related swap agreement matures on July 1, 2031, and the swap's notional amount is \$40,000,000. The swap was entered into on November 22, 2005. Starting on July 1, 2008, the notional value of the swap and the principal amount of the associated debt begin to decline. Under the swap, the Authority receives the lesser of 68% of LIBOR (monthly rate) from the Counterparty (JP Morgan Chase Bank) in exchange for a fixed rate of 3.774%. The variable rate paid on the Authority's Guaranteed Revenue Bonds – Series of 2011 approximates the SIFMA index. Therefore, if SIFMA exceeds 68% of LIBOR, the District pays a net effective interest rate in excess of 3.774%, and if SIFMA is less than 68% of LIBOR, the District pays a net effective interest rate approximately equal to the fixed rate.

Fair Value. The interest rate swap has a negative fair value of \$8,445,401 as of June 30, 2017. The swap negative fair value may be countered by a reduction in total interest payments required under the variable-rate notes, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate notes adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by PFM, an independent financial advisor.

Credit Risk. As of June 30, 2017, the Authority was exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA- by Standard & Poor's and AA by Fitch.

Basis Risk. The swap exposes the government to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the notes. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2017. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2017, the SIFMA rate was 0.8322%, whereas 68% of LIBOR was 1.3622%.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

Termination Risk. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Authority, if the counterparty's short-term debt credit rating is withdrawn or reduced to a rating below P-1 for Moody's and the rating by S&P is withdrawn or reduced to a rating that is below A-1. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a net negative fair value, the Authority 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, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The outstanding debt service requirements at June 30, 2016, using the variable rate in effect at year end are:

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2017-18	\$ 5,000	\$ 550,830	\$ 1,175,322	\$ 1,731,152
2018-19	5,000	550,761	1,175,175	1,730,936
2019-20	5,000	550,693	1,175,028	1,730,721
2020-21	5,000	550,625	1,174,880	1,730,505
2021-22	5,000	550,557	1,174,734	1,730,291
2022-27	11,385,000	2,403,596	4,649,670	18,438,266
2027-32	29,030,000	882,928	1,733,994	31,646,922
SUB-TOTAL	40,440,000	\$ 6,039,990	\$ 1,043,511	\$ 58,738,793
Unamortized Premium	-			
TOTAL OUTSTANDING	\$ 40,440,000			

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

On November 1, 2011, the Bethlehem Area School District Authority issued \$30,000,000 of Guaranteed Revenue Bonds – Series A of 2011. The purposes of this issue are to: (1) refund a portion of the School District's Series of 2007 variable rate general obligation bonds; (2) pay related costs and issuance of this issue; and (3) enter into a new ISDA Confirmation with JP Morgan Chase Bank (counterparty) assuming the remaining Series of 2007 fixed payor swap. These bonds are secured by a pledge and assignment of lease rentals by the Bethlehem Area School District, and a guarantee by the School District, under the terms of General Obligation Notes – Series A of 2011 issued by the School District for \$30,000,000, on November 1, 2011. The Authority bonds mature from January 1, 2012 to January 1, 2032, with interest at a variable weekly rate of 68% of 1 month LIBOR, plus 75 basis points.

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. The intention of the swap was to effectively change the School District's variable interest rate on the bonds to a synthetic fixed rate. The 2007 bonds were refunded by the Bethlehem Area School District Authority's Guaranteed Revenue Bonds.

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

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 Authority receives the lesser of 60% of LIBOR (monthly rate) plus 0.346% from the JP Morgan Chase Bank in exchange for a fixed rate of 4.145%. The variable rate paid on Revenue Bonds – Series A of 2011 Authority's approximates the SIFMA index. Therefore, if SIFMA exceeds 60% of LIBOR plus 0.346%, the District pays a net effective interest rate in excess of 4.145%, and if SIFMA is less than 60% of LIBOR, plus 0.346%, the District pays a net effective interest rate approximately equal to the fixed rate.

Fair Value. The interest rate swap has a negative fair value of \$8,264,184 as of June 30, 2017. The swap negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by PFM, an independent financial advisor.

Credit Risk. As of June 30, 2017, the Authority was exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA- by Standard & Poor's and AA by Fitch.

Basis Risk. The swap exposes the government to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2017. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2017, the SIFMA rate was 1.3622%, whereas 60% of LIBOR plus .346% was 1.0803%.

Termination Risk. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Authority if the counterparty's short-term debt credit rating is withdrawn or reduced to a rating below P-1 for Moody's and the rating by S&P is withdrawn or reduced to a rating that is below A-1. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority 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, 2017, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary:

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2017-18	\$ 5,000	\$ 408,237	\$ 914,190	\$ 1,327,427
2018-19	5,000	408,168	914,190	1,327,358
2019-20	5,000	408,100	914,190	1,327,290
2020-21	5,000	408,032	914,190	1,327,222
2021-22	5,000	407,964	914,190	1,327,154
2022-27	25,000	2,038,799	4,570,950	6,634,749
2027-32	29,920,000	1,624,318	3,572,200	35,116,518
SUB-TOTAL	29,970,000	\$ 5,703,618	\$ 12,714,100	\$ 48,387,718
Unamortized Premium	-			
TOTAL OUTSTANDING	\$ 29,970,000			

Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017

Guaranteed Lease Revenue Bonds – Series of 2014

On December 1, 2014, the Bethlehem Area School District Authority issued \$30,250,000 of Guaranteed Lease Revenue Bonds – Series of 2014. The purpose of this issue is (1) to currently refund the Guaranteed Lease Revenue Bonds – Series of 2010, which was used to currently refund a portion of the Bethlehem Area School District's General Obligation Bonds, Series of 2005, and (2) to pay the costs and expenses allocable to the issuance of the Bonds. The bonds are being issued under the Municipal Authorities Act of 1945, as amended, and pursuant to the provisions of a Trust Indenture, dated May 1, 2009.

Interest Rate Swap

On December 1, 2014, the Bethlehem Area School District refunded its General Obligation Note – Series of 2010, which the notes were issued to the Bethlehem Area School District Authority. The Authority funded this refunding with the Guaranteed Lease Revenue Bonds, Series of 2010. The related interest rate swap that was attached to the School District's General Obligation Notes-Series of 2010 was transferred to the Authority's Guaranteed Lease Revenue Bonds- Series of 2014.

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

Terms. The bonds and the related swap agreement mature on January 1, 2030, and the swap's original notional amount was \$55,000,000. The swap was entered into on December 8, 2003. Subsequently, \$25,350,000 of the original notional amount was terminated leaving a remaining notional amount of \$29,650,000. Under the swap, the School District receives the lesser of 60% of LIBOR (monthly rate) plus 0.345% from the Counterparty (JP Morgan Chase Bank) in exchange for a fixed rate of 3.90%. The variable rate paid on the Authority's Guaranteed Revenue Bonds – Series of 2010 approximates the SIFMA index. Therefore, if SIFMA exceeds 60% of LIBOR plus 0.345%, the District pays a net effective interest rate approximately equal to the fixed rate.

Fair Value. The swap has a negative fair value of \$6,400,469 as of June 30, 2017. The swap negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by PFM an Independent financial advisor.

Credit Risk. As of June 30, 2017, the Authority was exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's, AA-by Standard & Poor's and AA by Fitch.

Basis Risk. The swap exposes the government to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2016. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2017, the SIFMA rate was 1.2867%, whereas 60% of LIBOR plus 0.345% was 1.0793%.

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

Termination Risk. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Authority, if the counterparty's short-term debt credit rating is withdrawn or reduced to a rating below P-1 for Moody's and the rating by S&P is withdrawn or reduced to a rating that is below A-1. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority 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, 2016, 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, 2017, using the variable interest rate in effect at year end are:

FISCAL YEAR	PRINCIPAL	INTEREST	Interest Rate Swaps, Net	TOTAL
2017-18	\$ 40,000	\$ 388,054	\$ 835,763	\$ 1,263,817
2018-19	40,000	387,540	835,763	1,263,303
2019-20	40,000	387,025	835,763	1,262,788
2020-21	40,000	386,510	835,763	1,262,273
2021-22	40,000	385,995	835,763	1,261,758
2022-27	6,890,000	1,886,390	4,099,778	12,876,168
2027-30	23,085,000	486,076	1,041,989	24,613,065
SUB-TOTAL	30,175,000	\$ 4,307,590	\$ 9,320,582	\$ 43,803,172
Unamortized Premium	-			
TOTAL OUTSTANDING	\$ 30,175,000			

Lease Rental Debt

Guaranteed Lease Revenue Bonds – Series of 2009

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

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

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

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

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

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 631,212	\$ 51,440
2018-19	644,934	40,257
2019-20	658,656	27,221
2020-21	665,517	13,148
2021-22	226,413	2,830
TOTAL OUTSTANDING	\$ 2,826,732	\$ 134,896

Extended Term Financing Agreements

During prior fiscal years, the District has entered into various capital leases with Santander Bus Leasing, Daimler Financial, and Rohrer Leasing to purchase buses. The outstanding debt service requirements on these capital leases at June 30, 2017, are:

Santander Bus Leasing - \$480,606

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 98,170	\$ 2,062
TOTAL OUTSTANDING	\$ 98,170	\$ 2,062

Daimler Truck Financial - \$253,300

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 48,217	\$ 1,216
TOTAL OUTSTANDING	\$ 48,217	\$ 1,216

Rohrer Lease – Buses \$677,898 – 2.51%

FISCAL YEAR	PRINCIPAL	INTEREST
2017-18	\$ 132,164	\$ 10,248
2018-19	135,495	6,917
2019-20	138,911	3,501
TOTAL OUTSTANDING	\$ 406,570	\$ 20,666

**Bethlehem Area School District
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2017**

U.S. Bancorp Lease

During the 2016-17 fixed year, the District entered into a lease-purchase arrangement with US BANCORP to purchase fifteen (72) passenger buses in the amount of \$1,150,948, with total interest indebtedness of \$59,369 with an effective interest rate of 2.580%.

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL RENTAL PAYMENT
2017-18	\$ 218,614	\$ 23,449	\$ 242,063
2018-19	224,254	17,809	242,063
2019-20	230,040	12,023	242,063
2020-21	235,975	6,088	242,063
TOTAL OUTSTANDING	<u>\$ 908,883</u>	<u>\$ 59,369</u>	<u>\$ 968,252</u>

Santander Lease

The District entered into a lease-purchase arrangement with Santander to purchase thirty (30) passenger buses in the amount of \$206,793, with total interest indebtedness of \$9,717 with an effective interest rate of 2.250%.

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL RENTAL PAYMENT
2017-18	\$ 39,615	\$ 3,687	\$ 43,302
2018-19	40,506	2,796	43,302
2019-20	41,417	1,885	43,302
2020-21	42,348	954	43,302
TOTAL OUTSTANDING	<u>\$ 163,886</u>	<u>\$ 9,322</u>	<u>\$ 173,208</u>

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

Combined Long-Term Debt

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

SUMMARY OF PRINCIPAL REQUIREMENTS

FISCAL YEAR	G.O.B. SERIES A OF 2009	G.O.B. SERIES AA OF 2009	G.R.B. SERIES OF 2011	G.O.B. SERIES OF 2011	G.R.B. SERIES A OF 2011	G.R.B. SERIES OF 2014	G.O.B. SERIES A OF 2015	G.O.N. SERIES B OF 2015	G.O.N. SERIES C OF 2015	G.O.B. SERIES A OF 2016	G.O.B. SERIES B OF 2016	TOTAL PRINCIPAL PAYMENTS
2017-18	\$ 9,005,000	\$ -	\$ 5,000	\$ 5,000	\$ 5,000	\$ 40,000	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ -	\$ 9,070,000
2018-19	6,410,000	3,000,000	5,000	5,000	5,000	40,000	-	-	5,000	5,000	-	9,475,000
2019-20	3,435,000	6,410,000	5,000	5,000	5,000	40,000	-	-	5,000	5,000	-	9,910,000
2020-21	6,385,000	5,000,000	5,000	5,000	5,000	40,000	-	-	5,000	265,000	-	11,710,000
2021-22	13,470,000	-	5,000	5,000	5,000	40,000	-	-	5,000	505,000	-	14,035,000
2022-27	4,015,000	-	11,385,000	20,975,000	25,000	6,890,000	-	-	6,520,000	31,955,000	-	81,765,000
2027-32	-	-	29,030,000	12,305,000	29,920,000	23,085,000	-	3,725,000	3,030,000	1,500,000	15,000	102,610,000
2032-36	-	-	-	-	-	-	30,000,000	-	-	-	19,685,000	49,685,000
TOTAL	42,720,000	14,410,000	40,440,000	33,305,000	29,970,000	30,175,000	30,000,000	3,725,000	9,575,000	34,240,000	19,700,000	288,260,000
LESS PAYABLE WITHIN ONE YEAR	9,005,000	-	5,000	5,000	5,000	40,000	-	-	5,000	5,000	-	9,070,000
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	\$ 33,715,000	\$ 14,410,000	\$ 40,435,000	\$ 33,300,000	\$ 29,965,000	\$ 30,135,000	\$ 30,000,000	\$ 3,725,000	\$ 9,570,000	\$ 34,235,000	\$ 19,700,000	\$ 279,190,000

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS

FISCAL YEAR	G.O.B. SERIES A OF 2009	G.O.B. SERIES AA OF 2009	G.R.B. SERIES OF 2011	G.O.B. SERIES OF 2011	G.R.B. SERIES A OF 2011	G.R.B. SERIES OF 2014	G.O.B. SERIES A OF 2015	G.O.N. SERIES B OF 2015	G.O.N. SERIES C OF 2015	G.O.B. SERIES A OF 2016	G.O.B. SERIES B OF 2016	TOTAL DEBT SVC. PAYMENTS
2017-18	\$ 10,768,819	\$ 580,400	\$ 555,830	\$ 1,292,244	\$ 413,237	\$ 428,054	\$ 1,500,000	\$ 124,706	\$ 352,221	\$ 1,595,188	\$ 590,925	\$ 18,201,624
2018-19	7,816,569	3,523,400	555,761	1,292,137	413,168	427,540	1,500,000	124,706	352,078	1,595,038	590,925	18,191,322
2019-20	4,595,444	6,748,200	555,693	1,292,019	413,100	427,025	1,500,000	124,706	351,934	1,594,887	590,925	18,193,933
2020-21	7,299,943	5,105,000	555,625	1,291,887	413,032	426,510	1,500,000	124,707	351,790	1,854,738	590,925	19,514,157
2021-22	13,939,081	-	555,557	1,291,744	412,964	425,995	1,500,000	124,706	351,647	2,084,137	590,925	21,276,756
2022-27	4,186,665	-	13,788,596	25,604,194	2,063,799	8,776,390	7,500,000	623,531	7,724,399	36,173,085	2,954,625	109,395,284
2027-32	-	-	29,912,928	12,982,515	31,544,318	23,571,076	7,500,000	4,182,904	3,171,460	1,546,875	2,969,262	117,381,338
2032-36	-	-	-	-	-	-	33,093,250	-	-	-	21,186,350	54,279,600
TOTAL	\$ 48,606,521	\$ 15,957,000	\$ 46,479,990	\$ 45,046,740	\$ 35,673,618	\$ 34,482,590	\$ 55,593,250	\$ 5,429,966	\$ 12,655,529	\$ 46,443,948	\$ 30,064,862	\$ 376,434,014

Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017

Derivative Financial Instruments

Component Unit

In accordance with Governmental Accounting Standards Board Statement No. 53, any derivative financial instruments must be recorded on the government-wide financial statements at fair value for periods beginning on or after June 15, 2009. The Bethlehem Area School District Authority (component unit) has three derivative financial instruments; one associated with its Guaranteed Lease Revenue Bonds – Series of 2014, one associated with its Guaranteed Lease Revenue Bonds – Series of 2011, and one associated with its Guaranteed Lease Revenue Bonds – Series A of 2011.

The swap associated with the Authority's Guaranteed Lease Revenue Bonds – Series of 2014 originated from the School District's (primary government) General Obligation Bonds – Series of 2005. The swap associated with the Authority's Guaranteed Lease Revenue Bonds – Series of 2011 originated from the School District's (primary government) General Obligation Notes – Series of 2007. The swap associated with the Authority's Guaranteed Lease Revenue Bonds – Series A of 2011 originated from the School District's (primary government) General Obligation Notes – Series of 2007.

The fixed payor swap on the Series of 2014 Revenue Bonds is designed to create a synthetic fixed rate on the variable rate bond issue by paying the counterparty a fixed rate of 3.90% and receiving 60% of one month LIBOR, plus 0.345%. The value of this derivative instrument embedded into the swap is a negative \$6,400,469, at June 30, 2017.

The fixed payor swap on the Series of 2011 Revenue Bonds is designed to create a synthetic fixed rate on the variable rate bond issue by paying the counterparty a fixed rate of 3.774% and receiving 68% of one month LIBOR. The value of this derivative instrument embedded into the swap is a negative \$8,445,401, at June 30, 2017.

The fixed payor swap on the Series A of 2011 Revenue Bonds is designed to create a synthetic fixed rate on the variable rate bond issue by paying the counterparty a fixed rate of 4.145% and receiving 60% of one month LIBOR, plus 0.34%. The value of this derivative instrument embedded into the swap is a negative \$8,264,184, at June 30, 2017.

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

Based upon the tests of effectiveness conducted by the District's financial advisor for this fiscal year, the above-mentioned interest rate swaps associated with the Series of 2014, 2011, and 2011A Revenue Bonds are hedging derivative financial instruments. As such, its fair values of \$6,420,469, \$8,445,401, and \$8,264,184, respectively are shown on the Statement of Net Position as deferred outflows of resources offset by the long-term liability. The portion of these swaps fair value that is "at the market" is (\$476,230), (\$4,310,958), and (\$646,108) respectively, and is recorded as deferred outflows of

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

the negative values. Any positive "at the market" amount would be shown as a Derivative Instrument Asset. The portion of the fair value \$5,082,626, has been recorded to deferred gains on refunding because of the termination of hedge accounting caused by the refunding of the original issues. In addition, \$10,551,434 is shown as deferred costs of refunding, and \$5,433,296, in deferred outflows of resources.

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 \$55 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 \$55 per day; (3) if more than the allowed unused sick days have been accrued, all unused sick days may be converted to credit toward health care coverage, as outlined in option 2.

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

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

Teacher Aide Employees – Sick days are cumulative from year to year without limit. Full Time teacher assistants/health assistants who retire will receive unused sick leave credit not to exceed days at \$40 per sick day. To be eligible for unused sick leave credit a teacher assistant/health assistant shall meet the following criteria, (total combination of age years of BASD service as follows: year 1 Age + Yrs.=70 w/min 11 yrs. BASD Service, year 2 Age + Yrs.=71 w/min 12 yrs. BASD Service, year 3 Age 72 yrs. w/min 13 yrs. BASD Service, year 4 Age + Yrs.=72 w/min 14 yrs. BASD Service, year 5 Age + Yrs. = w/min 15 yrs. BASD Service). Payment will be made for the allowed benefits as a non-elective employer contribution to the employee's 403 (b) Plan.

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

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

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

The District maintains records of each employee's accumulated sick days that are vested with employees who are able to retire. In accordance with GASB statement No. 16, \$95,842 and \$49,233 respectively including FICA tax (net of reimbursement), has been recorded in the Food Service (Enterprise) Fund and Day Care (Enterprise) Fund, respectively for sick leave termination benefits earned by Cafeteria and Day Care employees at June 30, 2017. This amount is also included as a long-term liability in the business type activity column of the government-wide statements of net position. The amount recorded in the General Fund for governmental employees, which will use currently available financial resources, is \$161,032, 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 position. The remaining sick leave termination benefit of \$3,760,103, 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 position.

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, 2017, that will use currently available financial resources is \$177,976, 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 position (The Day Care) Fund and (Food Service Fund) has recorded \$6,581, and \$10,891, respectively, 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 position. The remaining vacation pay earned at June 30, 2017, of \$1,758,883, 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 position.

Defined Benefit Pension Plan

The Government Accounting Standards Board (GASB) requires that state and local governmental employers disclose in their notes to financial statements, certain information about the public employee retirement systems to which they contribute.

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

General Information about the Pension Plan

Plan Description

The Public School Employees' Retirement System (PSERS) is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

Member Contributions:

Active members, who joined the System prior to July 22, 1983, contributed at 5.25 percent (Membership Class T-C) or at 6.50 percent (Membership Class T-D) of the member's qualifying compensation.

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

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 T-C) or at 7.50 percent (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50 percent (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contributes at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The school districts' contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$29,398,289 for the year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability of \$372,293,437 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with rolling forward the System's total pension liability as of June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.7550 percent, which was an increase of 0.0084 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$39,042,605. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

<u>Sources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Proportionate Share vs Actual Paid Separately Finance Liabilities	48,239	-
Changes in Assumptions	13,506,000	-
Net difference between projected and actual contributions made	-	790,889
Net difference between projected and actual earnings on pension plan investments	20,854,000	-
Difference between expected and actual experience	-	3,117,000
Changes in proportion of the Net Pension Liability	2,944,000	-
District contributions subsequent to the measurement date	29,398,289	-
Total	<u>\$ 66,750,528</u>	<u>\$ 3,907,889</u>

\$29,398,289 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	<u>Amount</u>
2017	\$ 7,346,000
2018	7,108,605
2019	10,672,605
2020	8,421,277
2021	(104,137)
Thereafter	-
Total	<u>\$ 33,444,350</u>

Actuarial assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, and 2.25% for real wage growth and for merit or seniority increases

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

- Mortality rates were based on the RP-2014 Combined Healthy Annuitant Tables (male and female) adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5%	5.3%
Fixed Income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	-14.0%	0.5%
	100%	

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.11%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate, using the net pension liability reported by PSERS before adjusting for differences on projected vs actual contributions made.

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net Pension Liability	\$ 457,691,000	\$ 374,154,000	\$ 303,958,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Public School Employees' Retirement System's *Comprehensive Annual Financial Report (CAFR)* that includes financial statements and required supplementary information for the plan, which can be found at www.psers.state.pa.us.

Defined Contributions Pension Plan

Retirement Severance Benefits

The benefits explained for Administrators under OPEB, Administrators are eligible for service time incentive benefits.

In accordance with the Government Accounting Standards Board Statement No. 68, this benefit is considered a pension plan. The following is a summary of plan provisions.

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

Employer Contributions:

The school district pays this benefit on a pay-as-you-go basis. It does not accumulate funds into any trust for future benefits. There were no contributions to the pension plan from the District for the year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability of \$539,898 for its share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015, with rolling forward the System's total pension liability as of June 30, 2016.

For the year ended June 30, 2017, the District recognized pension expense of \$-0-. At June 30, 2017, the District did not have any reported deferred outflows of resources and deferred inflows of resources related to the defined contribution pension. The following table reflects the changes to the pension obligation during the year.

Contribution Rates:	
	Years of Service Actuarially Determined
Interest Rate	4.5%
Plan Members	56
Covered payroll	\$ 5,981,846
Annual Required Contribution	\$ 34,623
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual Pension cost	34,623
Contributions made	-
Increase in net pension obligation	34,623
Net Pension obligation - beginning of year	505,275
Net Pension obligation - end of year	\$ 539,898

Actuarial assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, and 2.25% for real wage growth and for merit or seniority increases
- Mortality rates were based on the RP-2014 Combined Healthy Annuitant Tables (male and female) adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

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 one single employer other post-employment defined benefit plans.

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, 2017**

<i>GROUP</i>	<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>										
I.ADMINISTRATORS	Age 52 with 8 years of service with the district or ACT 110/43.	<ul style="list-style-type: none"> • Coverage: Medical, Prescription Drug, and Dental. • Premium Sharing: If the member reaches 52 years with 8 years of service with the district, district contributions are based on the member's PSERS service at retirement. If the member reaches age 35 years of PSERS service, the member will pay the active cost share amount 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 a rate of 30 days per year of medical, prescription drug, and dental benefits for the member and spouse for up to 10 years. In such case, the member will pay the active cost share amount. • If the accrued district subsidy period is exhausted, or if the member does not meet the requirements for receiving a subsidy but requirements are met for the ACT 110/43 benefit, 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</p> <p>*The duration is longer for one retiree with a special contract.</p>										
II.TEACHERS	ACT 110/43	<ul style="list-style-type: none"> • Coverage: Medical, Prescription Drug, and Dental • Premium Sharing: If the member reaches 30 years of PSERS service and has more than 90 unused sick days, the member may trade all of their unused sick days at a rate according to the following table per year of medical, prescription drug, and dental benefits for the member and spouse for up to 10 years, depending on the year of retirement. Beginning with the 2014-2014 school year, the member must also reach 20 years of service with the district to be eligible for the subsidy. Members who reach 25 years of PSERS service by the end of the 2013-2014 school year and retire before the 2019-2020 school year will be exempt from this requirement. In any case, the member will pay the active cost share amount. <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;"><i>School Year of Retirement</i></th> <th style="text-align: center; border-bottom: 1px solid black;"><i>Sick Days Per Year of Coverage</i></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><i>Before 2011-2012</i></td> <td style="text-align: center;"><i>30</i></td> </tr> <tr> <td style="text-align: center;"><i>2011-2012</i></td> <td style="text-align: center;"><i>33</i></td> </tr> <tr> <td style="text-align: center;"><i>2012-2013</i></td> <td style="text-align: center;"><i>35</i></td> </tr> <tr> <td style="text-align: center;"><i>After 2012-2013</i></td> <td style="text-align: center;"><i>40</i></td> </tr> </tbody> </table>	<i>School Year of Retirement</i>	<i>Sick Days Per Year of Coverage</i>	<i>Before 2011-2012</i>	<i>30</i>	<i>2011-2012</i>	<i>33</i>	<i>2012-2013</i>	<i>35</i>	<i>After 2012-2013</i>	<i>40</i>	Same as I
<i>School Year of Retirement</i>	<i>Sick Days Per Year of Coverage</i>												
<i>Before 2011-2012</i>	<i>30</i>												
<i>2011-2012</i>	<i>33</i>												
<i>2012-2013</i>	<i>35</i>												
<i>After 2012-2013</i>	<i>40</i>												

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

GROUP	ELIGIBILITY	COVERAGE AND PREMIUM SHARING	DURATION
		<ul style="list-style-type: none"> • If the accrued district subsidy period is exhausted, or if the member does not meet the requirements for receiving a subsidy but requirements are met for the ACT 110/43 benefit, the member and spouse may continue the benefit by paying the full premium as determined for the purpose of COBRA. <p style="margin-left: 40px;">Dependents: Spouses included</p>	
III. CUSTODIAL MANITENANCE	<p>Must be eligible for one of the following:</p> <ul style="list-style-type: none"> • Attained at least 25 years of district service as of 12/31/2010 and be eligible for PSERS superannuation retirement. • ACT 110/43 	<ul style="list-style-type: none"> • Coverage: Medical, Prescription Drug, and Dental • Premium Sharing: If the member had attained 25 years of service with the district as of December 31, 2010, and is eligible for PSERS superannuation retirement, the member may trade unused sick days at a rate of 60 days per year of medical, prescription drug, and dental benefits for the member and spouse for up to 7 years. In such case, the member will pay the active cost share amount. If the accrued district subsidy period is exhausted the member may continue the benefit by paying the full premium as determined for the purpose of COBRA • If the member does not meet the requirements for receiving a subsidy but requirements are met for the ACT 110/43 benefit, 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	11 years of service with the district with age plus service greater than 70 or ACT 110/43.	<ul style="list-style-type: none"> • ACT 110/43 	Same as I
V. TEACHER ASSISTANTS AND AIDES	11 years of service with the district with age plus service greater than 70, or ACT 110/43.	<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, 2017**

<i>GROUP</i>	<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
VI. ALL OTHER SUPPORT STAFF	Age 52 with 10 years of service with the district or AC 110/43.	<ul style="list-style-type: none"> • ACT110/43 	Same as I

Notes: Act 110/43 Benefit: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement.

Act 110/43 Coverage and Premium Sharing: Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

PSERS Superannuation Retirement:

- 1) For individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement; upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age.
- 2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.

Coordination with Medicare benefits: Medicare pays primary. Medicare pays secondary for retiree with special contract referred to in Section I.

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

GASB 27 Disclosures: Administrators are eligible for service time incentive benefits upon attainment of age 52 with 8 years of service with the district. The amount payable is equal to \$1,000 times the administrator's service. The benefits are accounted for under GASB 27 and are contained in the Appendix.

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

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

Contribution Rates:	
	OPEB Benefit Actuarially Determined
Interest Rate	4.5%
Plan Members	1,771
Annual Required Contribution	\$ 3,449,339
Interest on net OPEB obligation	537,460
Adjustment to annual required contribution	<u>(733,233)</u>
Annual OPEB cost	3,253,566
Contributions made	<u>(1,607,801)</u>
Increase in net OPEB obligation	1,645,765
Net OPEB obligation - beginning of year	<u>11,943,542</u>
Net OPEB obligation - end of year	<u>\$ 13,589,307</u>

The following table shows the two plans segregated by fund:

Actuarial Valuation by Fund

	Other Post Employment Benefit Plan			
	<u>General Fund</u>	<u>Fd. Service Fd.</u>	<u>Daycare Fund</u>	<u>Total</u>
Demographic Information:				
Active Participants	1,561	41	16	1,618
Retired Participants	<u>153</u>	-	-	<u>153</u>
Total	<u><u>1,714</u></u>	<u><u>41</u></u>	<u><u>16</u></u>	<u><u>1,771</u></u>
Annual Payroll of Active Participants	\$ 90,033,603	\$ 645,021	\$ 286,657	\$ 90,965,281
Annual Required Contributions	\$ 3,442,913	\$ 1,786	\$ 4,640	\$ 3,449,339
Interest on Net OPEB Obligation	532,396	2,114	2,950	537,460
Adjustment to Annual Required Contribution	<u>(726,324)</u>	<u>(2,884)</u>	<u>(4,025)</u>	<u>(733,233)</u>
Annual OPEB Cost	3,248,985	1,016	3,565	3,253,566
Contributions made	<u>(1,606,549)</u>	<u>(419)</u>	<u>(833)</u>	<u>(1,607,801)</u>
Increase in Net OPEB Obligation	1,642,436	597	2,732	1,645,765
Net OPEB Obligation - beginning of year	<u>11,831,016</u>	<u>46,971</u>	<u>65,555</u>	<u>11,943,542</u>
Net OPEB Obligation - end of year	<u>\$ 13,473,452</u>	<u>\$ 47,568</u>	<u>\$ 68,287</u>	<u>\$ 13,589,307</u>

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation of the five fiscal years ending June 30th, 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>
6/30/2017	\$ 3,253,566	49.4%	\$ 13,589,307
6/30/2016	3,276,685	57.0%	11,943,542
6/30/2015	4,091,311	63.7%	10,533,168
6/30/2014	4,113,783	66.7%	9,046,923
6/30/2013	4,358,319	72.0%	7,675,875

Funded Status and Funding Process. The funded status of the benefits as of June 30, 2017 was as follows:

	State-mandated Healthcare Benefit
Actuarial accrued liability (a)	\$ 32,665,397
Actuarial value of plan assets (b)	<u>-</u>
Unfunded actuarial accrued liability (a) - (b)	<u>\$ 32,665,397</u>
Funded Ratio (b) / (a)	0.0%
Covered payroll	\$ 90,965,281
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll.	35.9%

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, 2017**

	State-mandated Healthcare Benefit
Actuarial Valuation Date	7/1/2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar method over a 30 year period
Remaining amortization period	16.2889 years
Asset Valuation Method	pay as you go basis
Actuarial Assumptions:	
Investment rate of return	4.5%
Projected salary increases	3.75% to 6.25%
Healthcare inflation rate	
2015	6.0%
2016	5.5%
2017-2089	5.5% to 3.8%

Note 6 – Tax Increment Financing Agreement – BethWorks

On November 16, 2000, Bethlehem Area School District entered a Tax Increment Financing Agreement with the City of Bethlehem, the County of Northampton and, collectively with the Redevelopment Authority of the City of Bethlehem, Sands BethWorks Gaming LLC as successor interest to Bethlehem Steel Corporation, and Bethlehem Works Owners Association LLC for twenty years expiring June 30, 2020. This agreement was further amended by all parties on October 7, 2010 between the Taxing Bodies and the Authority.

Under the authority of the Pennsylvania Tax Increment Financing Act, the local taxing body (Bethlehem Area School District) is to rebate a portion of the tax collections to the Redevelopment Authority of the City of Bethlehem to undertake infrastructure improvements to support retail and commercial development on 160 acres of the former Bethlehem Steel property bounded by Daley Avenue, Consolidated Railroad line along the Lehigh River, Webster Street and west of and parallel to the Minsi Trail Bridge.

Full aggregate assessed value of all taxable real property located within the TIF district as of the effective date of creation is \$4,527,790.

Bethlehem Area School District initially pledged to pay over to the Authority 85% of the incremental increase in revenue above the base assessment on the real estate taxes assessed on the TIF District properties for each year within the agreement. In 2010, the TIF payment was amended to pay over 65% of the incremental tax revenue for Debt Service on the improvements.

The primary development in the TIF District is the Sands Casino & Gaming, Sands Hotel & Retail Outlets, Sands Event Center, PBS 39 Studios and ArtsQuest. These venues provide entertainment, retail, gaming, and lodging to the local public and visitors as a destination focused on arts, music and the community.

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

Annually, the developers pay assessed property taxes on all taxable properties within the TIF District with pledged amounts contributed by the School District and other TIF Parties deposited into the TIF Escrow Fund held by the Authority, to be used in payment or trust for Obligations associated with project expenses.

Upon completion of payment for project obligations annually, any remaining monies held within the TIF Escrow Fund held by the Authority are returned to the School District and all taxing bodies on a prorata basis.

Upon completion of the TIF Agreement in 2020, the taxpayers within the TIF District agree to continue to pay 100% of real estate taxes on land and improvements in which the School District, City and County will keep 100% of going forward.

Tax Revenue Reduction for School District of TIF Agreement

<u>Tax Year</u>	<u>Tax Collected</u>	<u>Tax Retained by</u>		<u>Tax Returned to</u>
		<u>BASD</u>		<u>RDA</u>
2000-2004 *	\$ 553,650.64	\$ 237,401.17		\$ 316,249.47
2005	\$ 213,126.87	\$ 143,934.54		\$ 69,192.33
2006	\$ 274,734.26	\$ 202,069.52		\$ 72,664.74
2007	\$ 282,094.22	\$ 207,489.93		\$ 74,604.29
2008	\$ 281,495.58	\$ 219,831.28		\$ 61,664.30
2009	\$ 3,410,510.50	\$ 1,375,484.90		\$ 2,035,025.60
2010	\$ 4,211,711.67	\$ 1,655,505.02		\$ 2,556,206.65
2011	\$ 6,466,260.52	\$ 2,261,674.40		\$ 4,204,586.12
2012	\$ 7,321,271.83	\$ 3,057,654.69		\$ 4,263,617.14
2013	\$ 7,513,088.45	\$ 3,041,465.24		\$ 4,471,623.21
2014	\$ 7,905,261.86	\$ 3,339,915.65		\$ 4,565,346.21
2015	\$ 8,145,119.79	\$ 3,583,360.19		\$ 4,561,759.60
2016	\$ 8,301,352.86	\$ 3,737,602.42		\$ 4,563,750.44
	<u>\$ 54,879,679.05</u>	<u>\$ 19,325,786.53</u>		<u>\$ 27,252,539.66</u>

* 2000-2004 were calculated and remitted as one payment

Note 7 - Risk Management

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

Note 8 – Fund Balance Allocations

Nonspendable Fund Balance

The General Fund had \$177,867, in nonspendable fund balance at June 30, 2017, comprised of \$157,823, of inventories on hand at year-end and \$20,044, of prepaid expenditures.

**Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017**

Restricted Fund Balance

The two Capital Project Funds have restrictions on the use of the resources at year end. The Capital Reserve Fund's \$10,042,843 fund balance at year end is restricted because of enabling legislation under the Municipal Code in Pennsylvania. Section 1432 of this Code restricts the use of resources for limited purposes. In addition, the debt covenant on the bond issues restricts the proceeds shown in the Construction Fund for the purposes outlined in the bond resolution. As such, the \$7,876,563, in fund balance at year end within this fund is considered restricted.

Committed Fund Balance

The School Board has committed \$6,000,000 to the Capital Reserve Fund.

Assigned Fund Balance

Management has assigned fund balance of the General Fund for future retirement rate increases in their retirement contributions (\$3,000,000), and (\$1,000,000) for contributions to the Self-Insurance Employee Benefit Trust, (\$18,900) for Nitschmann Middle School Budget Reserve, and (\$5,441,428) for balancing the 2017-18 General Fund budget. The fund balance of \$2.911, in the Non-Major Funds is assigned for the purpose of the Non-Major funds.

Note 9 – Net Position Restrictions

The net position for governmental activities, shown on the government-wide statement of net position has an overall deficit of \$302,091,498. The business-type activities column reflects a deficit of \$8,600,009, with \$131,488 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, 2017.

Litigation

In accordance with management, there are no legal matters that could materially affect the financial position of the District as of June 30, 2017.

Note 11 – New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following standards, which have not yet been implemented:

- *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* – This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the

Bethlehem Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2017

employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

- Statement No. 81, *Irrevocable Split-Interest Agreements* – The purpose of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement, at present, will not apply to this government.
- Statement No. 83, *Certain Asset Retirement Obligations* – This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.
- Statement No. 84, *Fiduciary Activities* – This Statement is designed to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.
- Statement No. 85, *Omnibus 2017* – The objective of this Statement is to address practice issues that have been identified during implementation and application of certain previous GASB Statements. This Statement addresses a variety of topics related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.
- Statement No. 86, *Certain Debt Extinguishment Issues* – The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt – and placed in an irrevocable trust for the sole purpose of extinguishing debt.
- Statement No. 87, *Leases* – The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Note 12 - Subsequent Event

Authority School Revenue Bonds - Series of 2017 (Floating Rate Note)

On October 23, 2017 the District approved a Resolution for the issuance of Authority School Revenue Bonds - Series of 2017 on or before January 1, 2017. Along with the issuance of these School Revenue Bonds, the District will issue a General Obligation Note – Series of 2017 in the amount of \$30,440,000. Proceeds of the Bonds will be used to refund the Authority's School Revenue Bonds, Series of 2014 in the amount of \$30,400,000.

**REQUIRED
SUPPLEMENTAL INFORMATION**

**Bethlehem Area School District
Schedule of Funding Progress
Fiscal Year Ended June 30, 2017**

<u>State mandated healthcare benefit</u>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
7/1/2015	\$ -	\$ 32,615,808	\$ 32,615,808	0.0%	\$ 90,965,281	35.86%
7/1/2013	-	41,107,681	41,107,681	0.0%	88,981,383	46.20%
7/1/2011	-	43,367,781	43,367,781	0.0%	86,721,609	50.01%
<u>Years of Service Increment</u>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
7/1/2015	\$ -	\$ 729,674	\$ 729,674	0.0%	\$ 5,981,846	12.20%
7/1/2013	-	505,275	505,275	0.0%	6,087,311	8.30%
7/1/2011	-	430,559	430,559	0.0%	5,505,283	7.82%

BETHLEHEM AREA SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
CUMULATIVE TEN FISCAL YEARS REPORT
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
District's proportion of the net pension liability (asset)	0.7550%	0.7466%	0.7642%
District's proportionate share of the net pension liability (asset)	\$ 374,154,000	\$ 323,393,000	\$ 302,476,000
District's covered employee payroll	100,679,073	98,203,838	95,500,629
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	26.91%	30.37%	31.57%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%

BETHLEHEM AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
CUMULATIVE TEN FISCAL YEARS REPORT
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>
Contractually required contribution	\$ 29,398,289	\$ 24,550,959	\$ 19,577,629	\$ 15,280,818	\$ 10,663,125	\$ 7,041,216	\$ 4,399,461	\$ 3,857,806	\$ 3,836,012	\$ 5,948,208
Contributions in relation to the contractually required contribution	<u>29,398,289</u>	<u>24,550,959</u>	<u>19,577,629</u>	<u>15,280,818</u>	<u>10,663,125</u>	<u>7,041,216</u>	<u>4,399,461</u>	<u>3,857,806</u>	<u>3,836,012</u>	<u>5,948,208</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 100,679,073	\$ 98,203,838	\$ 95,500,630	\$ 95,505,113	\$ 92,722,828	\$ 88,015,195	\$ 87,989,215	\$ 96,445,160	\$ 95,900,300	\$ 92,363,471
Contributions as a percentage of covered employee payroll	29.20%	25.00%	20.50%	16.00%	11.50%	8.00%	5.00%	4.00%	4.00%	6.44%

Bethlehem Area School District
Notes to Required Supplementary Information
Fiscal Year Ended June 30, 2017

Changes of benefit terms

None

Changes in assumptions

- The Investment Rate of Return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.0% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.5%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale

Methods and assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions, by PSERS, are calculated as of the June 30 preceding the fiscal year in which contributions are made. It does not include an adjustment made for the difference between projected vs actual contributions. The following methods and assumptions were used to determine contribution rates reported:

- Investment return – 7.25%, includes inflation at 2.75%.
- Salary increases – Effective average of 5.0%, which reflects an allowance for inflation of 2.75%, and 2.25% for real wage growth and merit or seniority increases.
- Benefit payments – no postretirement benefit increases assumed in the future.
- Multiple decrement tables – mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary.

Proportionate Share of the Net Pension Liability

The amount reported as the District's proportionate share of the net pension liability (asset) does not include the adjustment for the difference between projected vs actual contributions made.

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

**Bethlehem Area School District
Combining Balance Sheet
All Capital Project Funds
As of June 30, 2017**

	CAPITAL RESERVE FUND	CAPITAL PROJECT FUND	TOTAL CAPITAL PROJECT FUNDS
<u>ASSETS</u>			
Cash and cash equivalents	\$ 10,057,302	\$ 6,725,144	\$ 16,782,446
Restricted Cash	-	3,644,552	3,644,552
Investments	-	3,000,000	3,000,000
Restricted Investments	-	-	-
Other Receivables	-	106,699	106,699
Due from other funds	16,518	2,070	18,588
Due from Primary Government	-	-	-
Receivables from other governments	-	-	-
Other Recoverable Disbursements	-	-	-
Prepaid Expenditures	-	-	-
Inventories	-	-	-
TOTAL ASSETS	\$ 10,073,820	\$ 13,478,465	\$ 23,552,285
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Charges on Refundings, net	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 10,073,820	\$ 13,478,465	\$ 23,552,285
<u>LIABILITIES</u>			
Accounts Payable	\$ 30,977	\$ 1,957,350	\$ 1,988,327
Due to other funds	-	3,644,552	3,644,552
Due to Primary Government	-	-	-
Interest Payable	-	-	-
Current Portion of Long-Term Debt	-	-	-
Accrued Salaries and Benefits	-	-	-
Payable to other governments	-	-	-
Prepayments	-	-	-
Compensated Absences	-	-	-
TOTAL LIABILITIES	30,977	5,601,902	5,632,879
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unearned/Unavailable Revenue	-	-	-
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	30,977	5,601,902	5,632,879
FUND BALANCES:			
Nonspendable Fund Balance	-	-	-
Restricted Fund Balance	10,042,843	7,876,563	17,919,406
Committed Fund Balance	-	-	-
Assigned Fund Balance	-	-	-
TOTAL FUND BALANCES	10,042,843	7,876,563	17,919,406
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 10,073,820	\$ 13,478,465	\$ 23,552,285

Bethlehem Area School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
All Capital Project Funds
For the Year Ended June 30, 2017

	CAPITAL RESERVE FUND	CAPITAL PROJECT FUND	TOTAL CAPITAL PROJECT FUNDS
REVENUES			
Local Sources	\$ 24,092	\$ 91,268	\$ 115,360
State Sources	-	418,125	418,125
Federal Sources	-	-	-
TOTAL REVENUES	24,092	509,393	533,485
EXPENDITURES			
Instruction	-	581,870	581,870
Support Services	1,357,740	435,008	1,792,748
Operation of Non-Instructional Services	-	-	-
Capital Outlay	328,442	28,394,115	28,722,557
Debt Service	285,365	-	285,365
TOTAL EXPENDITURES	1,971,547	29,410,993	31,382,540
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,947,455)	(28,901,600)	(30,849,055)
OTHER FINANCING SOURCES (USES)			
Proceeds from Bond Issues	-	19,700,000	19,700,000
Proceeds from Extended Term Financing	1,357,740	-	1,357,740
Bond Premium	-	-	-
Transfer from Primary Government	-	-	-
Payment to bond refunding escrow agent	-	-	-
Bond Discount	-	127,805	127,805
Swap Termination Fee	-	-	-
Sale/Compensation for Fixed Assets	-	-	-
Transfers in	5,089,413	-	5,089,413
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	6,447,153	19,572,195	26,019,348
NET CHANGE IN FUND BALANCES	4,499,698	(9,329,405)	(4,829,707)
FUND BALANCES - BEGINNING	5,543,145	17,205,968	22,749,113
FUND BALANCES - ENDING	\$ 10,042,843	\$ 7,876,563	\$ 17,919,406

**Bethlehem Area School District
Combining Balance Sheet
All Non-Major Governmental Funds
As of June 30, 2017**

	<u>SPECIAL REVENUE FUND AUTHORITY GENERAL FUND</u>	<u>DEBT SERVICE FUND 2016A BOND FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 999,988	\$ -	\$ 999,988
Investments	-	-	-
Other Receivables	-	-	-
Due from other funds	-	-	-
Due from Primary Government	-	-	-
Prepaid Expenditures	-	-	-
TOTAL ASSETS	\$ 999,988	\$ -	\$ 999,988
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Charges on Refundings, net	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 999,988	\$ -	\$ 999,988
<u>LIABILITIES</u>			
Accounts Payable	\$ -	\$ -	\$ -
Current Portion of Long-Term Debt	5,000	-	5,000
Due to other funds	-	-	-
Interest Payable	-	-	-
Other current liabilities	992,077	-	992,077
TOTAL LIABILITIES	997,077	-	997,077
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unearned/Unavailable Revenue	-	-	-
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	997,077	-	997,077
<u>FUND BALANCES:</u>			
Nonspendable Fund Balance	-	-	-
Restricted Fund Balance	-	-	-
Committed Fund Balance	-	-	-
Assigned Fund Balance	2,911	-	2,911
TOTAL FUND BALANCES	2,911	-	2,911
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 999,988	\$ -	\$ 999,988

Bethlehem Area School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
All Non-Major Governmental Funds
For the Year Ended June 30, 2017

	SPECIAL REVENUE FUND AUTHORITY GENERAL FUND	DEBT SERVICE FUND 2016A BOND FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES			
Local Sources	\$ 4,333,323	\$ -	\$ 4,333,323
State Sources	-	-	-
Federal Sources	-	-	-
TOTAL REVENUES	<u>4,333,323</u>	<u>-</u>	<u>4,333,323</u>
	-----	-----	-----
EXPENDITURES			
Instruction	-	-	-
Support Services	1,001	361,406	362,407
Operation of Non-Instructional Services	-	-	-
Capital Outlay	-	-	-
Debt Service	<u>4,329,414</u>	<u>1,404</u>	<u>4,330,818</u>
TOTAL EXPENDITURES	<u>4,330,415</u>	<u>362,810</u>	<u>4,693,225</u>
	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,908</u>	<u>(362,810)</u>	<u>(359,902)</u>
	-----	-----	-----
OTHER FINANCING SOURCES (USES)			
Proceeds from Refunding Bond Issues	-	34,240,000	34,240,000
Bond Premium	-	7,180,324	7,180,324
Payment to bond refunding escrow agent	-	41,057,514	41,057,514
Bond Discount	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>-</u>	<u>362,810</u>	<u>362,810</u>
	-----	-----	-----
NET CHANGE IN FUND BALANCES	2,908	-	2,908
FUND BALANCES - BEGINNING	<u>3</u>	<u>-</u>	<u>3</u>
	-----	-----	-----
FUND BALANCES - ENDING	<u>\$ 2,911</u>	<u>\$ -</u>	<u>\$ 2,911</u>
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Bethlehem Area School District
Combining Statement of Changes In Fiduciary Net Position
Private Purpose Trust Funds
For the Year Ended June 30, 2017

SCHOLARSHIP/AWARD	7/1/16 NET POSITION	CONTRIBUTIONS	INTEREST	INTERFUND TRANSFERS	AWARDS	6/30/17 NET POSITION
Minority Scholarships/Awards:						
General Scholarships	\$ 17,578	\$ 17,670	\$ 56		\$ 22,970	\$ 12,334
Lee Mae Segal - Minority Affairs	40,586	-	186		-	40,772
Freedom High School Scholarships:						
180 Degree Class of 2011	4,731	-	19	(500)	-	4,250
Charlotte L. Jay	-	500	-		500	-
Donley Award for Excellence	-	-	-		-	-
Elizabeth Bette Ann Rinker	1,491	-	6		100	1,397
Elizabeth Shine	12	-	-		-	12
Ethel Mae Bunny	388	-	2		75	315
Freedom Athletic-Charles Dubbs-SS	148	-	1		-	149
Janet Mack	1	-	-		-	1
Lee Mae Segal	9	-	-		-	9
Margaret "Peggy" Fluck Business	-	25	-		25	-
Marion B. Goodman-SS	786	-	3		100	689
Mary Ann Orlando Memorial	-	100	-		100	-
Mary Catherine Anthony	-	150	-		150	-
NorthEast TreeWorx	70	2,100	3		1,500	673
Paul Fierro Scholarship	-	2,625	7		1,000	1,632
Ray Salabsky	-	150	-		150	-
Robert J. Whirl	-	600	-		600	-
Ron Madhouse	500	500	-	500	1,500	-
Student Services	195	905	-		1,100	-
Taylor Brown Award	-	150	-		150	-
Todd E. Beinich Memorial	-	2,000	-		2,000	-
William M. Calloway Attendance	429	-	2		25	406
Webster Koehler Math Fund	-	100	-		100	-
Liberty High School Scholarships:						
Al Senivitis	5,972	-	27		-	5,999
All College Week Scholarship	-	360	-		360	-
Capt. Donald Kilpatrick Memorial	415	930	5		300	1,050
Carlton Weaver	-	200	-		200	-
Charles Klein Memorial	5,346	250	23		650	4,969
Class of 2014	7,755	-	29		1,500	6,284
Class of 1941	-	-	-		-	-
Class of 1961	-	575	2		225	352
Class of 1965	-	-	-		-	-
Daniel Tomanio	-	-	-		-	-
Donald Snider	-	200	1		-	201
Donley Awards for Excellence	-	-	-		-	-
Elly Vasquez	970	400	6		-	1,376
Gail Eisenhart Justice	-	200	-		200	-
Ginny Rohn	3,492	-	16		-	3,508
Jay Shuler Memorial	640	-	3		-	643
James Delgrosso Scholarship	7,008	-	32		-	7,040
James Diefenderfer Scholarship	-	-	-		-	-
James Krasley Scholarship	-	-	-		-	-
John Priestas Scholarship	1,349	-	2		1,000	351
Kraig E. Yurchak Memorial	576	-	2		75	503
Louis N. Chiadis	-	-	-		-	-
Mabel Keichner Memorial	12,699	-	49		2,000	10,748
Martha Schaedler Schabhuetti Scholarship	106,238	-	468		4,000	102,706
Ronald P. Sherry	-	250	-		250	-
Ruth Metzger	-	100	-		100	-
Trevor Van Akeren	275	326	-		600	1
Walter Batt, Jr. Memorial	642	-	2		250	394
Miscellaneous Scholarships:						
BMS Scholarship	126	1,831	2		1,500	459
NEMS Knauss Scholarship	918	-	4		-	922
Natalie Merkin Scholarship	670	-	5		-	675
MSS	1,300	-	2		-	1,302
Interest	311	-	-	-	-	311
TOTAL	\$ 223,626	\$ 33,197	\$ 965	\$ -	\$ 45,355	\$ 212,433

**Bethlehem Area School District
General Fund
Schedule on Tax Collectors' Receipts
For the Year Ended June 30, 2017**

	Bethlehem Township	Freemansburg	Fountain Hill	Hanover Township	City of Bethlehem		Total
					Lehigh	Northampton	
<u>Current Real Estate Taxes</u>							
Assessed Value	\$ 848,161,600	\$ 44,095,900	\$ 236,100,500	\$ 528,537,550	\$ 1,420,255,300	\$ 1,136,428,800	\$ 4,213,579,650
Millage Rate	0.05405	0.05405	0.01696	0.05405	0.01696	0.05405	Avg.
Total Tax to be Collected	45,843,145	2,383,385	4,004,264	28,567,458	24,087,526	61,424,001	166,309,779
Less: Act 1 Deduction	1,290,930	105,732	183,886	662,720	777,419	1,699,533	4,720,220
Total Taxable Duplicate	44,552,215	2,277,653	3,820,377	27,904,738	23,310,107	59,724,468	161,589,558
Plus:							
Additions	-	-	-	-	-	-	-
Overpayments	2,770	(1)	(2)	5,406	(12,745)	2,649	(1,923)
Penalties	96,725	3,439	9,384	32,234	40,290	130,880	312,952
Total Taxes to be Collected	44,651,710	2,281,091	3,829,759	27,942,378	23,337,652	59,857,997	161,900,587
Less -							
Discounts	717,868	35,226	60,107	457,292	371,052	955,982	2,597,527
Reductions	41,639	1,437	387	14,947	18,814	58,676	135,900
Refunds	3,279	-	-	12,432	1,643	2,910	20,264
TIFF Payments	-	-	-	-	-	4,563,779	4,563,779
Exonerations	-	-	-	-	2,992	-	2,992
Returned to County	1,151,672	106,899	140,481	371,251	528,516	1,946,226	4,245,045
Outstanding	-	-	-	-	-	-	-
Net Current Real Estate Taxes Collected	\$ 42,737,252	\$ 2,137,529	\$ 3,628,784	\$ 27,086,456	\$ 22,414,635	\$ 52,330,424	\$ 150,335,080
<u>Current Interim Real Estate Taxes Collected</u>	\$ 199,194	\$ 3,030	\$ 2,982	\$ 1,233,632	\$ 67,024	\$ 553,116	\$ 2,058,978
<u>Current Per Capita Taxes</u>							
No. of Persons Assessed	19,055	2,175	3,066	9,892	-	<u>Combined</u> 57,170	91,358
Tax Rate	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10
Taxable Valuation	\$ 190,550	\$ 21,750	\$ 30,660	\$ 98,920	\$ -	\$ 571,700	\$ 913,580
Plus -							
Additions	1,510	470	480	670	-	4,240	7,370
Adjustments	61	3	7	30	-	159	260
Penalties	692	64	110	325	-	1,865	3,056
Collections made by the District	-	-	-	-	-	-	-
Taxes to be Collected	192,813	22,287	31,257	99,945	-	577,964	924,266
Less -							
Discounts	2,187	155	212	1,207	-	4,329	8,090
Exonerations	4,950	1,520	380	2,700	-	10,220	19,770
Refunds	-	-	-	-	-	-	-
Returned to Delinquent Tax Collector	48,420	11,320	1,970	20,860	-	262,840	345,410
Outstanding	8,780	-	14,960	5,850	-	37,920	67,510
Reductions	-	-	-	-	-	-	-
Net Current Per Capita Taxes Collected	\$ 128,476	\$ 9,292	\$ 13,735	\$ 69,328	\$ -	\$ 262,655	\$ 483,486

Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget vs Actual
For the Year Ended June 30, 2017

6000 - Revenue from Local Sources		Budget	Actual	Variance
6111	Current Real Estate Taxes	\$ 149,715,951	\$ 150,335,080	\$ 619,129
6112	Interim Real Estate Taxes	937,641	2,058,978	1,121,337
6113	Public Utility	180,000	182,809	2,809
6114	Payment in Lieu of Taxes	449,000	312,620	(136,380)
6120	Current Per Capita Taxes - 679	220,000	241,743	21,743
6141	Current Per Capita Taxes - 511	220,000	241,743	21,743
6143	Local Services Tax	313,600	348,219	34,619
6151	Earned Income Tax	13,450,000	14,499,464	1,049,464
6153	Real Estate Transfer Tax	2,400,000	2,634,803	234,803
6157	Act 511 Mercantile Taxes	3,500,000	3,693,268	193,268
6411	Delinquent Real Estate Taxes	5,000,000	4,239,665	(760,335)
6420	Delinquent Per Capita Taxes	76,000	81,871	5,871
6457	Delinquent Mercantile Taxes	530,000	459,508	(70,492)
6510	Interest	90,000	555,057	465,057
6530	Gains or Losses on Sale of Investments	-	-	-
6710	Admissions	135,000	130,361	(4,639)
6740	Fees	197,000	95,168	(101,832)
6750	Other Student Activity Income	6,200	5,643	(557)
6810	Revenue From Local Governmental Units	17,488	37,500	20,012
6831	Federal Revenue Received From Other Pen	13,883	1,235	(12,648)
6832	Federal Revenue from Local Sources	1,930,376	2,006,017	75,641
6910	Rentals	300,000	127,325	(172,675)
6920	Contributions	535,318	476,757	(58,561)
6941	Regular Day School Tuition	-	1,850	1,850
6942	Summer School	53,500	55,500	2,000
6944	Receipts from Other LEA's - Education	225,000	273,009	48,009
6970	Services provided to Other Funds	-	299,965	299,965
6980	Revenue from Community Services	2,500	1,500	(1,000)
6991	Refunds of Prior Yr. Expenditures	150,000	57,546	(92,454)
6992	Energy Efficient Revenues	-	4,547	4,547
6999	Miscellaneous	220,000	184,553	(35,447)
TOTAL REVENUE FROM LOCAL SOURCES		180,868,457	183,643,304	2,774,847
7000 - Revenue from State Sources				
7110	Basic Subsidy - ESBE	30,630,883	30,914,201	283,318
7160	Orphan Tuition	225,000	358,156	133,156
7250	Migratory Children	1,000	920	(80)
7271	Special Education	7,354,008	7,183,058	(170,950)
7292	Pre-K Counts	646,000	646,000	-
7311	Pupil Transportation Subsidy	2,260,000	1,485,733	(774,267)
7312	Nonpublic and Charter School Pupil Transportation	-	982,135	982,135
7320	Rentals	1,596,600	2,464,026	867,426
7330	Health Services	335,000	321,988	(13,012)
7340	State Property Tax Reduction Allocation	4,743,340	4,743,340	-
7360	Safe Schools	-	12,357	12,357
7505	Ready to Learn Grant	2,089,553	1,797,733	(291,820)
7599	Other State revenue not listed elsewhere	1,142,319	117,454	(1,024,865)
7810	FICA Revenue	3,803,108	3,506,666	(296,442)
7820	Retirement Revenue	14,649,020	14,696,514	47,494
TOTAL REVENUE FROM STATE SOURCES		69,475,831	69,230,281	(245,550)

Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget vs Actual
For the Year Ended June 30, 2017

<u>8000 - Revenue from Federal Sources</u>		<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
8110	Payments for Federally Impacted Areas	\$ 5,000	\$ 66,677	\$ 61,677
8514	Title I	3,782,599	3,618,528	(164,071)
8515	Title IIA, IID	682,527	662,742	(19,785)
8516	Title III	234,590	208,293	(26,297)
8580	Child Care Grants	162,633	164,581	1,948
8690	Other Restricted Federal Grants-In-Aid	-	69,992	69,992
8810	Medical Assistance Reimbursements (Access)	500,000	663,341	163,341
8820	Medical Assistance Reimbursement for Health Related	105,000	85,433	(19,567)
	TOTAL REVENUE FROM FEDERAL SOURCES	5,472,349	5,539,587	67,238
<u>9000 - Other Financing Sources</u>				
9200	Proceeds from Extended Term Financing	-	-	-
9400	Sale of or Compensation for Loss of Fixed Assets	20,000	11,991	(8,009)
9910	Other Financing Sources Not Listed Elsewhere	-	-	-
	TOTAL OTHER FINANCING SOURCES	20,000	11,991	(8,009)
	 TOTAL REVENUES AND OTHER FINANCING SOURCES	 \$ 255,836,637	 \$ 258,425,163	 \$ 2,588,526
<u>1000 - Instruction</u>				
1110	Regular Programs - Elem./Secondary	\$ 111,975,890	\$ 111,948,805	\$ 27,085
1190	Federally Funded Regular Programs	3,181,039	3,180,335	704
1211	Life Skills Support - Public	2,482,067	2,481,659	408
1221	Deaf or Hearing Impaired Support	469,649	469,331	318
1224	Blind or Visually Impaired Support	30,726	30,726	-
1225	Speech & Language Impaired	1,579,829	1,579,336	493
1231	Emotional Support	5,135,704	5,134,643	1,061
1233	Autistic Support	3,255,536	3,255,464	72
1241	Learning Support - Public	14,824,383	14,823,579	804
1243	Gifted Support	1,004,641	1,003,745	896
1260	Physical Support	190,980	190,980	-
1270	Multi-Handicapped Support	876,797	875,326	1,471
1280	Early Intervention Support	31,776	31,776	-
1290	Other Support	6,088,153	6,087,280	873
1390	Other Vocational Education Programs	7,286,372	7,286,372	-
1420	Summer School	340,396	339,837	559
1430	Homebound Instruction	194,183	192,725	1,458
1441	Adjudicated/Court Placed Programs	95,390	94,421	969
1442	Alternative Education Program	517,752	516,743	1,009
1450	Instructional Programs Outside Established Schools	129,998	126,521	3,477
1490	Additional Other Instructional Program	336	336	-
1500	Nonpublic School Programs	71,821	71,821	-
1690	Other Adult Education Programs	-	-	-
1693	Community College Sponsorship	2,401,276	2,401,276	-
1801	Pre-K Instruction	624,960	624,032	928
1802	Pre-K Admin Support	25,210	24,251	959
1803	Pre-K Operations and Maintenance	294	-	294
1805	Pre-K Food Services	2,116	250	1,866
1806	Pre-K Professional Development	2,740	2,244	496
	 Total Instruction	 162,820,014	 162,773,814	 46,200

Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget vs Actual
For the Year Ended June 30, 2017

<u>2000 - Support Services</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
2110 Supervision of Pupil Personnel Services	-	-	-
2119 Supervision of Student Services - All Other Supervision	468,355	467,999	356
2120 Guidance Services	6,568,109	6,566,498	1,611
2130 Attendance Services	328,695	327,856	839
2140 Psychological Services	1,531,753	1,531,284	469
2160 Social Work Services	588,910	587,010	1,900
2170 Student Accounting Services	384,271	383,770	501
2190 Other Pupil Personnel Services	250	-	250
2220 Technology Support Services	160,972	159,501	1,471
2230 Educational Television Services	413	413	-
2240 Computer Assisted Instruction Services	395,010	393,429	1,581
2250 School Library Services	1,974,514	1,973,922	592
2260 Instructional & Curriculum Dev. Service	2,133,987	2,131,779	2,208
2271 Instructional Staff Development Services	2,050,824	2,048,284	2,540
2272 Instructional Staff Development Service	50,536	49,874	662
2280 Nonpublic Support Services	31	31	-
2310 Board Services	120,746	120,518	228
2320 Board Treasurer Services	288	288	-
2330 Tax Assessment & Collection Service	1,022,219	1,020,279	1,940
2340 Staff Relations	4,000	3,536	464
2350 Legal Services	392,199	391,381	818
2360 Office of the Superintendent Services	493,554	493,421	133
2370 Community Relations Services	118,146	117,872	274
2380 Office of the Principal Services	9,308,284	9,307,973	311
2390 Other Administration Services	136,434	135,832	602
2419 Supervision of Health Services - All Other	165,025	162,448	2,577
2420 Medical Services	4,910	3,960	950
2430 Dental Services	9,584	8,693	891
2440 Nursing Services	2,038,401	2,036,626	1,775
2450 Non Public Health Service	238,407	237,506	901
2490 Nonpublic Health Services	14,618	14,367	251
2511 Supervision of Fiscal Services	347,805	344,801	3,004
2513 Receiving and Disbursing Funds Services	308,170	308,088	82
2514 Payroll Services	335,591	335,215	376
2515 Financial Accounting Services	115,204	114,889	315
2516 Internal Auditing Services	94,199	93,732	467
2519 Other Fiscal Services	131,997	130,373	1,624
2520 Purchasing Services	77,329	76,930	399
2530 Warehousing and Distributing Services	180,365	180,133	232
2540 Printing, Publishing and Duplicating Services	407,966	406,367	1,599
2590 Other Support Services - Business	9,500	9,500	-
2611 Supervision of Operation and Maintenance of Plant	272,144	271,434	710
2619 Supervision of Operation and Maintenance of Plant	515,527	515,257	270
2620 Operation of Building Services	15,206,881	15,205,217	1,664
2630 Care and Upkeep of Grounds Services	877,574	877,154	420
2640 Care and Upkeep of Equipment Services	1,195	1,195	-
2650 Vehicle Operation and Maint. Services	232,328	229,374	2,954
2660 Security Services	835,178	834,193	985
2719 Supervision of Student Transportation Services	500,293	499,568	725
2720 Vehicle Operation Services	5,129,517	5,126,688	2,829
2730 Monitoring Services	567,523	566,970	553
2740 Vehicle Servicing and Maintenance Services	1,394,352	1,393,330	1,022
Sub-Total - Support Services	58,244,083	58,196,758	47,325

**Bethlehem Area School District
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget vs Actual
For the Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Sub-Total - Support Services (Carried Forward)	\$ 58,244,083	\$ 58,196,758	\$ 47,325
2818 System Wide Technology Services	2,155,403	2,154,579	824
2820 Information Services	-	-	-
2821 Supervision of Information Services	315,522	314,771	751
2823 Public Information Services	86,755	85,443	1,312
2831 Supervision of Staff Services	304,019	302,933	1,086
2832 Recruitment and Placement Services	153,245	153,168	77
2833 Staff Accounting Services	433,031	432,861	170
2834 Staff Development Services - Non-Instructional	368,464	367,971	493
2835 Health Services	382,822	382,408	414
2836 Staff Development Services - Non-Instructional	121,219	120,240	979
2840 Data Processing Services	1,092,829	1,093,590	(761)
2850 State and Federal Agency Liaison Services	254,071	252,699	1,372
2910 Support Services not listed elsewhere	<u>113,888</u>	<u>113,888</u>	<u>-</u>
Total Support Services	64,025,351	63,971,309	54,042
 <u>3000 - Operation of Non-Instructional Services</u>			
3210 School Sponsored Student Activities	572,838	572,267	571
3250 School Sponsored Athletics	2,373,016	2,372,356	660
3300 Community Services	107,570	106,037	1,533
3340 Custody and Child Care	309	309	-
3400 Scholarships and Awards	<u>612</u>	<u>612</u>	<u>-</u>
Total Non-Instructional Services	<u>3,054,345</u>	<u>3,051,581</u>	<u>2,764</u>
 <u>4000 - Facilities Acquisition, Construction, and Improvement Svcs.</u>			
4200 Existing Site Improvement Services	-	-	-
4400 Architecture and Engineering Services	-	-	-
4500 Building Acquisition and Construction Services	1,921	1,921	-
4600 Existing Building Improvement Services	<u>17,018</u>	<u>17,018</u>	<u>-</u>
Total Facilities Acquisition, Construction, and Improvement Svcs.	18,939	18,939	-
 <u>5000 - Other Expenditures and Financing Uses</u>			
5110 Debt Service	22,182,161	22,181,424	737
5130 Refund of Prior Yr. Receipts	1,224,020	1,223,176	844
5230 Capital Projects Fund Transfers	5,090,000	5,089,413	587
5310 Transfers To Component Units	-	-	-
5900 Budgetary Reserve	<u>2,341,160</u>	<u>-</u>	<u>2,341,160</u>
Total Other Expenditures and Financing Uses	<u>30,837,341</u>	<u>28,494,013</u>	<u>2,343,328</u>
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 <u>\$ 260,755,990</u>	 <u>\$ 258,309,656</u>	 <u>\$ 2,446,334</u>

Bethlehem Area School District
 General Fund
 Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget vs Actual
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 255,836,637	\$ 258,425,163	\$ 2,588,526
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>260,755,990</u>	<u>258,309,656</u>	<u>2,446,334</u>
NET REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(4,919,353)	115,507	5,034,860
Special Items	-	-	-
Extraordinary Items - Insurance Recoveries	<u>4,919,353</u>	<u>2,285</u>	<u>(4,917,068)</u>
NET REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES AFTER SPECIAL ITEMS AND EXTRAORDINARY ITEMS	-	117,792	117,792
FUND BALANCE - JULY 1, 2016	<u>29,251,717</u>	<u>31,562,150</u>	<u>2,310,433</u>
FUND BALANCE - JUNE 30, 2017	<u>\$ 29,251,717</u>	<u>\$ 31,679,942</u>	<u>\$ 2,428,225</u>

**Bethlehem Area School District
Capital Reserve Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2017**

FUND BALANCE - JULY 1, 2016 \$ 5,543,145

REVENUES AND OTHER FINANCING SOURCES

Interest	\$	24,092	
Proceeds from Extended Term Financing		1,357,740	
Transfer from General Fund		5,089,413	6,471,245
TOTAL FUNDS AVAILABLE			12,014,390

EXPENDITURES

INSTRUCTIONAL SERVICES:

Equipment -

SUPPORT SERVICES:

Professional Services -

Repairs and Maintenance -

Legal & Accounting -

Admin. Software and Fees -

Dues and Fees -

Equipment 1,357,740

CAPITAL OUTLAY:

Professional Services 4,901

Other Purchased Services -

Land Improvements 259,894

Construction Services 63,647

Architect & Engineering -

Building Acquisition -

Dues and Fees -

DEBT SERVICE:

Debt Service - Interest 395

Debt Service - Principal 284,970

Other Financing Uses:

Transfer to General Fund		-	<u>1,971,547</u>
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FUND BALANCE - JUNE 30, 2017 **\$ 10,042,843**

**Bethlehem Area School District
Special Revenue (Authority General Fund) Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2017**

FUND BALANCE - JULY 1, 2016	\$	3
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
Proceeds from Refunding Bond Issues	\$	-
Transfer from General Fund		-
Interest Earnings	4,333,323	4,333,323
TOTAL FUNDS AVAILABLE		<u>4,333,326</u>
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
SUPPORT SERVICES:		
Professional Services	1,001	
Advertising		-
Printing		-
Dues and Fees		-
NON-INSTRUCTIONAL SERVICES:		
Equipment		-
DEBT SERVICE:		
Bond Principal	45,000	
Bond Interest	4,284,414	
OTHER FINANCING USES:		
Payment to Refunding Bond Issue Escrow Agent	-	4,330,415
FUND BALANCE - JUNE 30, 2017	\$	<u>2,911</u>

**Bethlehem Area School District
Capital Project Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2017**

FUND BALANCE - JULY 1, 2016		\$ 17,205,968
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
Proceeds from Bond Issues	\$ 19,700,000	
Gain (Loss) on Sale of Investments	-	
Bond Premium	-	
Other State Revenues	418,125	
Interest Earnings	91,268	
	20,209,393	20,209,393
TOTAL FUNDS AVAILABLE		37,415,361
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
INSTRUCTIONAL:		
Repairs and Maintenance	4,319	
Supplies	78,108	
Equipment	499,443	
SUPPORT SERVICES:		
Salaries	-	
Benefits	-	
Professional Services	251,604	
Repairs and Maintenance	-	
Printing	500	
Property and Liability Insurance	63,657	
Disposal Services	-	
Telecommunication Services	-	
Supplies	78,196	
Technology Infrastructure	-	
Equipment	14,028	
Dues and Fees	27,023	
NON-INSTRUCTIONAL SERVICES:		
Equipment	-	
CAPITAL OUTLAY:		
Professional Services	942,356	
Supplies	1,413	
Construction Services	27,400,314	
Rentals	49,357	
Equipment	-	
Other Purchased Services	175	
Dues and Fees	500	
Technology Infrastructure	-	
DEBT SERVICE:		
Bond Discount	127,805	
Transfer to General Fund	-	29,538,798
FUND BALANCE - JUNE 30, 2017	-	\$ 7,876,563

Bethlehem Area School District
Food Service Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2017

REVENUES

Sales	\$ 1,395,356	
Donated Commodities	395,770	
Special Events	406,408	
Federal Equipment Grant	7,476	
State Subsidies	560,089	
Federal Subsidies	4,817,679	
Gain (Loss) on Sale of Fixed Assets	-	
Interest earnings	2,208	
Rentals	-	
Transfers from General Fund	-	
Miscellaneous	396	
Contributions	9,207	
TOTAL REVENUES		\$ 7,594,589

COST OF COMMODITIES

Beginning Inventory	130,690	
Food Service Management - Food	2,623,776	
Donated Commodities	395,770	
Ending Inventory	(73,596)	
TOTAL COST OF COMMODITIES SOLD		3,076,640
GROSS PROFIT		4,517,949

OPERATING EXPENSES

Salaries	1,754,930	
Self-Insured Medical Benefits	484,468	
Self-Insured Dental Benefits	4,505	
Self-Insured Prescriptions	19,046	
Fica Tax	135,793	
Retirement Contributions	691,183	
Other Benefits	38,016	
Tech & Other Services	118	
Refuse	58,673	
Repairs and Maintenance	49,005	
Electricity	54,708	
Bottled Gas	144	
Rentals	7,892	
Communications	8,664	
Food Service Management Costs	981,622	
Travel	425	
Supplies	39,948	
Technology Supplies	-	
Small Tools	-	
Depreciation	23,729	
Dues and Fees	5,040	
TOTAL EXPENSES		4,357,909
CHANGES IN FUND NET POSITION		160,040
FUND NET POSITION - JULY 1, 2016		(5,237,041)
FUND NET POSITION - JUNE 30, 2017		\$ (5,077,001)

**Bethlehem Area School District
2016A Bond Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2017**

FUND BALANCE - JULY 1, 2016		\$	-
 <u>REVENUES AND OTHER FINANCING SOURCES</u>			
Proceeds from Refunding Bond Issues	\$ 34,240,000		
Bond Premium	7,180,324		
Interest Earnings	-		41,420,324
TOTAL FUNDS AVAILABLE			<u>41,420,324</u>
 <u>EXPENDITURES AND OTHER FINANCING USES</u>			
INSTRUCTIONAL:			
Supplies	-		
Equipment	-		
SUPPORT SERVICES:			
Professional Services	261,773		
Printing	700		
Insurance	98,933		
NON-INSTRUCTIONAL SERVICES:			
Equipment	-		
CAPITAL OUTLAY:			
Professional Services	-		
Supplies	-		
Construction Services	-		
DEBT SERVICE:			
Bond Interest	1,404		
OTHER FINANCING USES:			
Payments to Refunded Bonds Escrow Agent	41,057,514		41,420,324
 FUND BALANCE - JUNE 30, 2017		 \$	 <u>-</u>

Bethlehem Area School District
Day Care Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2017

REVENUES

Regular Day School Tuition	\$ 1,543,336	
Revenue from Community Service Activities	627,088	
State Revenue	96,080	
Fica Revenue	43,023	
Retirement Revenue	168,965	
Donations	-	
Child Care and Development grant	-	
Miscellaneous	9,633	
Earnings on Investments	4,063	
TOTAL REVENUES	4,063	\$ 2,492,188

OPERATING EXPENSES

Salaries	1,183,962	
Self-ins. Medical Benefits	459,908	
Self-ins. Dental Benefits	36,146	
Self-ins. Prescriptions	153,067	
Self-Ins. Eye Care	157	
Fica Tax	87,427	
Retirement Contributions	468,530	
Workers Compensation	11,184	
Unemployment Compensation	451	
Other Benefits	20,799	
Professional Services	2,011	
Disposal	-	
Other Purchased Services	299,965	
Small Equipment	2,919	
Communications	463	
Travel	825	
Field Trips	-	
Repairs and Maintenance	1,430	
Supplies	47,689	
Meals/Refreshments	-	
Depreciation	-	
Miscellaneous	1,062	
Dues and Fees	9,052	
Bad Debt Expense	-	
TOTAL EXPENSES	2,787,047	2,787,047
CHANGES IN FUND NET POSITION		(294,859)
FUND NET POSITION - JULY 1, 2016		(3,228,149)
FUND NET POSITION - JUNE 30, 2017		\$ (3,523,008)

**Bethlehem Area School District
Self-Insurance Fund (Component Unit)
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017**

ADDITIONS

Contributions from Other Funds	\$ 29,655,860	
Cobra and Co-Pay Payments	1,442,885	
Transfers from General Fund (Primary Government)	-	
Interest Earnings	84,708	
Other Misc. Revenue	<u>14,541</u>	
TOTAL REVENUES		\$ 31,197,994

DEDUCTIONS

Health Benefit Costs	18,952,731	
Dental Costs	1,422,386	
Drug Costs	4,967,534	
Unemployment	4,122	
PA Trust - Stop Loss Insurance	516,254	
Workers Compensation	38,575	
Dues, Fees, and Supplies	102,795	
Rental of Equipment	1,482	
Professional Services	<u>2,749</u>	
TOTAL EXPENSES		<u>26,008,628</u>

CHANGES IN NET POSITION 5,189,366

NET POSITION - JULY 1, 2016 12,992,020

NET POSITION - JUNE 30, 2017 \$ 18,181,386

Bethlehem Area School District
Schedule on General Obligation Bonds - Series A of 2009
For the Year Ended June 30, 2017

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 1,763,819	\$ 9,005,000
2018-19	1,406,569	6,410,000
2019-20	1,160,444	3,435,000
2020-21	914,943	6,385,000
2021-22	469,081	13,470,000
2022-23	131,544	2,280,000
2023-24	40,121	1,735,000
TOTAL OUTSTANDING	\$ 5,886,521	\$ 42,720,000

Schedule on General Obligation Bonds - Series AA of 2009
For the Year Ended June 30, 2017

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 580,400	\$ -
2018-19	523,400	3,000,000
2019-20	338,200	6,410,000
2020-21	105,000	5,000,000
TOTAL OUTSTANDING	\$ 1,547,000	\$ 14,410,000

Schedule on Guaranteed Revenue Bonds - Series of 2011
For the Year Ended June 30, 2017

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 550,830	\$ 5,000
2018-19	550,761	5,000
2019-20	550,693	5,000
2020-21	550,625	5,000
2021-22	550,557	5,000
2022-23	534,193	1,310,000
2023-24	515,661	1,365,000
2024-25	490,073	1,925,000
2025-26	462,789	2,010,000
2026-27	400,880	4,775,000
2027-28	333,148	4,990,000
2028-29	262,488	5,205,000
2029-30	182,280	5,950,000
2030-31	97,480	6,250,000
2031-32	7,532	6,635,000
TOTAL OUTSTANDING	\$ 6,039,990	\$ 40,440,000

**Bethlehem Area School District
Schedule on General Obligation Bonds - Series of 2011
For the Year Ended June 30, 2017**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 1,287,244	\$ 5,000
2018-19	1,287,137	5,000
2019-20	1,287,019	5,000
2020-21	1,286,887	5,000
2021-22	1,286,744	5,000
2022-23	1,225,497	3,915,000
2023-24	1,096,234	4,035,000
2024-25	954,819	4,190,000
2025-26	772,744	4,350,000
2026-27	579,900	4,485,000
2027-28	403,206	4,630,000
2028-29	214,806	4,790,000
2029-30	59,503	2,885,000
TOTAL OUTSTANDING	\$ 11,741,740	\$ 33,305,000

**Schedule on Guaranteed Revenue Bonds - Series A of 2011
For the Year Ended June 30, 2017**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 408,237	\$ 5,000
2018-19	408,168	5,000
2019-20	408,100	5,000
2020-21	408,032	5,000
2021-22	407,964	5,000
2022-23	407,896	5,000
2023-24	407,828	5,000
2024-25	407,760	5,000
2025-26	407,692	5,000
2026-27	407,623	5,000
2027-28	407,555	5,000
2028-29	407,487	5,000
2029-30	395,358	2,130,000
2030-31	301,238	13,600,000
2031-32	112,680	14,180,000
TOTAL OUTSTANDING	\$ 5,703,618	\$ 29,970,000

Bethlehem Area School District
Schedule on Guaranteed Revenue Bonds - Series of 2014
For the Year Ended June 30, 2017

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 388,054	\$ 40,000
2018-19	387,540	40,000
2019-20	387,025	40,000
2020-21	386,510	40,000
2021-22	385,995	40,000
2022-23	385,481	40,000
2023-24	384,966	40,000
2024-25	384,451	40,000
2025-26	383,937	40,000
2026-27	347,555	6,730,000
2027-28	258,760	7,140,000
2028-29	164,529	7,580,000
2029-30	62,787	8,365,000
TOTAL OUTSTANDING	\$ 4,307,590	\$ 30,175,000

Schedule on General Obligation Bonds - Series A of 2015
For the Year Ended June 30, 2017

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 1,500,000	\$ -
2018-19	1,500,000	-
2019-20	1,500,000	-
2020-21	1,500,000	-
2021-22	1,500,000	-
2022-23	1,500,000	-
2023-24	1,500,000	-
2024-25	1,500,000	-
2025-26	1,500,000	-
2026-27	1,500,000	-
2027-28	1,500,000	-
2028-29	1,500,000	-
2029-30	1,500,000	-
2030-31	1,500,000	-
2031-32	1,500,000	-
2032-33	1,326,250	6,950,000
2033-34	969,875	7,305,000
2034-35	595,375	7,675,000
2035-36	201,750	8,070,000
TOTAL OUTSTANDING	\$ 25,593,250	\$ 30,000,000

Bethlehem Area School District
Schedule on General Obligation Notes - Series B of 2015
For the Year Ended June 30, 2017

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 124,706	\$ -
2018-19	124,706	-
2019-20	124,706	-
2020-21	124,707	-
2021-22	124,706	-
2022-23	124,706	-
2023-24	124,706	-
2024-25	124,706	-
2025-26	124,706	-
2026-27	124,707	-
2027-28	124,706	-
2028-29	124,706	-
2029-30	111,545	810,000
2030-31	73,069	1,500,000
2031-32	23,878	1,415,000
TOTAL OUTSTANDING	\$ 1,704,966	\$ 3,725,000

Schedule on General Obligation Notes - Series C of 2015
For the Year Ended June 30, 2017

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 347,221	\$ 5,000
2018-19	347,078	5,000
2019-20	346,934	5,000
2020-21	346,790	5,000
2021-22	346,647	5,000
2022-23	327,634	1,215,000
2023-24	287,731	1,265,000
2024-25	244,600	1,280,000
2025-26	197,675	1,370,000
2026-27	146,759	1,390,000
2027-28	93,886	1,365,000
2028-29	40,581	1,325,000
2029-30	6,993	340,000
TOTAL OUTSTANDING	\$ 3,080,529	\$ 9,575,000

**Bethlehem Area School District
Schedule on General Obligation Bonds - Series A of 2016
For the Year Ended June 30, 2017**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 1,590,188	\$ 5,000
2018-19	1,590,038	5,000
2019-20	1,589,887	5,000
2020-21	1,589,738	265,000
2021-22	1,579,137	505,000
2022-23	1,558,938	6,105,000
2023-24	1,253,688	7,090,000
2024-25	899,187	8,775,000
2025-26	460,434	9,240,000
2026-27	45,838	745,000
2027-28	30,937	750,000
2028-29	15,938	750,000
TOTAL OUTSTANDING	\$ 12,203,948	\$ 34,240,000

**Schedule on General Obligation Bonds - Series B of 2016
For the Year Ended June 30, 2017**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2017-18	\$ 590,925	\$ -
2018-19	590,925	-
2019-20	590,925	-
2020-21	590,925	-
2021-22	590,925	-
2022-23	590,925	-
2023-24	590,925	-
2024-25	590,925	-
2025-26	590,925	-
2026-27	590,925	-
2027-28	590,925	-
2028-29	590,925	-
2029-30	590,925	5,000
2030-31	590,806	5,000
2031-32	590,681	5,000
2032-33	590,550	4,655,000
2033-34	450,900	4,860,000
2034-35	305,100	5,010,000
2035-36	154,800	5,160,000
TOTAL OUTSTANDING	\$ 10,364,862	\$ 19,700,000

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, 2017**

FEDERAL GRANTOR/ PROJECT TITLE	SOURCE CODE	CFDA NUMBER	GRANTOR PASS THROUGH NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED	ACCRUED OR (DEFERRED) AT 7/01/16	REVENUE	EXPEN- TURES	ACCRUED OR (DEFERRED) AT 6/30/17	FOOTNOTES
U.S. DEPARTMENT OF HOMELAND SECURITY											
FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)											
PASSED THROUGH THE PA EMERGENCY MANAGEMENT AGENCY (PEMA)											
PUBLIC ASSISTANCE GRANTS	I	97.036	AJA031	7/1/16-6/30/17	\$ 69,992	\$ 69,992	\$ -	\$ 69,992	\$ 69,992	\$ -	4 2
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY						69,992	-	69,992	69,992	-	
U. S. DEPARTMENT OF EDUCATION											
IMPACT AID PUBLIC LAW 81-874											
TOTAL IMPACT AID CLUSTER											
IMPACT AID PUBLIC LAW 81-874	D	84.041	N/A	7/1/16-6/30/17	\$ 66,677	61,954	-	66,677	66,677	4,723	
TOTAL IMPACT AID CLUSTER						61,954	-	66,677	66,677	4,723	
PASSED THROUGH THE PDE											
TITLE I IMPROVING BASIC PROGRAMS											
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-16-0034 A	7/1/15-9/30/16	\$ 3,441,662	679,246	453,579	225,667	225,667	-	4
TITLE I IMPROVING BASIC PROGRAMS	I	84.010	013-17-0034 A	7/1/16-9/30/17	\$ 3,663,203	2,943,462	-	3,308,028	3,308,028	364,566	
TITLE I SCHOOL INTERVENTION	I	84.010	042-15-0034	7/1/15-9/30/16	\$ 86,654	-	-	-	-	-	
TITLE I SCHOOL INTERVENTION	I	84.010	042-16-0034	7/1/16-9/30/17	\$ 84,832	84,832	-	84,832	84,832	-	
TOTAL TITLE I CLUSTER						3,707,540	453,579	3,618,527	3,618,527	364,566	
PASSED THROUGH THE PDE											
TITLE IIA IMPROVING TEACHER QUALITY											
TITLE IIA IMPROVING TEACHER QUALITY	I	84.367	020-16-0034 A	7/1/15-9/30/16	\$ 680,854	135,251	124,997	10,254	10,254	-	4
TITLE IIA IMPROVING TEACHER QUALITY	I	84.367	020-17-0034 A	7/1/16-9/30/17	\$ 669,634	575,713	-	652,488	652,488	76,775	
TOTAL TITLE IIA PROGRAM						710,964	124,997	662,742	662,742	76,775	
PASSED THROUGH THE PDE											
TITLE III LEP / IMMIGRANT STUDENTS											
TITLE III LEP / IMMIGRANT STUDENTS	I	84.365	010-16-0034 A	7/1/15-9/30/16	\$ 234,590	46,918	46,918	-	-	-	4
TITLE III LEP / IMMIGRANT STUDENTS	I	84.365	010-17-0034 A	7/1/16-9/30/17	\$ 241,090	172,207	-	208,293	208,293	36,086	
TOTAL TITLE III PROGRAM						219,125	46,918	208,293	208,293	36,086	
PASSED THROUGH THE COLONIAL LU. #20											
IDEA	I	84.027	N/A	7/1/15-6/30/16	\$ 1,930,376	-	-	-	-	-	4 1
IDEA	I	84.027	N/A	7/1/16-9/30/17	\$ 1,963,983	1,963,983	-	1,963,983	1,963,983	-	1
IDEA - SECTION 619A	I	84.173	N/A	7/1/15-6/30/16	\$ 13,883	28,691	28,691	-	-	-	1
IDEA - SECTION 619A	I	84.173	N/A	7/1/16-9/30/17	\$ 14,785	14,785	-	14,785	14,785	-	1
PASSED THROUGH THE LANCASTER-LEBANON LU. #13											
IDEA	I	84.027	N/A	7/1/15-6/30/16	\$ 5,000	2,511	2,511	-	-	-	3
IDEA	I	84.027	N/A	7/1/15-6/30/16	\$ 50,000	36,900	36,900	-	-	-	3
IDEA	I	84.027	N/A	7/1/16-9/30/17	\$ 50,000	5,342	-	27,249	27,249	21,907	3
TOTAL IDEA CLUSTER						2,052,212	68,102	2,006,017	2,006,017	21,907	
TOTAL U.S. DEPARTMENT OF EDUCATION						\$ 6,751,795	\$ 693,596	\$ 6,562,256	\$ 6,562,256	\$ 504,057	

**BETHLEHEM AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2017**

**U.S. DEPT. OF HEALTH AND HUMAN SERVICES
PASSED THROUGH THE PA DEPARTMENT OF
PUBLIC WELFARE**

CHILD CARE MANDATORY/MATCH FUNDS	I	93.556	SAP 4100066996	7/1/15-6/30/16	\$	162,152	52,102	52,102	-	-	-	4
CHILD CARE MANDATORY/MATCH FUNDS	I	93.556	SAP 4100066996	7/1/16-6/30/17	\$	162,152	108,404	-	162,152	162,152	53,748	
CHILD CARE MANDATORY/MATCH FUNDS	I	93.590	SAP 4100066996	7/1/15-6/30/16	\$	2,429	659	659	-	-	-	
CHILD CARE MANDATORY/MATCH FUNDS	I	93.590	SAP 4100066996	7/1/16-6/30/17	\$	2,429	2,168	-	2,429	2,429	261	
TOTAL CHILD CARE CLUSTER							<u>163,333</u>	<u>52,761</u>	<u>164,581</u>	<u>164,581</u>	<u>54,009</u>	
ESEA - TITLE 19 MEDICAID REIMBURSEMENT	I	93.778	N/A	7/1/16-9/30/17	N/A	<u>87,405</u>	<u>45,103</u>	<u>85,433</u>	<u>85,433</u>	<u>43,131</u>		

TOTAL U.S. DEPT. OF HEALTH AND HUMAN SERVICES \$ 250,738 \$ 97,864 \$ 250,014 \$ 250,014 \$ 97,140

**U. S. DEPT. OF AGRICULTURE
PASSED THROUGH THE PA.
DEPT OF EDUCATION**

NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/1/15 - 6/30/16	N/A	473,686	473,686	-	-	-	-	4
NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/1/16 - 6/30/17	N/A	2,893,628	-	3,365,831	3,365,831	472,203		
BREAKFAST PROGRAM	I	10.553	N/A	7/1/15 - 6/30/16	N/A	2,862	2,862	-	-	-	-	
BREAKFAST PROGRAM	I	10.553	N/A	7/1/16 - 6/30/17	N/A	8,102	-	9,844	9,844	1,742		
SEVERE NEED BREAKFAST	I	10.553	N/A	7/1/15 - 6/30/16	N/A	114,805	114,805	-	-	-	-	
SEVERE NEED BREAKFAST	I	10.553	N/A	7/1/16 - 6/30/17	N/A	866,127	-	1,010,916	1,010,916	144,789		
AFTER SCHOOL SNACK	I	10.555	N/A	7/1/15 - 6/30/16	N/A	8,054	8,054	-	-	-	-	
AFTER SCHOOL SNACK	I	10.555	N/A	7/1/16 - 6/30/17	N/A	69,025	-	78,515	78,515	9,490		
SPECIAL MILK	I	10.556	N/A	7/1/15 - 6/30/16	N/A	-	-	-	-	-	-	
SPECIAL MILK	I	10.556	N/A	7/1/16 - 6/30/17	N/A	-	-	-	-	-	-	
SUMMER FOOD	I	10.559	N/A	7/1/15 - 6/30/16	N/A	37,269	37,269	-	-	-	-	
SUMMER FOOD	I	10.559	N/A	7/1/16 - 6/30/17	N/A	100,948	-	154,605	154,605	53,657		

**PASSED THROUGH THE PA
DEPARTMENT OF AGRICULTURE**

NATIONAL SCHOOL LUNCH - USDA COMMODITIES	I	10.555	N/A	7/1/16 - 6/30/17	N/A	<u>395,770</u>	<u>(29,676)</u>	<u>415,029</u>	<u>415,029</u>	<u>(10,417)</u>		4
TOTAL CHILD NUTRITION CLUSTER						<u>4,970,276</u>	<u>607,000</u>	<u>5,034,740</u>	<u>5,034,740</u>	<u>671,464</u>		5,6

**PASSED THROUGH THE PA
DEPARTMENT OF EDUCATION**

FRESH FRUIT AND VEGETABLE PROGRAM	I	10.582	N/A	7/1/16 - 6/30/17	N/A	178,965	6,412	197,968	197,968	25,415		4
CHILD NUTRITION DISCRETIONARY GRANTS LTD. AVAILABILITY	I	10.579	N/A	4/10/17 - 6/2/17	\$	7,476	-	7,476	7,476	7,476		
						<u>178,965</u>	<u>6,412</u>	<u>205,444</u>	<u>205,444</u>	<u>32,891</u>		

TOTAL U.S. DEPARTMENT OF AGRICULTURE 5,149,241 613,412 5,240,184 5,240,184 704,355

TOTAL FEDERAL FINANCIAL AWARDS \$ 12,221,766 \$ 1,404,872 \$ 12,122,446 \$ 12,122,446 \$ 1,305,552

SOURCE: D-DIRECT; I-INDIRECT

Bethlehem Area School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

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 2.7% of its total general fund revenue in federal awards, and 68.8% of its total enterprise fund revenue.

Note 3 – Indirect Costs

The District did not charge any indirect costs to any of their federal grants and programs during this fiscal year. As such, the District did not use the 10% de minimis cost rate.

Note 4 - Program Disclosure – Footnotes

1. The federal awards passed through the Colonial I.U. under the U.S. Department of Education heading, are part of a consortium of participating school districts. In accordance with directions from the Commonwealth of Pennsylvania, these awards are reported on the basic financial statements as local source revenues.
2. The federal awards passed through the PA Emergency Management Agency, under the U.S. Department of Homeland Security heading, is awards received as pass through from the Federal Emergency Management Agency. During the fiscal year 2016-17, the District received \$69,992 of monetary assistance for the Jonas Snow Storm dating back to January 23, 2016. The Schedule of Expenditures of Federal Awards reflects \$69,992 of revenue and \$69,992 of expenditures, however the actual expenditures incurred and paid were in the 2015-16 fiscal year
3. The federal awards passed through the Lancaster-Lebanon I.U. #13 under the U.S. Department of Education heading, are part of a consortium of participating school districts. However, the District is not contracted as part of the participating school districts of the Lancaster-Lebanon I.U #13, but merely received special awards in the form of grants for Clearview Elementary and Liberty High School's. In accordance with directions from the Commonwealth of Pennsylvania, these awards are reported on the basic financial statements as local source revenues.
4. The Federal Grants were passed through the following entities in the totals below:

<u>Passed through</u>	<u>Total Awards</u>	<u>Total Expenditures</u>
PA Emergency Management Agency	\$ 69,992	\$ 69,992
PA Department of Education	9,109,995	9,314,717
Lancaster-Lebanon I.U. #13	105,000	27,249
Colonial I.U. #20	3,923,027	1,978,768
PA Department of Public Welfare	329,162	250,014
PA Department of Agriculture	N/A	415,029
Totals	<u>\$ 13,537,176</u>	<u>\$ 12,055,769</u>

Bethlehem Area School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

5. The District received non-monetary assistance from the U.S. Department of Agriculture of \$395,770 in the form of commodities. These commodities are valued at U.S.D.A.'s approximate costs. During the 2016-17 fiscal year, the District used \$415,029, in commodities, and established a year-end inventory of \$10,417 at June 30, 2017.
6. The amount recognized as revenue in the Schedule of Expenditures of Federal Awards, under the U.S. Department of Agriculture heading, represents the commodities used, versus the commodities received, which are recognized as revenue in the basic financial statements.
7. 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 Expenditures of Federal Awards.
8. The Medical Access grant passed through the Northeastern I.U. #19 is reflected as local 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 Expenditures of Federal Awards.

FINANCIAL STATEMENT RECONCILIATION

General Fund Federal Source Revenues	\$ 5,539,587
Federal Grants in Local Sources	2,007,252
Food Service Fund Federal Revenue	<u>5,220,925</u>
Total Federal Revenue, per financial statements	12,767,764
Less - Medical Access Reimbursement (Federal)	(663,341)
Less - Medical Access Reimbursement (Local)	(1,235)
Plus: Change in Donated Commodities	<u>19,258</u>
Total Federal Revenue Reported on SEFA	<u>\$ 12,122,446</u>



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT UNDER GOVERNMENT AUDITING STANDARDS

Board of School Directors
Bethlehem Area School District
1516 Sycamore Street
Bethlehem, PA 18017-6099

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison statement of the general fund of the Bethlehem Area School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Bethlehem Area School District's basic financial statements, and have issued our report thereon dated December 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bethlehem Area School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bethlehem Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Bethlehem Area School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



December 18, 2017



GORMAN & ASSOCIATES, P.C.

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

**INDEPENDENT AUDITOR'S REPORT
UNDER UNIFORM GUIDANCE**

Board of School Directors
Bethlehem Area School District
1516 Sycamore Street
Bethlehem, PA 18017-6099

Report on Compliance for Each Major Federal Program

We have audited Bethlehem Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement that could have a direct and material effect on each of Bethlehem Area School District's major federal programs for the year ended June 30, 2017*. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, *regulations*, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Bethlehem Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Bethlehem Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Bethlehem Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Bethlehem Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Bethlehem Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Bethlehem Area School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



December 18, 2017

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Section I - Summary of Auditor Results

Financial Statements

Type of auditor's report issued: Unmodified

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: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance? yes no

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Program
84.027, 84.173	Idea Cluster

Percentage of programs tested to total awards 46.4%

Dollar threshold used to distinguish between type A and type B program: \$750,000

Auditee qualified as low-risk auditee? yes no

**Bethlehem Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Section II – Financial Statement Findings

There were no findings discovered, relating to the financial statements, which are required to be reported in accordance with generally accepted government

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 Uniform Guidance, Section 200.516.

Audit Follow-Up Procedures

We did not perform any follow-up procedures on prior year findings, since no prior year findings existed.