

BETHLEHEM CENTRAL SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2012

BETHLEHEM CENTRAL SCHOOL DISTRICT

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BETHLEHEM CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION

AND ANALYSIS (UNAUDITED)

JUNE 30, 2012

The Bethlehem Central School District (the District) presents the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. Please review it in conjunction with the District's financial statements and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of the District exceeded its total liabilities at the close of the fiscal year by \$17.026 million (net assets). Capital assets net of depreciation decreased \$3.042 million, and current assets decreased \$1.466 million. Debt reductions of \$7.137 million offset the increased liability for retiree health insurance of \$7.163 million, yielding a decrease of \$4.086 million in net assets.
- As of the close of this fiscal year, the District's governmental funds reported a combined fund balance of \$6.609 million, decreasing approximately \$1.040 million. Although the general fund had a surplus of approximately \$7.562 million, this was largely offset by the Capital Projects Fund deficit of \$2.023 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

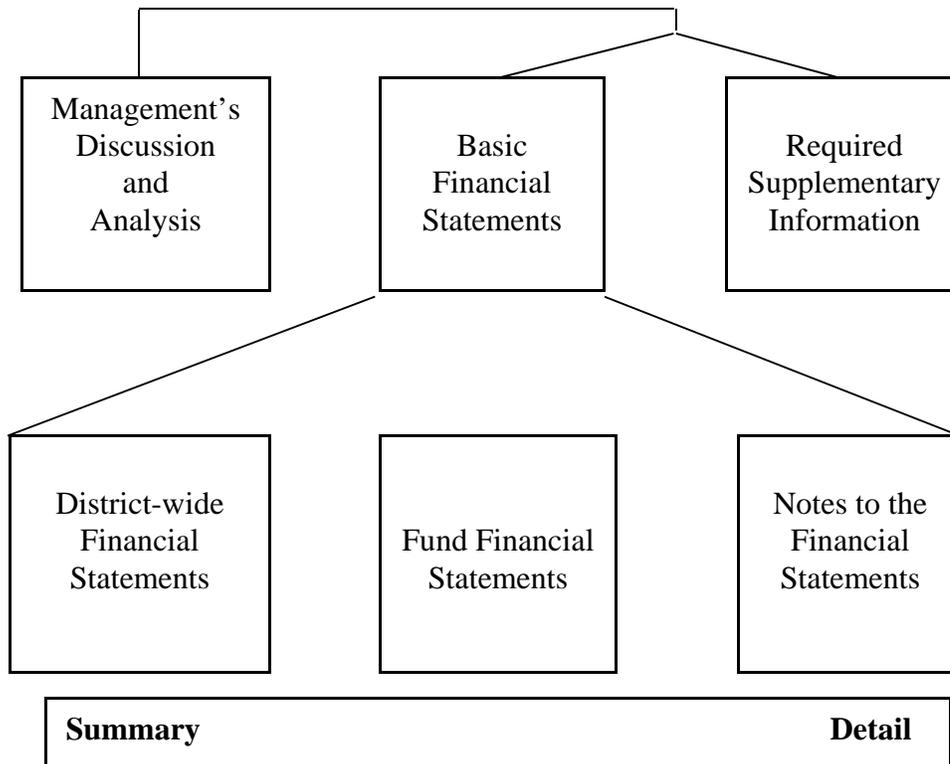
This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental fund statements* tell how basic services such as instruction and transportation were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary fund statements* provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1

Organization of the Bethlehem Central School District Annual Financial Report



BETHLEHEM CENTRAL SCHOOL DISTRICT

*MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2012*

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

Figure A-2

Major Features of the District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial 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 regular and special education and building maintenance	Activities the District operates similar to private businesses.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> Statement of net assets Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> Statement of net assets Statement of cash flows 	<ul style="list-style-type: none"> Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the 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 the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

DISTRICT-WIDE STATEMENTS

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

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

- Over time, increases and decreases in net assets are an indicator of whether its financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are comprised of the following:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

BETHLEHEM CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2012

- **Fiduciary funds:** The District is the trustee, or *fiduciary*, for assets that belong to others, such as the private purpose trust agency funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net Assets
June 30, 2012 and 2011**

	<u>Governmental Activities</u>		Variance Increase (Decrease)
	<u>2012</u>	<u>2011</u>	
Current Assets	\$ 14,546,033	\$ 16,012,506	\$ (1,466,473)
Capital Assets	<u>121,064,165</u>	<u>124,106,210</u>	<u>(3,042,045)</u>
Total Assets	<u>135,610,198</u>	<u>140,118,716</u>	<u>(4,508,518)</u>
Current Liabilities	16,110,395	16,155,828	(45,433)
Noncurrent Liabilities	<u>102,473,088</u>	<u>102,850,439</u>	<u>(377,351)</u>
Total Liabilities	<u>118,583,483</u>	<u>119,006,267</u>	<u>(422,784)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	37,944,586	33,234,140	4,710,446
Restricted for Specified Purposes	3,557,538	4,131,406	(573,868)
Assigned for Encumbrances	158,533	142,511	16,022
Assigned for Subsequent Year's Expenditure	1,750,000	2,275,000	(525,000)
Unassigned (Deficit)	<u>(26,383,942)</u>	<u>(18,670,608)</u>	<u>(7,713,334)</u>
Total Net Assets	<u>\$ 17,026,715</u>	<u>\$ 21,112,449</u>	<u>\$ (4,085,734)</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2012

**Changes in Net Assets
June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>	<u>Variance Increase (Decrease)</u>
Revenues:			
Program Revenues:			
Charges for Services	\$ 1,414,319	\$ 1,478,711	\$ (64,392)
Operating Grants and Contributions (1)	<u>3,721,764</u>	<u>3,140,376</u>	<u>581,388</u>
Total Program Revenues	<u>\$ 5,136,083</u>	<u>\$ 4,619,087</u>	<u>\$ 516,996</u>
General Revenues:			
Real Property Taxes	\$ 51,578,263	\$ 50,478,133	\$ 1,100,130
Other Tax Items	8,240,103	8,053,828	186,275
Use of Money and Property	183,056	284,702	(101,646)
Sale of Property and Compensation for Loss	218,420	88,832	129,588
Miscellaneous	496,932	730,774	(233,842)
State Sources	21,974,392	23,692,321	(1,717,929)
Federal Sources	<u>39,796</u>	<u>1,026,170</u>	<u>(986,374)</u>
Total General Revenues	<u>82,730,962</u>	<u>84,354,760</u>	<u>(1,623,798)</u>
Expenses (net of program revenues):			
Instruction	61,650,160	62,754,801	(1,104,641)
Support Services:			
General Support	9,195,679	8,715,823	479,856
Pupil Transportation	8,627,258	8,411,688	215,570
Community Service	79,577	74,911	4,666
Debt Service-Interest	3,463,683	3,813,343	(349,660)
Depreciation-Unallocated	3,746,197	3,753,114	(6,917)
School Lunch	<u>54,142</u>	<u>(1,951)</u>	<u>56,093</u>
Total Expenses	<u>86,816,696</u>	<u>87,521,729</u>	<u>(705,033)</u>
Change in Net Assets	<u>\$ (4,085,734)</u>	<u>\$ (3,166,969)</u>	<u>\$ (918,765)</u>

(1) Operating Grants and Contributions include \$1,522,000 and \$1,026,000 in American Recovery and Reinvestment Act (ARRA) funding for 2012 and 2011, respectively.

BETHLEHEM CENTRAL SCHOOL DISTRICT
*MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)*
JUNE 30, 2012

The following charts provide the percentage breakdown of all revenues by source and all expenses by function for the entire District:

Figure A-5 -

Sources of Revenues for Fiscal Year 2012

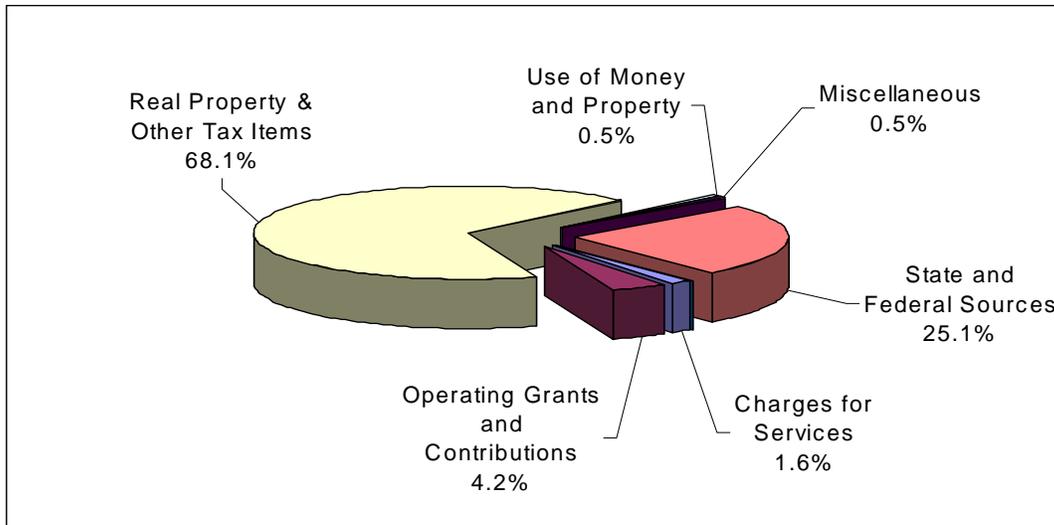
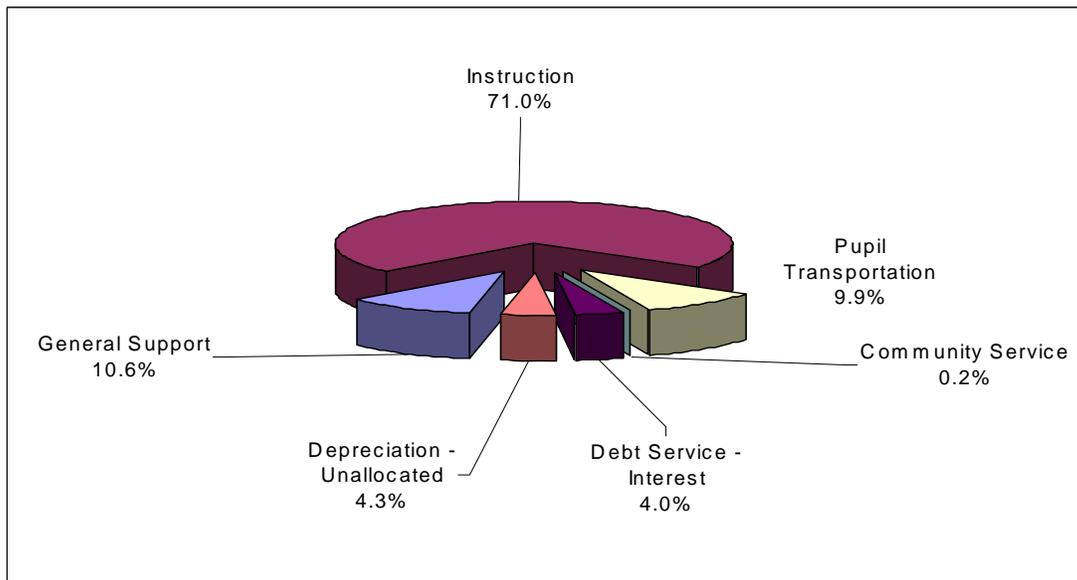


Figure A-6

Expenses for Fiscal Year 2012



BETHLEHEM CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
 JUNE 30, 2012

Fund Financial Analysis (District's Funds)

Total Governmental Funds

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Total Assets	\$ 16,941,833	\$ 18,607,323
Total Liabilities	<u>10,332,755</u>	<u>10,958,376</u>
Fund Balance:		
Nonspendable	16,930	16,466
Restricted	3,557,538	4,131,406
Assigned	1,908,533	2,567,897
Unassigned	<u>1,126,077</u>	<u>933,178</u>
Total Fund Balance	<u>\$ 6,609,078</u>	<u>\$ 7,648,947</u>

The following is a summary of the fund balances (accumulated deficit) for the years ended June 30, 2012 and June 30, 2011 by individual fund.

	<u>Fund Balance 2012</u>	<u>Fund Balance 2011</u>	<u>Variance Increase (Decrease)</u>
General	\$ 7,561,586	\$ 8,826,745	\$ (1,265,159)
School Lunch	116,966	156,312	(39,346)
Special Aid	(3,768)	32,377	(36,145)
Capital	(2,023,244)	(2,322,893)	299,649
Debt Service	<u>957,538</u>	<u>956,406</u>	<u>1,132</u>
Totals	<u>\$ 6,609,078</u>	<u>\$ 7,648,947</u>	<u>\$ (1,039,869)</u>

The following is a summary of the general fund revenues and expenditures for the years ended June 30, 2012 and 2011.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Variance Increase (Decrease)</u>
Revenues:			
Taxes	\$ 59,818,366	\$ 58,531,961	\$ 1,286,405
Use of Money and Property	181,806	277,208	(95,402)
State and Federal Sources	22,269,475	24,718,491	(2,449,016)
Other	<u>1,021,838</u>	<u>1,038,479</u>	<u>(16,641)</u>
Totals	<u>\$ 83,291,485</u>	<u>\$ 84,566,139</u>	<u>\$ (1,274,654)</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT

*MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2012*

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Variance Increase (Decrease)</u>
Expenditures:			
General Support	\$ 7,011,053	\$ 7,641,158	\$ (630,105)
Instruction	40,851,020	42,820,430	(1,969,410)
Pupil Transportation	5,755,966	5,829,519	(73,553)
Community Service	50,276	49,533	743
Employee Benefits	19,283,316	18,611,798	671,518
Debt Services	11,444,639	11,596,960	(152,321)
Other	-	169,691	(169,691)
Totals	<u>\$ 84,396,270</u>	<u>\$ 86,719,089</u>	<u>\$ (2,322,819)</u>

General Fund Budgetary Highlights

The difference between the general fund's original budget and final amended budget was \$723,384 comprised of \$54,334 for gifts and donations, \$575,000 for transfers from reserves, and \$94,050 for carry over encumbrances. There were sufficient revenues and fund balance available to cover the budget amendments. The transfers from reserves was for the following purposes: payment of workers' compensation claims \$475,000 and payment of accrued leave credits for retiring employees of \$100,000, totaling \$575,000.

Capital Assets and Debt Administration

Capital Assets

The District's capital assets (net of accumulated depreciation) as of June 30, 2012 and 2011 are as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Land	\$ 246,072	\$ 246,072
Buildings and Improvements	116,748,419	119,118,330
Machinery and Equipment	640,816	735,544
Bus Fleet/Vehicles	3,428,858	4,006,264
Total	<u>\$ 121,064,165</u>	<u>\$ 124,106,210</u>

The total decrease in the District's capital assets (net of accumulated depreciation) for the year ended June 30, 2012 was \$3,042,045. The net decrease is due to depreciation expense in excess of acquisitions of buses and equipment.

Obligations

The District had long-term debt including serial bonds, leases and energy performance contracts outstanding as of June 30, 2012 and 2011 as follows (a decrease of \$7,137,491 in 2012):

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Serial Bonds	\$ 78,800,000	\$ 85,213,674
Bus Capital Leases	546,800	806,564
Energy Performance Contract	1,519,779	1,983,832
Total	<u>\$ 80,866,579</u>	<u>\$ 88,004,070</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2012

The District's current bond rating is stated as Aa3 by Moody's. Also, the District has a refunding bond outstanding (included with bonds listed above), the proceeds of which are in escrow to fund other previously existing debt.

Section 104.00 of the Local Finance Law limits the amount of general obligation debt that a school district may issue to 10 percent of its total assessed valuation. The outstanding general obligations of the District was well below the current debt limit of \$292 million for the District.

Notes to the Financial Statements

The notes provide additional information that is essential in achieving a full understanding of the data provided in the district-wide and fund financial statements.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information (supplementary schedules).

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future. The District has planned for and implemented capital construction and improvements to meet the future needs for the community. A substantial planned technology park, in addition to other moderate growth, is expected to enhance the tax base over the next several years. One challenge facing the District is the ongoing dependence on state funding. Changes in the State's economy or other changes at the state level that impact the manner in which state aid is paid could have an impact on the finances of the District. Additionally, the cost of employee benefits continues to be a major budgetary factor for all school districts. The continued growth in the cost of health insurance combined with the costs of funding the Teacher's Retirement System and the Employees' Retirement System are expected to continue to impact the budget in the near to intermediate future. The increases for the provision of mandated student services also contribute to the financial challenges of the school district.

Requests for Information

This financial report is designed to provide district residents, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Bethlehem Central School District
Business Office
700 Delaware Avenue
Delmar, New York 12054
Or visit our website at <http://bethlehemschools.org>
Children and Learning are the Heart of Bethlehem Central

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AND
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Education
Bethlehem Central School District
Delmar, New York

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Bethlehem Central School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Bethlehem Central School District as of June 30, 2012, the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2012, on our consideration of the Bethlehem Central School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 10 and 44 through 45 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bethlehem Central School District's basic financial statements taken as a whole. The supplemental information presented on pages 46 to 51, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Bethlehem Central School District. The accompanying schedule of expenditures of federal awards on page 56 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, as is also not a required part of the financial statements. This supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of American. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
September 25, 2012

BETHLEHEM CENTRAL SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS

Current Assets:	
Unrestricted Cash	\$ 7,929,489
Restricted Cash	2,600,000
State and Federal Aid Receivable	3,453,332
Due from Other Governments	82,477
Other Receivables, Net	120,566
Due from Fiduciary Funds	343,239
Inventories	<u>16,930</u>
Total Current Assets	<u>14,546,033</u>
Noncurrent Assets:	
Capital Assets, Net of Depreciation	<u>121,064,165</u>
Total Noncurrent Assets	<u>121,064,165</u>
Total Assets	<u>\$ 135,610,198</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 371,306
Accrued Liabilities	1,296,629
Due to Other Governments	245,378
Due to Teachers' Retirement System	3,675,636
Due to Employees' Retirement System	731,368
Bond Anticipation Note Payable	2,253,000
Capital Lease and Other Liabilities	753,454
Bonds Payable	6,750,000
Deferred Revenue	<u>33,624</u>
Total Current Liabilities	<u>16,110,395</u>
Long-Term Liabilities:	
Bonds Payable	72,050,000
Capital Lease and Other Liabilities	1,313,125
Compensated Absences Payable	631,000
Other Post-Employment Benefits Payable	<u>28,478,963</u>
Total Long-Term Liabilities	<u>102,473,088</u>
Total Liabilities	<u>118,583,483</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	37,944,586
Assigned For:	
Encumbrances	158,533
Subsequent Year's Expenditures	1,750,000
Restricted For:	
Tax Certiorari	375,000
Workers' Compensation and Employee Benefits	2,225,000
Debt Service	957,538
Unrestricted (deficit)	<u>(26,383,942)</u>
Total Net Assets	<u>17,026,715</u>
Total Liabilities and Net Assets	<u>\$ 135,610,198</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Expense Allocation</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
			<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Total</u>
General Support	\$ 7,011,057	\$ 2,184,622	\$ -	\$ -	\$ (9,195,679)
Instruction	43,579,920	21,817,700	437,078	3,310,382	(61,650,160)
Pupil transportation	5,921,624	2,875,406	-	169,772	(8,627,258)
Community service	50,276	29,301	-	-	(79,577)
Employee benefits	27,162,279	(27,162,279)	-	-	-
Debt service-interest	3,463,683	-	-	-	(3,463,683)
Depreciation-unallocated	3,746,197	-	-	-	(3,746,197)
School lunch program	1,017,743	255,250	977,241	241,610	(54,142)
Total Functions and Programs	<u>\$ 91,952,779</u>	<u>\$ -</u>	<u>\$ 1,414,319</u>	<u>\$ 3,721,764</u>	<u>(86,816,696)</u>
 General Revenues					
Real property taxes					51,578,263
Other tax items					8,240,103
Use of money and property					183,056
Sale of property and compensation for loss					218,420
Miscellaneous					496,932
State sources					21,974,392
Federal sources					39,796
Total General Revenues					<u>82,730,962</u>
Change in Net Assets					(4,085,734)
Total Net Assets - Beginning of Year					<u>21,112,449</u>
Total Net Assets - End of Year					<u>\$ 17,026,715</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT

BALANCE SHEET- GOVERNMENTAL FUNDS AND RECONCILIATION TO THE STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>General</u>	<u>Non-Major</u>	<u>Total Governmental Funds</u>
Assets:			
Unrestricted Cash	\$ 6,644,450	\$ 1,285,039	\$ 7,929,489
Restricted Cash	2,600,000	-	2,600,000
Due from Other Funds	2,642,537	96,502	2,739,039
Due from State and Federal	1,144,747	2,308,585	3,453,332
Due from Other Governments	82,477	-	82,477
Other Receivables	120,566	-	120,566
Inventories	-	16,930	16,930
Total Assets	<u>\$ 13,234,777</u>	<u>\$ 3,707,056</u>	<u>\$ 16,941,833</u>
Liabilities:			
Accounts Payable	\$ 336,553	\$ 34,753	\$ 371,306
Accrued Liabilities	128,384	38,693	167,077
Due to Other Funds	96,502	2,299,298	2,395,800
Due to Other Governments	245,182	196	245,378
Due to Teachers' Retirement System	3,675,636	-	3,675,636
Due to Employees' Retirement System	731,368	-	731,368
Bond Anticipation Notes Payable	-	2,253,000	2,253,000
Deferred Revenues	459,566	33,624	493,190
Total Liabilities	<u>5,673,191</u>	<u>4,659,564</u>	<u>10,332,755</u>
Fund Equity (Deficit):			
Nonspendable	-	16,930	16,930
Restricted	2,600,000	957,538	3,557,538
Assigned	1,854,141	54,392	1,908,533
Unassigned (Deficit)	3,107,445	(1,981,368)	1,126,077
Total Fund Equity (Deficit)	<u>7,561,586</u>	<u>(952,508)</u>	<u>6,609,078</u>
Total Liabilities and Fund Equity (Deficit)	<u>\$ 13,234,777</u>	<u>\$ 3,707,056</u>	<u>\$ 16,941,833</u>

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

Total governmental fund balances per above	\$ 6,609,078
Capital assets used in government activities are not financial resources and, therefore, are not reported in the funds.	121,064,165
Deferred revenues	459,566
Long-term liabilities, including bonds payable, capital leases, other liabilities, other post-employment benefits payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(109,976,542)
Interest payable at June 30, 2012 in the government-wide statements under full accrual accounting	<u>(1,129,552)</u>
Net Assets of Governmental Activities	<u>\$ 17,026,715</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY (DEFICIENCY) - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Non-Major</u>	<u>Total Governmental Funds</u>
Revenues:			
Real property taxes	\$ 51,578,263	\$ -	\$ 51,578,263
Other tax items	8,240,103	-	8,240,103
Charges for services	422,400	14,678	437,078
Use of money and property	181,806	1,250	183,056
Sale of property and compensation for loss	218,420	-	218,420
State sources	22,063,065	700,756	22,763,821
Federal sources	206,410	2,854,394	3,060,804
Sales	-	977,241	977,241
Miscellaneous	<u>381,018</u>	<u>115,914</u>	<u>496,932</u>
Total Revenues	<u>83,291,485</u>	<u>4,664,233</u>	<u>87,955,718</u>
Expenditures:			
General support	7,011,053	-	7,011,053
Instruction	40,851,020	2,899,089	43,750,109
Pupil transportation	5,755,966	169,772	5,925,738
Community services	50,276	-	50,276
Employee benefits	19,283,316	715,859	19,999,175
Debt service			
Principal	7,907,490	-	7,907,490
Interest	3,537,149	-	3,537,149
Cost of sales	-	1,017,743	1,017,743
Capital outlay	<u>-</u>	<u>566,854</u>	<u>566,854</u>
Total Expenditures	<u>84,396,270</u>	<u>5,369,317</u>	<u>89,765,587</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,104,785)</u>	<u>(705,084)</u>	<u>(1,809,869)</u>
Other Financing Sources and (Uses):			
BANS Redeemed from Appropriations	-	770,000	770,000
Operating Transfers In	-	160,374	160,374
Operating Transfers (Out)	<u>(160,374)</u>	<u>-</u>	<u>(160,374)</u>
Total Other Sources (Uses)	<u>(160,374)</u>	<u>930,374</u>	<u>770,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources and (Uses) Over Expenditures	(1,265,159)	225,290	(1,039,869)
Fund Equity (Deficiency) - Beginning of Year	<u>8,826,745</u>	<u>(1,177,798)</u>	<u>7,648,947</u>
Fund Equity (Deficiency) - End of Year	<u>\$ 7,561,586</u>	<u>\$ (952,508)</u>	<u>\$ 6,609,078</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2012*

Net changes in fund balance - total governmental funds	\$ (1,039,869)
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net assets.	713,632
Book value of capital assets sold	(9,480)
Depreciation is not recorded as an expenditure in the governmental funds, but is recorded in the statement of activities.	(3,746,197)
Repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net assets.	7,907,491
Revenue deferred in governmental funds is recognized as revenue in the statement of activities.	(88,673)
Interest is recognized as an expense in governmental funds when paid. For governmental activities interest expense is recognized as it accrues. The decrease in accrued interest during the 2011-2012 year results in less expense.	73,466
Redemptions of bond anticipation notes are revenue in governmental funds, but not in the statement of net assets.	(770,000)
Certain post employment benefits are recognized as an expense in the statement of activities under full accrual accounting.	(7,163,104)
Changes in compensated absences and judgments and claims are not reflected in governmental funds but are reflected in the statement of activities under full accrual accounting.	<u>37,000</u>
Change in net assets - governmental activities	<u><u>\$ (4,085,734)</u></u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
 JUNE 30, 2012

	<u>Agency</u>	<u>Private-Purpose Trusts</u>
ASSETS		
Cash - unrestricted	\$ 443,205	\$ -
Cash -restricted	<u>196,526</u>	<u>2,800</u>
Total Assets	<u><u>\$ 639,731</u></u>	<u><u>\$ 2,800</u></u>
LIABILITIES		
Extraclassroom activity balances	\$ 136,342	\$ -
Due to other funds	343,239	-
Other liabilities	<u>160,150</u>	<u>-</u>
Total Liabilities	<u><u>\$ 639,731</u></u>	<u><u>-</u></u>
NET ASSETS		
Reserved for scholarships		<u><u>\$ 2,800</u></u>

STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Private-Purpose Trusts</u>
ADDITIONS	
Gifts and contributions	\$ 2,303
Investments earnings	<u>-</u>
Total Additions	2,303
DEDUCTIONS	
Scholarships and awards	<u>700</u>
Change in Net Assets	1,603
Net Assets - Beginning of Year	<u>1,197</u>
Net Assets - End of Year	<u><u>\$ 2,800</u></u>

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Bethlehem Central School District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting principles are described below:

A. Reporting Entity

The Bethlehem Central School District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of 7 members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accounting for all fiscal matters.

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, The Financial Reporting Entity as amended by GASB Statement 39, Component Units. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District and its component unit. The District is not a component unit of another reporting entity.

The decision to include a potential component unit in the reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief view of an entity included in the District’s reporting entity:

1. The Extraclassroom Activity Funds

The extraclassroom activity funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the extraclassroom activity funds can be found at pages 59 through 64 of this document.

B. Joint Ventures

The Bethlehem Central School District is one of 23 component school districts in the Capital Region Board of Cooperative Education Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services, and programs which provide educational and support activities.

BOCES are organized under Section 1950 of the Education Law. A BOCES Board is considered a corporate body. All BOCES property is held by the BOCES Board as a corporation (Section 1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section 119-n(a) of the General Municipal Law.

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Joint Ventures (Continued)

A BOCES budget is comprised of separate budgets for administrative, programs, and capital costs. Each component school district's share of administrative and capital cost is determined by resident public school districts enrollment as defined in Education Law, Section 1950(4)(b)(7).

There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of Section 1950 of the Education Law.

The District is also a member in The Capital Area Schools Health Insurance Consortium (the "Consortium"). The Consortium is considered a public entity risk pool which is defined as a cooperative group of governmental entities joining together to finance an exposure, liability or risk, and is tax-exempt under Section 501(c)(9) of the Internal Revenue Code. The Consortium includes New York public school districts located in Albany, Schenectady, Schoharie and Washington Counties. The Consortium was formed May 1, 1994 to allow member schools to obtain health insurance and prescription drug benefits at lower cost through a pooled purchasing arrangement. The Consortium procures group insurance contracts with insurance carriers for medical, prescription drug and dental benefits, in which the Consortium is not liable for any medical, dental or prescription drug claims. However, the Consortium also maintains a self-insured prescription drug plan for which the individual Consortium members are liable for any claims in excess of the balances maintained by the trust. As of June 30, 2012, the District's prescription drug plan account balance maintained by the Consortium is \$749,199. In addition, the Consortium also maintains an account balance for the District of \$497,752, held to fund supplemental premium payments that may be required under the retrospective funding arrangement in place for one of the insured health insurance contracts.

C. Basis of Presentation

District-wide statements

The Statement of Net Assets and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State Aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Fund financial statements

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

I. Governmental Fund Types

The District reports the following major governmental fund:

General Fund: This is the School District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

All remaining governmental funds are aggregated and reported as non-major funds:

Capital Projects Fund: The capital projects fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of various District facilities or equipment.

Special Revenue Funds: These funds account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds include the following funds:

a. Special Aid Fund

Used to account for special operating projects or programs supported in whole, or in part, with Federal funds or State or Local grants.

b. School Lunch Fund

Used to account for transactions of the District lunch and breakfast programs.

Debt Service Fund: This fund is used to account for and report on the accumulation of resources to be used for redemption of general long-term indebtedness.

II. Fiduciary Fund Types

This fund is used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee and agent for resources that belong to others. These activities are not included in the District-wide financial statements because their resources do not belong to the District and are not available to be used. There are two classes of fiduciary funds:

- (1) **Private Purpose Trust Funds** - These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Fiduciary Fund Types (Continued)

- (2) **Agency Funds** - These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

D. Basis of Accounting/Measurement Focus

General Information

The District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash transactions take place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within 60 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt, claims and judgments, post-employment benefits and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Explanation of Certain Differences Between Fund Statements and District-Wide Statements

Due to the differences in the measurement focus and basis of accounting used in the funds statements and the District-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

(A) Total fund balances of governmental funds vs. net assets of governmental activities:

Total fund balances of the District's governmental funds differ from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund Balance Sheets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting/Measurement Focus (Continued)

Explanation of Certain Differences Between Fund Statements and District-Wide Statements (Continued)

(B) Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities:

Differences between the 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 below represent:

i) Long-term revenue differences

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.

ii) Capital related differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the fund statements and depreciation expense on those items as recorded in the Statement of Activities.

iii) Long-term debt transaction differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets. Other long-term differences include compensated absences, postemployment benefits and capital leases and other liabilities.

The costs of building and acquiring capital assets (land, buildings and equipment) financed from governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.

Original cost of capital assets	<u>\$ 152,783,021</u>
Accumulated depreciation	<u>\$ 31,718,856</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting/Measurement Focus (Continued)

Explanation of Certain Differences Between Fund Statements and District-Wide Statements (Continued)

- (B) Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities (Continued):

Long-term liabilities are reported in the Statement of Net Assets, but not in the governmental funds, because they are not due and payable in the current period. Balances at year-end were:

Bonds and notes payable	<u>\$ 78,800,000</u>
Compensated absences payable	<u>\$ 631,000</u>
Postemployment benefits payable	<u>\$ 28,478,963</u>
Capital leases and other liabilities	<u>\$ 2,066,579</u>

In the Statement of Activities, certain operating expenses (compensated absences and post-retirement benefits) are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, postemployment contributions made of \$2,653,721 were less than the amounts incurred of \$9,816,825.

When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation of \$3,746,197 was more than capital expenditures of \$713,632 in the current year.

Repayments of bond, BAN and installment purchase principal \$7,907,491 are an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets, and does not affect the Statement of Activities.

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is reported as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The reduced interest reported in the Statement of Activities is the result of accrued interest on bonds payable decreased by \$73,466.

E. Deferred Revenue

Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. The District has established a 60 day availability period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met or when the District has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Tax

I. Calendar

Real property taxes are levied annually by the Board of Education no later than September 1. Taxes were collected during the period September 1, 2011 to November 1, 2011.

II. Enforcement

Uncollected real property taxes are subsequently enforced by the County of Albany in which the District is located. An amount representing uncollected real property taxes transmitted to the County for enforcement is paid by the County of Albany to the District during the following April.

G. Budgetary Data

I. Budget Policies

The budget policies are as follows:

- a. The District administration prepares a proposed budget for approval by the Board of Education for the general fund.
- b. The proposed appropriation budget for the general fund is approved by the voters within the District.
- c. Appropriations are adopted at the program level.
- d. Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions if the Board approves them because of a need which exists which was not determined at the time the budget was adopted.

II. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed as a control in preventing overexpenditure of established appropriations. Open encumbrances are reported as reservations of fund balance since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

III. Budget

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgetary Data (Continued)

III. Budget (Continued)

The District is not required to formally adopt annual budgets for its special revenue funds or debt service fund. Accordingly, although the school lunch fund does have a management approved budget and each special aid fund project follows an approved project budget, no statement of budget and actual revenues and expenditures is presented for the special revenue funds or the debt service fund.

H. Cash and Investments

Deposits

The District's investment policies are governed by State statutes. District monies must be deposited in FDIC insured commercial banks or trust companies located within the State. The treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and School Districts. Investments are stated at fair value.

I. Other Receivables

Other receivables are shown as gross with uncollectible amounts recognized using the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

J. Inventory

Inventories of food and supplies in the school lunch fund are recorded at cost using the first-in, first-out basis or, in the case of surplus food, as stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase.

K. Interfund Transactions

The operations of the District include transactions between funds. These transactions may be temporary in nature such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfers of expenditure and revenue to provide financing or other services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Interfund Transactions (Continued)

In the district-wide statements, the amounts reported on the Statement of Net Assets for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note 3.A.II. for a detailed disclosure by fund of interfund receivables, payables, expenditures and revenues activity.

L. Equity Classifications

District-Wide Statements

Invested in capital assets, net of related debt - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of those assets.

1. Assigned Fund Balance Policy

The District's Assigned Fund Balance is a fund balance reporting occurring by School Board Administration authority, under the direction of the Chief Business and Financial Officer.

Assigned Fund Balance includes \$1,750,000 appropriated by the District Board for the subsequent year's expenditures.

The Administration's accounting software utilizes encumbrance-based accounting. As of June 30, 2012 there was a cumulative \$158,533 in non-restricted encumbrances of which \$104,141, \$9,207 and \$45,185 are General Fund, Special Aid Fund and Non-Major Capital Projects Fund Assigned Fund Balance, respectively.

2. Order of Fund Balance Spending Policy

The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

First non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balance.

It is possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Equity Classifications (Continued)

District-Wide Statements (Continued)

3. *Categories*

Non-spendable fund balance includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balance includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District Board and contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements such as the award of a bid by the District Board.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include funds that are legally mandated to be accounted for separately as well as amounts that have been contractually obligated by the District or designated by the District Board for the ensuing year's budget.

Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund.

For projects undertaken by the District that have resources available from multiple sources and categories, resources are first spent for the highest constraint level possible.

4. *Unassigned Fund Balance*

The unassigned portion reports remaining fund balance that has not been assigned or restricted. NYS Real Property Tax Law 1318 restricts the unreserved, unassigned fund balance of the General Fund to an amount not greater than 4% of the District's budget for the ensuing fiscal year.

5. *Restricted Fund Balance*

Fund balance restrictions are created to satisfy legal restrictions or plan for future expenditures. The following restricted funds are available to school districts within the State of New York. These restricted funds are established through Board action or voter approval and a separate identity must be maintained for each restriction. Earnings on the invested resources become part of the respective restricted funds; however, separate bank accounts are not necessary for each restricted fund. The following is a description of the restrictions utilized by the District.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Equity Classifications (Continued)

District-Wide Statements (Continued)

1. Workers' Compensation Reserve

The District is self-insured for workers' compensation on a cost-reimbursement basis. This reserve is accounted for in the General Fund.

2. Employee Benefit Accrued Liability Reserve

This reserve is used to set aside funds for the payment of accrued employee compensated absences due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the General Fund.

3. Reserve for Tax Certiorari

This reserve is used to establish a reserve fund for tax certioraris and to expend from the fund without voter approval. The monies held in the reserve shall not exceed the amount that might reasonably be deemed necessary to meet anticipated judgements and claims arising out of tax certiorari proceedings. Any resources deposited to the reserve which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the General Fund on or before the first day of the fourth fiscal year after deposit of these monies. This reserve is accounted for in the General Fund.

4. Debt Service Reserve

This reserve was established to account for unexpended capital project amounts restricted for future debt service payments. This reserve is accounted for in the Debt Service Fund.

M. Postemployment Benefits

The District provides postemployment health and drug insurance coverage to its retired employees and their survivors in accordance with the provisions of the employment contract negotiated between the District and its employee groups. Substantially, all of these employees may become eligible for these benefits if they reach normal retirement age while working for the District. Currently 425 retirees meet the health insurance and 425 retirees meet the drug insurance eligibility requirements. The District pays, depending on the applicable contract that ranges between 50-100% of the cost of premiums to an insurance company which provides health care and drug insurance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Postemployment Benefits (Continued)

The District recognizes the cost of providing benefits for fiscal year 2012 by recording approximately \$2,653,721, its share of health and drug insurance premiums for currently enrolled retirees, as an expenditure in fiscal year 2012. See Note 3. B.II for additional information on the implementation of GASB Statement 45 in the District's government-wide financial statements.

N. Vested Employee Benefits

Compensated absences consist of unpaid accumulated annual sick leave and vacation time.

Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement 16, Accounting for Compensated Absences, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year end.

In the funds statements, only the amount of matured liabilities is accrued within the General Fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

O. Capital Assets

Capital assets are reported at historical cost or estimated historical costs based on appraisals conducted by independent third-party professionals. Donated assets are reported at estimated fair market value at the time received. Additionally, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	\$ 2,000	Straight Line	20-50 years
Site Improvements	\$ 2,000	Straight Line	20 years
Vehicles	\$ 2,000	Straight Line	8 years
Furniture and Equipment	\$ 2,000	Straight Line	5-15 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Explanation of Certain Differences Between Governmental Fund Statements and District-wide Statements

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the District-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities compared with the current financial resources focus of the governmental funds.

a. Total Fund balances of governmental funds vs. net assets of governmental activities:

Total fund balances of the District's governmental funds differ from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund Balance Sheets.

b. Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities:

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 below represent:

Long-Term Revenue and Expense Differences

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.

Capital Related Differences

Capital related differences include the differences 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 the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

R. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy concerning which to apply first varies with the intended use and with associated legal requirements, many of which are described elsewhere in these notes.

S. Subsequent Events

Management has evaluated subsequent events or transactions occurring through September 25, 2012, the date the financial statements were available to be issued.

2. STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

A. Deficit Fund Balances

I. Capital Projects Funds

The following capital project funds had deficit fund balances as noted due to encumbering funds prior to obtaining permanent financing for the capital projects:

a.	Buses - 07/08	\$ (724,235)
b.	Buses - 09/10	\$ (1,088,726)
c.	Buses - 10/11	\$ (834,383)

BETHLEHEM CENTRAL SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

3. DETAIL NOTES ON ALL FUNDS

A. Assets

I. Cash and Investments

1. Deposits

Total bank balances at June 30, 2012, per the bank were \$11,975,440. The bank balance is insured by the FDIC or FSLIC, or collateralized by securities held by the School District or a third party in the District's name.

2. Restricted Cash

General Fund

Restricted cash at June 30, 2012, consists of \$375,000 restricted for tax certiorari claims, \$825,000 restricted for workers' compensation insurance and \$1,400,000 for employee benefits.

Fiduciary

Restricted cash at June 30, 2012, consists of \$136,342 restricted for extraclassroom activity funds in the middle and high school, \$60,184 restricted for other school activities and \$2,800 restricted for scholarships.

II. Interfund Receivables and Payables

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. The balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur. Transactions are recorded in the accounting system and payments between funds are made.

Interfund receivable and payable balances at June 30, 2012, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General Fund	\$ 2,642,537	\$ 96,502	\$ -	\$ 160,374
Special Aid Fund	-	2,229,074	160,374	-
School Lunch Fund	-	70,224	-	-
Capital Project Funds	<u>96,502</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	2,739,039	2,395,800	160,374	160,374
Fiduciary Funds	<u>-</u>	<u>343,239</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,739,039</u>	<u>\$ 2,739,039</u>	<u>\$ 160,374</u>	<u>\$ 160,374</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

3. DETAIL NOTES ON ALL FUNDS (CONTINUED)**A. Assets (Continued)****III. Other Receivables**

Other receivables at June 30, 2012, consisted of the following, which are stated at net realizable value. District management has deemed the amounts to be fully collectible.

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Health insurance premiums	\$ 65,424
General	Sale of buses	14,150
General	Use of property	40,992
		<u>\$ 120,566</u>

IV. Capital Assets

Capital asset activity for the year ended June 30, 2012, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassification</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets that are not depreciated:				
Land	\$ 246,072	\$ -	\$ -	\$ 246,072
Total nondepreciable capital assets	<u>246,072</u>	<u>-</u>	<u>-</u>	<u>246,072</u>
Capital assets that are depreciated:				
Buildings and improvements	139,891,033	232,647	-	140,123,680
Machinery and equipment	2,265,520	146,778	-	2,412,298
Buses	<u>9,878,419</u>	<u>334,207</u>	<u>(211,655)</u>	<u>10,000,971</u>
Total depreciable historical cost	<u>152,034,972</u>	<u>713,632</u>	<u>(211,655)</u>	<u>152,536,949</u>
Less accumulated depreciation:				
Buildings and improvements	20,772,703	2,602,558	-	23,375,261
Machinery and equipment	1,529,976	241,506	-	1,771,482
Buses	<u>5,872,155</u>	<u>902,133</u>	<u>(202,175)</u>	<u>6,572,113</u>
Total accumulated depreciation	<u>28,174,834</u>	<u>3,746,197</u>	<u>(202,175)</u>	<u>31,718,856</u>
Total depreciable capital assets, net	<u>123,860,138</u>	<u>(3,032,565)</u>	<u>(9,480)</u>	<u>120,818,093</u>
Total capital assets, net	<u>\$ 124,106,210</u>	<u>\$ (3,032,565)</u>	<u>\$ (9,480)</u>	<u>\$ 121,064,165</u>

3. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

I. Pension Plans

Plan Description

General Information

The District participates in the New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement System (TRS). These systems are cost-sharing multiple employer, public employee retirement systems. The systems offer a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

Teachers' Retirement System (TRS)

The NYS TRS is administered by the New York State Teachers' Retirement Board. The system provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The New York State TRS issues a publicly available financial report that contains financial statements and required supplementary information for the system. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Employees' Retirement System (ERS)

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). The system issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the New York State and Local Employees' Retirement System, Governor Alfred E. Smith State Office Building, 110 State Street, Albany, New York 12244.

Funding Policies

The systems are noncontributory except for employees who joined the systems after July 27, 1976, who contribute 3% of their salary, until such time as they obtain ten years of credited service, and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary for their entire length of service. For the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the rates expressed as proportions of payroll of members which are used in computing the contributions required to be made by employers to the pension accumulation fund. For the New York State and Local Employees' Retirement System, Chapter 126 of the laws of 2000 provide for the cessation of the 3% employee contribution for those tier 3 and 4 members who, as of October 1, 2001, have either ten years of membership or credited service. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for TRS.

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

3. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

I. Pension Plans (Continued)

The District is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

	<u>ERS</u>	<u>TRS</u>
2011-2012	\$ 2,106,471	\$ 2,746,867
2010-2011	\$ 1,526,265	\$ 2,289,376
2009-2010	\$ 1,098,839	\$ 2,687,822

The District's contributions to the System were equal to 100% of the contributions required each year.

II. Postemployment Benefits

The District provides postemployment (health insurance, life insurance, etc.) coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District's contractual agreements. The District implemented GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, in the school year ended June 30, 2009. This required the District to calculate and record a net other postemployment benefit obligation at year end. The net other postemployment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

The District recognizes the annual cost of providing health insurance as expenditures in the General Fund of the fund level financial statements as payments are made. For the year ended June 30, 2012, the District recognized \$2,653,721 for its share of insurance premiums for currently enrolled retirees.

The District has obtained an actuarial valuation report as of July 1, 2011 which indicates that the total liability for other postemployment benefits is \$28,478,963, which is reflected in the Statement of Net Assets.

Funding Policy: The contribution requirements of Plan members and the District are established by the Board of Education. Until changes are made in the NYS law to permit funding, there is no legal authority to fund the annual other postemployment benefit (OPEB), other than "pay as you go."

Annual OPEB Cost and Net OPEB Obligation: The District's OPEB cost (expense) 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 normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

3. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

II. Postemployment Benefits (Continued)

Annual required contribution	\$ 9,549,409
Interest on net OPEB obligation	1,065,793
Adjustment to annual required contribution (ARC)	<u>(798,377)</u>
Annual OPEB cost (expense)	9,816,825
Contributions made including implicit subsidy	<u>2,653,721</u>
Increase in net OPEB obligations	7,163,104
Net OPEB obligation - beginning of year	<u>21,315,859</u>
Net OPEB obligation - end of year	<u>\$ 28,478,963</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 is as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 9,816,825	27.0%	\$ 28,478,963
6/30/11	\$ 9,156,894	33.8%	\$ 21,315,859
6/30/10	\$ 10,651,881	26.1%	\$ 15,253,671
6/30/09	\$ 9,940,100	25.8%	\$ 7,377,750

Funded Status and Funding Progress: As of July 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$109,086,919, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$109,086,919. The covered payroll (annual payroll of active employees covered by the plan) was \$40,076,040, and the ratio of the UAAL to the covered payroll was 272.2%. Actuarial valuations of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actual methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

3. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

II. Postemployment Benefits (Continued)

In the July 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5% investment rate of return and an annual healthcare cost trend rate of 7% initially. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 26 years.

III. Indebtedness

1. Short-Term Debt

a. Bond Anticipation Notes

Notes issued in anticipation of proceeds from the subsequent sale of bonds are recorded as a current liability of the fund that will actually receive the proceeds from the issuance of the bonds.

State law requires that bond anticipation notes issued for capital purposes be converted to long-term financing within five years after the original issue date.

Transactions in short-term debt for the year are summarized below:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2012</u>
BAN	\$ 1,868,000	\$ -	\$ 1,868,000	\$ -
BAN	1,000,000	-	1,000,000	-
BAN	-	1,500,000	-	1,500,000
BAN	-	753,000	-	753,000
	<u>\$ 2,868,000</u>	<u>\$ 2,253,000</u>	<u>\$ 2,868,000</u>	<u>\$ 2,253,000</u>

b. Tax Anticipation Notes

	<u>Balance</u> <u>July 1, 2011</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2012</u>
	<u>\$ -</u>	<u>\$ 3,500,000</u>	<u>\$ 3,500,000</u>	<u>\$ -</u>

c. Short-Term Debt Interest

Interest expenditures for short-term debt are recognized on a cash basis when amounts become due and payable.

3. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

III. Indebtedness (Continued)

c. Short-Term Debt Interest (Continued)

Interest on short-term debt for the year was composed of:

Interest paid	<u>\$ 26,845</u>
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2. Long-Term Debt

a. Serial Bonds and Capital Leases

The District borrows money in order to acquire or construct buildings, improvements and buses. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities are full faith and credit debt of the District.

During the current year, the District recognized \$3,482,397 of expenditures for long-term debt interest on serial bonds and EPC loan and \$27,907 for installment purchase debt.

Interest on long-term debt for the year was composed of:

Interest paid	\$ 3,510,304
Less interest accrued in the prior year	(1,203,018)
Plus interest accrued in the current year	<u>1,129,552</u>
Total expense	<u>\$ 3,436,838</u>

b. Other Long-Term Debt

In addition to the above long-term debt, the District has the following noncurrent liabilities:

Compensated Absences - Represents the value of earned and unused portion of the liability for employees' vacation and sick pay.

Other Postemployment Benefit - Represents the District's estimated net current obligation for retirees health insurance.

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

3. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

III. Indebtedness (Continued)

3. Changes

The changes in indebtedness during the year ended June 30, 2012, are summarized as follows:

	Balance <u>July 1</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30</u>
Serial Bonds	\$ 85,213,674	\$ -	\$ 6,413,674	\$ 78,800,000
Capital Leases and Other Liabilities	2,790,396	-	723,817	2,066,579
Compensated Absences	668,000	-	37,000	631,000
Other Postemployment Benefits	<u>21,315,859</u>	<u>7,163,104</u>	<u>-</u>	<u>28,478,963</u>
Total	<u>\$109,987,929</u>	<u>\$ 7,163,104</u>	<u>\$ 7,174,491</u>	<u>\$109,976,542</u>

Additions and deletions to compensated absences are shown net since it is impractical to determine these amounts separately.

4. Capital Leases

The Bethlehem Central School District is obligated under certain leases accounted for as capital leases. The leased assets and related obligations are accounted for in Capital Assets and Long-Term Debt, respectively. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2012.

<u>Year Ending June 30:</u>	<u>EPC</u>	<u>Buses</u>
2013	\$ 552,334	\$ 287,670
2014	552,334	287,670
2015	<u>552,334</u>	<u>-</u>
Minimum Lease Payments -Capital Lease	1,657,002	575,340
Less: Amount Representing Interest	<u>137,223</u>	<u>28,540</u>
Present Value-Minimum Lease Payments	<u>\$ 1,519,779</u>	<u>\$ 546,800</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

3. DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

III. Indebtedness (Continued)

5. Maturity

The following is a summary of maturity of indebtedness:

<u>Description of Issue</u>	<u>Original Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2012</u>
Serial Bonds:				
Advanced Refunding	2005	2017	3-4%	\$ 5,345,000
Construction	2005	2021	3.5-4%	20,625,000
Construction	2005	2020	3.25-4%	10,600,000
Construction	2006	2022	4.125-4.25%	13,260,000
Construction	2007	2037	4.5-4.625%	7,970,000
Construction	2007	2022	4.125-4.25%	17,160,000
Construction	2010	2029	2.25-3.75%	<u>3,840,000</u>
Total				<u>\$ 78,800,000</u>
Capital Leases:				
EPC	2003	2014	4.45%	\$ 1,519,779
Buses	2008	2013	3.46%	<u>546,800</u>
				<u>\$ 2,066,579</u>

The following is a summary of maturity debt service requirements for bonds and capital leases:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 7,503,454	\$ 3,238,746	\$ 10,742,200
2014	7,824,323	2,934,838	10,759,161
2015	7,938,802	2,610,035	10,548,837
2016	7,725,000	2,278,531	10,003,531
2017	8,060,000	1,957,200	10,017,200
2018-2022	34,805,000	5,230,281	40,035,281
2023-2027	2,365,000	1,285,719	3,650,719
2028-2032	2,245,000	797,425	3,042,425
2033-2037	<u>2,400,000</u>	<u>287,675</u>	<u>2,687,675</u>
Total	<u>\$ 80,866,579</u>	<u>\$ 20,620,450</u>	<u>\$ 101,487,029</u>

5. Constitutional Debt Limit

The constitution of the State of New York limits the amounts of indebtedness which may be issued by the District. The District may issue indebtedness to the extent that the aggregate outstanding debt issues which are subject to such limit does not exceed 10% of the full valuation of taxable real estate within the District. At June 30, 2012, the District has exhausted 39.268% of its limit.

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

4. COMMITMENTS AND CONTINGENCIES

A. Lease Commitments and Leased Assets

The District leases equipment under operating leases. The maximum future non-cancelable operating lease payments are as follows:

Year Ending June 30,

2013	\$ 134,812
2014	\$ 131,951
2015	\$ 125,820
2016	\$ 52,095
2017	\$ 17,204

B. Federal and State Grants

The District receives federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, District management believes such disallowances, if any, would not be material.

C. Litigation

There are currently pending certiorari proceedings, the results of which could require the payment of future tax refunds by the School District if existing assessment rolls are modified based on the outcome of the litigation proceedings. However, the amount of these possible refunds cannot be determined at the present time. The School District has established a Tax Certiorari Reserve to cover adverse decisions. Any payment in excess of the reserve will be funded in the year the payment is made.

5. ADDITIONAL DISCLOSURES

A. Budget Changes

The 2011-2012 budget was increased as follows:

Original Budget	\$ 86,829,000
Revisions:	
Encumbrances from Prior Year	94,049
Program	<u>629,334</u>
Revised Budget	<u>\$ 87,552,383</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

5. ADDITIONAL DISCLOSURES (CONTINUED)

B. Bethlehem Library

The Bethlehem Public Library was established in 1913 by the Delmar Progress Club and was granted a charter by the State Board of Regents as provided in Article 5 of the Education Law. The Bethlehem Central School District raises taxes for library purposes.

6. JOINT VENTURE

BOCES charges districts for program costs based on participation and for administrative costs. During the year ended June 30, 2012, the District was billed \$2,065,664 for BOCES administrative and program costs. In the same period, the District reported \$939,628 in State Aid and has a receivable of \$448,193 for the prior year's unpaid return of surplus. Financial statements for Albany-Schoharie-Schenectady-Saratoga BOCES are available from the BOCES administrative office at 1031 Watervliet-Shaker Road, Albany, NY 12205.

BETHLEHEM CENTRAL SCHOOL DISTRICT

*SCHEDULE OF REVENUES, OTHER SOURCES, EXPENDITURES, AND OTHER USES COMPARED TO BUDGET - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012*

	<u>Adopted Budget</u>	<u>Prior Year Encumbrances</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Over(Under) Revised Budget</u>
Revenues						
Local Sources						
Real Property Taxes	\$ 56,959,000	\$ -	\$ 56,959,000	\$ 51,600,957	\$ 51,578,263	\$ (22,694)
Other Tax Items	2,763,000	-	2,763,000	8,121,043	8,240,103	119,060
Charges for Services	620,000	-	620,000	620,000	422,400	(197,600)
Use of Money and Property	390,000	-	390,000	390,000	181,806	(208,194)
Sale of Property and Compensation for Loss	12,000	-	12,000	12,000	218,420	206,420
Miscellaneous	<u>310,000</u>	<u>-</u>	<u>310,000</u>	<u>364,334</u>	<u>381,018</u>	<u>16,684</u>
Total Local Sources	61,054,000	-	61,054,000	61,108,334	61,022,010	(86,324)
State Sources	22,800,000	-	22,800,000	22,800,000	22,063,065	(736,935)
Federal Sources	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>	<u>206,410</u>	<u>6,410</u>
Total Revenues	84,054,000	-	84,054,000	84,108,334	83,291,485	<u><u>\$ (816,849)</u></u>
Other Financing Resources						
Interfund Transfers	500,000	-	500,000	500,000	-	
Appropriated Fund Balance	<u>2,275,000</u>	<u>-</u>	<u>2,850,000</u>	<u>2,944,049</u>	<u>-</u>	
Total Revenues and Other Financing Sources	<u><u>\$ 86,829,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 87,404,000</u></u>	<u><u>\$ 87,552,383</u></u>	<u><u>\$ 83,291,485</u></u>	

BETHLEHEM CENTRAL SCHOOL DISTRICT

SCHEDULE OF REVENUES, OTHER SOURCES, EXPENDITURES, AND OTHER USES COMPARED TO BUDGET - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Adopted Budget</u>	<u>Prior Year Encumbrances</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Year-end Encumbrances</u>	<u>Revised Budget Variance with Actual and Encumbrances</u>
EXPENDITURES							
General Support:							
Board of Education	\$ 23,605	\$ -	\$ 23,605	\$ 21,182	\$ 17,810	\$ -	\$ 3,372
Central Administration	244,243	-	244,243	248,753	243,617	3,000	2,136
Finance	738,264	2,300	740,564	715,103	683,253	-	31,850
Staff	429,216	-	429,216	541,290	496,326	-	44,964
Central Services	5,143,537	22,763	5,166,300	5,185,655	4,922,340	54,328	208,987
Special Items	<u>684,019</u>	<u>-</u>	<u>684,019</u>	<u>651,988</u>	<u>647,707</u>	<u>-</u>	<u>4,281</u>
Total General Support	<u>7,262,884</u>	<u>25,063</u>	<u>7,287,947</u>	<u>7,363,971</u>	<u>7,011,053</u>	<u>57,328</u>	<u>295,590</u>
Instruction							
Instruction - Administration and Improvement	3,202,541	-	3,202,541	3,215,288	3,101,743	-	113,545
Teaching - Regular School Programs for Students	22,043,569	15,350	22,058,919	22,160,199	21,596,719	26,640	536,840
with Disabilities	9,833,230	125	9,833,355	9,792,424	8,997,623	-	794,801
Occupational Education	749,298	330	749,628	812,358	795,235	-	17,123
Teaching - Special Schools	214,467	-	214,467	193,467	149,405	-	44,062
Instructional Media	2,469,295	52,876	2,522,171	2,677,400	2,601,858	20,173	55,369
Pupil Services	<u>3,804,804</u>	<u>-</u>	<u>3,804,804</u>	<u>3,880,249</u>	<u>3,608,437</u>	<u>-</u>	<u>271,812</u>
Total Instruction	<u>42,317,204</u>	<u>68,681</u>	<u>42,385,885</u>	<u>42,731,385</u>	<u>40,851,020</u>	<u>46,813</u>	<u>1,833,552</u>
Other							
Pupil Transportation	6,113,287	305	6,113,592	6,107,225	5,755,966	-	351,259
Community Services	52,176	-	52,176	51,043	50,276	-	767
Employee Benefits	19,399,023	-	19,399,023	19,654,009	19,283,316	-	370,693
Debt Service - Principal	7,907,492	-	7,907,492	7,907,492	7,907,490	-	2
Debt Service - Interest	<u>3,576,934</u>	<u>-</u>	<u>3,576,934</u>	<u>3,537,258</u>	<u>3,537,149</u>	<u>-</u>	<u>109</u>
Total Other	<u>37,048,912</u>	<u>305</u>	<u>37,049,217</u>	<u>37,257,027</u>	<u>36,534,197</u>	<u>-</u>	<u>722,830</u>
Total Expenditures							
OTHER USES							
Interfund Transfers	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>	<u>160,374</u>	<u>-</u>	<u>39,626</u>
Total Expenditures and Other Uses	<u>\$ 86,829,000</u>	<u>\$ 94,049</u>	<u>\$ 86,923,049</u>	<u>\$ 87,552,383</u>	<u>84,556,644</u>	<u>\$ 104,141</u>	<u>\$ 2,891,598</u>
Deficiency of Expenditures and Other Uses Over Revenues and Other Sources					<u>\$ (1,265,159)</u>		

BETHLEHEM CENTRAL SCHOOL DISTRICT
 COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Debt Service	Non-Major Capital Projects	Special Aid Fund	School Lunch	Total Non-Major Governmental Funds
ASSETS					
Unrestricted Cash	\$ 957,538	\$ 133,254	\$ 8,413	\$ 185,834	\$ 1,285,039
Inventory	-	-	-	16,930	16,930
Due from Other Funds	-	96,502	-	-	96,502
Due from State and Federal	-	-	2,290,339	18,246	2,308,585
Total Assets	<u>\$ 957,538</u>	<u>\$ 229,756</u>	<u>\$ 2,298,752</u>	<u>\$ 221,010</u>	<u>\$ 3,707,056</u>
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ 34,753	\$ -	\$ 34,753
Bond Anticipation Notes	-	2,253,000	-	-	2,253,000
Accrued Liabilities	-	-	38,693	-	38,693
Due to Other Funds	-	-	2,229,074	70,224	2,299,298
Due to Other Governments	-	-	-	196	196
Deferred Revenue	-	-	-	33,624	33,624
Total Liabilities	<u>-</u>	<u>2,253,000</u>	<u>2,302,520</u>	<u>104,044</u>	<u>4,659,564</u>
FUND EQUITY (DEFICIENCY)					
Nonspendable	-	-	-	16,930	16,930
Restricted	957,538	-	-	-	957,538
Assigned	-	45,185	9,207	-	54,392
Unassigned	-	(2,068,429)	(12,975)	100,036	(1,981,368)
Total Fund Equity (Deficiency)	<u>957,538</u>	<u>(2,023,244)</u>	<u>(3,768)</u>	<u>116,966</u>	<u>(952,508)</u>
Total Liabilities and Fund Equity (Deficiency)	<u>\$ 957,538</u>	<u>\$ 229,756</u>	<u>\$ 2,298,752</u>	<u>\$ 221,010</u>	<u>\$ 3,707,056</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY (DEFICIENCY) - NON-MAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Debt Service</u>	<u>Non-Major Capital Projects</u>	<u>Special Aid Fund</u>	<u>School Lunch</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES					
Use of Money and Property	\$ 1,132	\$ -	\$ -	\$ 118	\$ 1,250
Changes for Services	-	-	-	14,678	14,678
Miscellaneous	-	96,503	19,411	-	115,914
State Sources	-	-	684,894	15,862	700,756
Federal Sources	-	-	2,628,646	225,748	2,854,394
Sales	-	-	-	977,241	977,241
Total Revenues	<u>1,132</u>	<u>96,503</u>	<u>3,332,951</u>	<u>1,233,647</u>	<u>4,664,233</u>
EXPENDITURES					
Instruction	-	-	2,899,089	-	2,899,089
Pupil Transportation	-	-	169,772	-	169,772
Employee Benefits	-	-	460,609	255,250	715,859
Cost of Sales	-	-	-	1,017,743	1,017,743
Capital Outlay	-	566,854	-	-	566,854
Total Expenditures	<u>-</u>	<u>566,854</u>	<u>3,529,470</u>	<u>1,272,993</u>	<u>5,369,317</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,132</u>	<u>(470,351)</u>	<u>(196,519)</u>	<u>(39,346)</u>	<u>(705,084)</u>
OTHER FINANCING OR REVENUES OVER EXPENDITURES					
BAN's Redeemed from Appropriations	-	770,000	-	-	770,000
Interfund Transfers	-	-	160,374	-	160,374
Total Other Sources (Uses)	<u>-</u>	<u>770,000</u>	<u>160,374</u>	<u>-</u>	<u>930,374</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	1,132	299,649	(36,145)	(39,346)	225,290
Fund Equity (Deficiency) - Beginning of Year	<u>956,406</u>	<u>(2,322,893)</u>	<u>32,377</u>	<u>156,312</u>	<u>(1,177,798)</u>
Fund Equity (Deficiency) - End of Year	<u>\$ 957,538</u>	<u>\$ (2,023,244)</u>	<u>\$ (3,768)</u>	<u>\$ 116,966</u>	<u>\$ (952,508)</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
SCHEDULE OF CHANGES FROM ADOPTED BUDGET TO REVISED BUDGET AND
USE OF UNRESERVED FUND BALANCE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

Change from Adopted Budget to Revised Budget

Adopted Budget	\$ 86,829,000
Add: Prior Year's Encumbrances	<u>94,050</u>
Original Budget	86,923,050
Budget Amendments	<u>629,334</u>
Final Budget	<u><u>\$ 87,552,384</u></u>

Use of Unreserved Fund Balance

Unreserved Fund Balance - As of the beginning of the year	\$ 5,557,302
Less: Designated Fund Balance Used for the Levy of Taxes	<u>(2,275,000)</u>
Undesignated Fund Balance - As of the Beginning of the Year	<u><u>\$ 3,282,302</u></u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
SCHEDULE OF CERTAIN REVENUES AND EXPENDITURES COMPARED TO ST-3 DATA - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Code</u>	<u>ST-3</u> <u>Amount</u>	<u>Audited</u> <u>Amount</u>
REVENUES			
Real Property Taxes	A-1001	\$ 51,578,263	\$ 51,578,263
State Aid	AT-3999	\$ 22,063,065	\$ 22,063,065
Federal Aid	AT-4999	\$ 206,410	\$ 206,410
Total Revenue & Other Financing Sources	AT-5999	\$ 83,291,485	\$ 83,291,485
EXPENDITURES			
General Support	AT-1999	\$ 7,011,053	\$ 7,011,053
Pupil Transportation	AT-5599	\$ 5,755,966	\$ 5,755,966
Debt Service - Principal	AT-9798.6	\$ 7,907,490	\$ 7,907,490
Debt Service - Interest	AT-9798.7	\$ 3,537,149	\$ 3,537,149
Total Expenditures and Other Uses	AT-9999	\$ 84,556,644	\$ 84,556,644

BETHLEHEM CENTRAL SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECT FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenditures</u>					<u>Methods of Financing</u>			<u>Fund Balance June 30, 2012</u>	
	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>	<u>Unexpended Balance</u>	<u>Proceeds of Obligations</u>	<u>Local Sources</u>		<u>Total</u>
Districtwide Renovations/Excel	\$ 92,944,850	\$ 98,195,700	\$ 98,127,106	\$ 232,647	\$ 98,359,753	\$ (164,053)	\$ 96,963,524	\$ 1,584,536	\$ 98,548,060	\$ 188,307
Buses - 07/08	1,134,423	1,134,423	1,133,658	-	1,133,658	765	409,423	-	409,423	(724,235)
Buses - 09/10	1,200,000	1,200,000	1,088,726	-	1,088,726	111,274	-	-	-	(1,088,726)
Buses - 10/11	1,299,383	1,299,383	1,299,383	-	1,299,383	-	465,000	-	465,000	(834,383)
Buses - 11/12	<u>334,207</u>	<u>334,207</u>	<u>-</u>	<u>334,207</u>	<u>334,207</u>	<u>-</u>	<u>770,000</u>	<u>-</u>	<u>770,000</u>	<u>435,793</u>
	<u>\$ 96,912,863</u>	<u>\$ 102,163,713</u>	<u>\$ 101,648,873</u>	<u>\$ 566,854</u>	<u>\$ 102,215,727</u>	<u>\$ (52,014)</u>	<u>\$ 98,607,947</u>	<u>\$ 1,584,536</u>	<u>\$ 100,192,483</u>	<u>\$ (2,023,244)</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
SCHEDULE OF INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2012

Capital Assets, Net		\$ 121,064,165
Deduct:		
Short-term portion of bonds payable	\$ 6,750,000	
Long-term portion of bonds payable	72,050,000	
Short-term portion of capital leases	753,454	
Long-term portion of capital leases	1,313,125	
Short-term bond anticipation notes payable	<u>2,253,000</u>	
		<u>83,119,579</u>
Investment in Capital Assets, Net of Related Debt		<u>\$ 37,944,586</u>

SINGLE AUDIT SECTION

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NEW YORK STATE SOCIETY OF
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL O VER
FINANCIAL REPORTING AND ON COMPLIANCE AND O THER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Bethlehem Central School District
Delmar, New York

We have audited the financial statements of the Bethlehem Central School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 25, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated September 25, 2012.

This report is intended solely for the information and use of the Board of Education, management, state aid and federal grantor agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
September 25, 2012

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Board of Education
Bethlehem Central School District
Delmar, New York

Compliance

We have audited Bethlehem Central School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Bethlehem Central School District's major programs for the year ended June 30, 2012. The Bethlehem Central School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Bethlehem Central School District's management. Our responsibility is to express an opinion on the Bethlehem Central School District's compliance based on our audit.

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

In our opinion, the Bethlehem Central School District complied, in all material respects, with the compliance requirements referred to above could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Bethlehem Central School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Bethlehem Central School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 weaknesses 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Bethlehem Central School District as of and for the year ended June 30, 2012, and have issued our report thereon dated September 25, 2012. Our audit was performed for the purpose for of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the District's basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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



CUSACK & COMPANY, CPA'S LLC

Latham, New York
September 25, 2012

BETHLEHEM CENTRAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Total Federal Expenditures</u>
<u>Passed Through New York State Education Department:</u>			
<u>U.S. Department of Education:</u>			
Pass-through from New York			
State Education Department:			
<u>Special Education Cluster:</u>			
IDEA, Part B, Sec. 611	84.027A	0032-10-0017	\$ (35,055)
IDEA, Part B, Sec. 611	84.027A	0032-11-0017	13,520
IDEA, Part B, Sec. 611	84.027A	0032-12-0017	1,009,873
ARRA-IDEA, Part B, Sec 611	84.391A	5032-11-0017	176,486
IDEA, Preschool, Sec. 619	84.173A	0033-12-0017	<u>33,064</u>
Total Special Education Cluster			<u>1,197,888</u>
<u>Title I Part A Cluster:</u>			
Title I	84.010A	0021-11-0015	5,558
Title I	84.010A	0021-12-0015	246,338
ARRA-Title I	84.389A	5021-11-0015	3,470
ARRA-Title I	84.389A	5021-12-0015	<u>15,001</u>
Total Title I Part A Cluster			<u>270,367</u>
ARRA-Education Jobs Fund	84.410A	5400-12-0015	1,013,105
ARRA-Race to the Top	84.395A	5500-12-0015	22,349
Title IV, Drug Free	84.186A	0180-11-0015	450
Title II A	84.367A	0147-11-0015	49,611
Title II A	84.367A	0147-12-0015	55,761
Title II D	84.318A	0149-11-0015	1,407
Title III A LEP	84.365A	0293-11-0015	212
Title III, Immigrant Education	84.365A	0149-11-0015	9,242
Title III, Immigrant Education	84.365A	0149-12-0015	<u>8,254</u>
Total Other Federal			<u>1,160,391</u>
Total U.S. Department of Education			<u>2,628,646</u>
<u>U.S. Department of Agriculture:</u>			
Pass-through from New York			
State Education Department			
<u>Child Nutrition Cluster:</u>			
Cash Assistance			
National School Breakfast Program	10.553		11,666
National School Lunch Program	10.555		<u>156,224</u>
Cash assistance subtotal			<u>167,890</u>
Non-Cash Assistance (food distribution)			
National School Lunch Program	10.555		<u>57,858</u>
Non-cash assistance subtotal			<u>57,858</u>
Total U.S. Department of Agriculture			<u>225,748</u>
Total Expenditures of Federal Awards			<u>\$ 2,854,394</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

1. SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards was prepared on the accrual basis of accounting. Grant awards are recorded as revenue when the criteria for earning the revenue is met, generally when the expenditure of grant funds is made. Grant expenditures are recorded when the liability is incurred.

The amounts reported as federal expenditures in the schedule represent expenditures of federal funds as obtained from the appropriate federal financial reports for the applicable program and periods. The non-federal share of expenditures, if any, is excluded from the schedule.

2. SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

The Bethlehem Central School District is an independent municipal corporation. All federal grant operations of the District are included in the scope of the single audit.

3. FOOD DONATION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. For the year ended June 30, 2012, the School District received food commodities totaling \$57,858.

BETHLEHEM CENTRAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I — SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report expresses an unqualified opinion on the financial statements of Bethlehem Central School District as of and for the year ended June 30, 2012. There was no “Going Concern” explanatory paragraph included in the audit report.
2. No instances of material weaknesses or significant deficiencies were disclosed during the audit. No significant deficiency(ies) reported as a material weakness were disclosed during the audit.
3. No instances of noncompliance material to federal programs or the financial statements of the Bethlehem Central School District were disclosed during the audit.
4. We noted no matters which need to be disclosed in the internal control and compliance report on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2012.
5. The auditor’s report on compliance for the major federal award program for Bethlehem Central School District expresses an unqualified opinion.
6. There were no known questioned costs reported.
7. We noted no matters which are required to be reported in accordance with OMB Circular A-133 Section 510(a).
8. CFDA #84.410A, CFDA #10.553 and CFDA #10.555 were the major programs for the year ended June 30, 2012.
9. The dollar threshold used to distinguish between Type A and Type B programs in accordance with OMB Circular A-133 Section 520(b) was \$300,000.
10. The Bethlehem Central School District does qualify as a low-risk auditee under OMB Circular A-133 Section 530.

SECTION II — FINANCIAL STATEMENT FINDINGS:

No findings or matters were disclosed during the audit.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

No findings or matters were disclosed during the audit.

EXTRACLASSROOM ACTIVITY SECTION

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INDEPENDENT AUDITOR'S REPORT

To the President and Members
of the Board of Education of the
Bethlehem Central School District
Delmar, New York

We have audited the accompanying statement of cash receipts, disbursements and cash balances of the extraclassroom activity fund of the Bethlehem Central School District (the District) for the year ended June 30, 2012. This financial statement is the responsibility of the District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and Appendix F of the Minimum Program for Audit of Financial Records of New York State School Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the statement of cash receipts, disbursements and cash balances presents only the cash activity of the Extraclassroom Activity Fund and do not purport to, and do not, present fairly the financial position of the Bethlehem Central School District and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, this financial statement has been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the cash receipts, disbursements and cash balances of the Extraclassroom Activity Fund of the Bethlehem Central School District as of and for the year ended June 30, 2012, on the basis of accounting described in Note 1.

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The signature is written in a cursive, flowing style.

CUSACK & COMPANY, CPA'S LLC

Latham, New York
September 25, 2012

BETHLEHEM CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CASH BALANCE
 FOR THE YEAR ENDED JUNE 30, 2012

<u>Activities and Clubs</u>	<u>Balances</u> <u>July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances</u> <u>June 30, 2012</u>
High School:				
100 Student Senate	\$ 10,051	\$ 7,861	\$ 8,382	\$ 9,530
102 Glee Club	-	147	-	147
103 PLAN	455	5,047	5,502	-
104 Social Student Department Travel	9	27,380	27,389	-
105 Social Studies Club	-	225	225	-
106 Clarksville Elementary	3,500	15	3,515	-
107 Garden Club	-	1,160	1,160	-
108 Buy it School Store	11,611	25,349	25,752	11,208
109 Oriole Yearbook	9,222	49,920	49,978	9,164
110 VJC Acting Troupe	2,379	10	1,380	1,009
111 Bethlehem Central CC	390	1	391	-
112 Honor Society	1,098	767	1,865	-
113 Key Club	874	2,511	882	2,503
114 Speech and Debate	1,409	178	249	1,338
115 ELA Awards	-	110	110	-
116 Thinking Reed	3,975	2,943	2,005	4,913
117 Jazz Ensemble	322	1	323	-
118 Law and Life	1,740	841	2,581	-
119 Peer Helpers	330	604	779	155
120 SADD	109	346	182	273
121 The Talon	238	1	230	9
122 Cheerleaders	1,781	6,896	8,261	416
123 Wind Ensemble	39	-	39	-
124 Choraliers	4,815	1,660	6,475	-
125 History of NYC	205	4,591	4,796	-
126 Stage 700	20,605	18,096	13,290	25,411
127 Orchestra	1,079	16	1,095	-
128 Interclub Council	2,534	11	2,545	-
129 STDS/Peace/Surv.	979	1,595	1,608	966
131 Masterminds	2,263	295	294	2,264
132 International Club	22	456	-	478
133 Science Olympiad	219	1	215	5
134 Environmental Club	230	126	160	196
135 Spanish Club	549	79	-	628
136 Ping Pong Club	168	-	168	-
137 Gay-Straight Alliance	353	35	-	388
138 Gymnastics Club	92	-	92	-
139 Shapesspeare-TWON	8,587	5,392	5,673	8,306
140 World Travel Club	79	4,655	4,734	-
141 Art Honor Society	36	-	36	-
142 Amnesty International	526	2	528	-
143 PSAT/Scholarship	1,150	9,510	10,660	-
144 Drawing Club	125	49	24	150
145 Art Club	3	-	3	-
146 Live Performance Club	521	2	-	523
147 Mentor Club	180	38	218	-
148 Math Honor Society	102	75	177	-
149 Guitar Hero Club	35	-	35	-
150 PE Club	233	1	234	-
151 Latin Club	115	53	168	-
152 Special Events Club	5	-	5	-
155 Health Club	-	520	520	-
156 Business Travel	-	1,829	1,829	-
211 Class of 2011	538	567	1,105	-
212 Class of 2012	855	35,445	36,273	27
213 Class of 2013	234	29,715	26,873	3,076
800 Internal Accounts	406	59	465	-
Total High School Activities and Clubs	<u>\$ 97,375</u>	<u>\$ 247,186</u>	<u>\$ 261,478</u>	<u>\$ 83,083</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CASH BALANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

<u>Activities and Clubs</u>	<u>Balances</u> <u>July 1, 2011</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances</u> <u>June 30, 2012</u>
Middle School:				
Student Council 8	\$ 736	\$ 9,349	\$ 6,242	\$ 3,843
Team 8A	365	3	368	-
Team 8B	-	400	400	-
Team 8C	278	2	280	-
Student Council 7	666	329	433	562
Team 7A	48	12,214	11,238	1,024
Team 7B	599	7,790	7,877	512
Team 7C	239	52	291	-
Student Council 6	250	783	877	156
Team 6A	3,972	4,346	7,935	383
Team 6B	206	2	208	-
Team 6C	527	5,397	5,853	71
Annual Musical	18,946	21,312	28,339	11,919
BCMS Student Support Club	5,493	2,255	4,795	2,953
BCMS SADD	195	234	273	156
Interest	758	91	849	-
Yearbook	3,439	20,966	21,448	2,957
Sports Club	259	7,420	4,684	2,995
Builders Club	1,258	6,968	7,204	1,022
Library Club	1,958	2,469	3,306	1,121
Patroon 6,7,8	1,290	7,724	8,505	509
School Store	1,529	730	722	1,537
Student Theatre	6,280	8,470	8,137	6,613
Peer Helpers	1,156	10	914	252
Newspaper	99	1,160	1,159	100
Garden Club	669	2,229	2,447	451
History Club	6	-	6	-
Reach Out Club	1,125	10	257	878
Recycling Club	826	207	-	1,033
Drama Club	10,510	4,253	3,050	11,713
French/Spanish Club	450	14,119	14,074	495
Science Club	4	-	-	4
	<u>4</u>	<u>-</u>	<u>-</u>	<u>4</u>
Total Middleschool Activities and Clubs	<u>\$ 64,136</u>	<u>\$ 141,294</u>	<u>\$ 152,171</u>	<u>\$ 53,259</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT
EXTRACLASSROOM ACTIVITY FUNDS
STATEMENT OF ASSETS AND FUND BALANCE - CASH BASIS
JUNE 30, 2012

Assets

Cash	
Middle School	\$ 53,259
High School	<u>83,083</u>
	<u>\$ 136,342</u>

Fund Balance

Fund Balance	
Middle School	\$ 53,259
High School	<u>83,083</u>
	<u>\$ 136,342</u>

BETHLEHEM CENTRAL SCHOOL DISTRICT

EXTRACLASSROOM ACTIVITY FUNDS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Extraclassroom Activity Funds of the District represent funds of the Students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate financial statements are issued for this fund. The District also reports this fund in its financial statements, within its Fiduciary Fund.

The books and records of the Bethlehem Central School District's Extraclassroom Activity Funds are maintained on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets are increased when cash is received and decreased when cash is disbursed.

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To the Audit Committee and Board of Education
of Bethlehem Central School District

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bethlehem Central School District for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information related to the planned scope and timing of our audit in our letter to you dated June 13, 2012. Professional standards also require that we communicate to you the following information.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management has the responsibility for the selection and use of appropriate accounting policies. The significant accounting policies used by the Bethlehem Central School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management 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 affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimate of the year-end state and federal aid receivables.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

CURRENT YEAR COMMENTS

2012-1 Extraclassroom Activity Fund

We noted a disbursement that indicated a club was exempt from sales tax. One disbursement was paid from a billing statement instead of the actual invoice. One disbursement indicated the payee was different from the supporting documentation.

We recommend the business office continue to provide training to the ECA Treasurers and the Club Advisors covering these topics to help ensure proper accounting at the club level.

2012-2 School Lunch Inventory

The following were problems we noted in testing year end inventory:

- Items on the inventory listing could not be found
- Counts per the inventory listing did not agree with physical inventory
- Items on site were not noted on the inventory listing
- Obsolete or spoiled inventory was not properly accounted for on the inventory listing
- Inventory counts were not approved and saved during the course of the year. The same excel spreadsheet was overwritten every time a count was done.

We recommend that the inventory process be reviewed and procedures be put in place to help minimize the the errors noted above.

2012-3 Compensated Absences

We noted that teachers who had retired during the 11-12 school year were inadvertently still on the year end compensated absences schedule.

We recommend the compensated absences schedule be reviewed for accuracy and updated timely for newly retired employees.

PRIOR YEAR COMMENTS

Medicare Reimbursements

Currently, supporting documentation for Medicare reimbursements are not signed as approved by the payroll/benefits or accounting department.

We recommend that reimbursements be signed off signifying that procedures were done to ensure the retirees being reimbursed are accurate. At the end of the year effective June 30, 2012 the HR assistant now reviews and verifies the Medicare reimbursement schedule before the quarterly payment is made to ensure accuracy.

Status: This comment has been adequately addressed in the current year.

Cash Receipts

Cash receipts are not stamped “received” along with a date.

We recommend that all cash receipts be dated and stamped “received” upon opening the mail to keep the integrity of the audit trail.

Status: This comment has been adequately addressed in the current year.

Extraclassroom Activities

We acknowledge that the accounting for the extraclassroom activities is meant to be a learning experience for the students, so it is not unusual to see exceptions noted in the audit of these activities. In this regard we noted the following items:

- The purchase of exercise bikes from a vendor in Ohio and the purchase of tee shirts for a school play did not include the applicable sales tax as required.
- One item for reimbursement to a class advisor was for an incorrect amount. Additionally, one payment to a vendor was for a different amount than what was reflected on the invoice.
- A payment to one vendor was based on a statement as opposed to an actual invoice.

We recommend continued annual training of the students, advisors and treasurers of the extraclassroom accounts so as to alert them to these issues. The most recent training was done in September 2011.

Status: This comment has been adequately addressed in the current year.

We would like to express our gratitude for the efforts and professionalism provided by District management and finance personnel in assisting us in the timely completion of our audit. This information is intended solely for the use of the District's Board and management of the Bethlehem Central School District and is not intended to be and should not be used by anyone other than these specific parties.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
September 25, 2012

Phyllis L. Albano
Treasurer / Business Administrator
palbano@bcsd.neric.org

Bethlehem Central School District

<http://bethlehemschools.org>



TO: Dr. Thomas J. Douglas
Audit Committee Members

FROM: Phyllis L. Albano, Treasurer / Business Administrator

COPY: Judith E. Kehoe, Chief Business and Financial Officer

DATE: September 25, 2012

SUBJECT: Response to Management Letter from Independent Auditors for Fiscal year Ended June 30, 2012

This memo is in response to the recommendations contained within the management letter from the independent auditors. We are appreciative of the suggestions for improvement that were received, and plan to implement each of the recommendations. Each finding is specifically addressed below:

ExtraClassroom Activities (ECA)

Status: In progress

The Auditor recommended that the Business Office continue to provide training to the ECA Treasurers and the Club Advisors to help ensure proper accounting at the club level.

The Business Office has provided training over the past two years. In September 2011, the District's Internal Auditor provided training to both the High School and Middle School Central Treasurers and Club Advisors. The training addressed SED requirements for the proper handling and safeguarding of ECA funds, the duties and responsibilities of the Central Treasurers and Club Advisors, as well as fundraising and sales tax requirements. During the 2011/12 school year, the District's Internal Auditor reviewed the ECA Clubs to determine that the Middle and High School extraclassroom activities were bona fide as in accordance with SED. Also, the District's Internal Auditor will continue reviewing ECA controls during the 2012/13 school year.

School Lunch Inventory

Status: In progress

The Auditor recommended that the school lunch inventory process be reviewed and procedures be put in place to help minimize inventory errors.

The Director of Food Service will be utilizing a module of the school lunch financial software, Nutri-Kids, to track purchases (and associated pricing), and inventory usage. At month-end, these inventory records will be generated and maintained on file. Physical inventories will be taken and compared to the inventory records; any discrepancies will be followed up on by the Food Service Director.

Compensated Absences

Status: In progress

The Auditor recommended that the compensated absences schedule be reviewed for accuracy and updated timely for newly retired employees.

We have informed staff of the requirement to remove newly retired employees who appear on the compensated absence report at year-end. We will also update our internal procedures to include instructions for staff to review the compensated absence report and remove any employees who retired at June 30.