

HAZLETON AREA SCHOOL DISTRICT

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014
&
INDEPENDENT AUDITORS' REPORT
&
ADDITIONAL INFORMATION
&
SINGLE AUDIT REPORTS**



Certified Public Accountants and Business Consultants

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Independent Auditors' Report

To the Board of School Directors
Hazleton Area School District
Hazleton, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Hazleton Area School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hazleton Area School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of School Directors
Hazleton Area School District
Hazleton, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Hazleton Area School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 13, budgetary comparison information on page 19 and postemployment benefits other than pension funding progress on page 48 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hazleton Area School District's basic financial statements. The combining financial statements and schedules in the foregoing table of contents on pages 49 and 60 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and certain state awards on pages 61 and 62, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

To the Board of School Directors
Hazleton Area School District
Hazleton, Pennsylvania

The supplementary information and the schedule of expenditures of federal and certain state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and certain state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the Hazleton Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hazleton Area School District's internal control over financial reporting and compliance.

Maillie LLP

Oaks, Pennsylvania
December 15, 2014

**HAZLETON AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

This Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the Hazleton Area School District (the "School District") for the year ended June 30, 2014 compared to June 30, 2013. The School District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the School District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the School District's financial performance.

INTRODUCTION

The Hazleton Area School District is a school district of the second class organized under the laws of the Commonwealth of Pennsylvania. It operates a public school system for residents in Luzerne, Carbon and Schuylkill Counties.

The accounting policies of the Hazleton Area School District conform to generally accepted accounting principles as applicable to governmental units as provided by Governmental Accounting Standards Board Statement 34 ("GASB 34"). The basic financial statements of the School District are composed of district-wide financial statements and fund financial statements. The district-wide financial statements are prepared on an accrual basis of accounting under which all revenues and costs of providing services are reported for all activities of the School District. The district-wide statements are prepared on an economic resources measurement focus which includes all the School District's resources, capital and financial, current and long-term. The two statements included in district-wide reporting are the Statement of Net Position and the Statement of Activities. The Statement of Net Position is used to report all the School District's assets and liabilities. The Statement of Activities is used to report all changes in net assets. Both financial statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange funds. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. These activities are reported as enterprise funds.

The fund financial statements provide a more detailed look at specific activities or groups of activities as compared to the district-wide statements. The fund financial statements are presented on a modified accrual basis, whereas governmental activities in the district-wide financial statements are presented on an accrual basis of accounting. The fund financial statements are divided into governmental funds, proprietary funds and fiduciary fund statements. A significant change to the fund statements required by GASB 34 is a move from "fund type" to "major fund" presentation. Major fund presentation is required for governmental and enterprise funds. The School District reports each major fund in a separate column on the fund financial statements. The major funds for governmental activities are the General Fund and Capital Project Fund. The major fund for the proprietary funds is the Food Service Fund.

HAZLETON AREA SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (UNAUDITED)

DISTRICT-WIDE FINANCIAL ANALYSIS

The following charts show a two-year comparison of the Condensed Statement of Net Position, Condensed Statement of Activities, Capital Assets-Net of Depreciation, and Outstanding Long-Term Debt for both governmental activities and business-type activities:

CONDENSED STATEMENT OF NET POSITION

	GOVERNMENTALACTIVITIES.....		INCREASE (DECREASE)	BUSINESS-TYPEACTIVITIES.....		INCREASE (DECREASE)
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
Current assets	\$ 37,766,805	\$ 34,930,704	\$2,836,101	\$(199,836)	\$(178,287)	\$ (21,549)
Noncurrent assets	<u>131,356,901</u>	<u>118,830,103</u>	<u>12,526,798</u>	<u>352,038</u>	<u>413,174</u>	<u>(61,136)</u>
Total assets	<u>169,123,706</u>	<u>153,760,807</u>	<u>15,362,899</u>	<u>152,202</u>	<u>234,887</u>	<u>(82,685)</u>
Long-term debt outstanding	127,031,109	122,686,976	4,344,133	-	-	-
Other liabilities	<u>39,682,630</u>	<u>26,340,290</u>	<u>13,342,340</u>	<u>80,508</u>	<u>66,645</u>	<u>13,863</u>
Total liabilities	<u>166,713,739</u>	<u>149,027,266</u>	<u>17,686,473</u>	<u>80,508</u>	<u>66,645</u>	<u>13,863</u>
Net position:						
Invested in capital assets, net of related debt	(8,955,983)	(4,389,209)	(4,566,774)	352,038	413,174	(61,136)
Unrestricted	<u>11,365,950</u>	<u>9,122,750</u>	<u>2,243,200</u>	<u>(280,344)</u>	<u>(244,932)</u>	<u>(35,412)</u>
Total net position	<u>\$ 2,409,967</u>	<u>4,733,541</u>	<u>\$ (2,323,574)</u>	<u>\$ 71,694</u>	<u>\$ 168,242</u>	<u>\$ (96,548)</u>

HAZLETON AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

CONDENSED STATEMENT OF ACTIVITIES

	GOVERNMENTALACTIVITIES.....		INCREASE (DECREASE)	BUSINESS-TYPEACTIVITIES.....		INCREASE (DECREASE)
	2014	2013		2014	2013	
REVENUES:						
Program Revenues:						
Charges for services	\$ 680,697	\$ 639,922	\$ 40,775	\$ 1,005,368	\$ 995,740	\$ 9,628
Operating and capital grants and contributions	35,070,707	31,917,087	3,153,620	4,848,795	4,618,771	230,024
General Revenues:						
Property taxes	41,479,072	39,549,276	1,929,796			
State formula aide	34,138,707	32,430,660	1,708,047			
Other	<u>12,901,045</u>	<u>13,533,018</u>	<u>(631,973)</u>	<u>7,534</u>	<u>11,921</u>	<u>(4,387)</u>
Total revenues	<u>124,270,228</u>	<u>118,069,963</u>	<u>6,200,265</u>	<u>5,861,697</u>	<u>5,626,432</u>	<u>235,265</u>
EXPENSES:						
Instruction	79,615,581	71,228,646	8,386,935			
Instructional student support	6,089,170	5,234,935	854,235			
Administration and business	13,491,503	9,515,028	3,976,475			
Maintenance and operations	7,986,459	8,097,067	(110,608)			
Transportation	4,975,449	5,031,288	(55,839)			
Other	<u>14,435,640</u>	<u>13,652,110</u>	<u>783,530</u>	<u>5,958,245</u>	<u>5,477,189</u>	<u>481,056</u>
Total expenses	<u>126,593,802</u>	<u>112,759,074</u>	<u>13,834,728</u>	<u>5,958,245</u>	<u>5,477,189</u>	<u>481,056</u>
CHANGE IN NET POSITION	(2,323,574)	5,310,889	(7,634,463)	(96,548)	149,243	(245,791)
NET POSITION (DEFICIT),						
BEGINNING	<u>4,733,541</u>	<u>(577,348)</u>	<u>5,310,889</u>	<u>168,242</u>	<u>18,999</u>	<u>149,243</u>
NET POSITION ENDING	<u>\$ 2,409,967</u>	<u>\$ 4,733,541</u>	<u>\$ (2,323,574)</u>	<u>\$ 71,694</u>	<u>\$ 168,242</u>	<u>\$ (96,548)</u>

CAPITAL ASSETS AT JUNE 30, (NET OF ACCUMULATED DEPRECIATION)

	2014	2013
Land and improvements	\$ 12,054,469	\$ 11,663,826
Buildings and building improvements	95,348,248	87,429,535
Furniture and equipment	2,193,493	1,720,371
Construction-in-progress	<u>21,711,856</u>	<u>18,016,371</u>
Total	<u>\$131,308,066</u>	<u>\$118,830,103</u>

HAZLETON AREA SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (UNAUDITED)

OUTSTANDING LONG-TERM DEBT AT JUNE 30,

	<u>2014</u>	<u>2013</u>
General obligation bonds	\$130,103,380	\$126,322,823
Other long-term debt	<u>5,591,438</u>	<u>4,820,708</u>
Total	<u>\$135,694,818</u>	<u>\$131,143,531</u>

OTHER LONG-TERM DEBT

	<u>LEASES</u>	COMPENSATED <u>ABSENCES</u>	NET OPEB <u>OBLIGATION</u>	<u>TOTAL</u>
Balance at June 30, 2013	\$ 298,522	\$3,870,316	\$ 651,870	\$4,820,708
Additional debt during year	-	1,418,687	1,463,851	2,882,538
Retirement and repayments	<u>(298,522)</u>	<u>(674,383)</u>	<u>(1,138,903)</u>	<u>(2,111,808)</u>
Balance at June 30, 2014	<u>\$ -</u>	<u>\$4,614,620</u>	<u>\$ 976,818</u>	<u>\$5,591,438</u>

Analysis of these charts indicates that the total net position for governmental activities decreased by \$2,323,574. Expenses exceeded revenues by this amount mainly due to increases in salaries and charter school tuition payments, offset by increases in earned income tax collections, and basic education funding, along with healthcare costs being lower than expected.

Business-type activities show a \$96,548 decrease in total net position. Expenditures exceeded revenues by this amount mainly due to increases in salaries and benefits.

The cost of health benefits remains one of the School Districts largest expenditures. During the 2013-2014 fiscal year, the General Fund spent approximately \$13,229,000 on health benefits which was approximately \$1,269,000 less than budgeted.

The chart showing capital assets (net of depreciation) indicates an increase in capital assets. This increase was the result of the current depreciation expense \$6,993,466, offset by net purchases of \$19,471,429. Overall Capital Assets increased 10.5%. The largest increases are due to building improvement projects at the Hazleton Area Academy of Sciences and Maple Manor Elementary Middle school buildings.

General obligation bonds increased due to the issuance of the General Obligation Bonds Series of 2013 for \$10,000,000. The School District made debt payments of \$8,065,000 on its General Obligation Bonds and recognized accretion of \$1,918,725.

FUND FINANCIAL ANALYSIS

The following chart shows a two-year comparison in changes in fund balance for various funds and shows a Condensed Budget vs. Actual for the General Fund:

CHANGES IN FUND BALANCE

<u>Total Fund Balance</u>	<u>2013-2014</u>	<u>2012-2013</u>	<u>Total % Change</u>
General fund	\$16,240,632	\$18,192,406	(11%)
Capital projects	(10,209,505)	(1,600,548)	(538%)
Food service	71,694	168,242	(57%)

**CONDENSED BUDGET VERSUS ACTUAL
 GENERAL FUND 2013-2014**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues	\$ 122,142,199	\$123,980,893	\$ 1,838,694
Expenditures	(122,997,373)	(125,951,860)	(2,954,487)
Other financing sources (uses)	<u>(285,000)</u>	<u>19,193</u>	<u>304,193</u>
Net change in fund balance	<u>\$ (1,140,174)</u>	<u>\$ (1,951,774)</u>	<u>\$ (811,600)</u>

The changes in the Fund Balance chart indicate decreases in the General Fund, capital projects fund, and food service fund.

For the General Fund, actual expenditures exceeded budgeted expenditures by \$2,954,487 and actual revenues exceeded budgeted revenues by \$1,838,694. The net effect of all variations was to decrease the General Fund Balance by \$1,951,774. Local and Commonwealth revenues were greater than budgeted, but were offset by a decrease in Federal revenues. Current Earned Income Tax collections ended the year \$2,521,207 greater than budgeted. Basic education funding and the state share of retirement contributions both ended the year exceeding budget, \$1,092,230 and \$947,575, respectfully. IDEA and Medical Access were less than budgeted, \$1,312,101 and \$1,204,609, respectfully. Instruction, support services, and non-instructional expenditures were more than budgeted expenditures. The increases came mainly from instructional wages and benefits, and tuition to charter/approved private schools, all greater than budgeted, \$2,987,123 and \$1,659,830, respectfully.

The Food Service Program showed a \$96,548 decrease in fund balance. The major cause of this was the increase in salaries and benefits during the year.

DISTRICT-WIDE VS FUND FINANCIAL STATEMENTS

The Fund financial Statements show a decrease of \$10,560,730 in the fund balance for governmental funds while the District-wide Financial Statements show a decrease of \$2,323,574 in Net Position for governmental activities. The principal cause of this difference is due to capital outlays exceeding depreciation, and the repayment/borrowing of long-term debt. A complete analysis is shown in the District's annual Financial Report.

LABOR RELATIONS

All employees worked under existing contracts or salary schedules during the 2012-2013 fiscal year. The contract with the International Brotherhood of Teamsters, which represents Custodial, Maintenance, Cleaning Persons and Mechanics, extended from July 1, 2011 to June 30, 2017. The contract with the Hazleton Area Education Association, which represents Teachers and other Professionals, extends from September 1, 2013 through August 31, 2017. The contract with the International Union, Security, Police and Fire Professionals of America, which represents Security Personnel, extends from July 1, 2011 through June 30, 2012. The contract with the Hazleton Area educational Support Personnel Association, which represents Aides, Bus Drivers, Cafeteria workers and Secretaries, extended from July 1, 2011 through June 30, 2017. The Superintendent of Schools and Assistant Superintendent of Schools, the Secretary/Business Manager, Treasurer/Assistant Business Manager, and Human Resource Director are covered by separate employment contracts, the remaining administrators are covered by a compensation plan that extends from July 1, 2011 through June 30, 2015.

TEN LARGEST REAL ESTATE TAXPAYERS

The ten largest real estate taxpayers in the School District for the 2013-2014 assessed valuation of their real estate are as follows:

<u>Taxpayer</u>	<u>Business</u>	<u>Assessed Valuation</u>
KBS11-81 Industrial Portfolio Trust	Distribution	\$ 32,000,000
Laurel Mall Limited Partnership	Shopping Center	30,627,500
Humboldt Realty	Distribution/Manufacturer	19,069,200
Archer Daniel Midland Company	Manufacturer	17,174,800
Wal-Mart Stores Inc. #01-2255	Retail Super Store	16,625,000
United States Cold Storage, LLC	Distribution	16,605,800
Pioneer C/O Auto Zone	Distribution	15,856,500
NBTY PAH LLC	Distribution	14,457,200
First Quality Nonwovens Inc.	Manufacturer	14,123,100
Tri Sales Company	Manufacturer	12,468,000
	Total	<u>\$189,007,100</u>

TEN LARGEST EMPLOYERS

The ten largest employers in the School District for the 2013-2014 are as follows:

<u>Employer</u>	<u>Product/Service</u>	<u>Estimated Employees</u>
Amazon Fulfillment	Retail distribution	1,500
Hazleton Area School District	Education	1,441
Lehigh Valley Health Network	Healthcare	996
Cargill Meat Solutions	Retail meat processing facility	800
DeAngelo Brothers Inc.	Vegetation, road, cleaning & asset mgmt.	700
Wal-Mart	Retail super store	510
Bemis Performance Packaging	Extrusion & printing of polyfilm	460
Autozone	Distributor of auto parts	417
The Hershey Company	Molded chocolate products	410
Michaels Distribution	Northeast distributor of handcraft products	387

INCREASING ENROLLMENTS/BUILDING PROGRAM

The following chart shows the student enrollments for the past ten years.

ENROLLMENT HISTORY

<u>SCHOOL YEAR</u>	<u>ENROLLMENT</u>	<u>PERCENTAGE INCREASE (DECREASE)</u>
2013-2014	11,003	1.20%
2012-2013	10,868	1.19
2011-2012	10,740	2.64
2010-2011	10,464	(1.83)
2009-2010	10,659	1.60
2008-2009	10,491	1.66
2007-2008	10,320	3.53
2006-2007	9,968	1.50
2005-2006	9,821	2.92
2004-2005	9,542	2.61

The chart indicates that there has been a steady increase in student enrollments during this time.

SUMMARY

The School District's overall enrollment has increased. As a result, the School Board and Administration has committed itself to a building program and the financing of said program.

From both a district-wide perspective and a fund financial perspective the net position and fund balance of the School District decreased. The overall funding of capital projects continues to the cause the fluctuation in fund balance as the district continues to commit excess funds to capital projects. The School district continues to increase spending in order to accommodate the increasing number of students and rising employee benefit costs. Property taxes were increased to the index 2.4%, causing decreases of 0.01% for Luzerne County, 12.0% for Schuylkill County, and 4.22% for Carbon County, during the 2013-2014 year. To contain the rapidly increasing health benefit costs, the School Board negotiated contracts with the School District's major employee groups whereby the health care coverage was modified to change plans, to increase the deductible and to reduce provided benefits. If expenses continue to increase faster than revenue, it will become necessary to look at ways to reduce spending or to find new sources of revenue. Much of what happens will be determined by the course of student enrollment.

Beyond finances, the challenges to the School District are to maintain and expand the scope and quality of the educational program and to integrate the non-English speaking students into the School District's educational program. The Superintendent and his staff are continuing their efforts in this regard.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Officer, Hazleton Area School District, 1515 West 23rd Street, Hazle Township, PA 18202.

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2014**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash and cash equivalents	\$ 30,368,280	\$ 475,504	\$ 30,843,784
Taxes receivables, net	2,872,826	-	2,872,826
Internal balances	1,707,955	(1,707,955)	-
Due from other governments	2,487,466	689,025	3,176,491
Other receivables	32,081	-	32,081
Inventories	44,380	343,590	387,970
Prepaid expenses	<u>253,817</u>	<u>-</u>	<u>253,817</u>
Total current assets	37,766,805	(199,836)	37,566,969
CAPITAL ASSETS:			
Land and improvements	12,054,469	-	12,054,469
Buildings and improvements	95,348,248	-	95,348,248
Furniture and equipment	2,193,493	352,038	2,545,531
Construction in progress	<u>21,711,856</u>	<u>-</u>	<u>21,711,856</u>
Total capital assets, net of accumulated depreciation	<u>131,308,066</u>	<u>352,038</u>	<u>131,660,104</u>
Other Assets	<u>48,835</u>	<u>-</u>	<u>48,835</u>
Total assets	<u>\$ 169,123,706</u>	<u>\$ 152,202</u>	<u>\$ 169,275,908</u>
LIABILITIES:			
Accounts payable	\$ 13,951,127	23,528	\$ 13,974,655
Current maturities:			
Bonds payable, net	8,230,000	-	8,230,000
Compensated absences	433,709	-	433,709
Accrued salaries and benefits	14,157,780	-	14,157,780
Payroll deductions and withholdings	1,000,021	-	1,000,021
Accrued interest payable	1,316,357	-	1,316,357
Other liabilities	285,855	17,255	303,110
Unearned revenue	<u>307,781</u>	<u>39,725</u>	<u>347,506</u>
Total current liabilities	39,682,630	80,508	39,763,138
NONCURRENT LIABILITIES:			
Bonds payable, net	121,873,380	-	121,873,380
Compensated absences	4,180,911	-	4,180,911
Net OPEB obligation	<u>976,818</u>	<u>-</u>	<u>976,818</u>
Total noncurrent liabilities	<u>127,031,109</u>	<u>-</u>	<u>127,031,109</u>
Total liabilities	<u>166,713,739</u>	<u>80,508</u>	<u>166,794,247</u>
NET POSITION:			
Net Investment in capital assets	(8,955,983)	352,038	(8,603,945)
Unrestricted	<u>11,365,950</u>	<u>(280,344)</u>	<u>11,085,606</u>
Total net position	<u>2,409,967</u>	<u>71,694</u>	<u>2,481,661</u>
Total liabilities and net position	<u>\$ 169,123,706</u>	<u>\$ 152,202</u>	<u>\$ 169,275,908</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	EXPENSES	PROGRAM REVENUES			NET EXPENSE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities:							
Instruction	\$ 79,615,581	\$ 680,697	\$ 23,966,018	\$ -	\$(54,968,866)	\$ -	\$(54,968,866)
Instructional student support	6,089,170	-	1,797,451	-	(4,291,719)	-	(4,291,719)
Administrative and financial support services	13,491,503	-	4,194,053	-	(9,297,450)	-	(9,297,450)
Operation and maintenance of plant services	7,986,459	-	-	128,751	(7,857,708)	-	(7,857,708)
Pupil transportation	4,975,449	-	2,255,608	-	(2,719,841)	-	(2,719,841)
Student activities	1,448,622	-	69,966	-	(1,378,656)	-	(1,378,656)
Community services	297,222	-	7,514	-	(289,708)	-	(289,708)
Interest on long-term debt	6,038,336	-	2,780,097	-	(3,258,239)	-	(3,258,239)
Depreciation - unallocated	6,651,460	-	-	-	(6,651,460)	-	(6,651,460)
Total governmental activities	126,593,802	680,697	35,070,707	128,751	(90,713,647)	-	(90,713,647)
Business-type activity, Food Service	5,958,245	1,005,368	4,848,795	-	-	(104,082)	(104,082)
Total	\$ 132,552,047	\$ 1,686,065	\$ 39,919,502	\$ 128,751	(90,713,647)	(104,082)	(90,817,729)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes, net					41,479,072	-	41,479,072
Other taxes levied					12,521,250	-	12,521,250
Grants and entitlements not restricted to specific programs					34,138,707	-	34,138,707
Investment earnings, unrestricted					93,720	1,955	95,675
Special items, gain on disposal of assets					11,403	-	11,403
Miscellaneous					145,921	5,579	151,500
Total general revenues					88,390,073	7,534	88,397,607
Change in net position					(2,323,574)	(96,548)	(2,420,122)
Net position - beginning					4,733,541	168,242	4,901,783
Net position - ending					\$ 2,409,967	\$ 71,694	\$ 2,481,661

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	GENERAL	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
ASSETS:			
Cash and cash equivalents	\$ 29,808,050	\$ 560,230	\$ 30,368,280
Taxes receivable, net	2,872,826	-	2,872,826
Due from other funds	7,284,815	-	7,284,815
Due from other governments	2,487,466	-	2,487,466
Other receivables	32,081	-	32,081
Inventories	44,380	-	44,380
Prepaid expenses	253,817	-	253,817
Total assets	\$ 42,783,435	\$ 560,230	\$ 43,343,665
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
Liabilities:			
Accounts payable	\$ 8,758,252	\$ 5,192,875	\$ 13,951,127
Accrued salaries and benefits	14,157,780	-	14,157,780
Payroll deductions and withholdings	1,000,021	-	1,000,021
Due to other funds	-	5,576,860	5,576,860
Other liabilities	285,855	-	285,855
Unearned revenues	307,781	-	307,781
Total liabilities	24,509,689	10,769,735	35,279,424
Deferred Inflows of Resources, Unavailable revenue, property taxes	2,033,114	-	2,033,114
Fund Balances:			
Nonspendable fund balance	44,380	-	44,380
Restricted fund balance	-	-	-
Committed fund balance	9,396,448	-	9,396,448
Assigned fund balance	2,000,000	-	2,000,000
Unassigned fund balance	4,799,804	(10,209,505)	(5,409,701)
Total fund balances	16,240,632	(10,209,505)	6,031,127
Total liabilities, deferred inflows of resources and fund balances	\$ 42,783,435	\$ 560,230	
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not reported as assets in governmental funds. The cost of assets is \$234,982,527 and the accumulated depreciation is \$103,674,461			131,308,066
Unamortized portion of bond insurance is not a financial resource and therefore not reported as assets in government funds. The bond insurance for the debt issue was \$50,797 and the accumulated amortization was \$1,962			48,835
Unamortized portion of bond discount is not a financial resource and therefore not reported as assets in government funds. The original bond discount for the debt issue was \$860,089 and the accumulated amortization was \$205,968			654,121
Unamortized portion of bond premium is not a financial resource and therefore not reported as assets in government funds. The original bond premium for the debt issue was \$1,904,377 and the accumulated amortization was \$455,733			(1,448,644)
Unamortized portion of refunding costs are not a financial resource and therefore not reported as assets in government funds. The original refund cost for the debt issue was \$256,487 and the accumulated amortization was \$106,207			150,280
Property taxes will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds.			2,033,114
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
Bonds Payable			(129,459,137)
Accrued interest			(1,316,357)
Net OPEB obligation			(976,818)
Compensated absences			(4,614,620)
Net position of governmental activities			\$ 2,409,967

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Local sources	\$ 55,810,417	\$ 12,455	\$ 55,822,872
State sources	61,276,664	-	61,276,664
Federal sources	<u>6,893,812</u>	<u>-</u>	<u>6,893,812</u>
Total revenues	<u>123,980,893</u>	<u>12,455</u>	<u>123,993,348</u>
EXPENDITURES:			
Instruction	78,147,624	373,234	78,520,858
Support services	33,175,822	1,143,702	34,319,524
Non-instructional services	1,742,114	-	1,742,114
Capital outlay	137,208	17,163,713	17,300,921
Debt service	<u>12,749,092</u>	<u>-</u>	<u>12,749,092</u>
Total expenditures	<u>125,951,860</u>	<u>18,680,649</u>	<u>144,632,509</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(1,970,967)</u>	<u>(18,668,194)</u>	<u>(20,639,161)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds	-	10,000,000	10,000,000
Bond premium	-	49,237	49,237
Disposal of fixed assets	14,144	-	14,144
Other financing sources not listed	<u>5,049</u>	<u>10,000</u>	<u>15,049</u>
Other financing sources, net	<u>19,193</u>	<u>10,059,237</u>	<u>10,078,430</u>
NET CHANGE IN FUND BALANCES	(1,951,774)	(8,608,957)	(10,560,731)
FUND BALANCE (DEFICIT), BEGINNING	<u>18,192,406</u>	<u>(1,600,548)</u>	<u>16,591,858</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 16,240,632</u>	<u>\$ (10,209,505)</u>	<u>\$ 6,031,127</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ (10,560,731)

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

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

Capital outlays	19,315,415	
Debt service	158,754	
Loss on disposal of assets	(2,741)	
Less depreciation expense	<u>(6,993,466)</u>	12,477,962

Revenues related to real estate taxes in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 250,425

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. (10,000,000)

In the statement of activities, appreciation on compound interest bonds is accrued on related debt. (1,918,725)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bonds payable	8,065,000	
Capital lease obligation	<u>298,522</u>	8,363,522

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. 11,222

In the statement of activities, compensated absences and OPEB are accrued, whereas in governmental funds, a benefit expenditure is reported when taken. (1,069,252)

Bond insurance costs of \$50,797 were reported on the governmental fund statements when the debt was incurred. Amortization of insurance costs are recorded in the statement of activities. 48,835

Bond discount of \$860,089 were reported on the government fund statements when the debt was incurred. Amortization of bond discounts are recorded in the statement of activities. 20,507

Bond premium of \$1,904,377 were reported on the government fund statements when the debt was incurred. Amortization of bond premiums are recorded in the statement of activities. 70,001

Refunding costs of \$256,487 were reported on the government fund statements when the debt was incurred. Amortization of refunding costs are recorded in the statement of activities. (17,340)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (2,323,574)

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	ORIGINAL	FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES:				
Local sources	\$ 52,025,969	\$ 52,025,969	\$ 55,810,417	\$ 3,784,448
State sources	59,614,933	59,614,933	61,276,664	1,661,731
Federal sources	<u>10,501,297</u>	<u>10,501,297</u>	<u>6,893,812</u>	<u>(3,607,485)</u>
Total revenues	<u>122,142,199</u>	<u>122,142,199</u>	<u>123,980,893</u>	<u>1,838,694</u>
EXPENDITURES:				
Current:				
Instruction	76,378,978	76,378,978	78,147,624	(1,768,646)
Support services	32,317,452	32,317,452	33,175,822	(858,370)
Non-instructional services	648,236	648,236	1,742,114	(1,093,878)
Capital outlay	100,000	100,000	137,208	(37,208)
Debt service	<u>13,552,707</u>	<u>13,552,707</u>	<u>12,749,092</u>	<u>803,615</u>
Total expenditures	<u>122,997,373</u>	<u>122,997,373</u>	<u>125,951,860</u>	<u>(2,954,487)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(855,174)</u>	<u>(855,174)</u>	<u>(1,970,967)</u>	<u>(1,115,793)</u>
OTHER FINANCING SOURCES (USES):				
Other financing sources not listed	-	-	5,049	5,049
Sale of fixed assets	15,000	15,000	14,144	(856)
Fund transfers	200,000	200,000	-	(200,000)
Budgetary reserve	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>	<u>500,000</u>
Total other financing sources (uses), net	<u>(285,000)</u>	<u>(285,000)</u>	<u>19,193</u>	<u>304,193</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,140,174)</u>	<u>\$ (1,140,174)</u>	<u>(1,951,774)</u>	<u>\$ (811,600)</u>
FUND BALANCE, BEGINNING			<u>18,192,406</u>	
FUND BALANCE, ENDING			<u>\$ 16,240,632</u>	

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2014

	<u>FOOD SERVICE</u>
ASSETS:	
Current assets:	
Cash	\$ 475,504
Due from other governments	689,025
Inventories	<u>343,590</u>
Total current assets	1,508,119
Capital assets, net	<u>352,038</u>
Total assets	<u>\$ 1,860,157</u>
LIABILITIES:	
Current liabilities:	
Due to other funds	\$ 1,707,955
Unearned revenue	39,725
Accounts payable	23,528
Other current liabilities	<u>17,255</u>
Total liabilities	<u>1,788,463</u>
NET POSITION:	
Invested in capital assets	352,038
Unrestricted net deficit	<u>(280,344)</u>
Total net position	<u>71,694</u>
Total liabilities and net position	<u>\$ 1,860,157</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	FOOD SERVICE
OPERATING REVENUES, Food service	\$ 1,005,368
OPERATING EXPENSES:	
Other purchased services	2,279,005
Salaries	1,971,047
Employee benefits	993,935
Supplies	418,264
Property services	166,362
Depreciation	64,114
Other operating expenses	65,518
Total operating expenses	<u>5,958,245</u>
OPERATING LOSS	<u>(4,952,877)</u>
NONOPERATING REVENUES:	
Federal subsidies	4,408,808
State subsidies	439,987
Donations	5,579
Earnings on investments	1,955
Total nonoperating revenues	<u>4,856,329</u>
CHANGE IN NET POSITION	(96,548)
NET POSITION - BEGINNING OF YEAR	<u>168,242</u>
NET POSITION - END OF YEAR	<u>\$ 71,694</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 1,005,368
Payments to suppliers	(5,321,352)
Payments to employees for services	<u>(1,971,047)</u>
Net cash used in operating activities	<u>(6,287,031)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal subsidies	4,140,176
State subsidies	441,956
Local subsidies	<u>5,579</u>
Net cash provided by noncapital financing activities	<u>4,587,711</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES,	
Purchase of capital assets	<u>(2,978)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES,	
Interest on investments	<u>1,955</u>
NET DECREASE IN CASH	(1,700,343)
CASH, BEGINNING	<u>2,175,847</u>
CASH, ENDING	<u>\$ 475,504</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	<u>\$ (4,952,877)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	64,114
Donated USDA commodities	288,065
Changes in assets and liabilities:	
Inventories	(73,890)
Accounts Payable	23,528
Due to other funds	(1,626,306)
Unearned Revenue	(4,349)
Other current liabilities	<u>(5,316)</u>
Total adjustments	<u>(1,334,154)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (6,287,031)</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	PRIVATE PURPOSE TRUST FUND	AGENCY FUND
ASSETS,		
Cash	<u>\$ 153,207</u>	<u>\$ 219,914</u>
LIABILITIES:		
Accounts Payable	\$ -	\$ 4,226
Other current liabilities	<u>-</u>	<u>215,688</u>
NET POSITION,		
Held in trust	<u>153,207</u>	<u>-</u>
Total liabilities and net position	<u>\$ 153,207</u>	<u>\$ 219,914</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	PRIVATE PURPOSE TRUST FUND
ADDITIONS, Local sources	\$ 44,074
DEDUCTIONS, Non-instructional services	<u>33,488</u>
CHANGE IN NET POSITION	10,586
NET POSITION, BEGINNING	<u>142,621</u>
NET POSITION, ENDING	<u>\$ 153,207</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The major accounting principles and practices followed by the Hazleton Area School District (the "School District") are summarized below:

NATURE OF OPERATIONS

The School District was formed July 1, 1966 under the provisions of P.L. 564, the School District Reorganization Act of 1963 of the Commonwealth of Pennsylvania. The School District is administered by a nine-member Board of Directors, each of which is elected by the general public, and operates a public school system that encompasses sixteen municipalities in Luzerne, Carbon, and Schuylkill Counties. Funding for the School District is received from local, Commonwealth and federal sources and must comply with the requirements of these funding source agencies.

The School District assesses the taxpayers of these municipalities based upon taxing powers at its disposal. The ability of the School District's taxpayers to pay their assessments is dependent upon economic and other factors affecting the taxpayers.

The basic financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

REPORTING ENTITY

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. In addition, component units can be other organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. This report presents the activities of the Hazleton Area School District. The School District is not a component unit of another reporting entity nor does it have any component units.

BASIS OF PRESENTATION

Government-Wide Financial Statements – The government-wide financial statements include the statement of net position and the statement of activities. These financial statements report financial information for the School District as a whole, excluding fiduciary activities, on a full accrual, economic resource basis. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues, from business-type activities, generally financed in whole or in part with fees charged to customers. The School District's General and Capital Projects funds are classified as governmental activities. The School District's Food Service is classified as business-type activities.

The statement of activities reports the expenses of a given function or program offset by program revenues directly connected with that function or program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services to users of the School District's services, (2) operating grants and contributions that finance annual operating activities and (3) capital grants and contributions that fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements – The accounts of the School District are organized on the basis of funds, each of which constitutes a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent. The School District uses the following fund types:

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related liabilities are accounted for through governmental funds.

General Fund - The General Fund accounts for the general operations of the School District and all financial transactions not required to be accounted for in another fund. This fund is a major governmental fund.

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

The District has the following Capital Project Funds:

2010 Construction Fund- This fund received the proceeds of \$11,585,000 from the General Obligation Bonds-Series 2010, which were used to redeem the loan with First National Community Bank, fund the energy saving improvement projects, various other construction projects, and to pay the costs of issuance.

2010 Qualified School Construction Bonds Fund- This fund received the proceeds of \$10,370,000 from the Qualified School Construction Bonds, which will be used to fund the expansion of the McAdoo Kelayres Building to accommodate 7th and 8th grade classrooms, and to pay the costs of issuance.

Castle Phase II- This fund was created as part of the 2010 construction fund to further monitor and track the construction costs of the Alice C. Wiltsie Community Performing Arts Center.

2012 Construction Fund- This fund received the proceeds of \$33,590,000 from the General Obligation Bonds-Series 2012A/B, which are being used to fund the Hazleton Area Academy of Science building, advance refund the General Obligation Bonds-Series 2004, and to pay the costs of issuance.

2013 Construction Fund- This fund received the proceeds of \$10,000,000 from the General Obligation Bonds-Series 2013, which are being used to renovate and expand the Maple Manor Elementary/Middle School building, various other construction projects, and to pay the costs of issuance.

PROPRIETARY FUND TYPES

Proprietary funds account for operations of the School District that are financed and operated in a manner similar to those often found in the private sector. The following is a description of the proprietary fund of the School District:

Food Service – The Food Service Fund distinguishes between operating revenues and expenses and non operating items. Operating revenues consist of charges for food served. Operating expenses consist mainly of food and food preparation costs, supplies and other direct costs. All other revenues and expenses are reported as nonoperating. This fund is a major proprietary fund.

FIDUCIARY FUNDS

Fiduciary funds account for the assets held by the School District as a trustee or agent for individuals, private organizations and/or other governmental units. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The funds included in this category are:

Agency Fund – The Agency Fund accounts for the collections and disbursements of assets of various student activities and clubs.

Private Purpose Trust Fund – The Private Purpose Trust Fund accounts for scholarship grants to students of the School District and for the expenditure of donations for the purchase of library books and resources and accounts for escheated property.

MEASUREMENT FOCUS

Government-Wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the School District's net total assets.

Fund Financial Statements – Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Proprietary funds are also accounted for using the economic resources measurement focus.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

ACCRUAL BASIS

Government-wide financial statements and the proprietary and fiduciary fund type financial statements are prepared using the accrual basis of accounting. For exchange transactions, revenues are recognized when earned and expenses are recognized when incurred, that is when each party gives and receives essentially equal value when the exchange takes place. Nonexchange transactions, in which the School District receives value without directly giving equal value in return, requires tax revenues to be recognized in the year levied while grant revenue, entitlements and appropriations are recognized when grantor eligibility requirements are met.

MODIFIED ACCRUAL BASIS

Governmental funds use the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. The School District considers property and other taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures, other than principal and interest on bonds payable, compensated absences and claims and judgments, are recorded when the related fund liability is incurred. Principal and interest on bonds payable, compensated absences and claims and judgments are recorded as fund liabilities when due and unpaid.

The School District reports unearned revenue on its fund financial statements. Unearned revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues may also arise when the School District receives resources 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 revenue recognition criteria are met, or when the School District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

ALLOCATION OF INDIRECT EXPENSES

The School District allocates certain building-related costs to the proprietary fund. It does not allocate any other indirect costs.

BUDGETARY DATA

The School Board approves, prior to the beginning of each fiscal year, an annual budget on the modified accrual basis for the General Fund. This is the only fund for which a budget is required and for which taxes may be levied. The Public School Code allows the School Board to authorize budget transfer amendments during the year, but only during the last nine months of the fiscal year.

The School District expenditures may not legally exceed the revised budget amounts by function and object. Function is defined as a program area such as instructional services, and object is defined as the nature of the expenditure such as salaries or supplies. Amendments require School Board approval.

All appropriations lapse at the end of each fiscal year.

CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents consist of cash and liquid asset funds, which are carried at cost. Investments are limited by the School Board's investment policy. The School District considers all investments purchased with an original maturity of three months or less to be cash equivalents. If the original maturities of investments exceed three months, they are classified as investments.

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue, reported only in the Governmental Funds Balance Sheet, reports unavailable revenues from property taxes. This amount will be deferred and recognized as an inflow of resources in the period that the amounts become available.

INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out method) or market, except for donated inventories which are valued at fair market value as determined by the U.S. Department of Agriculture at the date of donation. Textbooks and instructional and custodial supplies are charged to expense upon acquisition.

CAPITAL ASSETS

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

All capital assets are stated at cost or estimated cost, net of accumulated depreciation. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$10,000 for site and building improvements and a \$1,500 threshold for all other capital assets. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Construction in progress costs are accumulated until the project is complete and placed in service. At that time, the costs are transferred to the appropriate asset class and depreciation begins. Depreciation is computed using the straight-line method over the following estimated useful lives:

ESTIMATED LIVES.....	
	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS-TYPE</u> <u>ACTIVITY</u>
Land improvements	20-50 years	N/A
Buildings and improvements	20-50 years	N/A
Machinery and equipment	5-20 years	5 years

RESTRICTED ASSETS

Cash and investments restricted for capital projects are included in restricted assets.

COMPENSATED ABSENCES

Unused vacation and accumulated sick leave are obligated under a collective bargaining agreement for all employees, excluding members of the administration. A provision is made annually in the budget for the estimated cost of substitute personnel. Contractual provisions with teachers require payment of accumulated unused sick leave days on retirement in the amount of \$60 per day up to 100 days, \$100 per day for days above 100 to a maximum of 200, and \$165 per day for 201 days and above for the 2013-2014 school year. Similar contractual provisions are in effect with nonprofessional employees except that the payment is \$30 per day up to 200 days, and \$50 per day for 201 days and above for clerks, aides, and cafeteria workers. Custodial, maintenance, and cleaning personnel receive \$30 per day up to 99 days, \$40 per day for days 100 through 199, and \$50 per day for 200 or more days. After ten years of employment, full-time security officers and seasonal security officers receive \$30 per day up to 99 days, \$40 per day above 99 to a maximum of 199, and \$50 per day for 200 days and above. Administrators, principals, and vice-principals are paid the same as the teachers.

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for the portion of accumulating sick leave benefits that is reasonably estimated to be taken prior to retirement.

The School District is liable for termination payments to retirees who retire under early retirement incentive plan provision in certain contractual agreements. Payments to retirees are made annually under the provision of the contract in effect when the employee retired to a maximum of \$20,000. The expenditure for early termination payments is recognized as paid, with a liability recorded for the amount in excess of the maximum annual payment.

USE OF 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UNEARNED REVENUE

Unearned revenue represents amounts already received, but not earned, which will be included in revenue of subsequent fiscal years. Unearned revenues consist of unearned federal and Commonwealth funds.

FUND BALANCE

The School district's fund balance classifications are defined and described as follows:

Nonspendable: Represents fund balance amounts that cannot be spent because they are in a nonspendable form or legally or contractually required to be maintained intact.

Restricted: Represents fund balance amounts that are limited by external parties, or by enabling legislation.

Committed: Represents fund balance amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purpose through the same action it used to commit the funds.

Assigned: Represents fund balance amounts that are constrained by the School District's intent to be used for a specific purpose but are neither restricted nor committed. Through board policy, the Board has delegated the authority to express intent to the School District's finance committee or board secretary/business manager.

Unassigned: Represents fund balance amounts available for consumption that have not been restricted in any manner.

The School district has a board policy which prescribes fund balance guidelines. The District will strive to maintain an unassigned general fund balance of not less than 3 percent and not more than 8 percent of the budgeted expenditures for that year.

ELIMINATIONS AND INTERNAL BALANCES

Transactions and balances between governmental activities have been eliminated in the government-wide financial statements. Residual amounts due between governmental and business-type activities are labeled "internal balances" on the statement of net assets.

RESTRICTED NET ASSETS

When both restricted and unrestricted resources are available for use, the School District's policy is to use restricted resources first, and then unrestricted resources as needed.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS

The School District's investment policy is in accordance with the Public School Code of 1949, Section 440.1 which requires monies to be invested in U.S. Treasury bills, short-term obligations of the U.S. government or its agencies or instrumentalities, savings or time accounts, or share accounts of institutions insured by the FDIC or FSLIC or NCUSIF to the extent such accounts are so insured and, for any amounts above the insured maximum provided that approved collateral as provided by law therefore shall be pledged by the depository. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision. At June 30, 2014, the School District's cash and cash equivalents and restricted assets include deposits with local financial institutions and various petty cash balances (\$8,235) held throughout the School District.

CREDIT RISK

The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The School District does not maintain any significant investments, therefore is not exposed to this type of risk. From time to time, the School District may investment in Pennsylvania Local Government Investment Trust ("PLGIT") and Pennsylvania School District Liquid Asset Fund ("PSDLAF"). These investments have received an AAAM rating from Standard & Poor's.

CUSTODIAL CREDIT RISK-DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. The School District does not have a deposit policy for custodial credit risk. The carrying value of the District's cash accounts at June 30, 2014 was \$31,221,134. As of June 30, 2014, \$30,794,428 of the School District's bank balance of \$31,797,338 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not in the School District's name	\$ 30,794,428
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3. TAXES RECEIVABLE

Real estate taxes are levied on July 18 for Schuylkill, Carbon, and Luzerne Counties, based on assessed values established by the Luzerne, Carbon, and Schuylkill Counties Board of Assessments. Real property in the School District was originally assessed at \$4,065,356,044 for the 2013-2014 tax years. A tax rate of 9.195 mills-Luzerne County, 27.778 mills-Carbon County, and 30.573 mills-Schuylkill County was established for fiscal year 2013-2014. Taxes are due on or before November 18 for Schuylkill, Carbon and Luzerne Counties. Payments prior to September 18 for Schuylkill, Carbon and Luzerne Counties are entitled to a 2% discount, while payments after November 19 for Schuylkill, Carbon and Luzerne Counties are subject to a 10% penalty. Taxes not paid by January 1 attach as an enforceable lien on property.

All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is calculated based on collection history and was \$1,565,000 at June 30, 2014.

4. DUE FROM OTHER GOVERNMENTS

Amounts which are due from other governments include \$295,535 from various school districts for tuition and early intervention services. \$1,538,320 for grant programs due from the Commonwealth of Pennsylvania's Department of Education ("PDE"), as well as \$653,611 in federal funds passed through the PDE.

Amounts that are business-type activities due from other governments include \$689,025 for federal and state food subsidies.

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

5. CAPITAL ASSETS

The changes in the School District's capital assets in 2014 are summarized as follows:

	BALANCE <u>JULY 1, 2013</u>	ADDITIONS	DEDUCTIONS	BALANCE <u>JUNE 30, 2014</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, Not being depreciated:				
Land	\$ 1,956,058	\$ 740,701	-	\$ 2,696,759
Construction in progress	<u>18,016,371</u>	<u>18,304,663</u>	<u>\$(14,609,178)</u>	<u>21,711,856</u>
Total capital assets, not being Depreciated	<u>19,972,429</u>	<u>19,045,364</u>	<u>(14,609,178)</u>	<u>24,408,615</u>
CAPITAL ASSETS, Being depreciated:				
Land improvements	14,114,665	375,447	-	14,490,112
Buildings and improvements	175,420,368	13,850,352	-	189,270,720
Furniture and equipment	<u>6,140,835</u>	<u>812,185</u>	<u>(139,939)</u>	<u>6,813,081</u>
Total capital assets, being depreciated	<u>195,675,868</u>	<u>15,037,984</u>	<u>(139,939)</u>	<u>210,573,913</u>
LESS ACCUMULATED DEPRECIATION:				
Land improvements	(4,406,899)	(725,503)	-	(5,132,402)
Buildings and improvements	(87,990,834)	(5,931,638)	-	(93,922,472)
Furniture and equipment	<u>(4,420,461)</u>	<u>(336,325)</u>	<u>137,198</u>	<u>(4,619,588)</u>
Total accumulated depreciation	<u>(96,818,194)</u>	<u>(6,993,466)</u>	<u>137,198</u>	<u>(103,674,462)</u>
Total capital assets, being depreciated, net	<u>98,857,674</u>	<u>8,044,518</u>	<u>(2,741)</u>	<u>106,899,451</u>
Governmental activities capital assets, net	<u>\$118,830,103</u>	<u>\$27,089,882</u>	<u>\$(14,611,919)</u>	<u>\$131,308,066</u>
BUSINESS-TYPE ACTIVITIES				
Furniture and equipment	\$ 1,999,377	\$ 2,978	\$ -	\$ 2,002,355
Less accumulated depreciation	<u>(1,586,203)</u>	<u>(64,114)</u>	<u>-</u>	<u>(1,650,317)</u>
Business-type activities capital assets, net	<u>\$ 413,174</u>	<u>\$ (61,136)</u>	<u>\$ -</u>	<u>\$ 352,038</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 151,940
Support services	167,066
Non-instructional services	3,729
Unallocated	6,651,460
Capital outlay	<u>19,271</u>
Total depreciation expense	<u>\$6,993,466</u>

6. LONG-TERM DEBT

GENERAL OBLIGATION BONDS

The School District issues general obligation bonds to provide funds for acquisition and construction of major capital facilities or to refund prior year bond issues. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Bonded debt payable at June 30, 2014 is comprised of the following individual issues:

General Obligation Bonds, Series B of 1995 (compound interest bonds), \$47,385,000 due in annual principal installments ranging from \$2.6 million to \$4.4 million starting March 1, 2017 through March 1, 2025, interest rate is variable from 6.25% to 6.40%	\$	31,589,137
General Obligation Bonds, Series of 1997, \$34,025,000 due in annual principal installments ranging from \$75,000 to \$4.9 million through March 1, 2016, interest rate is variable from 4.00% to 5.00%		9,655,000
General Obligation Bonds, Series of 2008, \$23,895,000 due in annual principal installments ranging from \$1.5 million to \$2.1 million through March 1, 2023, interest rate is variable from 3.00% to 5.00%		16,135,000
General Obligation Bonds, Series of 2010, \$11,585,000 due in annual principal installments ranging from \$5,000 to \$6.4 million through March 1, 2029, interest rate is variable from 0.90% to 4.00%		10,075,000
Qualified School Construction Bonds, Series of 2010, \$10,370,000 due in annual principal installments ranging from \$5,000 to \$5.0 million through September 1, 2027, interest rate is fixed at 5.00%	A	10,355,000
General Obligation Bonds, Series of 2011, \$9,990,000 due in annual principal installments ranging from \$300,000 to \$690,000 through March 1, 2032, interest rate is variable from 2.25% to 5.00%		9,315,000
General Obligation Bonds, Series A of 2012, \$31,725,000 due in annual principal installments ranging from \$200,000 to \$7.9 million through March 1, 2028, interest rate is variable from 2.00% to 5.00%		31,245,000
General Obligation Bonds, Series B of 2012, \$1,865,000 due in annual principal installments ranging from \$95,000 to \$145,000 through March 1, 2028, interest rate is variable from 1.00% to 3.375%		1,670,000
General Obligation Bonds, Series of 2013, \$10,000,000 due in annual principal installments ranging from \$385,000 to \$695,000 through March 1, 2033, interest rate is variable from 0.35% to 5.00%		9,420,000
	\$	<u>129,459,137</u>

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

In the 2010-2011 year, the School District was awarded participation in the (A) Qualified School Construction Bonds (“QSCB”) program, a federally subsidized loan. Under the program, the federal government subsidizes 4.83% of the 5.00% interest due on the QSCB bonds. During 2014, the School District paid \$518,500 of interest on the bonds and received \$461,052 from the federal government.

The following is an analysis of debt service requirements to maturity on these obligations at June 30, 2014:

<u>YEAR ENDED JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2015	\$ 8,230,000	\$ 3,970,650	\$ 12,200,650
2016	8,610,000	3,599,573	12,209,573
2017	8,204,329	3,989,904	12,194,233
2018	8,065,111	4,133,794	12,198,905
2019	7,940,030	4,274,425	12,214,455
2020 – 2024	38,805,066	22,369,147	61,174,213
2025 – 2028	45,044,601	9,429,559	54,474,160
2030 – 2033	<u>4,560,000</u>	<u>523,940</u>	<u>5,083,940</u>
Total	<u>\$129,459,137</u>	<u>\$52,290,992</u>	<u>\$181,750,129</u>

During the year ended June 30, 2014, the School District incurred \$4,133,377 of bond interest expense.

The School District defeased certain revenue and general obligation bonds by placing the proceeds of new bonds in trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust assets and liability for the defeased bonds are not included in the School District’s financial statements.

The principal balance of defeased bonds outstanding as of June 30, 2014 is as follows:

1995 General Obligation Bond	\$14,075,000
2004 General Obligation Bond	29,010,000

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN LONG-TERM LIABILITIES

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
GENERAL OBLIGATION BONDS					
Series B of 1995 CIB	\$ 29,670,412	\$1,918,725		\$31,589,137	
Series of 1997	14,075,000		\$(4,420,000)	9,655,000	\$4,685,000
Series of 2004	405,000		(405,000)	-	-
Series of 2008	17,600,000		(1,465,000)	16,135,000	1,510,000
Series of 2010	10,590,000		(515,000)	10,075,000	525,000
Series A of 2010	10,360,000		(5,000)	10,355,000	5,000
Series of 2011	9,690,000		(375,000)	9,315,000	390,000
Series A & B of 2012	33,215,000		(300,000)	32,915,000	730,000
Series of 2013		<u>10,000,000</u>	<u>(580,000)</u>	<u>9,420,000</u>	<u>385,000</u>
TOTAL GENERAL OBLIGATION BONDS	125,605,412	11,918,725	(8,065,000)	129,459,137	8,230,000
Bond Discount	(633,614)	(65,000)	44,493	(654,121)	(45,330)
Refunding Costs	(167,620)		17,340	(150,280)	(17,340)
Bond Premium	<u>1,518,645</u>	<u>49,237</u>	<u>(119,238)</u>	<u>1,448,644</u>	<u>119,872</u>
TOTAL GENERAL OBLIGATION BONDS, NET	<u>126,322,823</u>	<u>11,902,962</u>	<u>(8,122,405)</u>	<u>130,103,380</u>	<u>8,287,202</u>
CAPITAL LEASE OBLIGATION	298,522		(298,522)	-	-
COMPENSATED ABSENCES	3,870,316	1,418,687	(674,383)	4,614,620	433,709
OPEB OBLIGATION	<u>651,870</u>	<u>1,463,851</u>	<u>(1,138,903)</u>	<u>976,818</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES	<u>\$131,143,531</u>	<u>\$14,785,500</u>	<u>\$(10,234,213)</u>	<u>\$135,694,818</u>	<u>\$8,720,911</u>

8. DEFERRED INFLOWS OF RESOURCES, UNAVAILABLE AND UNEARNED REVENUES

GENERAL FUND

Unavailable revenues represent primarily delinquent taxes not collected within 60 days subsequent to the School District's year-end. It is expected that these receivables will be collected and included in revenue of future fiscal years. In the Governmental Funds financial statements, these receivables are reported as unearned revenue.

At June 30, 2014, deferred inflows of resources consisted of delinquent taxes receivable of \$2,033,114 and unearned revenue consisted of grants of \$307,781.

FOOD SERVICE FUND

Unearned revenues represent food received in the School District's food service operations that is on hand at June 30, 2014. Such revenues will be recognized when the food commodities are used.

9. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Description

The School District follows the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." In addition to the relevant disclosures within this note related to GASB Statement No. 45, the financial statements reflect a long-term liability and related expenses of \$976,818 and \$324,948, respectively, in governmental activities.

The School District is contractually obligated to provide benefits to certain former employees. The School District maintains a single-employer defined benefit plan to provide certain postretirement healthcare benefits to the employees made eligible as per the individual contract under which the employee retired. These benefits are provided through the School District's self-insured medical plan. Contractually, payments of insurance premiums for retirees are in three groups. The groups are as follows: a portion of the retirees are required to pay the premiums for the coverage, others have a pool of monies available to them of which monthly payments due are deducted, and another group has the entire premium paid by the School District. Because the Plan consists solely of the School District's contractual obligation to provide OPEB through the payment of medical benefits on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

Funding Policy

Premiums under the Plan for post-employment healthcare benefits are funded in various ways. For those employees whose benefits are funded by the retiree desiring coverage, the contribution rate ranges from \$541 for Single person coverage to \$1,842 for family coverage. For the period ending June 30, 2014, eligible members paid \$754,776, which was used to offset the School District's outlays to providers. The School District contributed \$540,427 to the Plan for related retirees. The retired plan member may elect to continue coverage for themselves and their dependents until the retired plan member reaches Medicare age. The plan is financed on a pay-as-you-go basis.

The School District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the School District, 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 cost each year and amortizing any unfunded actuarial liabilities (or funding excess) over a period of 8 years. The following table illustrates the components of the School District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the School District's net OPEB obligation:

OPEB cost for the year, the amount actually contributed to the Plan, and changes in the School District's net OPEB obligation:

Annual required contribution	\$1,533,347
Interest on net OPEB obligation	29,334
Adjustment to annual required contribution	<u>(98,830)</u>
Annual OPEB cost	1,463,851
Contributions made	<u>(1,138,903)</u>
Increased in net OPEB obligation	324,948
Net OPEB obligation- beginning of year	<u>651,870</u>
Net OPEB obligation- end of year	<u>\$ 976,818</u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the three preceding years were as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
6/30/14	\$1,463,851	77.80%	\$976,818
6/30/13	\$1,474,062	93.50%	\$651,870
6/30/12	\$1,378,921	93.35%	\$556,091

Funding Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$8,330,767, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,330,767. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$51,895,481, and the ratio of the UAAL to the covered payroll equaled 16.05%.

Actuarial valuations of an ongoing plan involve 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 actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as RSI following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the School District maintains no Plan assets, information relative to Plan asset required disclosures is not applicable.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the School District and Plan members) and include the types of benefits provided at the time of cash valuation and the historical pattern of sharing of benefit costs between the School District members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2012, the Entry Age Normal Cost method was used. Because the District funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 4.5% discount rate, which approximates the expected rate of return on non-pension investments held by the District. Actuarial assumptions also included an annual healthcare cost trend rate of 7.5%, initially, reduced by decrements of 0.5% per year to an ultimate rate of 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level dollar amount over an eight year open period.

The following are the existing agreements and the obligation incurred by the School District to make payments for health insurance coverage of retirees.

<u>CONTRACT/MEMORANDUM DATES</u>	<u>DESCRIPTION OF HOSPITALIZATION BENEFIT</u>
September 1, 2002 to August 31, 2006 (Hazleton Area Education Association 2004 and 2005 retirees)	School District pays full medical coverage after retirement for both retiree and spouse to a maximum of \$50,000. Benefits cease when retiree reaches age 65.
July 1, 2003 to June 30, 2007 (Hazleton Area Education Support Professional Association 2005 and 2006 retirees)	School District pays full medical coverage for both retiree and spouse up to an amount not greater than 70% of the retiree's final wages.
July 1, 2011 to June 30, 2017 (Hazleton Area Education Support Professional Association 2014 retirees)	School District pays full medical coverage for both retiree and spouse up to an amount not greater than 70% of the retiree's final wages.

10. PENSION PLAN

PLAN DESCRIPTION

Pension benefits are provided for all qualified employees under a statewide contributory retirement plan called the Public School Employees' Retirement System (the "System") administered by the Public School Employees' Retirement Board, a governmental cost-sharing multiple-employer defined benefit pension plan.

The System provides retirement and disability benefits, legislatively mandated "ad hoc" cost-of-living adjustments and healthcare insurance premium assistance to qualifying annuitants.

The School District's and its employees' obligation to contribute to the System are established by authority of the Public School Employees' Retirement Code (Act 96 of October 2, 1975, as amended). Benefit provisions are established and amended by the System board of trustees. The System issues a comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plan. A copy may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg PA 17101-1905 or by emailing Beth at bgirman@pa.gov. The CAFR is also available on the Publications page of the PSERS website, www.psers.state.pa.us.

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. Active members who joined the System prior to July 22, 1983, contribute a 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in the future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

The School District's required contributions are based upon an actuarial valuation. The School District's rate was 16.93% in 2014, 12.36% in 2013, and 8.65% in 2012 of covered payroll. The School District contributions were approximately \$8,001,000 in 2014, \$6,543,000 in 2013 and \$4,913,000 in 2012.

11. INTERNAL BALANCES/INTER-FUND BALANCES AND TRANSFERS

The composition of interfund balances as of June 30, 2014, is as follows:

DUE TO/FROM OTHER FUNDS

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$1,707,955
General Fund	Capital Projects	5,576,860

The amounts between the proprietary fund and the general fund are interfund borrowings to pay for operations. The amounts between the general fund and the capital project funds are for renovations to facilities or purchases of equipment.

INTERFUND TRANSFERS

The School District typically transfers funds from the general fund to the capital project fund to pay for improvements and capital acquisitions. During the year ended June 30, 2014, the School District did not make any transfers between funds that are not expected to be paid back.

12. COMMITMENTS AND CONTINGENCIES

RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has purchased commercial insurance for all these risks. There have not been significant reductions in insurance coverage for any major categories of risk compared to coverage in the prior year. In addition, the amounts of settlements have not exceeded insurance coverages in any of the past three fiscal years.

SELF-INSURED MEDICAL PLAN

Effective January 1, 2002, the School District self-insured for medical benefits provided to its employees and retirees. First Priority Life Insurance Company (the "administrator") will administer the plans for the participants who will use the current PPO plan utilizing the EHP, NEPA and Highmark Blue Shield networks at a charge of \$52, per month.

The School District purchased specific stop-loss insurance coverage for claims in excess of \$240,000 per participant. There were no claims in excess of the \$240,000 for the year ended June 30, 2014.

For the year ended June 30, 2014, the School District recognized approximately \$13,717,000 in self-insured medical expenses, including administrative and stop-loss insurance expenditures.

LITIGATION

The School District is the defendant in a number of lawsuits arising principally in the normal course of operation. The major portion of these lawsuits involves employees or former employees who have filed claims and it does not appear that these claims will have a materially adverse affect on the financial statements. No provision for loss has been recorded.

GRANT PROGRAMS

The School District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2014 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

CONSTRUCTION PROJECTS

The School District has the following construction project outstanding at June 30, 2014:

Maple Manor Elementary Middle School expansion and remodel to accommodate Kindergarten through 8th grade classrooms with an estimated cost of \$18,551,240. Through June 30, 2014, \$15,348,004 has been included in construction in progress (Note 5). The School District obtained financing through a General Obligation Bond 2013 (Note 6) to cover a portion of the construction costs. Additional financing has been obtained through another General Obligation Bond 2014 (Note 14). The project is estimated to be completed by December, 2014.

OTHER MATTERS

In June 1996, the Commonwealth of Pennsylvania notified the School District that their Area Vocational-Technical School ("AVTS") should be submitting separate financial reports and subsidy forms effective for the fiscal year 1996-1997. The Commonwealth states that the AVTS is approved by the Commonwealth as a separate financial entity with its own unique administrative unit number and it receives some subsidy payments directly from the Commonwealth. The School District asserts that the AVTS and the School District are one entity and has been in contact with their legal counsel concerning this matter. As of the date of this report, the Commonwealth has not formally contacted the School District concerning the final outcome of this matter.

13. FUND BALANCE ALLOCATIONS

NONSPENDABLE FUND BALANCE

The General Fund had \$44,380, in nonspendable fund balance at June 30, 2014, comprised of inventories on hand at year-end.

COMMITTED FUND BALANCE

The governing body (Board of School Directors) has committed, of the General Fund's year end fund balance for the following purposes: health insurance costs \$3,000,000 and \$6,396,448 for capital projects.

ASSIGNED FUND BALANCE

The General Fund has \$2,000,000 assigned for future retirement rate increases.

14. SUBSEQUENT EVENT

GENERAL OBLIGATION BONDS, SERIES 2014

On August 29, 2014 the School District issued \$9,855,000 of general obligation bonds, series 2014. The proceeds from these bonds will be used to fund the Maple Manor construction (Note 12).

The School District is not aware of any additional events or transactions that occurred subsequent to the Statement of Net Assets date but prior to November 20, 2014 that would require recognition or disclosure in its financial statements.

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

FOR THE YEAR ENDED JUNE 30, 2014

Schedule of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) /c)
Total	7/1/2012	\$ -	\$ 8,330,767	\$ 8,330,767	0.00%	\$ 51,895,481	16.05%
	7/1/2010	\$ -	\$ 9,370,854	\$ 9,370,854	0.00%	\$ 53,966,805	17.36%
	7/1/2008	\$ -	\$ 11,514,784	\$ 11,514,784	0.00%	\$ 48,733,196	23.63%

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	District Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 1,463,851	\$ 1,138,903	77.80%	\$ 976,818
6/30/2013	\$ 1,474,062	\$ 1,378,283	93.50%	\$ 651,870
6/30/2012	\$ 1,378,921	\$ 1,287,255	93.35%	\$ 556,091
6/30/2011	\$ 1,380,232	\$ 1,359,966	98.53%	\$ 464,425
6/30/2010	\$ 1,884,119	\$ 1,554,195	82.49%	\$ 444,159
6/30/2009	\$ 1,894,694	\$ 1,780,459	93.97%	\$ 114,235

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**COMBINING BALANCE SHEET- CAPITAL PROJECT FUND - SCHEDULE
JUNE 30, 2014**

	GENERAL OBLIGATION BONDS 2010	QUALIFIED SCHOOL CONSTRUCTION BONDS 2010	GENERAL OBLIGATION BONDS 2013	GENERAL OBLIGATION BONDS 2012	CASTLE PHASE II	TOTAL CAPITAL PROJECT FUND
ASSETS:						
Cash and cash equivalents	\$ -	\$ 31,485	\$ 64,983	\$ 101,612	\$ 362,150	\$ 560,230
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 31,485</u>	<u>\$ 64,983</u>	<u>\$ 101,612</u>	<u>\$ 362,150</u>	<u>\$ 560,230</u>
LIABILITIES AND FUND BALANCES (DEFICIT):						
Liabilities:						
Due to other funds	\$ -	\$ -	\$ 2,277,500	\$ 956,380	\$ 2,342,980	\$ 5,576,860
Accounts payable	<u>-</u>	<u>27,000</u>	<u>5,147,920</u>	<u>17,955</u>	<u>-</u>	<u>5,192,875</u>
TOTAL LIABILITIES	<u>-</u>	<u>27,000</u>	<u>7,425,420</u>	<u>974,335</u>	<u>2,342,980</u>	<u>10,769,735</u>
Fund balances (deficit), Restricted for capital projects	<u>-</u>	<u>4,485</u>	<u>(7,360,437)</u>	<u>(872,723)</u>	<u>(1,980,830)</u>	<u>(10,209,505)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 31,485</u>	<u>\$ 64,983</u>	<u>\$ 101,612</u>	<u>\$ 362,150</u>	<u>\$ 560,230</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
CAPITAL PROJECT FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	GENERAL OBLIGATION BONDS 2010	QUALIFIED SCHOOL CONSTRUCTION BONDS 2010	GENERAL OBLIGATION BONDS 2013	GENERAL OBLIGATION BONDS 2012	CASTLE PHASE II	TOTAL CAPITAL PROJECT FUND
REVENUES,						
Local sources	\$ 2,065	\$ 13	\$ 8,756	\$ 1,072	\$ 549	\$ 12,455
EXPENDITURES:						
Instructional services	-	-	-	373,234	-	373,234
Support services	-	-	1,066,664	77,038	-	1,143,702
Capital outlay	28,300	5,425	16,351,766	778,222	-	17,163,713
Total expenditures	28,300	5,425	17,418,430	1,228,494	-	18,680,649
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(26,235)	(5,412)	(17,409,674)	(1,227,422)	549	(18,668,194)
OTHER FINANCING SOURCES,						
Bond proceeds	-	-	10,000,000	-	-	10,000,000
Bond premium	-	-	49,237	-	-	49,237
Other financing sources not listed	-	-	-	10,000	-	10,000
Transfers	(385,945)	295,941	-	90,004	-	-
Total other financing sources	(385,945)	295,941	10,049,237	100,004	-	10,059,237
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(412,180)	290,529	(7,360,437)	(1,127,418)	549	(8,608,957)
FUND BALANCE, BEGINNING	412,180	(286,044)	-	254,695	(1,981,379)	(1,600,548)
FUND BALANCE (DEFICIT), ENDING	\$ -	\$ 4,485	\$ (7,360,437)	\$ (872,723)	\$ (1,980,830)	\$ (10,209,505)

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND REVENUES FROM LOCAL SOURCES
FOR THE YEAR ENDED JUNE 30, 2014**

Current real estate taxes	\$ 35,831,419
Current taxpayer relief taxes	12,521,207
Delinquencies of taxes levied and assessed by the LEA	3,993,604
Current Act 511 taxes	950,728
Federal IDEA pass through revenue	919,919
Receipts from other LEAS in Pennsylvania	491,489
Interim real estate taxes	388,737
Tuition from patrons	189,208
Miscellaneous revenue	130,869
Federal ARRA Race To The Top pass through revenue	103,178
Interest on investments	81,265
Revenue from student activities	69,965
Public utility realty tax	58,855
Rentals	36,962
Contributions and donations from private sources	18,150
State revenue received from other sources	12,000
Community service activities	7,514
Payments in lieu of current taxes	<u>5,348</u>
TOTAL REVENUE FROM LOCAL SOURCES	<u>\$ 55,810,417</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND REVENUES FROM COMMONWEALTH SOURCES FOR THE YEAR ENDED JUNE 30, 2014

Basic instruction subsidy	\$ 34,020,851
Revenue for retirement payments	5,745,771
Special education funding for school age pupils	4,616,657
Early intervention	4,491,393
State property tax reduction allocation	2,709,268
Revenue for social security payments	2,566,348
Rental and sinking fund payments	2,319,046
Transportation	2,255,608
Pre-K counts	1,084,480
Vocational education	542,292
PA accountability grant	498,262
Health services	224,316
Tuition for orphans and children placed in private homes	117,855
Safe schools	40,000
Supplemental equipment grant	33,639
Workforce investment act	6,862
Migratory children	<u>4,016</u>
TOTAL REVENUE FROM COMMONWEALTH SOURCES	<u>\$ 61,276,664</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND REVENUES FROM FEDERAL SOURCES FOR THE YEAR ENDED JUNE 30, 2014

Title I - Improving academic achievement	\$ 3,984,515
Title II - Prep/Trng/Recruit HQ Teachers/Principals	583,735
IDEA, Part B	580,280
Title III - Language instruction	463,886
ARRA- Qualified Schools Construction Bonds	461,052
Medical assistance reimbursement ACCESS - Early intervention	313,819
IDEA, Section 619	200,355
Vocational education - operating expenditures	188,304
Medical assistance reimbursement - Administrative Claiming	102,131
School based ACCESS medical reimbursement program	<u>15,735</u>
TOTAL REVENUE FROM FEDERAL SOURCES	<u>\$ 6,893,812</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND EXPENDITURES BY SUBFUNCTION FOR THE YEAR ENDED JUNE 30, 2014

Instruction:	
Regular programs	\$ 54,206,615
Special and gifted education	19,601,913
Vocational education programs	2,123,030
Pre-kindergarten	1,084,491
Other instructional programs	625,967
Adult education programs	363,303
Nonpublic school programs	<u>142,305</u>
Total instruction	<u>78,147,624</u>
Support services:	
Operation and maintenance of plant services	9,955,371
Administration	6,043,413
Student transportation services	4,968,185
Pupil personnel	2,762,981
Central	4,138,836
Pupil health	2,380,615
Business	1,795,986
Instructional staff	911,018
Other support services	<u>219,417</u>
Total support services	<u>33,175,822</u>
Operation of non-instructional services:	
Student activities	1,444,892
Community services	<u>297,222</u>
Total operation of non-instructional services	<u>1,742,114</u>
Facilities acquisition, construction, and improvement:	
Existing building improvement services	65,153
Arch. & Eng. Services / Educational specifications - Improvements	<u>72,055</u>
Total facilities acquisition, construction, and improvement	<u>137,208</u>
Debt service:	
Redemption of principal	8,315,669
Interest payments	4,130,832
Refund of prior-year receipts	<u>302,591</u>
Total debt service	<u>12,749,092</u>
TOTAL EXPENDITURES BY SUBFUNCTION	<u>\$ 125,951,860</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT -
INSTRUCTION EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014

INSTRUCTION EXPENDITURES:	
Personnel services, salaries	<u>\$ 45,205,535</u>
Personnel services, employee benefits:	
Group insurance	10,254,647
Retirement contributions	8,000,202
Social security contributions	3,417,980
Workers' compensation	568,055
Other employee benefits	529,443
Tuition reimbursement	263,161
Unemployment compensation	<u>18,201</u>
Total personnel services, employee benefits	<u>23,051,689</u>
Purchased professional and technical services	<u>2,114,334</u>
Purchased property services	<u>377,041</u>
Other purchased services:	
Tuition	3,247,830
Travel	45,728
Communications	11,471
Student transportation	12,584
Advertising	3,735
Miscellaneous purchased services	7,492
General insurance	<u>1,456</u>
Total other purchased services	<u>3,330,296</u>
Supplies:	
Technology	973,067
Books and periodicals	1,201,932
General supplies	542,248
Food	18,041
Energy	<u>5,752</u>
Total supplies	<u>2,741,040</u>
Property, equipment	<u>726,379</u>
Other objects	<u>601,310</u>
TOTAL INSTRUCTION	<u>\$ 78,147,624</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT -
SUPPORT SERVICES EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

SUPPORT SERVICES EXPENDITURES:	
Personnel services, salaries	<u>\$ 13,252,445</u>
Personnel services, employee benefits:	
Group insurance	2,973,115
Retirement contributions	2,217,766
Social security contributions	995,839
Other employee benefits	124,940
Workers' compensation	168,289
Tuition reimbursement	20,196
Unemployment compensation	<u>6,981</u>
Total personnel services, employee benefits	<u>6,507,126</u>
Purchased professional and technical services	<u>1,025,344</u>
Purchased property services	<u>3,085,568</u>
Other purchased services:	
Student transport services	4,813,846
Miscellaneous purchased services	172,648
General insurance	504,982
Communications	71,268
Printing and binding	17,446
Advertising	41,000
Travel	<u>24,338</u>
Total other purchased services	<u>5,645,528</u>
Supplies:	
Energy	728,050
General supplies	808,639
Books and periodicals	67,658
Technology	117,032
Food	<u>10,663</u>
Total supplies	<u>1,732,042</u>
Property, equipment	<u>1,815,612</u>
Other objects	<u>112,157</u>
TOTAL SUPPORT SERVICES	<u>\$ 33,175,822</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT -
NONINSTRUCTIONAL SERVICES EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

NON-INSTRUCTIONAL SERVICES EXPENDITURES:	
Personnel services, salaries	<u>\$ 805,131</u>
Personnel services, employee benefits:	
Retirement contributions	93,394
Social security contributions	58,967
Group insurance	61,592
Other employee benefits	20,000
Unemployment compensation	813
Workers' compensation	<u>4,181</u>
Total personnel services, employee benefits	<u>238,947</u>
Purchased professional and technical services	<u>219,695</u>
Purchased property services	<u>16,516</u>
Other purchased services:	
Student transport services	133,759
Communications	33
General insurance	1,145
Travel	26,486
Advertising	3,000
Miscellaneous purchased services	1,560
Printing and binding	<u>1,157</u>
Total other purchased services	<u>167,140</u>
Supplies:	
General supplies	160,071
Food	13,495
Books and periodicals	10,336
Technology	<u>3,093</u>
Total supplies	<u>186,995</u>
Property, equipment	<u>28,511</u>
Other objects	<u>79,179</u>
TOTAL NONINSTRUCTIONAL SERVICES	<u>\$1,742,114</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT -
FACILITIES ACQUISITION, CONSTRUCTION AND IMPROVEMENT SERVICES
AND DEBT SERVICE EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

**FACILITIES ACQUISITION, CONSTRUCTION AND
IMPROVEMENT SERVICES:**

Property, equipment	\$	33,455
Purchased property services		31,698
Purchased professional and technical services		<u>72,055</u>

TOTAL FACILITIES ACQUISITION, CONSTRUCTION AND IMPROVEMENT SERVICES	\$	<u>137,208</u>
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DEBT SERVICE:

Redemption of principal	\$	8,315,669
Interest		4,130,832
Refund of prior-years receipts		<u>302,591</u>

TOTAL DEBT SERVICE	\$	<u>12,749,092</u>
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See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**RECONCILIATION OF REAL ESTATE TAX DUPLICATE
JUNE 30, 2014**

	BANKS TOWNSHIP	BEAVER MEADOWS BOROUGH	BLACK CREEK TOWNSHIP	BUTLER TOWNSHIP	CONYNGHAM BOROUGH	FOSTER TOWNSHIP	FREELAND BOROUGH	HAZLE TOWNSHIP	SUB-TOTAL
Original assessed valuation	\$ 17,936,361	\$ 7,545,886	\$ 214,257,248	\$ 675,230,641	\$ 125,408,131	\$ 198,809,006	\$ 81,423,218	\$ 1,228,126,240	\$ 2,548,736,731
Millage	0.028	0.028	0.009	0.009	0.009	0.009	0.009	0.009	
Original tax levied	\$ 498,236	\$ 209,610	\$ 1,970,095	\$ 6,208,746	\$ 1,153,128	\$ 1,828,051	\$ 748,687	\$ 11,292,627	\$ 23,909,180
Net interim additions (abatements)	236	(860)	(197)	(15,914)	-	(3,723)	(2,111)	(1,261,340)	(1,283,909)
Total tax levied	498,472	208,750	1,969,898	6,192,832	1,153,128	1,824,328	746,576	10,031,287	22,625,271
Less:									
Collections	(463,939)	(188,086)	(1,802,435)	(5,789,894)	(1,072,815)	(1,615,864)	(646,260)	(9,151,484)	(20,730,777)
Taxes turned over to delinquent collector	(34,533)	(20,664)	(167,463)	(402,938)	(80,313)	(208,464)	(100,316)	(879,803)	(1,894,494)
Taxes outstanding with collectors as of June 30, 2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Summary of collections:									
Amount paid:									
At discount	\$ 354,500	\$ 146,000	\$ 1,492,050	\$ 5,058,550	\$ 900,100	\$ 1,306,400	\$ 525,650	\$ 7,724,700	\$ 17,507,950
At face	81,639	32,676	211,695	580,764	148,605	253,334	88,850	839,164	2,236,727
At penalty	27,800	9,410	98,690	150,580	24,110	56,130	31,760	587,620	986,100
Total collections	\$ 463,939	\$ 188,086	\$ 1,802,435	\$ 5,789,894	\$ 1,072,815	\$ 1,615,864	\$ 646,260	\$ 9,151,484	\$ 20,730,777

HAZLETON AREA SCHOOL DISTRICT
RECONCILIATION OF REAL ESTATE TAX DUPLICATE
JUNE 30, 2014

	HAZLETON CITY	JEDDO BOROUGH	SUGARLOAF TOWNSHIP	WEST HAZLETON BOROUGH	EAST UNION TOWNSHIP	KLINE TOWNSHIP	MCADOO BOROUGH	NORTH UNION TOWNSHIP	TOTAL
Original assessed valuation	\$ 818,087,198	\$ 1,494,615	\$ 344,387,709	\$ 189,784,450	\$ 104,826,667	\$ 17,444,891	\$ 13,525,944	\$ 27,067,839	\$ 4,065,356,044
Millage	0.009	0.009	0.009	0.009	0.031	0.031	0.031	0.031	
Original tax levied	\$ 7,522,312	\$ 13,415	\$ 3,166,645	\$ 1,745,068	\$ 3,204,866	\$ 533,343	\$ 413,529	\$ 827,545	\$ 41,335,903
Net interim additions (abatements)	(43,852)	-	(17,752)	(1,750)	(303,851)	(2,303)	(291)	(2,406)	(1,656,114)
Total tax levied	7,478,460	13,415	3,148,893	1,743,318	2,901,015	531,040	413,238	825,139	39,679,789
Less:									
Collections	(6,377,676)	(11,231)	(2,935,017)	(1,602,638)	(2,820,679)	(482,027)	(351,229)	(753,963)	(36,065,237)
Taxes turned over to delinquent collector	(1,099,702)	(2,184)	(213,876)	(140,680)	(80,336)	(49,013)	(62,009)	(71,168)	(3,613,462)
Taxes outstanding with collectors as of June 30, 2014	\$ 1,082	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ 1,090
Summary of collections:									
Amount paid:									
At discount	\$ 5,246,550	\$ 6,100	\$ 2,533,150	\$ 1,382,950	\$ 2,638,700	\$ 408,750	\$ 275,650	\$ 601,750	\$ 30,601,550
At face	772,456	4,291	295,357	163,528	110,449	50,357	42,549	114,103	3,789,817
At penalty	358,670	840	106,510	56,160	71,530	22,920	33,030	38,110	1,673,870
Total collections	\$ 6,377,676	\$ 11,231	\$ 2,935,017	\$ 1,602,638	\$ 2,820,679	\$ 482,027	\$ 351,229	\$ 753,963	\$ 36,065,237

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Grantor/Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received	Accrued (Deferred) Revenue At July 1, 2013	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue At June 30, 2014
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
<u>Passed Through PA Department of Public Welfare</u>										
Medical Assistance Program	I	93.778	N/A	N/A	N/A	\$ 153,946	\$ (255,965)	\$ 102,130	\$ 102,130	\$ (307,781)
U.S. DEPARTMENT OF EDUCATION										
<u>Passed Through PA Department of Education</u>										
Program Improvement - Setaside	I	84.010	042-130187	04/30/13-09/30/14	121,209	121,209	-	121,209	121,209	-
Program Improvement - Setaside	I	84.010	042-120187	04/16/12-09/30/13	96,872	-	(10,531)	10,531	10,531	-
E.S.E.A. Title 1	I	84.010	013-140187	07/02/13-09/30/14	3,177,719	2,976,890	-	3,177,719	3,177,719	200,829
E.S.E.A. Title 1	I	84.010	013-130187	07/03/12-09/30/14	3,489,665	907,913	232,856	675,057	675,057	-
Title II Improving Teacher Quality	I	84.367	020-140187	07/02/13-09/30/14	454,502	428,234	-	454,502	454,502	26,268
Title II Improving Teacher Quality	I	84.367	020-130187	07/03/12-09/30/14	457,658	304,331	175,098	129,233	129,233	-
Title II Improving Teacher Quality	I	84.367	020-120187	07/01/11-09/30/12	536,985	57,865	57,865	-	-	-
Title III Lang. Inst. LEP/Immigrant Students	I	84.365	010-140187	07/02/13-09/30/14	323,695	323,695	-	323,695	323,695	-
Title III Lang. Inst. LEP/Immigrant Students	I	84.365	010-130187	07/03/12-09/30/14	349,039	139,616	(575)	140,191	140,191	-
Title III Lang. Inst. LEP/Immigrant Students	I	84.365	010-120187	07/01/11-09/30/12	372,980	129,495	129,495	-	-	-
Special Education - Preschool Grants	I	84.027	131-130018	07/01/13-06/30/14	580,280	580,280	-	580,280	580,280	-
Special Education - Preschool Grants	I	84.173	131-130018	07/01/13-06/30/14	200,355	200,355	-	200,355	200,355	-
Secondary Allocations	I	84.048	380-144069	07/01/13-06/30/14	188,304	109,844	-	188,304	188,304	78,460
<u>Passed Through Luzerne Intermediate Unit18</u>										
IDEA	I	84.027	N/A	07/01/13-06/30/14	141,346	141,346	-	141,346	141,346	-
IDEA	I	84.027	N/A	07/01/13-06/30/14	778,573	778,573	-	778,573	778,573	-
ARRA- Race To The Top	I	84.431A	B413A120004	12/22/11-12/22/15	210,981	138,551	53,873	103,178	103,178	18,500
<u>Direct from U.S. Department of Education</u>										
Direct Student Loans	D	84.268	N/A	07/01/13-06/30/14	N/A	152,438	-	152,438	152,438	-
Federal Pell Grant Program	D	84.063	N/A	07/01/13-06/30/14	N/A	85,015	-	85,015	85,015	-
TOTAL U.S. DEPARTMENT OF EDUCATION						<u>7,575,650</u>	<u>638,081</u>	<u>7,261,626</u>	<u>7,261,626</u>	<u>324,057</u>

Source Codes

- D = Direct Funding
- I = Indirect Funding
- S = State Funding

HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Grantor/Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received	Accrued (Deferred) Revenue At July 1, 2013	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue At June 30, 2014
U.S. DEPARTMENT OF AGRICULTURE										
<u>Passed Through PA Department of Agriculture</u>										
Food Distribution	I	10.555	N/A	07/01/13-06/30/14	N/A	\$ 283,716	\$ (44,074)	\$ 288,065	\$ 288,065	\$ (39,725)
<u>Passed Through PA Department of Education</u>										
National School Lunch Program	I	10.555	64-000 (Fed)	07/01/13-06/30/14	N/A	3,133,401	502,985	3,119,984	3,119,984	489,568
	S		(State)	07/01/13-06/30/14	N/A	47,554	8,529	47,037	47,037	8,012
School Breakfast Program	I	10.553	N/A (Fed)	07/01/13-06/30/14	N/A	814,651	143,061	810,620	810,620	139,030
	S		(State)	07/01/13-06/30/14	N/A	174,720	28,401	173,268	173,268	26,949
Summer Food Service Program	I	10.559	N/A	07/01/13-06/30/14	N/A	97,782	10,598	99,660	99,660	12,476
Fresh Fruits and Vegetables	I	10.582	N/A (Fed)	07/01/13-06/30/14	N/A	94,341	16,854	90,478	90,478	12,991
TOTAL U.S. DEPARTMENT OF AGRICULTURE						<u>4,646,165</u>	<u>666,354</u>	<u>4,629,112</u>	<u>4,629,112</u>	<u>649,301</u>
TOTAL FEDERAL AND STATE FINANCIAL ASSISTANCE						<u>\$ 12,375,761</u>	<u>\$ 1,048,470</u>	<u>\$ 11,992,868</u>	<u>\$ 11,992,868</u>	<u>\$ 665,577</u>

Note : This schedule includes the federal award activity of the Hazleton Area School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts may differ from amounts presented in, or used in the preparation of the basic financial statements.

See Notes to Financial Statements

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of School Directors
Hazleton Area School District
Hazleton, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Hazleton Area School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hazleton Area School District's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of School Directors
Hazleton Area School District
Hazleton, Pennsylvania

Compliance and Other Matters

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

Purpose of this Report

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

Maullie LLP

Oaks, Pennsylvania
December 15, 2014

***Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance in Accordance with OMB Circular A-133***

To the Board of School Directors
Hazleton Area School District
Hazleton, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Hazleton Area School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Hazleton Area School District's major federal programs for the year ended June 30, 2014. The Hazleton Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Hazleton Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Hazleton Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hazleton Area School District's compliance.

To the Board of School Directors
Hazleton Area School District
Hazleton, Pennsylvania

Opinion of Each Major Federal Program

In our opinion, the Hazleton Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

Purpose of this report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Oaks, Pennsylvania
December 15, 2014

**HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued: UNMODIFIED

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X no

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ Yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X no

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X no

Type of auditors' report issued on compliance for major programs: UNMODIFIED

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555/10.553/10.559	Child Nutrition Cluster

HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Dollar threshold used to distinguish
between type A and type B programs \$353,177

Auditee qualified as low-risk auditee? X yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.
