

**HAZLETON AREA SCHOOL DISTRICT**

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**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2006  
&  
INDEPENDENT AUDITORS' REPORT  
&  
ADDITIONAL INFORMATION  
&  
SINGLE AUDIT REPORTS**

## TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT .....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	5
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS.....	14
STATEMENT OF ACTIVITIES .....	15
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET – GOVERNMENTAL FUNDS.....	16
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS .....	17
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES .....	18
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND.....	19
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS .....	20
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS – PROPRIETARY FUNDS.....	21
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS .....	22
STATEMENT OF FIDUCIARY NET ASSETS .....	23
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS.....	24
NOTES TO FINANCIAL STATEMENTS .....	25

## ADDITIONAL INFORMATION:

COMBINING BALANCE SHEET – CAPITAL PROJECTS FUNDS - SCHEDULE .....	48
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – CAPITAL PROJECTS FUNDS.....	49
SCHEDULE OF GENERAL FUND REVENUES FROM LOCAL SOURCES .....	50
SCHEDULE OF GENERAL FUND REVENUES FROM COMMONWEALTH SOURCES .....	51
SCHEDULE OF GENERAL FUND REVENUES FROM FEDERAL SOURCES .....	52
SCHEDULE OF GENERAL FUND EXPENDITURES BY SUBFUNCTION.....	53
SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT – INSTRUCTION EXPENDITURES.....	54
SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT – SUPPORT SERVICES EXPENDITURES.....	55
SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT – NONINSTRUCTIONAL SERVICES EXPENDITURES .....	56
SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT – FACILITIES ACQUISITION, CONSTRUCTION AND IMPROVEMENT SERVICES AND DEBT SERVICES EXPENDITURES .....	57
RECONCILIATION OF REAL ESTATE TAX DUPLICATE.....	58
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	60

## SINGLE AUDIT REPORTS:

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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	62
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	64
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	66

## INDEPENDENT AUDITORS' REPORT

Board of School Directors  
Hazleton Area School District  
Hazleton, Pennsylvania:

We have audited the accompanying basic 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 (the "School District"), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hazleton Area School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2006 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis ("MD&A") on pages 5 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining financial statements and schedules in the foregoing table of contents on pages 48-59 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompany schedule of expenditures of federal awards on pages 60-61 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Parente Randolph, LLC*

Hazleton, Pennsylvania  
October 31, 2006

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

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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, 2006 compared to June 30, 2005. 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.

**FINANCIAL HIGHLIGHTS**

Total net assets of the School District decreased \$3,635,817 in 2006 compared to a decrease of \$6,472,547 in 2005. Net assets of governmental activities decreased \$3,572,650 as compared to a decrease of \$6,333,470 in 2005 and net assets of business-type activities decreased \$63,167 as compared to a decrease of \$139,077 in 2005.

As of June 30, 2006, the School District's total unrestricted net assets are \$10,737,766. The School District plans to use a portion of the net assets for future claims relative to the School District's self-insured healthcare program for former employees and their spouses covered under Early Retirement Incentive programs.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements of the School District are composed of government-wide financial statements and fund financial statements. The government-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 government-wide statements are prepared on an economic resources measurement focus which includes all the School District's resources, both capital and financial, current and long-term. The two statements included in government-wide reporting are the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets 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 revenues. 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 proprietary funds.

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

The fund financial statements provide a more detailed look at specific activities or groups of activities as compared to the government-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 proprietary 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, Capital Projects Fund, Capital Reserve Fund and Athletic Fund and the major funds for the proprietary funds are the Food Service and Modular Home Funds.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following chart shows a condensed statement of net assets for the fiscal years ended June 30, 2006 and June 30, 2005. Prior year data is included for comparison purposes.

**CONDENSED STATEMENT OF NET ASSETS**

	GOVERNMENTAL .....ACTIVITIES.....		INCREASE (DECREASE)	BUSINESS-TYPE .....ACTIVITIES.....		INCREASE (DECREASE)
	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>	
Current assets	\$ 18,090,356	\$ 24,064,562	\$(5,974,206)	\$ 927,132	\$1,007,979	\$ (80,847)
Noncurrent assets	<u>117,191,493</u>	<u>117,300,815</u>	<u>(109,322)</u>	<u>732,852</u>	<u>778,740</u>	<u>(45,888)</u>
Total assets	<u>135,281,849</u>	<u>141,365,377</u>	<u>(6,083,528)</u>	<u>1,659,984</u>	<u>1,786,719</u>	<u>(126,735)</u>
Long-term debt outstanding	114,431,498	117,815,541	(3,384,043)			
Other liabilities	<u>20,006,407</u>	<u>19,133,242</u>	<u>873,165</u>	<u>27,650</u>	<u>91,218</u>	<u>(63,568)</u>
Total liabilities	<u>134,437,905</u>	<u>136,948,783</u>	<u>(2,510,878)</u>	<u>27,650</u>	<u>91,218</u>	<u>(63,568)</u>
Net assets:						
Invested in capital assets, net of related debt	(4,679,035)	(4,053,748)	(625,287)	732,852	778,740	(45,888)
Restricted	43,103	79,944	(36,841)			
Unrestricted	<u>5,479,876</u>	<u>8,390,398</u>	<u>(2,910,522)</u>	<u>899,482</u>	<u>916,761</u>	<u>(17,279)</u>
Total net assets	<u>\$ 843,944</u>	<u>\$ 4,416,594</u>	<u>\$(3,572,650)</u>	<u>\$1,632,334</u>	<u>\$1,695,501</u>	<u>\$(63,167)</u>

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

CONDENSED STATEMENT OF ACTIVITIES

	GOVERNMENTAL .....ACTIVITIES.....		INCREASE (DECREASE)	BUSINESS-TYPE .....ACTIVITIES.....		INCREASE (DECREASE)
	<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>	
REVENUES:						
Program Revenues:						
Charges for services	\$ 817,987	\$ 1,035,401	\$ (217,414)	\$1,316,988	\$1,302,096	\$ 14,892
Operating and capital grants and contributions	23,328,422	22,996,883	331,539	2,518,234	2,110,126	408,108
General Revenues:						
Property taxes	25,811,047	25,069,633	741,414			
State formula aide	21,804,817	19,088,700	2,716,117			
Other	<u>14,988,457</u>	<u>15,713,342</u>	<u>(724,885)</u>	<u>75,504</u>	<u>21,186</u>	<u>54,318</u>
Total revenues	<u>86,750,730</u>	<u>83,903,959</u>	<u>2,846,771</u>	<u>3,910,726</u>	<u>3,433,408</u>	<u>477,318</u>
EXPENSES:						
Instruction	53,404,393	52,720,641	683,752			
Instructional student support	6,315,538	5,462,530	853,008			
Administration and business	6,368,905	6,655,779	(286,874)			
Maintenance and operations	7,864,430	7,415,307	449,123			
Transportation	4,398,955	4,512,565	(113,610)			
Other	<u>11,971,159</u>	<u>13,470,607</u>	<u>(1,499,448)</u>	<u>3,973,893</u>	<u>3,572,485</u>	<u>401,408</u>
Total expenses	<u>90,323,380</u>	<u>90,237,429</u>	<u>85,951</u>	<u>3,973,893</u>	<u>3,572,485</u>	<u>401,408</u>
CHANGE IN NET ASSETS	(3,572,650)	(6,333,470)	2,760,820	(63,167)	(139,077)	75,910
NET ASSETS, BEGINNING	<u>4,416,594</u>	<u>10,750,064</u>	<u>(6,333,470)</u>	<u>1,695,501</u>	<u>1,834,578</u>	<u>(139,077)</u>
NET ASSETS, ENDING	<u>\$ 843,944</u>	<u>\$ 4,416,594</u>	<u>\$(3,572,650)</u>	<u>\$1,632,334</u>	<u>\$1,695,501</u>	<u>\$(63,167)</u>

Analysis of these charts indicates that the total net assets for governmental activities were reduced by \$3,572,650. Expenses exceeded revenues by this amount with the largest percentage increase in expenses occurring in the categories of Maintenance Operations, Instruction and Instructional Student Support. A large portion of the increase was due to increasing costs of health benefits and increasing expense due to increasing student enrollment.



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

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Business-type activities show a 3.73% reduction in total net assets. Expenses exceeded revenues by \$63,167 due to increases in health benefits and contracted salaries. However, net assets remain within acceptable limits and it was determined that an increase in prices for student lunches was not necessary.

The cost of health benefits remained high during the 2005-2006 fiscal year. The General Fund spent a total of \$12,258,588 on health benefits which was \$1,939,228 more than budgeted.

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

	<u>2006</u>	<u>2005</u>
Land and improvements	\$ 3,024,102	\$ 2,541,927
Buildings and building improvements	74,250,640	78,227,601
Furniture and equipment	2,255,973	1,791,054
Construction-in-progress	<u>25,815,594</u>	<u>4,941,276</u>
Total	<u>\$105,346,309</u>	<u>\$87,501,858</u>

Net capital assets have increased as a result of the current building program which will be substantially completed during the 2006-2007 fiscal year.

OUTSTANDING LONG-TERM DEBT AT JUNE 30,

	<u>2006</u>	<u>2005</u>
General obligation bonds	\$115,068,376	\$117,740,539
Other long-term debt	<u>4,042,397</u>	<u>4,181,483</u>
Total	<u>\$119,110,773</u>	<u>\$121,922,022</u>

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

The School District made debt payments of \$3,580,000 on its General Obligation Bonds and recognized accretion of \$1,166,294. Other long-term debt includes capital leases, an installment loan and compensated absences as follows:

OTHER LONG-TERM DEBT

	<u>LEASES</u>	INSTALLMENT <u>LOAN</u>	COMPENSATED <u>ABSENCES</u>	<u>TOTAL</u>
Balance at June 30, 2005	\$2,330,950	\$42,664	\$1,807,869	\$ 4,181,483
Additional debt during year	-	-	105,066	105,066
Retirement and repayments	<u>(235,373)</u>	<u>(8,779)</u>	-	<u>(244,152)</u>
Balance at June 30, 2006	<u>\$2,095,577</u>	<u>\$33,885</u>	<u>\$1,912,935</u>	<u>\$4,042,397</u>

FUND FINANCIAL ANALYSIS

The following chart shows the final budgeted amounts versus the actual revenues and expenditures for the General Fund.

BUDGET VERSUS ACTUAL  
 GENERAL FUND

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenues	\$87,324,846	\$85,539,013	\$(1,785,833)
Expenditures	87,580,635	88,161,070	(580,435)
Other financing sources (uses)	<u>(1,112,740)</u>	<u>(864,990)</u>	<u>247,750</u>
Net change in fund balance	<u>\$(1,368,529)</u>	<u>\$(3,487,047)</u>	<u>\$(2,118,518)</u>

The chart shows that the School District expended \$2,118,518 more than budgeted. The majority of the expenses resulted from health insurance costs being higher than expected and salaries being lower than expected due to more retirements than anticipated.

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

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The following chart shows the 2006 and 2005 fund balances.

FUND BALANCES (DEFICIT)

	<u>2005-2006</u>	<u>2004-2005</u>	<u>TOTAL PERCENTAGE CHANGE %</u>
General Fund	\$8,130,827	\$11,617,874	(30.01)
Capital Projects	7,905,346	28,192,595	(69.88)
Capital Reserve	43,103	79,944	(46.08)
Athletic	137,170	75,148	82.53
Food Service	1,714,955	1,810,084	(5.25)
Modular Home	(82,621)	(114,583)	27.89

The percentage changes in Fund Balances indicates that all funds except Athletic and Modular Home Fund show a decrease in fund balance from the previous year. The large decrease in fund balance for the Capital Projects Fund was due to spending for the current building program in the amount of \$21,405,539 during the 2005-2006 fiscal year. It is anticipated that this building program will be completed by December 2006. The increase in fund balance for the Athletic Fund is the result of increasing gate receipts for athletic events and an additional \$66,494 in support from the General Fund.

The General Fund budget was adopted with an anticipated decrease in fund balance of \$1,368,529 as shown in the Condensed Budget vs. Actual chart. In addition, actual expenditures exceeded budgeted expenditures by \$580,435 and actual revenues fell short of budgeted revenues by \$1,785,833. The net affect of all variations was to decrease the Fund Balance of the General Fund by \$3,487,047. The shortfall in revenues was mainly due to budgeted federal revenues, which were more than actual revenues by \$1,785,833. The shortfall of revenues and the budgeted decrease in fund balance were the main reason for the overall decrease in the fund balance of the General Fund.

The Food Service Program showed a \$95,129 decrease in fund balance. The major portion of this decline is due to increasing costs of salaries and fringe benefits. The Modular Home Fund showed an increase of \$31,962 in fund balance due to the sale of a modular home, which was built as a student project.

### LABOR RELATIONS

All employees worked under existing contracts or salary schedules during the 2005-2006 fiscal year. The contract with the Hazleton Area Education Foundation, which represents teachers and other professional employees, extends from September 2002 through August 31, 2006. All unionized employees, except those represented by the Hazleton Area Educational Support Personnel Association, are working under contracts that were ratified during 2005-2006. The Hazleton Area Support Personnel Association represents bus drivers, secretaries, aides and cafeteria workers and the contract with the School District was signed September 2006 and is effective to June 30, 2011.

### INCREASING ENROLLMENTS

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

#### ENROLLMENT HISTORY

<u>SCHOOL YEAR</u>	<u>ENROLLMENT</u>	<u>PERCENTAGE INCREASE</u>
2006-2007 (Projected)	10,000	2.20
2005-2006	9,784	2.76
2004-2005	9,521	1.86
2003-2004	9,347	6.06
2002-2003	8,813	2.96

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

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The chart indicates that there has been a steady increase in enrollments. This increase has caused an overcrowding situation to develop. The School Board adopted a building program as follows:

- (a) An addition of eight classrooms to the Drums Elementary/Middle School.
- (b) Renovations to the former Hazleton High School ("The Castle") to become the Hazleton Elementary/Middle School which will house grades 3 to 8. The Arthur Street Elementary School, which is located ½ mile away, will be converted from a kindergarten – 6<sup>th</sup> grade facility to a kindergarten – 2<sup>nd</sup> grade primary center with no renovations needed.
- (c) Renovations to the existing Harman-Geist Stadium and football field to include a synthetic playing surface. The existing track will be abandoned.
- (d) Construction of a new track and field facility with field house next to the Hazle Elementary School and Hazleton Area High School.
- (e) The current Hazle Elementary School will be used as a 9<sup>th</sup> and 10<sup>th</sup> grade annex to the Hazleton Area High School in order to alleviate overcrowding at that building. The current elementary students at this building will be transferred to other school, with the majority going to the newly renovated Hazleton Elementary/Middle School. In order to finance this building program, the school board approved the issuance of General Obligation Bonds, Series of 2004 in the amount of \$31,455,000. These bonds were issued on July 1, 2004 and it is anticipated that the bonds will be financed by increasing property taxes 4 mills per year for a three-year period beginning fiscal year 2004-2005.

As of June 30, 2006, the building program was completed except for the renovations to the former Hazleton High School ("The Castle") and construction of a new track and field facility. It is anticipated that the Castle will be completed and put into operations during the 2006-2007 school year. The new track will be completed for use in the 2006-2007 school year.

## SUMMARY

The School District's enrollment continues to increase. 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 total fund balances and total net assets of the School District continue to decrease due to the necessity to increase spending in order to accommodate the increasing number of students and spiraling health benefit costs. The property tax was increased by 4 mills in the 2004-2005 and 2005-2006 fiscal year in order to fund the current building program. The remaining funding for this program will be put in place during the 2006-2007 fiscal year with a 4 mill increase in property taxes. 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 23<sup>rd</sup> Street, Hazleton, PA 18202.

**HAZLETON AREA SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 12,159,236	\$ 760,359	\$ 12,919,595
Taxes receivables, net	2,586,940		2,586,940
Internal balances	411,486	(411,486)	-
Due from other governments	2,241,575	401,551	2,643,126
Other receivables	176,754	6,952	183,706
Inventories	457,369	169,756	627,125
Prepaid expenses	56,996		56,996
<b>Total current assets</b>	<b>18,090,356</b>	<b>927,132</b>	<b>19,017,488</b>
<b>CAPITAL ASSETS:</b>			
Land and improvements	3,024,102		3,024,102
Buildings and improvements	74,250,640		74,250,640
Furniture and equipment	1,523,121	732,852	2,255,973
Construction in progress	25,815,594		25,815,594
<b>Total capital assets, net of accumulated depreciation</b>	<b>104,613,457</b>	<b>732,852</b>	<b>105,346,309</b>
Restricted assets	12,486,685		12,486,685
Other assets	91,351		91,351
<b>Total noncurrent assets</b>	<b>12,578,036</b>	<b>-</b>	<b>12,578,036</b>
<b>Total assets</b>	<b>\$ 135,281,849</b>	<b>\$ 1,659,984</b>	<b>\$ 136,941,833</b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 6,065,391	\$ 20,076	\$ 6,085,467
Current maturities:			
Bonds payable	4,420,000		4,420,000
Capital lease obligations	228,077		228,077
Compensated absences	21,690		21,690
Installment loan	9,508		9,508
Accrued salaries and benefits	6,360,143		6,360,143
Payroll deductions and withholdings	451,104		451,104
Accrued interest payable	1,718,675		1,718,675
Intergovernmental payables	177,203		177,203
Other liabilities	371,411	7,574	378,985
Arbitrage liability	175,124		175,124
Deferred revenue	8,081		8,081
<b>Total current liabilities</b>	<b>20,006,407</b>	<b>27,650</b>	<b>20,034,057</b>
<b>NONCURRENT LIABILITIES:</b>			
Bonds payable	110,648,376		110,648,376
Capital lease obligation	1,867,500		1,867,500
Compensated absences	1,891,245		1,891,245
Installment loan	24,377		24,377
<b>Total noncurrent liabilities</b>	<b>114,431,498</b>	<b>-</b>	<b>114,431,498</b>
<b>Total liabilities</b>	<b>134,437,905</b>	<b>27,650</b>	<b>134,465,555</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	(4,679,035)	732,852	(3,946,183)
Restricted	43,103		43,103
Unrestricted	5,479,876	899,482	6,379,358
<b>Total net assets</b>	<b>843,944</b>	<b>1,632,334</b>	<b>2,476,278</b>
<b>Total liabilities and net assets</b>	<b>\$ 135,281,849</b>	<b>\$ 1,659,984</b>	<b>\$ 136,941,833</b>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental activities:							
Instructional student support	\$ 53,404,393	\$ 733,294	\$ 18,046,488		\$(34,624,611)		\$(34,624,611)
Administrative and financial support services	6,315,538				(6,315,538)		(6,315,538)
Operation and maintenance of plant services	6,368,905			\$ 1,084,811	(6,368,905)		(6,368,905)
Pupil transportation	7,864,430		2,227,903		(6,779,619)		(6,779,619)
Student activities	4,389,955				(2,162,052)		(2,162,052)
Community services	1,096,900	77,449			(1,019,451)		(1,019,451)
Interest on long-term debt	745,888	7,244	1,969,220		(738,644)		(738,644)
Depreciation - unallocated	6,118,821				(4,149,601)		(4,149,601)
	4,018,550				(4,018,550)		(4,018,550)
Total governmental activities	90,323,380	817,987	22,243,611	1,084,811	(66,176,971)		(66,176,971)
Business-type activities:							
Food Service	3,988,244	1,280,466	2,518,234			\$ (169,544)	(169,544)
Modular Home	5,649	36,522				30,873	30,873
Total business-type activities	3,973,893	1,316,988	2,518,234			(138,671)	(138,671)
Total	\$ 94,297,273	\$ 2,134,975	\$ 24,761,845	\$ 1,084,811	(66,176,971)	(138,671)	(66,315,642)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes, net					25,811,047		25,811,047
Other taxes levied					14,056,567		14,056,567
Grants and entitlements not restricted to specific programs					21,804,817		21,804,817
Investment earnings, unrestricted					853,257	30,651	883,908
Special items, gain on sale of assets					67,313		67,313
Miscellaneous					11,320	44,853	56,173
Total general revenues and transfers					62,604,321	75,504	62,679,825
Change in net assets					(3,572,650)	(63,167)	(3,635,817)
Net assets - beginning					4,416,594	1,695,501	6,112,095
Net assets - ending					\$ 843,944	\$ 1,632,334	\$ 2,476,278

See Notes to Financial Statements



**HAZLETON AREA SCHOOL DISTRICT**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	GENERAL	CAPITAL PROJECTS	CAPITAL RESERVE	ATHLETIC FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>					
Cash and cash equivalents	\$12,134,403	\$12,385,956	\$46,787	\$ 78,774	\$ 24,645,920
Taxes receivable, net	2,586,940				2,586,940
Due from other funds	572,331	27,345			599,676
Due from other governments	2,241,575				2,241,575
Other receivables	6,086	170,292			176,378
Inventories	395,169			62,200	457,369
Prepaid expenses	56,996				56,996
<b>TOTAL ASSETS</b>	<b>\$17,993,500</b>	<b>\$12,583,593</b>	<b>\$46,787</b>	<b>\$ 140,974</b>	<b>\$ 30,764,854</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 1,540,124	\$ 4,518,247	\$ 3,684	\$ 3,335	\$ 6,065,390
Accrued salaries and benefits	6,360,143				6,360,143
Payroll deductions and withholdings	451,104				451,104
Accrued compensated absences	21,690				21,690
Intergovernmental payables	177,203				177,203
Due to other funds	27,345	160,000		469	187,814
Other liabilities	371,411				371,411
Deferred revenues	913,653				913,653
<b>Total liabilities</b>	<b>9,862,673</b>	<b>4,678,247</b>	<b>3,684</b>	<b>3,804</b>	<b>14,548,408</b>
<b>Fund Balances:</b>					
Reserved for inventories	395,169				395,169
Reserved for encumbrances	95,785				95,785
Reserved for health insurance	5,342,270				5,342,270
Specific fund balance reserve	546				546
Reserved for capital projects		7,905,346	43,103		7,948,449
Unreserved, undesignated	2,297,057			137,170	2,434,227
<b>Total fund balances</b>	<b>8,130,827</b>	<b>7,905,346</b>	<b>43,103</b>	<b>137,170</b>	<b>16,216,446</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$17,993,500</b>	<b>\$12,583,593</b>	<b>\$46,787</b>	<b>\$ 140,974</b>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not reported as assets in governmental funds. The cost of assets is \$161,671,566 and the accumulated depreciation is \$57,058,109					
Unamortized portion of issue costs are not financial resources and therefore not reported as assets in governmental funds. The original issue costs for the new debt issue was \$99,783 and the accumulated amortization was \$8,432					
Unamortized portion of bond discount is not a financial resource and therefore not reported as assets in governmental funds. The original bond discount for the new debt issue was \$282,314 and the accumulated amortization was \$23,858					
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 funds					
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				\$(115,326,833)	
Capital lease obligation				(2,095,577)	
Installment loan				(33,885)	
Accrued interest				(1,718,675)	
Compensated absences				(1,891,245)	(121,066,215)
Interest earnings in excess of interest expense on bond proceeds (arbitrage liability)					(175,124)
<b>Net assets of governmental activities</b>					<b>\$ 843,944</b>

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, 2006

	GENERAL	CAPITAL PROJECT FUND	CAPITAL RESERVE	ATHLETIC FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>					
Local sources	\$41,596,525	\$ 1,084,811	\$ 2,253	\$ 77,449	\$42,761,038
State sources	38,218,835				38,218,835
Federal sources	5,723,653				5,723,653
Total revenues	<u>85,539,013</u>	<u>1,084,811</u>	<u>2,253</u>	<u>77,449</u>	<u>86,703,526</u>
<b>EXPENDITURES:</b>					
Instruction	53,131,084				53,131,084
Support services	24,707,020				24,707,020
Noninstructional services	962,371	33,835		880,417	1,876,623
Capital outlay	70,450	21,405,539	39,094		21,515,083
Debt service	9,290,145	-			9,290,145
Total expenditures	<u>88,161,070</u>	<u>21,439,374</u>	<u>39,094</u>	<u>880,417</u>	<u>110,519,955</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(2,622,057)</u>	<u>(20,354,563)</u>	<u>(36,841)</u>	<u>(802,968)</u>	<u>(23,816,429)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Sale of fixed assets		67,314			67,314
Transfers in				864,990	864,990
Transfers out	(864,990)				(864,990)
Other financing sources (uses), net	<u>(864,990)</u>	<u>67,314</u>	<u>-</u>	<u>864,990</u>	<u>67,314</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(3,487,047)</u>	<u>(20,287,249)</u>	<u>(36,841)</u>	<u>62,022</u>	<u>(23,749,115)</u>
<b>FUND BALANCE, BEGINNING</b>	<u>11,617,874</u>	<u>28,192,595</u>	<u>79,944</u>	<u>75,148</u>	<u>39,965,561</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 8,130,827</u>	<u>\$ 7,905,346</u>	<u>\$ 43,103</u>	<u>\$ 137,170</u>	<u>\$ 16,216,446</u>

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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, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$(23,749,115)

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 capital outlays exceeded depreciation in the current  
period.

Capital outlays	\$ 21,515,083	
Less depreciation expense	<u>(4,394,510)</u>	17,120,573

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 funds. (20,109)

In the statement of activities, appreciation of bonds is accrued  
on outstanding debt. (1,166,294)

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	3,580,000	
Capital lease obligation	235,373	
Installment loan	<u>8,779</u>	3,824,152

In the statement of activities, interest is accrued on outstanding debt,  
whereas in governmental funds, an interest expenditure is  
reported when due. 18,968

In the statement of activities, compensated absences are accrued,  
whereas in governmental funds, a benefit expenditure is  
reported when taken. (95,320)

Issue costs of \$99,783 were reported on the government fund  
statements when the debt was incurred. Amortization of issue  
costs are recorded in the statement of activities. (4,216)

Bond discount of \$282,314 was reported on the government fund  
statements when the debt was incurred. Amortization of issue  
costs are recorded in the statement of activities. (11,929)

In the statement of activities, interest earnings in excess of  
interest paid is recorded as a liability. 510,640

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (3,572,650)

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, 2006**

	ORIGINAL	FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
Local sources	\$41,170,700	\$41,170,700	\$41,596,525	\$ 425,825
State sources	39,055,688	39,018,732	38,218,835	(799,897)
Federal sources	<u>7,435,414</u>	<u>7,135,414</u>	<u>5,723,653</u>	<u>(1,411,761)</u>
Total revenues	<u>87,661,802</u>	<u>87,324,846</u>	<u>85,539,013</u>	<u>(1,785,833)</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction	53,621,822	53,126,072	53,131,084	(5,012)
Support services	23,615,833	24,104,451	24,707,020	(602,569)
Noninstructional services	972,670	972,670	962,371	10,299
Capital outlay	56,000	65,382	70,450	(5,068)
Debt service	<u>9,312,060</u>	<u>9,312,060</u>	<u>9,290,145</u>	<u>21,915</u>
Total expenditures	<u>87,578,385</u>	<u>87,580,635</u>	<u>88,161,070</u>	<u>(580,435)</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>83,417</u>	<u>(255,789)</u>	<u>(2,622,057)</u>	<u>(2,366,268)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Other	5,000	5,000	-	(5,000)
Fund transfers	(719,990)	(719,990)	(864,990)	(145,000)
Budgetary reserve	<u>(400,000)</u>	<u>(397,750)</u>	<u>-</u>	<u>397,750</u>
Total other financing sources (uses), net	<u>(1,114,990)</u>	<u>(1,112,740)</u>	<u>(864,990)</u>	<u>247,750</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,031,573)	(1,368,529)	(3,487,047)	(2,118,518)
<b>FUND BALANCE, BEGINNING</b>	<u>4,936,122</u>	<u>4,936,122</u>	<u>11,617,874</u>	<u>6,681,752</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 3,904,549</u>	<u>\$ 3,567,593</u>	<u>\$ 8,130,827</u>	<u>\$ 4,563,234</u>

See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2006

	FOOD SERVICE	MODULAR HOME	TOTAL
<b>ASSETS:</b>			
Current assets:			
Cash	\$ 710,666	\$ 49,693	\$ 760,359
Due from other governments	401,551		401,551
Other receivables	6,952		6,952
Inventories	<u>169,756</u>		<u>169,756</u>
Total current assets	1,288,925	49,693	1,338,618
Capital assets, net	<u>717,597</u>	<u>15,255</u>	<u>732,852</u>
Total assets	<u>\$2,006,522</u>	<u>\$ 64,948</u>	<u>\$2,071,470</u>
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	\$ 20,076		\$ 20,076
Due to other funds	263,917	\$147,569	411,486
Other current liabilities	<u>7,574</u>		<u>7,574</u>
Total current liabilities	<u>291,567</u>	<u>147,569</u>	<u>439,136</u>
<b>NET ASSETS:</b>			
Invested in capital assets	717,597	15,255	732,852
Unrestricted net assets (deficit)	<u>997,358</u>	<u>(97,876)</u>	<u>899,482</u>
Total net assets (deficit)	<u>1,714,955</u>	<u>(82,621)</u>	<u>1,632,334</u>
Total liabilities and net assets	<u>\$2,006,522</u>	<u>\$ 64,948</u>	<u>\$2,071,470</u>

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See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2006

	FOOD SERVICE	MODULAR HOME	TOTAL
<b>OPERATING REVENUES:</b>			
Food service	\$1,280,467		\$1,280,467
Charges for services		\$ 36,522	36,522
Total operating revenues	<u>1,280,467</u>	<u>36,522</u>	<u>1,316,989</u>
<b>OPERATING EXPENSES:</b>			
Other purchased services	1,578,458	35	1,578,493
Salaries	1,282,235		1,282,235
Employee benefits	595,841		595,841
Supplies	289,712	3,216	292,928
Depreciation	105,028	1,989	107,017
Property services	116,850		116,850
Other operating expenses	<u>120</u>	<u>410</u>	<u>530</u>
Total operating expenses	<u>3,968,244</u>	<u>5,650</u>	<u>3,973,894</u>
<b>OPERATING (LOSS) INCOME</b>	<u>(2,687,777)</u>	<u>30,872</u>	<u>(2,656,905)</u>
<b>NONOPERATING REVENUES:</b>			
Federal subsidies	2,278,446		2,278,446
State subsidies	239,788		239,788
Donations	44,853		44,853
Earnings on investments	<u>29,561</u>	<u>1,090</u>	<u>30,651</u>
Total nonoperating revenues	<u>2,592,648</u>	<u>1,090</u>	<u>2,593,738</u>
<b>CHANGE IN NET ASSETS</b>	(95,129)	31,962	(63,167)
<b>TOTAL NET ASSETS (DEFICIT) - BEGINNING OF YEAR</b>	<u>1,810,084</u>	<u>(114,583)</u>	<u>1,695,501</u>
<b>TOTAL NET ASSETS (DEFICIT) - END OF YEAR</b>	<u>\$1,714,955</u>	<u>\$(82,621)</u>	<u>\$1,632,334</u>

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See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2006

	FOOD SERVICE	MODULAR HOME	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 1,277,232	\$ 36,522	\$ 1,313,754
Payments to suppliers	(2,369,208)	(1,493)	(2,370,701)
Payments to employees for services	<u>(1,354,663)</u>		<u>(1,354,663)</u>
Net cash provided by (used in) operating activities	<u>(2,446,639)</u>	<u>35,029</u>	<u>(2,411,610)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
State subsidies	236,643		236,643
Federal subsidies	2,008,922		2,008,922
Local subsidies	<u>44,853</u>		<u>44,853</u>
Net cash provided by noncapital financing activities	<u>2,290,418</u>		<u>2,290,418</u>
<b>CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES,</b>			
Purchase of capital assets	<u>(61,129)</u>		<u>(61,129)</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES,</b>			
Interest on investments	<u>29,562</u>	<u>1,090</u>	<u>30,652</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(187,788)</b>	<b>36,119</b>	<b>(151,669)</b>
<b>CASH, BEGINNING</b>	<u><b>898,454</b></u>	<u><b>13,574</b></u>	<u><b>912,028</b></u>
<b>CASH, ENDING</b>	<u><b>\$ 710,666</b></u>	<u><b>\$49,693</b></u>	<u><b>\$ 760,359</b></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating loss	<u><b>\$(2,687,777)</b></u>	<u><b>\$30,872</b></u>	<u><b>\$(2,656,905)</b></u>
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	105,028	1,989	107,017
Donated USDA commodities	209,132		209,132
Changes in assets and liabilities:			
Other receivables	(3,234)		(3,234)
Inventories	(19,270)		(19,270)
Accounts payable	12,007		12,007
Due to other funds	13,050	2,168	15,218
Accrued salaries and benefits	(72,428)		(72,428)
Other current liabilities	<u>(3,147)</u>		<u>(3,147)</u>
Total adjustments	<u>241,138</u>	<u>4,157</u>	<u>245,295</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u><b>\$(2,446,639)</b></u>	<u><b>\$35,029</b></u>	<u><b>\$(2,411,610)</b></u>

See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006**

	PRIVATE PURPOSE TRUST FUND	AGENCY FUND
<u>ASSETS</u>		
CASH	<u>\$ 70,252</u>	<u>\$ 232,192</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable		\$ 6,520
Due to other funds		376
Other current liabilities		225,296
NET ASSETS, Held in trust	<u>\$ 70,252</u>	<u>                    </u>
TOTAL	<u>\$ 70,252</u>	<u>\$ 232,192</u>

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See Notes to Financial Statements



HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006

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	PRIVATE PURPOSE TRUST FUND
ADDITIONS, Local sources	\$34,908
DEDUCTIONS, Noninstructional services	<u>10,790</u>
CHANGE IN NET ASSETS	24,118
NET ASSETS, BEGINNING	<u>46,134</u>
NET ASSETS, ENDING	<u>\$70,252</u>

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See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

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**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, which are each elected positions, 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.

**REPORTING ENTITY**

The reporting entity has been defined in accordance with the criteria established in Statement 39 issued by the Governmental Accounting Standards Board ("GASB"), an amendment of GASB 14. The specific criteria used in determining whether other organizations should be included in the School District's financial reporting entity are financial accountability, fiscal dependency and legal separation.

As defined above, there are no other related organizations which should be included in the School District's financial statements.

## **BASIS OF PRESENTATION**

**Government-Wide Financial Statements** – The government-wide financial statements include the statement of net assets 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, Capital Projects, and Special Revenue funds are classified as governmental activities. The School District's Food Service and Modular Homes are 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** - The Capital Projects Fund accounts for the construction of major capital facilities. This fund is a major governmental fund.

**Capital Reserve Fund** – The Capital Reserve Fund accounts for funds held for capital projects. This fund is a major governmental fund.

**Athletic Fund** –The Athletic Fund accounts for the activities of student athletic events. This fund is a major governmental fund.

### **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 funds of the School District:

**Food Service** – The Food Service Fund distinguishes between operating revenues and expenses and nonoperating 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.

**Modular Homes** – The Modular Homes Fund accounts for the activity of the construction and sale of modular homes by the School District. 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 assets. 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 deferred revenue on its fund financial statements. Deferred revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred 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 deferred revenue is removed and revenue is recognized.

The School District applies all relevant GASB pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District does not apply FASB pronouncements issued after November 30, 1989.

### **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 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.

### **EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2006, expenditures exceeded appropriations for health benefit costs by a total of \$1,939,228. This is a result of an unanticipated increase in health benefit costs.

### **DERIVATIVE FINANCIAL INSTRUMENTS**

The School District has entered into a swaption agreement, which is considered a derivative financial instrument, to manage interest rate risk exposure on certain long-term debt. The School District received an upfront payment upon entering into the swaption. This nonrefundable payment has been recognized as revenue in both the government-wide and fund financial statements.

### **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.

**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 assets 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 assets 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 \$30 per day up to 200 days, \$40 per day for days above 200 to a maximum of 250, and \$60 per day for 251 days and above for the 2005-2006 school year. Similar contractual provisions are in effect with nonprofessional employees except that the payment is \$20 per day up to a maximum of 150 days for custodial, and maintenance personnel, bus drivers, clerks, aides, and cafeteria workers and \$15 per day to a maximum of 150 days for cleaning personnel. After ten years of employment, full-time security officers and seasonal security officers receive \$20 per day up to a maximum of 30 days. Administrators, principals, and vice-principals are paid \$40 per day without limit for all accumulated unused sick leave.

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. The expenditure for early termination payments is recognized as paid.

### **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.

### **DEFERRED REVENUE**

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

### **FUND BALANCE RESERVES**

Fund balance reserves represent resources restricted for specific purposes such as capital projects, inventories, encumbrances and health insurance.

### **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 AND INVESTMENTS**

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, 2006, the School District's cash and cash equivalents and restricted assets include deposits with local financial institutions and the Pennsylvania School District Liquid Asset Fund and various petty cash balances (\$5,300) held throughout the School District.

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. At June 30, 2006, \$12,919,595 of the School District's bank balance was exposed to custodial credit risk since the balance was uninsured and collateralized with securities held by the financial institutions' trust departments not in the School District's name under the provisions of the Commonwealth of Pennsylvania Act 72 of 1971 ("Act 72"), as amended. Act 72 allows banking institutions to cover total public funds on deposit in excess of federal insurance.

The Pennsylvania School District Liquid Asset Fund ("Fund") contains assets invested in accordance with Title 24 of the Pennsylvania Statutes Article 4, Section 440.1 (2001). Each school district owns shares of the Fund which invests the pooled assets. Since the Fund has the characteristics of a mutual fund, it is not subject to the disclosure requirements. At June 30, 2006, the carrying and bank balances amounts of the Fund were \$6,296,628.

**INVESTMENTS**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the School District's \$12,486,685 in certificates of deposits, \$12,386,685 was uninsured and collateralized with securities held by the financial institution's trust department not in the School District's name under the provisions of the Commonwealth of Pennsylvania Act 72 of 1971 ("Act 72"), as amended. Act 72 allows banking institutions to cover public funds on deposit in excess of federal insurance.

The School District places no limit on the amount the School District may invest in any one issuer. The School District's investments are in varying maturity certificate of deposits in Citizens Bank. These certificates of deposit are 100% of the School District's total investments.

As of June 30, 2006, the School District's certificates of deposit subject to interest rate risk have the following maturities:

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>INVESTMENT MATURITIES LESS THAN 1 YEAR</u>
Certificate of deposit	\$12,486,685	\$12,486,685

### **3. TAXES RECEIVABLE**

Real estate taxes are levied on July 1 for Schuylkill, August 1 for Carbon County, and July 22 for Luzerne County, 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 \$300,464,059 for the 2005-2006 tax year. A tax rate of 170 mills – Luzerne County, 26 mills – Carbon County, and 30 mills – Schuylkill County was established for fiscal year 2005-2006. Taxes are due on or before November 30 for Schuylkill and Carbon Counties and November 21 for Luzerne County. Payments prior to September 20 for Luzerne County and October 1 for Schuylkill and Carbon Counties are entitled to a 2% discount, while payments after November 30 for Schuylkill and Carbon Counties and November 21 for Luzerne County 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 \$1,289,938 at June 30, 2006.

### **4. DUE FROM OTHER GOVERNMENTS**

Amounts which are due from other governments include \$358,364 from various school districts for early intervention services, \$658,106 for grant programs due from the Commonwealth of Pennsylvania's Department of Education ("PDE"), as well as \$1,225,105 in federal funds passed through the PDE.

Amounts that are business-type activities due from other governments include \$401,551 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 2006 is summarized as follows:

	BALANCE <u>JULY 1, 2005</u>	ADDITIONS	DEDUCTIONS	BALANCE <u>JUNE 30, 2006</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
CAPITAL ASSETS, Not being depreciated:				
Land	\$ 1,374,979	\$ 585,920	\$ (4,841)	\$ 1,956,058
Construction in progress	<u>4,941,276</u>	<u>20,874,318</u>	<u>-</u>	<u>25,815,594</u>
Total capital assets, not being depreciated	<u>6,316,255</u>	<u>21,460,238</u>	<u>(4,841)</u>	<u>27,771,652</u>
CAPITAL ASSETS, Being depreciated:				
Land improvements	1,898,569			1,898,569
Buildings and improvements	128,015,556		(49,393)	127,966,163
Furniture and equipment	<u>3,935,076</u>	<u>100,593</u>	<u>(487)</u>	<u>4,035,182</u>
Total capital assets, being depreciated	<u>133,849,201</u>	<u>100,593</u>	<u>(49,880)</u>	<u>133,899,914</u>
LESS ACCUMULATED DEPRECIATION:				
Land improvements	(731,622)	(98,904)		(830,526)
Buildings and improvements	(49,787,955)	(3,927,567)		(53,715,522)
Furniture and equipment	<u>(2,144,022)</u>	<u>(368,039)</u>		<u>(2,512,061)</u>
Total accumulated depreciation	<u>(52,663,599)</u>	<u>(4,394,510)</u>		<u>(57,058,109)</u>
Total capital assets, being depreciated, net	<u>81,185,602</u>	<u>(4,293,917)</u>	<u>(49,880)</u>	<u>76,841,805</u>
Governmental activities capital assets, net	<u>\$ 87,501,857</u>	<u>\$17,166,321</u>	<u>\$(54,721)</u>	<u>\$104,613,457</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Furniture and equipment	\$ 1,586,412	\$ 61,128		\$ 1,647,540
Less accumulated depreciation	<u>(807,672)</u>	<u>(107,016)</u>		<u>(914,688)</u>
Business-type activities capital assets, net	<u>\$ 778,740</u>	<u>\$ (45,888)</u>	<u>\$ -</u>	<u>\$ 732,852</u>

HAZLETON AREA SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS

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Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 169,550
Support services	200,450
Non-instructional services	5,960
Unallocated	<u>4,018,550</u>
 Total depreciation expense	 <u>\$4,394,510</u>

**6. LONG-TERM DEBT**

**BONDS PAYABLE**

<u>DESCRIPTION</u>	<u>INTEREST RATE PAYABLE</u>	<u>CURRENT PORTION</u>	<u>BALANCE JULY 1, 2005</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2006</u>
General Obligation Bonds, Series B of 1995 (compound interest bonds) to provide funds for capital projects; maturity date March 1, 2025	6.25%-6.40%		\$18,035,539	\$1,166,294		\$ 19,201,833
General Obligation Bonds, Series of 1997 to advance refund Series A 1995; maturity date March 1, 2023	4.00%-5.00%	\$1,075,000	59,230,000		\$1,030,000	58,200,000
General Obligation Bonds, Series of 2000 for certain capital projects; maturity date December 1, 2010	4.25%-4.80%	255,000	1,635,000		240,000	1,395,000
General Obligation Bonds, Series of 2001 to refund Series J, 1991; maturity date March 1, 2008	6.10%-6.50%	2,460,000	7,385,000		2,310,000	5,075,000

HAZLETON AREA SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS

<u>DESCRIPTION</u>	<u>INTEREST RATE PAYABLE</u>	<u>CURRENT PORTION</u>	<u>BALANCE JULY 1, 2005</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2006</u>
General Obligation Bonds, Series of 2004 for certain capital projects; maturity date March 1, 2028 (Note 13)	3.20%- 5.125%	<u>\$ 630,000</u>	<u>\$31,455,000</u>	<u>-</u>	<u>-</u>	<u>\$ 31,455,000</u>
Total		<u>\$4,420,000</u>	<u>\$117,740,539</u>	<u>\$1,166,294</u>	<u>\$3,580,000</u>	115,326,833
Less Bond discount						<u>(258,457)</u>
Bonds payable, net						<u>\$115,068,376</u>

The following is an analysis of debt service requirements to maturity on these obligations at June 30, 2006:

<u>YEAR ENDED JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 4,420,000	\$ 5,090,771	\$9,510,771
2008	4,665,000	4,847,231	9,512,231
2009	4,740,000	4,588,338	9,328,338
2010	4,965,000	4,353,478	9,318,478
2011	5,225,000	4,097,036	9,322,036
2012-2016	31,065,000	15,814,406	46,879,406
2017-2021	23,178,702	29,714,532	52,893,234
2022-2026	25,193,131	23,815,232	49,008,363
2027-2028	<u>11,875,000</u>	<u>812,313</u>	<u>12,687,313</u>
Total	<u>\$115,326,833</u>	<u>\$93,133,337</u>	<u>\$208,460,170</u>

During the year ended June 30, 2006, the School District incurred \$5,971,187 of bond interest expense.

In prior years, 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.

HAZLETON AREA SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS

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The principal balance of defeased bonds outstanding as of June 30, 2006 is as follows:

1977 General Obligation Bond	\$ 7,015,000
1988 General Obligation Bond	5,075,000
1995 General Obligation Bond	<u>32,935,000</u>
 Total	 <u>\$45,025,000</u>

**CAPITAL LEASE OBLIGATIONS**

The School District leases certain equipment in connection with its operations. During the year ended June 30, 2006, the School District did not enter into any new capital leases and made payments of \$235,373. The following is a schedule by year of future minimum lease payments under such capital leases, together with the present value of the net minimum lease payments as of June 30, 2006:

<u>YEAR</u>	<u>AMOUNT</u>
2007	\$ 310,224
2008	310,224
2009	310,224
2010	310,224
2011	310,224
Thereafter	<u>930,673</u>
 Total minimum lease payments	 2,481,793
 Less amount representing interest (1)	 <u>386,216</u>
 Total value of net minimum lease payments	 <u>\$2,095,577</u>

(1) Amount necessary to reduce net minimum lease payments to present value calculated at the stated leased interest rates.

Total interest expense on capital leases was \$137,084 for the year ended June 30, 2006.



**INSTALLMENT LOAN**

The School District entered into an installment loan agreement for the purchase of real property in the amount of \$70,000 payable in annual installments of principal and interest in the amount of \$11,875 each representing the payment of principal amortized over a period of 96 months with interest at the rate of 8% per annum, with the balance being due and payable in full in the year ended June 30, 2010. Interest expense was \$10,550 for the year ended June 30, 2006.

The principal and interest requirements over the term of the installment loan are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 9,508	\$2,367	\$11,875
2008	10,297	1,578	11,875
2009	11,151	724	11,875
2010	<u>2,929</u>	<u>39</u>	<u>2,968</u>
Total	<u>\$33,885</u>	<u>\$4,708</u>	<u>\$38,593</u>

**7. COMPENSATED ABSENCES**

The changes in the School District's compensated absences in 2006 are summarized as follows:

Balance, July 1, 2005	\$1,807,869
Increase	<u>105,066</u>
Balance, June 30, 2006	1,912,935
Less current portion	<u>21,690</u>
Long-term compensated absences	<u>\$1,891,245</u>

The School District normally pays its compensated absences from the General Fund.

**8. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

The School District pays for the hospitalization premiums of retirees and spouses under the early retirement incentive plan provision in certain contractual agreements. The following are the various agreements and the obligation incurred by the School District to make payments for health insurance coverage of retirees.

<i>CONTRACT/MEMORANDUM DATES</i>	<u>DESCRIPTION OF HOSPITALIZATION BENEFIT</u>
October 19, 1990 to August 31, 1995 (Hazleton Area Education Association)	School District pays fifty percent of the premium to a maximum of \$750 per year to age 65 or otherwise eligible for Medicare. Spouse can be covered in the group plan at the retiree's own expense.
July 1, 1995 to June 30, 1998 (Custodial, Maintenance)	School District pays fifty percent of the premium to a maximum of \$500 per year to age 65 or otherwise eligible for Medicare. Spouse can be covered in the group plan at the retiree's own expense.
July 1, 1991 to June 30, 1994 (Hazleton Area Educational Support Personnel Association)	School District pays fifty percent of the premium to a maximum of \$500 per year to age 65 or otherwise eligible for Medicare. Spouse can be covered in the group plan at the retiree's own expense.
Full-Time Professional Employees (Effective retirement date of September 1, 1992)	School District pays full medical coverage for the retiree until age 65. Spouses are covered until age 65; however, the School District contribution is capped at the third year premium.
June 14, 1996 Memorandum of Understanding (Hazleton Area Education Association 1996 Retirees)	School District pays full medical coverage for the retiree until age 65. Spouses are covered until age 65; however, the School District premium contribution is capped to the amount of premium at the date the retiree reaches age 65.
September 1, 1995 to August 31, 2002 (Hazleton Area Education Association 1998-1999 Retirement Incentive)	School District pays full medical coverage for the retiree until age 65. Spouses are covered until age 65; however, the School District premium contribution will cease on the date the retiree reaches age 65.

HAZLETON AREA SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS

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<i>CONTRACT/MEMORANDUM DATES</i>	<u>DESCRIPTION OF HOSPITALIZATION BENEFIT</u>
March 23, 1993 Early Retirement Incentive (Hazleton Area Education Association 1993 Retirement Incentive)	School District pays full medical coverage for the first three years after retirement for both retiree and spouse. School District premium contribution is capped at the third year premium and continues to age 65 for both retiree and spouse.
1996-1997 Early Retirement Incentive (Administrators)	School District pays full medical coverage for the retiree until age 65. Spouse is covered until age 65; however, the School District premium contribution is capped at the premium amount at the retiree's 65 <sup>th</sup> birthday.
July 1 1998 to June 30, 2006 (Custodial, Maintenance)	School District pays fifty percent of the premium to a maximum of \$500 per year, to age 65 or otherwise eligible for Medicare.
September 1, 2002 to August 31, 2006 (Hazleton Area Education Association 2003, 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.

The expenditure is recognized as paid and amounted to \$821,656 for the year ended June 30, 2006.

**9. 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 "PSERS") administered by the Public School Employees' Retirement Board, a governmental cost-sharing multiple-employer defined benefit pension plan.

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

The School District's and its employees' obligation to contribute to PSERS are established by authority of Act 96 of the Public School Employees' Retirement Code. Benefit provisions are established and amended by the PSERS board of trustees. PSERS issues a comprehensive annual financial report that includes stand-alone financial statements and required supplementary information for the plan. A copy may be obtained from PSERS' office in Harrisburg, Pennsylvania.

The School District's contribution rate was 4.69% in 2006, 4.23% in 2005, and 3.77% in 2004 of covered payroll. The School District contributions were approximately \$2,200,000 in 2006, \$1,918,000 in 2005, and \$1,621,500 in 2004. The employees' contribution rates range from 5.25% to 7.50%, depending on date of hire and whether they elected to participate in the TD membership class.

**10. INTERNAL BALANCES/INTERFUND BALANCES AND TRANSFERS**

The proprietary fund owed the General Fund \$411,486 at June 30, 2006 for salaries, benefits and indirect costs allocated to that operation. This balance is paid in the subsequent year. The following summarized the inter-fund transfers in 2006:

	TRANSFERS <u>IN</u>	TRANSFERS <u>OUT</u>
General Fund, Athletic Fund	<u>\$864,990</u>	<u>\$864,990</u>

Transfers were made from the General Fund to the Athletic Fund to operate the School District's athletic program.

**11. COMMITMENTS AND CONTINGENCIES**

**LEGAL COMPLIANCE**

As of June 30, 2006, the Modular Home Fund had a deficit fund balance in the amount of \$82,621. The deficit resulted from additional expenditures that will be absorbed by the General Fund.

## **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. The ERIN Group Administrators, Inc. (the "administrator") will administer the plans for the participants who will use the current traditional plan and PPO plan utilizing the EHP NEPA and Highmark Blue Shield networks at a charge of \$22 per month.

The remainder of the advance deposit with the prior administrator is included in prepaid expenses on the accompanying statement of net assets. The deposit was returned subsequent to year-end.

The School District has an agreement with ETA Benefits to provide billing, claims analysis and management services for the School District at a monthly fee of \$7.90 per month per participant through June 30, 2006.

The School District purchased specific stop-loss insurance coverage for claims in excess of \$225,000 per participant. There were no claims in excess of the \$225,000 for the year ended June 30, 2006.

For the year ended June 30, 2006, the School District recognized approximately \$12,424,000 in self-insured medical expenses, including administrative and stop-loss insurance expenditures.

## LITIGATION

The School District was audited by the Tax-Exempt Bond group ("the TEB") of the IRS regarding the tax-exempt status of the School District's 1997 tax-exempt bonds. The TEB contended the interest on the 1997 bonds is taxable because of a feature known as a "put option" and has demanded more than \$2 million dollars to settle but signaled it may settle for \$1 million dollars. The School District rejected TEB's settlement proposal after the TEB refused to agree not to pursue the professional third parties involved in the 1997 bond issue. The TEB then issued a proposed adverse determination and closed its examination. The School District has responded by filing a protest and requesting a review of the case by the IRS Appeals Group.

The final determination of the School District's liability, if any, will depend upon the agreement of third-party participants to assume responsibility for a portion or all of assessed tax liability and penalties as well as the terms and conditions of any settlement offer presented by the IRS Appeals Group. The administration is unable to determine the ultimate outcome of the case, and therefore, the financial statements have not been adjusted to reflect any loss which may result in the event of an unfavorable outcome.

## 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 collectibility of any related receivable at June 30, 2005 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.

## **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.

## **12. DERIVATIVE FINANCIAL INSTRUMENT**

### **OBJECTIVE OF INTEREST RATE SWAPTION**

The School District's strategy is to have a mixture of fixed and variate rate debt to take advantage of market fluctuations. Since the School District's debt is fixed rate, the School District entered into a swaption contract that gives the counterparty the right, but not the obligation, to enter into an interest rate swap with the School District. The School District received an upfront, nonrefundable payment of \$1,500,000 in 2005 for entering into the swaption.

### **TERMS**

On November 5, 2004, the School District entered into a swaption contract with the Royal Bank of Canada ("RBC"), which gives RBC the option to make the School District enter into a pay-variable, receive-fixed rate swap on \$24,540,000, a portion of its \$31,455,000, General Obligation Bonds, Series of 2004. The bonds and related swap agreement mature on March 1, 2028. RBC has the option to exercise the agreement semiannually two business days prior to each period begin date (September 1 and March 1) from September 1, 2005 to and including September 1, 2010. The option is exercisable one time only. If the swap is exercised, the swap will commence on the period begin date immediately following the option exercise date. The fixed swap rate was set at 4.15%. The swap's variable rate would be equal to the Bond Market Association Municipal Swap Index ("BMA") up to a maximum of 23.5%.

**FAIR VALUE**

As of June 30, 2006, the swap had a fair value of \$5,000. The fair value was provided by RBC and is based on using the Black-Derman-Toy model. The option was not subsequently exercised.

**CREDIT RISK**

The swaption itself presents no credit risk exposure to the School District. However, the underlying swap, if exercised, would expose the School District to credit risk. Should RBC fail to perform according to the terms of the swap contract, the School District would face a maximum possible loss equivalent to the swap's fair value. At June 30, 2006, RBC was rated Aa2 by Moody's Investor Services and AA- by Standard & Poors. There is no collateral securing the agreement.

**INTEREST RATE RISK**

The swaption presents no interest rate risk to the School District. However, the underlying swap, if exercised, increases the School District's exposure to interest rate risk. If the BMA index increased, the School District's net payments on the swap would increase.

**TERMINATION RISK**

There is no termination risk to the swaption. However, the underlying swap, if exercised, would allow either the School District or RBC to terminate the swap if the other party fails to perform under the terms of the contract. If at the time of the termination the swap had a negative fair value, the School District would be liable to RBC for that payment.



**HAZLETON AREA SCHOOL DISTRICT**

**COMBINING BALANCE SHEET - CAPITAL PROJECTS FUNDS**  
**JUNE 30, 2006**

	CAPITAL PROJECT GENERAL OBLIGATION BONDS 2000	CAPITAL PROJECT GENERAL OBLIGATION BONDS 2004	SINKING FUND GENERAL OBLIGATION BONDS 2004	CAPITAL PROJECT ACT 57 PPL	TOTAL CAPITAL PROJECT FUND
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 6,411	\$ 12,239,132	\$ 108,290	\$ 32,123	\$ 12,385,956
Due from other funds		27,345			27,345
Other receivables, net		<u>170,292</u>			<u>170,292</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,411</u>	<u>\$ 12,436,769</u>	<u>\$ 108,290</u>	<u>\$ 32,123</u>	<u>\$ 12,583,593</u>
<b>LIABILITIES AND FUND BALANCES:</b>					
Liabilities:					
Accounts payable					
Due to other funds	<u>\$ 160,000</u>	\$ 4,518,247			\$ 4,518,247
Total liabilities	<u>160,000</u>	<u>4,518,247</u>			<u>4,678,247</u>
Fund Balances,					
Reserved for capital projects	<u>(153,589)</u>	<u>7,918,522</u>	<u>\$ 108,290</u>	<u>\$ 32,123</u>	<u>7,905,346</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 6,411</u>	<u>\$ 12,436,769</u>	<u>\$ 108,290</u>	<u>\$ 32,123</u>	<u>\$ 12,583,593</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	CAPITAL PROJECT GENERAL OBLIGATION BONDS 2000	CAPITAL PROJECT GENERAL OBLIGATION BONDS 2004	SINKING FUND GENERAL OBLIGATION BONDS 2004	CAPITAL PROJECT ACT 57 PPL	TOTAL CAPITAL PROJECT FUND
REVENUES, Local sources	\$ 42,173	\$ 1,029,344	\$ 3,763	\$ 9,531	\$ 1,084,811
EXPENDITURES: Operation of non-instructional services	33,835				33,835
Capital outlay	24,000	20,924,364		457,175	21,405,539
Debt service					-
Total expenditures	57,835	20,924,364	-	457,175	21,439,374
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(15,662)	(19,895,020)	3,763	(447,644)	(20,354,563)
OTHER FINANCING SOURCES: Sale of capital assets	67,314				67,314
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	51,652	(19,895,020)	3,763	(447,644)	(20,287,249)
NET CHANGE IN FUND BALANCES	51,652	(19,895,020)	3,763	(447,644)	(20,287,249)
FUND BALANCE (DEFICIT), BEGINNING	(205,241)	27,813,542	104,527	479,767	28,192,595
FUND BALANCE (DEFICIT), ENDING	\$ (153,589)	\$ 7,918,522	\$ 108,290	\$ 32,123	\$ 7,905,346

See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**

**SCHEDULE OF GENERAL FUND REVENUES FROM LOCAL SOURCES  
FOR THE YEAR ENDED JUNE 30, 2006**

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Current real estate taxes	\$25,831,159
Current Act 511 taxes:	
Earned income taxes	9,310,623
Real estate transfer taxes	1,872,075
Delinquencies of taxes levied and assessed by the LEA	2,802,877
Interest on investments	853,257
Commonwealth revenue received from other Pennsylvania schools	542,969
Tuition from patrons	124,308
Federal revenue received from other Pennsylvania schools	64,938
Public utility realty tax	56,026
Rentals	45,944
Contributions and donations	32,045
Transportation services provided to other Pennsylvania schools	26,774
Payments in lieu of current taxes	14,967
Miscellaneous revenue	11,319
Community service activities	<u>7,244</u>
<b>TOTAL REVENUE FROM LOCAL SOURCES</b>	<b><u>\$41,596,525</u></b>

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See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**

**SCHEDULE OF GENERAL FUND REVENUES FROM COMMONWEALTH SOURCES  
FOR THE YEAR ENDED JUNE 30, 2006**

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Basic instruction subsidy	\$21,797,700
Special education - funding for school age pupils	4,145,070
Early intervention - handicapped children	2,404,003
Transportation	2,227,903
Rental and sinking fund payments	1,969,220
Revenue for social security payments	1,770,083
PA Accountability Grant	1,446,138
Revenue for retirement payments	845,927
Vocational education	536,225
Educational assistance program - tutoring	397,263
Tuition for orphans and children placed in private homes	299,746
Health services	202,858
Charter school reimbursement	59,622
Alternative education	48,078
Dual enrollment grants	31,145
Workforce investment act	18,917
Adult literacy	10,000
Migratory children	7,117
Homebound instruction	<u>1,820</u>
<b>TOTAL REVENUE FROM COMMONWEALTH SOURCES</b>	<b><u>\$38,218,835</u></b>

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See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**

**SCHEDULE OF GENERAL FUND REVENUES FROM FEDERAL SOURCES  
FOR THE YEAR ENDED JUNE 30, 2006**

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Title I - Improving academic achievement	\$1,916,375
Medical assistance reimbursement - ACCESS	907,267
Title VI - Flexibility and accountability	779,114
Title II - Improving Teacher/Principal Quality	589,620
IDEA, Part B	567,069
IDEA, Section 619	237,773
Vocational education - operating expenditures	192,954
Title III - Language instruction	162,088
Medical assistance reimbursement - Title XIX	84,053
Medical assistance reimbursement - Early intervention	75,000
Restricted Federal grants-in-aid	71,100
Title IV - 21st century schools	54,560
Title V - Innovative Education	48,102
Workforce investment act	<u>38,578</u>
<b>TOTAL REVENUE FROM FEDERAL SOURCES</b>	<b><u>\$5,723,653</u></b>

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See Notes to Financial Statements

## HAZLETON AREA SCHOOL DISTRICT

### SCHEDULE OF GENERAL FUND EXPENDITURES BY SUBFUNCTION FOR THE YEAR ENDED JUNE 30, 2006

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Instruction:	
Regular programs	\$32,529,485
Special programs	15,074,623
Vocational education programs	2,750,210
Other instructional programs	2,479,592
Adult education programs	268,033
Community/junior college programs	<u>29,141</u>
Total instruction	<u>53,131,084</u>
Support services:	
Operation and maintenance of plant services	7,864,430
Administration	4,288,712
Student transportation services	4,389,955
Pupil personnel	2,204,104
Central and other support services	1,500,529
Business	1,247,982
Pupil health	1,409,647
Instructional staff	1,731,674
Other support services	<u>69,987</u>
Total support services	<u>24,707,020</u>
Operation of noninstructional services:	
Community services	745,888
Student activities	<u>216,483</u>
Total operation of noninstructional services	<u>962,371</u>
Facilities acquisition, construction, and improvement:	
Existing building improvement services	57,200
Other professional services	<u>13,250</u>
Total facilities acquisition, construction, and improvement	<u>70,450</u>
Debt service:	
Interest payments	5,387,075
Redemption of principal	3,811,092
Refund of prior-year receipts	<u>91,978</u>
Total debt service	<u>9,290,145</u>
TOTAL EXPENDITURES BY SUBFUNCTION	<u>\$88,161,070</u>

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See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**

**SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT -  
INSTRUCTION EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

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<b>INSTRUCTION EXPENDITURES:</b>	
Personnel services, salaries	<u>\$33,312,844</u>
Personnel services, employee benefits:	
Group insurance	9,232,722
Social security contributions	2,554,106
Retirement contributions	1,613,620
Tuition reimbursement	349,855
Workers' compensation	324,103
Unemployment compensation	<u>32,867</u>
Total personnel services, employee benefits	<u>14,107,273</u>
Purchased professional and technical services	<u>1,838,103</u>
Purchased property services	<u>245,050</u>
Other purchased services:	
Tuition	1,505,453
Travel	56,040
Communications	15,613
Miscellaneous purchased services	9,743
Advertising	1,747
Student Transportation	2,908
General Insurance	885
Printing and binding	<u>2,500</u>
Total other purchased services	<u>1,594,889</u>
Supplies:	
Books and periodicals	1,012,740
General supplies	732,025
Energy	12,873
Food	<u>3,336</u>
Total supplies	<u>1,760,974</u>
Property:	
Equipment, original and additional	213,690
Equipment, replacement	<u>47,167</u>
Total property	<u>260,857</u>
Other objects	<u>11,094</u>
<b>TOTAL INSTRUCTION</b>	<u><b>\$53,131,084</b></u>

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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, 2006

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SUPPORT SERVICES EXPENDITURES:	
Personnel services, salaries	<u>\$ 11,300,351</u>
Personnel services, employee benefits:	
Group insurance	3,683,558
Social security contributions	832,073
Retirement contributions	515,369
Workers' compensation	204,958
Tuition reimbursement	46,194
Unemployment compensation	<u>7,896</u>
Total personnel services, employee benefits	<u>5,290,048</u>
Purchased professional and technical services	<u>832,887</u>
Purchased property services	<u>1,972,830</u>
Other purchased services:	
Student transport services	2,917,480
Insurance - general	242,579
Communications	100,327
Miscellaneous purchased services	69,987
Travel	37,728
Advertising	18,972
Printing and binding	<u>15,721</u>
Total other purchased services	<u>3,402,794</u>
Supplies:	
Energy	1,042,369
General supplies	370,372
Books and periodicals	<u>260,321</u>
Total supplies	<u>1,673,062</u>
Property:	
Equipment, original and additional	159,416
Equipment, replacement	<u>48,229</u>
Total property	<u>207,645</u>
Other objects	<u>27,403</u>
TOTAL SUPPORT SERVICES	<u>\$ 24,707,020</u>

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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, 2006

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NON-INSTRUCTIONAL SERVICES EXPENDITURES:	
Personnel services, salaries	<u>\$230,250</u>
Personnel services, employee benefits:	
Social security contributions	12,239
Group insurance	15,993
Retirement contributions	7,363
Workers' compensation	<u>1,083</u>
Total personnel services, employee benefits	<u>36,678</u>
Purchased professional and technical services	<u>1,660</u>
Purchased property services	<u>885</u>
Other purchased services:	
Travel	30,631
Miscellaneous purchased services	<u>6,212</u>
Total other purchased services	<u>36,843</u>
Supplies:	
Energy	18,626
General supplies	9,756
Food	2,192
Books and periodicals	<u>3,328</u>
Total supplies	<u>33,902</u>
Other objects	<u>622,153</u>
TOTAL NONINSTRUCTIONAL SERVICES	<u>\$962,371</u>

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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, 2006**

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

Property, equipment, replacement	\$ 6,751
Purchased property services	<u>63,699</u>

Total facilities acquisition, construction, and improvement services	<u>70,450</u>
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**DEBT SERVICE:**

Redemption of principal	3,811,093
Interest	5,387,075
Refund of prior-years receipts	<u>91,977</u>

<b>TOTAL DEBT SERVICE</b>	<b><u><u>\$9,290,145</u></u></b>
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See Notes to Financial Statements

**HAZLETON AREA SCHOOL DISTRICT**  
**RECONCILIATION OF REAL ESTATE TAX DUPLICATE**  
**JUNE 30, 2006**

	BANKS TOWNSHIP	BEAVER MEADOWS BOROUGH	BLACK CREEK TOWNSHIP	BUTLER TOWNSHIP	CONYNGHAM BOROUGH	FOSTER TOWNSHIP	FREELAND BOROUGH	HAZLE TOWNSHIP	TOTAL
Original assessed valuation	\$ 19,275,243	\$ 8,740,311	\$ 6,502,790	\$ 24,231,650	\$ 6,413,865	\$ 7,267,736	\$ 3,498,930	\$ 42,239,170	\$ 300,464,059
Millage	0.026	0.026	0.170	0.170	0.170	0.170	0.170	0.170	
Original tax levied	501,156	227,248	1,105,474	4,119,381	1,090,357	1,235,515	594,818	7,180,659	29,961,584
Net interim additions (abatements)	2,358	(871)	15,064	9,108	218	23,525	(1,943)	(206,224)	(1,152,114)
Total tax levied	503,514	226,377	1,120,538	4,128,489	1,090,575	1,259,040	592,875	6,974,435	28,809,470
Less:									
Collections	(483,849)	(208,531)	(1,025,836)	(3,799,916)	(1,032,491)	(1,154,974)	(551,905)	(6,085,911)	(26,175,263)
Taxes turned over to delinquent collector	(19,661)	(17,846)	(94,702)	(328,573)	(58,084)	(104,066)	(40,970)	(888,524)	(2,634,194)
Taxes outstanding with collectors as of June 30, 2006	\$ 4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13
Summary of collections:									
Amount paid:									
At discount	\$ 394,380	\$ 179,925	\$ 833,029	\$ 3,200,376	\$ 861,535	\$ 924,105	\$ 431,983	\$ 5,034,414	\$ 21,785,774
At face	68,793	23,847	127,161	499,704	141,196	176,783	104,103	898,463	3,466,553
At penalty	20,676	4,759	65,646	99,836	29,760	54,086	15,819	153,034	922,936
Total collections	\$ 483,849	\$ 208,531	\$ 1,025,836	\$ 3,799,916	\$ 1,032,491	\$ 1,154,974	\$ 551,905	\$ 6,085,911	\$ 26,175,263

**HAZLETON AREA SCHOOL DISTRICT**  
**RECONCILIATION OF REAL ESTATE TAX DUPLICATE**  
**JUNE 30, 2006**

	WEST				EAST		NORTH		SUB-TOTAL
	HAZLETON CITY	JEDDO BOROUGH	SUGARLOAF TOWNSHIP	HAZLETON BOROUGH	UNION TOWNSHIP	KLINE TOWNSHIP	MCADOO BOROUGH	UNION TOWNSHIP	
Original assessed valuation	\$ 36,371,459	\$ 51,600	\$ 14,079,480	\$ 9,769,925	\$ 61,987,655	\$ 19,679,940	\$ 16,134,625	\$ 24,219,680	\$ 182,294,364
Millage	<u>0.170</u>	<u>0.170</u>	<u>0.170</u>	<u>0.170</u>	<u>0.030</u>	<u>0.030</u>	<u>0.030</u>	<u>0.030</u>	
Original tax levied	6,183,148	8,772	2,393,512	1,660,887	1,859,630	590,398	484,039	726,590	13,906,976
Net interim additions (abatements)	<u>(37,932)</u>	<u>95</u>	<u>55,459</u>	<u>(5,246)</u>	<u>(995,573)</u>	<u>(4,377)</u>	<u>(5,052)</u>	<u>(723)</u>	<u>(993,349)</u>
Total tax levied	6,145,216	8,867	2,448,971	1,655,641	864,057	586,021	478,987	725,867	12,913,627
Less:									
Collections	(5,541,323)	(7,736)	(2,325,981)	(1,526,434)	(801,956)	(558,862)	(434,823)	(634,735)	(11,831,850)
Taxes turned over to delinquent collector	<u>(603,884)</u>	<u>(1,131)</u>	<u>(122,990)</u>	<u>(129,207)</u>	<u>(62,101)</u>	<u>(27,159)</u>	<u>(44,164)</u>	<u>(91,132)</u>	<u>(1,081,768)</u>
Taxes outstanding with collectors as of June 30, 2006	\$ <u>9</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>9</u>
Summary of collections:									
Amount paid:									
At discount	\$ 4,607,334	\$ 3,392	\$ 1,945,268	\$ 1,372,510	\$ 672,493	\$ 477,019	\$ 328,424	\$ 519,587	\$ 9,926,027
At face	689,709	3,992	299,700	121,962	93,283	68,726	58,423	90,708	1,426,503
At penalty	244,280	352	81,013	31,962	36,180	13,117	47,976	24,440	479,320
Total collections	\$ <u>5,541,323</u>	\$ <u>7,736</u>	\$ <u>2,325,981</u>	\$ <u>1,526,434</u>	\$ <u>801,956</u>	\$ <u>558,862</u>	\$ <u>434,823</u>	\$ <u>634,735</u>	\$ <u>11,831,850</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006

GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS THROUGH NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED OR (DEFERRED) REVENUE AT JULY 1, 2005	REVENUE RECOGNIZED	FEDERAL EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2006
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>										
Passed Through PA Department of Public Welfare										
Medical Assistance Program	I	93.778	N/A	7/1/05 to 6/30/06	N/A	\$ 17,067	\$ -	\$ 56,069	\$ 56,069	\$ 39,002
Passed Through Luzerne Intermediate Unit 18	I	93.778	N/A	7/1/05 to 6/30/06	N/A	10,056	-	10,056	10,056	-
Medical Assistance Program						27,123	-	66,125	66,125	39,002
Total United States Department of Health and Human Services										
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>										
Passed through the Commonwealth of Pennsylvania										
Department of Education										
E.S.E.A. Title I	I	84.010	013-060187	7/1/05 to 9/30/06	\$ 1,788,332	1,319,962	-	1,406,675	1,406,675	86,713
E.S.E.A. Title I	I	84.010	013-050187	7/1/04 to 9/30/05	1,773,741	591,247	92,037	499,210	499,210	-
Academic Achievement Award	I	84.010	077-050187	7/1/04 to 9/30/05	9,990	9,990	-	9,990	9,990	-
Spec. Ed. - Grants to States (IDEA-B)	I	84.027	062-050030	7/1/04 to 6/30/05	588,123	186,041	186,041	-	-	-
Spec. Ed. - Grants to States (IDEA-B)	I	84.027	062-060006	7/1/05 to 6/30/06	567,067	519,813	-	567,069	567,069	47,256
Vocational Education	I	84.048	380-066006	7/1/05 to 6/30/06	139,741	139,741	-	139,741	139,741	-
Special Education - Preschool Grants	I	84.173	063-050018	7/1/04 to 6/30/05	237,773	39,629	-	-	-	-
Special Education - Preschool Grants	I	84.173	063-060018	7/1/05 to 6/30/06	237,733	217,959	-	237,773	237,773	19,814
Drug Free Schools and Communities	I	84.186	100-060187	7/1/05 to 9/30/06	52,366	52,366	-	52,366	52,366	-
Drug Free Schools and Communities	I	84.186	100-050187	7/1/04 to 9/30/05	50,235	-	(2,194)	2,194	2,194	-
Title V Innovative Education	I	84.298	011-060187	7/1/05 to 9/30/06	22,940	19,881	-	16,631	16,631	(3,250)
Title II Ed. Tech. Grant	I	84.318	055-050187	7/1/04 to 9/30/05	41,878	22,335	(18,920)	41,255	41,255	-
Title II Ed. Tech. Grant	I	84.318	055-060187	7/1/05 to 9/30/06	30,398	14,186	-	12,845	12,845	-
Title V Innovative Education	I	84.340	011-050187	7/1/04 to 9/30/05	31,944	17,037	(14,435)	31,472	31,472	(1,341)
Title III Lang Inst LEP/Immigrant Students	I	84.365	010-060187	7/1/05 to 9/30/06	174,701	80,694	-	113,834	113,834	33,140
Title III Lang Inst LEP/Immigrant Students	I	84.365	010-050187	7/1/04 to 9/30/05	122,655	65,416	-	48,254	48,254	-
Title II Improving Teacher Quality	I	84.367	020-060187	7/1/05 to 9/30/06	505,084	269,378	17,162	355,125	355,125	85,747
Title II Improving Teacher Quality	I	84.367	020-050187	7/1/04 to 9/30/05	502,305	167,435	(12,959)	180,394	180,394	-
Passed Through Luzerne Intermediate Unit 18										
IDEA	I	84.027	N/A	7/1/04 to 6/30/05	91,848	91,848	91,848	-	-	-
IDEA	I	84.027	N/A	7/1/05 to 6/30/06	116,083	116,083	-	116,083	116,083	-
IDEA	I	84.027	N/A	7/1/04 to 6/30/05	703,200	703,200	703,200	-	-	-
IDEA	I	84.027	N/A	7/1/05 to 6/30/06	701,183	-	-	701,183	701,183	701,183
Passed Through Schuylkill County Area Vocational Technical School										
Vocational Education	I	84.048	381-055039	7/1/04 to 6/30/05	6,103	6,103	6,103	-	-	-
Vocational Education	I	84.048	381-066045	7/1/05 to 6/30/06	3,250	3,250	-	3,250	3,250	-
Passed Through Midwestern Intermediate Unit IV										
Title I Mini Award (Freeland El./Middle School)	I	84.010	013-060604	7/1/04 to 6/30/05	500	500	-	500	500	-
Direct from United States Department of Education										
Federal Pell Grant Program	D	84.063	N/A	7/1/045to 6/30/06	N/A	71,100	-	71,100	71,100	-
Total United States Department of Education										
						4,725,194	1,087,512	4,606,944	4,606,944	989,262

HAZLETON AREA SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2006

GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE		SOURCE CODE	FEDERAL CFDA NUMBER	PASS THROUGH NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED OR (DEFERRED) REVENUE AT JULY 1, 2005	REVENUE RECOGNIZED	FEDERAL EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2006
UNITED STATES DEPARTMENT OF AGRICULTURE											
Passed through the Commonwealth of Pennsylvania Department of Agriculture, Food Distribution		I	10.550	N/A	7/1/05 to 6/30/06	N/A	\$ 209,134	\$ 30,115	\$ 217,586	\$ 217,586	\$ 38,567
Passed through the Commonwealth of Pennsylvania Department of Education		I	10.555	64-000(Fed) (State)	7/1/05 to 6/30/06	N/A	1,558,682	208,372	1,594,145	1,594,145	243,835
National School Lunch Program		I	10.553	N/A(Fed)	7/1/05 to 6/30/06	N/A	141,073	19,156	143,841	143,841	21,924
School Breakfast Program		I	10.553	(State)	7/1/05 to 6/30/06	N/A	318,844	48,757	324,326	324,326	54,239
Summer Food Service Program		I	10.559	N/A	7/1/05 to 8/19/05	N/A	25,403	3,947	25,780	25,780	4,324
After School Snacks Program		I	10.555	N/A	10/1/05 to 5/12/06	N/A	69,117	13,794	69,470	69,470	14,147
Fresh Fruits & Vegetables Program		I	10.555	N/A	7/1/05 to 6/30/06	N/A	5,923	856	5,402	5,402	335
Total United States Department of Agriculture							<u>2,384,533</u>	<u>338,017</u>	<u>2,448,067</u>	<u>2,448,067</u>	<u>401,551</u>
UNITED STATES DEPARTMENT OF LABOR											
Passed through the Commonwealth of Pennsylvania Department of Labor and Industry		I	17.245	N/A	7/1/05 to 6/30/06	N/A	15,189	-	15,189	15,189	-
Trade Adjustment Assistance(Prac Nurs)		I	17.245	N/A	7/1/04 to 6/30/05	N/A	8,643	8,643	-	-	-
Office of Vocational Rehab (Establishment - Spec. Ed.)		I	84.126	N/A	7/1/05 to 6/30/06	N/A	-	-	10,399	10,399	10,399
Office of Vocational Rehab (Spec Ed)		I	84.126	N/A	7/1/05 to 6/30/06	N/A	11,610	-	11,610	11,610	-
Office of Vocational Rehab (Prac Nurs)		I	84.126	N/A	7/1/05 to 6/30/06	N/A	9,336	-	9,336	9,336	-
Passed through Luzerne County Human Resources Department		I	17.250	N/A	7/1/05 to 6/30/06	N/A	18,917	-	18,917	18,917	-
Workforce Invest Act (Prac Nursing)		I	17.250	N/A	7/1/05 to 6/30/06	N/A	5,137	-	18,252	18,252	13,115
Workforce Invest Act (Community Classroom)		I	17.250	N/A	7/1/04 to 6/30/05	N/A	6,944	6,944	-	-	-
Passed through Pocono Counties Workforce Investment Act		I	17.250	N/A	7/1/05 to 6/30/06	N/A	2,820	-	2,820	2,820	-
Workforce Invest Act (Prac Nursing)							<u>78,596</u>	<u>15,587</u>	<u>86,523</u>	<u>86,523</u>	<u>23,514</u>
Total United States Department of Labor							<u>\$7,215,446</u>	<u>\$1,441,116</u>	<u>\$7,207,659</u>	<u>\$7,207,659</u>	<u>\$1,433,329</u>
TOTAL											

Note: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hazleton Area School District and is presented on the 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 presented in the schedule may differ from amounts presented in the preparation of the basic financial statements.

- I - Indirect funding
- D - Direct funding

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**

Board of School Directors  
Hazleton Area School District  
Hazleton, Pennsylvania:

We have audited the accompanying basic 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 (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 31, 2006. 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.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the 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*.

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

*Parente Randolph, LLC*

Hazleton, Pennsylvania  
October 31, 2006



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

Board of School Directors  
Hazleton Area School District  
Hazleton, Pennsylvania:

COMPLIANCE

We have audited the compliance of Hazleton Area School District (the "School District") with the types of compliance requirements described in the U. S. Office Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

## INTERNAL CONTROL OVER COMPLIANCE

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Parente Randolph, LLC". The signature is written in a cursive, flowing style.

Hazleton, Pennsylvania  
October 31, 2006

**HAZLETON AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: UNQUALIFIED

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Reportable condition(s) 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

Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes   X   no

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies
84.367	Title II Improving Teacher Quality

HAZLETON AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006

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Dollar threshold used to distinguish  
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?  X  yes   no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

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