

HAZLETON AREA SCHOOL DISTRICT

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2012
&
INDEPENDENT AUDITORS' REPORT
&
ADDITIONAL INFORMATION
&
SINGLE AUDIT REPORTS**

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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, 2012, 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 opinion.

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, 2012, 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 March 26, 2013 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 12, and the Schedule of Funding Progress for Other Postemployment Healthcare Benefits on page 49, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was 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 50-61 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 62-63 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.

Dennis R. Moore & Associates, LLC

March 26, 2013

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

This Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the Hazleton Area School District (the "School District") for the year ended June 30, 2012 compared to June 30, 2011. The School District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the School District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the School District's financial performance.

INTRODUCTION

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

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

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

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

The non-major fund for governmental activities is the Special Revenue Fund.

DISTRICT-WIDE FINANCIAL ANALYSIS

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

CONDENSED STATEMENT OF NET ASSETS

	GOVERNMENTAL		INCREASE (DECREASE)	BUSINESS-TYPE		INCREASE (DECREASE)
ACTIVITIES.....		ACTIVITIES.....		
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
Current assets	\$ 36,794,641	\$ 41,025,336	\$(4,230,695)	\$(359,901)	\$(342,336)	\$(17,565)
Noncurrent assets	<u>116,095,454</u>	<u>98,484,275</u>	<u>17,611,179</u>	<u>450,733</u>	<u>505,325</u>	<u>(54,592)</u>
Total assets	<u>152,890,095</u>	<u>139,509,611</u>	<u>13,380,484</u>	<u>90,832</u>	<u>162,989</u>	<u>(72,157)</u>
Long-term debt outstanding	128,498,257	118,927,339	9,570,918	-	-	-
Other liabilities	<u>24,331,391</u>	<u>21,193,714</u>	<u>3,137,677</u>	<u>71,833</u>	<u>56,130</u>	<u>15,703</u>
Total liabilities	<u>152,829,648</u>	<u>140,121,053</u>	<u>12,708,595</u>	<u>71,833</u>	<u>56,130</u>	<u>15,703</u>
Net assets (deficit):						
Invested in capital assets, net of related debt	(11,740,258)	(10,128,463)	(1,611,795)	450,733	505,325	(54,592)
Restricted	-	22,415	(22,415)	-	-	-
Unrestricted	<u>11,800,705</u>	<u>9,494,606</u>	<u>2,306,099</u>	<u>(431,734)</u>	<u>(398,466)</u>	<u>(33,268)</u>
Total net assets (deficit)	<u>\$ 60,447</u>	<u>\$ (611,442)</u>	<u>\$ 671,889</u>	<u>\$ 18,999</u>	<u>\$ 106,859</u>	<u>\$(87,860)</u>

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

CONDENSED STATEMENT OF ACTIVITIES

	GOVERNMENTALACTIVITIES.....		INCREASE (DECREASE)	BUSINESS-TYPEACTIVITIES.....		INCREASE (DECREASE)
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
REVENUES:						
Program Revenues:						
Charges for services	\$ 303,898	\$ 431,026	\$ (127,128)	\$1,037,614	\$1,110,349	\$ (72,735)
Operating and capital grants and contributions	32,192,279	34,386,728	(2,194,449)	4,164,978	4,038,234	126,744
General Revenues:						
Property taxes	38,975,536	34,041,793	4,933,743			
State formula aide	32,432,274	34,478,517	(2,046,243)			
Other	<u>10,186,955</u>	<u>15,322,494</u>	<u>(5,135,539)</u>	<u>20,718</u>	<u>19,525</u>	<u>1,193</u>
Total revenues	<u>114,090,942</u>	<u>118,660,558</u>	<u>(4,569,616)</u>	<u>5,223,310</u>	<u>5,168,108</u>	<u>55,202</u>
EXPENSES:						
Instruction	68,623,533	70,273,260	(1,649,727)			
Instructional student support	5,495,646	7,266,755	(1,771,109)			
Administration and business	9,015,574	9,930,480	(914,906)			
Maintenance and operations	11,270,571	8,826,337	2,444,234			
Transportation	4,882,062	4,744,035	138,027			
Other	<u>14,131,667</u>	<u>14,828,662</u>	<u>(696,995)</u>	<u>5,311,170</u>	<u>5,339,758</u>	<u>28,588</u>
Total expenses	<u>113,419,053</u>	<u>115,869,529</u>	<u>(2,450,476)</u>	<u>5,311,170</u>	<u>5,339,758</u>	<u>28,588</u>
CHANGE IN NET ASSETS	671,889	2,791,029	(2,119,140)	(87,860)	(171,650)	83,790
NET ASSETS (DEFICIT), BEGINNING	<u>(611,442)</u>	<u>(3,402,471)</u>	<u>2,791,029</u>	<u>106,859</u>	<u>278,509</u>	<u>(171,650)</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ 60,447</u>	<u>\$ (611,442)</u>	<u>\$ 671,889</u>	<u>\$ 18,999</u>	<u>\$ 106,859</u>	<u>\$(87,860)</u>

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

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 12,382,218	\$12,907,433
Buildings and building improvements	77,208,848	77,686,294
Furniture and equipment	1,940,768	2,186,569
Construction-in-progress	<u>24,376,540</u>	<u>5,686,752</u>
Total	<u>\$115,908,392</u>	<u>\$98,467,048</u>

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

OUTSTANDING LONG-TERM DEBT AT JUNE 30,

	<u>2012</u>	<u>2011</u>
General obligation bonds	\$131,836,323	\$120,956,144
Other long-term debt	<u>4,658,220</u>	<u>5,328,518</u>
Total	<u>\$136,494,543</u>	<u>\$126,284,662</u>

OTHER LONG-TERM DEBT

	<u>LEASES</u>	<u>COMPENSATED ABSENCES</u>	<u>NET OPEB OBLIGATION</u>	<u>TOTAL</u>
Balance at June 30, 2011	\$1,014,851	\$3,849,242	\$ 464,425	\$ 5,328,518
Additional debt during year	-	469,070	1,378,921	1,847,991
Retirement and repayments	<u>(388,014)</u>	<u>(843,020)</u>	<u>(1,287,255)</u>	<u>(2,518,289)</u>
Balance at June 30, 2012	<u>\$ 626,837</u>	<u>\$3,475,292</u>	<u>\$ 556,091</u>	<u>\$ 4,658,220</u>

Analysis of these charts indicates that the total net assets for governmental activities were increased by \$671,889. Revenues exceeded expenses by this amount due to the receipt of the remaining portion of federal stimulus funding, along with healthcare costs being lower than expected.

Business-type activities show a 82% reduction in total net assets. Expenses exceeded revenues by \$87,860, due to increasing operating costs.

The cost of health benefits remained high during the 2011-2012 fiscal year. The General Fund spent approximately \$13,314,000 on health benefits which was approximately \$556,000 less than budgeted.

The chart showing capital assets (net of depreciation) indicates an increase in capital assets. This increase was the result of the current depreciation expense \$6,155,526, offset by net purchases of \$23,596,870. Overall Capital Assets increased 17.7%. The largest increases in construction-in-progress are due to the purchase of the Hazleton Area Academy of Sciences and Maple Manor Elementary Middle school buildings, and the addition to the McAdoo Kelayres Elementary Middle School building.

General obligation bonds increased due to the issuance of two new bonds, General Obligation Bonds Series of 2011 for \$9,990,000 and General Obligation Bonds Series A&B of 2012 for \$33,590,000. The School District made debt payments of \$6,185,000 on its General Obligation Bonds and recognized accretion of \$1,698,666. The School District also defeased the General Obligation Bonds of 2004 in the amount of \$29,010,000.

FUND FINANCIAL ANALYSIS

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

CHANGES IN FUND BALANCE

<u>Total Fund Balance</u>	<u>2011-2012</u>	<u>2010-2011</u>	<u>Total % Change</u>
General fund	\$19,164,000	\$16,042,169	19%
Capital projects	1,668,321	12,687,460	(87%)
Food service	18,999	106,859	(82%)

**CONDENSED BUDGET VERSUS ACTUAL
 GENERAL FUND 2011-2012**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues	\$ 116,952,083	\$ 112,713,218	\$(4,238,865)
Expenditures	(115,462,263)	(109,698,231)	5,764,032
Other financing sources (uses)	<u>(1,489,820)</u>	<u>106,844</u>	<u>1,596,664</u>
Net change in fund balance	<u>\$ _____ -</u>	<u>\$ 3,121,831</u>	<u>\$ 3,121,831</u>

The changes in the Fund Balance chart indicate increases in the General Fund, while the capital projects and food service funds decreased.

For the General Fund, actual expenditures fell short of budgeted expenditures by \$5,764,032 and actual revenues fell short of budgeted revenues by \$4,238,865. The net effect of all variations was to increase the Fund Balance of the General Fund by \$3,121,831. Revenues in all categories were less than budgeted, the largest of which being federal by \$2,031,645. IDEA, Title programs, and Medical Access revenues were all less than budgeted, \$992,659, \$523,318 and \$993,725, respectfully. Budgeted instruction expenditures were more than actual expenditures by \$4,116,641. The shortfall came mainly from instructional wages and benefits, purchased professional services, and general supplies all less than budgeted, \$712,453, \$805,247 and \$929,996, respectfully. The above items were the main reason for the overall increase in the fund balance of the General Fund.

The Food Service Program showed a \$87,860 decrease in fund balance. The major portion of this decline is due to contracted costs and increasing salaries and fringe benefits.

DISTRICT-WIDE VS FUND FINANCIAL STATEMENTS

The Fund financial Statements show a decrease of \$7,897,308 in the fund balance for governmental funds while the District-wide Financial Statements show an increase of \$671,889 in Net Assets for governmental activities. The principal cause of this difference is due to depreciation exceeding capital outlay, and the net issuance of long-term debt. A complete analysis is shown in the District's annual Financial Report.

LABOR RELATIONS

All employees worked under existing contracts or salary schedules during the 2011-2012 fiscal year. The contract with the International Brotherhood of Teamsters, which represents Custodial, Maintenance, Cleaning Persons and Mechanics, extended from July 1, 2006 to June 30, 2011. The contract with the Hazleton Area Education Association, which represents Teachers and other Professionals, extends from September 1, 2010 through August 31, 2013. The contract with the International Union, Security, Police and Fire Professionals of America, which represents Security Personnel, extends from July 1, 2011 through June 30, 2012. The contract with the Hazleton Area educational Support Personnel Association, which represents Aides, Bus Drivers, Cafeteria workers and Secretaries, extended from July 1, 2007 through June 30, 2011. The superintendent of Schools and Assistant Superintendent of Schools, the Secretary/Business Manager and Assistant Business Managers, and the Director of Vocational Education are covered by separate employment contracts, the remaining administrators are covered by a compensation plan that extends from July 1, 2011 through June 30, 2015.

INCREASING ENROLLMENTS/BUILDING PROGRAM

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

ENROLLMENT HISTORY

<u>SCHOOL YEAR</u>	<u>ENROLLMENT</u>	<u>PERCENTAGE INCREASE (DECREASE)</u>
2011-2012	10,740	2.64%
2010-2011	10,464	(1.83)
2009-2010	10,659	1.60
2008-2009	10,491	1.66
2007-2008	10,320	3.53
2006-2007	9,968	1.50
2005-2006	9,821	2.92
2004-2005	9,542	2.61
2003-2004	9,299	5.51
2002-2003	8,813	2.96

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

SUMMARY

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

From both a district-wide perspective and a fund financial perspective, the total fund balances and total net assets of the School District increased, with the exception of the Capital Project funds. The remaining funds received from The American Recovery and Reinvestment Act of 2009, and overall decrease in salary and benefits, caused the majority of the increase. The School district continues to increase spending in order to accommodate the increasing number of students and health benefit cost. Property taxes were increased by 2.00% for Luzerne County and 0.15% for Carbon County, while Schuylkill County decreased 22.60% during the 2011-2012 year. To contain the rapidly increasing health benefit costs, the School Board negotiated contracts with the School District's major employee groups whereby the health care coverage was modified to change plans, to increase the deductible and to reduce provided benefits. If expenses continue to increase faster than revenue, it will become necessary to look at ways to reduce spending or to find new sources of revenue. Much of what happens will be determined by the course of student enrollment.

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

REQUESTS FOR INFORMATION

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

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2012

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash and cash equivalents	\$ 27,700,472	\$2,019,782	\$ 29,720,254
Investments	249,000		249,000
Taxes receivables, net	2,019,406		2,019,406
Internal balances	2,716,108	(2,716,108)	
Due from other governments	3,769,539	39,723	3,809,262
Other receivables	28,351		28,351
Inventories	81,442	271,866	353,308
Prepaid expenses	<u>230,323</u>	<u>24,836</u>	<u>255,159</u>
Total current assets	36,794,641	(359,901)	36,434,740
CAPITAL ASSETS:			
Land and improvements	12,382,218		12,382,218
Buildings and improvements	77,208,848		77,208,848
Furniture and equipment	1,490,053	450,733	1,940,786
Construction in progress	<u>24,376,540</u>		<u>24,376,540</u>
Total capital assets, net of accumulated depreciation	<u>115,457,659</u>	<u>450,733</u>	<u>115,908,392</u>
Other assets	<u>637,795</u>		<u>637,795</u>
Total assets	<u>\$ 152,890,095</u>	<u>\$ 90,832</u>	<u>\$ 152,980,927</u>
LIABILITIES:			
Accounts payable	\$ 1,932,707		\$ 1,932,707
Current maturities:			
Bonds payable, net	7,160,000		7,160,000
Capital lease obligations	316,612		316,612
Compensated absences	519,674		519,674
Accrued salaries and benefits	11,834,369		11,834,369
Payroll deductions and withholdings	236,667		236,667
Accrued interest payable	1,420,075		1,420,075
Intergovernmental payables	248		248
Other liabilities	270,025	21,104	291,129
Deferred revenue	<u>641,014</u>	<u>50,729</u>	<u>691,743</u>
Total current liabilities	24,331,391	71,833	24,403,224
NONCURRENT LIABILITIES:			
Bonds payable, net	124,676,323		124,676,323
Capital lease obligations	310,225		310,225
Compensated absences	2,955,618		2,955,618
Net OPEB obligation	<u>556,091</u>		<u>556,091</u>
Total noncurrent liabilities	<u>128,498,257</u>		<u>128,498,257</u>
Total liabilities	<u>152,829,648</u>	<u>71,833</u>	<u>152,901,481</u>
NET ASSETS:			
Invested in capital assets, net of related debt	(11,740,258)	450,733	(11,289,525)
Unrestricted	<u>11,800,705</u>	<u>(431,734)</u>	<u>11,368,971</u>
Total net assets	<u>60,447</u>	<u>18,999</u>	<u>79,446</u>
Total liabilities and net assets	<u>\$ 152,890,095</u>	<u>\$ 90,832</u>	<u>\$ 152,980,927</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	PROGRAM REVENUES			NET EXPENSE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities:							
Instruction	\$ 68,623,533	\$ 303,898	\$19,690,210		\$(48,629,425)		\$(48,629,425)
Instructional student support	5,495,646		1,575,884		(3,919,762)		(3,919,762)
Administrative and financial support services	9,015,574		5,285,381		(3,730,193)		(3,730,193)
Operation and maintenance of plant services	11,270,571			\$ 348,555	(10,922,016)		(10,922,016)
Pupil transportation	4,882,062		2,286,966		(2,595,096)		(2,595,096)
Student activities	1,313,242		73,480		(1,239,762)		(1,239,762)
Community services	865,880		16,067		(849,813)		(849,813)
Interest on long-term debt	6,218,174		2,915,736		(3,302,438)		(3,302,438)
Depreciation - unallocated	<u>5,734,371</u>				<u>(5,734,371)</u>		<u>(5,734,371)</u>
Total governmental activities	113,419,053	303,898	31,843,724	348,555	(80,922,876)		(80,922,876)
Business-type activity,							
Food Service	<u>5,311,170</u>	<u>1,037,614</u>	<u>4,164,978</u>			\$(108,578)	(108,578)
Total	<u>\$ 118,730,223</u>	<u>\$1,341,512</u>	<u>\$36,008,702</u>	<u>\$ 348,555</u>	<u>(80,922,876)</u>	<u>(108,578)</u>	<u>(81,031,454)</u>
General Revenues:							
Taxes:							
Property taxes, levied for general purposes, net					38,975,536		38,975,536
Other taxes levied					9,927,913		9,927,913
Grants and entitlements not restricted to specific programs					32,432,274		32,432,274
Investment earnings, unrestricted					168,888	5,036	173,924
Special items, (loss) gain on disposal of assets					(2,437)	429	(2,008)
Miscellaneous					<u>92,591</u>	<u>15,253</u>	<u>107,844</u>
Total general revenues					<u>81,594,765</u>	<u>20,718</u>	<u>81,615,483</u>
Change in net assets					671,889	(87,860)	584,029
Net (deficit) assets - beginning					<u>(611,442)</u>	<u>106,859</u>	<u>(504,583)</u>
Net assets - ending					<u>\$ 60,447</u>	<u>\$ 18,999</u>	<u>\$ 79,446</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	GENERAL	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
ASSETS:			
Cash and cash equivalents	\$ 22,684,229	\$ 5,016,243	\$ 27,700,472
Investments		249,000	249,000
Taxes receivable, net	2,019,406		2,019,406
Due from other funds	5,882,068		5,882,068
Due from other governments	3,769,539		3,769,539
Other receivables	28,351		28,351
Inventories	81,442		81,442
Prepaid expenses	230,323		230,323
Total assets	\$ 34,695,358	\$ 5,265,243	\$ 39,960,601
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,495,617	\$ 437,090	\$ 1,932,707
Accrued salaries and benefits	11,834,369		11,834,369
Payroll deductions and withholdings	236,667		236,667
Intergovernmental payables	248		248
Due to other funds		3,159,832	3,159,832
Other liabilities	276,153		276,153
Deferred revenues	1,688,304		1,688,304
Total liabilities	15,531,358	3,596,922	19,128,280
Fund Balances:			
Nonspendable fund balance	81,442		81,442
Restricted fund balance		1,668,321	1,668,321
Committed fund balance	11,396,448		11,396,448
Assigned fund balance	2,000,549		2,000,549
Unassigned fund balance	5,685,561		5,685,561
Total fund balances	19,164,000	1,668,321	20,832,321
Total liabilities and fund balances	\$ 34,695,358	\$ 5,265,243	
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 \$205,813,526 and the accumulated depreciation is \$90,355,867			115,457,659
Unamortized portion of issue costs are not financial resources and therefore not reported as assets in government funds. The original issue costs for the debt issues were \$790,763 and the accumulated amortization was \$152,968			637,795
Unamortized portion of bond discount is not a financial resource and therefore not reported as assets in government funds. The original bond discount for the debt issue was \$795,089 and the accumulated amortization was \$119,493			675,596
Unamortized portion of bond premium is not a financial resource and therefore not reported as assets in government funds. The original bond premium for the debt issue was \$1,855,140 and the accumulated amortization was \$219,159			(1,635,981)
Unamortized portion of deferred refund cost is not a financial resource and therefore not reported as assets in government funds. The original deferred refund cost for the debt issue was \$256,487 and the accumulated amortization was \$71,527			184,960
Property taxes will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds.			1,047,290
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			(131,060,898)
Capital lease obligation			(626,837)
Accrued interest			(1,420,075)
Net OPEB obligation			(556,091)
Compensated absences			(3,475,292)
Net assets of governmental activities			\$ 60,447

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, 2012

	GENERAL	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Local sources	\$ 49,820,499	\$ 32,876	\$ 49,853,375
State sources	55,301,792		55,301,792
Federal sources	<u>7,590,927</u>	<u>300,000</u>	<u>7,890,927</u>
Total revenues	<u>112,713,218</u>	<u>332,876</u>	<u>113,046,094</u>
EXPENDITURES:			
Instruction	68,586,299	114,740	68,701,039
Support services	27,223,927	545,631	27,769,558
Non-instructional services	2,165,972	7,900	2,173,872
Capital outlay	357,230	23,017,733	23,374,963
Debt service	<u>11,364,803</u>		<u>11,364,803</u>
Total expenditures	<u>109,698,231</u>	<u>23,686,004</u>	<u>133,384,235</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,014,987</u>	<u>(23,353,128)</u>	<u>(20,338,141)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds		11,855,000	11,855,000
Proceeds of refunding bonds		31,725,000	31,725,000
Bond premium		1,139,955	1,139,955
Payment to escrow agent - refunding bonds		(32,385,886)	(32,385,886)
Other financing sources not listed	102,794		102,794
Disposal of fixed assets	3,970		3,970
Transfers in (out)	<u>80</u>	<u>(80)</u>	
Other financing sources, net	<u>106,844</u>	<u>12,333,989</u>	<u>12,440,833</u>
NET CHANGE IN FUND BALANCES	3,121,831	(11,019,139)	(7,897,308)
FUND BALANCE, BEGINNING	<u>16,042,169</u>	<u>12,687,460</u>	<u>28,729,629</u>
FUND BALANCE, ENDING	<u>\$ 19,164,000</u>	<u>\$ 1,668,321</u>	<u>\$ 20,832,321</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ (7,897,308)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Capital outlays	\$23,473,097	
Debt service	189,640	
Insurance recoveries	(102,799)	
Loss on sale of assets	(6,407)	
Less depreciation expense	<u>(6,057,595)</u>	17,495,936
Revenues related to real estate taxes in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		1,047,290
The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets.		(43,580,000)
In the statement of activities, appreciation on compound interest bonds is accrued on related debt.		(1,698,667)
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	35,195,000	
Capital lease obligation	<u>388,015</u>	35,583,015
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		120,609
In the statement of activities, compensated absences and OPEB are accrued, whereas in governmental funds, a benefit expenditure is reported when taken.		282,284
Bond issuance costs of \$790,763 were reported on the governmental fund statements when the debt was incurred. Amortization of issue costs are recorded in the statement of activities.		
Issuance costs	156,876	
Amortization of issue costs	<u>(41,632)</u>	115,244
Bond discount of \$795,089 were reported on the governmental fund statements when the debt was incurred. Amortization of bond discounts are recorded in the statement of activities.		
Bond discount	321,129	
Amortization of discount	<u>(28,412)</u>	292,717
Bond premium of \$1,855,140 were reported on the governmental fund statements when the debt was incurred. Amortization of bond premiums are recorded in the statement of activities.		
Bond premium	(1,139,955)	
Amortization of premium	<u>68,064</u>	(1,071,891)
Deferred refunding costs of \$256,487 were reported on the governmental fund statements when the debt was incurred. Amortization of deferred refunding costs are recorded in the statement of activities.		<u>(17,340)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ <u>671,889</u>

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, 2012

	ORIGINAL	FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES:				
Local sources	\$ 50,902,659	\$ 50,902,659	\$ 49,820,499	\$ (1,082,160)
State sources	56,426,852	56,426,852	55,301,792	(1,125,060)
Federal sources	<u>9,622,572</u>	<u>9,622,572</u>	<u>7,590,927</u>	<u>(2,031,645)</u>
Total revenues	<u>116,952,083</u>	<u>116,952,083</u>	<u>112,713,218</u>	<u>(4,238,865)</u>
EXPENDITURES:				
Current:				
Instruction	72,702,940	72,702,940	68,586,299	4,116,641
Support services	29,183,591	29,183,591	27,223,927	1,959,664
Non-instructional services	1,236,634	1,236,634	2,165,972	(929,338)
Capital outlay	600,000	600,000	357,230	242,770
Debt service	<u>11,739,098</u>	<u>11,739,098</u>	<u>11,364,803</u>	<u>374,295</u>
Total expenditures	<u>115,462,263</u>	<u>115,462,263</u>	<u>109,698,231</u>	<u>5,764,032</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,489,820</u>	<u>1,489,820</u>	<u>3,014,987</u>	<u>1,525,167</u>
OTHER FINANCING SOURCES (USES):				
Other financing sources not listed			102,794	102,794
Sale of fixed assets	15,000	15,000	3,970	(11,030)
Fund transfers	(877,971)	(877,971)	80	878,051
Budgetary reserve	<u>(626,849)</u>	<u>(626,849)</u>	<u> </u>	<u>626,849</u>
Total other financing sources (uses), net	<u>(1,489,820)</u>	<u>(1,489,820)</u>	<u>106,844</u>	<u>1,596,664</u>
NET CHANGE IN FUND BALANCE	<u>\$ </u>	<u>\$ </u>	3,121,831	<u>\$ 3,121,831</u>
FUND BALANCE, BEGINNING			<u>16,042,169</u>	
FUND BALANCE, ENDING			<u>\$ 19,164,000</u>	

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012**

	FOOD SERVICE
<hr/>	
ASSETS:	
Current assets:	
Cash	\$2,019,782
Due from other governments	39,723
Prepaid expenses	24,836
Inventories	<u>271,866</u>
Total current assets	2,356,207
Capital assets, net	<u>450,733</u>
Total assets	<u><u>\$2,806,940</u></u>
LIABILITIES:	
Current liabilities:	
Due to other funds	\$2,716,108
Deferred revenue	50,729
Other current liabilities	<u>21,104</u>
Total liabilities	<u>2,787,941</u>
NET ASSETS:	
Invested in capital assets	450,733
Unrestricted net deficit	<u>(431,734)</u>
Total net assets	<u>18,999</u>
Total liabilities and net assets	<u><u>\$2,806,940</u></u>

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, 2012

	FOOD SERVICE
OPERATING REVENUES,	
Food service	<u>\$1,037,614</u>
OPERATING EXPENSES:	
Other operating expenses	2,096,200
Salaries	1,817,132
Employee benefits	793,578
Supplies	327,946
Property services	169,633
Depreciation	97,931
Other purchased services	<u>8,750</u>
Total operating expenses	<u>5,311,170</u>
OPERATING LOSS	<u>(4,273,556)</u>
NONOPERATING REVENUES:	
Federal subsidies	3,799,664
State subsidies	365,314
Donations	15,253
Earnings on investments	5,036
Gain on sale of capital assets	<u>429</u>
Total nonoperating revenues	<u>4,185,696</u>
CHANGE IN NET ASSETS	(87,860)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>106,859</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 18,999</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2012

	FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 1,037,614
Payments to suppliers	(3,004,437)
Payments to employees for services	<u>(1,817,132)</u>
Net cash used in operating activities	<u>(3,783,955)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal subsidies	3,658,645
State subsidies	369,571
Local subsidies	<u>15,253</u>
Net cash provided by noncapital financing activities	<u>4,043,469</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(44,225)
Proceeds from sale of capital assets	<u>1,315</u>
Net cash used in capital and related financing activities	<u>(42,910)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES,	
Interest on investments	<u>5,036</u>
NET INCREASE IN CASH	221,640
CASH, BEGINNING	<u>1,798,142</u>
CASH, ENDING	<u>\$ 2,019,782</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	<u>\$ (4,273,556)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	97,931
Donated USDA commodities	257,415
Changes in assets and liabilities:	
Inventories	13,247
Prepaid expenses	(21,213)
Due to other funds	126,518
Deferred Revenue	(5,401)
Other current liabilities	<u>21,104</u>
Total adjustments	<u>489,601</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (3,783,955)</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012**

	PRIVATE PURPOSE TRUST FUND	AGENCY FUND
<u>ASSETS</u>		
ASSETS, Cash	<u>\$104,627</u>	<u>\$266,718</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES: Due to other funds	\$ 3,556	\$ 2,572
Other current liabilities		264,146
NET ASSETS, Held in trust	<u>101,071</u>	<u> </u>
TOTAL	<u>\$104,627</u>	<u>\$266,718</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

	PRIVATE PURPOSE TRUST FUND
ADDITIONS, Local sources	\$ 23,742
DEDUCTIONS, Non-instructional services	<u>18,839</u>
CHANGE IN NET ASSETS	4,903
NET ASSETS, BEGINNING	<u>96,168</u>
NET ASSETS, ENDING	<u>\$101,071</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

**1. NATURE OF OPERATIONS AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

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

NATURE OF OPERATIONS

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

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

REPORTING ENTITY

The reporting entity has been defined in accordance with the criteria established in Statement 14 issued by the Governmental Accounting Standards Board ("GASB") an amendment of GASB 39. 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 is classified as business-type activities.

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

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

GOVERNMENTAL FUND TYPES

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

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

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

The District has the following Capital Project Funds:

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

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

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

2011 Construction Fund- This fund received the proceeds of \$9,990,000 from the General Obligation Bonds-Series 2011, which were used to purchase the Hazleton Area Academy of Sciences building and the Maple Manor Elementary/Middle School building, and to pay the costs of issuance.

2012 Construction Fund- This fund received the proceeds of \$33,590,000 from the General Obligation Bonds-Series 2012A/B, which are being used to fund the 2011 Construction Fund, advance refund the General Obligation Bonds-Series 2004, and to pay the costs of issuance.

PROPRIETARY FUND TYPES

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

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

FIDUCIARY FUNDS

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

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

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

MEASUREMENT FOCUS

Government-Wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School District are included on the statement of net 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 fiscal year, an annual budget on the modified accrual basis for the General Fund. This is the only fund for which a budget is required and for which taxes may be levied. The Public School Code allows the School Board to authorize budget transfer amendments during the year, but only during the last nine months of the fiscal year.

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

All appropriations lapse at the end of each fiscal year.

CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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.....	
	GOVERNMENTAL <u>ACTIVITIES</u>	BUSINESS-TYPE <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 \$40 per day up to 100 days, \$75 per day for days above 100 to a maximum of 200, and \$100 per day for 201 days and above for the 2011-2012 school year. Similar contractual provisions are in effect with nonprofessional employees except that the payment is \$30 per day up to 200 days, and \$50 per day for 201 days and above for clerks, aides, and cafeteria workers. Custodial, maintenance, and cleaning personnel receive \$20 per day up to a maximum of 200 days. After ten years of employment, full-time security officers and seasonal security officers receive \$30 per day up to 99 days, \$40 per day above 99 to a maximum of 199, and \$50 per day for 200 days and above. Administrators, principals, and vice-principals are paid the same as the teachers.

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

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

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

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

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

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

ELIMINATIONS AND INTERNAL BALANCES

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

RESTRICTED NET ASSETS

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

2. DEPOSITS WITH FINANCIAL INSTITUTIONS

The School District's investment policy is in accordance with the Public School Code of 1949, Section 440.1 which requires monies to be invested in U.S. Treasury bills, short-term obligations of the U.S. government or its agencies or instrumentalities, savings or time accounts, or share accounts of institutions insured by the FDIC or FSLIC or NCUSIF to the extent such accounts are so insured and, for any amounts above the insured maximum provided that approved collateral as provided by law therefore shall be pledged by the depository. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision. At June 30, 2012, 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 (PSDLAF), Pennsylvania Local Government Investment Trust (PLGIT) and various petty cash balances (\$6,623) held throughout the School District.

CREDIT RISK

The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The majority of the School District's investments are in U.S. Government Obligations and are therefore not exposed to this type of risk. Investments in PLGIT and PSDLAF have received an AAA rating from Standard & Poor's.

CUSTODIAL CREDIT RISK-DEPOSITS

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At June 30, 2012 the bank balance of the School District's deposits with financial institutions including cash equivalent investments was \$23,413,732. The total bank balance that was not secured by federal depository insurance or collateralized through an investment pool was secured by securities pledged by the financial institutions for such funds, but not in the School District's name. Investments of \$249,000 are carried at fair value at June 30, 2012, and were collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. Cost of these approximated fair value. The total amount of investments not secured by federal depository insurance was collateralized by securities pledged by the financial institution for such funds, but not in the School District's name.

CUSTODIAL CREDIT RISK-INVESTMENTS

This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pennsylvania School District Liquid Asset Fund and the Pennsylvania Local Government Investment Trust were established as common law trusts organized under laws of the Commonwealth of Pennsylvania. Share of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools and municipalities. The purpose of these funds is to enable such governmental units to pool available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. The School District's deposits in these pooled funds are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. These investments are reflected as cash and cash equivalents on the balance sheet. The fair value of the School District's position in the external investment pools is the same as the value of the pool shares. All investments in an external investment pools that are not SEC registered are subject to oversight by the Commonwealth.

3. TAXES RECEIVABLE

Real estate taxes are levied on July 15 for Schuylkill, Carbon, and Luzerne Counties, based on assessed values established by the Luzerne, Carbon, and Schuylkill Counties Board of Assessments. Real property in the School District was originally assessed at \$4,033,082,458 for the 2011-2012 tax years. A tax rate of 9.0446 mills-Luzerne County, 29.3187 mills-Carbon County, and 30.713 mills-Schuylkill County was established for fiscal year 2011-2012. Taxes are due on or before November 15 for Schuylkill, Carbon and Luzerne Counties. Payments prior to September 16 for Luzerne, Schuylkill and Carbon Counties are entitled to a 2% discount, while payments after November 15 for Schuylkill, Carbon, and for Luzerne Counties are subject to a 10% penalty. Taxes not paid by January 1 attach as an enforceable lien on property.

All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is calculated based on collection history and was \$810,000 at June 30, 2012.

4. DUE FROM OTHER GOVERNMENTS

Amounts which are due from other governments include \$111,898 from various school districts for early intervention services. \$963,041 for grant programs due from the Commonwealth of Pennsylvania's Department of Education ("PDE"), as well as \$2,694,600 in federal funds passed through the PDE.

Amounts that are business-type activities due from other governments include \$39,723 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 2012 are summarized as follows:

	BALANCE <u>JULY 1, 2011</u>	ADDITIONS	DEDUCTIONS	BALANCE <u>JUNE 30, 2012</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, Not being depreciated:				
Land	\$ 1,956,058			\$ 1,956,058
Construction in progress	<u>5,686,752</u>	<u>\$23,510,391</u>	<u>\$(4,820,603)</u>	<u>24,376,540</u>
Total capital assets, not being depreciated	<u>7,642,810</u>	<u>23,510,391</u>	<u>(4,820,603)</u>	<u>26,332,598</u>
CAPITAL ASSETS, Being depreciated:				
Land improvements	13,922,349	192,316		14,114,665
Buildings and improvements	155,198,448	4,654,991	(156,044)	159,697,395
Furniture and equipment	<u>5,559,452</u>	<u>125,642</u>	<u>(16,225)</u>	<u>5,668,869</u>
Total capital assets, being depreciated	<u>174,680,249</u>	<u>4,972,949</u>	<u>(172,269)</u>	<u>179,480,929</u>
LESS ACCUMULATED DEPRECIATION:				
Land improvements	(2,970,976)	(717,531)		(3,688,507)
Buildings and improvements	(77,512,155)	(5,024,439)	48,047	(82,488,547)
Furniture and equipment	<u>(3,878,205)</u>	<u>(315,625)</u>	<u>15,016</u>	<u>(4,178,814)</u>
Total accumulated depreciation	<u>(84,361,336)</u>	<u>(6,057,595)</u>	<u>63,063</u>	<u>(90,355,868)</u>
Total capital assets, being depreciated, net	<u>90,318,913</u>	<u>(1,084,646)</u>	<u>(109,206)</u>	<u>89,125,062</u>
Governmental activities capital assets, net	<u>\$ 97,961,723</u>	<u>\$22,425,745</u>	<u>\$(4,929,809)</u>	<u>\$115,457,659</u>
BUSINESS-TYPE ACTIVITIES				
Furniture and equipment	\$ 1,925,245	\$ 44,226	\$(10,637)	\$ 1,958,834
Less accumulated depreciation	<u>(1,419,920)</u>	<u>(97,931)</u>	<u>9,750</u>	<u>(1,508,101)</u>
Business-type activities capital assets, net	<u>\$ 505,325</u>	<u>\$(53,705)</u>	<u>\$(887)</u>	<u>\$ 450,733</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 155,692
Support services	142,069
Non-instructional services	5,249
Unallocated	5,734,371
Capital outlay	<u>20,214</u>
Total depreciation expense	<u>\$6,057,595</u>

HAZLETON AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT

BONDS PAYABLE

<u>DESCRIPTION</u>	<u>INTEREST RATE PAYABLE</u>	<u>CURRENT PORTION</u>	<u>BALANCE JULY 1, 2011</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2012</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%		\$ 26,267,232	\$1,698,666		\$27,965,898
General Obligation Bonds, Series of 1997 to advance refund Series A 1995; maturity date March 1, 2023	4.00%-5.00%	\$4,170,000	22,190,000		\$3,945,000	18,245,000
General Obligation Bonds, Series of 2004 for certain capital projects; maturity date March 1, 2014	3.85%-4.00%	380,000	30,160,000		29,375,000	785,000
General Obligations Bonds Series of 2008 to refund Series A & B 1997 and 2000; maturity date March 1, 2023	3.00%-5.00%	1,430,000	20,405,000		1,375,000	19,030,000
General Obligation Bonds Series of 2010 for certain capital projects; maturity date March 1, 2029	0.9%-4.00%	500,000	11,585,000		495,000	11,090,000
QSCB Bonds Series A of 2010 for certain capital projects; maturity date September 1, 2027 (A)	5.00%	5,000	10,370,000		5,000	10,365,000
General Obligation Bonds Series of 2011 for certain capital projects; maturity date March 1, 2032	2.25%-5.00%	300,000		9,990,000		9,990,000

HAZLETON AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

<u>DESCRIPTION</u>	<u>INTEREST RATE PAYABLE</u>	<u>CURRENT PORTION</u>	<u>BALANCE JULY 1, 2011</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2012</u>
General Obligation Bonds Series A & B of 2012 for certain capital projects and refund 2004; maturity date March 1, 2028	5.00%	<u>375,000</u>	<u> </u>	<u>33,590,000</u>	<u> </u>	<u>33,590,000</u>
Total		<u>\$7,160,000</u>	<u>\$120,977,232</u>	<u>\$45,278,666</u>	<u>\$35,195,000</u>	131,060,898
Bond Discount						(675,596)
Deferred Refunding Cost						(184,960)
Bond Premium						<u>1,635,981</u>
Bonds Payable, Net						<u>\$131,836,324</u>

In the 2010-2011 year, the School District was awarded participation in the (A) Qualified School Construction Bonds ("QSCB") program, a federally subsidized loan. Under the program, the federal government subsidizes 4.83% of the 5.00% interest due on the QSCB bonds. During 2012, the School District paid \$518,500 of interest on the bonds and received \$500,871 from the federal government.

The following is an analysis of debt service requirements to maturity on these obligations at June 30, 2012:

<u>YEAR ENDED JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2013	\$ 7,160,000	\$ 4,303,389	\$ 11,463,389
2014	7,485,000	3,984,963	11,469,963
2015	7,845,000	3,625,738	11,470,738
2016	8,225,000	3,257,548	11,482,548
2017	7,291,712	6,760,535	14,052,247
2018 – 2022	35,200,307	33,165,393	68,365,700
2023 – 2027	39,158,879	21,852,055	61,010,934
2028 – 2032	<u>18,695,000</u>	<u>1,352,993</u>	<u>20,047,993</u>
Total	<u>\$131,060,898</u>	<u>\$78,302,614</u>	<u>\$209,363,512</u>

During the year ended June 30, 2012, the School District incurred \$7,966,774 of bond interest expense.

The School District defeased certain revenue and general obligation bonds by placing the proceeds of new bonds in trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust assets and liability for the defeased bonds are not included in the School District's financial statements. During 2012, the School District defeased a portion of the General Obligation Bonds of

HAZLETON AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

2004. The net result of the advance refunding reduced the School District's total debt service payments over the next 16 years by \$2,316,093 and obtained an economic gain of \$1,826,835.

The principal balance of defeased bonds outstanding as of June 30, 2012 is as follows:

1995 General Obligation Bond	\$25,950,000
2004 General Obligation Bond	\$29,010,000

CAPITAL LEASE OBLIGATIONS

The School District leases certain equipment in connection with its operations. During the year ended June 30, 2012, the School District made payments of principal and interest in the amount of \$437,244. 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, 2012:

<u>YEAR</u>	<u>AMOUNT</u>
2013	\$ 352,564
2014	<u>310,225</u>
Total minimum lease payments	662,789
Less amount representing interest (1)	<u>35,952</u>
Total value of net minimum lease payments	<u>\$ 626,837</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 \$49,230 for the year ended June 30, 2012.

7. COMPENSATED ABSENCES

The changes in the District's compensated absences in 2012 are summarized as follows:

Balance, July 1, 2011	\$3,849,242
Increase	469,070
Decrease	<u>(843,020)</u>
Balance, June 30, 2012	3,475,292
Less current portion	<u>519,674</u>
Long-term compensated absences	<u>\$2,955,618</u>

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

8. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Description

The School District follows the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." In addition to the relevant disclosures within this note related to GASB Statement No. 45, the financial statements reflect a long-term liability and related expenses of \$556,091 and \$91,666, respectively, in governmental activities.

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

Funding Policy

Premiums under the Plan for post-employment healthcare benefits are funded in various ways. For those employees whose benefits are funded by the retiree desiring coverage, the contribution rate ranges from \$475 for Single person coverage to \$1,684 for family coverage. For the period ending June 30, 2012, eligible members paid \$608,297, which was used to offset the School District's outlays to providers. The School District contributed \$1,287,255 to the Plan for related retirees. The retired plan member may elect to continue coverage for themselves and their dependents until the retired plan member reaches Medicare age. The plan is financed on a pay-as-you-go basis.

The School District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the School District, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortizing any unfunded actuarial liabilities (or funding excess) over a period of 12 years. The following table illustrates the components of the School District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the School District's net OPEB obligation:

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

Annual required contribution	\$1,408,954
Interest on net OPEB obligation	20,899
Adjustment to annual required contribution	<u>(50,932)</u>
Annual OPEB cost	1,378,921
Contributions made	<u>(1,287,255)</u>
Increased in net OPEB obligation	91,666
Net OPEB obligation- beginning of year	<u>464,425</u>
Net OPEB obligation- end of year	<u>\$ 556,091</u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
6/30/12	\$1,378,921	93.35%	\$556,091
6/30/11	\$1,380,232	98.53%	\$464,425
6/30/10	\$1,884,119	82.49%	\$444,159

Funding Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$9,370,854, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,370,854. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$53,966,805, and the ratio of the UAAL to the covered payroll equaled 17.36%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and actual results are compared with past expectations and new estimates are made about the future.

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

Actuarial Methods and Assumptions

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

In the actuarial valuation dated July 1, 2010, the Entry Age Normal Cost method was used. Because the District funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 4.5% discount rate, which approximates the expected rate of return on non-pension investments held by the District. Actuarial assumptions also included an annual healthcare cost trend rate of 7.5%, initially, reduced by decrements of 0.5% per year to an ultimate rate of 5.5% in 2014. Rates gradually decrease from 5.3% in 2015 to 4.2% in 2099 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level dollar amount over a twelve year open period.

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

HAZLETON AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

<u>CONTRACT/MEMORANDUM DATES</u>	<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.
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 th birthday.

<u>CONTRACT/MEMORANDUM DATES</u>	<u>DESCRIPTION OF HOSPITALIZATION BENEFIT</u>
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 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.

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 8.65% in 2012, 5.64% in 2011, and 4.78% in 2010 of covered payroll. The School District contributions were approximately \$4,913,000 in 2012, \$3,041,000 in 2011 and \$2,869,000 in 2010. The employees' contribution rates range from 6.50% to 10.30%, depending on date of hire and whether they elected to participate in the TF membership class.

10. INTERNAL BALANCES/INTER-FUND BALANCES AND TRANSFERS

The proprietary fund owed the general fund \$2,716,108 at June 30, 2012 for salaries, benefits and indirect costs allocated to that operation. This balance is paid in the subsequent year. The following summarizes the Inter-Fund transfers in 2012:

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$80	
Capital Projects		\$80

11. COMMITMENTS AND CONTINGENCIES

RISK MANAGEMENT

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

SELF-INSURED MEDICAL PLAN

Effective January 1, 2002, the School District self-insured for medical benefits provided to its employees and retirees. First Priority Life Insurance Company (the "administrator") will administer the plans for the participants who will use the current traditional plan and PPO plan utilizing the EHP, NEPA and Highmark Blue Shield networks at a charge of \$69 and \$50, respectively, per month.

The School District purchased specific stop-loss insurance coverage for claims in excess of \$150,000 through December 31, 2011, and \$240,000 from January 1, 2012 through June 30, 2012, per participant. There were four claims in excess of the \$150,000, and none in excess of the \$240,000, for the year ended June 30, 2012.

For the year ended June 30, 2012, the School District recognized approximately \$13,314,000 in self-insured medical expenses, including administrative and stop-loss insurance expenditures.

LITIGATION

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

GRANT PROGRAMS

The School District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

CONSTRUCTION PROJECTS

The School District has the following construction projects outstanding at June 30, 2012:

McAdoo Kelayres Building expansion to accommodate 7th and 8th grade classrooms with an estimated cost of \$10,226,000. Through June 30, 2012, \$9,000,673 has been included in construction in progress (Note 5). The School District has obtained financing through the QSCB program (Note 6) to cover the cost of construction. The project is estimated to be completed by September 1, 2012.

Hazleton Area Academy of Sciences Building remodel to accommodate 10th through 12th grade classrooms with an estimated cost of \$8,080,535. The School District has committed funds to cover the cost of construction. Scheduled construction began in December, 2012, and is estimated to be completed by August, 2013.

Maple Manor Elementary Middle School expansion and remodel to accommodate Kindergarten through 8th grade classrooms with an estimated cost of \$18,551,240. The School District plans to obtain financing through a General Obligation Bond to cover the cost of construction. Construction is scheduled to begin June, 2013, and is estimated to be completed by August, 2014.

OTHER MATTERS

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

12. FUND BALANCE ALLOCATIONS

NONSPENDABLE FUND BALANCE

The General Fund had \$81,442, in nonspendable fund balance at June 30, 2012, comprised of inventories on hand at year-end.

RESTRICTED FUND BALANCE

The Capital Projects Funds have restrictions on the use of the resources at year end. The Capital Projects Fund's \$1,668,321 fund balance at year end is restricted because of enabling legislation under the Municipal Code in Pennsylvania. Section 1432 of this Code restricts the use of resources for limited purposes.

COMMITTED FUND BALANCE

The governing body (Board of School Directors) has committed, of the General Fund's year end fund balance for the following purposes: health insurance costs \$3,000,000 and \$8,396,448 for capital projects.

ASSIGNED FUND BALANCE

The General Fund has \$2,000,549 assigned for future retirement rate increases.

13. SUBSEQUENT EVENT

The School District is not aware of any events or transactions that occurred subsequent to the Statement of Net Assets date but prior to March 26, 2013 that would require recognition or disclosure in its financial statements.

HAZLETON AREA SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012

Schedule of Funding Progress

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

Schedule of Employer Contributions

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>District Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 1,378,921	\$ 1,287,255	93.35%	\$ 556,091
6/30/2011	\$ 1,380,232	\$ 1,359,966	98.53%	\$ 464,425
6/30/2010	\$ 1,884,119	\$ 1,554,195	82.49%	\$ 444,159
6/30/2009	\$ 1,894,694	\$ 1,780,459	93.97%	\$ 114,235

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

COMBINING BALANCE SHEET- CAPITAL PROJECT FUND - SCHEDULE
JUNE 30, 2012

	GENERAL OBLIGATION BONDS 2010	QUALIFIED SCHOOL CONSTRUCTION BONDS 2010	GENERAL OBLIGATION BONDS 2011	GENERAL OBLIGATION BONDS 2012	CASTLE PHASE II	ELIMINATIONS	TOTAL CAPITAL PROJECT FUND
ASSETS:							
Cash and cash equivalents	\$ 1,145,610	\$ 1,765,746	\$ 194,256	\$ 1,543,039	\$ 367,592		\$ 5,016,243
Investments	249,000						249,000
Due from other funds	<u>3,000</u>					\$ (3,000)	-
TOTAL ASSETS	<u>\$ 1,397,610</u>	<u>\$ 1,765,746</u>	<u>\$ 194,256</u>	<u>\$ 1,543,039</u>	<u>\$ 367,592</u>	<u>\$ (3,000)</u>	<u>\$ 5,265,243</u>
LIABILITIES AND FUND BALANCES (DEFICIT):							
Liabilities:							
Due to other funds	\$ 211,628	\$ 220,542		\$ 401,393	\$2,329,269	\$ (3,000)	\$ 3,159,832
Accounts payable		<u>437,090</u>					<u>437,090</u>
TOTAL LIABILITIES	<u>211,628</u>	<u>657,632</u>		<u>401,393</u>	<u>2,329,269</u>	<u>(3,000)</u>	<u>3,596,922</u>
Fund balances (deficit), Restricted for capital projects	<u>1,185,982</u>	<u>1,108,114</u>	<u>194,256</u>	<u>1,141,646</u>	<u>(1,961,677)</u>	<u>-</u>	<u>1,668,321</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,397,610</u>	<u>\$ 1,765,746</u>	<u>\$ 194,256</u>	<u>\$ 1,543,039</u>	<u>\$ 367,592</u>	<u>\$ (3,000)</u>	<u>\$ 5,265,243</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES ·
CAPITAL PROJECT FUND
FOR THE YEAR ENDED JUNE 30, 2012

	GENERAL OBLIGATION BONDS 2004	GENERAL OBLIGATION BONDS 2010	QUALIFIED SCHOOL CONSTRUCTION BONDS 2010	GENERAL OBLIGATION BONDS 2011	GENERAL OBLIGATION BONDS 2012	CASTLE PHASE II	CAPITAL RESERVE	TOTAL CAPITAL PROJECT FUND
REVENUES:								
Local sources	\$ 15	\$ 14,719	\$ 3,818	\$ 11,921	\$ 1,774	\$ 624	\$ 5	\$ 32,876
Federal sources						300,000		300,000
Total revenues	<u>15</u>	<u>14,719</u>	<u>3,818</u>	<u>11,921</u>	<u>1,774</u>	<u>300,624</u>	<u>5</u>	<u>332,876</u>
EXPENDITURES:								
Instructional services			114,740					114,740
Support services		6,045	46,622	168,093	309,911	14,960		545,631
Operation of non-instructional services	259		7,641					7,900
Capital outlay		2,688,885	7,890,558	9,838,548	695,310	1,882,012	22,420	23,017,733
Total expenditures	<u>259</u>	<u>2,694,930</u>	<u>8,059,561</u>	<u>10,006,641</u>	<u>1,005,221</u>	<u>1,896,972</u>	<u>22,420</u>	<u>23,686,004</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>(244)</u>	<u>(2,680,211)</u>	<u>(8,055,743)</u>	<u>(9,994,720)</u>	<u>(1,003,447)</u>	<u>(1,596,348)</u>	<u>(22,415)</u>	<u>(23,353,128)</u>
OTHER FINANCING SOURCES:								
Bond proceeds				9,990,000	1,865,000			11,855,000
Proceeds of refunding bonds					31,725,000			31,725,000
Bond premium				198,976	940,979			1,139,955
Payment to escrow agent - refunding bonds					(32,385,886)			(32,385,886)
Transfers	(80)							(80)
Total other financing sources	<u>(80)</u>			<u>10,188,976</u>	<u>2,145,093</u>			<u>12,333,989</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(324)</u>	<u>(2,680,211)</u>	<u>(8,055,743)</u>	<u>194,256</u>	<u>1,141,646</u>	<u>(1,596,348)</u>	<u>(22,415)</u>	<u>(11,019,139)</u>
FUND BALANCE, BEGINNING	<u>324</u>	<u>3,866,193</u>	<u>9,163,857</u>	<u>-</u>	<u>-</u>	<u>(365,329)</u>	<u>22,415</u>	<u>12,687,460</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ -</u>	<u>\$ 1,185,982</u>	<u>\$ 1,108,114</u>	<u>\$ 194,256</u>	<u>\$ 1,141,646</u>	<u>\$(1,961,677)</u>	<u>\$ -</u>	<u>\$ 1,668,321</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND REVENUES FROM LOCAL SOURCES FOR THE YEAR ENDED JUNE 30, 2012

Current real estate taxes	\$ 34,692,724
Current taxpayer relief taxes	9,927,777
Delinquencies of taxes levied and assessed by the LEA	1,759,034
Current Act 511 taxes	1,219,050
Federal IDEA pass through revenue	958,764
Federal ARRA IDEA pass through revenue	307,163
Interim real estate taxes	187,203
Tuition from patrons	179,072
Interest on investments	136,016
Receipts from other LEAS in Pennsylvania	124,827
Revenue from student activities	73,480
Miscellaneous revenue	71,915
Public utility realty tax	64,887
Rentals	48,555
Federal revenue received from other intermediate sources	27,731
Refunds of prior years' expenditures	16,679
Community service activities	16,067
Payments in lieu of current taxes	5,348
Contributions and donations from private sources	<u>4,207</u>
TOTAL REVENUE FROM LOCAL SOURCES	<u>\$ 49,820,499</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND REVENUES FROM COMMONWEALTH SOURCES FOR THE YEAR ENDED JUNE 30, 2012

Basic instruction subsidy	\$32,278,065
Special education funding for school age pupils	4,562,849
Early intervention	4,099,811
State property tax reduction allocation	2,710,562
Revenue for retirement payments	2,589,206
Rental and sinking fund payments	2,414,664
Transportation	2,286,966
Revenue for social security payments	2,260,894
Pre-K counts	1,075,200
Vocational education	601,110
Health services	221,468
Tuition for orphans and children placed in private homes	154,208
Workforce investment act	32,255
Dual enrollment grants	7,324
Migratory children	3,680
Vocational training of the unemployed	<u>3,530</u>
TOTAL REVENUE FROM COMMONWEALTH SOURCES	<u>\$55,301,792</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND REVENUES FROM FEDERAL SOURCES FOR THE YEAR ENDED JUNE 30, 2012

Title I - Improving academic achievement	\$ 3,448,115
ARRA- State fiscal stabilization fund	1,001,336
IDEA, Part B	616,505
Title II - Prep/Trng/Recruit HQ Teachers/Principals	515,322
ARRA- Qualified Schools Construction Bonds	501,072
School based ACCESS medical reimbursement program	453,584
Medical assistance reimbursement ACCESS - Early intervention	269,520
IDEA, Section 619	245,085
Title III - Language instruction	214,882
Vocational education - operating expenditures	172,426
ARRA- IDEA, Section 619	60,885
ARRA- Education Jobs Fund	36,947
ARRA- Title, I, Part A & Part D	33,481
Medical assistance reimbursement - Administrative Claiming	19,230
ARRA- Title II, Part D, Education Technology	13,575
ARRA- Title I, School Improvement	(574)
Workforce investment act	(4,706)
Title IV - 21st century schools	<u>(5,758)</u>
TOTAL REVENUE FROM FEDERAL SOURCES	<u>\$ 7,590,927</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND EXPENDITURES BY SUBFUNCTION FOR THE YEAR ENDED JUNE 30, 2012

Instruction:	
Regular programs	\$ 45,787,382
Special and gifted education	18,162,505
Vocational education programs	2,465,514
Pre-kindergarten	1,075,200
Other instructional programs	650,977
Adult education programs	371,679
Nonpublic school programs	<u>73,042</u>
Total instruction	<u>68,586,299</u>
Support services:	
Operation and maintenance of plant services	8,371,254
Administration	5,021,099
Student transportation services	4,875,150
Pupil personnel	2,271,157
Pupil health	2,021,449
Central	1,705,449
Business	1,465,609
Instructional staff	1,197,018
Other support services	<u>295,742</u>
Total support services	<u>27,223,927</u>
Operation of non-instructional services:	
Student activities	1,300,093
Community services	<u>865,879</u>
Total operation of non-instructional services	<u>2,165,972</u>
Facilities acquisition, construction, and improvement:	
Existing building improvement services	30,039
Arch. & Eng. Services / Ed. Specs. Dev. Original & Additional	27,589
Arch. & Eng. Services / Educational specifications - Improvements	39,602
Building acquisition & construction services - Original & Additional	<u>260,000</u>
Total facilities acquisition, construction, and improvement	<u>357,230</u>
Debt service:	
Redemption of principal	6,568,614
Interest payments	4,640,116
Refund of prior-year receipts	<u>156,073</u>
Total debt service	<u>11,364,803</u>
TOTAL EXPENDITURES BY SUBFUNCTION	<u>\$ 109,698,231</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT -
INSTRUCTION EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

INSTRUCTION EXPENDITURES:	
Personnel services, salaries	<u>\$ 42,001,855</u>
Personnel services, employee benefits:	
Group insurance	10,658,509
Social security contributions	3,205,001
Retirement contributions	3,116,301
Workers' compensation	545,376
Other employee benefits	513,207
Tuition reimbursement	208,942
Unemployment compensation	<u>88,042</u>
Total personnel services, employee benefits	<u>18,335,378</u>
Purchased professional and technical services	<u>2,623,075</u>
Purchased property services	<u>581,163</u>
Other purchased services:	
Tuition	3,090,762
Travel	56,327
Communications	14,207
Miscellaneous purchased services	12,373
Advertising	11,745
Student transportation	7,878
General insurance	<u>1,430</u>
Total other purchased services	<u>3,194,722</u>
Supplies:	
General supplies	502,939
Books and periodicals	378,716
Technology	199,588
Food	19,567
Energy	<u>13,100</u>
Total supplies	<u>1,113,910</u>
Property, equipment - original and additional	<u>243,274</u>
Other objects	<u>492,922</u>
TOTAL INSTRUCTION	<u>\$ 68,586,299</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT - SUPPORT SERVICES EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2012

SUPPORT SERVICES EXPENDITURES:	
Personnel services, salaries	<u>\$11,701,960</u>
Personnel services, employee benefits:	
Group insurance	2,861,143
Social security contributions	892,686
Retirement contributions	760,934
Other employee benefits	297,443
Workers' compensation	163,167
Unemployment compensation	27,635
Tuition reimbursement	<u>15,013</u>
Total personnel services, employee benefits	<u>5,018,021</u>
Purchased professional and technical services	<u>1,188,168</u>
Purchased property services	<u>2,236,704</u>
Other purchased services:	
Student transport services	4,636,223
General insurance	401,330
Miscellaneous purchased services	176,301
Communications	129,044
Advertising	44,113
Printing and binding	20,165
Travel	<u>16,099</u>
Total other purchased services	<u>5,423,275</u>
Supplies:	
Energy	638,667
General supplies	604,167
Books and periodicals	102,488
Food	6,290
Technology	<u>4,978</u>
Total supplies	<u>1,356,590</u>
Property:	
Equipment - original and additional	128,935
Equipment - replacement	<u>3,760</u>
Total property	<u>132,695</u>
Other objects	<u>166,514</u>
TOTAL SUPPORT SERVICES	<u>\$27,223,927</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT - NONINSTRUCTIONAL SERVICES EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2012

NON-INSTRUCTIONAL SERVICES EXPENDITURES:	
Personnel services, salaries	<u>\$ 775,547</u>
Personnel services, employee benefits:	
Social security contributions	60,754
Group insurance	58,411
Retirement contributions	38,436
Other employee benefits	10,016
Workers' compensation	5,343
Unemployment compensation	<u>3,458</u>
Total personnel services, employee benefits	<u>176,418</u>
Purchased professional and technical services	<u>165,469</u>
Purchased property services	<u>15,878</u>
Other purchased services:	
Student transport services	100,796
General insurance	24,206
Travel	21,838
Miscellaneous purchased services	4,385
Printing and binding	<u>629</u>
Total other purchased services	<u>151,854</u>
Supplies:	
General supplies	142,409
Food	16,369
Books and periodicals	<u>11,592</u>
Total supplies	<u>170,370</u>
Property, equipment - original & additional	<u>11,572</u>
Other objects	<u>698,864</u>
TOTAL NONINSTRUCTIONAL SERVICES	<u><u>\$2,165,972</u></u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND EXPENDITURES BY OBJECT -
FACILITIES ACQUISITION, CONSTRUCTION AND IMPROVEMENT SERVICES
AND DEBT SERVICE EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

FACILITIES ACQUISITION, CONSTRUCTION AND
IMPROVEMENT SERVICES:

Property, equipment, original & additional	\$ 275,987
Purchased professional and technical services	67,191
Purchased property services	<u>14,052</u>

TOTAL FACILITIES ACQUISITION, CONSTRUCTION
AND IMPROVEMENT SERVICES \$ 357,230

DEBT SERVICE:

Redemption of principal	\$ 6,568,614
Interest	4,640,116
Refund of prior-years receipts	<u>156,073</u>

TOTAL DEBT SERVICE \$11,364,803

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

RECONCILIATION OF REAL ESTATE TAX DUPLICATE
JUNE 30, 2012

	BANKS TOWNSHIP	BEAVER MEADOWS BOROUGH	BLACK CREEK TOWNSHIP	BUTLER TOWNSHIP	CONYNGHAM BOROUGH	FOSTER TOWNSHIP	FREELAND BOROUGH	HAZLE TOWNSHIP	TOTAL
Original assessed valuation	\$ 18,086,296	\$ 7,579,827	\$ 214,528,065	\$ 669,665,028	\$ 125,558,252	\$ 202,119,068	\$ 80,886,023	\$ 1,210,862,836	\$ 4,033,082,458
Millage	<u>0.030</u>	<u>0.030</u>	<u>0.009</u>	<u>0.009</u>	<u>0.009</u>	<u>0.009</u>	<u>0.009</u>	<u>0.009</u>	
Original tax levied	\$ 530,265	\$ 222,230	\$ 1,940,321	\$ 6,056,853	\$ 1,135,624	\$ 1,828,085	\$ 731,582	\$ 10,951,769	\$ 39,947,208
Net interim additions (abatements)	<u>504</u>	<u>(37)</u>	<u>(4,717)</u>	<u>(23,250)</u>	<u>(1,054)</u>	<u>(7,499)</u>	<u>(952)</u>	<u>(998,943)</u>	<u>(1,469,484)</u>
Total tax levied	530,769	222,193	1,935,604	6,033,603	1,134,570	1,820,586	730,630	9,952,826	38,477,724
Less:									
Collections	(508,568)	(204,099)	(1,761,832)	(5,560,010)	(1,069,571)	(1,616,765)	(654,226)	(8,861,203)	(35,044,019)
Taxes turned over to delinquent collector	<u>(22,202)</u>	<u>(18,094)</u>	<u>(173,767)</u>	<u>(473,602)</u>	<u>(64,999)</u>	<u>(203,821)</u>	<u>(76,404)</u>	<u>(1,091,622)</u>	<u>(3,433,695)</u>
Taxes outstanding with collectors as of June 30, 2012	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ (9)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 10</u>
Summary of collections:									
Amount paid:									
At discount	\$ 323,150	\$ 160,350	\$ 1,479,700	\$ 4,638,450	\$ 893,700	\$ 1,242,750	\$ 535,200	\$ 7,529,700	\$ 29,239,400
At face	151,328	34,679	196,112	731,300	140,001	308,725	82,646	986,443	4,292,209
At penalty	<u>34,090</u>	<u>9,070</u>	<u>86,020</u>	<u>190,260</u>	<u>35,870</u>	<u>65,290</u>	<u>36,380</u>	<u>345,060</u>	<u>1,512,410</u>
Total collections	<u>\$ 508,568</u>	<u>\$ 204,099</u>	<u>\$ 1,761,832</u>	<u>\$ 5,560,010</u>	<u>\$ 1,069,571</u>	<u>\$ 1,616,765</u>	<u>\$ 654,226</u>	<u>\$ 8,861,203</u>	<u>\$ 35,044,019</u>

HAZLETON AREA SCHOOL DISTRICT
RECONCILIATION OF REAL ESTATE TAX DUPLICATE
JUNE 30, 2012

	HAZLETON CITY	JEDDO BOROUGH	SUGARLOAF TOWNSHIP	WEST HAZLETON BOROUGH	EAST UNION TOWNSHIP	KLINE TOWNSHIP	MCADOO BOROUGH	NORTH UNION TOWNSHIP	SUB-TOTAL
Original assessed valuation	\$831,253,932	\$ 1,432,124	\$341,867,954	\$193,135,276	\$ 79,388,598	\$ 17,030,705	\$13,133,774	\$ 26,554,700	\$1,503,797,063
Millage	0.009	0.009	0.009	0.009	0.030	0.030	0.030	0.030	
Original tax levied	\$ 7,518,359	\$ 12,953	\$ 3,092,059	\$ 1,746,831	\$ 2,438,261	\$ 523,064	\$ 403,378	\$ 815,574	\$ 16,550,479
Net interim additions (abatements)	(105,381)	-	(4,773)	(15,204)	(305,197)	(2,033)	499	(1,447)	(433,536)
Total tax levied	7,412,978	12,953	3,087,286	1,731,627	2,133,064	521,031	403,877	814,127	16,116,943
Less:									
Collections	(6,698,940)	(10,834)	(2,914,882)	(1,571,037)	(2,031,929)	(481,236)	(351,989)	(746,898)	(14,807,745)
Taxes turned over to delinquent collector	(714,063)	(2,119)	(172,365)	(160,590)	(101,135)	(39,795)	(51,888)	(67,229)	(1,309,184)
Taxes outstanding with collectors as of June 30, 2012	\$ (25)	\$ -	\$ 39	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14
Summary of collections:									
Amount paid:									
At discount	\$ 5,386,100	\$ 7,800	\$ 2,500,100	\$ 1,364,900	\$ 1,890,600	\$ 411,800	\$ 255,400	\$ 619,700	\$ 12,436,400
At face	910,840	2,884	286,972	154,387	100,749	40,416	65,209	99,518	1,660,975
At penalty	402,000	150	127,810	51,750	40,580	29,020	31,380	27,680	710,370
Total collections	\$ 6,698,940	\$ 10,834	\$ 2,914,882	\$ 1,571,037	\$ 2,031,929	\$ 481,236	\$ 351,989	\$ 746,898	\$ 14,807,745

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Grantor/Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning\ Ending Date	Program or Award Amount	Total Received	Accrued (Deferred) Revenue At July 1, 2011	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue At June 30, 2012
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
<u>Passed Through PA Department of Public Welfare</u>										
Medical Assistance Program	I	93.778	N/A	N/A	N/A	\$ 122,516	\$ (266,982)	\$ 19,230	\$ 19,230	\$ (370,268)
U.S. DEPARTMENT OF EDUCATION										
<u>Passed Through PA Department of Education</u>										
Title III Lang. Inst. LEP/Immigrant Students	I	84.365	010-120187	07/01/11-09/30/12	372,980	177,322	-	158,145	158,145	(19,177)
Title III Lang. Inst. LEP/Immigrant Students	I	84.365	010-110187	07/21/10-09/30/11	256,934	51,387	11,709	56,737	56,737	17,059
Special Education - Preschool Grants	I	84.027	131-110018	07/01/11-06/30/12	616,505	616,505	-	616,505	616,505	-
Special Education - Preschool Grants	I	84.173	131-110018	07/01/11-06/30/12	245,085	245,085	-	245,085	245,085	-
E.S.E.A. Title 1	I	84.010	013-100187	07/01/09-09/30/10	3,175,766	431,740	431,740	-	-	-
E.S.E.A. Title 1	I	84.010	013-110187	07/01/10-09/30/11	3,137,360	1,044,135	208,366	584,201	584,201	(251,568)
E.S.E.A. Title 1	I	84.010	013-120187	07/01/11-09/30/12	3,028,701	2,062,228	-	2,689,825	2,689,825	627,597
Academic Achievement Award	I	84.010	077-110187	07/01/10-09/30/11	5,000	1,333	4,967	-	-	3,634
Title II Improving Teacher Quality	I	84.367	020-120187	07/01/11-09/30/12	536,985	333,935	-	376,600	376,600	42,665
Title II Improving Teacher Quality	I	84.367	020-110187	07/01/10-09/30/11	546,285	107,459	(31,262)	138,721	138,721	-
Program Improvement - Setaside	I	84.010	042-100187	03/22/10-09/30/11	112,092	-	(8,251)	8,251	8,251	-
Program Improvement - Setaside	I	84.010	042-110187	02/08/11-09/30/12	132,360	112,506	(13,236)	132,360	132,360	6,618
Program Improvement - Setaside	I	84.010	042-120187	04/16/12-09/30/13	96,872	-	-	33,478	33,478	33,478
Drug Free Schools and Communities	I	84.186	100-100187	07/01/09-03/31/11	40,183	-	5,758	(5,758)	(5,758)	-
Secondary Allocations	I	84.048	380-121047	07/01/11-06/30/12	172,426	172,426	-	172,426	172,426	-
ARRA- Fiscal Stabilization- Basic Ed	I	84.394	126-110187	07/01/10-06/30/11	4,005,343	1,001,336	-	1,001,336	1,001,336	-
ARRA- Education Jobs Fund	I	84.410	140-120187	07/03/12-09/30/12	36,947	-	-	36,947	36,947	36,947
ARRA- IDEA B Pre-School	I	84.392	137-110018	07/01/11-09/30/11	60,885	60,885	-	60,885	60,885	-
ARRA- IDEA B Pre-School	I	84.392	137-100018	07/01/10-06/30/11	107,404	44,752	44,752	-	-	-
ARRA- Title I Part A	I	84.389	127-100187	05/14/09-09/30/11	1,828,845	-	(33,481)	33,481	33,481	-
ARRA- Title I School Improvement	I	84.389	134-100187	03/22/10-09/30/11	77,784	-	574	(574)	(574)	-
ARRA- Title II Part D Ed Technology	I	84.386	135-100187	07/01/09-09/30/11	343,000	-	(13,575)	13,575	13,575	-
<u>Passed Through Luzerne Intermediate Unit18</u>										
IDEA	I	84.027	N/A	07/01/10-06/30/11	123,846	123,846	123,846	-	-	-
IDEA	I	84.027	N/A	07/01/10-06/30/11	855,960	855,960	855,960	-	-	-
IDEA	I	84.027	N/A	07/01/11-06/30/12	123,846	-	-	123,846	123,846	123,846
IDEA	I	84.027	N/A	07/01/11-06/30/12	834,918	-	-	834,918	834,918	834,918
<u>Direct from U.S. Department of Education</u>										
Fund for the Improvement of Education	D	84.215	N/A	09/17/10-12/31/11	300,000	300,000	-	300,000	300,000	-
Direct Student Loans	D	84.268	N/A	07/01/11-06/30/12	N/A	175,227	-	175,227	175,227	-
Federal Pell Grant Program	D	84.063	N/A	07/01/11-06/30/12	N/A	77,075	-	77,075	77,075	-
TOTAL U.S. DEPARTMENT OF EDUCATION						7,995,142	1,587,867	7,863,292	7,863,292	1,456,017

HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Grantor/Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning\ Ending Date	Program or Award Amount	Total Received	Accrued (Deferred) Revenue At July 1, 2011	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue At June 30, 2012
U.S. DEPARTMENT OF AGRICULTURE										
<u>Passed Through PA Department of Agriculture</u>										
Food Distribution	I	10.555	N/A	07/01/11-06/30/12	N/A	\$ 252,014	\$ (56,130)	\$ 257,415	\$ 257,415	\$ (50,729)
<u>Passed Through PA Department of Education</u>										
National School Lunch Program	I	10.555	64-000 (Fed) (State)	07/01/11-06/30/12	N/A	2,868,630	64,197	2,815,549	2,815,549	11,116
School Breakfast Program	I	10.553	N/A (Fed) (State)	07/01/11-06/30/12	N/A	41,538	940	40,761	40,761	163
Summer Food Service Program	I	10.559	N/A	07/01/11-06/30/12	N/A	676,988	14,982	664,704	664,704	2,698
Fresh Fruits and Vegetables	I	10.582	N/A (Fed)	07/01/11-06/30/12	N/A	179,936	4,161	176,457	176,457	682
						64,277	21,743	21,743	21,743	21,743
						48,749	11,818	40,252	40,252	3,321
TOTAL U.S. DEPARTMENT OF AGRICULTURE						<u>4,132,132</u>	<u>104,245</u>	<u>4,016,881</u>	<u>4,016,881</u>	<u>(11,006)</u>
U.S. DEPARTMENT OF LABOR										
<u>Passed Through Luzerne County Human Resources Department</u>										
Workforce Invest Act (TANF Youth Services)	I	93.558	N/A	07/01/11-06/30/12	N/A	-	4,706	(4,706)	(4,706)	-
TOTAL FEDERAL FINANCIAL ASSISTANCE						<u>\$ 12,249,790</u>	<u>\$ 1,429,836</u>	<u>\$ 11,894,697</u>	<u>\$ 11,894,697</u>	<u>\$ 1,074,743</u>

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

See Notes to Financial Statements

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

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, 2012, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 26, 2013. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School district's internal control over financial reporting.

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

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

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*.

We noted certain matters that we reported to the Management of the School district in a separate letter dated March 26, 2013.

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.

Dennis R. Moore & Associates, LLC.

March 26, 2013

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the School District's major federal programs for the year ended June 30, 2012. 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 each of 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

INTERNAL CONTROL OVER COMPLIANCE

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

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.

Dennis R. Moore & Associates, LLC

March 26, 2013

**HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued: UNQUALIFIED

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

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

Type of auditors' report issued on compliance for major programs: 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>
10.555/10.553/10.559	Child Nutrition Cluster
84.394	State Fiscal Stabilization Fund Cluster
84.215	Fund for the Improvement of Education

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

Dollar threshold used to distinguish
between type A and type B programs \$356,841

Auditee qualified as low-risk auditee? X yes ___ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.
