

HAZLETON AREA SCHOOL DISTRICT

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2015**

**&
INDEPENDENT AUDITORS' REPORT
&
ADDITIONAL INFORMATION
&
SINGLE AUDIT REPORTS**



Certified Public Accountants and Business Consultants

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Hazleton Area School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hazleton Area School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Hazleton Area School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, for the year ended June 30, 2015, the Hazleton Area School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 13, postemployment benefits other than pension funding progress on page 54, schedule of the school district's proportionate share of the net pension liability on page 55, and schedule of school district contributions on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hazleton Area School District's basic financial statements. The combining financial statements and schedules in the foregoing table of contents on pages 57 through 68 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and certain state awards on pages 69 and 70, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, on our consideration of the Hazleton Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hazleton Area School District's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Maillie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
December 15, 2015

**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, 2015 compared to June 30, 2014 as restated. The School District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the School District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the School District's financial performance.

INTRODUCTION

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

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

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

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

DISTRICT-WIDE FINANCIAL ANALYSIS

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

CONDENSED STATEMENT OF NET POSITION

	GOVERNMENTAL		INCREASE (DECREASE)	BUSINESS-TYPE		INCREASE (DECREASE)
ACTIVITIES.....		ACTIVITIES.....		
	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>	
Current assets	\$ 38,394,977	\$ 37,766,805	\$ 628,172	\$ (535,870)	\$ (199,836)	\$(336,034)
Noncurrent assets	<u>130,277,040</u>	<u>131,356,901</u>	<u>(1,079,861)</u>	<u>336,952</u>	<u>352,038</u>	<u>(15,086)</u>
Total assets	<u>168,672,017</u>	<u>169,123,706</u>	<u>(451,689)</u>	<u>(198,918)</u>	<u>152,202</u>	<u>(351,120)</u>
Deferred outflows, Pension activity	<u>25,348,000</u>	<u>-</u>	<u>25,348,000</u>	<u>810,000</u>	<u>-</u>	<u>810,000</u>
Long-term debt outstanding	328,007,229	287,305,109	40,702,120	5,733,000	5,123,000	610,000
Other liabilities	<u>24,443,677</u>	<u>39,682,630</u>	<u>(15,238,953)</u>	<u>92,053</u>	<u>80,508</u>	<u>11,545</u>
Total liabilities	<u>352,450,906</u>	<u>326,987,739</u>	<u>25,463,167</u>	<u>5,825,053</u>	<u>5,203,508</u>	<u>621,545</u>
Deferred inflows, Pension activity	<u>12,824,000</u>	<u>-</u>	<u>12,824,000</u>	<u>410,000</u>	<u>-</u>	<u>410,000</u>
Net position:						
Invested in capital assets, net of related debt	(9,994,657)	(8,955,983)	(1,038,674)	336,952	352,038	(15,086)
Restricted	2,747,596	-	2,747,596	-	-	-
Unrestricted	<u>(164,007,828)</u>	<u>(148,908,050)</u>	<u>(15,099,778)</u>	<u>(5,960,923)</u>	<u>(5,403,344)</u>	<u>(557,579)</u>
Total net position	<u>\$ (171,254,889)</u>	<u>\$ (157,864,033)</u>	<u>\$ (13,390,856)</u>	<u>\$ (5,623,971)</u>	<u>\$ (5,051,306)</u>	<u>\$ (572,665)</u>

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

CONDENSED STATEMENT OF ACTIVITIES

	GOVERNMENTALACTIVITIES.....		INCREASE (DECREASE)	BUSINESS-TYPEACTIVITIES.....		INCREASE (DECREASE)
	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>	
REVENUES:						
Program Revenues:						
Charges for services	\$ 658,432	\$ 680,697	\$ (22,265)	\$ 1,043,848	\$ 1,005,368	\$ 38,480
Operating and capital grants and contributions	38,963,128	35,070,707	3,892,421	5,046,101	4,848,795	197,306
General Revenues:						
Property taxes	43,477,076	41,479,072	1,998,004			
State formula aide	34,215,448	34,138,707	76,741			
Other	<u>12,658,299</u>	<u>12,901,045</u>	<u>(242,746)</u>	<u>22,496</u>	<u>7,534</u>	<u>14,962</u>
Total revenues	<u>129,972,383</u>	<u>124,270,228</u>	<u>5,702,155</u>	<u>6,112,445</u>	<u>5,861,697</u>	<u>250,748</u>
EXPENSES:						
Instruction	90,178,687	79,615,581	10,563,106			
Instructional student support	7,074,960	6,089,170	985,790			
Administration and business	12,973,967	13,491,503	(517,536)			
Maintenance and operations	12,106,034	7,986,459	4,119,575			
Transportation	5,583,831	4,975,449	608,382			
Other	<u>15,445,760</u>	<u>14,435,640</u>	<u>1,010,120</u>	<u>6,685,110</u>	<u>5,958,245</u>	<u>726,865</u>
Total expenses	<u>143,363,239</u>	<u>126,593,802</u>	<u>16,769,437</u>	<u>6,685,110</u>	<u>5,958,245</u>	<u>726,865</u>
CHANGE IN NET POSITION	(13,390,856)	(2,323,574)	(11,067,282)	(572,665)	(96,548)	(476,117)
NET POSITION (DEFICIT), BEGINNING, AS RESTATED	<u>(157,864,033)</u>	<u>(155,540,459)</u>	<u>(2,323,574)</u>	<u>(5,051,306)</u>	<u>(4,954,758)</u>	<u>(96,548)</u>
NET POSITION ENDING	<u>\$ (171,254,889)</u>	<u>\$ (157,864,033)</u>	<u>\$ (13,390,856)</u>	<u>\$ (5,623,971)</u>	<u>\$ (5,051,306)</u>	<u>\$ (572,665)</u>

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

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 11,718,073	\$ 12,054,469
Buildings and building improvements	115,880,247	95,348,248
Furniture and equipment	2,264,446	2,193,493
Construction-in-progress	<u>343,022</u>	<u>21,711,856</u>
Total	<u>\$130,205,788</u>	<u>\$131,308,066</u>

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

OUTSTANDING LONG-TERM DEBT

	<u>BALANCE</u> <u>JUNE 30, 2014</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2015</u>
GENERAL OBLIGATION BONDS, NET	130,103,380	21,184,209	(8,268,296)	143,019,293
NET PENSION LIABILITY	160,274,000	31,935,000	(12,824,000)	179,385,000
COMPENSATED ABSENCES	4,614,620	556,330	(501,355)	4,669,595
OPEB OBLIGATION	<u>976,818</u>	<u>875,460</u>	<u>(918,937)</u>	<u>933,341</u>
TOTAL LONG-TERM LIABILITIES	<u>\$295,968,818</u>	<u>\$54,550,999</u>	<u>\$(22,512,588)</u>	<u>\$328,007,229</u>

Analysis of these charts indicates that the total net position for governmental activities decreased by \$13,390,856. Expenses exceeded revenues by this amount mainly due to the budgeted deficit, as well as the issuance of two general obligation bonds, and the difference between School District pension contributions offset by the costs of benefits earned net of employee contributions.

Business-type activities show a \$572,665 decrease in total net position. Expenses exceeded revenues by this amount mainly due to School District pension contributions offset by the costs of benefits earned net of employee contributions.

The cost of health benefits remains one of the School Districts largest expenditures. During the 2014-2015 fiscal year, the School District spent approximately \$14,949,000 on health benefits which was approximately \$1,250,000 greater than budgeted.

The chart showing capital assets (net of depreciation) indicates a decrease in capital assets. This decrease was the result of the current depreciation expense \$7,643,102, offset by net purchases of \$6,371,312. The Maple Manor Elementary Middle school building was placed in service for the 2014-2015 school year.

General obligation bonds increased due to the issuance of the General Obligation Bonds Series of 2014 and 2015 for \$9,855,000 and \$9,070,000, respectively. The School District made debt payments of \$8,765,000 on its General Obligation Bonds and recognized accretion of \$2,042,842.

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>2014-2015</u>	<u>2013-2014</u>	<u>Total % Change</u>
General fund	\$12,475,053	\$16,240,632	(23%)
Capital projects	2,747,596	(10,209,505)	127%
Food service	(5,623,971)	(5,051,306)	(11%)

**CONDENSED BUDGET VERSUS ACTUAL
 GENERAL FUND 2014-2015**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues	\$129,036,116	\$131,023,538	\$ 1,987,422
Expenditures	133,211,051	134,833,810	(1,622,759)
Other financing sources (uses)	<u>215,000</u>	<u>44,693</u>	<u>(170,307)</u>
Net change in fund balance	<u>\$ (3,959,935)</u>	<u>\$ (3,765,579)</u>	<u>\$194,356</u>

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

For the General Fund, actual expenditures exceeded budgeted expenditures by \$1,622,759 and actual revenues exceeded budgeted revenues by \$1,987,422. The net effect of all variations was to decrease the General Fund Balance by \$3,765,579. Delinquent real estate taxes are greater than budget by \$2,953,805 due to the sale of the outstanding receivables. The School District was also awarded the Ready to Learn block grant, \$1,260,728, which was not included in budgeted revenues. IDEA and Medical Access were less than budgeted, \$1,278,468 and \$727,511, respectfully. Expenditures were greater than budget mainly from health care benefits, and tuition to charter/approved private schools, all greater than budgeted, \$1,250,151 and \$1,473,661, respectfully.

DISTRICT-WIDE VS FUND FINANCIAL STATEMENTS

The Fund financial Statements show an increase of \$9,191,522 in the fund balance for governmental funds while the District-wide Financial Statements show a decrease of \$13,390,856 in Net Position for governmental activities. The principal cause of this difference is due to capital outlays exceeding depreciation, repayment/borrowing of long-term debt and pension benefits earned being greater than contributions. 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 2014-2015 fiscal year. The contract with the International Brotherhood of Teamsters, which represents Custodial, Maintenance, Cleaning Persons and Mechanics, extended from July 1, 2011 to June 30, 2017. The contract with the Hazleton Area Education Association, which represents Teachers and other Professionals, extends from September 1, 2013 through August 31, 2017. The contract with the International Union, Security, Police and Fire Professionals of America, which represents Security Personnel, extends from July 1, 2012 through June 30, 2016. The contract with the Hazleton Area educational Support Personnel Association, which represents Aides, Cafeteria workers and Secretaries, extended from July 1, 2011 through June 30, 2017. The Superintendent of Schools and Assistant Superintendent of Schools, the Secretary/Business Manager and Treasurer/Assistant Business Manager are covered by separate employment contracts, the remaining administrators are covered by a compensation plan that extends from July 1, 2011 through June 30, 2015.

TEN LARGEST REAL ESTATE TAXPAYERS

The ten largest real estate taxpayers in the School District for the 2014-2015 assessed valuation of their real estate are as follows:

<u>Taxpayer</u>	<u>Business</u>	<u>Assessed Valuation</u>
KBS11-81 Industrial (Amazon)	Distribution	\$ 32,000,000
Laurel Mall Limited Partnership	Shopping Center	19,326,000
Humboldt Realty	Distribution/Manufacturer	19,069,200
Archer Daniel Midland Company	Manufacturer	17,174,800
Wal-Mart Stores Inc. #01-2255	Retail Super Store	16,625,000
United States Cold Storage, LLC	Distribution	16,605,800
Pioneer C/O Auto Zone	Distribution	15,856,500
NBTY PAH LLC	Distribution	14,457,200
First Quality Nonwovens Inc.	Manufacturer	14,123,100
Tri Sales Company	Manufacturer	12,468,000
	Total	<u>\$177,705,600</u>

TEN LARGEST EMPLOYERS

The ten largest employers in the School District for the 2014-2015 are as follows:

<u>Employer</u>	<u>Product/Service</u>	<u>Estimated Employees</u>
Amazon Fulfillment	Retail distribution	1,500
Hazleton Area School District	Education	1,470
DBI Services, LLC	Vegetation, road, cleaning & asset mgmt.	1,200
Lehigh Valley Health Network	Healthcare	1,118
Cargill Meat Solutions	Retail meat processing facility	800
Kovatch Organization	Specialized equipment & vehicle sales	800
Bemis Performance Packaging	Extrusion & printing of polyfilm	460
Autozone	Distributor of auto parts	417
The Hershey Company	Molded chocolate products	410
Wal-Mart	Retail super store	360

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>
2014-2015	10,753	(2.27)%
2013-2014	11,003	1.20
2012-2013	10,868	1.19
2011-2012	10,740	2.64
2010-2011	10,464	(1.83)
2009-2010	10,659	1.60
2008-2009	10,491	1.66
2007-2008	10,320	3.53
2006-2007	9,968	1.50
2005-2006	9,821	2.92

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 a district-wide perspective the net position of the School District decreased, while from a fund financial perspective the total fund balances increased. The overall funding of capital projects continues to the cause the fluctuation in fund balance as the district continues to commit excess funds to capital projects. The School district continues to increase spending in order to accommodate the increasing number of students and rising employee benefit costs. Property taxes were increased to the index 2.9%, causing increases of 2.9% for Luzerne County and 2.01% for Carbon County, and a decrease of 1.47% for Schuylkill County, during the 2014-2015 year. To contain the rapidly increasing health benefit costs, the School Board negotiated contracts with the School District's major employee groups whereby the health care coverage was modified to change plans, to increase the deductible and to reduce provided benefits. If expenses continue to increase faster than revenue, it will become necessary to look at ways to reduce spending or to find new sources of revenue. Much of what happens will be determined by the course of student enrollment.

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

REQUESTS FOR INFORMATION

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

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2015

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash and cash equivalents	\$ 30,733,896	\$ 1,583,175	\$ 32,317,071
Taxes receivables, net	136,003	-	136,003
Internal balances	2,732,885	(2,732,885)	-
Due from other governments	4,388,656	207,398	4,596,054
Other receivables	18,554	-	18,554
Inventories	45,987	349,146	395,133
Prepaid expenses	<u>340,434</u>	<u>57,296</u>	<u>397,730</u>
Total current assets	38,396,415	(535,870)	37,860,545
CAPITAL ASSETS:			
Land and improvements	11,718,073	-	11,718,073
Buildings and improvements	115,880,247	-	115,880,247
Furniture and equipment	2,264,446	336,952	2,601,398
Construction in progress	<u>343,022</u>	<u>-</u>	<u>343,022</u>
Total capital assets, net of accumulated depreciation	<u>130,205,788</u>	<u>336,952</u>	<u>130,542,740</u>
Other Assets	<u>71,252</u>	<u>-</u>	<u>71,252</u>
Total assets	<u>168,673,455</u>	<u>(198,918)</u>	<u>168,474,537</u>
DEFERRED OUTFLOWS OF RESOURCES,			
Deferred outflows of resources, pension activity	<u>25,348,000</u>	<u>810,000</u>	<u>26,158,000</u>
LIABILITIES:			
Accounts payable	6,137,754	24,913	6,162,667
Accrued salaries and benefits	15,617,413	-	15,617,413
Payroll deductions and withholdings	716,302	-	716,302
Accrued interest payable	1,310,517	-	1,310,517
Other liabilities	296,283	30,302	326,585
Payable to agency fund	1,438	-	1,438
Unearned revenue	365,408	36,838	402,246
Long-term liabilities			
Portion due or payable within one year			
Bonds payable, net	9,425,000	-	9,425,000
Compensated absences	363,683	-	363,683
Portion due or payable after one year			
Bonds payable, net	133,594,293	-	133,594,293
Net pension liability	179,385,000	5,733,000	185,118,000
Compensated absences	4,305,912	-	4,305,912
Net OPEB obligation	<u>933,341</u>	<u>-</u>	<u>933,341</u>
Total liabilities	<u>352,452,344</u>	<u>5,825,053</u>	<u>358,277,397</u>
DEFERRED INFLOWS OF RESOURCES,			
Deferred inflows of resources, pension activity	<u>12,824,000</u>	<u>410,000</u>	<u>13,234,000</u>
NET POSITION:			
Net Investment in capital assets	(9,994,657)	336,952	(9,657,705)
Restricted	2,747,596	-	2,747,596
Unrestricted	<u>(164,007,828)</u>	<u>(5,960,923)</u>	<u>(169,968,751)</u>
Total net position	<u>\$ (171,254,889)</u>	<u>\$ (5,623,971)</u>	<u>\$ (176,878,860)</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	EXPENSES	PROGRAM REVENUES			NET EXPENSE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental Activities:							
Instruction	\$ 90,178,687	\$ 658,432	\$ 26,773,184	\$ -	\$ (62,747,071)	\$ -	\$ (62,747,071)
Instructional student support	7,074,960	-	1,959,013	-	(5,115,947)	-	(5,115,947)
Administrative and financial support services	12,973,967	-	3,918,027	-	(9,055,940)	-	(9,055,940)
Operation and maintenance of plant services	12,044,910	-	-	1,184,378	(10,860,532)	-	(10,860,532)
Pupil transportation	5,583,831	-	2,307,931	-	(3,275,900)	-	(3,275,900)
Student activities	1,617,281	-	71,637	-	(1,545,644)	-	(1,545,644)
Community services	537,007	-	6,365	-	(530,642)	-	(530,642)
Interest on long-term debt	6,089,409	-	2,742,593	-	(3,346,816)	-	(3,346,816)
Depreciation - unallocated	7,263,187	-	-	-	(7,263,187)	-	(7,263,187)
Total governmental activities	143,363,239	658,432	37,778,750	1,184,378	(103,741,679)	-	(103,741,679)
Business-type activity,							
Food Service	6,685,110	1,043,848	5,046,101	-	-	(595,161)	(595,161)
Total	\$ 150,048,349	\$ 1,702,280	\$ 42,824,851	\$ 1,184,378	(103,741,679)	(595,161)	(104,336,840)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes, net					43,477,076	-	43,477,076
Other taxes levied					12,465,325	-	12,465,325
Grants and entitlements not restricted to specific programs					34,215,448	-	34,215,448
Investment earnings, unrestricted					115,826	2,641	118,467
Special items, gain on disposal of assets					6,869	-	6,869
Transfers					(14,611)	14,611	-
Miscellaneous					84,890	5,244	90,134
Total general revenues					90,350,823	22,496	90,373,319
Change in net position					(13,390,856)	(572,665)	(13,963,521)
Net position - beginning, as restated					(157,864,033)	(5,051,306)	(162,915,339)
Net position - ending					\$ (171,254,889)	\$ (5,623,971)	\$ (176,878,860)

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	GENERAL	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
ASSETS:			
Cash and cash equivalents	\$ 25,448,584	\$ 5,285,312	\$ 30,733,896
Taxes receivable, net	136,003	-	136,003
Due from other funds	4,773,889	-	4,773,889
Due from other governments	4,388,656	-	4,388,656
Other receivables	18,554	-	18,554
Inventories	45,987	-	45,987
Prepaid expenses	<u>340,434</u>	<u>-</u>	<u>340,434</u>
Total assets	<u>\$ 35,152,107</u>	<u>\$ 5,285,312</u>	<u>\$ 40,437,419</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
Liabilities:			
Accounts payable	\$ 5,641,042	\$ 496,712	\$ 6,137,754
Accrued salaries and benefits	15,617,413	-	15,617,413
Payroll deductions and withholdings	716,302	-	716,302
Due to other funds	1,438	2,041,004	2,042,442
Other liabilities	296,283	-	296,283
Unearned revenues	<u>365,408</u>	<u>-</u>	<u>365,408</u>
Total liabilities	<u>22,637,886</u>	<u>2,537,716</u>	<u>25,175,602</u>
Deferred Inflows of Resources, Unavailable revenue, property taxes	<u>39,168</u>	<u>-</u>	<u>39,168</u>
Fund Balances:			
Nonspendable fund balance	386,421	-	386,421
Restricted fund balance	-	2,747,596	2,747,596
Committed fund balance	5,896,448	-	5,896,448
Assigned fund balance	2,000,000	-	2,000,000
Unassigned fund balance	<u>4,192,184</u>	<u>-</u>	<u>4,192,184</u>
Total fund balances	<u>12,475,053</u>	<u>2,747,596</u>	<u>15,222,649</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 35,152,107</u>	<u>\$ 5,285,312</u>	<u>\$ 40,437,419</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 15,222,649
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not reported as assets in governmental funds. The cost of assets is \$241,376,395 and the accumulated depreciation is \$111,170,607	130,205,788
Unamortized portion of bond insurance is not a financial resource and therefore not reported as assets in government funds. The bond insurance for the debt issue was \$74,399 and the accumulated amortization was \$3,147	71,252
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 \$80,980 and the accumulated amortization was \$32,866	48,114
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 \$2,120,744 and the accumulated amortization was \$582,376	(1,538,368)
Unamortized portion of refunding costs are not a financial resource and therefore not reported as assets in government funds. The original refund cost for the debt issue was \$256,487 and the accumulated amortization was \$123,547	132,940
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.	39,168
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Bonds Payable	(141,661,979)
Accrued interest	(1,310,517)
Net OPEB obligation	(933,341)
Compensated absences	(4,669,595)
Net pension liability	(179,385,000)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds	
Deferred outflows of resources related to pensions	25,348,000
Deferred inflows of resources related to pensions	(12,824,000)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (171,254,889)</u>

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, 2015

	GENERAL	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Local sources	\$ 59,887,170	\$ 5,888	\$ 59,893,058
State sources	64,535,420	924,000	65,459,420
Federal sources	6,600,948	-	6,600,948
Total revenues	<u>131,023,538</u>	<u>929,888</u>	<u>131,953,426</u>
EXPENDITURES:			
Instruction	84,733,983	689,669	85,423,652
Support services	34,691,969	270,476	34,962,445
Non-instructional services	2,063,278	14,492	2,077,770
Capital outlay	352,656	6,139,517	6,492,173
Debt service	12,991,924	-	12,991,924
Total expenditures	<u>134,833,810</u>	<u>7,114,154</u>	<u>141,947,964</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(3,810,272)</u>	<u>(6,184,266)</u>	<u>(9,994,538)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds	-	18,925,000	18,925,000
Bond premium	-	216,367	216,367
Disposal of fixed assets	36,660	-	36,660
Other financing sources not listed	22,644	-	22,644
Transfers out	(14,611)	-	(14,611)
Other financing sources, net	<u>44,693</u>	<u>19,141,367</u>	<u>19,186,060</u>
NET CHANGE IN FUND BALANCES	(3,765,579)	12,957,101	9,191,522
FUND BALANCE (DEFICIT), BEGINNING	<u>16,240,632</u>	<u>(10,209,505)</u>	<u>6,031,127</u>
FUND BALANCE, ENDING	<u>\$ 12,475,053</u>	<u>\$ 2,747,596</u>	<u>\$ 15,222,649</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, 2015

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 9,191,522

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	6,371,312	
Debt service	199,303	
Loss on disposal of assets	(29,791)	
Less depreciation expense	<u>(7,643,102)</u>	(1,102,278)

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. (1,993,946)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. (18,925,000)

In the statement of activities, appreciation on compound interest bonds is accrued on related debt. (2,042,842)

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. 8,765,000

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. 5,840

In the statement of activities, compensated absences and OPEB are accrued, whereas in governmental funds, a benefit expenditure is reported when taken. (11,498)

Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District pension contributions	12,285,050	
Cost of benefits earned net of employee contributions	<u>(18,872,050)</u>	(6,587,000)

Bond insurance costs of \$76,361 were reported on the governmental fund statements when the debt was incurred. Amortization of insurance costs are recorded in the statement of activities. 22,417

Bond discount of \$80,980 were reported on the government fund statements when the debt was incurred. Amortization of bond discounts are recorded in the statement of activities. (606,007)

Bond premium of \$2,120,745 were reported on the government fund statements when the debt was incurred. Amortization of bond premiums are recorded in the statement of activities. (89,724)

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

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (13,390,856)

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, 2015

	ORIGINAL	FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES:				
Local sources	\$ 55,865,043	\$ 55,865,043	\$ 59,887,170	\$ 4,022,127
State sources	63,146,235	63,146,235	64,535,420	1,389,185
Federal sources	<u>10,024,838</u>	<u>10,024,838</u>	<u>6,600,948</u>	<u>(3,423,890)</u>
Total revenues	<u>129,036,116</u>	<u>129,036,116</u>	<u>131,023,538</u>	<u>1,987,422</u>
EXPENDITURES:				
Current:				
Instruction	83,192,476	83,192,476	84,733,983	(1,541,507)
Support services	34,893,258	34,893,258	34,691,969	201,289
Non-instructional services	760,013	760,013	2,063,278	(1,303,265)
Capital outlay	150,000	150,000	352,656	(202,656)
Debt service	<u>14,215,304</u>	<u>14,215,304</u>	<u>12,991,924</u>	<u>1,223,380</u>
Total expenditures	<u>133,211,051</u>	<u>133,211,051</u>	<u>134,833,810</u>	<u>(1,622,759)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(4,174,935)</u>	<u>(4,174,935)</u>	<u>(3,810,272)</u>	<u>364,663</u>
OTHER FINANCING SOURCES (USES):				
Other financing sources not listed	-	-	22,644	22,644
Sale of fixed assets	15,000	15,000	36,660	21,660
Fund transfers	200,000	200,000	(14,611)	(214,611)
Budgetary reserve	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses), net	<u>215,000</u>	<u>215,000</u>	<u>44,693</u>	<u>(170,307)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (3,959,935)</u>	<u>\$ (3,959,935)</u>	<u>(3,765,579)</u>	<u>\$ 194,356</u>
FUND BALANCE, BEGINNING			<u>16,240,632</u>	
FUND BALANCE, ENDING			<u>\$ 12,475,053</u>	

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2015

	FOOD SERVICE
ASSETS:	
Current assets:	
Cash	\$ 1,583,175
Due from other governments	207,398
Inventories	349,146
Prepaid expenses	<u>57,296</u>
Total current assets	2,197,015
Capital assets, net	<u>336,952</u>
Total assets	<u>2,533,967</u>
 DEFERRED OUTFLOWS OF RESOURCES,	
Deferred outflows of resources, pension activity	<u>810,000</u>
 LIABILITIES:	
Due to other funds	2,732,885
Unearned revenue	36,838
Accounts payable	24,913
Other current liabilities	30,302
Long-term liabilities	
Net pension liability	<u>5,733,000</u>
Total liabilities	<u>8,557,938</u>
 DEFERRED INFLOWS OF RESOURCES,	
Deferred inflows of resources, pension activity	<u>410,000</u>
 NET POSITION:	
Invested in capital assets	336,952
Unrestricted net deficit	<u>(5,960,923)</u>
Total net position	<u>\$ (5,623,971)</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2015

	FOOD SERVICE
OPERATING REVENUES,	
Food service	\$ <u>1,043,848</u>
OPERATING EXPENSES:	
Other purchased services	2,373,193
Salaries	2,115,627
Employee benefits	1,367,259
Supplies	495,749
Property services	181,861
Depreciation	47,167
Other operating expenses	<u>104,254</u>
Total operating expenses	<u>6,685,110</u>
OPERATING LOSS	<u>(5,641,262)</u>
NONOPERATING REVENUES:	
Federal subsidies	4,550,114
State subsidies	495,987
Transfers from Primary Government	14,611
Donations	5,244
Earnings on investments	<u>2,641</u>
Total nonoperating revenues	<u>5,068,597</u>
CHANGE IN NET POSITION	(572,665)
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>(5,051,306)</u>
NET POSITION - END OF YEAR	<u>\$ (5,623,971)</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 1,043,848
Payments to suppliers	(2,994,032)
Payments to employees for services	<u>(2,115,627)</u>
Net cash used in operating activities	<u>(4,065,811)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal subsidies	4,661,086
State subsidies	521,981
Transfers from Primary Government	14,611
Local subsidies	<u>5,244</u>
Net cash provided by noncapital financing activities	<u>5,202,922</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES,	
Purchase of capital assets	<u>(32,081)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES,	
Interest on investments	<u>2,641</u>
NET INCREASE IN CASH	1,107,671
CASH, BEGINNING	<u>475,504</u>
CASH, ENDING	<u>\$ 1,583,175</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	<u>\$ (5,641,262)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	47,167
Donated USDA commodities	344,661
Pension Expense	210,000
Changes in assets and liabilities:	
Inventories	(5,556)
Prepaid expenses	(57,296)
Accounts payable	1,385
Due to other funds	1,024,930
Unearned revenue	(2,887)
Other current liabilities	<u>13,047</u>
Total adjustments	<u>1,575,451</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (4,065,811)</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	PRIVATE PURPOSE TRUST FUND	AGENCY FUND
<hr/>		
ASSETS:		
Cash	\$ 153,007	\$ 239,710
Interfund receivable	<u>1,858</u>	<u>-</u>
Total assets	<u>\$ 154,865</u>	<u>\$ 239,710</u>
LIABILITIES:		
Accounts payable	\$ 2,648	\$ 10,914
Interfund payable		420
Other current liabilities	<u>-</u>	<u>228,376</u>
NET POSITION,		
Held in trust	<u>152,217</u>	<u>-</u>
Total liabilities and net position	<u>\$ 154,865</u>	<u>\$ 239,710</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

	PRIVATE PURPOSE TRUST FUND
ADDITIONS, Local sources	\$ 65,694
DEDUCTIONS, Non-instructional services	<u>66,684</u>
CHANGE IN NET POSITION	(990)
NET POSITION, BEGINNING	<u>153,207</u>
NET POSITION, ENDING	<u>\$ 152,217</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 accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. In addition, component units can be other organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. This report presents the activities of the Hazleton Area School District. The School District is not a component unit of another reporting entity nor does it have any component units.

BASIS OF PRESENTATION

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

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

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

GOVERNMENTAL FUND TYPES

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

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

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

The District has the following Capital Project Funds:

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

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

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

Maple Manor - This fund received the proceeds of \$28,925,000 from the General Obligation Bonds-Series 2013, 2014, and 2015 which are being used to renovate and expand the Maple Manor Elementary/Middle School building, various other construction projects, and to pay the costs of issuance.

PROPRIETARY FUND TYPES

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

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

FIDUCIARY FUNDS

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

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

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

MEASUREMENT FOCUS

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

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

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

BASIS OF ACCOUNTING

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

ACCRUAL BASIS

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

MODIFIED ACCRUAL BASIS

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

The School District reports unearned revenue on its fund financial statements. Unearned revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues may also arise when the School District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the School District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

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.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District reported deferred outflows of resources related to pension activity, which is the result of changes in the School District’s proportionate share of the total plan from year to year, the difference between the actual employer contributions and the School District’s proportionate share of total contributions, and actual contributions subsequent to the measurement date.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue, reported only in the Governmental Funds Balance Sheet, reports unavailable revenues from property taxes. Deferred inflows related to pension activity are reported in the government-wide statement of net position and the proprietary fund statement of net position. The deferred inflow related to pension activity is the result of differences between projected and actual investment earnings. These amounts will be deferred and recognized as an inflow of resources in the period that the amounts become available.

INVENTORIES

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

CAPITAL ASSETS

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

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

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

Depreciation is computed using the straight-line method over the following estimated useful lives:

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

RESTRICTED ASSETS

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

COMPENSATED ABSENCES

Unused vacation and accumulated sick leave are obligated under a collective bargaining agreement for all employees, excluding members of the administration. A provision is made annually in the budget for the estimated cost of substitute personnel. Contractual provisions with teachers require payment of accumulated unused sick leave days on retirement in the amount of \$60 per day up to 100 days, \$100 per day for days above 100 to a maximum of 200, and \$165 per day for 201 days and above for the 2014-2015 school year. Similar contractual provisions are in effect with nonprofessional employees except that the payment is \$30 per day up to 200 days, and \$50 per day for 201 days and above for clerks, aides, and cafeteria workers. Custodial, maintenance, and cleaning personnel receive \$30 per day up to 99 days, \$40 per day for days 100 through 199, and \$50 per day for 200 or more days. After ten years of employment, full-time security officers and seasonal security officers receive \$30 per day up to 99 days, \$40 per day above 99 to a maximum of 199, and \$50 per day for 200 days and above. Administrators, principals, and vice-principals are paid the same as the teachers.

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

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

USE OF ESTIMATES

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

UNEARNED REVENUE

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

FUND BALANCE

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

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

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

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

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

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

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

ELIMINATIONS AND INTERNAL BALANCES

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

RESTRICTED NET ASSETS

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

2. DEPOSITS WITH FINANCIAL INSTITUTIONS

The School District’s investment policy is in accordance with the Public School Code of 1949, Section 440.1 which requires monies to be invested in U.S. Treasury bills, short-term obligations of the U.S. government or its agencies or instrumentalities, savings or time accounts, or share accounts of institutions insured by the FDIC or FSLIC or NCUSIF to the extent such accounts are so insured and, for any amounts above the insured maximum provided that approved collateral as provided by law therefore shall be pledged by the depository. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision. At June 30, 2015, 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 (\$8,235) held throughout the School District.

CREDIT RISK

The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The School District does not maintain any significant investments, therefore is not exposed to this type of risk. 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, 2015 the bank balance of the School District's deposits with financial institutions including cash equivalent investments was \$33,241,655. 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.

3. TAXES RECEIVABLE

Real estate taxes are levied on July 18 for Schuylkill, Carbon, and Luzerne Counties, based on assessed values established by the Luzerne, Carbon, and Schuylkill Counties Board of Assessments. Real property in the School District was originally assessed at \$4,089,943,611 for the 2014-2015 tax years. A tax rate of 9.542 mills-Luzerne County, 28.337 mills-Carbon County, and 30.125 mills-Schuylkill County was established for fiscal year 2014-2015. Taxes are due on or before November 18 for Schuylkill, Carbon and Luzerne Counties. Payments prior to September 18 for Schuylkill, Carbon and Luzerne Counties are entitled to a 2% discount, while payments after November 19 for Schuylkill, Carbon and Luzerne Counties are subject to a 10% penalty. Taxes not paid by January 1 attach as an enforceable lien on property.

All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is calculated based on collection history and was \$30,000 at June 30, 2015.

4. DUE FROM OTHER GOVERNMENTS

Amounts which are due from other governments include \$283,512 from various school districts for tuition and early intervention services. \$2,037,926 for grant programs due from the Commonwealth of Pennsylvania's Department of Education ("PDE"), as well as \$2,067,218 in federal funds passed through the PDE.

Amounts that are business-type activities due from other governments include \$207,398 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 2015 are summarized as follows:

	BALANCE <u>JULY 1, 2014</u>	ADDITIONS	DEDUCTIONS	BALANCE <u>JUNE 30, 2015</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, Not being depreciated:				
Land	\$ 2,696,759	\$ 350,000	-	\$ 3,046,759
Construction in progress	<u>21,711,856</u>	<u>6,323,539</u>	<u>\$(27,692,373)</u>	<u>343,022</u>
Total capital assets, not being Depreciated	<u>24,408,615</u>	<u>6,673,539</u>	<u>(27,692,373)</u>	<u>3,389,781</u>
CAPITAL ASSETS, Being depreciated:				
Land improvements	14,490,112	39,555	-	14,529,667
Buildings and improvements	189,270,720	27,094,901	(23,332)	216,342,289
Furniture and equipment	<u>6,813,081</u>	<u>454,992</u>	<u>(153,414)</u>	<u>7,114,659</u>
Total capital assets, being depreciated	<u>210,573,913</u>	<u>27,589,448</u>	<u>(176,746)</u>	<u>237,986,615</u>
LESS ACCUMULATED DEPRECIATION:				
Land improvements	(5,132,402)	(725,951)	-	(5,858,353)
Buildings and improvements	(93,922,472)	(6,544,811)	5,241	(100,462,042)
Furniture and equipment	<u>(4,619,588)</u>	<u>(372,340)</u>	<u>141,715</u>	<u>(4,850,213)</u>
Total accumulated depreciation	<u>(103,674,462)</u>	<u>(7,643,102)</u>	<u>146,956</u>	<u>(111,170,608)</u>
Total capital assets, being depreciated, net	<u>106,899,451</u>	<u>19,946,346</u>	<u>(29,790)</u>	<u>126,816,007</u>
Governmental activities capital assets, net	<u>\$131,308,066</u>	<u>\$26,619,885</u>	<u>\$(27,722,163)</u>	<u>\$130,205,788</u>
BUSINESS-TYPE ACTIVITIES				
Furniture and equipment	\$ 2,002,355	\$ 32,081	\$ -	\$ 2,034,436
Less accumulated depreciation	<u>(1,650,317)</u>	<u>(47,167)</u>	<u>-</u>	<u>(1,697,484)</u>
Business-type activities capital assets, net	<u>\$ 352,038</u>	<u>\$ (15,086)</u>	<u>\$ -</u>	<u>\$ 336,952</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 154,638
Support services	190,897
Non-instructional services	2,310
Unallocated	7,263,187
Capital outlay	<u>32,070</u>
Total depreciation expense	<u>\$7,643,102</u>

6. LONG-TERM DEBT

GENERAL OBLIGATION BONDS

The School District issues general obligation bonds to provide funds for acquisition and construction of major capital facilities or to refund prior year bond issues. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Bonded debt payable at June 30, 2015 is comprised of the following individual issues:

General Obligation Bonds, Series B of 1995 (compound interest bonds), \$47,385,000 due in annual principal installments ranging from \$2.6 million to \$4.4 million starting March 1, 2017 through March 1, 2025, interest rate is variable from 6.25% to 6.40%	\$	33,631,979
General Obligation Bonds, Series of 1997, \$34,025,000 due in annual principal installments ranging from \$75,000 to \$4.9 million through March 1, 2016, interest rate is variable from 4.00% to 5.00%		4,970,000
General Obligation Bonds, Series of 2008, \$23,895,000 due in annual principal installments ranging from \$1.5 million to \$2.1 million through March 1, 2023, interest rate is variable from 3.00% to 5.00%		14,625,000
General Obligation Bonds, Series of 2010, \$11,585,000 due in annual principal installments ranging from \$5,000 to \$6.4 million through March 1, 2029, interest rate is variable from 0.90% to 4.00%		9,550,000
Qualified School Construction Bonds, Series of 2010, \$10,370,000 due in annual principal installments ranging from \$5,000 to \$5.0 million through September 1, 2027, interest rate is fixed at 5.00%	A	10,350,000
General Obligation Bonds, Series of 2011, \$9,990,000 due in annual principal installments ranging from \$300,000 to \$690,000 through March 1, 2032, interest rate is variable from 2.25% to 5.00%		8,925,000
General Obligation Bonds, Series A of 2012, \$31,725,000 due in annual principal installments ranging from \$200,000 to \$7.9 million through March 1, 2028, interest rate is variable from 2.00% to 5.00%		30,620,000
General Obligation Bonds, Series B of 2012, \$1,865,000 due in annual principal installments ranging from \$95,000 to \$145,000 through March 1, 2028, interest rate is variable from 1.00% to 3.375%		1,565,000
General Obligation Bonds, Series of 2013, \$10,000,000 due in annual principal installments ranging from \$385,000 to \$695,000 through March 1, 2033, interest rate is variable from 0.35% to 5.00%		9,035,000
General Obligation Bonds, Series of 2014, \$9,855,000 due in annual principal installments ranging from \$400,000 to \$650,000 through March 1, 2034, interest rate is variable from 1.00% to 4.00%		9,320,000

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

General Obligation Bonds, Series of 2015, \$9,070,000 due in annual principal installments ranging from \$370,000 to \$590,000 through March 1, 2035, interest rate is variable from 0.38% to 3.50%

9,070,000

\$ 141,661,979

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 2015, the School District paid \$518,500 of interest on the bonds and received \$464,558 from the federal government.

The following is an analysis of debt service requirements to maturity on these obligations at June 30, 2015:

<u>YEAR ENDED JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2016	\$ 9,425,000	\$ 4,073,835	\$ 13,498,835
2017	9,263,032	4,218,291	13,481,323
2018	9,113,570	4,369,675	13,483,245
2019	8,990,249	4,511,846	13,502,095
2020	8,870,030	4,618,640	13,488,670
2021 – 2025	43,765,098	23,714,001	67,479,099
2026 – 2030	43,695,000	6,596,277	50,291,277
2031 – 2035	<u>8,540,000</u>	<u>849,625</u>	<u>9,389,625</u>
Total	<u>\$141,661,979</u>	<u>\$52,952,190</u>	<u>\$194,614,169</u>

During the year ended June 30, 2015, the School District incurred \$4,113,532 of bond interest expense.

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

The principal balance of defeased bonds outstanding as of June 30, 2015 is as follows:

1995 General Obligation Bond	\$14,075,000
2004 General Obligation Bond	28,585,000

HAZLETON AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN LONG-TERM LIABILITIES

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
GOVERNMENTAL ACTIVITIES					
GENERAL OBLIGATION BONDS					
Series B of 1995 CIB	\$ 31,589,137	\$2,042,842		\$33,631,979	
Series of 1997	9,655,000		\$(4,685,000)	4,970,000	\$4,970,000
Series of 2008	16,135,000		(1,510,000)	14,625,000	1,570,000
Series of 2010	10,075,000		(525,000)	9,550,000	535,000
Series A of 2010	10,355,000		(5,000)	10,350,000	10,000
Series of 2011	9,315,000		(390,000)	8,925,000	400,000
Series A & B of 2012	32,915,000		(730,000)	32,185,000	740,000
Series of 2013	9,420,000		(385,000)	9,035,000	385,000
Series of 2014		9,855,000	(535,000)	9,320,000	400,000
Series of 2015		<u>9,070,000</u>		<u>9,070,000</u>	<u>415,000</u>
TOTAL GENERAL OBLIGATION BONDS	129,459,137	20,967,842	(8,765,000)	141,661,979	9,425,000
Bond Discount	(654,121)		606,007	(48,114)	(3,786)
Refunding Costs	(150,280)		17,340	(132,940)	(17,340)
Bond Premium	<u>1,448,644</u>	<u>216,367</u>	<u>(126,643)</u>	<u>1,538,368</u>	<u>130,906</u>
TOTAL GENERAL OBLIGATION BONDS, NET	<u>130,103,380</u>	<u>21,184,209</u>	<u>(8,268,296)</u>	<u>143,019,293</u>	<u>9,534,780</u>
NET PENSION LIABILITY	170,018,000	22,191,000	(12,824,000)	179,385,000	
COMPENSATED ABSENCES	4,614,620	556,330	(501,355)	4,669,595	363,683
OPEB OBLIGATION	<u>976,818</u>	<u>875,460</u>	<u>(918,937)</u>	<u>933,341</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES	<u>\$305,712,818</u>	<u>\$44,806,999</u>	<u>\$(22,512,588)</u>	<u>\$328,007,229</u>	<u>\$9,898,463</u>
BUSINESS-TYPE ACTIVITIES					
NET PENSION LIABILITY	<u>\$ 5,434,000</u>	<u>\$ 299,000</u>	<u>\$ -</u>	<u>\$ 5,733,000</u>	<u>\$ -</u>

Funds to repay outstanding long-term liabilities will be provided by the General Fund.

8. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES, UNAVAILABLE AND UNEARNED REVENUES

GOVERNMENT-WIDE STATEMENT OF NET POSITION

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

At June 30, 2015, deferred inflows of resources consisted of delinquent taxes receivable of \$39,168, unearned revenue consisted of grants of \$365,408 and the net difference between projected and actual investment earnings of \$12,824,000 related to the pension liability.

At June 30, 2015, deferred outflows of resources consisted of changes in proportions, the difference between employer contributions and proportionate share of total contributions and contributions subsequent to the measurement date or \$25,348,000 related to the pension liability.

FOOD SERVICE FUND

Unearned revenues represent food received in the School District's food service operations that is on hand at June 30, 2015. Such revenues will be recognized when the food commodities are used.

9. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Description

The School District follows the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." In addition to the relevant disclosures within this note related to GASB Statement No. 45, the financial statements reflect a long-term liability and related net decrease of \$933,341 and \$43,477, 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.

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

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 \$549 for Single person coverage to \$1,850 for family coverage. For the period ending June 30, 2015, eligible members paid \$634,299, which was used to offset the School District's outlays to providers. The School District contributed \$473,477 to the Plan for related retirees. The retired plan member may elect to continue coverage for themselves and their dependents until the retired plan member reaches Medicare age. The plan is financed on a pay-as-you-go basis.

The School District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the School District, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortizing any unfunded actuarial liabilities (or funding excess) over a period of 8 years. The following table illustrates the components of the School District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the School District's net OPEB obligation:

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

Annual required contribution	\$ 927,056
Interest on net OPEB obligation	43,957
Adjustment to annual required contribution	<u>(95,553)</u>
Annual OPEB cost	875,460
Contributions made	<u>(918,937)</u>
Decrease in net OPEB obligation	(43,477)
Net OPEB obligation- beginning of year	<u>976,818</u>
Net OPEB obligation- end of year	\$ <u><u>933,341</u></u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2015 and the three preceding years were as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
6/30/15	\$ 875,460	104.97%	\$933,341
6/30/14	\$1,463,851	77.80%	\$976,818
6/30/13	\$1,474,062	93.50%	\$651,870

Funding Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$6,710,217, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,710,217. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$51,973,334, and the ratio of the UAAL to the covered payroll equaled 12.91%.

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, 2014, 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 6.5%, initially, reduced by decrements of 0.5% per year to an ultimate rate of 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level dollar amount over a fourteen year open period.

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

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

10. PENSION PLAN

Summary of Significant Accounting Policies

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

General Information About the Pension Plan

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

Benefits Provided - PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who

become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Members Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with services rendered on or after January 1, 2002.

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

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2015, was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the School District were \$12,665,000 for the year ended June 30, 2015.

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

At June 30, 2015, the School District reported a liability of \$185,118,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School District's proportion was 0.4677%, which was an increase of 0.0391% from its proportion measured as of June 30, 2013.

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2015, the School District recognized pension expense of \$19,462,000 . At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Governmental Activities:		
Net difference between projected and actual investment earnings	\$ -	\$ 12,824,000
Changes in proportions	12,498,000	-
Difference between employer contributions and proportionate share of total contributions	577,000	-
Contributions subsequent to the measurement Date	<u>12,273,000</u>	<u>-</u>
	<u>\$25,348,000</u>	<u>\$ 12,824,000</u>
Business-type Activities:		
Net difference between projected and actual investment earnings	\$ -	\$ 410,000
Changes in proportions	400,000	-
Difference between employer contributions and proportionate share of total contributions	18,000	-
Contributions subsequent to the measurement Date	<u>392,000</u>	<u>-</u>
	<u>\$ 810,000</u>	<u>\$ 410,000</u>

\$12,665,000 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the new pension liability in the year ended June 30, 2015.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending
June 30,

Governmental Activities:

2016	\$ (56,000)
2017	(56,000)
2018	(56,000)
2019	(56,000)
2020	<u>475,000</u>
	<u>\$ 251,000</u>

Business-type Activities:

2016	\$ (2,000)
2017	(2,000)
2018	(2,000)
2019	(2,000)
2020	<u>16,000</u>
	<u>\$ 8,000</u>

Actuarial Assumptions - The total pension liability as of June 30, 2014, was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

- **Actuarial Cost Method** - Entry Age Normal - level % of pay
- **Investment Return** - 7.5%, includes inflation at 3.00%
- **Salary Increases** - Effective average of 5.50%, which reflects an allowance for inflation of 3.00, real wage growth of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Table (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	<u>(9%)</u>	1.1%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
School District's proportionate share of the net pension liability	\$ <u>230,910,000</u>	\$ <u>185,118,000</u>	\$ <u>146,026,000</u>

Pension Plan Fiduciary Net Position - Detailed information about PSERS's fiduciary net position is available in the PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

11. INTERNAL BALANCES/INTER-FUND BALANCES AND TRANSFERS

The composition of interfund balances as of June 30, 2015, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$2,732,885
General Fund	Capital Projects	2,041,004
Fiduciary Fund	General Fund	1,438

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

Interfund transfers are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		\$14,611
Food Service Fund	\$14,611	

The School District typically transfers funds from the general fund to the food service fund to pay for uncollectable student accounts. The transfer to the fiduciary fund was for a matching grant.

12. COMMITMENTS AND CONTINGENCIES

RISK MANAGEMENT

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

SELF-INSURED MEDICAL PLAN

Effective January 1, 2002, the School District self-insured for medical benefits provided to its employees and retirees. First Priority Life Insurance Company (the "administrator") will administer the plans for the participants who will use the current PPO plan utilizing the EHP, NEPA and Highmark Blue Shield networks at a charge of \$43, per month.

The School District purchased specific stop-loss insurance coverage for claims in excess of \$250,000 per participant. There were four claims in excess of the stop-loss insurance coverage for the year ended June 30, 2015.

For the year ended June 30, 2015, the School District recognized approximately \$15,466,000 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, 2015 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

OTHER MATTERS

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

13. FUND BALANCE ALLOCATIONS

NONSPENDABLE FUND BALANCE

The General Fund had \$386,421, in nonspendable fund balance at June 30, 2015, comprised of inventories on hand and prepaid expenses at year-end.

COMMITTED FUND BALANCE

The governing body (Board of School Directors) has committed, of the General Fund's year end fund balance for the following purposes: health insurance costs \$3,000,000 and \$2,896,448 for capital projects.

ASSIGNED FUND BALANCE

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

14. PRIOR PERIOD ADJUSTMENT

The School District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, effective July 1, 2014.

The objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pension plans. GASB Statement No. 68 states that local governments have to record their share of the Public School Employees' Retirement System (PSERS) unfunded liability.

For the government-wide governmental activities, the School District has treated their proportionate share of beginning of year net pension liability of \$170,018,000 and beginning of year deferred outflows of resources of \$9,744,000 as having been recognized in the period incurred. The School District has adjusted beginning net position for the governmental activities from \$2,409,967 to (\$157,864,033).

For the proprietary fund food service fund and the government-wide business-type activities, the School District has treated their proportionate share of beginning of year net pension liability of \$5,434,000 and beginning of year deferred outflows of resources of \$311,000 as having been recognized in the period incurred. The School District has adjusted beginning net position for the proprietary fund food service fund and for the business-type activities from \$71,694 to (\$5,051,306).

HAZLETON AREA SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) /c)
Total	7/1/2014	\$ -	\$ 6,710,217	\$ 6,710,217	0.00%	\$ 51,973,334	12.91%
	7/1/2012	\$ -	\$ 8,330,767	\$ 8,330,767	0.00%	\$ 51,895,481	16.05%
	7/1/2010	\$ -	\$ 9,370,854	\$ 9,370,854	0.00%	\$ 53,966,805	17.36%

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	District Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 875,460	\$ 918,937	104.97%	\$ 933,341
6/30/2014	\$ 1,463,851	\$ 1,138,903	77.80%	\$ 976,818
6/30/2013	\$ 1,474,062	\$ 1,378,283	93.50%	\$ 651,870
6/30/2012	\$ 1,378,921	\$ 1,287,255	93.35%	\$ 556,091
6/30/2011	\$ 1,380,232	\$ 1,359,966	98.53%	\$ 464,425
6/30/2010	\$ 1,884,119	\$ 1,554,195	82.49%	\$ 444,159
6/30/2009	\$ 1,894,694	\$ 1,780,459	93.97%	\$ 114,235

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

FOR THE YEAR ENDED JUNE 30, 2015

School District's proportion of the net pension liability (asset)	0.4677%
School District's proportionate share of the net pension liability (asset)	\$ 185,118,000
School District's covered-employee payroll	\$ 59,686,245
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	310.15%
The plan's fiduciary net position as a percentage of the total pension liability	57.24%

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2015

Contractually required contribution	\$ 12,665,000
Contributions in relation to the contractually required contribution	<u>12,665,000</u>
CONTRIBUTION EXCESS (DEFICIENCY)	<u>\$ -</u>
School District's covered-employee payroll	<u>\$ 53,632,817</u>
Contributions as a percentage of covered-employee payroll	23.61%

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

COMBINING BALANCE SHEET- CAPITAL PROJECT FUND - SCHEDULE
JUNE 30, 2015

	QUALIFIED SCHOOL CONSTRUCTION BONDS 2010	MAPLE MANOR PROJECT	GENERAL OBLIGATION BONDS 2012	CASTLE PHASE II	TOTAL CAPITAL PROJECT FUND
ASSETS,					
Cash and cash equivalents	<u>\$ 4,846</u>	<u>\$ 5,212,801</u>	<u>\$ 66,215</u>	<u>\$ 1,450</u>	<u>\$ 5,285,312</u>
LIABILITIES AND FUND BALANCES (DEFICIT):					
Liabilities:					
Due to other funds	\$ -	\$ 26,645	\$ 956,380	\$ 1,057,979	\$ 2,041,004
Accounts payable	<u>2,000</u>	<u>476,757</u>	<u>17,955</u>	<u>1,057,979</u>	<u>496,712</u>
TOTAL LIABILITIES	<u>2,000</u>	<u>503,402</u>	<u>974,335</u>	<u>1,057,979</u>	<u>2,537,716</u>
Fund balances (deficit),					
Restricted for capital projects	<u>2,846</u>	<u>4,709,399</u>	<u>(908,120)</u>	<u>(1,056,529)</u>	<u>2,747,596</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,846</u>	<u>\$ 5,212,801</u>	<u>\$ 66,215</u>	<u>\$ 1,450</u>	<u>\$ 5,285,312</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, 2015

	QUALIFIED SCHOOL CONSTRUCTION BONDS 2010	MAPLE MANOR PROJECT	GENERAL OBLIGATION BONDS 2012	CASTLE PHASE II	TOTAL CAPITAL PROJECT FUND
REVENUES:					
Local sources	\$ 102	\$ 5,209	\$ 276	\$ 301	\$ 5,888
State sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>924,000</u>	<u>924,000</u>
Total revenues	<u>102</u>	<u>5,209</u>	<u>276</u>	<u>924,301</u>	<u>929,888</u>
EXPENDITURES:					
Instructional services	-	689,669	-	-	689,669
Support services	-	270,476	-	-	270,476
Operation of non-instructional services	-	14,492	-	-	14,492
Capital outlay	<u>1,741</u>	<u>6,102,103</u>	<u>35,673</u>	<u>-</u>	<u>6,139,517</u>
Total expenditures	<u>1,741</u>	<u>7,076,740</u>	<u>35,673</u>	<u>-</u>	<u>7,114,154</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,639)</u>	<u>(7,071,531)</u>	<u>(35,397)</u>	<u>924,301</u>	<u>(6,184,266)</u>
OTHER FINANCING SOURCES,					
Bond proceeds	-	18,925,000	-	-	18,925,000
Bond premium	<u>-</u>	<u>216,367</u>	<u>-</u>	<u>-</u>	<u>216,367</u>
Total other financing sources	<u>-</u>	<u>19,141,367</u>	<u>-</u>	<u>-</u>	<u>19,141,367</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(1,639)</u>	<u>12,069,836</u>	<u>(35,397)</u>	<u>924,301</u>	<u>12,957,101</u>
FUND BALANCE, BEGINNING	<u>4,485</u>	<u>(7,360,437)</u>	<u>(872,723)</u>	<u>(1,980,830)</u>	<u>(10,209,505)</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 2,846</u>	<u>\$ 4,709,399</u>	<u>\$ (908,120)</u>	<u>\$ (1,056,529)</u>	<u>\$ 2,747,596</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND REVENUES FROM LOCAL SOURCES FOR THE YEAR ENDED JUNE 30, 2015

Current real estate taxes	\$ 37,781,236
Current taxpayer relief taxes	12,463,340
Delinquencies of taxes levied and assessed by the LEA	6,273,209
Current Act 511 taxes	1,164,174
Federal IDEA pass through revenue	925,112
Receipts from other LEAS in Pennsylvania	483,857
Interim real estate taxes	183,685
Tuition from patrons	174,500
Interest on investments	109,939
Revenue from student activities	71,637
Public utility realty tax	65,356
Miscellaneous revenue	64,245
Federal ARRA Race To The Top pass through revenue	50,137
Rentals	43,265
State revenue received from other sources	11,500
Contributions and donations from private sources	10,267
Community service activities	6,365
Payments in lieu of current taxes	<u>5,346</u>
TOTAL REVENUE FROM LOCAL SOURCES	<u>\$ 59,887,170</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND REVENUES FROM COMMONWEALTH SOURCES FOR THE YEAR ENDED JUNE 30, 2015

Basic instruction subsidy	\$ 34,052,526
Revenue for retirement payments	7,893,012
Special education funding for school age pupils	4,676,675
Early intervention	4,357,734
State property tax reduction allocation	2,687,340
Revenue for social security payments	2,753,625
Rental and sinking fund payments	2,278,035
Transportation	2,307,931
Pre-K counts	1,084,480
Vocational education	602,000
Ready to learn block grant	1,260,728
Health services	204,960
Tuition for orphans and children placed in private homes	162,922
Safe schools	166,720
Supplemental equipment grant	38,103
Workforce investment act	3,860
Migratory children	2,747
Other State revenue	<u>2,022</u>
TOTAL REVENUE FROM COMMONWEALTH SOURCES	<u>\$ 64,535,420</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND REVENUES FROM FEDERAL SOURCES
FOR THE YEAR ENDED JUNE 30, 2015**

Title I - Improving academic achievement	\$ 4,020,082
IDEA, Part B	585,119
ARRA- Qualified Schools Construction Bonds	464,558
Title II - Prep/Trng/Recruit HQ Teachers/Principals	429,600
Title III - Language instruction	304,130
Vocational education - operating expenditures	203,885
IDEA, Section 619	195,221
School based ACCESS medical reimbursement program	177,259
Medical assistance reimbursement ACCESS - Early intervention	129,148
Medical assistance reimbursement - Administrative Claiming	91,071
Other restricted Federal grants	<u>875</u>
TOTAL REVENUE FROM FEDERAL SOURCES	<u><u>\$ 6,600,948</u></u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND EXPENDITURES BY SUBFUNCTION FOR THE YEAR ENDED JUNE 30, 2015

Instruction:	
Regular programs	\$ 58,959,857
Special and gifted education	21,306,734
Vocational education programs	2,090,473
Pre-kindergarten	1,084,480
Other instructional programs	732,387
Adult education programs	424,138
Nonpublic school programs	<u>135,914</u>
Total instruction	<u>84,733,983</u>
Support services:	
Operation and maintenance of plant services	10,898,181
Administration	6,670,635
Student transportation services	5,298,633
Central	3,099,210
Pupil personnel	3,067,596
Pupil health	2,365,646
Business	2,067,524
Instructional staff	989,305
Other support services	<u>235,239</u>
Total support services	<u>34,691,969</u>
Operation of non-instructional services:	
Student activities	1,531,867
Community services	<u>531,411</u>
Total operation of non-instructional services	<u>2,063,278</u>
Facilities acquisition, construction, and improvement:	
Arch. & Eng. Services / Educational specifications - Improvements	266,892
Existing building improvement services	<u>85,764</u>
Total facilities acquisition, construction, and improvement	<u>352,656</u>
Debt service:	
Redemption of principal	8,765,000
Interest payments	4,052,407
Refund of prior-year receipts	<u>174,517</u>
Total debt service	<u>12,991,924</u>
TOTAL EXPENDITURES BY SUBFUNCTION	<u>\$ 134,833,810</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, 2015**

INSTRUCTION EXPENDITURES:	
Personnel services, salaries	<u>\$ 47,981,683</u>
Personnel services, employee benefits:	
Group insurance	11,374,479
Retirement contributions	10,725,153
Social security contributions	3,665,695
Workers' compensation	654,279
Tuition reimbursement	423,097
Other employee benefits	348,107
Unemployment compensation	<u>57,744</u>
Total personnel services, employee benefits	<u>27,248,554</u>
Purchased professional and technical services	<u>2,203,421</u>
Purchased property services	<u>262,146</u>
Other purchased services:	
Tuition	3,473,661
Travel	45,626
Student transportation	25,503
Communications	10,204
Advertising	3,553
General insurance	1,871
Miscellaneous purchased services	<u>355</u>
Total other purchased services	<u>3,560,773</u>
Supplies:	
Books and periodicals	1,040,187
Technology	561,222
General supplies	522,603
Food	18,254
Energy	<u>2,538</u>
Total supplies	<u>2,144,804</u>
Property, equipment	<u>744,535</u>
Other objects	<u>588,067</u>
TOTAL INSTRUCTION	<u>\$ 84,733,983</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, 2015**

SUPPORT SERVICES EXPENDITURES:	
Personnel services, salaries	<u>\$ 14,228,046</u>
Personnel services, employee benefits:	
Group insurance	3,482,954
Retirement contributions	3,013,869
Social security contributions	1,077,233
Workers' compensation	189,959
Other employee benefits	65,601
Tuition reimbursement	32,558
Unemployment compensation	<u>28,496</u>
Total personnel services, employee benefits	<u>7,890,670</u>
Purchased professional and technical services	<u>1,040,107</u>
Purchased property services	<u>3,185,441</u>
Other purchased services:	
Student transport services	5,127,678
General insurance	428,589
Miscellaneous purchased services	178,575
Communications	121,754
Advertising	45,769
Printing and binding	38,471
Travel	<u>32,473</u>
Total other purchased services	<u>5,973,309</u>
Supplies:	
General supplies	923,437
Energy	634,121
Books and periodicals	102,011
Technology	100,591
Food	<u>7,163</u>
Total supplies	<u>1,767,323</u>
Property, equipment	<u>482,577</u>
Other objects	<u>124,496</u>
TOTAL SUPPORT SERVICES	<u>\$ 34,691,969</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, 2015

NON-INSTRUCTIONAL SERVICES EXPENDITURES:	
Personnel services, salaries	<u>\$ 973,094</u>
Personnel services, employee benefits:	
Retirement contributions	155,145
Group insurance	153,956
Social security contributions	73,635
Other employee benefits	20,000
Workers' compensation	6,413
Unemployment compensation	<u>2,814</u>
Total personnel services, employee benefits	<u>411,963</u>
Purchased professional and technical services	<u>213,453</u>
Purchased property services	<u>30,502</u>
Other purchased services:	
Student transport services	136,031
Travel	26,696
Advertising	3,045
General insurance	1,145
Communications	845
Miscellaneous purchased services	845
Printing and binding	<u>105</u>
Total other purchased services	<u>168,712</u>
Supplies:	
General supplies	109,089
Food	16,501
Books and periodicals	4,271
Technology	<u>4,219</u>
Total supplies	<u>134,080</u>
Property, equipment	<u>33,901</u>
Other objects	<u>97,573</u>
TOTAL NONINSTRUCTIONAL SERVICES	<u>\$2,063,278</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, 2015**

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

Purchased professional and technical services	\$ 266,892
Purchased property services	<u>85,764</u>

TOTAL FACILITIES ACQUISITION, CONSTRUCTION AND IMPROVEMENT SERVICES	\$ <u>352,656</u>
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DEBT SERVICE:

Redemption of principal	\$ 8,765,000
Interest	4,052,407
Refund of prior-years receipts	<u>174,517</u>

TOTAL DEBT SERVICE	\$ <u>12,991,924</u>
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See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

RECONCILIATION OF REAL ESTATE TAX DUPLICATE
JUNE 30, 2015

	BANKS TOWNSHIP	BEAVER MEADOWS BOROUGH	BLACK CREEK TOWNSHIP	BUTLER TOWNSHIP	CONYNGHAM BOROUGH	FOSTER TOWNSHIP	FREELAND BOROUGH	HAZLE TOWNSHIP	SUB-TOTAL
Original assessed valuation	\$ 18,067,850	\$ 7,609,187	\$ 216,465,629	\$ 685,822,194	\$ 125,740,308	\$ 200,362,138	\$ 79,748,709	\$ 1,234,404,651	\$ 2,568,220,666
Millage	<u>0.028</u>	<u>0.028</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	\$ 511,987	\$ 215,621	\$ 2,065,514	\$ 6,544,116	\$ 1,199,814	\$ 1,911,854	\$ 760,962	\$ 11,778,689	\$ 24,988,557
Net interim additions (abatements)	<u>(749)</u>	<u>(749)</u>	<u>(1,565)</u>	<u>(22,377)</u>	<u>(327)</u>	<u>(9,799)</u>	<u>(509)</u>	<u>(686,404)</u>	<u>(722,479)</u>
Total tax levied	511,238	214,872	2,063,949	6,521,739	1,199,487	1,902,055	760,453	11,092,285	24,266,078
Less:									
Collections	(469,547)	(197,311)	(1,848,919)	(6,130,390)	(1,125,837)	(1,703,521)	(676,218)	(10,130,967)	(22,282,710)
Taxes turned over to delinquent collector	<u>(41,691)</u>	<u>(17,561)</u>	<u>(215,030)</u>	<u>(391,349)</u>	<u>(73,650)</u>	<u>(198,534)</u>	<u>(84,235)</u>	<u>(961,318)</u>	<u>(1,983,368)</u>
Taxes outstanding with collectors as of June 30, 2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Summary of collections:									
Amount paid:									
At discount	\$ 414,100	\$ 169,750	\$ 1,593,600	\$ 5,423,600	\$ 917,100	\$ 1,427,300	\$ 564,800	\$ 8,727,600	\$ 19,237,850
At face	35,557	17,051	198,599	563,220	163,477	200,391	84,188	858,077	2,120,560
At penalty	<u>19,890</u>	<u>10,510</u>	<u>56,720</u>	<u>143,570</u>	<u>45,260</u>	<u>75,830</u>	<u>27,230</u>	<u>545,290</u>	<u>924,300</u>
Total collections	\$ <u>469,547</u>	\$ <u>197,311</u>	\$ <u>1,848,919</u>	\$ <u>6,130,390</u>	\$ <u>1,125,837</u>	\$ <u>1,703,521</u>	\$ <u>676,218</u>	\$ <u>10,130,967</u>	\$ <u>22,282,710</u>

HAZLETON AREA SCHOOL DISTRICT
RECONCILIATION OF REAL ESTATE TAX DUPLICATE
JUNE 30, 2015

	HAZLETON CITY	JEDDO BOROUGH	SUGARLOAF TOWNSHIP	WEST HAZLETON BOROUGH	EAST UNION TOWNSHIP	KLINE TOWNSHIP	MCADOO BOROUGH	NORTH UNION TOWNSHIP	TOTAL
Original assessed valuation	\$ 817,783,814	\$ 1,619,570	\$ 346,919,566	\$ 190,705,959	\$ 106,733,818	\$ 17,574,423	\$ 13,391,031	\$ 26,994,764	\$ 4,089,943,611
Millage	<u>0.009</u>	<u>0.009</u>	<u>0.009</u>	<u>0.009</u>	<u>0.030</u>	<u>0.030</u>	<u>0.030</u>	<u>0.030</u>	
Original tax levied	\$ 7,803,293	\$ 15,454	\$ 3,310,306	\$ 1,819,716	\$ 3,215,361	\$ 529,430	\$ 403,405	\$ 813,219	\$ 42,898,741
Net interim additions (abatements)	<u>(32,191)</u>	<u>-</u>	<u>(2,638)</u>	<u>(44,933)</u>	<u>(298,984)</u>	<u>(2,093)</u>	<u>(1,443)</u>	<u>(1,931)</u>	<u>(1,106,692)</u>
Total tax levied	7,771,102	15,454	3,307,668	1,774,783	2,916,377	527,337	401,962	811,288	41,792,049
Less:									
Collections	(6,654,699)	(13,083)	(3,102,262)	(1,614,824)	(2,819,596)	(488,613)	(347,537)	(738,433)	(38,061,757)
Taxes turned over to delinquent collector	<u>(1,115,830)</u>	<u>(2,371)</u>	<u>(205,406)</u>	<u>(159,959)</u>	<u>(96,781)</u>	<u>(38,723)</u>	<u>(54,425)</u>	<u>(72,855)</u>	<u>(3,729,718)</u>
Taxes outstanding with collectors as of June 30, 2015	\$ <u>573</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>574</u>
Summary of collections:									
Amount paid:									
At discount	\$ 5,466,250	\$ 12,000	\$ 2,638,600	\$ 1,452,400	\$ 2,628,250	\$ 420,700	\$ 278,450	\$ 615,800	\$ 32,750,300
At face	872,889	423	356,942	110,854	120,786	42,813	36,817	80,103	3,742,187
At penalty	<u>315,560</u>	<u>660</u>	<u>106,720</u>	<u>51,570</u>	<u>70,560</u>	<u>25,100</u>	<u>32,270</u>	<u>42,530</u>	<u>1,569,270</u>
Total collections	\$ <u>6,654,699</u>	\$ <u>13,083</u>	\$ <u>3,102,262</u>	\$ <u>1,614,824</u>	\$ <u>2,819,596</u>	\$ <u>488,613</u>	\$ <u>347,537</u>	\$ <u>738,433</u>	\$ <u>38,061,757</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

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, 2014	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue At June 30, 2015
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	\$ 121,224	\$ (307,781)	\$ 91,072	\$ 91,072	\$ (337,933)
U.S. DEPARTMENT OF EDUCATION										
<u>Passed Through PA Department of Education</u>										
Program Improvement - Setaside	I	84.010	042-140187	06/23/14-09/30/15	66,653	43,562	-	45,548	45,548	1,986
E.S.E.A. Title 1	I	84.010	013-140187	07/02/13-09/30/14	3,177,719	200,829	200,829	-	-	-
E.S.E.A. Title 1	I	84.010	013-150187	07/01/14-09/30/15	4,004,263	3,328,570	-	3,974,534	3,974,534	645,964
Title II Improving Teacher Quality	I	84.367	020-140187	07/02/13-09/30/14	454,502	26,268	26,268	-	-	-
Title II Improving Teacher Quality	I	84.367	020-150187	07/01/14-09/30/15	429,600	372,678	-	429,600	429,600	56,922
Title III Lang. Inst. LEP/Immigrant Students	I	84.365	010-150187	07/01/14-09/30/15	355,291	331,605	-	304,130	304,130	(27,475)
Special Education - Preschool Grants	I	84.027	131-140018	07/01/14-06/30/15	585,119	585,119	-	585,119	585,119	-
Special Education - Preschool Grants	I	84.173	131-140018	07/01/14-06/30/15	195,221	195,221	-	195,221	195,221	-
Secondary Allocations	I	84.048	380-144069	07/01/13-06/30/14	188,304	78,460	78,460	-	-	-
Secondary Allocations	I	84.048	380-150060	07/01/14-06/30/15	203,885	203,885	-	203,885	203,885	-
<u>Passed Through Luzerne Intermediate Unit18</u>										
IDEA	I	84.027	N/A	07/01/14-06/30/15	141,346	-	-	141,346	141,346	141,346
IDEA	I	84.027	N/A	07/01/14-06/30/15	783,766	-	-	783,766	783,766	783,766
ARRA- Race To The Top	I	84.431A	B413A120004	12/22/11-12/22/15	210,981	-	18,500	50,137	50,137	68,637
<u>Direct from U.S. Department of Education</u>										
Direct Student Loans	D	84.268	N/A	07/01/14-06/30/15	N/A	152,454	-	152,454	152,454	-
Federal Pell Grant Program	D	84.063	N/A	07/01/14-06/30/15	N/A	68,500	-	68,500	68,500	-
TOTAL U.S. DEPARTMENT OF EDUCATION						5,587,151	324,057	6,934,240	6,934,240	1,671,146

Source Codes

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

HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

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, 2014	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue At June 30, 2015
U.S. DEPARTMENT OF AGRICULTURE										
<u>Passed Through PA Department of Agriculture</u>										
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	\$ 341,774	\$ (39,725)	\$ 344,661	\$ 344,661	\$ (36,838)
<u>Passed Through PA Department of Education</u>										
National School Lunch Program	I	10.555	64-000 (Fed)	07/01/14-06/30/15	N/A	3,609,669	489,568	3,254,533	3,254,533	134,432
	S		(State)	07/01/14-06/30/15	N/A	50,914	8,012	44,950	44,950	2,048
School Breakfast Program	I	10.553	N/A (Fed)	07/01/14-06/30/15	N/A	876,967	139,030	773,786	773,786	35,849
	S		(State)	07/01/14-06/30/15	N/A	193,335	26,949	173,306	173,306	6,920
Summer Food Service Program	I	10.559	N/A	07/01/14-06/30/15	N/A	94,914	12,476	96,702	96,702	14,264
Fresh Fruits and Vegetables	I	10.582	N/A (Fed)	07/01/14-06/30/15	N/A	79,537	12,991	80,431	80,431	13,885
TOTAL U.S. DEPARTMENT OF AGRICULTURE						<u>5,247,110</u>	<u>649,301</u>	<u>4,768,369</u>	<u>4,768,369</u>	<u>170,560</u>
TOTAL FEDERAL AND STATE FINANCIAL ASSISTANCE						<u>\$ 10,955,485</u>	<u>\$ 665,577</u>	<u>\$ 11,793,681</u>	<u>\$ 11,793,681</u>	<u>\$ 1,503,773</u>

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

See Notes to Financial Statements

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Hazleton Area School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hazleton Area School District's basic financial statements, and have issued our report thereon dated December 15, 2015.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maillie LLP

Oaks, Pennsylvania
December 15, 2015

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

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

Report on Compliance for Each Major Federal Program

We have audited the Hazleton Area School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Hazleton Area School District's major federal programs for the year ended June 30, 2015. The Hazleton Area School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Hazleton Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hazleton Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion of Each Major Federal Program

In our opinion, the Hazleton Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Hazleton Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hazleton Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hazleton Area School District's internal control over compliance.

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

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

Purpose of this report

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



Oaks, Pennsylvania
December 15, 2015

**HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued: UNMODIFIED

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X no

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

Noncompliance material to financial statements noted? _____ Yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X no

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Education Agencies

HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Dollar threshold used to distinguish
between type A and type B programs \$347,263

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

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.
