

HAZLETON AREA SCHOOL DISTRICT

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016**

**&
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, 2016, 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
Hazle Township, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 13, schedule of funding progress and employer contributions for other postemployment healthcare benefits on page 51, schedule of the school district's proportionate share of the net pension liability on page 52, and schedule of the school district's contributions on page 53 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 54 through 65 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 66 and 67, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Board of School Directors
Hazleton Area School District
Hazle Township, 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 12, 2016, 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.

A handwritten signature in black ink that reads "Maullie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
December 12, 2016

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, 2016 compared to June 30, 2015. The School District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the School District's financial performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the School District's financial performance.

INTRODUCTION

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

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

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

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

DISTRICT-WIDE FINANCIAL ANALYSIS

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

CONDENSED STATEMENT OF NET POSITION

	GOVERNMENTALACTIVITIES.....		INCREASE (DECREASE)	BUSINESS-TYPEACTIVITIES.....		INCREASE (DECREASE)
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Current assets	\$ 31,669,622	\$ 38,394,977	\$(6,725,355)	\$ (357,080)	\$ (535,870)	\$178,790
Noncurrent assets	<u>125,790,532</u>	<u>130,277,040</u>	<u>(4,486,508)</u>	<u>469,613</u>	<u>336,952</u>	<u>132,661</u>
Total assets	<u>157,460,154</u>	<u>168,672,017</u>	<u>(11,211,863)</u>	<u>112,533</u>	<u>(198,918)</u>	<u>311,451</u>
Deferred outflows, Pension activity	<u>34,684,000</u>	<u>25,348,000</u>	<u>9,336,000</u>	<u>1,108,000</u>	<u>810,000</u>	<u>298,000</u>
Long-term debt outstanding	351,614,928	328,007,229	23,607,699	6,659,000	5,733,000	926,000
Other liabilities	<u>24,545,445</u>	<u>24,443,677</u>	<u>101,768</u>	<u>125,346</u>	<u>92,053</u>	<u>33,293</u>
Total liabilities	<u>376,160,373</u>	<u>352,450,906</u>	<u>23,709,467</u>	<u>6,784,346</u>	<u>5,825,053</u>	<u>959,293</u>
Deferred inflows, Pension activity	<u>1,281,000</u>	<u>12,824,000</u>	<u>(11,543,000)</u>	<u>41,000</u>	<u>410,000</u>	<u>(369,000)</u>
Net position:						
Invested in capital assets, net of related debt	(9,771,598)	(9,994,657)	223,059	469,613	336,952	132,661
Restricted	779,658	2,747,596	(1,967,938)	-	-	-
Unrestricted	<u>(176,305,279)</u>	<u>(164,007,828)</u>	<u>(12,297,451)</u>	<u>(6,074,426)</u>	<u>(5,960,923)</u>	<u>(113,503)</u>
Total net position	<u>\$(185,297,219)</u>	<u>\$(171,254,889)</u>	<u>\$(14,042,330)</u>	<u>\$(5,604,813)</u>	<u>\$(5,623,971)</u>	<u>\$ 19,158</u>

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

CONDENSED STATEMENT OF ACTIVITIES

	GOVERNMENTALACTIVITIES.....		INCREASE (DECREASE)	BUSINESS-TYPEACTIVITIES.....		INCREASE (DECREASE)
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
REVENUES:						
Program Revenues:						
Charges for services	\$ 747,897	\$ 658,432	\$ 89,465	\$ 431,350	\$ 1,043,848	\$ (612,498)
Operating and capital grants and contributions	40,624,311	38,963,128	1,661,183	6,584,074	5,046,101	1,537,973
General Revenues:						
Property taxes	43,033,959	43,477,076	(443,117)	-	-	-
State formula aide	35,645,556	34,215,448	1,430,108	-	-	-
Other	<u>13,798,746</u>	<u>12,658,299</u>	<u>1,140,447</u>	<u>14,932</u>	<u>22,496</u>	<u>(7,564)</u>
Total revenues	<u>133,850,469</u>	<u>129,972,383</u>	<u>3,878,086</u>	<u>7,030,356</u>	<u>6,112,445</u>	<u>917,911</u>
EXPENSES:						
Instruction	93,509,096	90,178,687	3,330,409	-	-	-
Instructional student support	7,953,826	7,074,960	878,866	-	-	-
Administration and business	13,780,705	12,973,967	806,738	-	-	-
Maintenance and operations	11,527,944	12,106,034	(578,090)	-	-	-
Transportation	5,250,369	5,583,831	(333,462)	-	-	-
Other	<u>15,870,859</u>	<u>15,445,760</u>	<u>425,099</u>	<u>7,011,198</u>	<u>6,685,110</u>	<u>326,088</u>
Total expenses	<u>147,892,799</u>	<u>143,363,239</u>	<u>4,529,560</u>	<u>7,011,198</u>	<u>6,685,110</u>	<u>326,088</u>
CHANGE IN NET POSITION	(14,042,330)	(13,390,856)	(651,474)	19,158	(572,665)	591,823
NET POSITION (DEFICIT), BEGINNING, AS RESTATED	<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>
NET POSITION ENDING	<u>\$(185,297,219)</u>	<u>\$(171,254,889)</u>	<u>\$(14,042,330)</u>	<u>\$(5,604,813)</u>	<u>\$(5,623,971)</u>	<u>\$ 19,158</u>

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

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 11,313,274	\$ 11,718,073
Buildings and building improvements	111,938,545	115,880,247
Furniture and equipment	2,353,867	2,264,446
Construction-in-progress	<u>89,193</u>	<u>343,022</u>
Total	<u>\$125,694,879</u>	<u>\$130,205,788</u>

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

OUTSTANDING LONG-TERM DEBT

	<u>BALANCE</u> <u>JUNE 30, 2015</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2016</u>
GENERAL OBLIGATION BONDS, NET	\$143,019,293	\$11,880,362	\$(18,322,133)	\$136,341,788
NET PENSION LIABILITY	179,385,000	28,973,000	-	208,358,000
COMPENSATED ABSENCES	4,669,595	1,782,260	(544,552)	5,907,303
OPEB OBLIGATION	<u>933,341</u>	<u>877,756</u>	<u>(803,260)</u>	<u>1,007,837</u>
TOTAL LONG-TERM LIABILITIES	<u>\$328,007,229</u>	<u>\$43,513,378</u>	<u>\$(19,669,915)</u>	<u>\$351,614,928</u>

Analysis of these charts indicates that the total net position for governmental activities decreased by \$14,042,330. Expenses exceeded revenues by this amount mainly due to the budgeted deficit, as well as the difference between School District pension contributions offset by the costs of benefits earned net of employee contributions.

Business-type activities show a \$19,158 increase in total net position. Revenues exceeded expenses by this amount mainly due to an increase in overall participation in the school lunch/breakfast programs due to the adoption of the Community Eligibility Provision which provides free lunch and breakfast to all students.

The cost of health benefits remains one of the School Districts largest expenditures. During the 2015-2016 fiscal year, the School District spent approximately \$15,687,000 on health benefits which was approximately \$1,847,000 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 \$7,768,734, offset by net purchases of \$3,257,825.

General obligation bonds, net, decreased overall. The School District made debt payments of \$8,890,000 on its General Obligation Bonds and recognized accretion of \$2,174,960. The School District also issued General Obligation Bonds Series of 2016 (\$9,425,000) to current refund the General Obligation Bonds Series of 2010 (\$9,550,000) which resulted in an economic gain of \$530,948.

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

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>2015-2016</u>	<u>2014-2015</u>	<u>Total % Change</u>
General fund	\$7,512,765	\$12,475,053	(40%)
Capital projects	779,658	2,747,596	(72%)
Food service	(5,604,813)	(5,623,971)	0.3%

**CONDENSED BUDGET VERSUS ACTUAL
 GENERAL FUND 2015-2016**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues	\$136,940,096	\$133,054,685	\$(3,885,411)
Expenditures	140,799,246	138,390,588	(2,408,658)
Other financing sources (uses)	<u>215,000</u>	<u>373,615</u>	<u>158,615</u>
Net change in fund balance	<u>\$ (3,644,150)</u>	<u>\$ (4,962,288)</u>	<u>\$(1,318,138)</u>

The changes in the Fund Balance chart indicate decreases across all the funds. The General Fund, actual expenditures were less than budgeted expenditures by \$2,408,658 and actual revenues were less than budgeted revenues by \$3,885,411. The net effect of all variations was to decrease the General Fund Balance by \$4,962,288. State Revenues for retirement contributions and Social Security were greater than budget by \$1,591,182 and \$256,812, respectively, while Early Intervention, Special Education, and PA Accountability Grant funding were less than budget by \$2,503,772, \$367,171, and \$500,000, respectively. Federal IDEA and Title 1 funds were less than budget by \$1,199,180 and \$465,253, respectively. Expenditures were less than budget mainly from health care benefits, and tuition to charter/approved private schools, all greater than budgeted, \$1,294,107 and \$2,016,548, respectfully. As previously stated the School District issued GOB Series of 2016 (\$9,425,000 other financing sources) to current refund the GOB Series of 2010 (\$9,550,000 other financing uses) which resulted in an economic gain of \$530,948.

DISTRICT-WIDE VS FUND FINANCIAL STATEMENTS

The Fund financial Statements show a decrease of \$6,930,226 in the fund balance for governmental funds while the District-wide Financial Statements show a decrease of \$14,042,330 in Net Position for governmental activities. The principal cause of this difference is due to depreciation exceeding capital outlays, 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 2015-2016 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, 2015 through June 30, 2017.

TEN LARGEST REAL ESTATE TAXPAYERS

The ten largest real estate taxpayers in the School District for the 2015-2016 assessed valuation of their real estate are as follows:

<u>Taxpayer</u>	<u>Business</u>	<u>Assessed Valuation</u>
Retail Distribution East, LLC (AE)	Distribution	\$ 46,117,900
KBS11-81 Industrial (Amazon)	Distribution	30,000,000
Laurel Mall Limited Partnership	Shopping Center	19,326,000
Humboldt Realty (Romark)	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
First Quality Nonwovens	Manufacturer	14,123,100
NBTY PAH LLC	Distribution	<u>13,331,600</u>
	Total	<u>\$208,229,900</u>

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

TEN LARGEST EMPLOYERS

The ten largest employers in the School District for the 2015-2016 are as follows:

<u>Employer</u>	<u>Product/Service</u>	<u>Estimated Employees</u>
Amazon Fulfillment	Retail distribution	1,500
Hazleton Area School District	Education	1,441
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
Bemis Performance Packaging	Extrusion & printing of polyfilm	460
Autozone Distribution Center	Distributor of auto parts	417
The Hershey Company	Molded chocolate products	410
Wal-Mart	Retail super store	360
First Quality Nonwovens	Manufacturer of disposable products	351

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>
2015-2016	10,970	2.02%
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

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

SUMMARY

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

From both a district-wide perspective and a fund financial perspective the net position and fund balance of the School District decreased. The continued use of fund balance to balance the budget, along with the cost of capital projects continue to the cause the fluctuation in fund balance. Property taxes remained flat for 2015-2016. Multi-county rebalancing based on methodology of Section 672.1 of the School Code caused an increase of 1.32% for Schuylkill County, a decrease of 0.94% for Carbon County, and no change to Luzerne County which remained at 9.5420 during the 2015-2016 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, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash and cash equivalents	\$ 21,267,892	\$ 646,957	\$ 21,914,849
Taxes receivables, net	140,224	-	140,224
Internal balances	2,261,147	(2,261,147)	-
Due from other governments	6,662,873	906,847	7,569,720
Other receivables, net	832,235	4,010	836,245
Inventories	35,177	346,253	381,430
Prepaid expenses	470,074	-	470,074
Total current assets	31,669,622	(357,080)	31,312,542
CAPITAL ASSETS:			
Land and improvements	11,313,274	-	11,313,274
Buildings and improvements	111,938,545	-	111,938,545
Furniture and equipment	2,353,867	469,613	2,823,480
Construction in progress	89,193	-	89,193
Total capital assets, net of accumulated depreciation	125,694,879	469,613	126,164,492
Other Assets	95,653	-	95,653
Total assets	157,460,154	112,533	157,572,687
DEFERRED OUTFLOWS OF RESOURCES,			
Deferred outflows of resources, pension activity	34,684,000	1,108,000	35,792,000
LIABILITIES:			
Accounts payable	5,535,121	69,339	5,604,460
Accrued salaries and benefits	16,462,794	-	16,462,794
Payroll deductions and withholdings	719,878	-	719,878
Accrued interest payable	1,210,226	-	1,210,226
Other liabilities	299,583	19,514	319,097
Unearned revenue	317,843	36,493	354,336
Long-term liabilities			
Portion due or payable within one year			
Bonds payable, net	9,741,092	-	9,741,092
Compensated absences	1,274,065	-	1,274,065
Portion due or payable after one year			
Bonds payable, net	126,600,696	-	126,600,696
Net pension liability	208,358,000	6,659,000	215,017,000
Compensated absences	4,633,238	-	4,633,238
Net OPEB obligation	1,007,837	-	1,007,837
Total liabilities	376,160,373	6,784,346	382,944,719
DEFERRED INFLOWS OF RESOURCES,			
Deferred inflows of resources, pension activity	1,281,000	41,000	1,322,000
NET POSITION:			
Net Investment in capital assets	(9,771,598)	469,613	(9,301,985)
Restricted	779,658	-	779,658
Unrestricted	(176,305,279)	(6,074,426)	(182,379,705)
Total net position	\$ (185,297,219)	\$ (5,604,813)	\$ (190,902,032)

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	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	\$ 93,509,096	\$ 747,897	\$ 28,648,796	\$ -	\$ (64,112,403)	\$ -	\$ (64,112,403)
Instructional student support	7,953,826	-	2,367,785	-	(5,586,041)	-	(5,586,041)
Administrative and financial support services	13,780,705	-	4,113,763	-	(9,666,942)	-	(9,666,942)
Operation and maintenance of plant services	11,527,944	-	-	201,515	(11,326,429)	-	(11,326,429)
Pupil transportation	5,250,369	-	2,462,815	-	(2,787,554)	-	(2,787,554)
Student activities	1,758,390	-	74,656	-	(1,683,734)	-	(1,683,734)
Community services	621,392	-	8,256	-	(613,136)	-	(613,136)
Interest on long-term debt	6,091,704	-	2,746,725	-	(3,344,979)	-	(3,344,979)
Depreciation - unallocated	7,399,373	-	-	-	(7,399,373)	-	(7,399,373)
Total governmental activities	147,892,799	747,897	40,422,796	201,515	(106,520,591)	-	(106,520,591)
Business-type activity,							
Food Service	7,011,198	431,350	6,584,074	-	-	4,226	4,226
Total	\$ 154,903,997	\$ 1,179,247	\$ 47,006,870	\$ 201,515	(106,520,591)	4,226	(106,516,365)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes, net					43,033,959	-	43,033,959
Other taxes levied					12,868,528	-	12,868,528
Grants and entitlements not restricted to specific programs					35,645,556	-	35,645,556
Investment earnings, unrestricted					99,751	3,807	103,558
Gain on disposal of assets					5,636	-	5,636
Miscellaneous					824,831	11,125	835,956
Total general revenues					92,478,261	14,932	92,493,193
Change in net position					(14,042,330)	19,158	(14,023,172)
Net position - beginning					(171,254,889)	(5,623,971)	(176,878,860)
Net position - ending					\$ (185,297,219)	\$ (5,604,813)	\$ (190,902,032)

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	GENERAL	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
ASSETS:			
Cash and cash equivalents	\$19,028,490	\$ 2,239,402	\$21,267,892
Taxes receivable, net	140,224	-	140,224
Due from other funds	4,275,506	-	4,275,506
Due from other governments	6,662,873	-	6,662,873
Other receivables, net	91,235	741,000	832,235
Inventories	35,177	-	35,177
Prepaid expenses	<u>470,074</u>	<u>-</u>	<u>470,074</u>
Total assets	<u>\$30,703,579</u>	<u>\$ 2,980,402</u>	<u>\$33,683,981</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
Liabilities:			
Accounts payable	\$ 5,348,736	\$ 186,385	\$ 5,535,121
Accrued salaries and benefits	16,462,794	-	16,462,794
Payroll deductions and withholdings	719,878	-	719,878
Due to other funds	-	2,014,359	2,014,359
Other liabilities	299,583	-	299,583
Unearned revenues	<u>317,843</u>	<u>-</u>	<u>317,843</u>
Total liabilities	<u>23,148,834</u>	<u>2,200,744</u>	<u>25,349,578</u>
Deferred Inflows of Resources, Unavailable revenue, property taxes	<u>41,980</u>	<u>-</u>	<u>41,980</u>
Fund Balances:			
Nonspendable fund balance	505,251	-	505,251
Restricted fund balance	-	779,658	779,658
Committed fund balance	2,326,448	-	2,326,448
Assigned fund balance	500,000	-	500,000
Unassigned fund balance	<u>4,181,066</u>	<u>-</u>	<u>4,181,066</u>
Total fund balances	<u>7,512,765</u>	<u>779,658</u>	<u>8,292,423</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$30,703,579</u>	<u>\$ 2,980,402</u>	<u>\$33,683,981</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016**

FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 8,292,423
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 \$244,618,111 and the accumulated depreciation is \$118,923,232	125,694,879
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 \$105,516 and the accumulated amortization was \$9,863	95,653
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 \$36,653	44,327
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 \$2,401,147 and the accumulated amortization was \$721,371	(1,679,776)
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 \$140,887	115,600
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.	41,980
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	(134,821,939)
Accrued interest	(1,210,226)
Net OPEB obligation	(1,007,837)
Compensated absences	(5,907,303)
Net pension liability	(208,358,000)
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	34,684,000
Deferred inflows of resources related to pensions	<u>(1,281,000)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (185,297,219)</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, 2016**

	GENERAL	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Local sources	\$ 58,020,871	\$ 3,758	\$ 58,024,629
State sources	67,583,333	76,000	67,659,333
Federal sources	<u>7,450,481</u>	<u>-</u>	<u>7,450,481</u>
Total revenues	<u>133,054,685</u>	<u>79,758</u>	<u>133,134,443</u>
EXPENDITURES:			
Instruction	86,726,224	-	86,726,224
Support services	35,836,850	101,653	35,938,503
Non-instructional services	2,269,566	-	2,269,566
Capital outlay	196,182	2,611,043	2,807,225
Debt service	<u>13,361,766</u>	<u>-</u>	<u>13,361,766</u>
Total expenditures	<u>138,390,588</u>	<u>2,712,696</u>	<u>141,103,284</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(5,335,903)</u>	<u>(2,632,938)</u>	<u>(7,968,841)</u>
OTHER FINANCING SOURCES (USES):			
Proceeds of refunding bonds	9,425,000	-	9,425,000
Payment to refunded bond escrow agent	(9,380,000)	-	(9,380,000)
Bond premium	280,402	-	280,402
Disposal of fixed assets	5,637	-	5,637
Insurance recoveries	<u>42,576</u>	<u>665,000</u>	<u>707,576</u>
Other financing sources, net	<u>373,615</u>	<u>665,000</u>	<u>1,038,615</u>
NET CHANGE IN FUND BALANCES	(4,962,288)	(1,967,938)	(6,930,226)
FUND BALANCE, BEGINNING	<u>12,475,053</u>	<u>2,747,596</u>	<u>15,222,649</u>
FUND BALANCE, ENDING	<u>\$ 7,512,765</u>	<u>\$ 779,658</u>	<u>\$ 8,292,423</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, 2016**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ (6,930,226)
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	3,201,330	
Debt service	56,495	
Less depreciation expense	<u>(7,768,734)</u>	(4,510,909)
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.		2,812
The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets.		(9,425,000)
In the statement of activities, appreciation on compound interest bonds is accrued on related debt.		(2,174,960)
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.		18,440,000
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		100,291
In the statement of activities, compensated absences and OPEB are accrued, whereas in governmental funds, a benefit expenditure is reported when taken.		(1,312,204)
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	14,162,000	
Cost of benefits earned net of employee contributions	<u>(22,256,000)</u>	(8,094,000)
Bond insurance costs of \$105,516 were reported on the governmental fund statements when the debt was incurred. Amortization of insurance costs are recorded in the statement of activities.		24,401
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.		(3,787)
Bond premium of \$2,401,147 were reported on the government fund statements when the debt was incurred. Amortization of bond premiums are recorded in the statement of activities.		(141,408)
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.		<u>(17,340)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (14,042,330)</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	ORIGINAL	FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
REVENUES:				
Local sources	\$ 58,152,902	\$ 58,152,902	\$ 58,020,871	\$ (132,031)
State sources	69,533,077	69,533,077	67,583,333	(1,949,744)
Federal sources	9,254,117	9,254,117	7,450,481	(1,803,636)
Total revenues	<u>136,940,096</u>	<u>136,940,096</u>	<u>133,054,685</u>	<u>(3,885,411)</u>
EXPENDITURES:				
Current:				
Instruction	88,035,576	88,035,576	86,726,224	1,309,352
Support services	36,756,450	36,756,450	35,836,850	919,600
Non-instructional services	1,062,174	1,062,174	2,269,566	(1,207,392)
Capital outlay	100,000	100,000	196,182	(96,182)
Debt service	14,845,046	14,845,046	13,361,766	1,483,280
Total expenditures	<u>140,799,246</u>	<u>140,799,246</u>	<u>138,390,588</u>	<u>2,408,658</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(3,859,150)</u>	<u>(3,859,150)</u>	<u>(5,335,903)</u>	<u>(1,476,753)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of refunding bonds	-	-	9,425,000	9,425,000
Payment to refunded bond escrow agent	-	-	(9,380,000)	(9,380,000)
Bond premium	-	-	280,402	280,402
Other financing sources not listed	-	-	42,576	42,576
Sale of fixed assets	15,000	15,000	5,637	(9,363)
Fund transfers	200,000	200,000	-	(200,000)
Total other financing sources (uses), net	<u>215,000</u>	<u>215,000</u>	<u>373,615</u>	<u>158,615</u>
NET CHANGE IN FUND BALANCE	<u>\$ (3,644,150)</u>	<u>\$ (3,644,150)</u>	<u>(4,962,288)</u>	<u>\$ (1,318,138)</u>
FUND BALANCE, BEGINNING			<u>12,475,053</u>	
FUND BALANCE, ENDING			<u>\$ 7,512,765</u>	

See Notes to Financial Statement

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2016

	FOOD SERVICE
<hr/>	
ASSETS:	
Current assets:	
Cash	\$ 646,957
Due from other governments	906,847
Other receivables, net	4,010
Inventories	<u>346,253</u>
Total current assets	1,904,067
Capital assets, net	<u>469,613</u>
Total assets	<u>2,373,680</u>
DEFERRED OUTFLOWS OF RESOURCES,	
Deferred outflows of resources, pension activity	<u>1,108,000</u>
LIABILITIES:	
Due to other funds	2,261,147
Unearned revenue	36,493
Accounts payable	69,339
Other current liabilities	19,514
Long-term liabilities	
Net pension liability	<u>6,659,000</u>
Total liabilities	<u>9,045,493</u>
DEFERRED INFLOWS OF RESOURCES,	
Deferred inflows of resources, pension activity	<u>41,000</u>
NET POSITION:	
Invested in capital assets	469,613
Unrestricted net deficit	<u>(6,074,426)</u>
Total net position	<u>\$ (5,604,813)</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, 2016**

	FOOD SERVICE
OPERATING REVENUES,	
Food service	\$ <u>431,350</u>
OPERATING EXPENSES:	
Other purchased services	2,567,823
Salaries	2,154,559
Employee benefits	1,561,527
Supplies	479,296
Property services	164,300
Other operating expenses	42,281
Depreciation	<u>41,412</u>
Total operating expenses	<u>7,011,198</u>
OPERATING LOSS	<u>(6,579,848)</u>
NONOPERATING REVENUES:	
Federal subsidies	5,990,119
State subsidies	593,955
Donations	11,125
Earnings on investments	<u>3,807</u>
Total nonoperating revenues	<u>6,599,006</u>
CHANGE IN NET POSITION	19,158
NET POSITION - BEGINNING OF YEAR	<u>(5,623,971)</u>
NET POSITION - END OF YEAR	<u>\$ (5,604,813)</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 431,350
Payments to suppliers	(4,534,573)
Payments to employees for services	<u>(2,154,559)</u>
Net cash used in operating activities	<u>(6,257,782)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal subsidies	4,917,389
State subsidies	563,316
Local subsidies	<u>11,125</u>
Net cash provided by noncapital financing activities	<u>5,491,830</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES,	
Purchase of capital assets	<u>(174,073)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES,	
Interest on investments	<u>3,807</u>
NET DECREASE IN CASH	(936,218)
CASH, BEGINNING	<u>1,583,175</u>
CASH, ENDING	<u>\$ 646,957</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	<u>\$ (6,579,848)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	41,412
Donated USDA commodities	403,920
Pension Expense	259,000
Changes in assets and liabilities:	
Inventories	2,893
Prepaid expenses	57,296
Other receivables, net	(4,010)
Accounts payable	44,426
Due to other funds	(471,738)
Unearned revenue	(345)
Other current liabilities	<u>(10,788)</u>
Total adjustments	<u>322,066</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (6,257,782)</u>
SUPPLEMENTAL DISCLOSURES	
Noncash activities	
Donated foods	\$ 403,575

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

	PRIVATE PURPOSE TRUST FUND	AGENCY FUND
ASSETS,		
Cash	<u>\$ 186,019</u>	<u>\$ 231,177</u>
LIABILITIES:		
Accounts payable	\$ 43,940	\$ 1,473
Other current liabilities	<u>-</u>	<u>229,704</u>
NET POSITION,		
Held in trust	<u>142,079</u>	<u>-</u>
Total liabilities and net position	<u>\$ 186,019</u>	<u>\$ 231,177</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	PRIVATE PURPOSE TRUST FUND
ADDITIONS, Local sources	\$ 65,612
DEDUCTIONS, Non-instructional services	<u>75,750</u>
CHANGE IN NET POSITION	(10,138)
NET POSITION, BEGINNING	<u>152,217</u>
NET POSITION, ENDING	<u>\$ 142,079</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 and deferred inflows of resources related to pensions.

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

INVENTORIES

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

CAPITAL ASSETS

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

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

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

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

RESTRICTED ASSETS

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

COMPENSATED ABSENCES

Unused vacation and accumulated sick leave are obligated under a collective bargaining agreement for all employees, excluding members of the administration. A provision is made annually in the budget for the estimated cost of substitute personnel. Contractual provisions with teachers require payment of accumulated unused sick leave days on retirement in the amount of \$60 per day up to 100 days, \$100 per day for days above 100 to a maximum of 200, and \$165 per day for 201 days and above for the 2015-2016 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, 2016, the School District's cash and cash equivalents 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. 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. As of June 30, 2016, \$22,499,581 of the School District's \$23,261,185 bank balance is uninsured and collateralized with securities held by the pledging bank's trust department not in the School District's name, \$750,229 was insured by the FDIC and \$11,375 is uninsured and uncollateralized. The School District also places funds with the Pennsylvania School District Liquid Asset Fund (PSDLAF) and Pennsylvania Local Government Investment Trust (PLGIT). Each member owns a pro rata share of each of the fund's underlying investments or deposits, which are held in the name of the applicable fund. The underlying pool of securities for each of these funds is permitted in Section 440.1 of the School Code. In order to minimize interest rate risks, each fund strives to maintain investment maturities to keep the net asset values for participants at \$1.00 per share.

3. TAXES RECEIVABLE

Real estate taxes are levied on July 17 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 \$4,118,143,330 for the 2015-2016 tax years. A tax rate of 9.542 mills-Luzerne County, 28.070 mills-Carbon County, and 33.829 mills-Schuylkill County was established for fiscal year 2015-2016. Taxes are due on or before November 17 for Schuylkill, Carbon and Luzerne Counties. Payments prior to September 17 for Schuylkill, Carbon and Luzerne Counties are entitled to a 2% discount, while payments after November 17 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 \$32,000 at June 30, 2016.

4. DUE FROM OTHER GOVERNMENTS

Amounts which are due from other governments include \$301,375 from various school districts for tuition and early intervention services. \$5,046,728 for grant programs due from the Commonwealth of Pennsylvania's Department of Education ("PDE"), as well as \$1,314,770 in federal funds passed through the PDE.

Amounts that are business-type activities due from other governments include \$906,846 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 2016 are summarized as follows:

	BALANCE JULY 1, 2015	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2016
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, Not being depreciated:				
Land	\$ 3,046,759	-	-	\$ 3,046,759
Construction in progress	<u>343,022</u>	<u>\$2,741,726</u>	<u>\$(2,995,555)</u>	<u>89,193</u>
Total capital assets, not being Depreciated	<u>3,389,781</u>	<u>2,741,726</u>	<u>(2,995,555)</u>	<u>3,135,952</u>
CAPITAL ASSETS, Being depreciated:				
Land improvements	14,529,667	325,128	-	14,854,793
Buildings and improvements	216,342,289	2,737,690	-	219,079,979
Furniture and equipment	<u>7,114,659</u>	<u>448,837</u>	<u>(16,109)</u>	<u>7,547,387</u>
Total capital assets, being depreciated	<u>237,986,615</u>	<u>3,511,655</u>	<u>(16,109)</u>	<u>241,482,159</u>
LESS ACCUMULATED DEPRECIATION:				
Land improvements	(5,858,353)	(729,925)	-	(6,588,278)
Buildings and improvements	(100,462,042)	(6,679,393)	-	(107,141,435)
Furniture and equipment	<u>(4,850,213)</u>	<u>(359,415)</u>	<u>16,109</u>	<u>(5,193,519)</u>
Total accumulated depreciation	<u>(111,170,608)</u>	<u>(7,768,733)</u>	<u>16,109</u>	<u>(118,923,232)</u>
Total capital assets, being depreciated, net	<u>126,816,007</u>	<u>(4,257,078)</u>	<u>-</u>	<u>122,558,927</u>
Governmental activities capital assets, net	<u>\$130,205,788</u>	<u>\$(1,515,352)</u>	<u>\$(2,995,555)</u>	<u>\$125,694,879</u>
BUSINESS-TYPE ACTIVITIES				
Furniture and equipment	\$ 2,034,436	\$ 174,073	\$ -	\$ 2,208,509
Less accumulated depreciation	<u>(1,697,484)</u>	<u>(41,412)</u>	<u>-</u>	<u>(1,738,896)</u>
Business-type activities capital assets, net	<u>\$ 336,952</u>	<u>\$ 132,661</u>	<u>\$ -</u>	<u>\$ 469,613</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 124,774
Instructional student support	201,684
Student activities	5,011
Operation and maintenance of plant services	37,891
Unallocated	<u>7,399,373</u>
Total depreciation expense	<u>\$7,768,733</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, 2016 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%	\$ 35,806,939
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%	13,055,000
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 10,340,000
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%	8,525,000
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%	29,990,000
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%	1,455,000
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%	8,650,000
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%	8,920,000
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%	8,655,000
General Obligation Bonds, Series of 2016, \$9,425,000 due in annual principal installments ranging from \$30,000 to \$6,440,000 through March 1, 2029, interest rate is variable from 0.80% to 3.00%	<u>9,425,000</u>
	\$ <u>134,821,939</u>

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

In the 2010-2011 year, the School District was awarded participation in the (A) Qualified School Construction Bonds (“QSCB”) program, a federally subsidized loan. Under the program, the federal government subsidizes 4.83% of the 5.00% interest due on the QSCB bonds. During 2016, the School District paid \$518,500 of interest on the bonds and received \$465,560 from the federal government.

The following is an analysis of debt service requirements to maturity on these obligations at June 30, 2016:

<u>YEAR ENDED JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2017	\$ 9,609,743	\$ 3,870,441	\$ 13,480,184
2018	9,449,212	4,035,080	13,484,292
2019	9,307,077	4,198,184	13,505,261
2020	9,160,249	4,328,287	13,488,536
2021	9,135,018	4,412,752	13,547,770
2022 – 2026	46,460,640	20,274,058	66,734,698
2027 – 2031	35,540,000	4,689,488	40,229,488
2032 – 2035	<u>6,160,000</u>	<u>488,500</u>	<u>6,648,500</u>
Total	<u>\$134,821,939</u>	<u>\$46,296,790</u>	<u>\$181,118,729</u>

During the year ended June 30, 2016, the School District incurred \$4,073,835 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, 2016 is as follows:

2004 General Obligation Bond	\$28,150,000
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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	\$ 33,631,979	\$2,174,960	\$ -	\$35,806,939	\$5,054,743
Series of 1997	4,970,000	-	(4,970,000)	-	-
Series of 2008	14,625,000	-	(1,570,000)	13,055,000	1,625,000
Series of 2010	9,550,000	-	(9,550,000)	-	-
Series A of 2010	10,350,000	-	(10,000)	10,340,000	5,000
Series of 2011	8,925,000	-	(400,000)	8,525,000	415,000
Series A & B of 2012	32,185,000	-	(740,000)	31,445,000	740,000
Series of 2013	9,035,000	-	(385,000)	8,650,000	395,000
Series of 2014	9,320,000	-	(400,000)	8,920,000	405,000
Series of 2015	9,070,000	-	(415,000)	8,655,000	370,000
Series of 2016		<u>9,425,000</u>	<u>-</u>	<u>9,425,000</u>	<u>600,000</u>
TOTAL GENERAL OBLIGATION BONDS	141,661,979	11,599,960	(18,440,000)	134,821,939	9,609,743
Bond Discount	(48,114)	-	3,787	(44,327)	(3,786)
Refunding Costs	(132,940)	-	17,340	(115,600)	(17,340)
Bond Premium	<u>1,538,368</u>	<u>280,402</u>	<u>(138,994)</u>	<u>1,679,776</u>	<u>152,475</u>
TOTAL GENERAL OBLIGATION BONDS, NET	<u>143,019,293</u>	<u>11,880,362</u>	<u>(18,322,133)</u>	<u>136,341,788</u>	<u>9,741,092</u>
NET PENSION LIABILITY	179,385,000	28,973,000	-	208,358,000	-
COMPENSATED ABSENCES	4,669,595	1,782,260	(544,552)	5,907,303	1,274,065
OPEB OBLIGATION	<u>933,341</u>	<u>877,756</u>	<u>(803,260)</u>	<u>1,007,837</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES	<u>\$328,007,229</u>	<u>\$43,513,378</u>	<u>\$(19,669,915)</u>	<u>\$351,614,928</u>	<u>\$11,015,157</u>
BUSINESS-TYPE ACTIVITIES					
NET PENSION LIABILITY	<u>\$ 5,733,000</u>	<u>\$ 926,000</u>	<u>\$ -</u>	<u>\$ 6,659,000</u>	<u>\$ -</u>

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, 2016, deferred inflows of resources consisted of delinquent taxes receivable of \$41,980, unearned revenue consisted of grants of \$317,843 and the net difference between projected and actual investment earnings of \$1,281,000 related to the pension liability.

At June 30, 2016, 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 \$34,684,000 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, 2016. Such revenues will be recognized when the food commodities are used.

9. POSTEMPLOYMENT 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 increase of \$1,007,837 and \$74,496, respectively, in governmental activities.

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

Funding Policy

Premiums under the Plan for post-employment healthcare benefits are funded in various ways. For those employees whose benefits are funded by the retiree desiring coverage, the contribution rate ranges from \$614 for Single person coverage to \$1,945 for family coverage. For the period ending June 30, 2016, eligible members paid \$566,871, which was used to offset the School District's outlays to providers. The School District contributed \$393,274 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	42,000
Adjustment to annual required contribution	<u>(91,300)</u>
Annual OPEB cost	877,756
Contributions made	<u>(803,260)</u>
Decrease in net OPEB obligation	74,496
Net OPEB obligation- beginning of year	<u>933,341</u>
 Net OPEB obligation- end of year	 \$ <u>1,007,837</u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016 and the three preceding years were as follows:

Fiscal Year <u>End</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB Obligation- <u>End of Year</u>
6/30/16	\$ 877,756	91.51%	\$1,007,837
6/30/15	\$ 875,460	104.97%	\$933,341
6/30/14	\$1,463,851	77.80%	\$976,818

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.
(Hazleton Area Education Support Professional Association 2016 retirees)	School District pays full monthly medical coverage for both retiree and spouse up to a maximum of \$25,000. Benefits cease when retiree reaches age 65.

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, 2016, was 25.00% 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 \$14,600,000 for the year ended June 30, 2016.

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

At June 30, 2016, the School District reported a liability of \$215,017,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2015, the School District's proportion was 0.4964%, which was an increase of 0.0287% from its proportion measured as of June 30, 2014.

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2016, the School District recognized pension expense of \$22,953,000. At June 30, 2016, 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:		
Difference between expected and actual experience	\$ -	\$ 860,000
Net difference between projected and actual investment earnings	-	421,000
Changes in proportions	18,923,000	-
Difference between employer contributions and proportionate share of total contributions	1,612,000	-
Contributions subsequent to the measurement Date	<u>14,149,000</u>	<u>-</u>
	<u>\$34,684,000</u>	<u>\$ 1,281,000</u>
Business-type Activities:		
Difference between expected and actual experience	\$ -	\$ 27,000
Net difference between projected and actual investment earnings	-	14,000
Changes in proportions	605,000	-
Difference between employer contributions and proportionate share of total contributions	52,000	-
Contributions subsequent to the measurement Date	<u>451,000</u>	<u>-</u>
	<u>\$ 1,108,000</u>	<u>\$ 41,000</u>

\$14,600,000 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, 2016.

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:

2017	\$ 4,681,000
2018	4,681,000
2019	4,681,000
2020	<u>5,211,000</u>
	<u>\$19,254,000</u>

Business-type Activities:

2017	\$ 150,000
2018	150,000
2019	150,000
2020	<u>166,000</u>
	<u>\$ 616,000</u>

Actuarial Assumptions - The total pension liability as of June 30, 2015, was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, 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.

The actuarial assumptions used in the June 30, 2014 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.

HAZLETON AREA SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS

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	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>(14.0%)</u>	1.1%
	<u>100.0%</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, 2015.

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>265,029,000</u>	\$ <u>215,017,000</u>	\$ <u>172,982,000</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.pfers.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	\$2,261,147
General Fund	Capital Projects	2,014,359

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

The School District typically transfers funds from the general fund to the food service fund to pay for uncollectable student accounts. The School District did not have any interfund transfers during the year ended June 30, 2016.

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 \$47.80, per month.

The School District purchased specific stop-loss insurance coverage for claims in excess of \$250,000 per participant. There was one claim in excess of the stop-loss insurance coverage for the year ended June 30, 2016.

For the year ended June 30, 2016, the School District recognized approximately \$15,687,000 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 effect 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, 2016 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 \$505,251, in nonspendable fund balance at June 30, 2016, 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 \$1,000,000 and \$1,326,448 for capital projects.

ASSIGNED FUND BALANCE

The General Fund has \$500,000 assigned for future retirement rate increases.

14. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2016, expenditures exceeded appropriations in the following General Fund department levels (the legal level of budgetary control):

General Fund

Non-instructional services	\$ 1,207,392
Capital Outlay	96,182

15. SUBSEQUENT EVENT

GENERAL OBLIGATION BONDS, SERIES A & B OF 2016

On August 12, 2016 the School District issued \$9,990,000 and \$17,100,000 of General Obligation Bonds, Series A & B of 2016. The proceeds of the 2016A Bonds will be used to advance refund the School District's outstanding General Obligation Bonds, Series of 2008, and pay the allocable costs of issuing and insuring the 2016A Bonds. The proceeds of the 2016B Bonds will be used to advance refund the School District's outstanding General Obligation Bonds, Series of 2011 and Series of 2013, and pay the allocable costs of issuing and insuring the 2016B Bonds.

The School District is not aware of any additional events or transactions that occurred subsequent to the Statement of Net Assets date but prior to December 12, 2016 that would require recognition or disclosure in its financial statements.

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS
FOR THE YEAR ENDED JUNE 30, 2016**

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
6/30/2016	\$ 877,756	\$ 803,260	91.51%	\$ 1,007,837
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 YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability (asset)	<u>0.4964%</u>	<u>0.4677%</u>
School District's proportionate share of the net pension liability (asset)	<u>\$215,017,000</u>	<u>\$185,118,000</u>
School District's covered-employee payroll	<u>\$ 63,871,818</u>	<u>\$ 59,686,245</u>
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>336.64%</u>	<u>310.15%</u>
The plan's fiduciary net position as a percentage of the total pension liability	<u>45.64%</u>	<u>57.24%</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 14,600,000	\$ 12,665,000
Contributions in relation to the contractually required contribution	<u>14,600,000</u>	<u>12,665,000</u>
CONTRIBUTION EXCESS (DEFICIENCY)	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	<u>\$ 58,400,000</u>	<u>\$ 63,871,818</u>
Contributions as a percentage of covered-employee payroll	<u>25.00%</u>	<u>19.83%</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

COMBINING BALANCE SHEET- CAPITAL PROJECT FUND - SCHEDULE
JUNE 30, 2016

	QUALIFIED SCHOOL CONSTRUCTION BONDS 2010	MAPLE MANOR PROJECT	GENERAL OBLIGATION BONDS 2012	CASTLE PHASE II	TOTAL CAPITAL PROJECT FUND
ASSETS:					
Cash and cash equivalents	\$ 4,867	\$ 2,166,803	\$ 66,276	\$ 1,456	\$ 2,239,402
Other receivables, net	<u>-</u>	<u>-</u>	<u>665,000</u>	<u>76,000</u>	<u>741,000</u>
TOTAL ASSETS	<u>\$ 4,867</u>	<u>\$ 2,166,803</u>	<u>\$ 731,276</u>	<u>\$ 77,456</u>	<u>\$ 2,980,402</u>
LIABILITIES AND FUND BALANCES (DEFICIT):					
Liabilities:					
Due to other funds	\$ -	\$ -	\$ 956,380	\$ 1,057,979	\$ 2,014,359
Accounts payable	<u>2,000</u>	<u>65,002</u>	<u>119,383</u>	<u>-</u>	<u>186,385</u>
TOTAL LIABILITIES	<u>2,000</u>	<u>65,002</u>	<u>1,075,763</u>	<u>1,057,979</u>	<u>2,200,744</u>
Fund balances (deficit), Restricted for capital projects	<u>2,867</u>	<u>2,101,801</u>	<u>(344,487)</u>	<u>(980,523)</u>	<u>779,658</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,867</u>	<u>\$ 2,166,803</u>	<u>\$ 731,276</u>	<u>\$ 77,456</u>	<u>\$ 2,980,402</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, 2016

	QUALIFIED SCHOOL CONSTRUCTION BONDS 2010	MAPLE MANOR PROJECT	GENERAL OBLIGATION BONDS 2012	CASTLE PHASE II	TOTAL CAPITAL PROJECT FUND
REVENUES:					
Local sources	\$ 21	\$ 3,445	\$ 286	\$ 6	\$ 3,758
State sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,000</u>	<u>76,000</u>
Total revenues	<u>21</u>	<u>3,445</u>	<u>286</u>	<u>76,006</u>	<u>79,758</u>
EXPENDITURES:					
Support services	-	-	101,653	-	101,653
Capital outlay	<u>-</u>	<u>2,611,043</u>	<u>-</u>	<u>-</u>	<u>2,611,043</u>
Total expenditures	<u>-</u>	<u>2,611,043</u>	<u>101,653</u>	<u>-</u>	<u>2,712,696</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>21</u>	<u>(2,607,598)</u>	<u>(101,367)</u>	<u>76,006</u>	<u>(2,632,938)</u>
OTHER FINANCING SOURCES,					
Insurance recoveries	<u>-</u>	<u>-</u>	<u>665,000</u>	<u>-</u>	<u>665,000</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>665,000</u>	<u>-</u>	<u>665,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>21</u>	<u>(2,607,598)</u>	<u>563,633</u>	<u>76,006</u>	<u>(1,967,938)</u>
FUND BALANCE (DEFICIT), BEGINNING	<u>2,846</u>	<u>4,709,399</u>	<u>(908,120)</u>	<u>(1,056,529)</u>	<u>2,747,596</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 2,867</u>	<u>\$ 2,101,801</u>	<u>\$ (344,487)</u>	<u>\$ (980,523)</u>	<u>\$ 779,658</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND REVENUES FROM LOCAL SOURCES
FOR THE YEAR ENDED JUNE 30, 2016**

Current real estate taxes	\$ 37,693,521
Current taxpayer relief taxes	12,868,475
Delinquencies of taxes levied and assessed by the LEA	3,674,736
Current Act 511 taxes	1,434,031
Federal IDEA pass through revenue	920,551
Receipts from other LEAS in Pennsylvania	535,106
Tuition from patrons	212,791
Interim real estate taxes	161,580
Miscellaneous revenue	117,252
Interest on investments	95,992
Federal ARRA Race To The Top pass through revenue	83,284
Revenue from student activities	74,656
Public utility realty tax	61,985
Rentals	53,059
State revenue received from other sources	12,107
Community service activities	8,256
Contributions and donations from private sources	8,141
Payments in lieu of current taxes	<u>5,348</u>
TOTAL REVENUE FROM LOCAL SOURCES	<u>\$ 58,020,871</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND REVENUES FROM COMMONWEALTH SOURCES
FOR THE YEAR ENDED JUNE 30, 2016**

Basic instruction subsidy	\$ 35,449,358
Revenue for retirement payments	10,042,522
Special education funding for school age pupils	4,859,266
Early intervention	3,261,140
State property tax reduction allocation	2,687,657
Revenue for social security payments	2,758,853
Rental and sinking fund payments	2,281,166
Transportation	2,462,815
Pre-K counts	1,260,625
Vocational education	667,527
Ready to learn block grant	1,336,937
Health services	222,551
Tuition for orphans and children placed in private homes	196,198
Safe schools	24,694
Supplemental equipment grant	39,621
Workforce investment act	29,336
Migratory children	<u>3,067</u>
TOTAL REVENUE FROM COMMONWEALTH SOURCES	<u>\$ 67,583,333</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

**SCHEDULE OF GENERAL FUND REVENUES FROM FEDERAL SOURCES
FOR THE YEAR ENDED JUNE 30, 2016**

Title I - Improving academic achievement	\$ 4,018,818
Medical assistance reimbursement ACCESS - Early intervention	721,562
IDEA, Part B	590,449
ARRA- Qualified Schools Construction Bonds	465,560
Title III - Language instruction	425,112
Title II - Prep/Trng/Recruit HQ Teachers/Principals	410,387
Vocational education - operating expenditures	202,814
IDEA, Section 619	195,779
School based ACCESS medical reimbursement program	193,554
Medical assistance reimbursement - Administrative Claiming	136,896
Other restricted Federal grants	<u>89,550</u>
TOTAL REVENUE FROM FEDERAL SOURCES	<u>\$ 7,450,481</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF GENERAL FUND EXPENDITURES BY SUBFUNCTION FOR THE YEAR ENDED JUNE 30, 2016

Instruction:	
Regular programs	\$ 60,532,264
Special and gifted education	21,588,817
Vocational education programs	2,039,868
Pre-kindergarten	1,260,625
Other instructional programs	878,276
Adult education programs	368,758
Nonpublic school programs	<u>57,616</u>
Total instruction	<u>86,726,224</u>
Support services:	
Operation and maintenance of plant services	11,072,065
Administration	7,064,408
Student transportation services	5,234,449
Central	3,036,388
Pupil personnel	3,453,615
Pupil health	2,457,071
Business	2,030,574
Instructional staff	1,256,347
Other support services	<u>231,933</u>
Total support services	<u>35,836,850</u>
Operation of non-instructional services:	
Student activities	1,682,705
Community services	<u>586,861</u>
Total operation of non-instructional services	<u>2,269,566</u>
Facilities acquisition, construction, and improvement:	
Arch. & Eng. Services / Educational specifications	127,676
Existing site / building improvement services	<u>68,506</u>
Total facilities acquisition, construction, and improvement	<u>196,182</u>
Debt service:	
Redemption of principal	9,060,000
Interest payments	4,017,035
Refund of prior-year receipts	<u>284,731</u>
Total debt service	<u>13,361,766</u>
TOTAL EXPENDITURES BY SUBFUNCTION	<u>\$138,390,588</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, 2016**

INSTRUCTION EXPENDITURES:	
Personnel services, salaries	<u>\$ 49,240,410</u>
Personnel services, employee benefits:	
Group insurance	11,508,601
Retirement contributions	11,906,800
Social security contributions	3,720,168
Workers' compensation	765,065
Tuition reimbursement	388,441
Other employee benefits	283,683
Unemployment compensation	<u>44,726</u>
Total personnel services, employee benefits	<u>28,617,484</u>
Purchased professional and technical services	<u>2,071,291</u>
Purchased property services	<u>203,877</u>
Other purchased services:	
Tuition	3,731,158
Travel	43,468
Student transportation	32,885
Communications	12,435
Advertising	3,038
General insurance	962
Miscellaneous purchased services	<u>259</u>
Total other purchased services	<u>3,824,205</u>
Supplies:	
Books and periodicals	629,179
Technology	269,048
General supplies	519,396
Food	16,328
Energy	<u>2,920</u>
Total supplies	<u>1,436,871</u>
Property, equipment	<u>695,282</u>
Other objects	<u>636,804</u>
TOTAL INSTRUCTION	<u>\$ 86,726,224</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, 2016**

SUPPORT SERVICES EXPENDITURES:

Personnel services, salaries	<u>\$ 14,745,346</u>
Personnel services, employee benefits:	
Group insurance	3,527,498
Retirement contributions	3,594,671
Social security contributions	1,118,830
Workers' compensation	235,276
Other employee benefits	60,000
Tuition reimbursement	35,173
Unemployment compensation	<u>14,136</u>
Total personnel services, employee benefits	<u>8,585,584</u>
Purchased professional and technical services	<u>1,126,981</u>
Purchased property services	<u>3,105,849</u>
Other purchased services:	
Student transport services	5,020,213
General insurance	451,050
Miscellaneous purchased services	186,263
Communications	121,724
Advertising	18,624
Printing and binding	31,443
Travel	<u>52,754</u>
Total other purchased services	<u>5,882,071</u>
Supplies:	
General supplies	1,072,253
Energy	495,684
Books and periodicals	84,952
Technology	67,785
Food	<u>5,337</u>
Total supplies	<u>1,726,011</u>
Property, equipment	<u>346,425</u>
Other objects	<u>318,583</u>
TOTAL SUPPORT SERVICES	<u>\$ 35,836,850</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, 2016

NON-INSTRUCTIONAL SERVICES EXPENDITURES:	
Personnel services, salaries	<u>\$ 1,032,036</u>
Personnel services, employee benefits:	
Retirement contributions	204,140
Group insurance	154,554
Social security contributions	78,738
Other employee benefits	20,000
Workers' compensation	8,121
Unemployment compensation	<u>1,745</u>
Total personnel services, employee benefits	<u>467,298</u>
Purchased professional and technical services	<u>225,166</u>
Purchased property services	<u>26,512</u>
Other purchased services:	
Student transport services	140,952
Travel	21,205
Advertising	2,400
General insurance	1,244
Communications	882
Miscellaneous purchased services	100
Printing and binding	<u>230</u>
Total other purchased services	<u>167,013</u>
Supplies:	
General supplies	154,651
Food	13,388
Books and periodicals	8,605
Technology	<u>14,284</u>
Total supplies	<u>190,928</u>
Property, equipment	<u>72,613</u>
Other objects	<u>88,000</u>
TOTAL NONINSTRUCTIONAL SERVICES	<u>\$ 2,269,566</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, 2016**

FACILITIES ACQUISITION, CONSTRUCTION AND
IMPROVEMENT SERVICES:

Purchased professional and technical services	\$ 127,676
Purchased property services	<u>68,506</u>

TOTAL FACILITIES ACQUISITION, CONSTRUCTION AND IMPROVEMENT SERVICES	<u>\$ 196,182</u>
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DEBT SERVICE:

Redemption of principal	\$ 9,060,000
Interest	4,017,035
Refund of prior-years receipts	<u>284,731</u>

TOTAL DEBT SERVICE	<u>\$ 13,361,766</u>
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HAZLETON AREA SCHOOL DISTRICT

RECONCILIATION OF REAL ESTATE TAX DUPLICATE JUNE 30, 2016

	BANKS TOWNSHIP	BEAVER MEADOWS BOROUGH	BLACK CREEK TOWNSHIP	BUTLER TOWNSHIP	CONYNGHAM BOROUGH	FOSTER TOWNSHIP	FREELAND BOROUGH	HAZLE TOWNSHIP	SUB-TOTAL
Original assessed valuation	\$ 18,213,440	\$ 7,599,627	\$ 216,951,931	\$ 690,007,408	\$ 125,391,430	\$ 199,562,310	\$ 80,349,857	\$ 1,280,571,367	\$ 2,618,647,370
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>	<u>0.009</u>
Original tax levied	\$ 511,251	\$ 213,321	\$ 2,070,155	\$ 6,584,051	\$ 1,196,485	\$ 1,904,222	\$ 766,698	\$ 12,219,212	\$ 25,465,395
Net interim additions (abatements)	<u>(3,007)</u>	<u>(1,615)</u>	<u>(2,700)</u>	<u>(16,299)</u>	<u>-</u>	<u>(3,736)</u>	<u>(800)</u>	<u>(1,072,212)</u>	<u>(1,100,369)</u>
Total tax levied	508,244	211,706	2,067,455	6,567,752	1,196,485	1,900,486	765,898	11,147,000	24,365,026
Less:									
Collections	(433,209)	(194,302)	(1,917,650)	(6,206,255)	(1,111,313)	(1,703,907)	(687,433)	(10,217,594)	(22,471,663)
Taxes turned over to delinquent collector	<u>(75,034)</u>	<u>(17,406)</u>	<u>(149,805)</u>	<u>(361,497)</u>	<u>(85,172)</u>	<u>(196,579)</u>	<u>(78,465)</u>	<u>(929,406)</u>	<u>(1,893,364)</u>
Taxes outstanding with collectors as of June 30, 2016	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>
Summary of collections:									
Amount paid:									
At discount	\$ 353,500	\$ 159,400	\$ 1,606,550	\$ 4,348,750	\$ 950,900	\$ 1,462,000	\$ 559,100	\$ 8,761,600	\$ 18,201,800
At face	56,249	23,642	240,700	1,734,105	117,883	171,437	83,853	1,242,304	3,670,173
At penalty	<u>23,460</u>	<u>11,260</u>	<u>70,400</u>	<u>123,400</u>	<u>42,530</u>	<u>70,470</u>	<u>44,480</u>	<u>213,690</u>	<u>599,690</u>
Total collections	<u>\$ 433,209</u>	<u>\$ 194,302</u>	<u>\$ 1,917,650</u>	<u>\$ 6,206,255</u>	<u>\$ 1,111,313</u>	<u>\$ 1,703,907</u>	<u>\$ 687,433</u>	<u>\$ 10,217,594</u>	<u>\$ 22,471,663</u>

HAZLETON AREA SCHOOL DISTRICT
RECONCILIATION OF REAL ESTATE TAX DUPLICATE
JUNE 30, 2016

	HAZLETON CITY	JEDDO BOROUGH	SUGARLOAF TOWNSHIP	WEST HAZLETON BOROUGH	EAST UNION TOWNSHIP	KLINE TOWNSHIP	MCADOO BOROUGH	NORTH UNION TOWNSHIP	TOTAL
Original assessed valuation	\$ 808,833,922	\$ 1,655,839	\$ 348,448,224	\$ 189,161,647	\$ 90,493,588	\$ 18,335,677	\$ 14,214,167	\$ 28,352,896	\$4,118,143,330
Millage	<u>0.009</u>	<u>0.009</u>	<u>0.009</u>	<u>0.009</u>	<u>0.033</u>	<u>0.033</u>	<u>0.033</u>	<u>0.033</u>	
Original tax levied	\$ 7,717,893	\$ 15,800	\$ 3,324,893	\$ 1,804,980	\$ 3,061,310	\$ 620,278	\$ 480,851	\$ 959,151	\$ 43,450,551
Net interim additions (abatements)	<u>(21,912)</u>	<u>-</u>	<u>(731)</u>	<u>(412)</u>	<u>(594,762)</u>	<u>(2,441)</u>	<u>1,061</u>	<u>(2,391)</u>	<u>(1,721,957)</u>
Total tax levied	7,695,981	15,800	3,324,162	1,804,568	2,466,548	617,837	481,912	956,760	41,728,594
Less:									
Collections	(6,639,115)	(14,028)	(2,986,628)	(1,659,523)	(2,335,668)	(574,425)	(422,347)	(862,864)	(37,966,261)
Taxes turned over to delinquent collector	<u>(1,056,874)</u>	<u>(1,772)</u>	<u>(337,534)</u>	<u>(145,045)</u>	<u>(130,846)</u>	<u>(43,412)</u>	<u>(59,630)</u>	<u>(93,896)</u>	<u>(3,762,373)</u>
Taxes outstanding with collectors as of June 30, 2016	<u>\$ (8)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34</u>	<u>\$ -</u>	<u>\$ (65)</u>	<u>\$ -</u>	<u>\$ (40)</u>
Summary of collections:									
Amount paid:									
At discount	\$ 5,387,450	\$ 11,050	\$ 2,540,300	\$ 1,483,150	\$ 1,931,800	\$ 470,750	\$ 327,350	\$ 728,500	\$ 31,082,150
At face	913,075	2,308	353,458	115,013	357,438	81,455	52,147	90,604	5,635,671
At penalty	<u>338,590</u>	<u>670</u>	<u>92,870</u>	<u>61,360</u>	<u>46,430</u>	<u>22,220</u>	<u>42,850</u>	<u>43,760</u>	<u>1,248,440</u>
Total collections	<u>\$ 6,639,115</u>	<u>\$ 14,028</u>	<u>\$ 2,986,628</u>	<u>\$ 1,659,523</u>	<u>\$ 2,335,668</u>	<u>\$ 574,425</u>	<u>\$ 422,347</u>	<u>\$ 862,864</u>	<u>\$ 37,966,261</u>

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2015	Revenue Recognized	Federal Expenditures	Passed Through to Sub-Recipients	Accrued (Deferred) Revenue At June 30, 2016
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	\$ 116,803	\$ (337,933)	\$ 136,895	\$ 136,895	-	\$ (317,841)
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						<u>116,803</u>	<u>(337,933)</u>	<u>136,895</u>	<u>136,895</u>	<u>-</u>	<u>(317,841)</u>
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	69,699	26,137	1,986	24,151	24,151	-	-
Program Improvement - Setaside	I	84.010	042-150187	08/14/15-09/30/16	66,653	52,370	-	53,493	53,493	-	1,123
Academic Achievement Award	I	84.010	077-150187	07/21/15-09/30/15	50,000	50,000	-	50,000	50,000	-	-
E.S.E.A. Title 1	I	84.010	013-150187	07/01/14-09/30/15	4,004,263	675,692	645,964	29,728	29,728	-	-
E.S.E.A. Title 1	I	84.010	013-160187	07/01/15-09/30/16	3,861,446	3,344,793	-	3,861,446	3,861,446	-	516,653
TOTAL TITLE I CLUSTER						<u>8,052,061</u>	<u>4,148,992</u>	<u>647,950</u>	<u>4,018,818</u>	<u>4,018,818</u>	<u>517,776</u>
Title II Improving Teacher Quality	I	84.367	020-150187	07/01/14-09/30/15	429,600	56,922	56,922	-	-	-	-
Title II Improving Teacher Quality	I	84.367	020-160187	07/01/15-09/30/16	427,624	370,890	-	410,387	410,387	-	39,497
TOTAL TITLE II						<u>857,224</u>	<u>427,812</u>	<u>56,922</u>	<u>410,387</u>	<u>410,387</u>	<u>39,497</u>
Title III Lang. Inst. LEP/Immigrant Students	I	84.365	010-150187	07/01/14-09/30/15	355,291	2,992	(27,475)	51,161	51,161	-	20,694
Title III Lang. Inst. LEP/Immigrant Students	I	84.365	010-160187	07/01/15-09/30/16	385,858	257,239	-	373,951	373,951	-	116,712
TOTAL TITLE III						<u>741,149</u>	<u>260,231</u>	<u>(27,475)</u>	<u>425,112</u>	<u>425,112</u>	<u>137,406</u>
Secondary Allocations	I	84.048	380-160060	07/01/15-06/30/16	202,814	202,814	-	202,814	202,814	-	-
Special Education - Preschool Grants	I	84.027	131-150018	07/01/15-06/30/16	590,449	590,449	-	590,449	590,449	-	-
Special Education - Preschool Grants	I	84.173	131-150018	07/01/15-06/30/16	195,779	195,779	-	195,779	195,779	-	-
<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	-	-	-	-
IDEA	I	84.027	N/A	07/01/14-06/30/15	783,766	783,766	783,766	-	-	-	-
IDEA	I	84.027	N/A	07/01/15-06/30/16	135,035	135,035	-	135,035	135,035	-	-
IDEA	I	84.027	N/A	07/01/15-06/30/16	785,516	785,516	-	785,516	785,516	-	-
TOTAL IDEA CLUSTER						<u>2,631,891</u>	<u>2,631,891</u>	<u>925,112</u>	<u>1,706,779</u>	<u>1,706,779</u>	<u>-</u>
ARRA- Race To The Top	I	84.431A	B413A120004	12/22/11-12/22/15	210,981	68,637	68,637	8,286	8,286	-	8,286
<u>Passed Through Berks County Intermediate Unit14</u>											
ARRA- Race To The Top	I	84.412A	RTTT CIZ 42	07/01/15-06/30/16	75,000	75,000	-	74,998	74,998	-	(2)
TOTAL ARRA RACE TO THE TOP						<u>285,981</u>	<u>143,637</u>	<u>68,637</u>	<u>83,284</u>	<u>83,284</u>	<u>8,284</u>
<u>Direct from U.S. Department of Education</u>											
Direct Student Loans	D	84.268	N/A	07/01/15-06/30/16	N/A	123,993	-	123,993	123,993	-	-
Federal Pell Grant Program	D	84.063	N/A	07/01/15-06/30/16	N/A	102,499	-	102,499	102,499	-	-
TOTAL U.S. DEPARTMENT OF EDUCATION						<u>\$ 8,041,869</u>	<u>1,671,146</u>	<u>7,073,686</u>	<u>7,073,686</u>	<u>-</u>	<u>\$ 702,963</u>

Source Codes

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

See Notes to Financial Statements

HAZLETON AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AND CERTAIN STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

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, 2015	Revenue Recognized	Federal Expenditures	Passed Through to Sub-Recipients	Accrued (Deferred) Revenue At June 30, 2016
U.S. DEPARTMENT OF AGRICULTURE											
<u>Passed Through PA Department of Agriculture</u>											
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	403,575	(36,838)	403,920	403,920	-	(36,493)
<u>Passed Through PA Department of Education</u>											
National School Lunch Program	I	10.555	64-000 (Fed)	07/01/15-06/30/16	N/A	3,739,705	134,432	4,216,347	4,216,347	-	611,074
National School Lunch Program	S		(State)	07/01/15-06/30/16	N/A	182,464	6,920	205,409	205,409	-	29,865
School Breakfast Program	I	10.553	N/A (Fed)	07/01/15-06/30/16	N/A	978,319	35,849	1,111,936	1,111,936	-	169,466
School Breakfast Program	S		(State)	07/01/15-06/30/16	N/A	56,240	2,048	63,933	63,933	-	9,741
Summer Food Service Program	I	10.559	N/A	07/01/15-06/30/16	N/A	99,572	14,264	100,327	100,327	-	15,019
TOTAL CHILD NUTRITION CLUSTER						5,459,875	156,675	6,101,872	6,101,872	-	798,672
Fresh Fruits and Vegetables	I	10.582	N/A (Fed)	07/01/15-06/30/16	N/A	99,794	13,885	101,981	101,981	-	16,072
Child Nutrition Discretionary Grants Ltd. Availability	I	10.579	N/A (Fed)	03/04/16-06/30/16	55,609	-	-	55,609	55,609	-	55,609
TOTAL U.S. DEPARTMENT OF AGRICULTURE						5,559,669	170,560	6,259,462	6,259,462	-	870,353
U.S. DEPARTMENT OF TRANSPORTATION											
<u>Passed Through PA Department of Transportation</u>											
Highway Planning and Construction Program	I	20.205	P-0TERRA07SRS-0430-373-1	6/12/13-6/12/18	1,269,975	-	-	89,193	89,193	-	89,193
TOTAL U.S. DEPARTMENT OF TRANSPORTATION						-	-	89,193	89,193	-	89,193
TOTAL FEDERAL AND STATE FINANCIAL ASSISTANCE						13,718,341	1,503,773	13,559,236	13,559,236	-	1,344,668
LESS STATE SHARE						(238,704)	(8,968)	(269,342)	(269,342)	-	(39,606)
TOTAL FEDERAL FINANCIAL ASSISTANCE						13,479,637	1,494,805	13,289,894	13,289,894	-	1,305,062

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
Hazle Township 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, 2016, 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 12, 2016.

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.

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 12, 2016

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards in Accordance With the Uniform Guidance

To the Board of School Directors
Hazleton Area School District
Hazle Township 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) *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, 2016. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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
Hazle Township 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, 2016.

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 the Uniform Guidance, 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.

To the Board of School Directors
Hazleton Area School District
Hazle Township Pennsylvania

Report on Schedule of Expenditures of Federal Awards Required By the Uniform Guidance

We have audited 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, 2016, and the related notes to the financial statements, which collectively comprise the Hazleton Area School District's basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maullie LLP

Oaks, Pennsylvania
December 12, 2016

**HAZLETON AREA SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL
AND CERTAIN STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

1. BASIS OF ACCOUNTING

The schedule of expenditures of federal and certain state awards of the Hazleton Area School District are presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Grant Guidance. Therefore, some amounts may differ from amounts presented in, or used in the presentation of the basic financial statements.

2. INDIRECT COST RATES

The school district has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, section 414.

**HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

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 the Uniform Grant Guidance? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Special Education Cluster (IDEA)
	Special Education
84.027	Grants to States (IDEA, Part B)
84.173	Preschool Grants (IDEA, Section 619)
10.553; 10.555; 10.559	Child Nutrition Cluster

HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Dollar threshold used to distinguish
between type A and type B programs \$750,000

Auditee qualified as low-risk auditee? X Yes ___ No

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

**HAZLETON AREA SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

SECTION I – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None.