

**THE SCHOOL DISTRICT OF
THE CITY OF HARRISBURG
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION AND
SINGLE AUDIT INFORMATION
JUNE 30, 2010**

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Board of School Directors
The School District of the City of Harrisburg

We have performed the Single Audit of the School District of the City of Harrisburg for the year ended June 30, 2010, and will submit the audit report electronically to the Federal Clearinghouse.

The Single Audit was done to fulfill the requirements of the Office of Management and Budget's (OMB) Circular A-133. The audit included an examination of the systems of control, systems established to ensure compliance with laws and regulations affecting the expenditures of federal funds, financial transactions and accounts and financial statements and report of the District.

A communication on Internal Control and Related Matters was prepared as a result of this audit and was issued separately.

Stambaugh Ness, PC

York, Pennsylvania
March 31, 2011

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
DISTRIBUTION REPORT
JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

Board of School Directors
The School District of the City of Harrisburg

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 School District of the City of Harrisburg (the District), Harrisburg, Pennsylvania, as of, and for the year ended, June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The School District of the City of Harrisburg, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, on our consideration of The School District of the City of Harrisburg's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT - continued

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 through 20 and 68 through 69 and 74 through 75 be presented to supplement the basic financial statements. Such information, although not 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The School District of the City of Harrisburg, Harrisburg, Pennsylvania financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statement and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Stambaugh Ness, PC

York, Pennsylvania
March 31, 2011



HARRISBURG SCHOOL DISTRICT

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Harrisburg, PA 17110
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Members of the Board of Control
Members of the Board of School Directors
Harrisburg School District

This section of the Harrisburg School District's annual financial report provides a discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2010. This discussion and analysis should be read in conjunction with the District's accompanying financial statements, which immediately follow this section.

Background

Based on the volume of the Harrisburg School District's annual expenditures, the District's financial statements are required to meet the GASB 34 Accounting Standards. Where previous standards (pre GASB 34) required modified accrual (no receivables/accruals beyond 60 days), no capital asset depreciation and no reports of combined net assets, GASB 34 requires fixed asset accounting, properly combining of multiple funds and the realization of the depreciation expense as part of the Statement of Net Assets and Statement of Activities.

Financial Highlights

- Total net assets (deficiency) of (\$53,906,881).
- The total fund balance of all governmental funds equaled \$1,470,029.
- Undesignated general fund balance (deficit) equaled (\$49,563)
 - Total actual general fund revenues were under budget by (\$11,105,813) or (7.5%).
 - Total actual general fund expenditures were equal to the budget.
 - The actual general funds transfers were under budget by (\$1,385,483) or (8.8%).
- The total governmental activities operating grants and contributions amounted to \$40,224,648 or 28.6% of the governmental activities expenditures.

Financial Highlights - continued

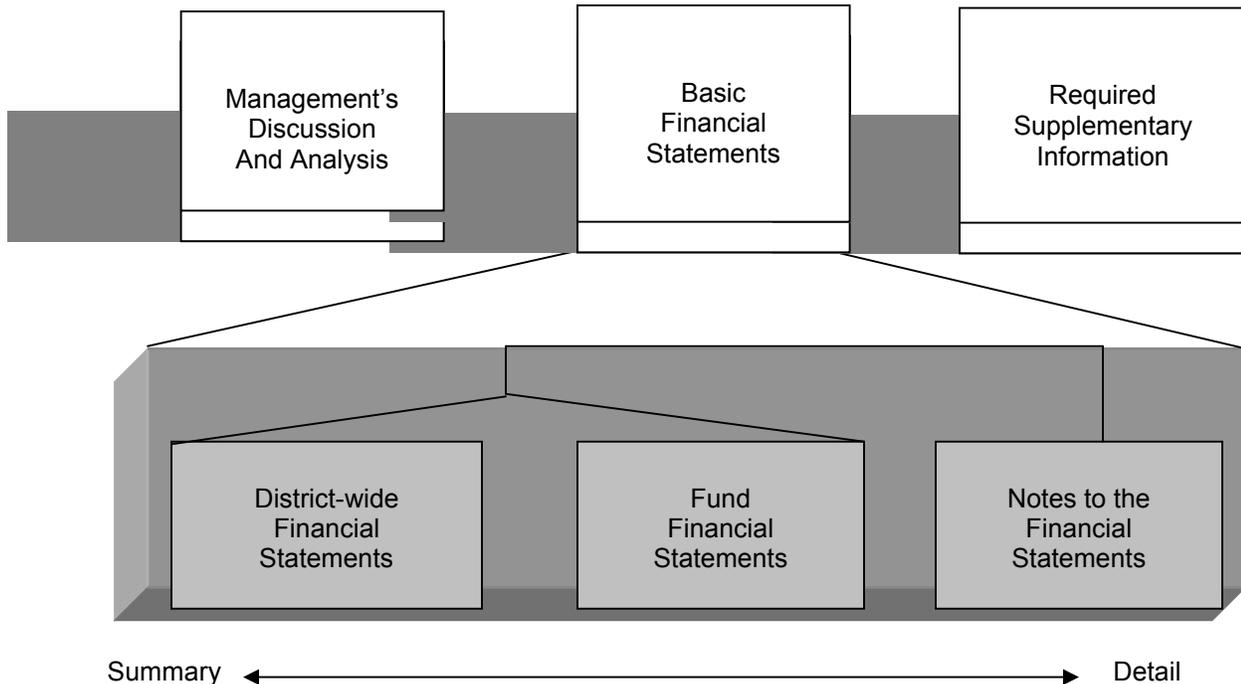
- The net assets (deficit) of business-type activities - Food Services - for the year, totaled (\$821,132) with Revenues of \$5,849,526 and expenditures of \$6,152,980.
- The total capital assets, net of accumulated depreciation, for government activities - primarily general fund, capital project funds and capital reserve fund - totaled \$202,412,363.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements which present different views of the District. The first two statements are District-Wide Financial Statements that provide both short-term and long-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-Wide statements. The governmental funds statements indicate how basic services such as regular and special education were financed in the short-term as well as indicate future spending plans. Proprietary fund statements offer short- and long-term financial information about the activities the District operated like a business, such as the food service operation. Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, such as student activity funds or scholarship funds.

The financial statements also include notes that explain information in the statements as well as provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1 Organization of Harrisburg School District Annual Financial Report



Overview of the Financial Statements - continued

Figure A-2 summarizes the major features of the District's financial statement. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the District-wide and Fund Financial Statements

	Fund Financial Statements			
	District-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	Activities of the District which are not proprietary or fiduciary, such as general operating and capital projects.	Activities the District operates similar to private businesses, such as food services.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets (deficiency) • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	General assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, short-term and long-term.	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions and deductions during the year, regardless of when cash is received or paid.

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way of measuring the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating. To assess the District's overall health, consideration needs to be given to additional non-financial factors, such as changes in the District's property tax base and the condition or need for improvements or expansion to existing school facilities.

In the District-wide financial statements, the District's activities are divided into two categories as follows:

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, maintenance and operation of plant services, transportation services and administrative services. Property taxes, along with state aid formula, finance most of these activities.
- **Business-type Activities:** The District charges fees to cover the cost of certain services such as the Food Service program.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. These statements focus on the District's most significant or "major" funds - not the District as a whole. Funds are accounting components that the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes, such as repaying its long-term debts.

The District has three types of funds as follows:

Governmental Funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted into cash inflows and outflows and (2) balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

Proprietary Funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide financial statements. The District's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the Food Service fund.

Fiduciary Funds: The District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities for the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Figure A-3

Condensed Statement of Net Assets (Deficiency)

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and other assets	39,828,562	69,664,824	398,185	340,665	40,226,747	70,005,489
Capital asset	207,002,092	202,412,363	243,219	205,076	207,245,311	202,617,439
Total assets	246,830,654	272,077,187	641,404	545,741	247,472,058	272,622,928
Long-term liabilities	275,829,259	302,409,071	191,700	216,878	276,020,959	302,625,949
Other liabilities	16,851,760	22,753,865	967,382	1,149,995	17,819,142	23,903,860
Total liabilities	292,681,019	325,162,936	1,159,082	1,366,873	293,840,101	326,529,809
Net Assets (Deficiency)						
Invested in capital assets, net of related debt	(41,892,849)	(51,664,937)	243,219	205,076	(41,649,630)	(51,459,861)
Restricted capital projects	442,283	327,051	-	-	442,283	327,051
Restricted for debt service	2,927,088	2,654,237	-	-	2,927,088	2,654,237
Unrestricted	(7,326,887)	(4,402,100)	(760,897)	(1,026,208)	(8,087,784)	(5,428,308)
Total Net Assets (Deficiency)	(45,850,365)	(53,085,749)	(517,678)	(821,132)	(46,368,043)	(53,906,881)

The net asset deficiency increased by \$7,538,817 in the fiscal year. Issues that significantly affect the net assets decrease in fiscal year 2009-2010 were the following:

- Net expense for governmental activities was \$97,779,650
- General revenue which includes taxes, grants and subsidies, investment earnings and miscellaneous were \$90,544,287
- Business Type Activities (Food Service) has a total of net assets of (\$821,132).

Financial Analysis of the District as a Whole - continued

The District's total revenues for the fiscal year were \$138,987,269. Property taxes and other taxes levied for general purposes continue to account for most of the District's revenue in the amount of \$47,767,450 or 34% of total revenues. Another 34% or \$47,063,979 came from state formula aid, such as basic education and student transportation subsidies. Approximately 33% or \$45,777,365 came from operating and capital grants and contributions, with the remainder of (\$1,621,532) or (1%) coming from fees charged for services and other miscellaneous sources. (See Figure A-4)

The cost of all programs and services was \$146,526,086. The District expenses are predominately related to instructing, caring for (instructional support services & operation/maintenance of school facilities) and transporting students, which represents 80% or \$117,599,340 of total expenses. (See Figures A-4 through A-6)

Figure A-4

Changes in Net Assets from Operating Result

Revenue	Governmental Activities		Business-Type Activities		Total	
	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010
Program Revenues						
Charges for services						
Operating grant contributions	\$2,491,387	\$2,368,808	\$297,495	\$296,802	\$2,788,882	\$2,665,610
Capital grants and contributions	38,490,259	40,224,648	5,278,231	5,552,717	\$43,768,490	\$45,777,365
General Revenues						
Property tax and other taxes levied for general purposes	43,630,836	47,767,450	-	-	\$43,630,836	\$47,767,450
State formula aid	48,984,522	47,063,979	-	-	\$48,984,522	\$47,063,979
Other	433,222	(4,287,142)	133	7	\$433,355	(\$4,287,135)
Total Revenues	\$134,030,226	\$133,137,743	\$5,575,859	\$5,849,526	\$139,606,085	\$138,987,269

Financial Analysis of the District as a Whole - continued

Changes in Net Assets from Operating Result - continued

Expenses	Governmental Activities		Business-Type Activities		Total	
	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010
Instruction	\$ 82,538,968	\$ 83,940,396	\$ -	\$ -	\$ 82,538,968	\$ 83,940,396
Instructional student support	7,240,013	7,006,811	-	-	7,240,013	7,006,811
Administrative and financial support	12,208,872	11,665,548	-	-	12,208,872	11,665,548
Operational and maintenance of plant	12,618,514	12,139,173	-	-	12,618,514	12,139,173
Pupil transportation	2,774,831	2,847,412	-	-	2,774,831	2,847,412
Student activities	1,259,085	1,145,913	-	-	1,259,085	1,145,913
Central and other support services	6,880,565	7,474,215	-	-	6,880,565	7,474,215
Community services	312,854	252,065	-	-	312,854	252,065
Interest/fiscal charges on long-term debt	32,263,702	13,901,573	-	-	32,263,702	13,901,573
Food Service	-	-	5,741,827	6,152,980	5,741,827	6,152,980
Total Expenses	\$ 158,097,404	\$ 140,373,106	\$ 5,741,827	\$ 6,152,980	\$ 163,839,231	\$ 146,526,086
Increase (Decrease) in Net Assets					(24,233,146)	(7,538,817)

Financial Analysis of the District as a Whole - continued

Figure A-5

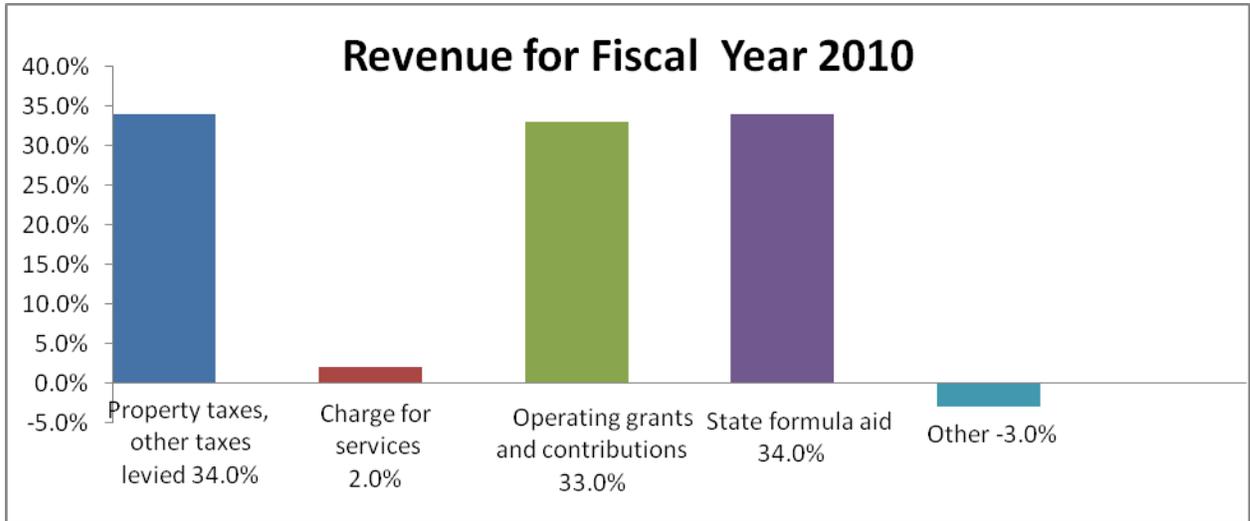
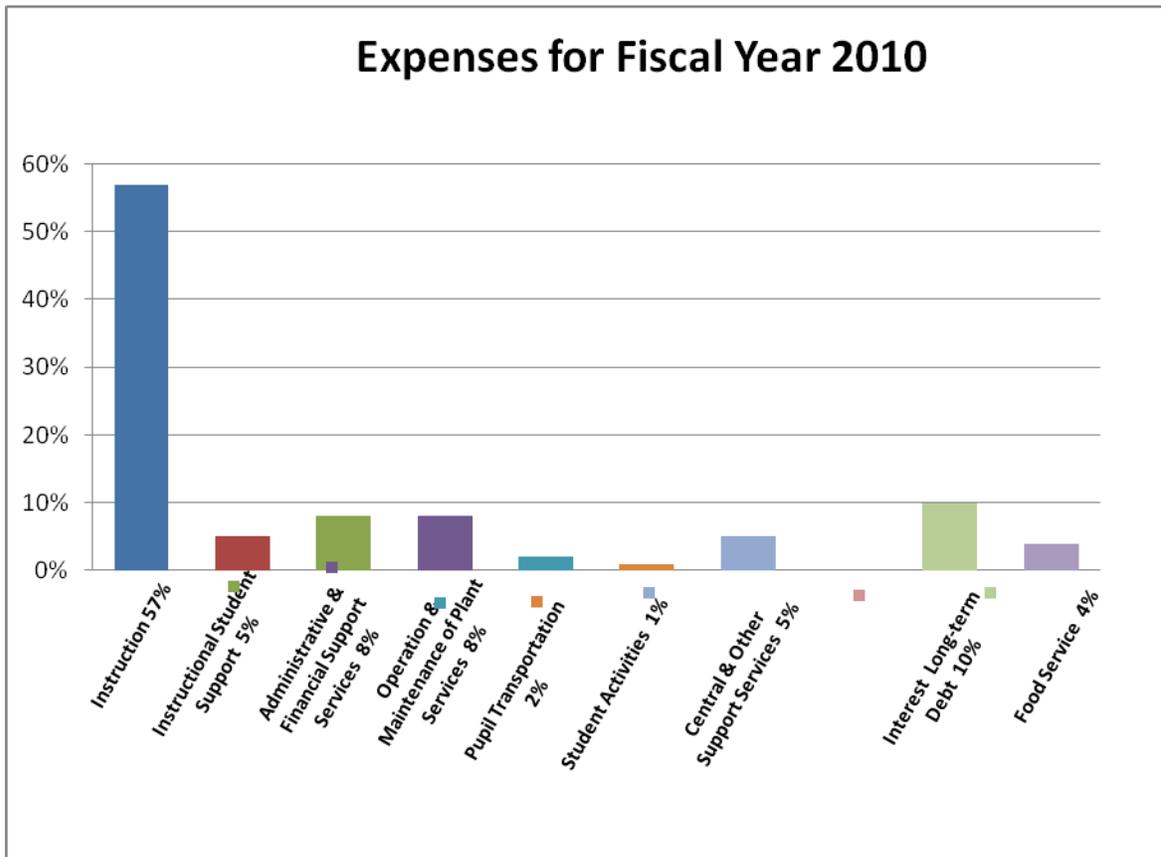


Figure A-6



Financial Analysis of the District as a Whole - continued

Figure A-7

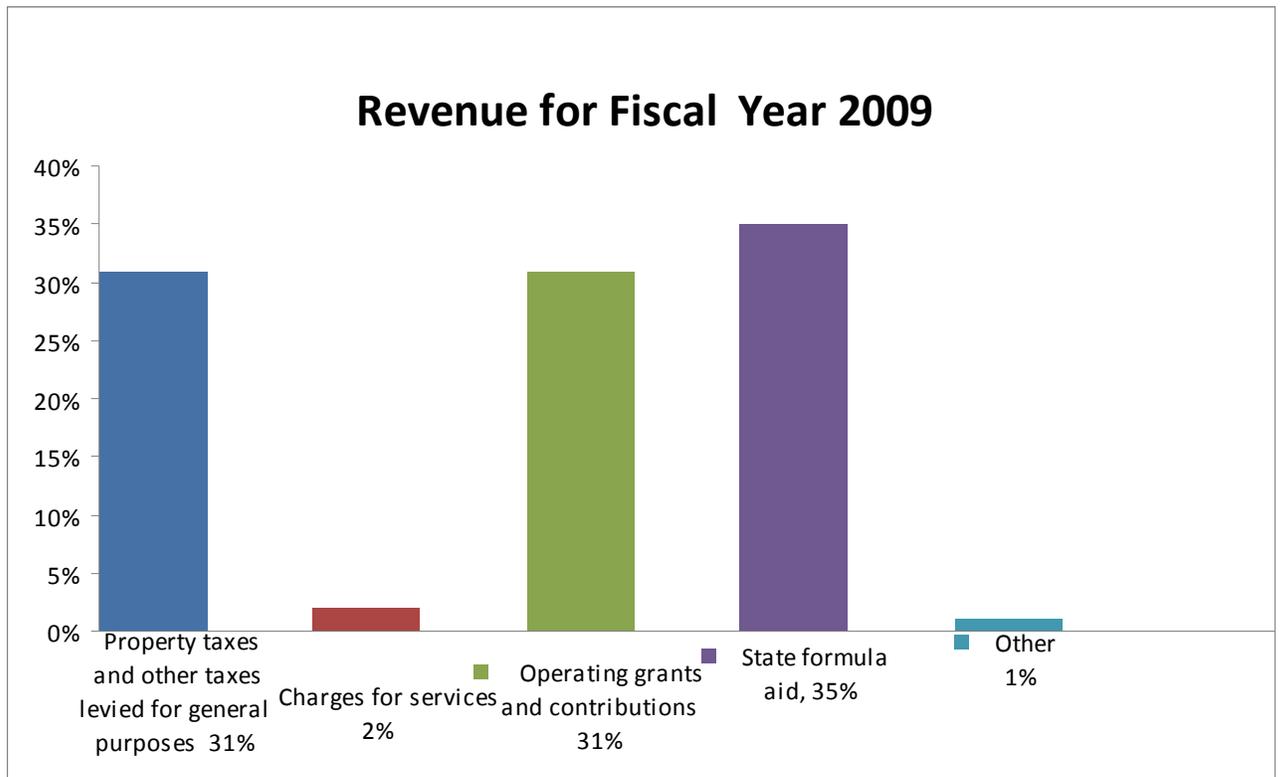
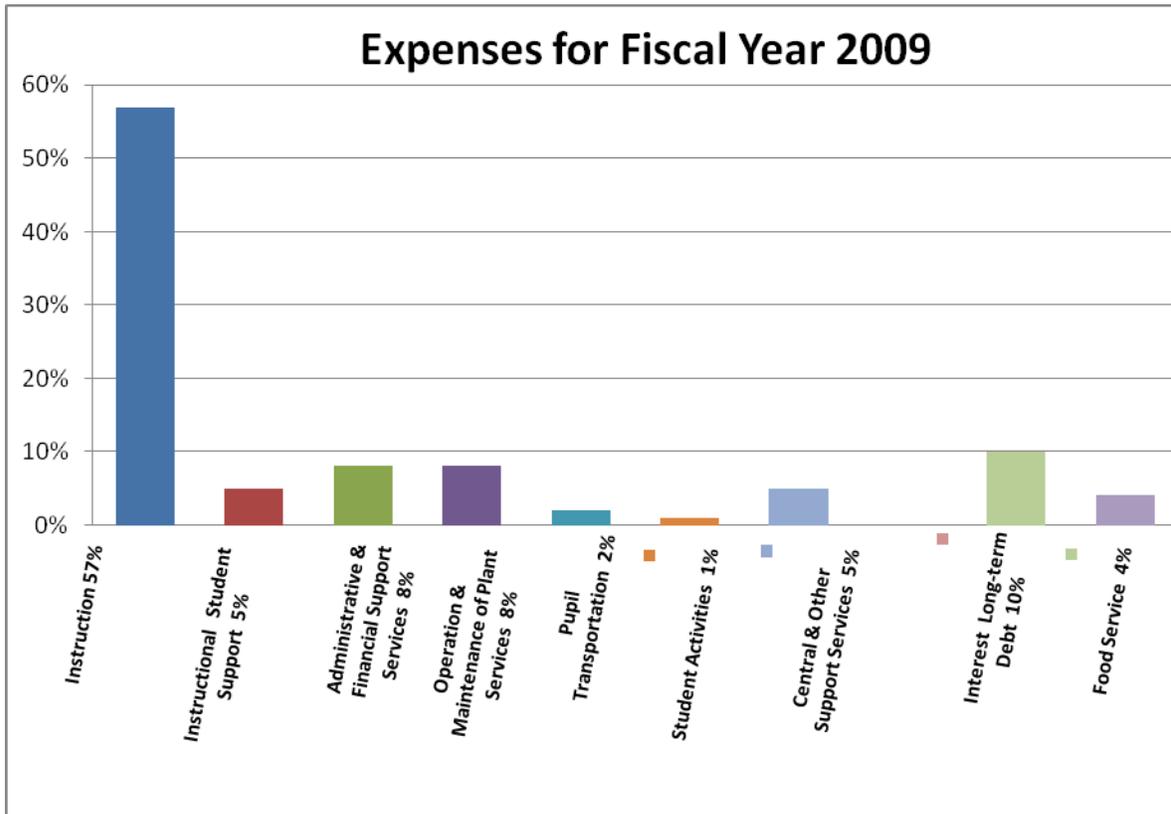


Figure A-8



Financial Analysis of the District as a Whole - continued

Figure A-9 presents the cost of six (6) major District activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. The table also shows each activity's net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions. The net cost of governmental activities decreased by 16.5% to \$97,779,650. The net cost for the District's basic programs decreased for the following reasons; decrease in operating grants and contributions; increase in the charge for services; increase in long-term debt interest; and the implementation of cost saving measures

Figure A-9

	Total Cost of Services	Total Cost of Services	Percent of Change	Net Cost of Services	Net Cost of Services	Percent of Change
	2009	2010	2009-2010	2009	2010	2009-2010
Instruction	\$ 82,538,968	\$ 83,940,396	1.7%	\$ 52,248,678	\$ 49,421,244	-5.4%
Instructional Student Support	7,240,013	7,006,811	-3.2%	3,592,046	3,208,836	-10.7%
Administrative & Financial Support Services	12,208,872	11,665,548	-4.5%	10,850,576	10,864,345	0.1%
Operational & Maintenance of Plant Services	12,618,514	12,139,173	-3.8%	9,888,384	11,074,622	12.0%
Pupil Transportation	2,774,831	2,847,412	2.6%	1,409,320	1,331,840	-5.5%
Other	40,716,206	22,773,766	-44.1%	39,126,754	21,878,763	-44.1%
Total	\$158,097,404	\$140,373,106	-11.2%	\$117,115,758	\$97,779,650	-16.5%

Financial Analysis of the District

At the end of the fiscal year 2010; governmental funds had total fund balance of \$1,470,029. The District continued efforts to renovate existing facilities and to provide adequate capacity to accommodate projected growth in the student population.

Due to the collapse of the Financial Markets in 2008 and the downgrading of the credit ratings of several bond insurers, the District faced a substantial increase in interest rates on its 2003 variable rate bonds, even though the District's own financial condition was unaffected. As a result, the District undertook a restructuring of its bond portfolio, which led to a more stable financial position and reduced debt service cost.

The District also continued efforts to update its technology plan, which is primarily funded by grants and continues to focus on refreshing older technology to add capabilities, as well as continued expansion to improve the learning process.

The District implemented an Early Childhood program for three and four year olds in the fiscal year 2003 and has continued to expand that program. This program is funded by a grant from the Commonwealth of Pennsylvania, Pre K Counts, contributions from corporations for Act IV Tax Credits, and small local grants.

The business-type activities produced a loss during the year. In addition to the District-wide financial statement, Food Services are reported in greater detail in the proprietary fund statements.

General Fund Budgetary Highlights

While the District final budget for the general fund anticipated that revenues and expenditures would be balanced, the actual results for the year reflected a net change in Fund Balance of (\$2,810,764) after other financing uses, which decreased the general fund balance to (49,563).

Capital Asset and Debt Administration

Capital Assets

At June 30, 2010 the District had investments of \$202,617,439 in a broad range of capital assets, including land, school buildings, administrative offices, athletic facilities, furniture and equipment. (See Figure A-10.) The District placed \$1,980,411 of capital assets into service during the year.

Figure A-10

Capital Assets (net of depreciation)

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total	Percentage Change
	2009	2010	2009	2010	2009	2010	2009-10
Land and site improvements	\$ 13,700	\$ 13,700	\$ -	\$ -	\$ 13,700	\$ 13,700	0%
Building and building improvements	239,032,087	239,744,677	-	-	239,032,087	239,744,677	0.30%
Furniture and equipment	29,552,757	30,788,359	1,407,208	1,439,428	30,959,965	32,227,787	4.10%
Construction in Progress					-	-	
Accumulated depreciation	(61,596,452)	(68,134,373)	(1,163,989)	(1,234,352)	(62,760,441)	(69,368,725)	10.50%
Total	\$207,002,092	\$202,412,363	\$ 243,219	\$ 205,076	\$207,245,311	\$202,617,439	-2.20%

Outstanding Long-Term Debt

At year-end, the District has \$262,709,000 in general obligation bonds and other long-term debt outstanding. The District continued to pay down its debt, retiring \$485,000 of outstanding bonds and other Long-Term Debt. More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.

Figure A-11
Outstanding Long-Term Debt

	Totals		Percent of Change
	2009	2010	2009-2010
Debt outstanding at beginning of year	\$ 231,321,677	\$ 263,194,000	13.8%
Additional debt during year	258,090,000	-	-100.0%
Retirement and repayments	<u>(226,217,677)</u>	<u>(485,000.00)</u>	<u>-99.8%</u>
Debt outstanding at end of year	<u>\$ 263,194,000</u>	<u>\$262,709,000</u>	<u>-0.2%</u>

Factors Impacting on the District's Future

- The Pennsylvania School Employees Retirement System (PSERS) retirement rate will increase 18.0% from 2009-2010 to 2010-2011, from 4.78% to 5.64% of qualified retirement wages. PSERS projections indicate that employer contribution rates will increase to 8.65% of qualified retirement wages in 2011-2012, a 53.4% increase and continue to rise for several years thereafter. In November 2010, the State Legislature passed Act 120 of 2010, which set the anticipated increase in the employer contribution to be 40.5% for 2012-13 and 37.0% for 2013-14.
- The District expects the historical trend for greater local tax effort to fund instructional programs and services to continue as state and federal funding for public education is expected to decline. The Commonwealth of Pennsylvania provided only 47.5% of total revenue sources to fund cost supporting the District's educational programs during fiscal year 2010. Local sources, primarily property taxes support 36.3% of the cost for educational cost and services in Harrisburg School District. Federal grants and other sources of revenue provide 16.2% of the funds to support programs and services provided by the District.
- The teachers' contract began in the fiscal year 2007-2008 providing an average increase of 4.5% for the 2007-2008 year. The contract provides for an average increase of 4% for the following years 2008-2009, 2009-2010 and 2010-2011. The District will be negotiating a new contract.
- The classified employees' contract began in the fiscal year 2007-2008 providing for an average increase of 4.5% for the 2007-2008 year. The contract provides for an average increase of 4% for the following years 2008-2009, 2009-2010 and 2010-2011. The District will be negotiating a new contract.

Factors Impacting on the District's Future - continued

- The District has implemented cost control measures to help offset the increase in health care. However, the cost of the health insurance for District employees' is projected to increase annually by 10%. During the 2007-2008 changes were made to the benefit plan. Employees will be contributing to the health plan premium cost and co-pays have increased to help control the increasing benefit cost. The District moved from a fully insured plan to being self-insured beginning July 1, 2010.
- Within the next five years the District's debt service payment will be 15% of the budget. Renovation and expansion are needed to update the facilities and expand District programs.
- Beginning in 2010-11 and continuing in 2011-12, the District has taken significant steps to decrease its budget. For 2010-11, two buildings were closed and almost 300 employees, including 149 teachers were furloughed. In preparing the 2011-12 budget, additional spending reductions are being evaluated in anticipation of the further decline in revenues.
- The District has partnered with the Highmark Foundation for providing in-school medical and dental services to underserved children. Hamilton Health is providing the services to students and is helping to make this program self sufficient.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Harrisburg School District, 2101 North Front Street, Harrisburg, PA 17110-1081.

Respectfully submitted,

Sybil Knight-Burney, ED. D.
Superintendent

Jeffrey Bader,
Business Manager

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
STATEMENT OF NET ASSETS (DEFICIENCY)
JUNE 30, 2010

ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 4,101,073	\$ 1,972	\$ 4,103,045
Investments	5,326,859	-	5,326,859
Taxes receivable, net	11,882,519	-	11,882,519
Other receivables	561,830	26,966	588,796
Prepaid expenses	38,655	-	38,655
Internal balance	942,699	-	942,699
Due from other governments	9,114,624	241,072	9,355,696
Inventories	-	70,655	70,655
	<u>31,968,259</u>	<u>340,665</u>	<u>32,308,924</u>
Total current assets			
NONCURRENT ASSETS			
Bond discounts and issue costs, net	8,646,676	-	8,646,676
Land and site improvements, net	13,700	-	13,700
Building and building improvements, net	196,736,752	-	196,736,752
Furniture and equipment, net	5,661,911	205,076	5,866,987
Deferred outflow	24,769,580	-	24,769,580
Derivative instrument-basis swap	771,439	-	771,439
Net OPEB asset	3,508,870	-	3,508,870
	<u>240,108,928</u>	<u>205,076</u>	<u>240,314,004</u>
Total noncurrent assets			
	<u>\$ 272,077,187</u>	<u>\$ 545,741</u>	<u>\$ 272,622,928</u>

LIABILITIES AND NET ASSETS (DEFICIENCY)

CURRENT LIABILITIES

Accounts payable	\$ 11,758,507	\$ 63,590	\$ 11,822,097
Accrued interest	1,302,517	-	1,302,517
Current portion of long-term debt	640,000	-	640,000
Current portion of capital leases	14,976	-	14,976
Current portion of compensated absences	1,334,981	-	1,334,981
Deferred subsidy revenue	261,673	5,854	267,527
Internal balance	(3,238)	942,699	939,461
Due to other governments	542,961	-	542,961
Accrued salaries and benefits	<u>6,901,488</u>	<u>137,852</u>	<u>7,039,340</u>
 Total current liabilities	 22,753,865	 1,149,995	 23,903,860

NONCURRENT LIABILITIES

Long-term debt net of current portion	262,069,000	-	262,069,000
Premium on issue of swap	3,325,697	-	3,325,697
Premium on bond issue	1,055,639	-	1,055,639
Compensated absences and health plan costs	5,825,661	190,167	6,015,828
Derivative instruments - swaps	29,361,635	-	29,361,635
Deferred inflows	771,439	-	771,439
OPEB liability	<u>-</u>	<u>26,711</u>	<u>26,711</u>
 Total noncurrent liabilities	 <u>302,409,071</u>	 <u>216,878</u>	 <u>302,625,949</u>
 Total liabilities	 325,162,936	 1,366,873	 326,529,809

NET ASSETS (DEFICIENCY)

Restricted for capital projects	327,051	-	327,051
Restricted for debt service	2,654,237	-	2,654,237
Invested in capital assets, net of related debt	(51,664,937)	205,076	(51,459,861)
Unrestricted	<u>(4,402,100)</u>	<u>(1,026,208)</u>	<u>(5,428,308)</u>
 Total net assets (deficiency)	 <u>(53,085,749)</u>	 <u>(821,132)</u>	 <u>(53,906,881)</u>
	 <u>\$ 272,077,187</u>	 <u>\$ 545,741</u>	 <u>\$ 272,622,928</u>

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Govern- mental Activities	Business- Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 83,940,396	\$2,368,808	\$32,150,344	\$(49,421,244)	\$ -	\$(49,421,244)
Instructional student support	7,006,811	-	3,797,975	(3,208,836)	-	(3,208,836)
Administrative and financial support services	11,665,548	-	801,203	(10,864,345)	-	(10,864,345)
Operation and maintenance of plant services	12,139,173	-	1,064,551	(11,074,622)	-	(11,074,622)
Pupil transportation	2,847,412	-	1,515,572	(1,331,840)	-	(1,331,840)
Student activities	1,145,913	-	14,302	(1,131,611)	-	(1,131,611)
Central and other support services	7,474,215	-	642,736	(6,831,479)	-	(6,831,479)
Community services	252,065	-	237,965	(14,100)	-	(14,100)
Interest/fiscal charges on long-term debt	13,901,573	-	-	(13,901,573)	-	(13,901,573)
 Total governmental activities	 140,373,106	 2,368,808	 40,224,648	 (97,779,650)	 -	 (97,779,650)
BUSINESS-TYPE ACTIVITIES						
Food service	6,152,980	296,802	5,552,717	-	(303,461)	(303,461)
 Total primary government	 <u>\$ 146,526,086</u>	 <u>\$2,665,610</u>	 <u>\$45,777,365</u>	 (97,779,650)	 (303,461)	 (98,083,111)
 GENERAL REVENUES						
Taxes				47,767,450	-	47,767,450
Grants, subsidies and contributions not restricted				47,063,979	-	47,063,979
Investment earnings (losses)				(4,522,104)	7	(4,522,097)
Miscellaneous income				234,962	-	234,962
Transfers				-	-	-
				<u>90,544,287</u>	<u>7</u>	<u>90,544,294</u>
 CHANGE IN NET ASSETS (DEFICIENCY)				 (7,235,363)	 (303,454)	 (7,538,817)
 NET ASSETS (DEFICIENCY) - BEGINNING				 <u>(45,850,386)</u>	 <u>(517,678)</u>	 <u>(46,368,064)</u>
 NET ASSETS (DEFICIENCY) - ENDING				 <u><u>\$(53,085,749)</u></u>	 <u><u>\$(821,132)</u></u>	 <u><u>\$(53,906,881)</u></u>

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

ASSETS

	General Fund	Non-major Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 3,134,683	\$ 966,390	\$ 4,101,073
Investments	3,215,859	2,111,000	5,326,859
Taxes receivable, net	11,882,519	-	11,882,519
Due from other funds	2,485,009	-	2,485,009
Due from other governments	9,114,624	-	9,114,624
Other receivables	561,104	726	561,830
Prepaid expenses	38,655	-	38,655
	<u>\$ 30,432,453</u>	<u>\$ 3,078,116</u>	<u>\$ 33,510,569</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 11,747,227	\$ 11,280	\$ 11,758,507
Due to other funds	-	1,539,071	1,539,071
Due to other governments	542,961	-	542,961
Accrued salaries and benefits	6,893,315	8,173	6,901,488
Deferred revenues	11,298,513	-	11,298,513
	<u>30,482,016</u>	<u>1,558,524</u>	<u>32,040,540</u>

FUND BALANCES

Standard fund balance reserves:			
Capital projects fund	-	327,051	327,051
Debt service fund	-	2,654,237	2,654,237
Unreserved - undesignated:			
General fund (deficit)	(49,563)	-	(49,563)
Special revenue fund (deficit)	-	(1,461,696)	(1,461,696)
	<u>(49,563)</u>	<u>1,519,592</u>	<u>1,470,029</u>
Total fund balances (deficit)	<u>(49,563)</u>	<u>1,519,592</u>	<u>1,470,029</u>
	<u>\$ 30,432,453</u>	<u>\$ 3,078,116</u>	<u>\$ 33,510,569</u>

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS (DEFICIENCY)
JUNE 30, 2010

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,470,029
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds. The cost of assets is \$270,546,736 and the accumulated depreciation is \$68,134,373.</p>	202,412,363
<p>Occupation taxes receivable that are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	11,036,840
<p>To record other post-employment benefits (OPEB)</p>	3,508,870
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:</p>	
Bonds payable	\$(262,709,000)
Accrued interest on the bonds	(1,302,517)
Bond issue costs (net of accumulated amortization)	8,646,676
Capital leases	(14,976)
Premium on issue of swap	(3,325,697)
Premium on bond issue	(1,055,640)
Compensated absences	(7,160,642)
	(266,921,796)
<p>To record GASB 53 fair market value</p>	(4,592,055)
TOTAL NET ASSETS (DEFICIENCY) - GOVERNMENTAL ACTIVITIES	\$ (53,085,749)

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(DEFICIT) - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General Fund	Non- Major Funds	Total Governmental Funds
REVENUES			
Local sources	\$ 49,436,769	\$ 121,034	\$ 49,557,803
State sources	64,745,834	31,908	64,777,742
Federal sources	22,144,008	-	22,144,008
	<u>136,326,611</u>	<u>152,942</u>	<u>136,479,553</u>
Total revenues			
EXPENDITURES			
Instruction	84,956,309	562,599	85,518,908
Support services	38,491,447	-	38,491,447
Noninstructional services	466,182	730,320	1,196,502
Facility acquisition and improvement	-	120,071	120,071
Debt service (principal and interest)	964,416	12,965,324	13,929,740
	<u>124,878,354</u>	<u>14,378,314</u>	<u>139,256,668</u>
Total expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	11,448,257	(14,225,372)	(2,777,115)
OTHER FINANCING SOURCES (USES)			
Payment to bond refunding escrow agent	-	(485,000)	(485,000)
Transfers in	-	14,732,562	14,732,562
Transfers out	(14,169,963)	(562,599)	(14,732,562)
Refunds of prior years receipts	(89,058)	-	(89,058)
	<u>(14,259,021)</u>	<u>13,684,963</u>	<u>(574,058)</u>
Total other financing sources (uses)			
NET CHANGE IN FUND BALANCES	(2,810,764)	(540,409)	(3,351,173)
FUND BALANCE - BEGINNING	<u>2,761,201</u>	<u>2,060,001</u>	<u>4,821,202</u>
FUND BALANCE (DEFICIT) - ENDING	<u>\$ (49,563)</u>	<u>\$ 1,519,592</u>	<u>\$ 1,470,029</u>

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2010

**TOTAL NET CHANGE IN FUND BALANCES -
 GOVERNMENTAL FUNDS** \$(3,351,173)

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

Capital outlays are reported in governmental funds as
 expenditures. However, in the statement of activities, the cost
 of these assets is allocated to expense over their estimated
 useful lives as depreciation expense.

Depreciation expense	\$ (6,537,921)	
Capital outlays	<u>1,948,192</u>	
		(4,589,729)

Because some occupation taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year.	1,250,449
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Repayment of bonds and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	571,701
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Payments on the premium on swap issue is recorded in the governmental funds in 2010, the premium is being amortized and interest expense is being recorded on the premium amount. The SWAP premium decreased this year by this amount.	157,295
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Interest on serial bonds is recorded in the governmental funds when paid, but the statement of activities records interest expense as it is incurred. Accrued interest decreased by this amount this year.	243,337
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See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - continued
YEAR ENDED JUNE 30, 2010

To record the change in other post-employment benefits (OPEB) asset.	1,675,073
<p>Bond issue costs are recorded as expenditures in the governmental funds but are recorded as long-term assets in the statement of net assets and amortized over the term of the bonds. Current bond issue costs are as follows:</p>	
Current year bond premium amortization	97,444
Current year bond issue costs amortization	(464,058)
<p>Accrued compensated absences are not recorded as expenditures in the governmental funds but are in the statement of activities. Accrued compensated absences decreased by this amount this year.</p>	
	1,766,353
GASB 53 Fair Market Value of Ineffective SWAP	<u>(4,592,055)</u>
CHANGE IN NET ASSETS (DEFICIENCY) OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (7,235,363)</u></u>

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
STATEMENT OF NET DEFICIT -
PROPRIETARY FUND
JUNE 30, 2010

ASSETS

	<u>Food Service Fund</u>
CURRENT ASSETS	
Cash	\$ 1,972
Other receivables	26,966
Due from other governments	241,072
Inventories	<u>70,655</u>
Total current assets	340,665
NONCURRENT ASSETS	
Machinery and equipment, net	<u>205,076</u>
	<u><u>\$ 545,741</u></u>

LIABILITIES AND NET DEFICIT

CURRENT LIABILITIES	
Accounts payable	\$ 63,590
Due to other funds	942,699
Accrued salaries and benefits	137,852
Deferred subsidy revenues	<u>5,854</u>
Total current liabilities	1,149,995
NONCURRENT LIABILITIES	
Compensated absences	190,167
OPEB liability	<u>26,711</u>
Total noncurrent liabilities	216,878
NET DEFICIT	
Unrestricted	<u>(821,132)</u>
	<u><u>\$ 545,741</u></u>

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS (DEFICIENCY) - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service revenue	\$ 296,802
 OPERATING EXPENSES	
Salaries	1,829,290
Employee benefits	980,175
Purchased property service	68,872
Other purchased service	11,931
Supplies	3,186,000
Depreciation	70,362
Other	<u>6,350</u>
Total operating expenses	<u>6,152,980</u>
 OPERATING LOSS	 <u>(5,856,178)</u>
 NONOPERATING REVENUES	
Earnings on investments	7
State sources	406,809
Federal sources	4,856,704
USDA donated commodities	<u>289,204</u>
Total nonoperating revenues	<u>5,552,724</u>
 CHANGE IN NET ASSETS	 (303,454)
 NET ASSETS (DEFICIENCY) - BEGINNING	 <u>(517,678)</u>
 NET ASSETS (DEFICIENCY) - ENDING	 <u><u>\$ (821,132)</u></u>

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from user charges	\$ 299,050	
Cash payments to employees for services	(2,792,118)	
Cash payments to suppliers for goods and services	(2,785,931)	
Cash payments for other operating expenses	(6,350)	
 Net cash used in operating activities		 \$ (5,285,349)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grants and subsidies received for non-operating activities:		
State	409,572	
Federal	<u>4,908,477</u>	
 Net cash provided by noncapital financing activities		 5,318,049

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of equipment		(32,219)
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CASH FLOWS FROM INVESTING ACTIVITIES

Earnings on investments		<u>7</u>
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NET INCREASE IN CASH

488

CASH - BEGINNING OF YEAR

1,484

CASH - END OF YEAR

\$ 1,972

Reconciliation of operating loss to net cash used in operating activities:

Operating loss		\$ (5,856,178)
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Adjustment to reconcile operating loss to net cash used in operating activities:

Depreciation	\$ 70,362	
Donated commodities	289,204	
(Increase) decrease in:		
Inventory	3,946	
Other receivables	123,900	
Increase (decrease) in:		
Accounts payable	(15,074)	
Due to other funds	81,140	
OPEB liability	13,118	
Accrued salaries and benefits	(7,828)	
Accumulated compensated absences	<u>12,061</u>	

Total adjustment		<u>570,829</u>
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Net cash used in operating activities		<u><u>\$ (5,285,349)</u></u>
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See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010

ASSETS

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 59,122	\$ 225,716
Other receivables	-	3,371
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 59,122</u></u>	<u><u>\$ 229,087</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 1	\$ 3,608
Due to other funds	17	3,222
Funds held for others	-	222,257
	<u> </u>	<u> </u>
Total liabilities	18	229,087
 NET ASSETS		
Restricted	<u>59,104</u>	<u>-</u>
	<u><u>\$ 59,122</u></u>	<u><u>\$ 229,087</u></u>

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Receipts	\$ 28,646
DEDUCTIONS	
Other	<u>25,054</u>
CHANGE IN NET ASSETS	3,592
NET ASSETS - BEGINNING	<u>55,512</u>
NET ASSETS - ENDING	<u><u>\$ 59,104</u></u>

See accompanying notes.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with the accounting system and procedures prescribed for school districts by the Commonwealth of Pennsylvania, Department of Education, which conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

Reporting Entity

The financial statements of the School District include all funds, functions and activities to which the appointed Board of Control has oversight responsibility. The financial statements presented do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the School District of the City of Harrisburg.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. Government Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", establishes the criteria for determining the activities, functions and organizations to be included in the financial statements of the reporting entity. This statement requires that a component unit be included if the District's elected officials are financially accountable for the component unit. The District is financially accountable if it appoints a voting majority of the component unit's governing body and (1) it is able to impose its will on the component unit, or (2) there is a potential for the District to provide specific financial benefits to, or impose specific financial burdens on the component unit. The District may be financially accountable if an organization is fiscally dependent on the District regardless of whether the District has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

The District has evaluated its relationship with Capital Area Intermediate Unit #15 to determine if the financial information of the unit should be included in the financial statements. Based on this evaluation, the Unit has not been included as a component unit of the District's reporting entity because of the limited oversight responsibility and limited accountability for fiscal matters.

Related Organization

Related organizations are not reported as component units in these financial statements, but significant transactions are disclosed in Note S. The Capital Area Intermediate Unit #15 (CAIU) is a related organization to the District.

The CAIU is a regional education service agency located in central Pennsylvania that has responsibility for providing services in the areas of curriculum development and instructional improvement, educational planning, instructional materials, continuing professional education, pupil personnel, state and federal agency liaison, management services, and special education services. The CAIU serves 24 public school districts, 2 vocational technical schools, and over 60 non-public schools.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Related Organization - continued

The CAIU's Board of Directors consists of 19 members, 7 members from 7 different Cumberland County school districts, 1 member from the Northern York County School District, 8 members from 8 different Dauphin County school districts, and 3 members from Perry County school districts. The CAIU Board Members are school district board members who are elected by the public and who are appointed to the CAIU Board by the member districts' board of directors. The District is responsible for appointing one of these members. The CAIU board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Government-Wide Financial Statements

The Statement of Net Assets (Deficiency) and Statement of Activities display information about the reporting government as a whole. The Statements include the primary government, except for the fiduciary funds of the primary government.

Separate rows and columns are used to distinguish between the governmental and business-type activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. These activities are usually reported in Governmental Funds. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in Enterprise Funds.

Measurement Focus and Basis of Accounting - Government-Wide Financial Statements

The Statement of Net Assets (Deficiency) and Statement of Activities are prepared using the economic measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33.

Reporting for governmental and business-type activities are based on all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements, to its business-type activities.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Policy for Eliminating Internal Activity - Government-Wide Financial Statements

In the process of aggregating data for the Statement of Net Assets (Deficiency), some amounts reported as interfund balances in the funds are eliminated or reclassified. Eliminations are made in the Statement of Net Assets (Deficiency) to minimize the “grossing-up” effect on assets and liabilities within the governmental and business-type activities columns of the primary government. As a result, amounts reported in the funds as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets (Deficiency), except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Policy for Capitalizing Assets and Estimating Useful Lives - Government-Wide Financial Statements

The School District reports capital assets at historical cost or estimated historical cost. Capital assets include land, improvements, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure and all other tangible or intangible assets that are used in operations and that have useful lives extending beyond a single reporting period. The School District’s policy is to capitalize assets, or groups of assets with costs in excess of \$1,500. Estimated depreciation expense is calculated using the straight-line method over the useful lives of capital assets ranging from 3 to 50 years.

Program Revenues - Government-Wide Financial Statements

The Statement of Activities reports three categories of program revenues: (a) charges for services, (b) program specific operating grants and contributions and (c) program specific capital grants and contributions. Program revenues derive directly from the program itself or from parties outside the reporting government’s taxpayers or citizenry. As a whole, they reduce the net cost of the function to be financed from the government’s general revenues.

Policy for Defining Operating and Nonoperating Revenues of Proprietary Funds

The School District defines proprietary funds operating revenues based on how the individual transaction would be categorized for purposes of preparing the statement of cash flows. Transactions for which cash flows are reported as capital and related financing activities, noncapital finance activities or investing activities would normally not be reported as operating revenues.

Policy Regarding Applying Restricted or Unrestricted Revenues

The School District first applies unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Accounting

The accounts of the School District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses or expenditures. The following funds are used by the School District:

Governmental Fund Types

General Fund

The General Fund accounts for all financial resources of the School District except those specifically required by laws to be accounted for in another fund. This is a budgeted fund, and any fund balances are considered as resources available for use.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. These are not budgeted funds. Special Revenue Funds include the following:

1. Athletic Fund; authorized by Section 511, first paragraph, Public School Code of 1949 for School Athletics.
2. Capital Reserve Fund; authorized by P.L. 145, Act of April 30, 1943, known as Section 1431 of Municipal Code.

Capital Project Funds

The Capital Project Funds account for the proceeds and expenditures relating to bond issues and construction projects. Capital project funds include the following:

1. Series 2006 Bond Fund - accounts for the costs of making improvements and renovations to school buildings as financed by the Series 2006 school revenue bonds. The Series 2006 Bond Fund was refunded with the Series 2009A Fund.
2. Series 2008 Note - accounts for the costs of acquiring a piece of property and costs of making improvements and renovations to school buildings as financed by the Series 2008 General Obligation Note. The Series 2008 Note was refunded with the Series 2009A Fund.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Governmental Fund Types - continued

Debt Service Funds

1. Series 2002 QZAB Fund - accounts for the sinking fund established by the Series of 2002 General Obligation Qualified Zone Academy Bonds.
2. Series 1999 Fund - accounts for the sinking fund established by the Series of 1999 Bonds. The Series 1999 Fund was refunded by the Series of 2009A Bonds.
3. Series 2003 Fund - accounts for the sinking fund established by the Series of 2003 Bonds. The Series 2003 Fund was refunded by the Series of 2009D Bonds.
4. Series 2009A Fund - accounts for the refinancing of Series 1999, 2006, and 2008 bond issues.
5. Series 2009B Fund - accounts for the refinancing of Series 2007, deficit financing, and new money.
6. Series 2009C Fund - accounts for the refinancing of Series 2002A bond issue.
7. Series 2009D Fund - accounts for the refinancing of Series 2003 bond issue.

Proprietary Fund Types

Enterprise Fund

The Enterprise Fund, an unbudgeted fund, is used to account for all revenue and expenses pertaining to cafeteria operations. The Enterprise Fund is utilized to account for operations that are financed and operated similar to private business enterprises where the stated intent is the costs (expenses, including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered through user charges. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District's Enterprise Fund is the Food Service Fund which accounts for the costs of providing meals to students during the school year. Revenue is received from student payments, from state and federal subsidies, and from General Fund contributions when user fees and cost reimbursements are insufficient to meet the costs of providing meals.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fiduciary Fund Types

Trust and Agency Funds

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Trust funds include nonexpendable trust funds and expendable trust funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

The following are the District's trust funds:

1. Nonexpendable Trust Fund - accounts for monies received through donations from various classes and individuals. The principal amounts of the gifts remain intact; however, investment earnings are used to give awards to students.
2. Expendable Trust Fund - accounts for contributions from private sources for various programs.

The following are the District's agency funds:

1. Elementary Activity Fund - accounts for the Activity Funds established by each elementary school.
2. Secondary Activity Fund - accounts for high school and middle school activities.
3. Agency Fund - accounts for high school and middle school club activities.
4. SBI Agency Fund - accounts for store sale activities.

Measurement Focus/Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds of the School District are accounted for using the current financial resources measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheet, and the fund balances reflect spendable or appropriable resources. The operating statements of these funds reflect increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus/Basis of Accounting - continued

The proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities (current and noncurrent) associated with the operation of the funds are included on its balance sheet. The proprietary fund operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Modified Accrual Basis

The modified accrual basis of accounting is followed for all governmental type funds of the School District. Under the modified accrual basis of accounting, expenditures (other than interest and principal payments on long-term debt which are recorded on their payment dates) are recorded when the fund liability is incurred. Revenues are recognized when they become susceptible to accrual, i.e., measurable and available to finance the School District's operations. Available means collectible within 60 days after fiscal year-end. The modified accrual basis of accounting is used as follows:

Property Taxes

The District has followed the principles recommended by the National Council on Governmental Accounting (NCGA) with respect to recognition of property and other tax revenues. Presuming all property taxes are collectible from a legal point of view, all previously levied but uncollected property taxes were accrued at June 30, 2010. Of this total, the portion collected within 60 days after June 30, 2010, was recognized in current income, and the balance, net of the portion that is estimated to be uncollectible, was recorded as deferred revenue.

For other taxes, the District followed the policy of accruing and recognizing in current income only those taxes which, in addition to being due and unpaid, were reasonably measurable and payment within 60 days after the close of the school year was likely.

The allowance for estimated uncollectible school occupation taxes is based on a historical analysis of collections.

Revenue from State Sources

State subsidies due the District as current fiscal year entitlements are recognized as revenue in the current fiscal year even though such funds may be received in a subsequent fiscal year.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Modified Accrual Basis - continued

Revenue from Federal Sources

Federal program funds applicable to expenditures for the same program in the current fiscal year but expected to be received in the next fiscal year are accrued as current revenue at the end of the current fiscal year along with the recognition of the federal funds receivable. Likewise, any excess of revenues at the fiscal year end over the program expenditures are recorded as deferred revenue.

Accrual Basis

Under the accrual basis of accounting, revenues are recognized in the accounting period they are earned and become measurable; expenses are recognized in the period incurred. The accrual basis of accounting is used for the Proprietary Fund and nonexpendable trust funds.

Budgets and Budgetary Accounting

The school district follows these procedures in establishing the budgetary data presented in the financial statements:

- a. The official school budget was prepared for adoption for the General Fund only. The budget was formally adopted by the Board of Control at a duly advertised public meeting prior to the expenditure of funds. The budget was properly amended by the Board as needed throughout the year. The budget was adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- b. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.
- c. Unused appropriations for the General Fund lapse at the end of the year.
- d. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Inventory

The Enterprise Fund inventory consists of government donated commodities which were valued at government declared value and purchased commodities and supplies valued at cost.

It is the District's policy to expense supply/janitorial products when purchased for governmental funds.

Revenue Recognition - Property Taxes

Property taxes are levied on July 1. Taxes are collected at discount until August 31, at their face from September 1, until October 31, and include a penalty thereafter. All unpaid taxes levied July 1, become delinquent November 1, of the same year. Property taxes not paid by April 30, of the following year are turned over for collection. Interim taxes are assessed at various times during the year as needed.

Taxes receivable as reported on the combined balance sheet represents unpaid property taxes and occupation taxes outstanding at June 30, 2010. Taxes receivable not deemed available under accounting principles generally accepted in the United States of America are included in deferred revenues.

For other taxes, the District followed the policy of accruing and recognizing in current income only those taxes which, in addition to being due and unpaid, were reasonably measurable and payment within 60 days after the close of the school year was likely.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Proprietary and Nonexpendable Trust Funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Vacation, Sick Leave and Other Compensated Absences

Employees of the District are entitled to certain compensated absences, consisting of vacation and sick leave and early retirement incentive benefits. The accrued liability for vacation and sick leave is calculated based on salary rates in effect at the balance sheet date. Additional amounts are accrued for salary-related payments associated with the payment of compensated absences, using the rates in effect at the balance sheet date.

Vacation leave must be used within the subsequent fiscal year. In a termination year, unused leave is paid in full at termination.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Vacation, Sick Leave and Other Compensated Absences - continued

Eligible employees may accumulate an unlimited amount of sick leave. At the time of retirement, teachers are entitled to unused sick leave reimbursement at varying rates up to 220 days. Administrative employees are paid 35 percent of their accumulated unused sick leave up to a maximum of 100 days at retirement subject to certain conditions. Teachers and administrative employees vest after 10 years of service. Management employees are entitled to 25 percent of their current daily rate for unused sick leave earned after July 1, 1985. In estimating the sick leave liability, the District determined whether it was probable that employees will, in the future, meet the conditions to receive a cash payment at termination for their sick leave balances.

Early retirement incentive benefits are offered to employees of the District, who, after fifteen years of service, retire with superannuation from either the Pennsylvania School Employees Retirement System (PSERS) or from dual or joint combined service with PSERS and the state employees retirement system.

Early retirement incentive benefits include unused sick leave reimbursement and health care. The retiree's eligibility for health care benefits is limited to those persons not covered either directly or through his or her spouse by any other health program or plan of any kind, whether public or private. Coverage discontinues when the retiree becomes eligible for Medicare.

Monthly benefit expense is determined by employee classification, coverage type and amount of PSER supplementation, if any.

Government-wide and Proprietary Fund Net Assets

Government-wide and proprietary fund net assets are divided into three components:

- Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets - consist of net assets that are restricted by the District for a specific purpose.
- Unrestricted - all other net assets are reported in this category

Governmental Fund Balances

Governmental fund balances are reported as "reserved" when the balances are not available for appropriation or expenditure or because they are legally segregated for a specific future use. The remaining balances are "unreserved" fund balances. From time to time, the District agrees to set aside or "designate" resources for future uses - such as for specific capital projects. These unreserved, designated balances are based on management's tentative plans and can be changed.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Pension Plan

All full-time employees of the District participate in a cost-sharing multiple employer defined benefit pension plan. The District made all required contributions for the year ended June 30, 2010, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

Investments

The School District invests funds with The Pennsylvania School District Liquid Asset Fund (PSDLAF), Pennsylvania Local Government Investment Trust (PLGIT), and the Pennsylvania Treasurer's INVEST Program for Local Governments (INVEST). PSDLAF, PLGIT, and INVEST operate and are authorized under the Intergovernmental Cooperation Act of 1972. Investments in these funds have daily liquidity and are valued at the current cost which equals market value.

These funds invest in federal securities backed by the full faith and credit of the United States Government, in agencies, instrumentalities and subdivisions of the Commonwealth of Pennsylvania and backed by the full faith and credit of the Commonwealth and certificates of deposit which are insured by the Federal Deposit Insurance Corporation or which are collateralized as provided by law of Act 72 of 1971.

Derivative Financial Instruments

The District uses swap contracts that have fixed or variable payments based on the price of an underlying interest rate or index. Hedging derivative instruments are used to reduce financial risks, such as offsetting increases in interest rate costs by offsetting changes in cash flows of the hedged item. These derivative instruments are evaluated to determine if they are effective in significantly reducing the identified financial risk at year end. If the derivative is determined to be an effective hedge, its fair value is an asset or liability with a corresponding debit (credit) to deferred outflows (inflows) on the Statement of Net Assets (Deficiency). Deferred outflows (inflows) constitute changes in fair values of effectively-hedged derivative instruments. If the derivative instruments are determined to be ineffective, they are considered investment derivatives in which its fair values are either assets or liabilities on the Statement of Net Assets (Deficiency) and the changes in fair values are recognized against investment income in the Statement of Activities.

Interfund Transactions

During the course of normal operations the School District has numerous transactions between funds, including expenditures and transfers of resources to provide services and service debt. Advances between funds which are not expected to be repaid are accounted for as transfers. In those cases where repayment is expected, the advances are accounted for through various due from and due to accounts.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fixed Assets - Fund Financial Statements

Under the School District's method of accounting, fixed assets are recorded as expenditures at the time of purchase in the governmental funds. Accordingly, no depreciation has been provided on fixed assets in those funds. Proprietary fund fixed assets are recorded at cost. Depreciation is provided for on a straight-line basis over periods ranging from 5 to 20 years.

Memorandum Only Columns

Total columns on the combined statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The School District is authorized by statute to invest in obligations of the U.S. Treasury, agencies, and instrumentalities and state treasurer's investment pools.

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2010, the District's bank balance of \$3,855,555 was exposed to custodial credit risk as:

Covered by Federal Depository Insurance (FDIC)	\$ 345,952
Secured by pooled collateral as permitted by Act 72 of the Commonwealth of Pennsylvania	<u>3,509,603</u>
Total	<u>\$3,855,555</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

Cash - continued

Reconciliation to Financial Statements

Covered by Federal Depository Insurance (FDIC)	\$ 345,952
Plus: Funds covered under Act 72	3,509,603
Less: Outstanding checks	<u>(174,794)</u>
Carrying amount - bank balances	3,680,761
Plus: Deposits in pooled funds considered cash equivalents	<u>707,122</u>
Total cash per financial statements	<u><u>\$4,387,883</u></u>

Investments

As of June 30, 2010, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>5 - 10</u>
Federal Home Loan Mortgage Corporation	\$ 321,000	\$ 321,000	\$ -	\$ -
Federal National Mortgage Association	1,790,000	1,790,000	-	-
PA School District Liquid Asset Fund	3,201,760	3,201,760	-	-
PA Local Government Investment Trust	130,938	130,938	-	-
PA Treasurer's INVEST Program for Local Governments	48,397	48,397	-	-
Treasury obligations funds	<u>541,886</u>	<u>541,886</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$6,033,981</u></u>	<u><u>\$6,033,981</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

Credit Risk

The District does not have a formal investment policy that limits its investment choices to certain credit ratings. As of June 30, 2010, the District's investments were rated as:

<u>Investment</u>	<u>Standard & Poor's</u>
Federal Home Loan Mortgage Corporation	AAA
Federal National Mortgage Association	AAA
PA Local Government Investment Trust	AAA
PA School District Liquid Asset Fund	AAA
PA Treasurer's INVEST Program	AAA

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. Excluding investments in various Federal treasury obligations funds, the District carried investments in the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association that exceeded 5% of total investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investments subject to custodial credit risk.

Reconciliation to Financial Statements

Total investments above	\$6,033,981
Less: Deposits in pooled funds considered cash equivalents	<u>(707,122)</u>
Total investments per financial statements	<u>\$5,326,859</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE C - PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment of the Business-Type Activities as of June 30, 2010, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Machinery and equipment	\$ 1,407,209	\$ 32,219	\$ 1,439,428
Accumulated depreciation	1,163,990	70,362	<u>1,234,352</u>
Net property, plant and equipment			<u><u>\$ 205,076</u></u>

A summary of property, plant, and equipment for the Governmental Activities for the year ended June 30, 2010, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and land improvements	\$ 13,700	\$ -	\$ -	\$ 13,700
Building and improvements	239,032,087	712,590	-	239,744,677
Furniture and equipment	<u>29,552,757</u>	<u>1,235,602</u>	<u>-</u>	<u>30,788,359</u>
Total capital assets	<u>268,598,544</u>	<u>1,948,192</u>	<u>-</u>	<u>270,546,736</u>
Less accumulated depreciation:				
Building and improvements	38,284,470	4,723,581	-	43,008,051
Furniture and equipment	<u>23,311,982</u>	<u>1,814,340</u>	<u>-</u>	<u>25,126,322</u>
Total accumulated depreciation	<u>61,596,452</u>	<u>6,537,921</u>	<u>-</u>	<u>68,134,373</u>
Net property, plant and equipment	<u>\$ 207,002,092</u>			<u>\$ 202,412,363</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE C - PROPERTY, PLANT AND EQUIPMENT - continued

Depreciation was charged to individual functions as follows:

Instructional	\$ 1,863,307
Instructional support	111,145
Administrative	241,903
Operation of plant and maintenance	3,197,043
Central support services	921,847
Student activities	<u>202,676</u>
 Total	 <u>\$ 6,537,921</u>

NOTE D - TAXES RECEIVABLE, DEFERRED TAX REVENUES AND ESTIMATED UNCOLLECTIBLE TAXES

A summary of the taxes receivable and related accounts recorded at the fund level at June 30, 2010, follows:

	<u>Earned Income</u>	<u>Real Estate Transfer</u>	<u>School Occupation</u>	<u>Total</u>
Current taxes collected by City, County, or Tax Claim Bureau by June 30, and remitted shortly thereafter	\$ 223,279	\$ 37,271	\$ 585,129	\$ 845,679
Deferred tax revenues	<u>-</u>	<u>-</u>	<u>11,036,840</u>	<u>11,036,840</u>
Taxes receivable, net	<u>\$ 223,279</u>	<u>\$ 37,271</u>	<u>\$ 11,621,969</u>	<u>\$ 11,882,519</u>

Deferred revenue consists of the following:

Taxes receivable which were not collected within sixty days subsequent to June 30, 2010	\$ 11,036,840
Deferred subsidies	<u>261,673</u>
Total	<u>\$ 11,298,513</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE D - TAXES RECEIVABLE, DEFERRED TAX REVENUES AND ESTIMATED UNCOLLECTIBLE TAXES - continued

	<u>Earned Income</u>	<u>Real Estate Transfer</u>	<u>School Occupation</u>	<u>Total</u>
Taxes receivable	\$ 223,279	\$ 37,271	\$ 18,868,233	\$ 19,128,783
Estimated uncollectible taxes	<u>-</u>	<u>-</u>	<u>(7,246,264)</u>	<u>(7,246,264)</u>
Taxes receivable, net	<u>\$ 223,279</u>	<u>\$ 37,271</u>	<u>\$ 11,621,969</u>	<u>\$ 11,882,519</u>

NOTE E - INVENTORIES

A schedule of the Business-Type Activities' inventories at June 30, 2010, follows:

Material and supplies	\$ 12,179
Purchased food	52,622
Donated commodity food	<u>5,854</u>
	<u>\$ 70,655</u>

NOTE F - ACCRUED SALARIES AND BENEFITS

Accrued salaries principally represent teachers' salaries earned during the 2009/2010 school year that were paid subsequent to June 30, 2010. Accrued retirement, social security, and workers' compensation represent the District's liability on salaries paid during June 2010 and on accrued salaries at June 30, 2010. Accrued payroll withholdings represent the employees' share of retirement, social security and other benefits not remitted to the respective entities as of June 30, 2010.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE G - BONDS PAYABLE

A summary of bonds payable at June 30, 2010, which were issued to finance various school facilities acquisitions and renovations, follows:

<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
July 31, 2002 - Series 2002 QZA	July 30, 2016	0.00%	\$ 5,104,000
May 1, 2009 - Series 2009A	November 15, 2033	4.00% to 4.13%	133,765,000
May 1, 2009 - Series 2009B	November 15, 2020	3.50% to 5.25%	22,855,000
May 1, 2009 - Series 2009C	November 15, 2017	4.88% to 5.95%	26,620,000
June 25, 2009 - Series 2009D	December 1, 2027	5.25%	<u>74,365,000</u>
			<u>\$262,709,000</u>

On August 1, 2002 the District issued \$5,104,000 of General Obligation Qualified Zone Academy Bonds. Proceeds of the bonds were used for payment of costs of rehabilitating or repairing Lincoln Elementary School, purchasing and installing equipment therein and to pay the costs of issuance. The District is required to deposit \$305,046 on July 30th of each year to the sinking fund until maturity. As of June 30, 2010, the District has restricted cash and investments of \$2,112,351 in the sinking fund.

On May 1, 2009 the State Public School Building Authority issued \$133,765,000 of fixed rate School Revenue Bonds, Series 2009A. Proceeds of the bonds were used to refund the Series 1999 adjustable rate School Revenue Bonds, Series 2006 adjustable rate School Revenue Bonds, Series 2008 General Obligation Note, to terminate the Interest Rate Management Agreements associated with the Series 1999 and 2006 adjustable rate School Revenue Bonds and to pay the costs of issuance.

On May 1, 2009 the State Public School Building Authority issued \$22,855,000 of fixed rate School Revenue Bonds, Series 2009B. Proceeds of the bond were used to refund the Series 2007 fixed rate General Obligation Note, to fund certain operating expenditures of the District, and to pay the costs of issuance.

On May 1, 2009 the State Public School Building Authority issued \$26,620,000 of fixed rate Federally-Taxable School Revenue Bonds, Series 2009C. Proceeds of the bonds were used to refund the Series 2002A "Penncaps" and pay the costs of issuance.

On June 25, 2009 the State Public School Building Authority issued \$74,850,000 of variable rate School Revenue Bonds, Series 2009D. Proceeds of the bonds were used to refund the Series 2003 adjustable rate School Revenue Bonds and pay the costs of issuance. The variable rate is determined by the remarketing agent in accordance with defined interest rate adjustment dates, interest rate determination or reset dates, and interest rate periods.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE G - BONDS PAYABLE - continued

A schedule of the District's debt service requirements, which are financed by the General Fund follows:

Year ending June 30,	Principal	Interest	Totals
2011	\$ 945,046	\$ 13,911,560	\$ 14,856,606
2012	995,046	13,866,450	14,861,496
2013	1,060,046	13,817,430	14,877,476
2014	3,310,046	13,722,645	17,032,691
2015	6,670,046	13,498,280	20,168,326
2016 - 2020	44,323,770	61,620,834	105,944,604
2021 - 2025	54,945,000	49,125,551	104,070,551
2026 - 2030	75,000,000	28,779,869	103,779,869
2031 - 2035	75,460,000	7,649,150	83,109,150
	<u>\$262,709,000</u>	<u>\$215,991,769</u>	<u>\$ 478,700,769</u>

Included in the schedule of principal payments are the annual amounts due to the sinking fund for the 2002 QZA bond issue. The accumulated amounts of these payments will be used to retire the outstanding bond on July 1, 2016.

Changes in Bonds and Notes Payable

Changes in bonds and notes payable during the year ended June 30, 2010, follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Bonds payable:				
August 2002 issue	\$ 5,104,000	\$ -	\$ -	\$ 5,104,000
Series 2009A issue	133,765,000	-	-	133,765,000
Series 2009B issue	22,855,000	-	-	22,855,000
Series 2009C issue	26,620,000	-	-	26,620,000
Series 2009D issue	74,850,000	-	(485,000)	74,365,000
Total	<u>\$ 263,194,000</u>	<u>\$ -</u>	<u>\$ (485,000)</u>	<u>\$ 262,709,000</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE H - SWAP TRANSACTIONS

The District is a party to contracts for various derivative instruments, as discussed below.

At June 30, 2010, the District has the following derivative instruments outstanding (in thousands):

		<u>Fair Value</u>		<u>Changes in Fair Value</u>		
		<u>Notional Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>
Governmental Activities:						
<i>Cash flow hedges:</i>						
A	Pay-fixed interest rate swap	\$21,879	Debt	\$ (7,431)	Deferred outflow	\$ (1,032)
B	Pay-fixed interest rate swap	\$51,051	Debt	(17,339)	Deferred outflow	(2,586)
C	Basis swap	\$20,307	Debt	191	Deferred inflow	406
D	Basis swap	\$47,383	Debt	580	Deferred inflow	951
E	Basis swap	\$133,765	Investment	(4,592)	Investment (Loss)	(4,592)

Derivative Instrument Types

Hedge effectiveness. As of June 30, 2010, derivative instrument E under governmental activities does not meet the criteria for effectiveness and, thus, is considered to be an investment derivative instrument. Accordingly, its fair value is reported in the amount of \$4,592,000 within the investment loss classification for the year ended June 30, 2010. There is no reclassification adjustment required for previously reported amounts as the school district entered into this contract in October 2009. The other interest rate swaps are considered to be hedging derivative instruments and are identified above as cash flow hedges.

The District used the dollar-offset method to evaluate hedge effectiveness for the interest rate swaps. This method evaluates effectiveness by comparing the changes in expected cash flows or fair values of the potential hedging derivative instrument with the changes in expected cash flows or fair values of the hedgeable item. If the changes of either the hedgeable item or the potential hedging derivative instrument are divided by the other and the result is within a range of 80 to 125 percent in absolute terms, these changes substantially offset and the potential hedging derivative instrument is effective.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE H - SWAP TRANSACTIONS - continued

Basis Swaps. The constant maturity basis swap agreements are used to attach the variable rate portion of the pay fixed interest rate swaps to a market swap rate rather than to the 1 month LIBOR rate. These swaps are currently suspended until April 2013.

Fair Values

Fair values for the District's derivative instruments were estimated using the following methods:

Interest rate swaps: Fair values for the interest rate swaps were estimated using the zero-coupon method, which calculates the future net settlement payments, assuming that current forward rates implied by the yield curve correctly anticipate future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Hedging Derivative Instruments - Objectives and Terms

The objectives and terms of the District's hedging derivative instruments outstanding at June 30, 2010, and counterparty credit ratings are as follows (in thousands):

Instr.	Derivative Type	Counterparty Credit Rating	Objective	Notional Amount	Effective Date	Maturity Date	Terms
A	Pay-fixed interest rate swap	Aaa/AA-/AA**	Hedge changes in cash flows on the 2009D obligation Bonds	\$21,879	5/15/09	12/1/27	Pay 5.25% Receive 63% of 1 month LIBOR plus .2%
B	Pay-fixed interest rate swap	Aa1/AA-/AA-	Hedge changes in cash flows on the 2009D obligation Bonds	\$51,051	5/15/09	12/1/27	Pay 5.25% Receive 63% of 1 month LIBOR plus .2%
C	CMS Basis Swap	Aaa/AA-/AA**	Hedge changes in cash flows on the 2009D obligation Bonds	\$20,307	4/1/13	12/1/27	Pay 63% of 1 month LIBOR plus .2% Receive 58.59% of 10 Year ISDA Swap Rate

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

D	CMS Basis Swap	Aa1/AA-/AA-	Hedge changes in cash flows on the 2009D obligation Bonds	\$ 47,383	3/1/13	12/1/27	Pay 63% of 1 month LIBOR plus .2% Receive 59.24% of 10 Year ISDA Swap Rate
E	Basis Swap	Aa1/A+/AA-	Hedge changes in cash flows on the 2009A obligation Bonds	\$133,765	11/15/09	11/15/33	Pay SIFMA Municipal Swap Index Receive 74% of 3 Month LIBOR plus .3113%

Derivative Instrument Risks

Credit risk. The District is exposed to credit risk on hedging derivative instruments that are in asset positions. To mitigate the potential for credit risk, the District's policy when entering into a swap agreement is to negotiate additional collateralization requirements in the event of a ratings downgrade. Should a counterparty's credit rating fall below Aa as issued by Moody's Investor Services or AA as issued by Standard & Poor's, the counterparty is required to post collateral equal to the net amount of the fair value of derivative instruments in an asset position less the effect of any netting arrangements. The collateral is required to be U.S. Treasury securities and must be held by a third-party custodian. The District has always accessed collateral when required.

It is also the District's policy to negotiate netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, the non-defaulting party may accelerate and terminate all outstanding transactions and net their fair values so that a single amount will be owed by (or to) the nondefaulting party. As of June 30, 2010, the District is in a negative position after netting the basis swaps with the interest rate swaps and therefore, there is no credit risk.

The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2010, was \$771,439. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Interest rate risk. The District is exposed to interest rate risk on its swap agreements. On the pay-fixed, receive variable interest rate swaps (Instruments A and B), the District's net payment increases as LIBOR index decreases. On the basis swaps, the District's net payment increases as the ISDA swap rate or the SIFMA municipal swap index decreases.

Basis risk. The District is exposed to basis risk on its pay-fixed interest rate swaps hedging derivative instruments (Instruments A and B) because the variable rate payments received on these derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable-rate debt, which is remarketed every 30 days. As of June 30, 2010, the weighted average interest rate on the District's hedged variable-rate debt is 5.25 percent, while the 63% of LIBOR plus .2% is .42 percent.

The District is exposed to basis risk on its basis swaps hedging derivative instruments (Instruments C, D and E) because the variable rate payments received on these derivative instruments are based on a rate or index other than rate or index interest rates the District pays on its hedged variable-rate debt. As of June 30, 2010, the interest rates paid and received under the basis swaps are as follows:

Instrument C	63% of LIBOR plus .2% is .42 percent.	58.59% of ISDA swap rate is 1.92 percent.
Instrument D	63% of LIBOR plus .2% is .42 percent.	59.24% of ISDA swap rate is 1.94 percent.
Instrument E	74% of LIBOR plus .3113% is .57 percent.	SIFMA Municipal swap index rate is .25 percent

Swap Payments and Associated Debt

Using rates as of June 30, 2010, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year ending June 30,	Variable-rate Bonds		Interest rate Swaps, net	Total
	Principal	Interest		
2011	\$ 635,000	\$ 11,397,855	\$ 3,163,782	\$ 15,196,637
2012	685,000	11,352,975	3,133,111	15,171,086
2013	750,000	11,304,185	3,100,026	15,154,211
2014	5,000	11,278,515	3,063,801	14,347,316
2015	5,000	11,278,175	3,063,559	14,346,734
2016 - 2020	2,145,000	56,127,035	15,181,589	73,453,624
2021 - 2025	53,445,000	49,086,176	13,155,697	115,686,873
2026 - 2030	75,000,000	28,779,869	1,226,933	105,006,802
2031 - 2035	75,460,000	7,649,150	(620,256)	82,488,894
	<u>\$ 208,130,000</u>	<u>\$ 198,253,935</u>	<u>\$ 44,468,242</u>	<u>\$ 450,852,177</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE I - CAPITAL LEASES

Lease Purchase Obligations

For the year ended June 30, 2007, the School District entered into an agreement with Dell for the leasing of laptop computers. The lease duration is set for three years with annual payments of \$89,857. This lease was paid in full during the 2009 - 2010 school year.

For the year ended June 30, 2008 the School District entered into another agreement with Dell for the leasing of additional computers. The lease duration is set for three years with annual payments of \$76,868.

For the year ended June 30, 2009 the School District entered into another agreement with Dell for the leasing of additional computers. The lease duration is set for three years with annual payments of \$15,887.

Payments during the year ended June 30, 2010, totaled \$92,755.

Future minimum lease payments of capital leases as of June 30, 2010, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	<u>\$ 14,976</u>	<u>\$ 911</u>	<u>\$ 15,887</u>

Furniture and equipment and related amortization under capital leases are as follows:

	<u>Governmental Activities</u>
Furniture and equipment	\$ 517,797
Less: accumulated amortization	<u>351,486</u>
Net value	<u>\$ 166,311</u>

Amortization of leased equipment is included with depreciation expense.

Changes in capital leases

Changes in capital leases during the year ended June 30, 2010 were as follows:

	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Dell Laptops	\$101,677	\$ -	\$ (86,701)	\$14,976

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE J - RESERVED FUND BALANCES

Reserves represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. At June 30, 2010, the District has included the following amounts as reserved fund balances:

<u>Series 2002 QZAB Debt service fund</u>	
Reserved for payment of Series of 2002 Qualified Zone Academy Bonds	\$ 2,112,351
<u>Series 2009 Debt service fund</u>	
Reserved for payment of Series of 2009 Revenue Bonds	541,886
<u>Trust funds</u>	
Awards to students	59,104
<u>Capital projects funds</u>	
Reserved for capital expenditures and debt service	<u>327,051</u>
	<u>\$ 3,040,392</u>

NOTE K - DEFINED BENEFIT PENSION PLAN

Plan Description

Name of Plan:	The Public School Employees' Retirement System (the System).
Type of Plan:	Governmental cost sharing multiple-employer defined benefit plan.
Benefits:	Retirement and disability, legislative mandated ad hoc cost-of-living adjustments, health care insurance premium assistance to qualifying annuitants.
Authority:	The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-8535).
Annual Financial Report:	The System issues a comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. This report is also available in the publications section of the PSERS website at www.psers.state.pa.us .

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE K - DEFINED BENEFIT PENSION PLAN - continued

Plan Description - continued

Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Contribution

Rates: Member Contributions: Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) 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 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50 percent (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2010, the rate of employer's contribution was 4.78 percent of covered payroll. The 4.78 percent rate is composed of a pension contribution rate of 4.00 percent and a .78 percent rate for health insurance premium assistance.

Contributions Required and Made

The School District's total payroll for the current year was \$67,213,419, while total covered payroll for retirement purposes was \$66,681,639.

Total contributions made during the year ended June 30, 2010, amounted to \$7,995,466 of which \$3,129,075 was made by the School District and \$4,866,391 was made by employees. These contributions represent 4.69 percent (District) and 7.30 percent (employees) of covered payroll.

The required contributions in dollars and the percentage of that amount contributed for the current year and each of the preceding two years is as follows:

<u>Fiscal Year Ending</u>	<u>Total Contribution</u>	<u>Percent of Covered Payroll</u>
June 30, 2010	\$ 3,129,075	4.69%
June 30, 2009	3,058,854	4.76
June 30, 2008	4,351,889	7.13

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE L - OTHER POST EMPLOYMENT BENEFITS

Plan Description

Name of Plan: Harrisburg School District Post employment Benefits Plan.

Type of Plan: Single-employer defined OPEB plan.

Benefits: Medical, prescription drug, dental, and vision premium assistance to qualifying annuitants.

Financial Report: The District obtains a comprehensive bi-annual financial report that includes the actuarial valuation and required supplementary information for the plan. A copy of the report may be obtained by writing to Laura V. Hess, Consulting Actuary, Conrad Siegel Actuaries, 501 Corporate Circle, P.O. Box 5900, Harrisburg, PA 17110-0900.

Funding Policy

Funding Policy Authority: The funding policy is established by the Harrisburg Area School District School Board. Funding requirements may be amended by passing a motion. GASB Statement 45 does not mandate the prefunding of postemployment benefits liability. The District currently funds these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide postemployment benefits.

Contribution Rates: Member Contributions: For the fiscal year ended June 30, 2010, retired employees paid \$262,868.

Employer Contributions: Employer contributions are made on a pay-as-you-go basis. In 2010, the amount of benefits paid was \$3,617,315.

Net OPEB Obligation And Annual OPEB Cost: The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), and the 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 amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount contributed to and the changes in the District's net OPEB asset.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE L - OTHER POST EMPLOYMENT BENEFITS - continued

Annual Required Contribution (ARC)	\$ 1,944,568
Interest on Net OPEB Obligation	(29,626)
Adjustment to ARC	<u>40,418</u>
 Annual OPEB Cost	 1,955,360
Contributions	<u>(3,617,315)</u>
 Increase in net OPEB Asset	 1,661,955
 Net OPEB Asset - Beginning of Year	 <u>1,820,204</u>
 Net OPEB Asset - End of Year	 <u>\$ 3,482,159</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB asset is as follows:

Year Ended	OPEB Cost	Contribution (ARC)	OPEB Cost Contributed	% of ARC Contributed	OPEB Asset
06/30/2009	\$ 1,944,568	1,944,568	3,764,772	193.60%	1,820,204
06/30/2010	1,955,360	1,944,568	3,617,315	186.03%	3,482,159

NOTE M - POST RETIREMENT HEALTH BENEFITS

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Liability (AAL) - Entry Age</u>	<u>Actuarial Accrued Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/08	-	\$16,030,356	\$16,030,356	0.00	\$55,949,258	28.65%

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to the financial statements presents 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.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE M - POST RETIREMENT HEALTH BENEFITS - continued

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term perspective and consistent with that perspective, actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The entry age normal cost method actuarial valuation was used based upon census information provided on July 10, 2008. The actuarial assumptions included utilized a 4.50% interest rate and salary increases for spreading contributions over future pay. Salary increases are composed of a 3% cost of living adjustment, 1% real wage growth, and for teachers and administrators, a merit increase which varies by age from 3% to 0.25%. The valuation assumes an 8.5% healthcare cost trend for fiscal year 2009, reduced by decrements of .5% per year to an ultimate rate of 5% in 2015 and later.

NOTE N - OTHER POST EMPLOYMENT BENEFITS

A summary of the District's total compensated absence liabilities for the year ended June 30, 2010 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Vacation, sick, and personal days	\$ 4,063,152	\$ -	\$ 472,493	\$ 3,590,659
Early retirement health costs	<u>5,041,950</u>	<u>-</u>	<u>1,281,800</u>	<u>3,760,150</u>
Total	<u>\$ 9,105,102</u>	<u>\$ -</u>	<u>\$ 1,754,293</u>	<u>\$ 7,350,809</u>

Health and Dental Care

The District provides post employment health and dental care benefits for certain retirees as required by the union contracts with teachers and administrative personnel, under the District's Early Retirement Incentive Program (ERIP). The benefits vary depending on whether the retiree was a teacher, an administrative employee or support staff. The District pays 100 percent of the allowable benefits for employees who retire with 15 years or more of total service with the District and who are 55 years of age or older. The District pays the benefits until the recipient reaches the age of 65. Under some retirees' arrangements, the retiree reimburses the District for a portion of the benefit cost. Expenditures of the District are presented net of this reimbursement.

As of June 30, 2010, there were 184 retirees who were receiving the premium-coverage benefit. For the year ended June 30, 2010, the District recognized expenditures of approximately \$1,205,301 for health and dental care benefits for retirees.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE N - OTHER POST EMPLOYMENT BENEFITS - continued

Retirement Bonuses

The District also provides retirement bonuses to its employees. The amount of the payment depends on whether the retiree was a teacher or a support staff employee.

Teachers who retire after 15 years or more of total service with the District and who retire under the PSERS superannuation retirement or other board approved package are entitled to \$700 for each year they have taught in the District. The District pays such service bonuses in three equal annual July installments following the date of retirement.

Support staff personnel who retire after 15 years or more of total service with the District and who are 55 years of age or older are entitled to a retirement bonus that is 20 percent of their highest salary with the District. One half of the total payment is made on October 15, of the school year following retirement, and one half of the total payment is made the following February 15. No more than ten persons are eligible to receive a retirement bonus in any one fiscal year. Eligibility is determined based on seniority.

For the year ended June 30, 2010, the District did not pay any retirement bonuses.

NOTE O - INTERFUND BALANCES

Individual fund interfund receivable and payable balances at June 30, 2010, are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General	\$ 2,485,009	\$ -
Non-major governmental funds	-	1,539,071
Enterprise District food service	-	942,699
Fiduciary	-	3,239
	<u>\$ 2,485,009</u>	<u>\$ 2,485,009</u>

NOTE P - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2010, consisted of the following:

Amounts due from:	
Commonwealth of PA	\$ 2,338,435
Federal government as passed through the PA Department of Education	6,541,993
Tuition - other LEA's	233,559
City treasurer	637
Total	<u>\$ 9,114,624</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE Q - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; job-related injuries to employees; and natural disasters. The District has purchased various insurance policies to protect the assets of the District from these risks of loss. The amounts of settlements have not exceeded insurance coverage during the year ended June 30, 2010.

NOTE R - COMMITMENTS AND CONTINGENCIES

Litigation

The School District is involved in several claims and lawsuits incidental to its operation. In the opinion of the administration and legal counsel, the eventual resolution and effect on the financial position of the School District is undeterminable.

Grants

The School District is party to various grants with Federal and State agencies which are subject to program and compliance audits by the grantors or under the Single Audit Act Amendments of 1996. Findings and questioned costs arising out of such audits are subject to the ultimate disposition by the grantor agency. In the opinion of the Administration, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the School District.

Commitments

The District had no outstanding commitments on construction contracts as of June 30, 2010.

NOTE S - RELATED PARTY TRANSACTIONS

The Capital Area Intermediate Unit provides special education services and other workshops to the District. During the year ended June 30, 2010, the District's expenditures relating to those services and workshops were \$738,091.

NOTE T - BOARD OF CONTROL

In November 2000, legislation was passed in the Commonwealth of Pennsylvania which required the governing control of the District to be mandated by the Commonwealth. The Commonwealth placed the Mayor of the City of Harrisburg (the Mayor) in control. The Mayor appointed a five member Board of Control in January 2001. The Board of School Directors commenced litigation to declare the Board of Control as unconstitutional. Before the litigation was resolved, the Commonwealth Court dismissed the complaint, because the General Assembly had enacted Act 91.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE T - BOARD OF CONTROL - continued

Act 91 defined an Education Empowerment District, and determined that an Empowerment District should be governed by a five member Board of Control appointed by the Mayor of the city. The District qualified as an Empowerment District. Pursuant to Act 91, the Board of Control retained governance of the District.

In January 2002, the Commonwealth Court declared portions of Act 91 to be unconstitutional. The Mayor has appealed this decision to the Pennsylvania Supreme Court. The case was argued in the Pennsylvania Supreme Court in April 2003. A decision in favor of the current governance was handed down by the Pennsylvania Supreme Court in June 2003.

Legislation was enacted in July of 2007 to approve the appointment of two members of the Board of School Directors to be added to the Board of Control to make it a seven-member body. The two additional members are voted on by the total member body of the Board of School Directors.

NOTE U - DEFICITS IN FUND BALANCE OF INDIVIDUAL FUND

At June 30, 2010, the following funds had deficit fund balances in the following amounts:

Athletic Fund	\$1,557,594
Food Service Fund	821,132

NOTE V - TAX AND REVENUE ANTICIPATION NOTE

On August 19, 2009 the District issued a \$8,000,000 Tax and Revenue Anticipation Note to manage the temporary cash flow deficits that occur when the timing of required expenditures does not coincide with the timing of the collection of taxes and other revenues. The note was issued in anticipation of collection of taxes and all revenues of the District to be received during the period ending June 30, 2010. The proceeds were deposited to the general fund and were used to pay authorized expenditures of the prior fiscal year. The note was repaid during the current fiscal year.

Activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Borrowed</u>	<u>Repaid</u>	<u>Ending Balance</u>
Governmental activities:				
Tax anticipation notes	\$ -	\$8,000,000	\$8,000,000	\$ -

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE W - SUBSEQUENT EVENTS

As of July 1, 2010 the Board of Control is no longer the governing body of the District. Legislation that was passed in November 2000 that put the Commonwealth of Pennsylvania in governing control of the District expired June 30, 2010 and was not renewed. As of July 1, 2010 the elected School Board is the recognized governing body of the District.

On October 6, 2010 the District issued a General Obligation Note (State Public School Building Authority Qualified School Construction Bond Program) in the amount of \$9,194,000 for renovations to District buildings.

In December 2010 the former Superintendent, Deputy Superintendent, and Assistant Superintendent for Curriculum and Instruction filed a suit against the District for breach of contract. The outcome of this matter is undeterminable at this time.

On February 11, 2011, the District received notification from the Department of Labor that is was disallowing \$89,402 in regards to the YouthBuild grant findings from the fiscal year end June 30, 2009 audit. The funds were paid by the District on March 1, 2011.

Management has evaluated subsequent events through March 31, 2011, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local revenues	\$47,808,866	\$47,808,866	\$49,436,769	\$ 1,627,903
State program revenues	76,272,569	76,272,569	64,745,834	(11,526,735)
Federal program revenues	23,350,989	23,350,989	22,144,008	(1,206,981)
	<u>147,432,424</u>	<u>147,432,424</u>	<u>136,326,611</u>	<u>(11,105,813)</u>
EXPENDITURES				
Regular programs	52,994,771	50,962,522	50,962,522	-
Special programs	19,930,251	19,101,900	19,101,900	-
Vocational programs	1,441,678	1,409,435	1,409,435	-
Other instructional programs	7,802,927	7,927,042	7,927,042	-
Adult education programs	499,227	421,275	421,275	-
Community/Jr college programs	995,220	1,021,351	1,021,351	-
Pre-kindergarten	4,158,710	4,112,784	4,112,784	-
Pupil personnel services	4,572,601	4,313,191	4,313,191	-
Instructional staff services	3,135,501	2,650,426	2,650,426	-
Administrative services	9,431,811	8,789,433	8,789,433	-
Pupil health	1,855,325	1,439,673	1,439,673	-
Business services	1,293,163	1,128,693	1,128,693	-
Operation and maintenance of plant services	12,923,138	10,770,251	10,770,251	-
Student transportation services	3,106,739	2,847,412	2,847,412	-
Central and other support services	4,803,283	4,465,829	4,465,829	-
Other support services	2,045,000	2,086,539	2,086,539	-
Student activities	338,654	214,117	214,117	-
Community services	266,764	252,065	252,065	-
Debt service	180,000	964,416	964,416	-
	<u>131,774,763</u>	<u>124,878,354</u>	<u>124,878,354</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	15,657,661	22,554,070	11,448,257	(11,105,813)

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -
 BUDGET AND ACTUAL - GENERAL FUND - continued
 YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES				
(USES)				
Refund prior year receipts	-	(89,058)	(89,058)	-
Transfers out	(15,555,446)	(15,555,446)	(14,169,963)	1,385,483
Budgetary reserve	(102,215)	-	-	-
		.		
Total other financing sources (uses)	<u>(15,657,661)</u>	<u>(15,644,504)</u>	<u>(14,259,021)</u>	<u>1,385,483</u>
Net change in fund balances	-	6,909,566	(2,810,764)	(9,720,330)
FUND BALANCE - BEGINNING	<u>-</u>	<u>-</u>	<u>2,761,201</u>	<u>2,761,201</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ 6,909,566</u>	<u>\$ (49,563)</u>	<u>\$ (6,959,129)</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2010

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)
07/01/08	\$ -	\$ 16,030,356	\$ 16,030,356	0%	\$ 55,949,258	28.65%

SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
COMBINING BALANCE SHEETS -
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

ASSETS

	Capital Projects			Special Revenue			Debt Service				
	Series 2008 Note	Series 2009B	Total	Athletic Fund	Capital Reserve Fund	Total	Series 2002 QZAB	Series 2003	Series 2009	Total	Total
Cash and cash equivalents	\$ 327,051	\$ -	\$ 327,051	\$ 204	\$ 95,898	\$ 96,102	\$ 1,351	\$ -	\$ 541,886	\$ 543,237	\$ 966,390
Investments	-	-	-	-	-	-	2,111,000	-	-	2,111,000	2,111,000
Other receivables	-	-	-	726	-	726	-	-	-	-	726
	<u>\$ 327,051</u>	<u>\$ -</u>	<u>\$ 327,051</u>	<u>\$ 930</u>	<u>\$ 95,898</u>	<u>\$ 96,828</u>	<u>\$ 2,112,351</u>	<u>\$ -</u>	<u>\$ 541,886</u>	<u>\$ 2,654,237</u>	<u>\$ 3,078,116</u>

LIABILITIES AND FUND BALANCES (DEFICITS)

Liabilities											
Due to other funds	\$ -	\$ -	\$ -	\$ 1,539,071	\$ -	\$ 1,539,071	\$ -	\$ -	\$ -	\$ -	\$ 1,539,071
Accounts payable	-	-	-	11,280	-	11,280	-	-	-	-	11,280
Accrued salaries and benefits	-	-	-	8,173	-	8,173	-	-	-	-	8,173
Total liabilities	-	-	-	1,558,524	-	1,558,524	-	-	-	-	1,558,524
Fund balances (deficits)											
Unreserved	-	-	-	(1,557,594)	95,898	(1,461,696)	-	-	-	-	(1,461,696)
Reserved	327,051	-	327,051	-	-	-	2,112,351	-	541,886	2,654,237	2,981,288
Total fund balances (deficits)	<u>327,051</u>	<u>-</u>	<u>327,051</u>	<u>(1,557,594)</u>	<u>95,898</u>	<u>(1,461,696)</u>	<u>2,112,351</u>	<u>-</u>	<u>541,886</u>	<u>2,654,237</u>	<u>1,519,592</u>
	<u>\$ 327,051</u>	<u>\$ -</u>	<u>\$ 327,051</u>	<u>\$ 930</u>	<u>\$ 95,898</u>	<u>\$ 96,828</u>	<u>\$ 2,112,351</u>	<u>\$ -</u>	<u>\$ 541,886</u>	<u>\$ 2,654,237</u>	<u>\$ 3,078,116</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	Capital Projects			Special Revenue			Debt Service				Total
	Series 2008 Note	Series 2009B	Total	Athletic Fund	Capital Reserve Fund	Total	Series 2002 QZAB	Series 2003	Series 2009	Total	
REVENUES											
Local sources	\$ 936	\$ -	\$ 936	\$ 48,615	\$ 175	\$ 48,790	\$ 71,104	\$ -	\$ 204	\$ 71,308	\$ 121,034
State sources	-	-	-	31,908	-	31,908	-	-	-	-	31,908
Total revenues	936	-	936	80,523	175	80,698	71,104	-	204	71,308	152,942
EXPENDITURES											
Instruction	-	562,599	562,599	-	-	-	-	-	-	-	562,599
Non-instructional services	-	-	-	729,120	-	729,120	-	1,200	-	1,200	730,320
Facility acquisition and improvement	116,168	-	116,168	3,903	-	3,903	-	-	-	-	120,071
Debt service	-	-	-	-	-	-	-	-	12,965,324	12,965,324	12,965,324
Total expenditures	116,168	562,599	678,767	733,023	-	733,023	-	1,200	12,965,324	12,966,524	14,378,314
Excess (deficiency) of revenues over expenditures	(115,232)	(562,599)	(677,831)	(652,500)	175	(652,325)	71,104	(1,200)	(12,965,120)	(12,895,216)	(14,225,372)
OTHER FINANCING SOURCES											
Payment to bond refunding escrow agent	-	-	-	-	-	-	-	-	(485,000)	(485,000)	(485,000)
Transfers in	-	562,599	562,599	500,000	-	500,000	305,046	-	13,364,917	13,669,963	14,732,562
Transfers out	-	-	-	-	-	-	-	-	(562,599)	(562,599)	(562,599)
Total other financing sources	-	562,599	562,599	500,000	-	500,000	305,046	-	12,317,318	12,622,364	13,684,963
NET CHANGE IN FUND BALANCE (DEFICIT)	(115,232)	-	(115,232)	(152,500)	175	(152,325)	376,150	(1,200)	(647,802)	(272,852)	(540,409)
FUND BALANCE (DEFICIT) - BEGINNING	442,283	-	442,283	(1,405,094)	95,723	(1,309,371)	1,736,201	1,200	1,189,688	2,927,089	2,060,001
FUND BALANCE (DEFICIT) - ENDING	<u>\$ 327,051</u>	<u>\$ -</u>	<u>\$ 327,051</u>	<u>\$ (1,557,594)</u>	<u>\$ 95,898</u>	<u>\$ (1,461,696)</u>	<u>\$ 2,112,351</u>	<u>\$ -</u>	<u>\$ 541,886</u>	<u>\$ 2,654,237</u>	<u>\$ 1,519,592</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Taxes				
Current real estate taxes	\$ 32,997,989	\$ 32,997,989	\$ 32,580,494	\$ (417,495)
Delinquent real estate taxes	3,500,000	3,500,000	4,483,259	983,259
Current school occupation	850,000	850,000	815,626	(34,374)
Delinquent school occupation	1,300,000	1,300,000	1,705,243	405,243
Earned income taxes	3,000,000	3,000,000	3,343,957	343,957
Real estate transfer	495,000	495,000	462,717	(32,283)
Emergency and municipal services tax	129,000	129,000	242,622	113,622
Payments in lieu of tax	300,000	300,000	925,739	625,739
Public utility realty tax	50,000	50,000	54,463	4,463
Amusement	250,000	250,000	244,675	(5,325)
Business and mercantile	1,900,000	1,900,000	1,658,206	(241,794)
Total taxes	44,771,989	44,771,989	46,517,001	1,745,012
Other				
Tuition and other payments from patrons	65,000	65,000	277,452	212,452
Earnings from temporary deposits	100,000	100,000	69,951	(30,049)
Rent from school and other facilities	25,000	25,000	41,212	16,212
Revenue received from other Pennsylvania public schools	2,046,877	2,046,877	1,950,539	(96,338)
Revenue received from other intermediate sources	-	-	140,817	140,817
Contributions from private sources	800,000	800,000	366,877	(433,123)
Miscellaneous	-	-	72,920	72,920
Total other	3,036,877	3,036,877	2,919,768	(117,109)
Total local sources	47,808,866	47,808,866	49,436,769	1,627,903

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - GENERAL FUND - continued
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
State sources				
Basic instructional subsidy	42,606,811	42,606,811	37,111,546	(5,495,265)
Empowerment	1,095,000	1,095,000	716,561	(378,439)
Charter school	750,000	750,000	750,238	238
Tuition reimbursement	200,000	200,000	98,295	(101,705)
Homebound instruction	3,000	3,000	-	(3,000)
Vocational education	290,000	290,000	246,110	(43,890)
Alternative education	3,591,956	3,591,956	-	(3,591,956)
Special education of exceptional students	4,995,657	4,995,657	5,782,672	787,015
Other program subsidies, ARC	2,014,700	2,014,700	2,046,674	31,974
Transportation	1,217,070	1,217,070	1,427,147	210,077
Medical and dental services	-	-	181,281	181,281
Nurse services	185,000	185,000	-	(185,000)
Extra grants	1,114,656	1,114,656	283,899	(830,757)
Retirement reimbursement	2,240,000	2,240,000	2,107,344	(132,656)
Social security	2,575,000	2,575,000	2,659,851	84,851
Sinking fund subsidy	3,000,000	3,000,000	1,523,539	(1,476,461)
Pennsylvania accountability block grant	2,880,645	2,880,645	2,618,768	(261,877)
Pre-K Counts	3,391,200	3,391,200	3,391,200	-
Educational Assistance Act	1,208,132	1,208,132	933,661	(274,471)
Classrooms for the future	-	-	25,000	25,000
State property tax reduction allocation	2,774,302	2,774,302	2,774,302	-
Dual enrollment	139,440	139,440	67,746	(71,694)
Total state sources	76,272,569	76,272,569	64,745,834	(11,526,735)
Federal sources				
Payments for federally impacted areas	530,618	530,618	479,522	(51,096)
Education Consolidation and Improvement Act - Title I	11,868,372	11,868,372	10,462,639	(1,405,733)
Program Improvement, IDEA	2,220,700	2,220,700	1,588,203	(632,497)
Access	498,387	498,387	443,068	(55,319)
Adult basic education	30,713	30,713	25,492	(5,221)
Education for Economic Security Act - Title II	1,423,032	1,423,032	1,419,411	(3,621)
Medical assistance reimbursement	-	-	113,669	113,669
Vocational education	229,371	229,371	243,346	13,975
Language instruction for LEP and immigrant students - Title III	218,456	218,456	144,176	(74,280)
State Fiscal Stabilization Fund	3,203,500	3,203,500	4,988,617	1,785,117
PA Coalition to Prevent Teen Pregnancy	-	-	10,000	10,000
Other federal grants-in-aid	3,127,840	3,127,840	2,225,865	(901,975)
Total federal sources	23,350,989	23,350,989	22,144,008	(1,206,981)
Total revenues	\$ 147,432,424	\$ 147,432,424	\$ 136,326,611	\$(11,105,813)

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
FIDUCIARY FUNDS - COMBINING BALANCE SHEET
JUNE 30, 2010

ASSETS

	Private Purpose Trust Funds			Agency Funds				
	Non-Expendable Trust Fund	Expendable Trust Fund	Total	Elementary Activity Fund	Secondary Activity Fund	Agency Fund	SBI Agency Fund	Total
Cash and cash equivalents	\$ 25,273	\$ 33,849	\$ 59,122	\$ 17,878	\$ 42,713	\$ 99,956	\$ 65,169	\$ 225,716
Other receivables	-	-	-	2,007	9	1,355	-	3,371
	<u>\$ 25,273</u>	<u>\$ 33,849</u>	<u>\$ 59,122</u>	<u>\$ 19,885</u>	<u>\$ 42,722</u>	<u>\$ 101,311</u>	<u>\$ 65,169</u>	<u>\$ 229,087</u>

LIABILITIES AND FUND BALANCES

Liabilities								
Accounts payable	\$ 1	\$ -	\$ 1	\$ 914	\$ -	\$ 2,694	\$ -	\$ 3,608
Due to other funds	17	-	17	626	946	1,462	188	3,222
Funds held for others	-	-	-	18,345	41,776	97,155	64,981	222,257
Total liabilities	<u>18</u>	<u>-</u>	<u>18</u>	<u>19,885</u>	<u>42,722</u>	<u>101,311</u>	<u>65,169</u>	<u>229,087</u>
Fund balances								
Reserved	<u>25,255</u>	<u>33,849</u>	<u>59,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 25,273</u>	<u>\$ 33,849</u>	<u>\$ 59,122</u>	<u>\$ 19,885</u>	<u>\$ 42,722</u>	<u>\$ 101,311</u>	<u>\$ 65,169</u>	<u>\$ 229,087</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
FIDUCIARY FUNDS - NONEXPENDABLE TRUST FUND
DETAILED SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2010

	Revenues	Expenses	Excess (Deficiency) of Revenues Over Expenses	Fund Balance Beginning of Year	Fund Balance End of Year
Class of 1907 - Central H. S.	\$ 1	\$ 1	\$ -	\$ 300	\$ 300
Class of 1917 - Central H. S.	16	17	(1)	1,001	1,000
Class of 1918 - Central H. S.	2	7	(5)	905	900
Class of 1925 - Technical H. S.	17	20	(3)	1,004	1,001
Class of 1930 - William Penn H. S.	-	1	(1)	201	200
Class of 1931 - William Penn H. S.	1	1	-	301	301
Class of 1943 - William Penn H. S.	-	1	(1)	201	200
Class of 1958 - John Harris H. S.	-	1	(1)	201	200
E. E. Miller Award	-	17	(17)	117	100
Robert A. Lamberton	3	5	(2)	1,312	1,310
W. S. Steel Memorial (Class of 1915 and 1916 - Central H. S.)	1	3	(2)	403	401
Frannie Zarkin Katzan Award - William Penn H. S.	1	1	-	250	250
Marti-McCord Musical Achievement Award	3	6	(3)	1,503	1,500
William Penn High School Business Club Award	1	-	1	442	443
Annie Schlayer Award	1	25	(24)	575	551
Elizabeth Smith Award	1	-	1	494	495
Karen Lukens Safety Award	15	-	15	6,825	6,840
J. J. Brehm Award	1	3	(2)	452	450
Frank Goodyear Memorial	8	150	(142)	3,569	3,427
Jim Keener Memorial	2	4	(2)	1,056	1,054
Mary Warfield Award	1	1	-	300	300
C. Wolfgang Memorial	1	1	-	372	372
General Scholarship Fund	16	-	16	623	639
Barbara Baton Scholarship Fund	497	969	(472)	3,493	3,021
	<u>\$ 589</u>	<u>\$ 1,234</u>	<u>\$ (645)</u>	<u>\$ 25,900</u>	<u>\$ 25,255</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
FIDUCIARY FUNDS - EXPENDABLE TRUST FUND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2010

	<u>Revenues</u>	<u>Expenditures</u>	Excess (Deficiency) of Revenues Over Expenditures	Fund Balance Beginning of Year	Fund Balance End of Year
D. Martin Memorial Scholarship Fund	\$ -	\$ 50	\$ (50)	\$ 103	\$ 53
Jack Devin Scholarship Fund	-	-	-	24	24
Woodrow Aikens Scholarship	12	150	(138)	5,083	4,945
John Black Scholarship	1	50	(49)	288	239
English Department Scholarship	1	50	(49)	412	363
R. Patterson Scholarship	-	164	(164)	164	-
Manny Weaver	-	-	-	1	1
Donald M. Carroll Scholarship	2	1,500	(1,498)	1,512	14
Sunguard Senior Scholarship	-	-	-	203	203
David H. Goldsmith Scholarship	17,003	10,000	7,003	3,155	10,158
Scott Family Scholarship	23	2,500	(2,477)	10,473	7,996
Goldsmith Family Foundation	13	8,000	(7,987)	8,130	143
Schrinertown Civic Association	-	-	-	4	4
James Booser Scholarship	1,000	1,000	-	4	4
Evangeline Kimber Award	-	-	-	-	-
Sci-Tech NPR Scholarship	10,002	356	9,646	56	9,702
	<u>\$ 28,057</u>	<u>\$ 23,820</u>	<u>\$ 4,237</u>	<u>\$ 29,612</u>	<u>\$ 33,849</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
FIDUCIARY FUNDS - AGENCY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUNDS HELD FOR OTHERS
YEAR ENDED JUNE 30, 2010

	Account Balance Beginning of Year	Receipts	Disbursements	Account Balance End of Year
Elementary Activity				
Ben Franklin	\$ 4,893	\$ 101	\$ 3,031	\$ 1,963
Downey	33	-	-	33
Foose	298	1	-	299
Hamilton	1,616	889	1,344	1,161
Lincoln Student Council	103	-	-	103
Lincoln	990	1,494	297	2,187
Marshall School Store	276	7,554	7,095	735
Melrose	3,181	4,991	2,890	5,282
Melrose Garden Club	173	-	173	-
Shimmell	18	-	-	18
Steele	1,549	5	-	1,554
Scott	5,196	5,749	9,731	1,214
Camp Curtin	-	2,725	-	2,725
Rowland Student Account	800	2	-	802
Math/Science Academy	268	1	-	269
	<u>\$ 19,394</u>	<u>\$ 23,512</u>	<u>\$ 24,561</u>	<u>\$ 18,345</u>
Secondary Activity				
High and Middle Schools	<u>\$ 80,230</u>	<u>\$ 66,833</u>	<u>\$ 105,287</u>	<u>\$ 41,776</u>
Agency Fund				
High and Middle Schools				
Alumni Account - McIntosh	\$ 88	\$ -	\$ -	\$ 88
Lincoln Commission Account	3,405	246	-	3,651
Life Skills Support	686	2	-	688
Ben Franklin Coke Commission	927	880	1,517	290
Downey Coke Commission	1,079	1,071	869	1,281
Hamilton Coke Commission	3,344	1,160	4,154	350
Rowland Coke Commission	3,463	549	-	4,012
Scott Coke Commission	3,569	685	-	4,254
Cheerleading Booster Club	4,098	1,017	1,284	3,831
Cougar Club	(1,231)	4,579	1,403	1,945
Girls Varsity Basketball	320	186	361	145
High School Band Boosters	5,674	6,072	5,832	5,914
CTA Culinary Arts	10,172	767	-	10,939
Jobs for PA graduates	12,252	7,065	14,959	4,358
T. Morris Chester Math/Science Academy	753	2	-	755
Boys Basketball Club	1,871	1	1,648	224
Vo-Tech Machine Technology	1,518	4	-	1,522
Vo-Tech General Fund	6,058	861	3,535	3,384
Vo-Tech Graphic Arts	104	-	-	104
CTA Class of 2008	670	2	-	672
Explore After School	147	-	-	147
Steele Commission Account	4,042	3,015	5,271	1,786
Melrose Commission Account	1,384	1,979	893	2,470
Marshall Commission Account	8,028	2,505	1,053	9,480
Track and Field Booster Club	3,002	2,798	2,906	2,894
Rowland - Team 2 Deb Harrison	469	1	-	470
Homeless Program	22	-	-	22
Shimmel Coke Commission	653	492	-	1,145
John Harris Coke Commission	827	53	520	360
Special Education Autism Account	621	2	-	623
Harrisburg High Music Account	171	-	-	171
Art Account - Gene Van Dyke	286	1	-	287
William Penn General Fund (ACTS)	1,857	5,667	4,547	2,977
William Penn ACTS Recycling Account	107	-	-	107
Hbg School Special Olympics	674	1	369	306
Annex Coke Commission	1,839	3	1,047	795
Foose Coke Commission	4,471	1,072	111	5,432
Camp Curtin Commission	866	1,322	-	2,188
Marshall Staff Account	281	1,289	741	829
Rowland Girls Basketball Account	400	1	-	401
Rowland Cheerleading Account	664	2	-	666
Instrument Rental	2,843	1,149	-	3,992
Cougar Wrestling Club	1,491	1,964	2,464	991
Lincoln School Kim Project	137	-	-	137
Elementary Band Boosters	(12)	1,722	1,816	(106)
Melrose Activity Account	1,039	1	1,039	1
Sci-Tech Youth & Government	-	501	-	501
Sci-Tech Robotics Club	-	1,001	-	1,001
Sci-Tech Mock Trial Club	-	201	200	1
Vo-Tech Horticulture Account	-	7,814	6,411	1,403
Vo-Tech Carpentry Account	-	16,297	9,028	7,269
Vo-Tech Cosmetology Class	-	457	455	2
	<u>\$ 95,129</u>	<u>\$ 76,459</u>	<u>\$ 74,433</u>	<u>\$ 97,155</u>
Agency Fund				
S.B.I. Fund	<u>\$ 72,923</u>	<u>\$ 18,524</u>	<u>\$ 26,466</u>	<u>\$ 64,981</u>

SINGLE AUDIT INFORMATION

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

Board of School Directors
The School District of the City of Harrisburg

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 School District of the City of Harrisburg as of and for the year ended June 30, 2010, which collectively comprise The School District of the City of Harrisburg's basic financial statements and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The School District of the City of Harrisburg's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The School District of the City of Harrisburg's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The School District of the City of Harrisburg's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. (FS 2010-01)

**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 - continued**

Internal Control Over Financial Reporting - continued

A significant deficiency is a deficiency, or a combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency (FS 2010-02).

Compliance and Other Matters

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

We noted certain other matters that we reported to management of The School District of the City of Harrisburg in a separate letter dated March 31, 2011.

The School District of the City of Harrisburg's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit The School District of the City of Harrisburg's response and, accordingly, we express no opinion on it.

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

Stambaugh Ness, PC

York, Pennsylvania
March 31, 2011

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

Board of School Directors
The School District of the City of Harrisburg

Compliance

We have audited The School District of the City of Harrisburg's compliance of with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on The School District of the City of Harrisburg's major federal programs for the year ended June 30, 2010. The School District of the City of Harrisburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The School District of the City of Harrisburg's management. Our responsibility is to express an opinion on The School District of the City of Harrisburg's compliance based on our audit.

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

In our opinion, The School District of the City of Harrisburg complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items (SA 2010-01, SA 2010-03 through SA 2010-07.)

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

Internal Control Over Compliance

Management of The School District of the City of Harrisburg is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The School District of the City of Harrisburg's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The School District of the City of Harrisburg'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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items (SA 2010-01 through SA 2010-07). 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.

The School District of the City of Harrisburg's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit The School District of the City of Harrisburg's response and, accordingly, we express no opinion on it.

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

Stambaugh Ness, PC

York, Pennsylvania
March 31, 2011

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

GRANTOR PROGRAM TITLE	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2009	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2010
U.S. DEPARTMENT OF EDUCATION										
Impact Aid	D	84.041	N/A	FYE 2008	147,608	-	(23,165)	23,165	23,165	-
Impact Aid	D	84.041	N/A	FYE 2009	140,833	-	(140,833)	140,833	140,833	-
Impact Aid	D	84.041	N/A	FYE 2010	116,183	116,183	-	33,954	33,954	(82,229)
Impact Aid	D	84.041	N/A	FYE 2010	19,364	19,364	-	19,364	19,364	-
Impact Aid Total					423,988	135,547	(163,998)	217,316	217,316	(82,229)
Fund for the Improvement of Education - Harrisburg Character Education Partnership (07-08)	D	84.215S	N/A	07 JUL 01 - 08 JUN 30	449,247	-	125,721	-	-	125,721
Fund for the Improvement of Education - Harrisburg Character Education Partnership (08-09)	D	84.215S	N/A	08 JUL 01 - 09 JUN 30	333,851	284,124	284,124	49,727	49,727	49,727
Fund for the Improvement of Education - Harrisburg Character Education Partnership (09-10)	D	84.215S	N/A	09 JUL 01 - 10 JUN 30	262,207	-	-	262,207	262,207	262,207
Fund for the Improvement of Education - Carol M. White Physical Education Program (07-08)	D	84.215F	N/A	07 JUN 15 - 08 JUN 14	449,271	51,694	51,694	-	-	-
Fund for the Improvement of Education - Carol M. White Physical Education Program (08-09)	D	84.215F	N/A	08 JUN 15 - 09 JUN 14	226,479	211,829	66,043	145,786	145,786	-
Fund for the Improvement of Education - Carol M. White Physical Education Program (09-10)	D	84.215F	N/A	09 JUN 15 - 11 MAR 31	258,177	85,756	-	161,402	161,402	75,646
Promoting Excellence Through Advanced Library Skills (PETALS) 08-09	D	84.364A	S364A080355	08 SEP 01 - 09 AUG 31	306,743	198,483	198,483	75,990	75,990	75,990
Harrisburg School District PreK Program (08-09)	D	84.215K	U215K080009	08 AUG 22 - 10 AUG 21	406,768	317,813	294,836	22,977	22,977	-
Total Passed Through the U.S. Department of Education					3,116,731	1,285,246	856,903	935,405	935,405	507,062
Passed Through the Pennsylvania Department of Education:										
Title I Grants to Local Educational Agencies (08-09)	I	84.010	013-090184	08 JUL 02 - 10 SEP 30	5,357,200	1,786,312	529,589	1,256,723	1,256,723	-
Title I Grants to Local Educational Agencies (09-10)	I	84.010	013-100184	09 MAY 15 - 10 SEP 30	5,351,027	3,968,540	-	3,821,746	3,821,746	(146,794)
Title I Grants to Local Educational Agencies - Academic Achievement (08-09)	I	84.010	077-090184	08 JUL 01 - 10 SEP 30	1,000	600	600	-	-	-
Title I Grants to Local Educational Agencies - Academic Achievement (09-10)	I	84.010	077-100184	09 JUL 01 - 11 SEP 30	8,600	-	-	-	-	-
ARRA - Title I Grants to Local Educational Agencies (09-10)	I	84.389	127-100184	09 MAY 15 - 10 SEP 30	3,654,783	2,590,047	-	3,654,783	3,654,783	1,064,736
Title I Grants to Local Educational Agencies - Program Improvement Set Aside (07-08)	I	84.010	042-080184	08 JAN 03 - 09 SEP 30	948,000	284,303	(37,355)	321,657	321,657	-
Title I Grants to Local Educational Agencies - Program Improvement Set Aside (08-09)	I	84.010	042-090184	09 APR 08 - 10 SEP 30	787,573	439,542	(290,041)	787,573	787,573	57,990
Title I Grants to Local Educational Agencies - Program Improvement Set Aside (08-09)	I	84.377	042-090184	09 APR 08 - 10 SEP 30	620,427	577,347	(22,848)	620,427	620,427	20,232
Improving Teacher Quality State Grants (08-09)	I	84.367	020-090184	08 JUL 02 - 09 SEP 30	1,104,333	294,489	294,489	-	-	-
Improving Teacher Quality State Grants (09-10)	I	84.367	020-100184	09 MAY 15 - 10 SEP 30	1,103,176	661,906	-	1,103,176	1,103,176	441,270
Education Technology State Grants (07-08)	I	84.318	055-080184	07 JUL 10 - 09 SEP 30	214,900	554	554	-	-	-
Education Technology State Grants (08-09)	I	84.318	055-090184	08 JUL 01 - 10 SEP 30	383,625	230,175	(36,838)	267,013	267,013	-
Safe and Drug-Free Schools and Communities - State Grants (08-09)	I	84.186	100-090184	08 SEP 17 - 10 MAR 31	124,721	79,914	32,907	47,007	47,007	-
Safe and Drug-Free Schools and Communities - State Grants (09-10)	I	84.186	100-100184	09 AUG 25 - 11 MAR 31	59,356	25,438	-	3,389	3,389	(22,049)
Adult Education State Grant Program (FYE 09-10)	I	84.002	041-100044	09 JUL 01 - 10 JUN 30	25,492	14,870	-	25,492	25,492	10,622
Career and Technical Education - Basic Grants to States (FYE 08-09)	I	84.048	380-099106	08 SEP 23 - 09 JUN 30	226,294	15,944	10,670	5,274	5,274	-
Career and Technical Education - Basic Grants to States (FYE 09-10)	I	84.048	380-100043	09 JUL 01 - 10 JUN 30	238,072	198,393	-	238,072	238,072	39,679
Twenty-First Century Community Learning Centers (07-08)	I	84.287	FC4100040440	07 OCT 01 - 08 SEP 30	276,677	35,497	-	35,497	35,497	-
Twenty-First Century Community Learning Centers (06-07)	I	84.287	FC4100027138	08 OCT 01 - 09 SEP 30	183,557	183,557	170,805	12,752	12,752	-
Twenty-First Century Community Learning Centers (08-09)	I	84.287	FC4100043191	08 OCT 01 - 09 JUN 30	279,099	95,345	95,345	-	-	-
Twenty-First Century Community Learning Centers (09-10)	I	84.287	FC4100043191A	08 JAN 15 - 10 JUN 30	93,375	186,121	-	253,691	253,691	67,570
Twenty-First Century Community Learning Centers (08-09)	I	84.287	FC4100027138	08 OCT 01 - 09 SEP 30	158,400	158,400	66,026	92,374	92,374	-

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

GRANTOR PROGRAM TITLE	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2009	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2010
Twenty-First Century Community Learning Centers (09-10)	I	84.287	FC4100052162	10 APR 08 - 13 JUN 30	240,000	-	-	60,000	60,000	60,000
Reading First State Grants 08-09	I	84.357	023-090184	08 JUL 01 - 10 JUN 30	656,005	159,142	159,412	(270)	(270)	-
English Language Acquisition Grants - Title III (07-08)	I	84.365	010-080184	07 JUL 10 - 09 SEP 30	120,927	64,494	64,494	-	-	-
English Language Acquisition Grants - Title III (08-09)	I	84.365	010-090184	08 SEP 04 - 09 SEP 30	147,716	-	(37,644)	71,732	71,732	34,088
English Language Acquisition Grants - Title III (09-10)	I	84.365	010-100184	09 DEC 04 - 11 SEP 30	223,265	66,980	-	72,444	72,444	5,464
Learn and Serve America	I	94.004	019-080005	08 OCT 01 - 09 JUN 30	3,500	778	778	-	-	-
Learn and Serve America	I	94.004	019-070005	07 SEP 01 - 08 JUN 30	3,500	1,750	1,750	-	-	-
Learn and Serve America	I	94.004	019-092026	09 OCT 13 - 10 JUN 30	3,500	1,667	-	3,000	3,000	1,333
Learn and Serve America	I	94.004	019-092006	09 OCT 13 - 10 JUN 30	11,000	6,111	-	11,000	11,000	4,889
Chesapeake Bay Studies - PA Meaningful Watershed School Mini-Grant	I	11.457	MO 0933024	09 SEP 30 - 10 SEP 30	3,282	3,282	-	575	575	(2,707)
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	I	84.394	126-100184	09 JUL 01 - 10 JUN 30	4,734,480	3,325,745	-	4,734,480	4,734,480	1,408,735
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	I	84.394	126-100184	09 JUL 01 - 10 JUN 30	254,137	-	-	254,137	254,137	254,137
ARRA - Education State Technology Grants, Recovery Act (09-10)	I	84.386	135-100184	09 JUL 01 - 11 SEP 30	613,800	-	-	49,222	49,222	49,222
Total Passed Through the Pennsylvania Department of Education					28,214,799	15,457,243	1,002,693	17,802,966	17,802,966	3,348,417
Passed Through Berks County Intermediate Unit:										
Reading Recovery (09-10)	I	84.357A	N/A	09 AUG 25 - 10 JUN 15	10,880	100,880	-	100,880	100,880	-
Reading First Mini Grant (09-10)	I	84.357	N/A	10 APR 01 - 10 AUG 01	10,000	10,000	-	-	-	(10,000)
ARRA - Education for Homeless Children and Youth (09-10)	I	84.387A	RA 136-09-2008	09 JUL 20 - 11 JUN 30	5,000	5,000	-	681	681	(4,319)
Education for Homeless Children and Youth (09-10)	I	84.196A	RA 081-09-0303	09 JUL 20 - 10 JUN 30	1,200	1,200	-	1,200	1,200	-
Total Passed Through Berks County Intermediate Unit					27,080	117,080	-	102,761	102,761	(14,319)
Passed Through Capital Area Intermediate Unit 15:										
Special Education - Grants to States (08-09)	I	84.027	N/A	08 JUL 01 - 09 JUN 30	1,871,869	779,945	779,945	-	-	-
Special Education - Grants to States (09-10)	I	84.027	N/A	09 JUL 01 - 10 JUN 30	1,930,696	973,112	-	1,930,696	1,930,696	957,584
ARRA - Special Education - Grants to States, Recovery Act (09-10)	I	84.391A	N/A	09 JUL 01 - 11 SEP 30	2,166,981	742,960	-	1,588,203	1,588,203	845,243
Total Passed Through Capital Area Intermediate Unit 15					5,969,546	2,496,017	779,945	3,518,899	3,518,899	1,802,827
Passed Through Harrisburg Area Community College:										
Tech Prep Education (08-09)	I	84.243	N/A	08 OCT 01 - 09 JUN 30	3,786	1,450	822	628	628	-
Total Passed Through Harrisburg Area Community College					3,786	1,450	822	628	628	-
Passed Through Pennsylvania State System of Higher Education:										
Gaining Early Awareness and Readiness for Undergraduate Programs (08-09)	I	84.334S	2008-GEARUP-01-HSD	08 OCT 15 - 09 AUG 31	451,158	293,030	197,013	96,017	96,017	-
Gaining Early Awareness and Readiness for Undergraduate Programs (09-10)	I	84.334S	2009-GEARUP-02	09 SEP 01 - 10 AUG 31	328,741	164,175	-	221,066	221,066	56,891
Total Passed Through Pennsylvania State System of Higher Education					779,899	457,205	197,013	317,083	317,083	56,891
Passed Through Central Susquehanna Intermediate Unit:										
Safe and Drug-Free Schools and Communities - State Grants (08-09)	I	84.186	N/A	08 AUG 13 - 09 JUN 30	25,635	7,196	7,196	-	-	-
Total Passed Through Central Susquehanna Intermediate Unit					25,635	7,196	7,196	-	-	-

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

GRANTOR PROGRAM TITLE	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2009	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2010
Passed Through Pennsylvania Training and Technical Assistance Network (PATTAN):										
Inclusive Practice Grant (08-09)	I	84.027	062-09-0-077	08 JUL 01 - 09 JUN 30	24,985	24,985	24,985	-	-	-
Inclusive Practice Grant (09-10)	I	84.027	062-10-0-032	09 AUG 01 - 10 JUN 30	15,000	-	-	15,000	15,000	15,000
Total Passed Through PATTAN					39,985	24,985	24,985	15,000	15,000	15,000
Passed Through Dauphin County:										
Block Grants for Prevention and Treatment of Substance Abuse (08-09)	I	93.959	N/A	09 JAN 01 - 09 JUN 30	29,050	29,050	22,676	6,374	6,374	-
Block Grants for Prevention and Treatment of Substance Abuse (09-10)	I	93.959	N/A	09 JUL 01 - 10 JUN 30	25,000	4,147	-	17,362	17,362	13,215
Total Passed Through Dauphin County					54,050	33,197	22,676	23,736	23,736	13,215
Passed Through the PA Coalition to Prevent Teen Pregnancy:										
Centers for Disease Control and Prevention - Investigations and Technical Assistance	I	93.283	N/A	09 OCT 01 - 10 SEP 30	6,000	6,000	-	6,000	6,000	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	I	93.283	N/A	08 OCT 01 - 09 SEP 30	4,000	-	(4,000)	4,000	4,000	-
Total Passed Through the PA Coalition to Prevent Teen Pregnancy					10,000	6,000	(4,000)	10,000	10,000	-
Passed Through the City of Harrisburg:										
Community Development Block Grant/Entitlement Grant	I	14.218	3010-462-000	09 AUG 01 - 10 JUL 30	58,220	-	-	7,443	7,443	7,443
Total City of Harrisburg					58,220	-	-	7,443	7,443	7,443
TOTAL U.S. DEPARTMENT OF EDUCATION					38,299,731	19,885,619	2,888,233	22,733,921	22,733,921	5,736,536
U.S. DEPARTMENT OF LABOR										
YouthBuild	D	17.274	YB 16851-08-080-A-42	07 OCT 15 - 10 OCT 14	509,410	148,722	101,392	47,330	47,330	-
YouthBuild	D	17.274	YB 16851-08-080-A-42	07 OCT 15 - 10 OCT 14	509,410	326,080	136,760	338,142	338,142	148,822
TOTAL U.S. DEPARTMENT OF LABOR					1,018,820	474,802	238,152	385,472	385,472	148,822
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Passed through the Pennsylvania Department of Education:										
Temporary Assistance for Needy Families 08-09	I	93.558	110-08-0011	08 JUL 01 - 09 JUN 30	102,492	102,492	102,492	-	-	-
Temporary Assistance for Needy Families 09-10	I	93.558	FC4100051634	09 JUL 01 - 10 JUN 30	102,492	-	-	102,492	102,492	102,492
Temporary Assistance for Needy Families 08-09	I	93.558	110-08-0011	08 JUL 01 - 09 JUN 30	18,331	18,331	18,331	-	-	-
Temporary Assistance for Needy Families 09-10	I	93.558	FC4100051634	09 JUL 01 - 10 JUN 30	18,331	-	-	18,331	18,331	18,331
Temporary Assistance for Needy Families 08-09	I	93.558	FC4100046093	08 JUL 01 - 09 JUN 30	368,112	235,756	235,756	-	-	-
Temporary Assistance for Needy Families 08-09	I	93.558	FC4100051639	09 JUL 01 - 10 JUN 30	315,472	99,121	-	315,472	315,472	216,351
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent Spread of HIV and Other Important Health Problems (08-09)	I	93.938	FC4100047286	08 OCT 01 - 09 SEP 30	20,000	15,000	7,076	7,924	7,924	-
Total Passed through the Department of Education					945,230	470,700	363,655	444,219	444,219	337,174
Passed through the Pennsylvania Department of Welfare:										
Medical Assistance Reimbursement for Administration (08-09)	I	93.778	N/A	08 JUL 01 - 09 JUN 30	94,637	18,227	18,227	-	-	-
Medical Assistance Reimbursement for Administration (09-10)	I	93.778	N/A	09 JUL 01 - 10 JUN 30	113,669	101,208	-	113,669	113,669	12,461
Total Passed through the Pennsylvania Department of Welfare					208,306	119,435	18,227	113,669	113,669	12,461
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					1,153,536	590,135	381,882	557,888	557,888	349,635

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

GRANTOR PROGRAM TITLE	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2009	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2010
U.S. DEPARTMENT OF DEFENSE										
Passed through the United States Navy:										
Junior Reserve Officers Training Corps (08-09)	I	12.000	N/A	08 JUL 01 - 09 JUN 30	71,894	15,691	15,691	-	-	-
Junior Reserve Officers Training Corps (09-10)	I	12.000	N/A	09 JUL 01 - 10 JUN 30	71,102	53,910	-	71,102	71,102	17,192
TOTAL U.S. DEPARTMENT OF DEFENSE					142,996	69,601	15,691	71,102	71,102	17,192
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania Department of Education:										
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (08-09)	I	10.561	110-080011	08 JUL 01 - 09 JUN 30	17,820	17,820	17,820	-	-	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (09-10)	I	10.561	FC4100051634	09 JUL 01 - 10 JUN 30	17,820	-	-	17,820	17,820	17,820
National School Lunch Program (08-09)	I	10.555	362	08 JUL 01 - 09 JUN 30	2,995,317	F 139,097	139,097	-	-	-
National School Lunch Program (09-10)	I	10.555	362	09 JUL 01 - 10 JUN 30	3,098,739	F 2,984,471	-	3,098,739	3,098,739	114,268
National School Lunch Program (08-09)	I	N/A	510	08 JUL 01 - 09 JUN 30	167,991	S 7,759	7,759	-	-	-
National School Lunch Program (09-10)	I	N/A	510	09 JUL 01 - 10 JUN 30	165,967	S 159,934	-	165,967	165,967	6,033
National School Lunch Program (08-09)	I	N/A	511	08 JUL 01 - 09 JUN 30	78,456	S 4,026	4,026	-	-	-
National School Lunch Program (09-10)	I	N/A	511	09 JUL 01 - 10 JUN 30	81,721	S 78,390	-	81,721	81,721	3,331
National School Lunch Program (08-09)	I	N/A	512	08JUL 01 - 09 JUN 30	26,067	S 1,354	1,354	-	-	-
National School Lunch Program (09-10)	I	N/A	512	09JUL 01 - 10 JUN 30	25,390	S 24,317	-	25,390	25,390	1,073
National School Lunch Program (08-09)	I	N/A	513	08JUL 01 - 09 JUN 30	6,617	S 356	356	-	-	-
National School Lunch Program (09-10)	I	N/A	513	09 JUL 01 - 10 JUN 30	6,831	S 6,536	-	6,831	6,831	295
School Breakfast Program (08-09)	I	10.553	367	08 JUL 01 - 09 JUN 30	1,281,515	F 65,867	65,867	-	-	-
School Breakfast Program (09-10)	I	10.553	367	09 JUL 01 - 10 JUN 30	1,384,532	F 1,327,537	-	1,384,532	1,384,532	56,995
National School Lunch Program (08-09)	I	10.555	359	08 JUL 01 - 09 JUN 30	18,899	F 1,058	1,058	-	-	-
National School Lunch Program (09-10)	I	10.555	359	09 JUL 01 - 10 JUN 30	35,996	F 34,318	-	35,996	35,996	1,678
Summer Food Service Program for Children (08-09)	I	10.559	264	09 JUN 18 - 09 AUG 14	322,442	F 322,442	73,364	249,078	249,078	-
Summer Food Service Program for Children (09-10)	I	10.559	264	10 JUN 17 - 10 AUG 13	241,928	F -	-	54,888	54,888	54,888
Fresh Fruit and Vegetable Program (09-10)	I	10.582	362	09 JUL 01 - 10 JUN 30	22,547	F 20,039	-	22,547	22,547	2,508
ARRA - FNS Equipment Grant (09-10)	I	10.579	129-000051	09 JUN 08 - 09 SEP 30	10,924	F 10,924	-	10,924	10,924	-
Total Passed through the Pennsylvania Department of Education					10,007,519	5,206,245	310,701	5,154,433	5,154,433	258,889
Passed Through the Pennsylvania Department of Agriculture:										
Food Donation (08-09)	I	10.550	115-22-275-2	08 JUL 01 - 09 JUN 30	259,124	-	(3,128)	3,128	3,128	-
Food Donation (09-10)	I	10.550	115-22-275-2	09 JUL 01 - 10 JUN 30	291,930	291,930	-	289,204	289,204	(2,726)
Total Passed through the Pennsylvania Department of Agriculture					551,054	291,930	(3,128)	292,332	292,332	(2,726)
TOTAL U.S. DEPARTMENT OF AGRICULTURE					10,558,573	5,498,175	307,573	5,446,765	5,446,765	256,163
TOTAL ASSISTANCE					51,173,656	26,518,332	3,831,531	29,195,148	29,195,148	6,508,348

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Harrisburg School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Donated Commodities

Federal donated commodities were valued using the commodity price list (based on actual and average USDA costs of commodities purchased) provided by the Bureau of Government Donated Foods.

Component Units

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in U.S. Generally Accepted Accounting Principles, which requires a component unit to be included if the District's elected official's are financially accountable for the component unit. The District is financially accountable if it appoints a voting majority of the component unit's governing body and (1) it is able to impose its will on the component unit, or (2) there is a potential for the District to provide specific financial benefits to, or impose specific financial burdens on the component unit. The District may be financially accountable if an organization is fiscally dependent on the District regardless of whether the District has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

The District has evaluated its relationship with Capital Area Intermediate Unit #15 to determine if the financial information of the unit should be included in the financial statements. Based on this evaluation, the Unit has not been included as a component unit of the District's reporting entity because of the limited oversight responsibility and limited accountability for fiscal matters.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2010, the organization had food commodities totaling \$2,726 in inventory.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued
YEAR ENDED JUNE 30, 2010

NOTE C - TEST OF 50% RULE

Total expenditures	\$29,195,148
Less: State's share of national school lunch program expenditures	<u>279,909</u>
Total Federal Expenditures	<u>\$28,915,239</u>
Programs Selected for Testing:	
Title I Grants to Local Education Agencies (CFDA #84.010)	\$6,187,699
Title I Grants to Local Education Agencies (CFDA #84.377)	620,427
ARRA - Title I Grants to Local Education Agencies (CFDA #84.389)	3,654,783
Improving Teacher Quality State Grants (CFDA #84.367)	1,103,176
Special Education – Grants to States (CFDA #84.027)	1,945,696
ARRA - Special Education – Grants to States (CFDA #84.391A)	1,588,203
ARRA – State Fiscal Stabilization Fund - Education State Grants (CFDA #84.394)	4,988,617
Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, #10.559)	<u>4,823,233</u>
Total Amount Tested	<u>\$24,911,834</u>
Percent Tested (\$24,911,834/\$28,915,239)	<u>86.15%</u>

NOTE D - SOURCE CODES

D = Direct Funding
I = Indirect Funding
F = Federal Share
S = State Share

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of The School District of the City of Harrisburg.
2. Two significant deficiencies in internal control were disclosed by the audit of the financial statements, one of which is considered a material weakness.
3. No instances of noncompliance material to the financial statements of The School District of the City of Harrisburg were disclosed during the audit.
4. Seven significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditors' report on compliance for the major federal awards programs for The School District of the City of Harrisburg expresses an unqualified opinion.
6. There were audit findings relative to the major federal award programs for The School District of the City of Harrisburg that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 in this Schedule.
7. The programs tested as major programs include:

Title I Grants to Local Educational Agencies	CFDA# 84.010
Title I Grants to Local Educational Agencies	CFDA# 84.377
ARRA – Title I Grants to Local Educational Agencies	CFDA# 84.389
Improving Teacher Quality State Grants	CFDA# 84.367
Special Education - Grants to States	CFDA# 84.027
ARRA – Special Education – Grants to States	CFDA# 84.391A
ARRA – State Fiscal Stabilization Fund – Education State Grants	CFDA# 84.394
Child Nutrition Cluster	CFDA#s 10.553, 10.555, 10.556, 10.559
8. The threshold for distinguishing Types A and B programs was \$867,457.
9. The School District of the City of Harrisburg was not determined to be a low-risk auditee based upon prior years' audit results.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Finding FS 2010-01

Material Weakness

Condition:

The District does not have procedures in place for management review of journal entries made by the Business Administration staff. We believe this to be a material weakness.

Criteria:

Government Auditing Standards, AU 325A, describes a material weakness as a "significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected."

Effect:

There is more than a remote likelihood that a material misstatement of the District's financial statements will not be prevented. The lack of management review places the District in jeopardy of suffering financial and public embarrassment.

Cause:

A substantial volume of the District's financial information is captured through employee and management prepared journal entries. These entries are recorded on paper so as to create a paper trail; however, the entries lack any indication that they have been reviewed or approved.

This was also noted as a finding in the prior year.

Auditors' Recommendation:

We recommend the District develop a process for management to review the journal entries made by the Business Administration staff. Due to the massive number of journal entries entered, management may want to consider setting limits on individual authorization levels. These authorization levels would be structured so that different levels of management review would be required based on the dollar amount of the journal entries.

We are aware that the District has implemented a process for journal entry review; however this process was not in place for the entire 2009-2010 fiscal year.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - continued

Finding FS 2010-01 - continued

Auditee's Response:

The journal entry approval plan was implemented as soon as the District was made aware of the problem.

Below is the journal entry approval plan that has been implemented.
Journal Entry Approval System:

All entries from \$1 to \$100,000 will be approved and initialed by Senior Accountant.

All entries from \$100,000 to \$1,000,000 and entries prepared by the Senior Accountant will be approved and initialed by the Asst. Business Admin.

All entries over \$1,000,000 and entries prepared by the Asst. Business Manager will be approved and initialed by the Business Manager.

Grant entries will be approved by the Asst. Business Manager.

Each year the District strives to reduce the number of journal entries in order to prevent material weakness from occurring.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - continued

Finding FS 2010-02

Significant Deficiency

Condition:

The District currently has procedures in place that require the Business Manager to give final electronic signature approval of all purchase orders. During our testing, it was noted that the Supervisor of Energy & Materials Management and the Administrative Assistant, both have the ability to final approve purchase orders using the signature of the Business Administrator.

Criteria:

Government Auditing Standards AU 325A, describes a significant deficiency as a "control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected."

Effect:

The District could potentially have a situation for fraud to occur from improper authorization of purchase orders.

Cause:

The high volume of purchase orders that flows through the District are so numerous that the Business Administrator is unable to approve all purchase orders according to the District's Policy.

This was noted as a prior year finding.

Auditors' Recommendation:

We recommend the District consider changing its approval policy to require the Business Administrators approval on purchase orders that exceed an established amount. We also recommend that the Administrative Assistant's purchase order approval be limited to her own signature and access to approve using the Business Manager's signature be removed.

We are aware that the District has implemented a process for approval of purchase order; however this process was not in place for the entire 2009-2010 fiscal year.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - continued

Finding FS 2010-02 - continued

Auditee's Response:

The process for approval of purchase orders was implemented as soon as the District was made aware of the deficiency. The purchase order approval process is described below:

Secretaries enter requisitions and principals approve requisitions, then the requisitions are forwarded to the Business Manager's Administrative Assistant for approval. If the requisitions are over \$50,000 the Administrative Assistant will forward the requisition to the Business Manager for final approval.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding SA 2010-01

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2008/2009) Contract No. 013-090184

Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2007/2008) Contract No. 042-080184

Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2008/2009) Contract No. 042-090184

Title I Grants to Local Educational Agencies - CFDA 84.377
(FYE 2008/2009) Contract No. 042-090184

Noncompliance and significant deficiency in Internal Control over the cash management process

Condition:

The District earned in excess of \$100 interest on Title I grant funds that were not remitted.

Criteria:

According to the OMB A-133 Part 4 Title I compliance supplement, interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. Recipients of advanced federal program funds must minimize the time elapsing between the transfer of funds from the State and disbursement in accordance with A-102 Grants Management Common Rule. Federal program receipts and disbursements should be monitored in accordance with these provisions and interest earnings calculated on a quarterly basis.

Cause:

The cash management compliance requirement in regards to interest earnings was not properly followed by the District.

Effect:

The District failed to submit, on a quarterly basis, the excess interest earned on advances of federal funds.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-01 - continued

Questioned Costs:

\$361

Auditors' Recommendation:

We recommend the District develop procedures to track and submit interest earned on advances quarterly to comply with OMB Circular A-133 requirements.

Auditee Response and Corrective Action Plan:

The District will develop procedures to track and submit interest earned on cash advances quarterly. The District will remit the interest to the United States Government for the amount of \$361.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-02

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants - CFDA 84.394
(FYE 2009/2010) Contract No. 126-100184

Improving Teacher Quality State Grants (Title II) - CFDA 84.367
(FYE 2009/2010) Contract No. 020-100184

Special Education - Grants to States (IDEA) - CFDA 84.027
(FYE 2009/2010)

ARRA - Special Education - Grants to States (IDEA) - CFDA 84.391A
(FYE 2009/2010)

Title I Grants to Local Educational Agencies (Program Improvement Set Aside) – CFDA 84.010
(FYE 2007/2008) Contract No. 042-080184

Significant Deficiency in Internal Control over Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management and Period of Availability

Condition:

The District is not properly approving journal entries, which are being used to charge expenditures to Federal grants.

Criteria:

As implied in OMB Circular A-133 Part 6 Internal Control for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management and Period of Availability, accountability for authorization is fixed in an individual who is knowledgeable of the requirements for grant expenditures.

Cause:

The District uses journal entries to transfer or correct costs between Federal grants that have not been properly authorized as expenditures for those grants.

Effect:

The potential exists for improper and incorrect expenditures to be recorded for federal grants.

Questioned Costs:

\$83,709

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-02 - continued

Auditors' Recommendation:

We recommend the District ensures that all journal entries are properly authorized.

We are aware that the District has implemented a process for journal entry review; however this process was not in place for the entire 2009-2010 fiscal year.

Auditee Response and Corrective Action Plan:

The journal entry approval plan was implemented as soon as the District was made aware of the problem. The District failed to backtrack to the beginning of the year and apply the approval process. The \$83,709 potential questioned costs were reviewed and were compliant cost to the grants.

Below is the journal entry approval plan that has been implemented.

Journal Entry Approval System:

All entries from \$1 to \$100,000 will be approved and initialed by Senior Accountant.

All entries from \$100,000 to \$1,000,000 and entries prepared by the Senior Accountant will be approved and initialed by the Asst. Business Admin.

All entries over \$1,000,000 and entries prepared by the Asst. Business Admin will be approved and initialed by the Business Manager.

Grant entries will be approved by the Asst. Business Manager.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-03

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

ARRA - Special Education - Grants to States (IDEA) - CFDA 84.391A
(FYE 2009/2010)

Noncompliance and Significant Deficiency in Internal Control over Activities
Allowed or Unallowed and Allowable Costs/Cost Principles

Condition:

The District improperly charged an employee to the grant that was not allowed.

Criteria:

The OMB Circular A-133 Part Four Special Education Compliance Supplement states that IDEA funds may only be used for the excess costs of providing special education and related services to children with disabilities.

Cause:

During testing we noted seven expenditures out of the 60 tested included one employee that did not have a position in the Special Education Department, but was actually a Transition Specialist, which is considered to be covered under Alternative Education.

Effect:

The District charged an employee to the grant for the entire 2009-2010 fiscal year that was not allowed.

Questioned Costs:

\$98,460

Auditors' Recommendation:

We recommend the District closely monitors the salary spreadsheet for the grant to ensure that all employees included are eligible to be paid under the grant.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-03 - continued

Auditee Response and Corrective Action Plan:

Once the District became aware that an employee did not have a position in the Special Education Department, but was a Transition Specialist under the Alternative Education Department, the questioned costs of \$98,460 were removed from the grant expenditures.

The District will review closely the assigned positions within the grants each year.

Auditor Response:

We reviewed that the auditee did make the adjustment to correct this finding in the current year; however the finding still stands.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-04

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Title I Grants to Local Educational Agencies– CFDA 84.010
(FYE 2009/2010) Contract No. 013-100184

Noncompliance and Significant Deficiency in Internal Control over Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Condition:

The District improperly charged an employee to the grant that was not allowed.

Criteria:

The OMB Circular A-133 Part Four Title I Compliance Supplement states, *“The term “paraprofessional” means an individual who provides instructional support; it does not include individuals who have only non-instructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties).”*

Cause:

During testing we noted one salary expenditure that was charged for an employee that held the position of an office assistant, which is not considered a paraprofessional under the Title I grant according to the above language. These office assistants perform non-instructional duties only.

Effect:

The District charged an employee to the grant that was not allowed.

Questioned Costs:

\$433

Auditors’ Recommendation:

We recommend the District closely monitor the salary spreadsheet for the grant to ensure that all employees included are eligible to be paid under the grant.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-04 - continued

Auditee Response and Corrective Action Plan:

Once the District became aware the salary expenditure for \$433 was not for a paraprofessional as required by grant compliance the costs were removed from the grant.

The District will review closely the assigned positions each year to insure the cost is in compliance.

Auditor Response:

We reviewed that the auditee did make the adjustment to correct this finding in the current year; however the finding still stands.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-05

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2008/2009) Contract No. 013-090184

Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2009/2010) Contract No. 013-100184

Noncompliance and Significant deficiency in Internal Control over Special Tests and Provisions: Highly Qualified Teachers

Condition:

A total of 13 teachers and paraprofessionals were hired during the audit period that were charged to the Title I grants and were tested for highly qualified teachers and paraprofessionals compliance requirements. We noted five instances where the teachers and paraprofessionals did not meet the requirements of highly qualified teachers and one instance where we were unable to test the selected employee due to missing employee documents.

Criteria:

OMB Circular A-133 Part Four Title I, Compliance Supplement states:

“Beginning after the first day of the 2002-03 school year, an LEA had to ensure that any teacher whom it hired to teach a core academic subject and who worked in a program supported with Title I, Part A funds was highly qualified as defined in 34 CFR section 200.56... An LEA must ensure that each paraprofessional who is hired by the LEA after January 8, 2002 and who works in a program supported with Title I, Part A funds meets specific qualification requirements.”

Cause:

One employee only had an emergency permit to teach, four paraprofessionals held the position of an Office Assistant, which is not a covered paraprofessional position according to the OMB Circular A-133 Part Four Title I compliance supplement and one employee's file was unable to be located, and therefore we could not test that employee for the highly qualified compliance requirements.

Effect:

The District failed to follow the compliance requirements under OMB Circular A-133 Part Four compliance supplement for Title I, which led to charging employees to the Title I grant that are not allowed.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-05 - continued

Questioned Costs:

\$19,745

Auditors' Recommendation:

We recommend the District follow its established policies and procedures and put a system in place to ensure that those in charge with gathering and maintaining the appropriate documentation for new hires have an understanding of the importance of adhering to the policies, as well as putting procedures in place to determine that those employees charged to the Title I grant hold positions that are in fact covered by the OMB Circular A-133 compliance requirements.

Auditee Response and Corrective Action Plan:

The District removed the questioned cost of \$19,745 from the grant expenditures.

The District will follow its established policies and procedures and put in place a secure system for maintaining the appropriate documentation for new hires. The staff will be educated to understand the importance of placing employees in Title I that are in compliance with Circular A-133.

Auditor Response:

We reviewed that the auditee did make the adjustment to correct this finding in the current year; however the finding still stands.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-06

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2008/2009) Contract No. 013-090184

Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2007/2008) Contract No. 042-080184

Title I Grants to Local Educational Agencies - CFDA 84.010/84.377
(FYE 2008/2009) Contract No. 042-090184

Noncompliance and Significant deficiency in Internal Control over Reporting

Condition:

The District did not submit three required quarterly reports to the pass-through entity in a timely manner.

Criteria:

According to the OMB Circular A-133 Part Four, Department of Education Cross-Cutting Section under the Reporting compliance requirement for financial reporting, "LEAs and other subrecipients are generally required to report financial information to the pass-through entity. These reports should be tested during audits of LEAs."

According to the quarterly reports that the District is responsible for submitting to the pass-through agency, they must be received in the Federal Subsidies Section no later than the 10th working day of the month of submission in order to be processed for payment in the next cycle.

Cause:

The District failed to submit three of their Title I quarterly reports in a timely manner.

Effect:

The District is not in compliance with reporting compliance requirements and could be penalized, in which they would not receive their remaining grant funds in a timely manner.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-06 - continued

Questioned Costs:

Unknown

Auditors' Recommendation:

We recommend the District better monitors the submission of the quarterly reports required for Title I grants.

Auditee Response and Corrective Action Plan:

The District will monitor and submit the quarterly reports required for Title I by the 10th working day of the month of submission to maintain compliance requirements.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-07

Federal agency: U.S. Department of Agriculture
Pass-through entity: Pennsylvania Department of Education

Child Nutrition Cluster
School Breakfast Program (SBP) - CFDA 10.553
National School Lunch Program (NSLP) - CFDA 10.555
Special Summer Milk Program for Children (SMP) - CFDA 10.556
Summer Food Service Program for Children (SFSPC) - CFDA 10.559
(FYE 2009/2010)

Noncompliance and Significant deficiency in Internal Control over the Eligibility and Special Tests and Provisions – Verification Compliance Requirements

Condition:

We selected a total of 60 student applications for free and reduced price lunches to review for eligibility determination and seven applications to review for Special Tests and Provisions – Verification requirements. Applications were reviewed for completeness, accuracy, and authorization. Eight exceptions were noted as follows:

1. Three of the 60 applications tested for eligibility were noncompliant because incorrect determinations were made based on information provided on the applications.
2. Four of the 60 applications tested for eligibility were either not properly completed per the instructions on the application or not properly reviewed by the determining official.
3. One application from the seven selected for verification was changed from free to reduced lunch based on the District's calculations; however our testing indicated the change should have been from free to paid lunches.

Criteria:

According to the OMB Circular A-133 Part Six, Internal Control for Eligibility, activities are the policies and procedures to ensure that the managers and directors roles are carried out. As such, the control activities as they relate to the eligibility compliance requirement and the District's procedures are:

1. Verification of accuracy of information used in eligibility determinations and
2. Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements.

There are also specific eligibility requirements that are released by the Department of Agriculture each year to be used for determination of eligibility for free and reduced lunches. We used these guidelines for our testing of compliance.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2010-07 - continued

Cause:

The District failed to observe its established internal control procedures to ensure the accuracy and completeness of eligibility determinations for six students and did not correctly determine eligibility for two students.

Questioned Costs:

Unknown

Auditors' Recommendation:

We recommend the District closely adhere to their internal control procedures it has established for eligibility determination and verification procedures.

Auditee Response and Corrective Action Plan:

The District will observe its established internal control procedures to ensure the accuracy and completeness of eligibility determinations.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Finding SA 2009-01

Federal agency: U.S. Department of Labor
Pass-through entity: United States Department of Education

YouthBuild - CFDA 17.274
YouthBuild (FYE 2008/2009) Contract No. YB-16851-08-60-A-42

Material Noncompliance and Material Weakness in Internal Control over Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility and Reporting

Condition:

The District failed to maintain the required documentation of participant eligibility for the YouthBuild Program and expenditures for activities were either unapproved, lacked proper documentation, or was not an expenditure on the YouthBuild approved budget from the Department of Labor. The District also failed to submit all required quarterly reports in a timely manner.

Criteria:

In determining the criteria for testing, OMB Circular A-133 , Part One, Purpose and Applicability, indicates that for major programs not included in Part 4, the auditor should follow the guidance in Part 7 and use the types of compliance requirements in Part 3 to identify the applicable requirements which could have a direct and material effect on the program.

The Department of Labor has issued specific guidelines of program requirements as it pertains to the YouthBuild Program (Catalog of Federal Domestic Assistance # 17.274), along with an approved budget, which was provided to the District. To be eligible a participant should meet the following requirements:

- between the ages of 16 and 24 on the date of enrollment;
- a member of a disadvantaged youth population such as a member of a low-income family, a youth in foster care (including youth aging out of foster care), a youth offender, a youth who is an individual with a disability, a child of an incarcerated parent, or a migrant youth;
- an individual who has dropped out of high school and re-enrolled in an alternative school, if that re-enrollment is part of a sequential service strategy.

Up to (but not more than) 25 percent of the participants in the program may be youth who do not meet the education and disadvantaged criteria above but who are:

- basic skills deficient, despite attainment of a secondary school diploma, General Education Development (GED) credential, or other State-recognized equivalent (including recognized alternative standards for individuals with disabilities);
- or have been referred by a local secondary school for participation in a YouthBuild program leading to the attainment of a secondary school diploma.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-01 - continued

Funds must be used for the following:

- Education and workforce activities, such as: basic skills instruction and remedial education; language instruction educational programs for individuals with limited English proficiency; secondary education services and activities, including tutoring, study skills training, and dropout prevention activities, designed to lead to the attainment of a secondary school diploma, General Education Development (GED) credential, or other state-recognized equivalent (including recognized alternative standards for individuals with disabilities); counseling and assistance in obtaining postsecondary education and required financial aid; alternative secondary school services; work experience and skills training (coordinated, to the maximum extent feasible, with pre-apprenticeship and registered apprenticeship programs) in housing rehabilitation and construction activities; occupational skills training; and other paid and unpaid work experiences, including internships and job shadowing.
- Counseling services and related activities, such as comprehensive guidance and counseling on drug and alcohol abuse and referral.
- Youth development activities, such as: community service and peer-centered activities encouraging responsibility and other positive social behaviors, and activities related to youth policy committees that allow YouthBuild participants to engage in local policy and decision-making related to the program.
- Supportive services and provision of need-based stipends necessary to enable individuals to participate in the program.
- Supportive services to assist individuals, for a period not to exceed 12 months after the completion of training, in obtaining or retaining employment, or applying for and transitioning to postsecondary education; and job search and assistance.
- Supervision and training for participants in the rehabilitation or construction of housing, including residential housing for homeless individuals or low-income families, or transitional housing for homeless individuals.
- Supervision and training for participants in the rehabilitation or construction of community and other public facilities.
- Payment of a portion of the administrative costs of the grantee.
- Mentoring of participants by qualified adults.
- Provision of wages, stipends, or benefits to participants in the program.
- Ongoing training and technical assistance for staff that are related to developing and carrying out the program.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-01 - continued

- Follow-up services.
- Equipment and/or supplies related to the YouthBuild activities funded through this grant. Funds must be used to provide prescribed education and workforce activities for eligible youth, including construction of housing, including residential housing for homeless individuals or low income families, or transitional housing for homeless individuals. Up to ten percent of the funds may be used in the rehabilitation or construction of a community or other public facilities. One hundred percent of funds are distributed through a competitive grant process.
- Quarterly reports are to be submitted within 45 days after the end of a quarter.

Cause:

During our testing we noted the following matters.

We tested the entire population of students that participated in the YouthBuild Program during the audit period of July 1, 2008 through June 30, 2009. Of the 41 participants tested, we found that 36 participants, or 87.80%, did not have the required documentation of eligibility.

We selected 42 expenditures from the entire population totaling \$123,120. Of those expenditures tested, 35, totaling \$91,502 were considered questionable. This represents 74.32% of the total program expenditures selected for testing.

Expenditures considered questionable were a result of either no documentation and/or expenditures that were inconsistent with the approved budget. In addition, any expenditure where there was no approval was considered to be a deficiency in internal control over financial reporting.

The estimated total questioned costs extrapolated by applying the 87.80% of the participants not meeting the eligibility requirements to the total program expenditures of \$411,933 is \$361,677.

The estimated total questioned costs extrapolated by applying the questioned cost rate of 74.32% to the total program expenditures of \$411,933, is \$306,149.

The amount of questioned costs listed in this finding is a result of participant eligibility since that specific compliance requirement is the determining factor of the majority of program expenditures.

Effect:

The Department of Labor could disallow expenditures charged to the YouthBuild program or make a determination that funds received for program expenditures would have to be repaid by the District.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-01 - continued

Questioned Costs:

\$361,677

Auditors' Recommendation:

We recommend the Program Administrators obtain the proper documentation of participant eligibility as prescribed by the Department of Labor, closely monitor expenditures, follow District policies for expenditure approval and obtain written authorization from the Department of Labor prior to incurring unapproved expenses which are not in the budget.

We also recommend the District enforce its approval policies and procedures to ensure compliance of Program Administrators with grant requirements, including timely submission of quarterly reports.

Auditee Response and Corrective Action Plan:

The District attended the exit interview with the Department of Labor representatives on Tuesday, March 9, 2010. The written report will not be available for a few weeks, but DOL personnel were very positive about the quality of the program. They did note there is a need to improve the record keeping especially in terms of the verifications of the eligibility for the students participating in the program and the supporting rationale for each of the student's stipend. They noted the budget modifications should have been approved before any expenditures were incurred and they will likely be approving everything after the fact so that there will be no noncompliant expenses. They indicated that the authorization to purchase the van may not be able to be made at the regional level, but should be approved at the end of the grant by Washington as they saw the direct need for the van for student transportation services.

The District will enforce the approval policies and procedures to ensure compliance of the Program Administrator with the grant requirements. The District will do a quarterly audit of all required documentation for participant eligibility and expenditures activities. All documentation will be maintained by the Program Administrator for audit review. In addition, expenditures will be required to be in compliance with the approved YouthBuild Budget from the Department of Labor.

Corrective Action Plan:

At the beginning of each cohort the Program Administrator will maintain a copy of the documentation used in the student selection process for an audit. The Business Office will perform a quarterly audit to ensure the compliance requirements have been met. All expenditures submitted for payment will have the proper documentation, such as time sheet and a summary sheet for the student stipend calculation. All invoices submitted for payment will be review by the Grant Accountant to ensure the cost is within the YouthBuild Budget.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-01 - continued

Auditee's Update:

The Pupil Services Department has set up individual files for the YouthBuild students. Student files contain documentation proving student's eligibility for admission to the Youth Build Program. A time/attendance sheet and a calculation showing how the stipend was determined must be submitted with the request for payment. The grant accountant reviews expenditures to ensure that expenses charged to the grant are in the approved budget before processing payment.

Current Status:

We tested similar transactions in the current year and found that one student out of 16 that participated in the program was not eligible according to the Department of Labor's eligibility guidelines. That student received stipends in the amount of \$1,560 during the current year.

We also tested 60 expenditures, totaling \$154,694, for the various components of the compliance requirements and noted 36 expenditures, totaling \$51,856, were either not on the approved budget, were not properly approved, or both.

Corrective Action Plan:

The District will be submitting a budget revision to the US Department of Labor for resolution of the questioned cost. The District will implement a grant review process that will required grant administrators to meet with the Business Office on a quarterly basis. This process will require an audit of all supporting documentation for expenditures made from the grant.

The District will be working with grant administrators on understanding compliance requirements of grants.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-02

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Title I Grants to Local Educational Agencies - CFDA 84.010
Title I (FYE 2008/2009) Contract No. 042-090184

Title II Improving Teacher Quality - CFDA 84.367
Title II (FYE 2008/2009) Contract No. 020-090184

Education Technology - FDA 84.318
Education Technology (FYE2008/2009) Contract No. 055-08-0184

Noncompliance and significant deficiency in Internal Control over the cash management process

Condition:

The District earned in excess of \$100 interest on Title I, Title II and Education Technology grant funds that were not remitted.

Criteria:

According to the OMB A-133 Part 4 Title I, Title II and Education Technology compliance supplements, interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. Recipients of advanced federal program funds must minimize the time elapsing between the transfer of funds from the State and disbursement in accordance with A-102 Grants Management Common Rule. Federal program receipts and disbursements should be monitored in accordance with these provisions and interest earnings calculated on a quarterly basis.

Cause:

The cash management compliance requirement in regards to interest earnings was not properly followed by the District.

Effect:

The District failed to submit, on a quarterly basis, the excess interest earned on advances of federal funds.

Questioned Costs:

\$3,755

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-02 - continued

Auditors' Recommendation:

We recommend the District develop procedures to track and submit interest earned on advances quarterly to comply with OMB Circular A-133 requirements.

Auditee Response and Corrective Action Plan:

The District will develop a procedure to track and submit interest earned on cash advances quarterly and remit to the Federal Government.

Corrective Action Plan:

The District prepares quarterly cash reports that are remitted to the Commonwealth of Pennsylvania which will be used in preparing monthly interest calculation schedules. This will be the basis for the interest submitted to the Federal Government.

Auditee's Update:

The District has remitted the interest to the Federal Government February 2011.

Current Status:

This was also noted as a finding in the current year for Title I Grants to Local Educational Agencies; see Finding SA 2010-01.

Title II Improving Teacher Quality was tested in the current year and no similar findings were noted.

We tested similar transactions in the current year for Education Technology and no similar findings were noted.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-03

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Title I Grants to Local Educational Agencies - CFDA 84.010
Title I (FYE 2008/2009) Contract No. 042-090184

Noncompliance and Significant deficiency in Internal Control over Special Tests and Provisions: Highly Qualified Teachers

Condition:

A total of ten teachers and paraprofessionals were hired during the audit period that are charged to the Title I grant and were tested for highly qualified teachers and paraprofessionals compliance requirements. Two of those teachers were lacking the required documentation of a highly qualified teacher/paraprofessional in their employee file.

Criteria:

OMB Circular A-133 Part 4 Title I, Compliance Supplement states "Beginning after the first day of the 2002-03 school year, an LEA had to ensure that any teacher whom it hired to teach a core academic subject and who worked in a program supported with Title I, Part A funds was highly qualified as defined in 34 CFR section 200.56."

Cause:

The District failed to document in the newly hired teachers and paraprofessionals employee files evidence that they met the highly qualified requirements. A part of the District's policy for new hires is to view an original and obtain a copy of the appropriate certificate to be placed in the employee file.

Effect:

The District failed to follow its policy for new hires, which could result in teachers and paraprofessionals being hired that are not qualified under Title I.

Questioned Costs:

Unknown

Auditors' Recommendation:

We recommend the District follow its established policies and procedures and put a system in place to ensure that those in charge with gathering the appropriate documentation for new hires have an understanding of the importance of adhering to the policies.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-03 - continued

Auditee Response and Corrective Action Plan:

The District will establish and document newly hired teachers and paraprofessionals employee files evidence that they met highly qualified requirements. A part of the District's policy for new hires is to view the original and obtain a copy of the appropriate certificate to be placed in the employee file.

Corrective Action Plan:

The Human Resource Office will periodically check the files to ensure all appropriate documentation is on file.

Auditee's Update:

The District has established procedures and documents newly hired teachers and paraprofessional employee files with evidence that they met the highly qualified requirements. The District's policy for new hires is to view and obtain a copy of the appropriate certificate to be placed in the employee file.

Current Status:

This was also noted as a finding in the current year; see Finding SA 2010-05.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-04

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Title II Improving Teacher Quality - CFDA 84.367
Title II (FYE 2008/2009) Contract No. 020-090184

Noncompliance and Significant deficiency in Internal Control over Period of Availability

Condition:

Expenditure was charged to the grant prior to the period of availability.

Criteria:

OMB A-133 Part 3 states that, "Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency."

Cause:

The District failed to follow the OMB A-133 requirements for Period of Availability.

Effect:

The District is not in compliance with the Federal and grant regulations.

Questioned Costs:

\$471.03

Auditors' Recommendation:

We recommend the District implements procedures for monitoring the period of availability of federal grants.

Auditee Response and Corrective Action Plan:

The District will implement a procedure for monitoring the period of availability of Federal Grants.

Corrective Action Plan:

The Federal Grant Accountant will review the expenditures periodically to make sure the funds are not spent before they become available.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-04 - continued

Auditee's Update:

The District has replaced the questioned cost with recruiting cost that was incurred within the grant operating dates. A review process by the grant accountant is currently in place to ensure all grant expenditures are made within the grant period.

Current Status:

This program was tested in the current year and no similar findings were noted.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-05

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Title II Improving Teacher Quality - CFDA 84.367
Title II (FYE 2008/2009) Contract No. 020-090184

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Special Education Grants to States - CFDA 84.027
IDEA (FYE 2008/2009) Contract No. 020-090184

Significant deficiency in Internal Control over Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Condition:

The District is not properly approving journal entries, which are being used to charge expenditures to Federal grants.

Criteria:

As stated in OMB A-133 Part 6 Internal Control for Activities Allowed or Unallowed and Allowable Costs/Cost Principles, "Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed and allowable costs."

Cause:

The District uses journal entries to transfer costs to Federal grants that have not been properly authorized as expenditures for those grants.

Effect:

The potential exist for improper and incorrect expenditures to be recorded for federal grants.

Questioned Costs:

Unknown

Auditors' Recommendation:

We recommend the District implement procedures for authorizing all journal entries.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-05 - continued

Auditee Response and Corrective Action Plan:

The District will implement a process for management to review journal entries. The authorization levels will be structured so that different levels of management will review and approve the journal entries. The authorization levels will be based on the dollar amount of the journal entries.

Corrective Action Plan:

The District will implement a journal entry approval plan.

Journal Entry Approval System:

All entries from \$1 to \$100,000 will be approved and initialed by Senior Accountant.

All entries from \$100,000 to \$1,000,000 and entries prepared by the Senior Accountant will be approved and initialed by the Asst. Business Admin.

All entries over \$1,000,000 and entries prepared by the Asst. Business Admin will be approved and initialed by the Business Manager.

Grant entries will be approved by the Asst. Business Manager.

Auditee's Update:

The District has implemented the journal entry approval plan described below:

Journal Entry Approval System:

All entries from \$1 to \$100,000 will be approved and initialed by Senior Accountant.

All entries from \$100,000 to \$1,000,000 and entries prepared by the Senior Accountant will be approved and initialed by the Asst. Business Admin.

All entries over \$1,000,000 and entries prepared by the Asst. Business Admin will be approved and initialed by the Business Manager.

Grant entries will be approved by the Asst. Business Manager.

Current Status:

This was also noted as a finding in the current year; see Finding SA 2010-02.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-06

Federal agency: U.S. Department of Education
Pass-through entity: Pennsylvania Department of Education

Title II Improving Teacher Quality - CFDA 84.367
Title II (FYE 2008/2009) Contract No. 020-090184

Education Technology – CFDA 84.318
Education Technology (FYE 2008/2009) Contract No. 055-090184 and 055-080184

Title I Grants to Local Educational Agencies - CFDA 84.010
Title I (FYE 2008/2009) Contract Nos. 013-090184, 077-090184, 042-070184 and 042-080184

Noncompliance and Significant deficiency in Internal Control over Reporting

Condition:

The District did not submit eleven required quarterly reports and one final report to the pass-through entity in a timely manner, two quarterly reports under the Title II grant, two quarterly reports under the Education Technology grant and seven quarterly reports and one final report under the Title I grant.

Criteria:

According to the OMB A-133 Part 4, Department of Education Cross-Cutting Section under the Reporting compliance requirement for financial reporting, "LEAs and other subrecipients are generally required to report financial information to the pass-through entity. These reports should be tested during audits of LEAs."

According to the quarterly reports that the District is responsible for submitting to the pass-through agency, they must be received in the Federal Subsidies Section no later than the 10th working day of the month of submission in order to be processed for payment in the next cycle.

Cause:

The District failed to submit two of their Title II quarterly reports, two of their Education Technology quarterly reports, seven of their Title I quarterly reports and one of their Title I final reports in a timely manner.

Effect:

The District is not in compliance with reporting compliance requirements and could be penalized, in which they would not receive their remaining grant funds in a timely manner.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-06 - continued

Questioned Costs:

Unknown

Auditors' Recommendation:

We recommend the District better monitors the submission of the quarterly reports required for Title II, Education Technology and Title I grants.

Auditee Response and Corrective Action Plan:

The District had some time constraints and was not able to submit in the time required. The Quarterly Cash reporting process will be started earlier in order to allow additional time for completion.

Corrective Action Plan:

The District will review charges to the grant on a monthly basis to ensure that all the charges are being processed through Accounts Payable or Payroll. This should eliminate most of the journal entries and allow the District to prepare the quarterly reports in a more efficient basis.

Auditee's Update:

The District reviews charges to grants on a monthly/quarterly basis to ensure that expenditures are being processed. This process will allow the District to prepare the quarterly cash reports efficiently.

Current Status:

This was also noted as a finding in the current year for Title I Grants to Local Educational Agencies; see Finding SA 2010-06.

Title II Improving Teacher Quality was tested in the current year and no similar findings were noted.

We tested similar transactions in the current year for Education Technology and no similar findings were noted.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-07

Federal agency: U.S. Department of Agriculture
Pass-through entity: Pennsylvania Department of Education

Child Nutrition Cluster
School Breakfast Program (SBP) - CFDA 10.553
National School Lunch Program (NSLP) - CFDA 10.555
Special Summer Milk Program for Children (SMP) - CFDA 10.556
Summer Food Service Program for Children (SFSPC) - CFDA 10.559
(FYE 2008/2009)

Significant deficiency in Internal Control over the Eligibility Compliance Requirement

Condition:

We selected a total of 60 student applications for free and reduced price lunches to review for eligibility determination. Applications were reviewed for completeness, accuracy, and authorization. Eight exceptions were noted as follows:

- 1) Three applications were missing the social security number of the adult household member.
- 2) One application was missing an approval signature of the Determining Official.
- 3) Two applications were missing telephone numbers of the adult household member.
- 4) Two applications were missing determination approval by the Determining Official.

Criteria:

According to the OMB A-133 Part 6, Internal Control for Eligibility, activities are the policies and procedures to ensure that the managers and directors roles are carried out. As such, the control activities as they relate to the eligibility compliance requirement and the District's procedures are:

3. Verification of accuracy of information used in eligibility determinations and
4. Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements.

Cause:

The District failed to observe its established internal control procedures to ensure the accuracy and completeness of eligibility determinations.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2009-07 - continued

Questioned Costs:

Unknown

Auditors' Recommendation:

We recommend the District closely adhere to their internal control procedures it has established for eligibility determination.

Auditee Response and Corrective Action Plan:

The District will closely adhere to the internal control procedures that are established for the eligibility determination.

Corrective Action Plan:

The District review team will tighten internal control procedures to ensure the accuracy of the eligibility determination.

Effect:

A student's eligibility to participate in the free or reduced lunch program could be incorrectly determined due to a break-down in internal control.

Auditee's Update:

The District's review team has tightened internal control procedures to ensure the accuracy of the eligibility determination.

Current Status:

This was also noted as a similar finding in the current year; see Finding SA 2010-07.