

**THE SCHOOL DISTRICT OF  
THE CITY OF HARRISBURG  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION AND  
SINGLE AUDIT INFORMATION  
JUNE 30, 2011**

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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, 2011, 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  
December 29, 2011

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**DISTRIBUTION REPORT**  
**JUNE 30, 2011**

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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, 2011, 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, 2011, 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 December 29, 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 69 through 70 and 75 through 76 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  
December 29, 2011



## HARRISBURG SCHOOL DISTRICT

Administration Building  
2101 North Front Street  
Harrisburg, PA 17110  
Telephone (717) 703-4024  
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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, 2011. 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 (\$45,138,581).
- The total fund balance of all governmental funds equaled \$19,057,809.
- Unassigned general fund balance equaled \$5,910,661.
  - Total actual general fund revenues were under the final budget by (\$4,464,425) or (3.25%).
  - Total actual general fund expenditures were under the final budget by \$9,080,792 or 7.43%.
  - The actual general funds transfers were under the final budget by \$1,958,184 or 12.6%.
- The total governmental activities operating grants and contributions amounted to \$37,149,188 or 28% of the governmental activities expenditures.
- The net assets (deficit) of business-type activities - Food Services - for the year, totaled (\$1,225,142) with Revenues of \$5,456,845 and expenditures of \$5,860,855.
- The total capital assets, net of accumulated depreciation, for government activities - primarily general fund, capital project funds and capital reserve fund - totaled \$198,369,615.

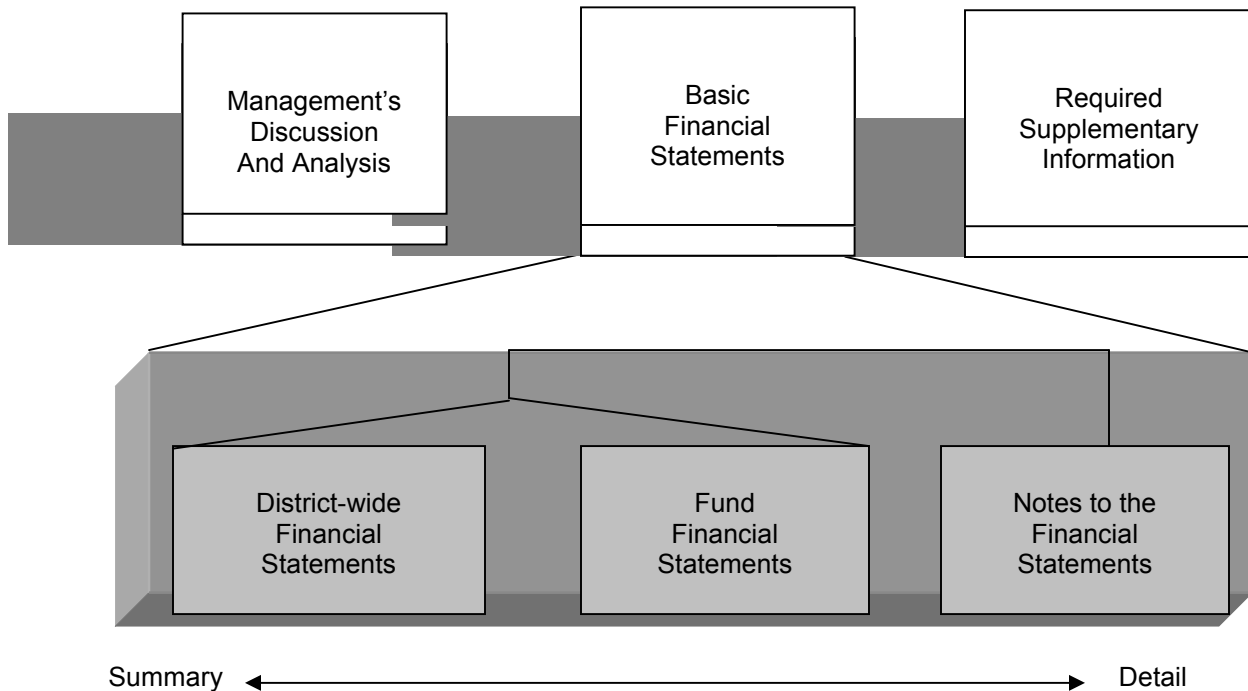


## Overview of the Financial Statements

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"> <li>Statement of net assets (deficiency)</li> <li>Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>Balance sheet</li> <li>Statement of revenues, expenditures, and changes in fund balances</li> </ul>   | <ul style="list-style-type: none"> <li>Statement of net assets</li> <li>Statement of revenues, expenses and changes in fund net assets</li> <li>Statement of cash flows</li> </ul> | <ul style="list-style-type: none"> <li>Statement of fiduciary net assets</li> <li>Statement of changes in fiduciary net assets</li> </ul>    |
| 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 Fund (one type of proprietary fund) is the same as Business-Type Activities but provides 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<br>Activities |                     | Business-Type<br>Activities |                    | Total               |                     |
|--|----------------------------|---------------------|-----------------------------|--------------------|---------------------|---------------------|
|  | 2010                       | 2011                | 2010                        | 2011               | 2010                | 2011                |
| Current and other assets                           | 69,664,824                 | 82,255,658          | 340,665                     | 878,009            | 70,005,489          | 83,133,667          |
| Capital asset                                      | 202,412,363                | 198,369,615         | 205,076                     | 156,852            | 202,617,439         | 198,526,467         |
| <b>Total assets</b>                                | <b>272,077,187</b>         | <b>280,625,273</b>  | <b>545,741</b>              | <b>1,034,861</b>   | <b>272,622,928</b>  | <b>281,660,134</b>  |
| Long-term debt<br>outstanding                      | 302,409,071                | 304,884,856         | 216,878                     | 221,453            | 302,625,949         | 305,106,309         |
| Other liabilities                                  | 22,753,865                 | 19,653,856          | 1,149,995                   | 2,038,550          | 23,903,860          | 21,692,406          |
| <b>Total liabilities</b>                           | <b>325,162,936</b>         | <b>324,538,712</b>  | <b>1,366,873</b>            | <b>2,260,003</b>   | <b>326,529,809</b>  | <b>326,798,715</b>  |
| <b>Net Assets (Deficiency)</b>                     |                            |                     |                             |                    |                     |                     |
| Invested in capital assets,<br>net of related debt | (51,664,937)               | (65,346,554)        | 205,076                     | 156,852            | (51,459,861)        | (65,189,702)        |
| Restricted capital projects                        | 327,051                    |                     |                             |                    | 327,051             |                     |
| Restricted for Debt<br>Service                     | 2,654,237                  | 7,605,869           |                             |                    | 2,654,237           | 7,605,869           |
| Unrestricted                                       | (4,402,100)                | 13,827,246          | (1,026,208)                 | (1,381,994)        | (5,428,308)         | 12,445,252          |
| <b>Total Net Assets<br/>(Deficiency)</b>           | <b>(53,085,749)</b>        | <b>(43,913,439)</b> | <b>(821,132)</b>            | <b>(1,225,142)</b> | <b>(53,906,881)</b> | <b>(45,138,581)</b> |

The net asset deficiency decreased by \$8,768,300 in the fiscal year. Issues that significantly affect the net assets decrease in fiscal year 2010-2011 were the following:

- Net expense for governmental activities was \$92,941,015
- General revenue which includes taxes, grants and subsidies, investment earnings and miscellaneous were \$102,113,325
- Business Type Activities (Food Service) has a total of net assets (deficiency) of (\$1,225,142).

**Financial Analysis of the District as a Whole - continued**

The District's total revenues for the fiscal year were \$147,130,464. Property taxes and other taxes levied for general purposes continue to account for most of the District's revenue in the amount of \$50,064,020 or 34% of total revenues. Another 30.5% or \$44,811,965 came from state formula aid, such as basic education and student transportation subsidies. Approximately 28.8% or \$42,314,617 came from operating and capital grants and contributions, with the remainder of \$9,939,862 or 6.7% coming from fees charged for services and other miscellaneous sources.

Miscellaneous sources include the fair market value of \$3,218,795 for the Basis Swap on the 2009A bonds, which is recognized as investment income because it was deemed to be an ineffective hedge and \$3,272,000 as the proceeds from the termination of the two Constant Maturity Swaps on the 2009D bonds. Both are one-time revenues. (See Figure A-4)

The cost of all programs and services was \$138,362,164. 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 \$111,233,411 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         |               |
|--|-------------------------|---------------|--------------------------|-------------|---------------|---------------|
|  | 2009-2010               | 2010-2011     | 2009-2010                | 2010-2011   | 2009-2010     | 2010-2011     |
| Program Revenues   | 2009-2010               | 2010-2011     | 2009-2010                | 2010-2011   | 2009-2010     | 2010-2011     |
| Charges for services                                     | \$2,368,808             | \$2,411,106   | \$296,802                | \$291,415   | \$2,665,610   | \$2,702,521   |
| Operating grants and contributions                       | 40,224,648              | 37,149,188    | 5,552,717                | 5,165,429   | 45,777,365    | 42,314,617    |
| General Revenues   |                         |               |                          |             |               |               |
| Property tax and other taxes levied for general purposes | 47,767,450              | 50,064,020    | -                        | -           | 47,767,450    | 50,064,020    |
| State formula aid  | 47,063,979              | 44,811,965    | -                        | -           | 47,063,979    | 44,811,965    |
| Other  | (4,287,142)             | 7,237,340     | 7                        | 1           | (4,287,135)   | 7,237,341     |
| Total Revenues   | \$133,137,743           | \$141,673,619 | \$5,849,526              | \$5,456,845 | \$138,987,269 | \$147,130,464 |

**Financial Analysis of the District as a Whole - continued**

**Changes in Net Assets from Operating Result - continued**

| Expenses                                  | Governmental Activities |               | Business-Type Activities |             | Total                |                    |
|---|-------------------------|---------------|--------------------------|-------------|----------------------|--------------------|
|   | 2009-2010               | 2010-2011     | 2009-2010                | 2010-2011   | 2009-2010            | 2010-2011          |
| Instruction                               | \$83,940,396            | \$78,756,204  |                          |             | \$83,940,396         | \$78,756,204       |
| Instructional student support             | 7,006,811               | 5,923,303     |                          |             | 7,006,811            | 5,923,303          |
| Administrative and financial support      | 11,665,548              | 10,666,681    |                          |             | 11,665,548           | 10,666,681         |
| Operational and maintenance of plant      | 12,139,173              | 13,084,942    |                          |             | 12,139,173           | 13,084,942         |
| Pupil transportation                      | 2,847,412               | 2,802,281     |                          |             | 2,847,412            | 2,802,281          |
| Student activities                        | 1,145,913               | 774,662       |                          |             | 1,145,913            | 774,662            |
| Central and other support services        | 7,474,215               | 6,314,762     |                          |             | 7,474,215            | 6,314,762          |
| Community services                        | 252,065                 | 205,952       |                          |             | 252,065              | 205,952            |
| Interest/fiscal charges on long-term debt | 13,901,573              | 13,972,522    |                          |             | 13,901,573           | 13,972,522         |
| Food Service                              |                         |               | 6,152,980                | 5,860,855   | 6,152,980            | 5,860,855          |
| Total Expenses                            | \$140,373,106           | \$132,501,309 | \$6,152,980              | \$5,860,855 | \$146,526,086        | \$138,362,164      |
| Increase (Decrease) in Net Assets         |                         |               |                          |             | <u>(\$7,538,817)</u> | <u>\$8,768,300</u> |

Financial Analysis of the District as a Whole - continued

Figure A-5

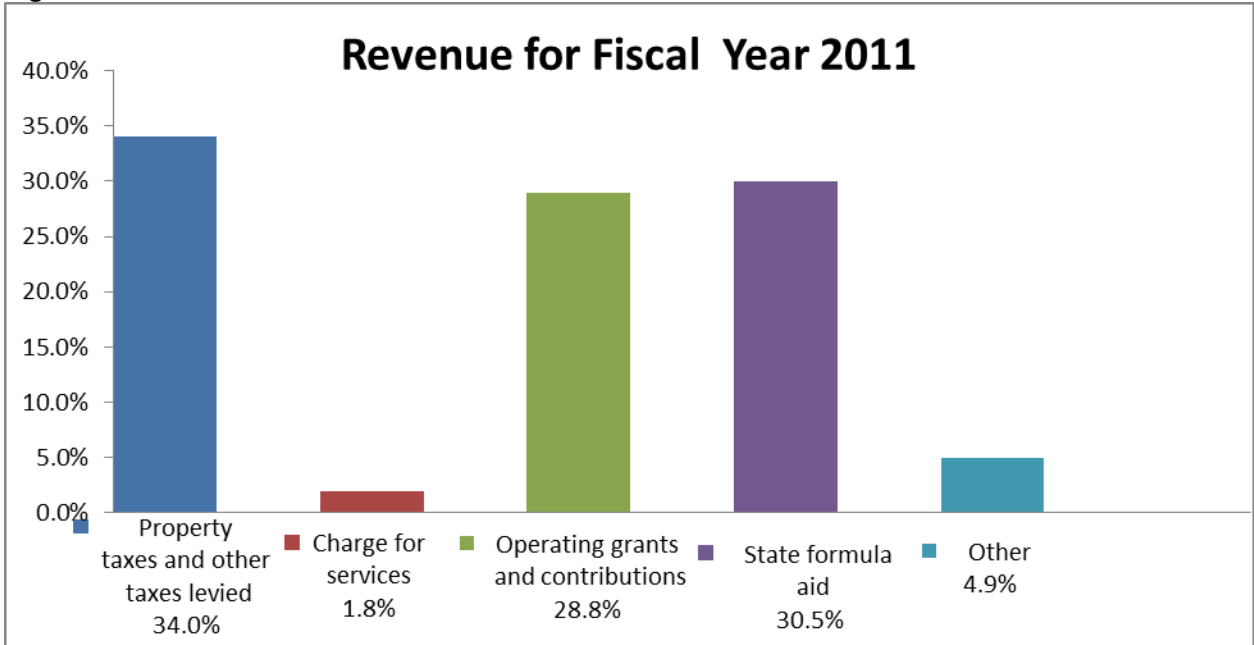
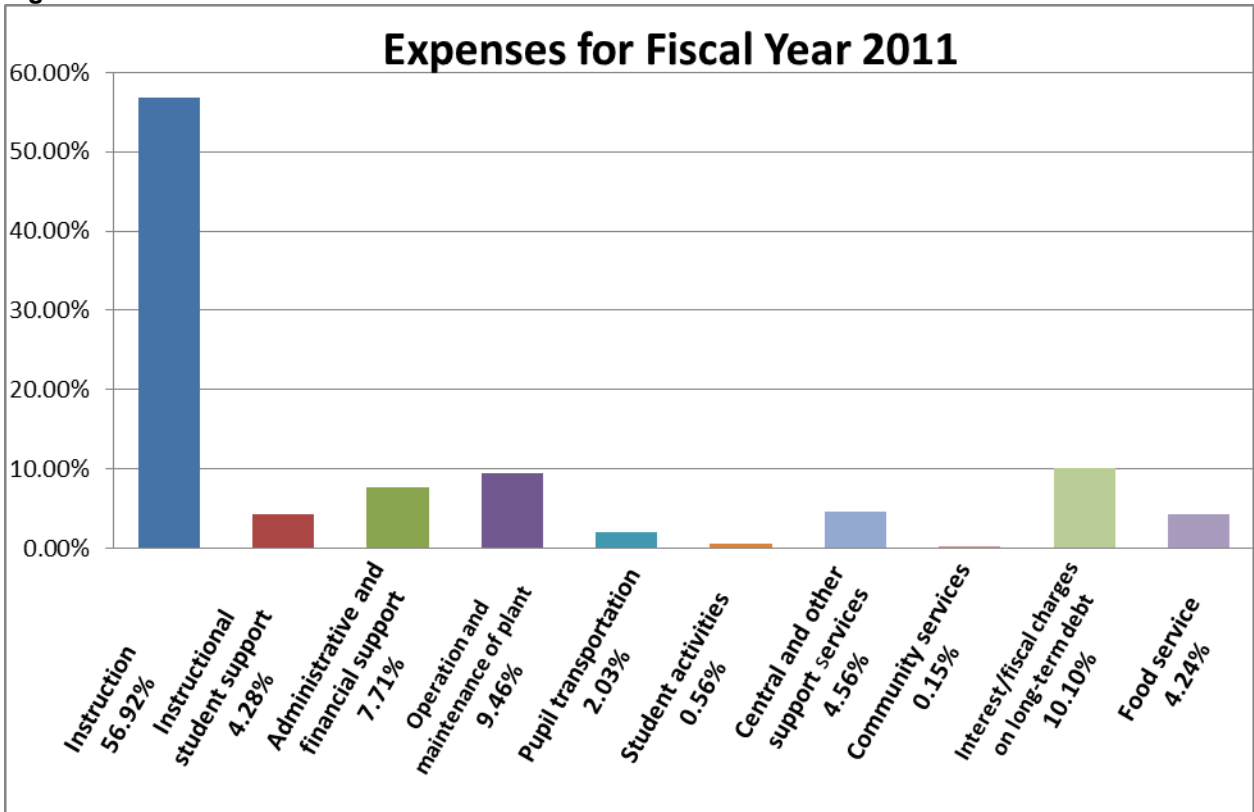


Figure A-6



Financial Analysis of the District as a Whole - continued

Figure A-7

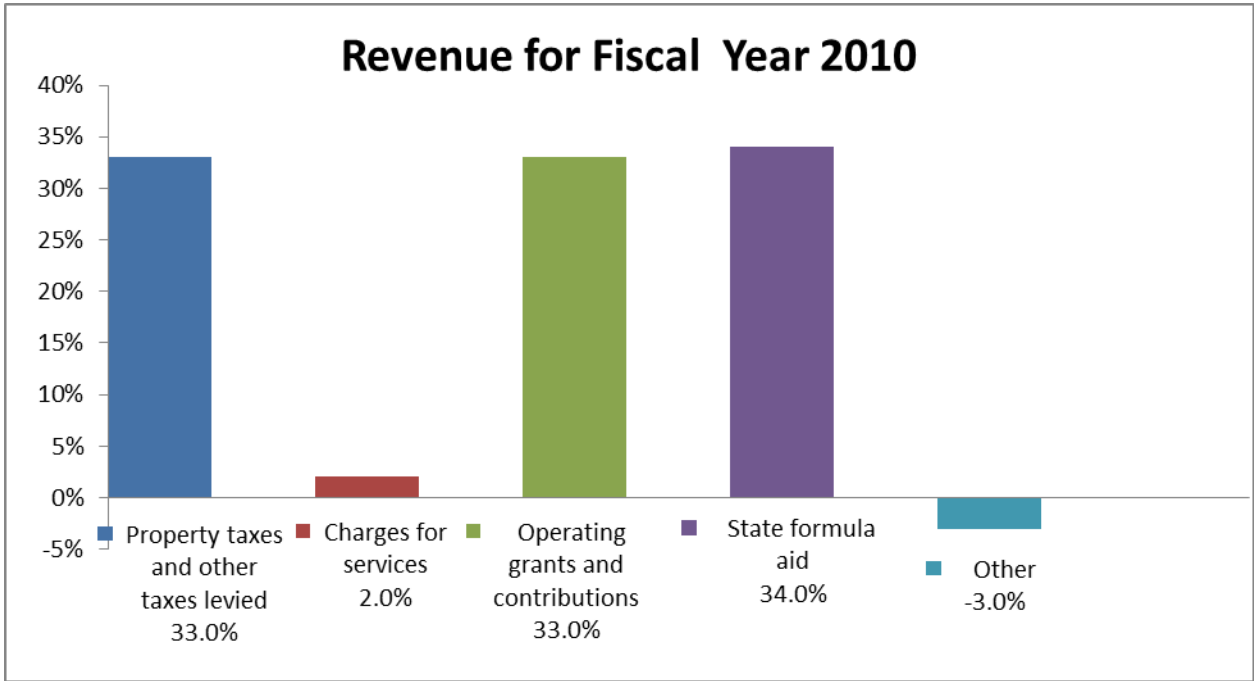
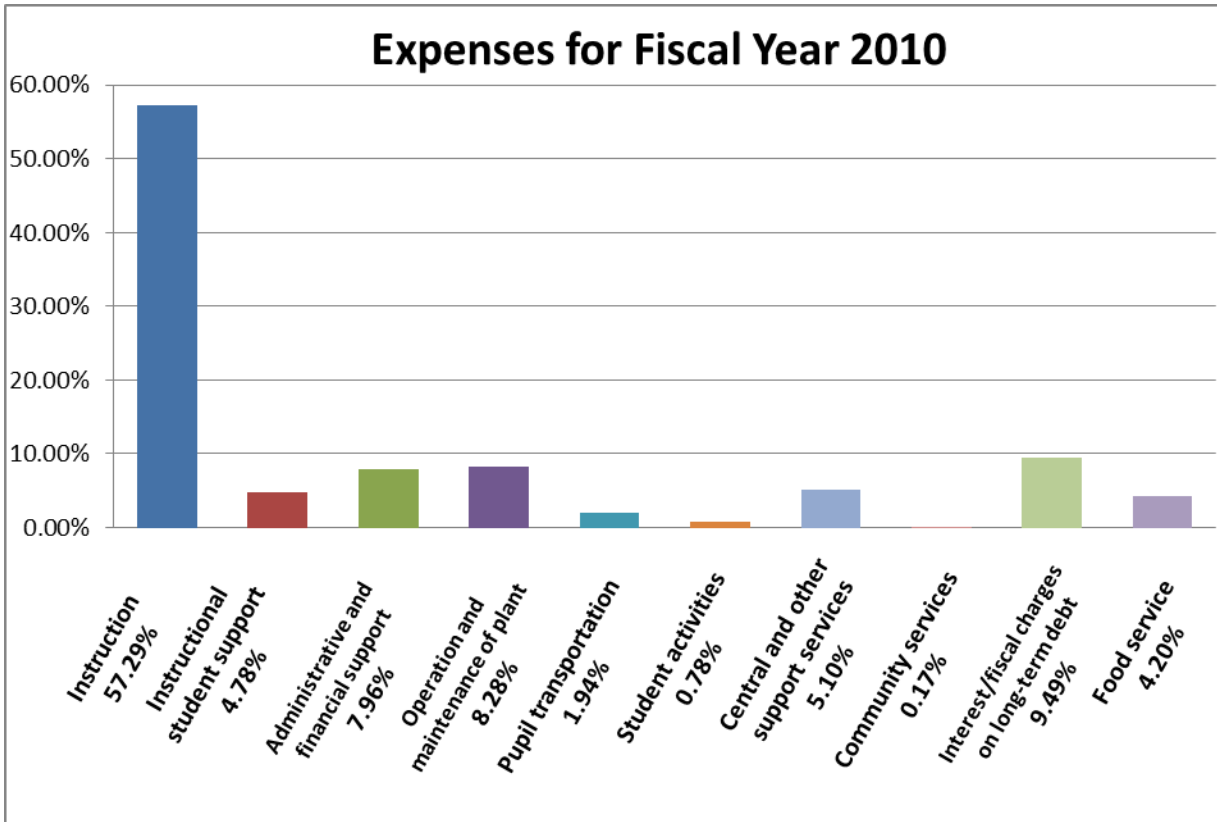


Figure A-8





## 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 5.0% to \$92,941,015. The net cost for the District's basic programs decreased for the following reasons: an increase in the charge for services, an increase in unrestricted grants, subsidies, and contributions, and the implementation of cost saving measures.

**Figure A-9**

|   | Total Cost of<br>Services | Total Cost of<br>Services | Percent of<br>Change | Net Cost of<br>Services | Net Cost of<br>Services | Percent of<br>Change |
|---|---------------------------|---------------------------|----------------------|-------------------------|-------------------------|----------------------|
|   | 2010                      | 2011                      | 2010-2011            | 2010                    | 2011                    | 2010-2011            |
| Instruction                                       | \$83,940,396              | \$78,756,204              | -6.2%                | \$49,421,244            | \$47,328,028            | -4.2%                |
| Instructional Student<br>Support                  | 7,006,811                 | 5,923,303                 | -15.5%               | 3,208,836               | 3,177,326               | -1.0%                |
| Administrative & Financial<br>Support Services    | 11,665,548                | 10,666,681                | -8.6%                | 10,864,345              | 9,805,752               | -9.7%                |
| Operational &<br>Maintenance of Plant<br>Services | 12,139,173                | 13,084,942                | 7.8%                 | 11,074,622              | 11,083,441              | 0.1%                 |
| Pupil Transportation                              | 2,847,412                 | 2,802,281                 | -1.6%                | 1,331,840               | 1,342,594               | 0.8%                 |
| Other   | 22,773,766                | 21,267,898                | -6.6%                | 21,878,763              | 20,203,874              | -7.7%                |
| <b>Total</b>                                      | <b>\$140,373,106</b>      | <b>\$132,501,309</b>      | <b>-5.6%</b>         | <b>\$97,779,650</b>     | <b>\$92,941,015</b>     | <b>-5.0%</b>         |

## Financial Analysis of the District

At the end of the fiscal year 2011; governmental funds had total fund balance of \$19,057,809. The ending fund balance for the General Fund was \$7,845,815, of which \$5,910,661 is unassigned and includes \$3,272,000 resulting from the termination of two swap agreements. The fund balance from the Debt Service fund was \$11,334,175 resulting from \$9,194,000 in proceeds from the 2010 Qualified School Construction Bonds for renovations and repairs to the District's school buildings.

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 \$9,452,972 after other financing uses, which increased the General Fund balance to \$7,845,815.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2011, the District had net investments of \$198,526,467 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 \$1,144,731 of capital assets into service during the year.

**Figure A-10**

Capital Assets (net of depreciation)

|                                    | Governmental<br>Activities | Governmental<br>Activities | Business-<br>type<br>Activities | Business-<br>type<br>Activities | Total                | Total                | Percentage<br>Change |
|------------------------------------|----------------------------|----------------------------|---------------------------------|---------------------------------|----------------------|----------------------|----------------------|
|                                    | 2010                       | 2011                       | 2010                            | 2011                            | 2010                 | 2011                 | 2010-11              |
| Land and site improvements         | \$13,700                   | \$13,700                   | -                               | -                               | 13,700               | \$13,700             | 0%                   |
| Building and building improvements | 239,744,677                | 239,751,782                | -                               | -                               | 239,744,677          | \$239,751,782        | 0.00%                |
| Furniture and equipment            | 30,788,359                 | 31,913,932                 | 1,439,428                       | 1,451,481                       | 32,227,787           | \$33,365,413         | 3.50%                |
| Construction in Progress           | -                          | 1,337,273                  | -                               | -                               | -                    | \$1,337,273          | 100.00%              |
| Accumulated depreciation           | (68,134,373)               | (74,647,072)               | (1,234,352)                     | (1,294,629)                     | (69,368,725)         | (\$75,941,701)       | 9.50%                |
| <b>Total</b>                       | <b>\$202,412,363</b>       | <b>\$198,369,615</b>       | <b>\$205,076</b>                | <b>\$156,852</b>                | <b>\$202,617,439</b> | <b>\$198,526,467</b> | <b>-2.02%</b>        |

## Outstanding Long-Term Debt

At year-end, the District has \$271,263,000 in general obligation bonds and other long-term debt outstanding. The District continued to pay down its debt, retiring \$640,000 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 |
|---------------------------------------|---------------|---------------|-------------------|
|                                       | 2010          | 2011          | 2010-2011         |
| Debt outstanding at beginning of year | \$263,194,000 | \$262,709,000 | -0.2%             |
| Additional Debt During Year           | \$0           | \$9,194,000   | 100.00%           |
| Retirement and Repayments             | (\$485,000)   | (\$640,000)   | 32%               |
| Debt outstanding at end of year       | \$262,709,000 | \$271,263,000 | 3.3%              |

## Factors Impacting on the District's Future

- The Pennsylvania School Employees Retirement System (PSERS) retirement rate will increase 53.4% from 2010-2011 to 2011-2012, from 5.64% to 8.65% of qualified retirement wages. PSERS projections indicate that employer contribution rates will increase to 12.36% of qualified retirement wages in 2012-2013, a 42.9% 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 16.69% for 2013-14 and 27.05% by 2022-23.
- 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 47.3% of total revenue sources to fund cost supporting the District's educational programs during fiscal year 2011. Local sources, primarily property taxes support 38.6% of the cost for educational cost and services in Harrisburg School District. Federal grants and other sources of revenue provide 14.1% 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 Union agreed to a no cost extension to the current collective bargaining agreement for 2011-12 and contract negotiations will begin in the spring of 2012 for a new agreement.

## **Factors Impacting on the District's Future - continued**

- 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 Union agreed to a no cost extension to the current collective bargaining agreement for 2011-12 and contract negotiations will begin in the spring of 2012 for a new agreement.
- In recognition of a continuing decline in State and Federal funding for public education and a limited local tax base, the District has undertaken cost cutting measures to systematically reduce the District's budget. Cost cutting measures including downsizing of staff and the closure of several schools has produced over \$23,000,000 in savings in the past two years.
- Within the next five years the District's debt service payment will be 15% of the budget. Funding has been secured to enact a District-wide roofing plan to replace and restore roofs that are nearing end of life and to upgrade HVAC systems in all of its schools to enact energy savings. It is not anticipated that the District will need additional borrowing in the foreseeable future.
- Expenditures reductions have also led to an improved cash flow eliminating the need for short-term borrowing.
- 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, 2011**

**ASSETS**

|  | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>          |
|--|------------------------------------|-------------------------------------|-----------------------|
| <b>CURRENT ASSETS</b>                    |                                    |                                     |                       |
| Cash and cash equivalents                | \$ 7,494,892                       | \$ 12,101                           | \$ 7,506,993          |
| Investments                              | 14,760,116                         | -                                   | 14,760,116            |
| Taxes receivable, net                    | 14,041,835                         | -                                   | 14,041,835            |
| Internal balance                         | 1,900,438                          | -                                   | 1,900,438             |
| Due from other governments               | 9,989,438                          | 748,759                             | 10,738,197            |
| Other receivables                        | 750,908                            | 27,569                              | 778,477               |
| Prepaid expenses                         | 34,716                             | -                                   | 34,716                |
| Inventories                              | -                                  | 89,580                              | 89,580                |
|  | <u>48,972,343</u>                  | <u>878,009</u>                      | <u>49,850,352</u>     |
| Total current assets                     |                                    |                                     |                       |
| <b>NONCURRENT ASSETS</b>                 |                                    |                                     |                       |
| Bond discounts and issue costs, net      | 8,321,474                          | -                                   | 8,321,474             |
| Land and site improvements, net          | 13,700                             | -                                   | 13,700                |
| Building and building improvements, net  | 192,014,567                        | -                                   | 192,014,567           |
| Furniture and equipment, net             | 5,004,075                          | 156,852                             | 5,160,927             |
| Construction in progress                 | 1,337,273                          | -                                   | 1,337,273             |
| Deferred outflow                         | 21,960,852                         | -                                   | 21,960,852            |
| Net other post-employment benefits asset | 3,000,989                          | -                                   | 3,000,989             |
|  | <u>231,652,930</u>                 | <u>156,852</u>                      | <u>231,809,782</u>    |
| Total noncurrent assets                  |                                    |                                     |                       |
|  | <u>\$ 280,625,273</u>              | <u>\$ 1,034,861</u>                 | <u>\$ 281,660,134</u> |

## LIABILITIES AND NET ASSETS (DEFICIENCY)

### CURRENT LIABILITIES

|   |                  |                |                  |
|---|------------------|----------------|------------------|
| Internal balance                        | \$ 41,138        | \$ 1,818,775   | \$ 1,859,913     |
| Accounts payable                        | 8,023,886        | 34,178         | 8,058,064        |
| Accrued interest                        | 1,660,042        | -              | 1,660,042        |
| Current portion of long-term debt       | 695,000          | -              | 695,000          |
| Current portion of capital leases       | 131,855          | -              | 131,855          |
| Current portion of compensated absences | 371,704          | 11,843         | 383,547          |
| Deferred subsidy revenue                | 733,370          | 7,543          | 740,913          |
| Due to other governments                | 196,363          | -              | 196,363          |
| Accrued salaries and benefits           | <u>7,800,498</u> | <u>166,211</u> | <u>7,966,709</u> |
| Total current liabilities               | 19,653,856       | 2,038,550      | 21,692,406       |

### NONCURRENT LIABILITIES

|  |                    |                |                    |
|--|--------------------|----------------|--------------------|
| Long-term debt net of current portion      | 270,568,000        | -              | 270,568,000        |
| Premium on issue of swap                   | 3,165,241          | -              | 3,165,241          |
| Premium on bond issue                      | 958,195            | -              | 958,195            |
| Capital leases                             | 263,710            | -              | 263,710            |
| Compensated absences and health plan costs | 6,595,598          | 147,917        | 6,743,515          |
| Derivative instruments - swaps             | 23,334,112         | -              | 23,334,112         |
| Other post-employment benefits liability   | <u>-</u>           | <u>73,536</u>  | <u>73,536</u>      |
| Total noncurrent liabilities               | <u>304,884,856</u> | <u>221,453</u> | <u>305,106,309</u> |
| Total liabilities                          | 324,538,712        | 2,260,003      | 326,798,715        |

### NET ASSETS (DEFICIENCY)

|   |                       |                     |                       |
|---|-----------------------|---------------------|-----------------------|
| Restricted for debt service                     | 7,605,869             | -                   | 7,605,869             |
| Invested in capital assets, net of related debt | (65,346,554)          | 156,852             | (65,189,702)          |
| Unrestricted                                    | <u>13,827,246</u>     | <u>(1,381,994)</u>  | <u>12,445,252</u>     |
| Total net assets (deficiency)                   | <u>(43,913,439)</u>   | <u>(1,225,142)</u>  | <u>(45,138,581)</u>   |
|   | <u>\$ 280,625,273</u> | <u>\$ 1,034,861</u> | <u>\$ 281,660,134</u> |

See accompanying notes.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

|  | Program Revenues          |                            | Net (Expense) Revenue and<br>Changes in Net Assets |                                  |                                 |                                  |
|--|---------------------------|----------------------------|--|----------------------------------|---------------------------------|----------------------------------|
|  | Expenses                  | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions           | Govern-<br>mental<br>Activities  | Business-<br>Type<br>Activities | Total                            |
| <b>GOVERNMENTAL ACTIVITIES</b>                     |                           |                            |  |                                  |                                 |                                  |
| Instruction  | \$ 78,756,204             | \$ 2,411,106               | \$29,017,070                                       | \$(47,328,028)                   | \$ -                            | \$(47,328,028)                   |
| Instructional student support                      | 5,923,303                 | -                          | 2,745,977  | (3,177,326)                      | -                               | (3,177,326)                      |
| Administrative and financial support services      | 10,666,681                | -                          | 860,929  | (9,805,752)                      | -                               | (9,805,752)                      |
| Operation and maintenance of plant services        | 13,084,942                | -                          | 2,001,501  | (11,083,441)                     | -                               | (11,083,441)                     |
| Pupil transportation                               | 2,802,281                 | -                          | 1,459,687  | (1,342,594)                      | -                               | (1,342,594)                      |
| Student activities                                 | 774,662                   | -                          | 32,929   | (741,733)                        | -                               | (741,733)                        |
| Central and other support services                 | 6,314,762                 | -                          | 809,115  | (5,505,647)                      | -                               | (5,505,647)                      |
| Community services                                 | 205,952                   | -                          | 221,980  | 16,028                           | -                               | 16,028                           |
| Interest/fiscal charges on long-term debt          | 13,972,522                | -                          | -  | (13,972,522)                     | -                               | (13,972,522)                     |
| <br>Total governmental activities                  | <br>132,501,309           | <br>2,411,106              | <br>37,149,188                                     | <br>(92,941,015)                 | <br>-                           | <br>(92,941,015)                 |
| <b>BUSINESS-TYPE ACTIVITIES</b>                    |                           |                            |  |                                  |                                 |                                  |
| Food service                                       | 5,860,855                 | 291,415                    | 5,165,429  | -                                | (404,011)                       | (404,011)                        |
| <br>Total primary government                       | <br><u>\$ 138,362,164</u> | <br><u>\$ 2,702,521</u>    | <br><u>\$42,314,617</u>                            | <br><u>(92,941,015)</u>          | <br><u>(404,011)</u>            | <br><u>(93,345,026)</u>          |
| <b>GENERAL REVENUES</b>                            |                           |                            |  |                                  |                                 |                                  |
| Taxes  |                           |                            |  | 50,064,020                       | -                               | 50,064,020                       |
| Grants, subsidies and contributions not restricted |                           |                            |  | 44,811,965                       | -                               | 44,811,965                       |
| Investment earnings - derivatives                  |                           |                            |  | 3,218,795                        |                                 | 3,218,795                        |
| Investment earnings                                |                           |                            |  | 39,477                           | 1                               | 39,478                           |
| Miscellaneous income                               |                           |                            |  | 3,979,068                        | -                               | 3,979,068                        |
|  |                           |                            |  | <u>102,113,325</u>               | <u>1</u>                        | <u>102,113,326</u>               |
| <br><b>CHANGE IN NET ASSETS (DEFICIENCY)</b>       |                           |                            |  | <br>9,172,310                    | <br>(404,010)                   | <br>8,768,300                    |
| <br><b>NET ASSETS (DEFICIENCY) - BEGINNING</b>     |                           |                            |  | <br><u>(53,085,749)</u>          | <br><u>(821,132)</u>            | <br><u>(53,906,881)</u>          |
| <br><b>NET ASSETS (DEFICIENCY) - ENDING</b>        |                           |                            |  | <br><u><u>\$(43,913,439)</u></u> | <br><u><u>\$(1,225,142)</u></u> | <br><u><u>\$(45,138,581)</u></u> |

See accompanying notes.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

**ASSETS**

|                            | General<br>Fund      | Debt Service<br>Fund | Non-major<br>Funds | Total<br>Governmental<br>Funds |
|----------------------------|----------------------|----------------------|--------------------|--------------------------------|
| Cash and cash equivalents  | \$ 6,482,580         | \$ 602,364           | \$ 409,948         | \$ 7,494,892                   |
| Investments                | 4,028,869            | 10,731,247           | -                  | 14,760,116                     |
| Taxes receivable, net      | 14,041,835           | -                    | -                  | 14,041,835                     |
| Due from other funds       | 1,900,438            | -                    | -                  | 1,900,438                      |
| Due from other governments | 9,989,438            | -                    | -                  | 9,989,438                      |
| Other receivables          | 750,022              | 886                  | -                  | 750,908                        |
| Prepaid expenses           | 34,716               | -                    | -                  | 34,716                         |
|                            | <u>\$ 37,227,898</u> | <u>\$ 11,334,497</u> | <u>\$ 409,948</u>  | <u>\$ 48,972,343</u>           |

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

|                               |                   |            |                |                   |
|-------------------------------|-------------------|------------|----------------|-------------------|
| Accounts payable              | \$ 7,532,573      | \$ 322     | \$ 490,991     | \$ 8,023,886      |
| Due to other funds            | -                 | -          | 41,138         | 41,138            |
| Due to other governments      | 196,363           | -          | -              | 196,363           |
| Accrued salaries and benefits | 7,800,498         | -          | -              | 7,800,498         |
| Deferred revenues             | 13,852,649        | -          | -              | 13,852,649        |
|                               | <u>29,382,083</u> | <u>322</u> | <u>532,129</u> | <u>29,914,534</u> |
| Total liabilities             |                   |            |                |                   |

**FUND BALANCES**

|                        |                      |                      |                   |                      |
|------------------------|----------------------|----------------------|-------------------|----------------------|
| Nonspendable:          |                      |                      |                   |                      |
| Interfund receivable   | 1,900,438            | -                    | -                 | 1,900,438            |
| Prepaid expenses       | 34,716               | -                    | -                 | 34,716               |
| Restricted:            |                      |                      |                   |                      |
| 2002 QZAB              | -                    | 2,512,525            | -                 | 2,512,525            |
| 2010 Debt service fund | -                    | 7,605,869            | -                 | 7,605,869            |
| Committed:             |                      |                      |                   |                      |
| 2009 Debt series       | -                    | 1,215,781            | -                 | 1,215,781            |
| Assigned:              |                      |                      |                   |                      |
| Special revenue fund   | -                    | -                    | 95,943            | 95,943               |
| Unassigned             | 5,910,661            | -                    | (218,124)         | 5,692,537            |
|                        | <u>7,845,815</u>     | <u>11,334,175</u>    | <u>(122,181)</u>  | <u>19,057,809</u>    |
| Total fund balances    |                      |                      |                   |                      |
|                        | <u>\$ 37,227,898</u> | <u>\$ 11,334,497</u> | <u>\$ 409,948</u> | <u>\$ 48,972,343</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, 2011**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 19,057,809

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

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 \$273,016,687 and the accumulated depreciation is \$74,647,072. 198,369,615

Taxes receivable that are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds, net of allowance. 13,119,279

To record other post-employment benefits (OPEB) 3,000,989

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

|  |                    |               |
|--|--------------------|---------------|
| Bonds payable                                      | \$ (271,263,000)   |               |
| Accrued interest on the bonds                      | (1,660,042)        |               |
| Bond issue costs (net of accumulated amortization) | 8,321,474          |               |
| Capital leases                                     | (395,565)          |               |
| Premium on issue of swap                           | (3,165,241)        |               |
| Premium on bond issue                              | (958,195)          |               |
| Compensated absences                               | <u>(6,967,302)</u> |               |
|  |                    | (276,087,871) |

To record GASB 53 fair market value (1,373,260)

**TOTAL NET ASSETS (DEFICIENCY) - GOVERNMENTAL ACTIVITIES** \$ (43,913,439)

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, 2011**

|  | General<br>Fund     | Debt Service<br>Fund | Non-<br>Major<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|----------------------|------------------------|--------------------------------|
| <b>REVENUES</b>  |                     |                      |                        |                                |
| Local sources  | \$ 51,362,822       | \$ 99,326            | \$ 852                 | \$ 51,463,000                  |
| State sources  | 62,936,967          | -                    | -                      | 62,936,967                     |
| Federal sources  | 18,704,619          | -                    | -                      | 18,704,619                     |
| <b>Total revenues</b>  | <b>133,004,408</b>  | <b>99,326</b>        | <b>852</b>             | <b>133,104,586</b>             |
| <b>EXPENDITURES</b>  |                     |                      |                        |                                |
| Instruction  | 76,561,001          | -                    | -                      | 76,561,001                     |
| Support services   | 34,626,806          | -                    | -                      | 34,626,806                     |
| Noninstructional services                                    | 787,627             | -                    | -                      | 787,627                        |
| Facility acquisition and improvement                         | -                   | -                    | 1,360,713              | 1,360,713                      |
| Debt service (principal and interest)                        | 1,182,177           | 13,355,675           | 40,244                 | 14,578,096                     |
| <b>Total expenditures</b>                                    | <b>113,157,611</b>  | <b>13,355,675</b>    | <b>1,400,957</b>       | <b>127,914,243</b>             |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <b>19,846,797</b>   | <b>(13,256,349)</b>  | <b>(1,400,105)</b>     | <b>5,190,343</b>               |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                     |                      |                        |                                |
| Proceeds of long-term debt                                   | -                   | 9,194,000            | -                      | 9,194,000                      |
| Proceeds from external financing                             | 3,272,000           | 402,539              | -                      | 3,674,539                      |
| Transfers in   | 402,539             | 13,793,394           | 854,975                | 15,050,908                     |
| Transfers out  | (13,597,262)        | (1,453,646)          | -                      | (15,050,908)                   |
| Refunds of prior years receipts                              | (471,102)           | -                    | -                      | (471,102)                      |
| <b>Total other financing sources (uses)</b>                  | <b>(10,393,825)</b> | <b>21,936,287</b>    | <b>854,975</b>         | <b>12,397,437</b>              |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>9,452,972</b>    | <b>8,679,938</b>     | <b>(545,130)</b>       | <b>17,587,780</b>              |
| <b>FUND BALANCE (DEFICIT) - BEGINNING</b>                    | <b>(1,607,157)</b>  | <b>2,654,237</b>     | <b>422,949</b>         | <b>1,470,029</b>               |
| <b>FUND BALANCE (DEFICIT) - ENDING</b>                       | <b>\$ 7,845,815</b> | <b>\$ 11,334,175</b> | <b>\$ (122,181)</b>    | <b>\$ 19,057,809</b>           |

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, 2011

**TOTAL NET CHANGE IN FUND BALANCES -  
 GOVERNMENTAL FUNDS** \$ 17,587,780

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     | \$ (6,512,699)   |             |
| Capital outlays          | 1,132,678        |             |
| Construction in progress | <u>1,337,273</u> |             |
|                          |                  | (4,042,748) |

Because some 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. 2,082,439

Debt proceeds are recorded as revenues in the governmental funds,  
 but the proceeds increase long-term liabilities in the statement of net assets. (9,194,000)

Capital leases are recorded as expenditures in the governmental funds  
 but are recorded as long-term liabilities in the statement of net assets (395,565)

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. 654,978

Payments on the premium on swap issue is recorded in the  
 governmental funds in 2011, the premium is being amortized  
 and interest expense is being recorded on the premium amount.  
 The SWAP premium decreased this year by this amount. 160,456

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 increased by this amount this year. (357,526)

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, 2011

|  |                                  |
|--|----------------------------------|
| To record the change in other post-employment benefits (OPEB) asset.   | (507,881)                        |
| 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: |                                  |
| Current year bond premium amortization   | 142,824                          |
| Current year bond issue costs amortization   | 97,444                           |
| Current year bond issue costs amortization   | (468,026)                        |
| 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.                               |                                  |
|  | 193,340                          |
| GASB 53 measurement of change in fair value of ineffective SWAP  | <u>3,218,795</u>                 |
| <b>CHANGE IN NET ASSETS (DEFICIENCY) OF GOVERNMENTAL ACTIVITIES</b>  | <b><u><u>\$9,172,310</u></u></b> |

See accompanying notes.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**STATEMENT OF NET DEFICIT -**  
**PROPRIETARY FUND**  
**JUNE 30, 2011**

**ASSETS**

|                            | Food<br>Service<br>Fund |
|----------------------------|-------------------------|
| <b>CURRENT ASSETS</b>      |                         |
| Cash                       | \$ 12,101               |
| Other receivables          | 27,569                  |
| Due from other governments | 748,759                 |
| Inventories                | 89,580                  |
| Total current assets       | 878,009                 |
| <b>NONCURRENT ASSETS</b>   |                         |
|                            | 156,852                 |
|                            | \$ 1,034,861            |

**LIABILITIES AND NET DEFICIT**

|   |              |
|---|--------------|
| <b>CURRENT LIABILITIES</b>              |              |
| Accounts payable                        | \$ 34,178    |
| Due to other funds                      | 1,818,775    |
| Accrued salaries and benefits           | 166,211      |
| Current portion of compensated absences | 11,843       |
| Deferred subsidy revenues               | 7,543        |
| Total current liabilities               | 2,038,550    |
| <b>NONCURRENT LIABILITIES</b>           |              |
| Compensated absences                    | 147,917      |
| Other post-employment benefits          | 73,536       |
| Total noncurrent liabilities            | 221,453      |
| <b>NET DEFICIT</b>                      |              |
| Unrestricted                            | (1,225,142)  |
|   | \$ 1,034,861 |

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, 2011**

|   | <u>Food<br/>Service<br/>Fund</u> |
|---|----------------------------------|
| <b>OPERATING REVENUES</b>                       |                                  |
| Food service revenue                            | \$ 291,415                       |
| <br><b>OPERATING EXPENSES</b>                   |                                  |
| Salaries  | 1,773,699                        |
| Employee benefits                               | 967,805                          |
| Purchased professional and<br>technical service | 2,751                            |
| Purchased property service                      | 61,849                           |
| Other purchased service                         | 21,913                           |
| Supplies  | 2,972,110                        |
| Depreciation                                    | 60,277                           |
| Other   | <u>451</u>                       |
| Total operating expenses                        | <u>5,860,855</u>                 |
| <br><b>OPERATING LOSS</b>                       | <br><u>(5,569,440)</u>           |
| <br><b>NONOPERATING REVENUES</b>                |                                  |
| Earnings on investments                         | 1                                |
| State sources                                   | 417,820                          |
| Federal sources                                 | 4,480,005                        |
| USDA donated commodities                        | <u>267,604</u>                   |
| Total nonoperating revenues                     | <u>5,165,430</u>                 |
| <br><b>CHANGE IN NET ASSETS</b>                 | <br>(404,010)                    |
| <br><b>NET ASSETS (DEFICIENCY) - BEGINNING</b>  | <br><u>(821,132)</u>             |
| <br><b>NET ASSETS (DEFICIENCY) - ENDING</b>     | <br><u><u>\$ (1,225,142)</u></u> |

See accompanying notes.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2011**

|  |                  |                              |
|--|------------------|------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |                  |                              |
| Cash received from user charges  | \$ 290,812       |                              |
| Cash payments to employees for services  | (2,696,727)      |                              |
| Cash payments to suppliers for goods and services                                | (1,963,280)      |                              |
| Cash payments for other operating expenses                                       | (451)            |                              |
| Net cash used in operating activities  |                  | \$ (4,369,646)               |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                           |                  |                              |
| Grants and subsidies received for non-operating activities:                      |                  |                              |
| State  | 388,350          |                              |
| Federal  | <u>4,003,477</u> |                              |
| Net cash provided by noncapital financing activities                             |                  | 4,391,827                    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                  |                  |                              |
| Purchase of equipment  |                  | (12,053)                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |                  |                              |
| Earnings on investments  |                  | <u>1</u>                     |
| <b>NET INCREASE IN CASH</b>  |                  | 10,129                       |
| <b>CASH - BEGINNING OF YEAR</b>  |                  | <u>1,972</u>                 |
| <b>CASH - END OF YEAR</b>  |                  | <u><u>\$ 12,101</u></u>      |
| Reconciliation of operating loss to net cash used in operating activities:       |                  |                              |
| Operating loss   |                  | \$ (5,569,440)               |
| Adjustment to reconcile operating loss to net cash used in operating activities: |                  |                              |
| Depreciation   | \$ 60,277        |                              |
| Donated commodities  | 267,604          |                              |
| (Increase) decrease in:  |                  |                              |
| Inventory  | (18,925)         |                              |
| Other receivables  | (603)            |                              |
| Increase (decrease) in:  |                  |                              |
| Accounts payable   | (29,412)         |                              |
| Due to other funds   | 876,076          |                              |
| OPEB liability   | 46,825           |                              |
| Accrued salaries and benefits  | 28,360           |                              |
| Accumulated compensated absences   | <u>(30,408)</u>  |                              |
| Total adjustment   |                  | <u>1,199,794</u>             |
| Net cash used in operating activities  |                  | <u><u>\$ (4,369,646)</u></u> |

See accompanying notes.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2011**

**ASSETS**

|                           | <u>Private<br/>Purpose<br/>Trust Funds</u> | <u>Agency<br/>Funds</u>  |
|---------------------------|--|--------------------------|
| <b>ASSETS</b>             |  |                          |
| Cash and cash equivalents | \$ 38,531                                  | \$ 297,298               |
| Other receivables         | -  | 1,069                    |
|                           | <u>          </u>                          | <u>          </u>        |
| Total assets              | <u><u>\$ 38,531</u></u>                    | <u><u>\$ 298,367</u></u> |

**LIABILITIES AND NET ASSETS**

|                       |                         |                          |
|-----------------------|-------------------------|--------------------------|
| <b>LIABILITIES</b>    |                         |                          |
| Accounts payable      | \$ -                    | \$ 18,348                |
| Due to other funds    | 2,000                   | 38,525                   |
| Funds held for others | -                       | 241,494                  |
|                       | <u>          </u>       | <u>          </u>        |
| Total liabilities     | 2,000                   | 298,367                  |
| <br><b>NET ASSETS</b> |                         |                          |
| Restricted            | <u>36,531</u>           | <u>-</u>                 |
|                       | <u><u>\$ 38,531</u></u> | <u><u>\$ 298,367</u></u> |

See accompanying notes.



**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**YEAR ENDED JUNE 30, 2011**

|                               | <u>Private<br/>Purpose<br/>Trust Funds</u> |
|-------------------------------|--|
| <b>ADDITIONS</b>              |  |
| Receipts                      | \$ 4,838                                   |
| <b>DEDUCTIONS</b>             |  |
| Other                         | <u>27,411</u>                              |
| <b>CHANGE IN NET ASSETS</b>   | (22,573)                                   |
| <b>NET ASSETS - BEGINNING</b> | <u>59,104</u>                              |
| <b>NET ASSETS - ENDING</b>    | <u><u>\$ 36,531</u></u>                    |

See accompanying notes.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**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 School Directors 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, 2011**

**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, 2011**

**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, 2011**

**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. 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.
3. Series 2010 Note - accounts for the costs of HVAC and other related renovations to school buildings as financed by the Series 2010 General Obligation Note.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**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 2009A Fund - accounts for the refinancing of Series 1999, 2006, and 2008 bond issues.
3. Series 2009B Fund - accounts for the refinancing of Series 2007, deficit financing, and new money.
4. Series 2009C Fund - accounts for the refinancing of Series 2002A bond issue.
5. Series 2009D Fund - accounts for the refinancing of Series 2003 bond issue.
6. Series 2010 Fund - accounts for the financing of the Series 2010 Note 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, 2011**

**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, 2011**

**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, 2011. Of this total, the portion collected within 60 days after June 30, 2011, 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, 2011**

**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 School Directors 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, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Fund Balance Classification

Beginning with fiscal year June 30, 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Debt service fund as being restricted because its use is limited by legislation or external parties.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of School Directors. These amounts cannot be used for any other purpose unless the Board of School Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District has classified the 2009 Debt series as being committed resources.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the Business Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has classified the Capital Projects and Special Revenue Funds as assigned resources.
- **Unassigned:** This classification includes the residual fund balance for the General Fund and the amount established for Minimum Funding which represents the portion of the General Fund balance that has been established by a Resolution of the Board of School Directors dated May 2, 2011. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts. The District will strive to maintain a fund balance of not less than 1% and not more than 8% of the annual approved budget.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Fund Balance Classification - continued

The Board would typically use Unassigned fund balances first, followed by Assigned resources, and then Committed resources, unless otherwise directed by the Board.

Beginning fund balances for the District's governmental funds have been restated to reflect the above classifications.

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, 2011. 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.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

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.

Employees may carryover up to 40 vacation days. In a termination year, unused vacation leave is paid in full at termination.

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. Administrative employees are paid 25 percent of their accumulated unused sick leave at their current daily rate. 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 Teachers and Administrators 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 PSERS supplementation, if any.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

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.

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, 2011, 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.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

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.

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.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011, none of the District's bank balance of \$8,790,125 was exposed to custodial credit risk as:

|  |                    |
|--|--------------------|
| Covered by Federal Depository Insurance (FDIC)   | \$ 527,133         |
| Secured by pooled collateral as permitted by Act 72 of<br>the Commonwealth of Pennsylvania | <u>8,262,992</u>   |
| Total  | <u>\$8,790,125</u> |

Reconciliation to Financial Statements

|   |                    |
|---|--------------------|
| Covered by Federal Depository Insurance (FDIC)                | \$ 527,133         |
| Plus: Funds covered under Act 72                              | 8,262,998          |
| Less: Outstanding checks                                      | <u>(1,668,416)</u> |
| Carrying amount - bank balances                               | 7,121,715          |
| Plus: Deposits in pooled funds considered<br>cash equivalents | <u>721,107</u>     |
| Total cash per financial statements                           | <u>\$7,842,822</u> |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued**

Investments

As of June 30, 2011, 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<br/>1</u>                  | <u>1 - 5</u> | <u>5 - 10</u> |
| Federal National Mortgage Association               | \$ 2,485,942         | \$ 2,485,942                            | \$ -         | \$ -          |
| PA School District Liquid Asset Fund                | 4,015,162            | 4,015,162                               | -            | -             |
| PA Local Government Investment Trust                | 8,366,303            | 8,366,303                               | -            | -             |
| PA Treasurer's INVEST Program for Local Governments | 38,039               | 38,039                                  | -            | -             |
| Treasury obligations funds                          | <u>575,777</u>       | <u>575,777</u>                          | <u>-</u>     | <u>-</u>      |
| Total   | <u>\$ 15,481,223</u> | <u>\$ 15,481,223</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.

Credit Risk

The District does not have a formal investment policy that limits its investment choices to certain credit ratings. As of June 30, 2011, the District's investments were rated as:

| <u>Investment</u>                     | <u>Standard &amp; Poor's</u> |
|---------------------------------------|------------------------------|
| Federal National Mortgage Association | AAA                          |
| PA Local Government Investment Trust  | AAA                          |
| PA School District Liquid Asset Fund  | AAA                          |
| PA Treasurer's INVEST Program         | AAA                          |



THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued**

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 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                                    | \$ 15,481,223        |
| Less: Deposits in pooled funds considered cash equivalents | <u>(721,107)</u>     |
| Total investments per financial statements                 | <u>\$ 14,760,116</u> |

**NOTE C - PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant and equipment of the Business-Type Activities as of June 30, 2011, is as follows:

|                                    | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Ending<br/>Balance</u> |
|------------------------------------|------------------------------|------------------|---------------------------|
| Machinery and equipment            | \$1,439,428                  | \$12,053         | \$1,451,481               |
| Accumulated depreciation           | 1,234,352                    | 60,277           | <u>1,294,629</u>          |
| Net property, plant, and equipment |                              |                  | <u>\$ 156,852</u>         |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE C - PROPERTY, PLANT AND EQUIPMENT - continued**

A summary of property, plant, and equipment for the Governmental Activities for the year ended June 30, 2011, is as follows:

|                                   | <u>Beginning<br/>Balance</u> | <u>Additions</u>   | <u>Deletions</u> | <u>Ending<br/>Balance</u> |
|-----------------------------------|------------------------------|--------------------|------------------|---------------------------|
| Land and land improvements        | \$ 13,700                    | \$ -               | \$ -             | \$ 13,700                 |
| Building and improvements         | 239,744,677                  | 7,105              | -                | 239,751,782               |
| Furniture and equipment           | 30,788,359                   | 1,125,573          | -                | 31,913,932                |
| Construction in progress          | <u>-</u>                     | <u>1,337,273</u>   | <u>-</u>         | <u>1,337,273</u>          |
| Total capital assets              | <u>270,546,736</u>           | <u>2,469,951</u>   | <u>-</u>         | <u>273,016,687</u>        |
| Less accumulated depreciation:    |                              |                    |                  |                           |
| Building and improvements         | 43,008,051                   | 4,729,164          | -                | 47,737,215                |
| Furniture and equipment           | <u>25,126,322</u>            | <u>1,783,535</u>   | <u>-</u>         | <u>26,909,857</u>         |
| Total accumulated depreciation    | <u>68,134,373</u>            | <u>\$6,512,699</u> | <u>\$ -</u>      | <u>74,647,072</u>         |
| Net property, plant and equipment | <u>\$ 202,412,363</u>        |                    |                  | <u>\$198,369,615</u>      |

Depreciation was charged to individual functions as follows:

|                                    |                     |
|------------------------------------|---------------------|
| Instructional                      | \$ 1,906,279        |
| Instructional support              | 109,627             |
| Administrative                     | 235,327             |
| Operation of plant and maintenance | 3,072,837           |
| Central support services           | 995,642             |
| Student activities                 | <u>192,987</u>      |
| Total                              | <u>\$ 6,512,699</u> |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**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, 2011, follows:

|  | <u>Earned<br/>Income</u> | <u>Real<br/>Estate<br/>Transfer</u> | <u>School<br/>Occupation</u> | <u>Total</u>         |
|--|--------------------------|-------------------------------------|------------------------------|----------------------|
| Current taxes collected by City, County, or Tax Claim Bureau by June 30, and remitted shortly thereafter | \$ 371,381               | \$ 69,070                           | \$ 482,105                   | \$ 922,556           |
| Deferred tax revenues  | <u>-</u>                 | <u>-</u>                            | <u>13,119,279</u>            | <u>13,119,279</u>    |
| Taxes receivable, net  | <u>\$ 371,381</u>        | <u>\$ 69,070</u>                    | <u>\$ 13,601,384</u>         | <u>\$ 14,041,835</u> |

Deferred revenues consists of the following:

|   |                   |                  |                      |                      |
|---|-------------------|------------------|----------------------|----------------------|
| Taxes receivable which were not collected within days subsequent to June 30, 2011 |                   |                  | \$ 13,119,279        |                      |
| Deferred subsidies  |                   |                  | <u>733,370</u>       |                      |
| Total   |                   |                  | <u>\$ 13,852,649</u> |                      |
| Taxes receivable  | \$ 371,381        | \$ 69,070        | \$ 20,876,892        | \$ 21,317,343        |
| Estimated uncollectible taxes   | <u>-</u>          | <u>-</u>         | <u>(7,275,508)</u>   | <u>(7,275,508)</u>   |
| Taxes receivable, net   | <u>\$ 371,381</u> | <u>\$ 69,070</u> | <u>\$ 13,601,384</u> | <u>\$ 14,041,835</u> |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE E - INVENTORIES**

A schedule of the Business-Type Activities' inventories at June 30, 2011, follows:

|                        |                  |
|------------------------|------------------|
| Material and supplies  | \$ 15,614        |
| Purchased food         | 66,423           |
| Donated commodity food | <u>7,543</u>     |
|                        | <u>\$ 89,580</u> |

**NOTE F - ACCRUED SALARIES AND BENEFITS**

Accrued salaries principally represent teachers' salaries earned during the 2010/2011 school year that were paid subsequent to June 30, 2011. Accrued retirement, social security, and workers' compensation represent the District's liability on salaries paid during June 2011 and on accrued salaries at June 30, 2011. Accrued payroll withholdings represent the employees' share of retirement, social security and other benefits not remitted to the respective entities as of June 30, 2011.

**NOTE G - BONDS PAYABLE**

A summary of bonds payable at June 30, 2011, 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 QZAB | 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%       | 26,615,000           |
| June 25, 2009 - Series 2009D     | December 1, 2027          | 5.25%                | 73,730,000           |
| Oct 6, 2010 - Series 2010 QSCB   | September 15, 2027        | 5.00%                | <u>9,194,000</u>     |
|                                  |                           |                      | <u>\$271,263,000</u> |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE G - BONDS PAYABLE - continued**

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 30<sup>th</sup> of each year to the sinking fund until maturity. As of June 30, 2011, the District has restricted cash and investments of \$2,485,942 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.

On October 6, 2010, the District issued \$9,194,000 of Qualified School Construction Bonds, Series 2010QSCB. Proceeds of the bonds are to be used for HVAC and roofing projects at several of the schools and to pay the costs of issuance. The bonds carry an interest rate of 5% annually that is partially offset by federal subsidies, with interest payments due March 15 and September 15.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE G - BONDS PAYABLE** - continued

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

| Year ending<br>June 30, | Principal            | Interest             | Totals               |
|-------------------------|----------------------|----------------------|----------------------|
| 2012                    | \$ 695,000           | \$ 13,866,450        | \$ 14,561,450        |
| 2013                    | 1,329,313            | 13,817,430           | 15,146,743           |
| 2014                    | 3,579,313            | 13,722,645           | 17,301,958           |
| 2015                    | 6,939,313            | 13,498,280           | 20,437,593           |
| 2016                    | 7,414,313            | 13,167,348           | 20,581,661           |
| 2017 - 2021             | 51,705,563           | 59,449,616           | 111,155,179          |
| 2022 - 2026             | 61,271,561           | 45,072,252           | 106,343,813          |
| 2027 - 2031             | 80,363,624           | 23,394,466           | 103,758,090          |
| 2032 - 2034             | <u>57,965,000</u>    | <u>4,368,781</u>     | <u>62,333,781</u>    |
| Totals                  | <u>\$271,263,000</u> | <u>\$200,357,268</u> | <u>\$471,620,268</u> |

The annual payment of \$305,046 to the sinking fund for the 2002 QZAB bond issue is not included in the schedule of principal payments for the years 2012-2015; however, the accumulated amounts of these payments are included in the 2016 debt service requirement, which will be used to retire the outstanding bond on July 1, 2016.

Interest expense totaled \$10,086,268 for the year ended June 30, 2011.

Changes in Bonds and Notes Payable

Changes in bonds and notes payable during the year ended June 30, 2011, follows:

|                    | Balance<br>July 1, 2010 | Increases           | Decreases           | Balance<br>June 30, 2011 |
|--------------------|-------------------------|---------------------|---------------------|--------------------------|
| 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              | -                   | (5,000)             | 26,615,000               |
| Series 2009D issue | 74,365,000              | -                   | (635,000)           | 73,730,000               |
| October 2010 issue | <u>-</u>                | <u>9,194,000</u>    | <u>-</u>            | <u>9,194,000</u>         |
| Total              | <u>\$ 262,709,000</u>   | <u>\$ 9,194,000</u> | <u>\$ (640,000)</u> | <u>\$ 271,263,000</u>    |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE H - SWAP TRANSACTIONS**

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

At June 30, 2011, 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>             |
| <b>Governmental Activities:</b> |                              |                       |               |                              |                           |
| <i>Cash flow hedges:</i>        |                              |                       |               |                              |                           |
| A                               | Pay-fixed interest rate swap | \$21,689              | Debt          | \$ (6,588)                   | Deferred outflow \$ (843) |
| B                               | Pay-fixed interest rate swap | \$50,607              | Debt          | (15,373)                     | Deferred outflow (1,966)  |
| C                               | Basis swap                   | \$133,765             | Investment    | (1,373)                      | Investment gain 3,219     |

**Derivative Instrument Types**

*Hedge effectiveness.* As of June 30, 2011, derivative instrument C under governmental activities does not meet the criteria for effectiveness and, thus, is considered to be an investment derivative instrument. The fair market value of the ineffective SWAP was \$1,373,260 at June 30, 2011. The change in fair market value for the year was \$3,218,795 and was reported in the Statement of Activities under Investment earnings - derivatives. The other interest rate swaps are considered to be hedging derivative instruments and are identified above as cash flow hedges.

The District used the regression analysis method to evaluate hedge effectiveness for the interest rate swaps. This method evaluates effectiveness by measuring the statistical relationship between the fair value or cash flows of the potential hedging derivative and the hedgeable item. The changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item if all of the following criteria are met:

- a. The R<sup>2</sup> of the regression analysis is at least .80.
- b. The F-statistic calculated for the regression model demonstrates that the model is significant using a 95 percent confidence interval
- c. The regression coefficient for the slope is between -1.25 and -.80.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE H - SWAP TRANSACTIONS** - continued

**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, 2011, 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 | \$21,689        | 5/15/09        | 12/1/27       | Pay 5.25%<br>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 | \$50,607        | 5/15/09        | 12/1/27       | Pay 5.25%<br>Receive 63% of 1 month LIBOR plus .2%                         |
| C      | 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<br>Receive 74% of 3 Month LIBOR plus .3113% |



THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE H - SWAP TRANSACTIONS - continued

**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, 2011, the District is in a negative position after netting the basis swaps with the interest rate swaps and therefore, there is no credit risk.

On June 21, 2011, the District terminated its two suspended CMS Basis SWAPS. The aggregate fair value of the hedging derivative instruments at the date of termination was \$3,272,000 and is recognized in the Statement of Activities as Miscellaneous Income.

**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 swap, 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, 2011, 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 .32 percent.

The District is exposed to basis risk on its basis swaps hedging derivative instruments (Instrument C) 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, 2011, the interest rates paid and received under the basis swaps are as follows:

|              |   |  |
|--------------|---|--|
| Instrument C | 74% of 3 month LIBOR plus<br>.3113% is .49 percent. | SIFMA Municipal swap<br>index rate is .09 percent. |
|--------------|---|--|

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE H - SWAP TRANSACTIONS - continued**

Swap Payments and Associated Debt

Using rates as of June 30, 2011, 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<br>June 30, | Variable-rate Bonds   |                       | Interest rate<br>Swaps, net | Total                 |
|-------------------------|-----------------------|-----------------------|-----------------------------|-----------------------|
|                         | Principal             | Interest              |                             |                       |
| 2012                    | \$ 685,000            | \$ 7,155,210          | \$ 3,097,897                | \$ 10,938,107         |
| 2013                    | 750,000               | 7,147,461             | 3,064,105                   | 10,961,566            |
| 2014                    | 5,000                 | 7,143,384             | 3,027,107                   | 10,175,491            |
| 2015                    | 5,000                 | 7,143,330             | 3,026,860                   | 10,175,190            |
| 2016                    | 155,000               | 7,142,466             | 3,026,614                   | 10,324,080            |
| 2017 - 2021             | 10,315,000            | 35,495,188            | 14,920,375                  | 60,730,563            |
| 2022 - 2026             | 58,400,000            | 31,225,305            | 11,293,369                  | 100,918,674           |
| 2027 -2031              | 79,215,000            | 23,541,375            | (438,302)                   | 102,318,073           |
| 2032 - 2034             | 57,965,000            | 4,368,781             | (241,348)                   | 62,092,433            |
|                         | <u>\$ 207,495,000</u> | <u>\$ 130,362,500</u> | <u>\$ 40,776,677</u>        | <u>\$ 378,634,177</u> |

**NOTE I - CAPITAL LEASES**

Lease Purchase Obligations

For the year ended June 30, 2009 the School District entered into an agreement with Dell for the leasing of additional computers. The lease duration is set for three years with annual payments of \$15,887. This lease was paid in full during the 2010-2011 school year.

On October 18, 2010, the District entered into an agreement with Apple for the leasing of additional computers. The lease duration is set for four years with annual payments of \$131,855.

Total lease payments made during the year ended June 30, 2011, were \$147,742.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE I - CAPITAL LEASES - continued**

Future minimum lease payments of capital leases as of June 30, 2011, are as follows:

|       | <u>Principal</u> | <u>Interest</u> | <u>Total</u>     |
|-------|------------------|-----------------|------------------|
| 2012  | \$123,347        | \$ 8,508        | \$131,855        |
| 2013  | 125,078          | 6,777           | 131,855          |
| 2014  | <u>128,422</u>   | <u>3,433</u>    | <u>131,855</u>   |
| Total | <u>\$376,847</u> | <u>\$18,718</u> | <u>\$395,565</u> |

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

|                                | <u>Governmental<br/>Activities</u> |
|--------------------------------|------------------------------------|
| Furniture and equipment        | \$1,026,500                        |
| Less: accumulated amortization | <u>522,872</u>                     |
| Net value                      | <u>\$ 503,628</u>                  |

Amortization of leased equipment is included with depreciation expense.

Changes in capital leases

Changes in capital leases during the year ended June 30, 2011 were as follows:

|         | <u>Balance<br/>July 1, 2010</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance<br/>June 30, 2011</u> |
|---------|---------------------------------|------------------|------------------|----------------------------------|
| Laptops | \$14,976                        | \$508,702        | \$(146,831)      | \$376,847                        |

**NOTE J - 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).                                    |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE J - DEFINED BENEFIT PENSION PLAN - continued**

Plan Description - continued

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](http://www.psers.state.pa.us).

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, 2011, the rate of employer's contribution was 5.64 percent of covered payroll. The 5.64 percent rate is composed of a pension contribution rate of 5.00 percent and a .64 percent rate for health insurance premium assistance.

Contributions Required and Made

The School District's total payroll for the current year was \$56,895,075 while total covered payroll for retirement purposes was \$54,958,904.

Total contributions made during the year ended June 30, 2011, amounted to \$7,145,257 of which \$3,099,682 was made by the School District and \$4,045,575 was made by employees. These contributions represent 5.64 percent (District) and 7.41 percent (employees) of covered payroll.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE J - DEFINED BENEFIT PENSION PLAN - continued**

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<br/>Year Ending</u> | <u>Total<br/>Contribution</u> | <u>Percent of<br/>Covered<br/>Payroll</u> |
|-------------------------------|-------------------------------|---|
| June 30, 2011                 | \$ 3,099,682                  | 5.64%                                     |
| June 30, 2010                 | 3,129,075                     | 4.69                                      |
| June 30, 2009                 | 3,058,854                     | 4.76                                      |

**NOTE K - 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, 2011, retired employees paid \$196,492.

Employer Contributions: Employer contributions are made on a pay-as-you-go basis. In 2011, the amount of benefits paid was \$2,178,430.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE K - OTHER POST EMPLOYMENT BENEFITS - continued**

Funding Policy - continued

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.

|                                    |                            |
|------------------------------------|----------------------------|
| Annual Required Contribution (ARC) | \$ 2,676,058               |
| Interest on Net OPEB Obligation    | (156,697)                  |
| Adjustment to ARC                  | <u>213,775</u>             |
| Annual OPEB Cost                   | 2,733,136                  |
| Contributions                      | <u>(2,178,430)</u>         |
| Decrease in net OPEB Asset         | (554,706)                  |
| Net OPEB Asset - Beginning of Year | <u>3,482,159</u>           |
| Net OPEB Asset - End of Year       | <u><u>\$ 2,927,453</u></u> |

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

| <b>Year Ended</b> | <b>OPEB Cost</b> | <b>Contribution<br/>(ARC)</b> | <b>OPEB Cost<br/>Contributed</b> | <b>% of ARC<br/>Contributed</b> | <b>OPEB<br/>Asset</b> |
|-------------------|------------------|-------------------------------|----------------------------------|---------------------------------|-----------------------|
| 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             |
| 06/30/2011        | 2,733,136        | 2,676,058                     | 2,178,430                        | 81.04%                          | 2,927,453             |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE L - POST RETIREMENT HEALTH BENEFITS**

Schedule of Funding Progress

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL) - Entry Age</u> | <u>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%   |
| 7/1/10                          | -                                | \$ 22,202,676  | \$ 22,202,676              | 0.00                | \$ 51,880,194          | 42.80%   |

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.

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 as of May 2011. 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 7.5% healthcare cost trend for fiscal year 2010, reduced by decrements of .5% per year to an ultimate rate of 5.5% in 2014 and later.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE M - COMPENSATED ABSENCES**

A summary of the District's total compensated absence liabilities for the year ended June 30, 2011 is as follows:

|                                      | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Deletions</u>  | <u>Ending<br/>Balance</u> |
|--------------------------------------|------------------------------|-------------------|-------------------|---------------------------|
| Vacation, sick, and<br>personal days | \$ 3,590,659                 | \$ -              | \$ 394,677        | \$ 3,195,982              |
| Early retirement<br>health costs     | <u>3,760,150</u>             | <u>170,930</u>    | <u>-</u>          | <u>3,931,080</u>          |
| Total                                | <u>\$ 7,350,809</u>          | <u>\$ 170,930</u> | <u>\$ 394,677</u> | <u>\$ 7,127,062</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. For Teachers and Administrators, 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 meet the criteria for superannuation from either PSERS or from dual or joint combined service with PSERS and State Employees Retirement System (SERS). The District pays the costs of the benefits in effect at the date of retirement until the recipient reaches the age of 65. The District's contributions will be increased at a maximum of 7 percent per year. Costs in excess of 7 percent each year are reimbursed by the retiree. Expenditures of the District are presented net of this reimbursement.

Support staff receive District paid health insurance for the employee only provided that the employee is not covered under his/her spouse's plan or any other health care insurance and the retiree has reached superannuation defined to be 35 years of credited service or a combination of 30 years of credited service and 60 years of age.

As of June 30, 2011, there were 182 retirees who were receiving the premium-coverage benefit. For the year ended June 30, 2011, the District recognized expenditures of approximately \$2,178,430 for health and dental care benefits for retirees.



**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

**NOTE N - INTERFUND BALANCES**

Individual fund interfund receivable and payable balances at June 30, 2011, are as follows:

|                                  | <u>Due from<br/>Other Funds</u> | <u>Due to<br/>Other Funds</u> |
|----------------------------------|---------------------------------|-------------------------------|
| General                          | \$ 1,900,438                    | \$ -                          |
| Non-major governmental funds     | -                               | 41,138                        |
| Enterprise District food service | -                               | 1,818,775                     |
| Fiduciary                        | <u>-</u>                        | <u>40,525</u>                 |
|                                  | <u>\$ 1,900,438</u>             | <u>\$1,900,438</u>            |

**NOTE O - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables at June 30, 2011, consisted of the following:

|  |                     |
|--|---------------------|
| Amounts due from:  |                     |
| Commonwealth of PA   | \$ 5,271,216        |
| Federal government as passed through<br>the PA Department of Education | 4,389,103           |
| Tuition - other LEA's  | 325,481             |
| City treasurer   | <u>3,638</u>        |
| Total  | <u>\$ 9,989,438</u> |

**NOTE P - 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, 2011.

**NOTE Q - 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 estimate of the aggregate liability exposure for the District ranges between \$650,000 and \$850,000.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE Q - COMMITMENTS AND CONTINGENCIES - continued**

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.

The Department of Labor issued a determination disallowing \$221,701 of expenses previously claimed by the District under the YouthBuild grant. As of June 30, 2011, the District has accrued a liability in the amount of \$176,701 and is in the process of appealing the remaining \$45,000 as not being expended.

Commitments

The District had no outstanding commitments on construction contracts as of June 30, 2011.

**NOTE R - RELATED PARTY TRANSACTIONS**

The Capital Area Intermediate Unit provides special education services and other workshops to the District. During the year ended June 30, 2011, the District's expenditures relating to those services and workshops were \$1,276,293.

**NOTE S - DEFICITS IN FUND BALANCE OF INDIVIDUAL FUND**

At June 30, 2011, the following fund had a deficit fund balance:

|                   |             |
|-------------------|-------------|
| Food Service Fund | \$1,225,142 |
|-------------------|-------------|

**NOTE T - ADOPTION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54**

The District changed its presentation of governmental funds and fund balance classifications as a result of adopting Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The fund types and fund balance classifications are described in Note A.

Adoption of the statement resulted in the consolidation of the District's Athletic Fund activities and fund balance into the General Fund. The consolidation of fund balances was as follows:

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE T - ADOPTION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54 - continued**

Fund Balances as of July 1, 2010:

|                           |                              |
|---------------------------|------------------------------|
| General                   | \$ (49,563)                  |
| Athletic Fund             | <u>(1,557,594)</u>           |
| General Fund Balance      |                              |
| July 1, 2010- as restated | <u><u>\$ (1,607,157)</u></u> |

**NOTE U - HEALTH INSURANCE COVERAGE**

In Fiscal year 2011, the District moved its health insurance from a fully insured plan to a self-insured plan with a maximum aggregate eligible claims expense per participant of \$150,000 and a maximum aggregate benefit per policy term of \$2,000,000. Amounts in excess of \$150,000 are covered through a separate stop-loss policy.

The District accrues expenses Incurred But Not Reported (IBNR) through June 30, 2011 through its accounts payable. At June 30, 2011, the amount accrued in accounts payable for IBNR is \$748,252.

**NOTE V - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 29, 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, 2011**

|  | Budgeted Amounts   |                    | Actual<br>(Budgetary<br>Basis) | Variance<br>With Final<br>Budget<br>Positive<br>(Negative) |
|--|--------------------|--------------------|--------------------------------|--|
|  | Original           | Final              |                                |  |
| <b>REVENUES</b>                                      |                    |                    |                                |  |
| Local revenues                                       | \$48,582,450       | \$48,582,450       | \$51,362,822                   | \$2,780,372  |
| State program revenues                               | 70,720,100         | 70,720,100         | 62,936,967                     | (7,783,133)  |
| Federal program revenues                             | 18,166,283         | 18,166,283         | 18,704,619                     | 538,336  |
|  |                    |                    |                                |  |
| Total revenues                                       | <u>137,468,833</u> | <u>137,468,833</u> | <u>133,004,408</u>             | <u>(4,464,425)</u>   |
| <b>EXPENDITURES</b>                                  |                    |                    |                                |  |
| Regular programs                                     | 49,773,386         | 51,836,352         | 49,500,452                     | 2,335,900  |
| Special programs                                     | 18,853,618         | 18,212,846         | 17,960,879                     | 251,967  |
| Vocational programs                                  | 1,588,341          | 1,324,311          | 912,041                        | 412,270  |
| Other instructional programs                         | 7,599,274          | 5,168,298          | 3,942,539                      | 1,225,759  |
| Adult education programs                             | 248,331            | 202,389            | 78,689                         | 123,700  |
| Community/Jr college programs                        | 1,100,020          | 1,100,020          | 1,013,059                      | 86,961   |
| Pre-kindergarten                                     | 3,710,618          | 3,520,891          | 3,153,342                      | 367,549  |
| Pupil personnel services                             | 4,560,218          | 4,580,221          | 4,188,181                      | 392,040  |
| Instructional staff services                         | 2,309,257          | 1,809,609          | 1,598,355                      | 211,254  |
| Administrative services                              | 7,096,211          | 7,966,717          | 7,493,968                      | 472,749  |
| Pupil health   | 1,494,746          | 1,563,413          | 1,182,615                      | 380,798  |
| Business services                                    | 1,313,618          | 1,314,451          | 1,278,092                      | 36,359   |
| Operation and maintenance of<br>plant services       | 11,837,590         | 12,153,071         | 10,764,194                     | 1,388,877  |
| Student transportation services                      | 3,079,690          | 2,868,011          | 2,802,281                      | 65,730   |
| Central and other support services                   | 4,079,469          | 4,048,566          | 3,369,434                      | 679,132  |
| Other support services                               | 2,045,000          | 2,045,000          | 1,949,686                      | 95,314   |
| Student activities                                   | 282,417            | 594,041            | 581,675                        | 12,366   |
| Community services                                   | 125,783            | 212,460            | 205,952                        | 6,508  |
| Debt service   | 1,327,736          | 1,717,736          | 1,182,177                      | 535,559  |
|  |                    |                    |                                |  |
| Total expenditures                                   | <u>122,425,323</u> | <u>122,238,403</u> | <u>113,157,611</u>             | <u>9,080,792</u>   |
| Excess (deficiency) of revenues<br>over expenditures | 15,043,510         | 15,230,430         | 19,846,797                     | 4,616,367  |

**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, 2011**

|   | Budgeted Amounts |                  | Actual<br>(Budgetary<br>Basis) | Variance<br>With Final<br>Budget<br>Positive<br>(Negative) |
|---|------------------|------------------|--------------------------------|--|
|   | Original         | Final            |                                |  |
| <b>OTHER FINANCING SOURCES<br/>(USES)</b>   |                  |                  |                                |  |
| Proceeds from external financing            | -                | -                | 3,272,000                      | 3,272,000  |
| Refund prior year receipts                  | -                | (471,102)        | (471,102)                      | -  |
| Transfers in                                | -                | -                | 402,539                        | 402,539  |
| Transfers out                               | (14,743,510)     | (15,555,446)     | (13,597,262)                   | 1,958,184  |
| Budgetary reserve                           | (300,000)        | -                | -                              | -  |
| <br>Total other financing sources<br>(uses) | <br>(15,043,510) | <br>(16,026,548) | <br>(10,393,825)               | <br>5,632,723  |
| <br>Net change in fund balances             | <br>-            | <br>(796,118)    | <br>9,452,972                  | <br>10,249,090   |
| <br><b>FUND BALANCE - BEGINNING</b>         | <br>-            | <br>-            | <br>(1,607,157)                | <br>(1,607,157)  |
| <br><b>FUND BALANCE - ENDING</b>            | <br>\$ -         | <br>\$ (796,118) | <br>\$ 7,845,815               | <br>\$ 8,641,933   |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**OTHER POST-EMPLOYMENT BENEFITS**  
**SCHEDULE OF FUNDING PROGRESS**  
**YEAR ENDED JUNE 30, 2011**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a / b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a) / c) |
|--------------------------------|--|--|------------------------------------|----------------------------|---------------------------|---|
| 7/1/2008                       | \$ -                                   | \$ 16,030,356  | \$ 16,030,356                      | 0%                         | \$ 55,949,258             | 28.65%  |
| 7/1/2010                       | \$ -                                   | \$ 22,202,676  | \$ 22,202,676                      | 0%                         | \$ 51,880,194             | 42.80%  |

**SUPPLEMENTARY INFORMATION**



**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
 COMBINING BALANCE SHEETS -  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

**ASSETS**

|                           | Capital Projects    |              |                     | Special Revenue   |                            |                  |                   |
|---------------------------|---------------------|--------------|---------------------|-------------------|----------------------------|------------------|-------------------|
|                           | Series 2008<br>Note | Series 2009B | Series 2010<br>Bond | Total             | Capital<br>Reserve<br>Fund | Total            | Total             |
| Cash and cash equivalents | \$ 314,005          | \$ -         | \$ -                | \$ 314,005        | \$ 95,943                  | \$ 95,943        | \$ 409,948        |
|                           | <u>\$ 314,005</u>   | <u>\$ -</u>  | <u>\$ -</u>         | <u>\$ 314,005</u> | <u>\$ 95,943</u>           | <u>\$ 95,943</u> | <u>\$ 409,948</u> |

**LIABILITIES AND FUND BALANCES (DEFICITS)**

|                                |                   |             |             |                   |                  |                  |                   |
|--------------------------------|-------------------|-------------|-------------|-------------------|------------------|------------------|-------------------|
| Liabilities:                   |                   |             |             |                   |                  |                  |                   |
| Due to other funds             | \$ -              | \$ -        | \$ 41,138   | \$ 41,138         | \$ -             | \$ -             | \$ 41,138         |
| Accounts payable               | 2,482             | -           | 488,509     | 490,991           | -                | -                | 490,991           |
| Total liabilities              | 2,482             | -           | 529,647     | 532,129           | -                | -                | 532,129           |
| Fund balances (deficits):      |                   |             |             |                   |                  |                  |                   |
| Unreserved                     | -                 | -           | -           | -                 | 95,943           | 95,943           | 95,943            |
| Reserved                       | 311,523           | -           | (529,647)   | (218,124)         | -                | -                | (218,124)         |
| Total fund balances (deficits) | 311,523           | -           | (529,647)   | (218,124)         | 95,943           | 95,943           | (122,181)         |
|                                | <u>\$ 314,005</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 314,005</u> | <u>\$ 95,943</u> | <u>\$ 95,943</u> | <u>\$ 409,948</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, 2011

|  | Capital Projects    |                      |                     | Special Revenue |                            |           |              |
|--|---------------------|----------------------|---------------------|-----------------|----------------------------|-----------|--------------|
|  | Series 2008<br>Note | Series 2009B<br>Note | Series 2010<br>Bond | Total           | Capital<br>Reserve<br>Fund | Total     | Total        |
| <b>REVENUES</b>                                      |                     |                      |                     |                 |                            |           |              |
| Local sources  | \$ 807              | \$ -                 | \$ -                | \$ 807          | \$ 45                      | \$ 45     | \$ 852       |
| State sources  | -                   | -                    | -                   | -               | -                          | -         | -            |
| Total revenues                                       | 807                 | -                    | -                   | 807             | 45                         | 45        | 852          |
| <b>EXPENDITURES</b>                                  |                     |                      |                     |                 |                            |           |              |
| Instruction  | -                   | -                    | -                   | -               | -                          | -         | -            |
| Facility acquisition and improvement                 | 16,335              | 7,105                | 1,337,273           | 1,360,713       | -                          | -         | 1,360,713    |
| Debt service   | -                   | -                    | 40,244              | 40,244          | -                          | -         | 40,244       |
| Total expenditures                                   | 16,335              | 7,105                | 1,377,517           | 1,400,957       | -                          | -         | 1,400,957    |
| Excess (deficiency) of revenues<br>over expenditures | (15,528)            | (7,105)              | (1,377,517)         | (1,400,150)     | 45                         | 45        | (1,400,105)  |
| <b>OTHER FINANCING SOURCES</b>                       |                     |                      |                     |                 |                            |           |              |
| Transfers in   | -                   | 7,105                | 847,870             | 854,975         | -                          | -         | 854,975      |
| Total other financing sources                        | -                   | 7,105                | 847,870             | 854,975         | -                          | -         | 854,975      |
| <b>NET CHANGE IN FUND BALANCE (DEFICIT)</b>          | (15,528)            | -                    | (529,647)           | (545,175)       | 45                         | 45        | (545,130)    |
| <b>FUND BALANCE (DEFICIT) - BEGINNING</b>            | 327,051             | -                    | -                   | 327,051         | 95,898                     | 95,898    | 422,949      |
| <b>FUND BALANCE (DEFICIT) - ENDING</b>               | \$ 311,523          | \$ -                 | \$ (529,647)        | \$ (218,124)    | \$ 95,943                  | \$ 95,943 | \$ (122,181) |

**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, 2011**

|  | Budgeted Amounts  |                   | Actual            | Variance With<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--|-------------------|-------------------|-------------------|---|
|  | Original          | Final             |                   |   |
| <b>Revenues</b>  |                   |                   |                   |   |
| Local sources  |                   |                   |                   |   |
| Taxes  |                   |                   |                   |   |
| Current real estate taxes                                  | \$ 33,895,541     | \$ 33,895,541     | \$ 33,553,930     | \$ (341,611)  |
| Delinquent real estate taxes                               | 3,200,000         | 3,200,000         | 5,189,362         | 1,989,362   |
| Current school occupation                                  | 700,000           | 700,000           | 839,593           | 139,593   |
| Delinquent school occupation                               | 1,500,000         | 1,500,000         | 1,606,417         | 106,417   |
| Earned income taxes  | 3,000,000         | 3,000,000         | 3,171,062         | 171,062   |
| Real estate transfer                                       | 400,000           | 400,000           | 346,665           | (53,335)  |
| Emergency and municipal services tax                       | 250,000           | 250,000           | 239,263           | (10,737)  |
| Payments in lieu of tax                                    | 800,000           | 800,000           | 1,023,542         | 223,542   |
| Public utility realty tax                                  | 50,000            | 50,000            | 54,155            | 4,155   |
| Amusement  | 225,000           | 225,000           | 298,218           | 73,218  |
| Business and mercantile                                    | 1,800,000         | 1,800,000         | 1,563,396         | (236,604)   |
| <b>Total taxes</b>   | <b>45,820,541</b> | <b>45,820,541</b> | <b>47,885,603</b> | <b>2,065,062</b>  |
| Other  |                   |                   |                   |   |
| Tuition and other payments from patrons                    | 415,000           | 415,000           | 380,221           | (34,779)  |
| Earnings from temporary deposits                           | 50,000            | 50,000            | 39,477            | (10,523)  |
| Rent from school and other facilities                      | 25,000            | 25,000            | 42,040            | 17,040  |
| Revenue received from other<br>Pennsylvania public schools | -                 | -                 | 7,793             | 7,793   |
| Revenue received from other<br>intermediate sources        | 2,121,850         | 2,121,850         | 2,023,092         | (98,758)  |
| Contributions from private sources                         | 150,000           | 150,000           | 319,567           | 169,567   |
| Miscellaneous  | 59                | 59                | 665,029           | 664,970   |
| <b>Total other</b>   | <b>2,761,909</b>  | <b>2,761,909</b>  | <b>3,477,219</b>  | <b>715,310</b>  |
| <b>Total local sources</b>                                 | <b>48,582,450</b> | <b>48,582,450</b> | <b>51,362,822</b> | <b>2,780,372</b>  |

**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, 2011**

|  | Budgeted Amounts      |                       | Actual                | Variance With<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--|-----------------------|-----------------------|-----------------------|---|
|  | Original              | Final                 |                       |   |
| <b>Revenues</b>  |                       |                       |                       |   |
| State sources  |                       |                       |                       |   |
| Basic instructional subsidy  | 43,470,564            | 43,470,564            | 35,190,850            | (8,279,714)   |
| Empowerment  | -                     | -                     | 684,372               | 684,372   |
| Charter school   | 797,124               | 797,124               | 798,083               | 959   |
| Tuition reimbursement  | 275,000               | 275,000               | 1,962                 | (273,038)   |
| Homebound instruction  | -                     | -                     | -                     | -   |
| Vocational education   | 247,111               | 247,111               | 284,811               | 37,700  |
| Alternative education  | -                     | -                     | -                     | -   |
| Migratory child  | -                     | -                     | 520                   | 520   |
| Special education of exceptional students  | 5,090,929             | 5,090,929             | 5,278,254             | 187,325   |
| Other program subsidies, ARC   | 2,003,000             | 2,003,000             | 1,906,593             | (96,407)  |
| Transportation   | 1,350,000             | 1,350,000             | 1,269,859             | (80,141)  |
| Medical and dental services  | 185,000               | 185,000               | 176,467               | (8,533)   |
| Nurse services   | -                     | -                     | -                     | -   |
| Extra grants   | 82,839                | 82,839                | 120,041               | 37,202  |
| Retirement reimbursement   | 2,324,849             | 2,324,849             | 2,360,573             | 35,724  |
| Social security  | 2,163,637             | 2,163,637             | 2,464,034             | 300,397   |
| Sinking fund subsidy   | 3,000,000             | 3,000,000             | 3,472,240             | 472,240   |
| Pennsylvania accountability block grant  | 2,618,768             | 2,618,768             | 2,455,722             | (163,046)   |
| Pre-K Counts   | 3,391,200             | 3,391,200             | 2,888,800             | (502,400)   |
| Educational Assistance Act   | 890,000               | 890,000               | 788,093               | (101,907)   |
| Classrooms for the future  | -                     | -                     | -                     | -   |
| State property tax reduction allocation  | 2,780,079             | 2,780,079             | 2,780,079             | -   |
| Dual enrollment  | 50,000                | 50,000                | 15,614                | (34,386)  |
| <b>Total state sources</b>   | <b>70,720,100</b>     | <b>70,720,100</b>     | <b>62,936,967</b>     | <b>(7,783,133)</b>  |
| Federal sources  |                       |                       |                       |   |
| Payments for federally impacted areas  | 150,000               | 150,000               | 78,123                | (71,877)  |
| Education Consolidation and Improvement Act - Title I Program Improvement, IDEA Access | 13,323,583            | 13,323,583            | 6,547,571             | (6,776,012)   |
| Adult basic education  | 401,075               | 401,075               | 578,778               | 177,703   |
| Education for Economic Security Act - Title II   | 650,000               | 650,000               | 177,822               | (472,178)   |
| Medical assistance reimbursement   | 25,000                | 25,000                | -                     | (25,000)  |
| Vocational education   | 1,713,000             | 1,713,000             | 1,235,869             | (477,131)   |
| Language instruction for LEP and immigrant students - Title III                        | -                     | -                     | 100,614               | 100,614   |
| Title IV - 21st Century Schools  | 250,000               | 250,000               | -                     | (250,000)   |
| State Fiscal Stabilization Fund  | 339,834               | 339,834               | 186,925               | (152,909)   |
| ARRA Title I School Improvements   | 88,812                | 88,812                | -                     | (88,812)  |
| ARRA Education Jobs Fund   | -                     | -                     | 4,867,439             | 4,867,439   |
| Other federal grants-in-aid  | -                     | -                     | 374,018               | 374,018   |
|  | -                     | -                     | 2,883,877             | 2,883,877   |
|  | 1,224,979             | 1,224,979             | 1,673,583             | 448,604   |
| <b>Total federal sources</b>   | <b>18,166,283</b>     | <b>18,166,283</b>     | <b>18,704,619</b>     | <b>538,336</b>  |
| <b>Total local, state and federal sources</b>  | <b>137,468,833</b>    | <b>137,468,833</b>    | <b>133,004,408</b>    | <b>(4,464,425)</b>  |
| Proceeds from external financing   | -                     | -                     | 3,272,000             | 3,272,000   |
| Transfers  | -                     | -                     | 402,539               | 402,539   |
| <b>Total revenues</b>  | <b>\$ 137,468,833</b> | <b>\$ 137,468,833</b> | <b>\$ 133,406,947</b> | <b>\$ (4,061,886)</b>                                       |

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**FIDUCIARY FUNDS - COMBINING BALANCE SHEET**  
**JUNE 30, 2011**

**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 | \$ 25,126                   | \$ 13,405             | \$ 38,531        | \$ 22,921                | \$ 55,570               | \$ 118,022        | \$ 100,785        | \$ 297,298        |
| Other receivables         | -                           | -                     | -                | -                        | -                       | 1,069             | -                 | 1,069             |
|                           | <u>\$ 25,126</u>            | <u>\$ 13,405</u>      | <u>\$ 38,531</u> | <u>\$ 22,921</u>         | <u>\$ 55,570</u>        | <u>\$ 119,091</u> | <u>\$ 100,785</u> | <u>\$ 298,367</u> |

**LIABILITIES AND FUND BALANCES**

|                       |                  |                  |                  |                  |                  |                   |                   |                   |
|-----------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Liabilities:          |                  |                  |                  |                  |                  |                   |                   |                   |
| Accounts payable      | \$ -             | \$ -             | \$ -             | \$ -             | \$ 2,100         | \$ 16,248         | \$ -              | \$ 18,348         |
| Due to other funds    | -                | 2,000            | 2,000            | 1,535            | 11,968           | 19,822            | 5,200             | 38,525            |
| Funds held for others | -                | -                | -                | 21,386           | 41,502           | 83,021            | 95,585            | 241,494           |
| Total liabilities     | -                | 2,000            | 2,000            | 22,921           | 55,570           | 119,091           | 100,785           | 298,367           |
| Fund balances         |                  |                  |                  |                  |                  |                   |                   |                   |
| Reserved              | 25,126           | 11,405           | 36,531           | -                | -                | -                 | -                 | -                 |
|                       | <u>\$ 25,126</u> | <u>\$ 13,405</u> | <u>\$ 38,531</u> | <u>\$ 22,921</u> | <u>\$ 55,570</u> | <u>\$ 119,091</u> | <u>\$ 100,785</u> | <u>\$ 298,367</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, 2011**

|  | <u>Revenues</u> | <u>Expenses</u> | Excess<br>(Deficiency)<br>of Revenues<br>Over<br>Expenses | Fund<br>Balance<br>Beginning<br>of Year | Fund<br>Balance<br>End of<br>Year |
|--|-----------------|-----------------|---|---|-----------------------------------|
| Class of 1907 - Central H. S.                                    | \$ 1            | \$ -            | \$ 1  | \$ 300                                  | \$ 301                            |
| Class of 1917 - Central H. S.                                    | 2               | -               | 2   | 1,000                                   | 1,002                             |
| Class of 1918 - Central H. S.                                    | 2               | -               | 2   | 900                                     | 902                               |
| Class of 1925 - Technical H. S.                                  | 2               | -               | 2   | 1,001                                   | 1,003                             |
| Class of 1930 - William Penn H. S.                               | -               | -               | -   | 200                                     | 200                               |
| Class of 1931 - William Penn H. S.                               | -               | -               | -   | 301                                     | 301                               |
| Class of 1943 - William Penn H. S.                               | -               | -               | -   | 200                                     | 200                               |
| Class of 1958 - John Harris H. S.                                | -               | -               | -   | 200                                     | 200                               |
| E. E. Miller Award   | -               | -               | -   | 100                                     | 100                               |
| Robert A. Lamberton  | 8               | 5               | 3   | 1,310                                   | 1,313                             |
| W. S. Steel Memorial (Class of 1915<br>and 1916 - Central H. S.) | -               | -               | -   | 401                                     | 401                               |
| Frannie Zarkin Katzan Award -<br>William Penn H. S.              | 1               | -               | 1   | 250                                     | 251                               |
| Marti-McCord Musical Achievement<br>Award                        | 8               | 5               | 3   | 1,500                                   | 1,503                             |
| William Penn High School Business<br>Club Award                  | -               | -               | -   | 443                                     | 443                               |
| Annie Schlayer Award   | 1               | 25              | (24)  | 551                                     | 527                               |
| Elizabeth Smith Award  | -               | -               | -   | 495                                     | 495                               |
| Karen Lukens Safety Award  | 13              | -               | 13  | 6,840                                   | 6,853                             |
| J. J. Brehm Award  | 1               | -               | 1   | 450                                     | 451                               |
| Frank Goodyear Memorial  | 6               | 150             | (144)   | 3,427                                   | 3,283                             |
| Jim Keener Memorial  | 2               | -               | 2   | 1,054                                   | 1,056                             |
| Mary Warfield Award  | 1               | -               | 1   | 300                                     | 301                               |
| C. Wolfgang Memorial   | -               | -               | -   | 372                                     | 372                               |
| General Scholarship Fund   | 1               | -               | 1   | 639                                     | 640                               |
| Barbara Baton Scholarship Fund                                   | 7               | -               | 7   | 3,021                                   | 3,028                             |
|  | <u>\$ 56</u>    | <u>\$ 185</u>   | <u>\$ (129)</u>   | <u>\$ 25,255</u>                        | <u>\$ 25,126</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, 2011**

|                                     | Revenues        | Expenditures    | Excess<br>(Deficiency)<br>of Revenues<br>Over<br>Expenditures | Fund<br>Balance<br>Beginning<br>of Year | Fund<br>Balance<br>End of<br>Year |
|-------------------------------------|-----------------|-----------------|---|---|-----------------------------------|
| D. Martin Memorial Scholarship Fund | \$ -            | \$ 25           | \$ (25)   | \$ 53                                   | \$ 28                             |
| Jack Devin Scholarship Fund         | -               | -               | -   | 24                                      | 24                                |
| Woodrow Aikens Scholarship          | 6               | 150             | (144)   | 4,945                                   | 4,801                             |
| John Black Scholarship              | -               | 25              | (25)  | 239                                     | 214                               |
| English Department Scholarship      | -               | 50              | (50)  | 363                                     | 313                               |
| Manny Weaver                        | -               | -               | -   | 1                                       | 1                                 |
| Donald M. Carroll Scholarship       | 486             | 500             | (14)  | 14                                      | -                                 |
| Sunguard Senior Scholarship         | 1               | -               | 1   | 203                                     | 204                               |
| David H. Goldsmith Scholarship      | 3,006           | 11,000          | (7,994)   | 10,158                                  | 2,164                             |
| Scott Family Scholarship            | 9               | 4,500           | (4,491)   | 7,996                                   | 3,505                             |
| Goldsmith Family Foundation         | -               | -               | -   | 143                                     | 143                               |
| Schrinertown Civic Association      | -               | -               | -   | 4                                       | 4                                 |
| James Booser Scholarship            | 1,000           | 1,000           | -   | 4                                       | 4                                 |
| Sci-Tech NPR Scholarship            | 274             | 9,976           | (9,702)   | 9,702                                   | -                                 |
|                                     | <u>\$ 4,782</u> | <u>\$27,226</u> | <u>\$ (22,444)</u>  | <u>\$ 33,849</u>                        | <u>\$11,405</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, 2011**

|  | Account<br>Balance<br>Beginning<br>of Year | Receipts         | Disbursements    | Account<br>Balance<br>End of<br>Year |
|--|--|------------------|------------------|--------------------------------------|
| <b>Elementary Activity</b>             |  |                  |                  |                                      |
| Ben Franklin                           | \$ 1,963                                   | \$ 4             | \$ 1,135         | \$ 832                               |
| Downey                                 | 33   | -                | -                | 33                                   |
| Foose                                  | 299  | 8,707            | 6,334            | 2,672                                |
| Hamilton                               | 1,161                                      | 848              | 1,016            | 993                                  |
| Lincoln Student Council                | 103  | -                | -                | 103                                  |
| Lincoln                                | 2,187                                      | 419              | 864              | 1,742                                |
| Marshall School Store                  | 737  | 11,342           | 7,797            | 4,282                                |
| Melrose                                | 5,282                                      | 14               | -                | 5,296                                |
| Melrose Garden Club                    | -  | -                | -                | -                                    |
| Shimmell                               | 18   | -                | -                | 18                                   |
| Steele                                 | 1,554                                      | 2                | 1,556            | -                                    |
| Scott                                  | 1,214                                      | 4,290            | 3,501            | 2,003                                |
| Camp Curtin                            | 2,725                                      | 785              | 1,269            | 2,241                                |
| Rowland Student Account                | 802  | 100              | -                | 902                                  |
| Math/Science Academy                   | 269  | -                | -                | 269                                  |
| Total elementary activity              | <u>\$ 18,347</u>                           | <u>\$ 26,511</u> | <u>\$ 23,472</u> | <u>\$ 21,386</u>                     |
| <b>Secondary Activity</b>              |  |                  |                  |                                      |
| High and Middle Schools                | <u>\$ 41,776</u>                           | <u>\$ 37,468</u> | <u>\$ 37,742</u> | <u>\$ 41,502</u>                     |
| <b>Agency Fund</b>                     |  |                  |                  |                                      |
| High and Middle Schools                |  |                  |                  |                                      |
| Alumni Account - McIntosh              | \$ 88                                      | \$ -             | \$ -             | \$ 88                                |
| Lincoln Commission Account             | 3,651                                      | 932              | 2,101            | 2,482                                |
| Life Skills Support                    | 688  | 2                | -                | 690                                  |
| Ben Franklin Coke Commission           | 290  | 10,299           | 6,700            | 3,889                                |
| Downey Coke Commission                 | 1,281                                      | 6,281            | 4,217            | 3,345                                |
| Hamilton Coke Commission               | 350  | 1,903            | 1,985            | 268                                  |
| Rowland Coke Commission                | 4,012                                      | 664              | -                | 4,676                                |
| Scott Coke Commission                  | 4,254                                      | 585              | -                | 4,839                                |
| Cheerleading Booster Club              | 3,831                                      | 443              | 1,786            | 2,488                                |
| Cougar Club                            | 1,945                                      | 5,199            | 5,731            | 1,413                                |
| Girls Varsity Basketball               | 145  | 986              | 729              | 402                                  |
| High School Band Boosters              | 5,914                                      | 6,430            | 9,766            | 2,578                                |
| CTA Culinary Arts                      | 10,939                                     | 29               | 1,326            | 9,642                                |
| Jobs for PA graduates                  | 4,358                                      | 7,313            | 13,332           | (1,661)                              |
| T. Morris Chester Math/Science Academy | 755  | 3                | -                | 758                                  |
| Boys Basketball Club                   | 224  | 2,107            | 2,387            | (56)                                 |
| Vo-Tech Machine Technology             | 1,522                                      | 4                | -                | 1,526                                |
| Vo-Tech General Fund                   | 3,384                                      | 31               | 20               | 3,395                                |
| Vo-Tech Graphic Arts                   | 104  | -                | -                | 104                                  |
| CTA Class of 2008                      | 672  | 2                | -                | 674                                  |
| Explore After School                   | 147  | -                | -                | 147                                  |
| Steele Commission Account              | 1,786                                      | 234              | 1,976            | 44                                   |
| Melrose Commission Account             | 2,470                                      | 1,550            | 1,381            | 2,639                                |
| Marshall Commission Account            | 9,480                                      | 520              | 1,197            | 8,803                                |
| Track and Field Booster Club           | 2,894                                      | 808              | 552              | 3,150                                |
| Rowland - Team 2 Deb Harrison          | 470  | 1                | -                | 471                                  |
| Homeless Program                       | 22   | -                | 22               | -                                    |
| Shimmel Coke Commission                | 1,145                                      | 632              | 798              | 979                                  |
| John Harris Coke Commission            | 360  | 307              | 217              | 450                                  |
| Special Education Autism Account       | 623  | 2                | -                | 625                                  |
| Harrisburg High Music Account          | 171  | 1                | -                | 172                                  |
| Art Account - Gene Van Dyke            | 287  | -                | 287              | -                                    |
| William Penn General Fund (ACTS)       | 2,977                                      | 288              | 663              | 2,602                                |
| William Penn ACTS Recycling Account    | 107  | -                | 107              | -                                    |
| Hbg School Special Olympics            | 306  | 1                | -                | 307                                  |
| Annex Coke Commission                  | 795  | 233              | 380              | 648                                  |
| Foose Coke Commission                  | 5,432                                      | 701              | 1,696            | 4,437                                |
| Camp Curtin Commission                 | 2,188                                      | 2,170            | -                | 4,358                                |
| Marshall Staff Account                 | 829  | 198              | 368              | 659                                  |
| Rowland Girls Basketball Account       | 401  | 1                | -                | 402                                  |
| Rowland Cheerleading Account           | 666  | 2                | -                | 668                                  |
| Instrument Rental                      | 3,992                                      | 359              | -                | 4,351                                |
| Cougar Wrestling Club                  | 991  | 1,052            | 1,984            | 59                                   |
| Lincoln School Kim Project             | 137  | 1                | -                | 138                                  |
| Elementary Band Boosters               | (106)                                      | -                | -                | (106)                                |
| Melrose Activity Account               | 1  | -                | -                | 1                                    |
| Sci-Tech Youth & Government            | 501  | 1                | -                | 502                                  |
| Sci-Tech Robotics Club                 | 1,001                                      | 997              | 174              | 1,824                                |
| Sci-Tech Mock Trial Club               | 1  | -                | -                | 1                                    |
| Vo-Tech Horticulture Account           | 1,403                                      | 3                | 1,330            | 76                                   |
| Vo-Tech Carpentry Account              | 7,269                                      | 936              | 7,832            | 373                                  |
| Vo-Tech Cosmetology Class              | 2  | -                | 2                | -                                    |
| Kimber Basketball Tournament           | -  | 932              | 557              | 375                                  |
| Kimber Basketball Tournament           | -  | 150              | -                | 150                                  |
| Kimber Basketball Tournament           | -  | 902              | -                | 902                                  |
| Smallwood Summer League                | -  | 10,645           | 9,371            | 1,274                                |
| Total agency fund                      | <u>\$ 97,155</u>                           | <u>\$ 66,840</u> | <u>\$ 80,974</u> | <u>\$ 83,021</u>                     |
| <b>Agency Fund</b>                     |  |                  |                  |                                      |
| S.B.I. Fund                            | <u>\$ 64,981</u>                           | <u>\$ 45,105</u> | <u>\$ 14,501</u> | <u>\$ 95,585</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, 2011, which collectively comprise The School District of the City of Harrisburg's basic financial statements and have issued our report thereon dated December 29, 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.

*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.

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

**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**

**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 December 29, 2011.

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 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  
December 29, 2011

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

Board of School Directors  
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, 2011. 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, 2011. 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 2011-01, SA 2011-02 and SA 2011-04 through SA 2011-07.)

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133 - 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 2011-01 through SA 2011-07). *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  
December 29, 2011

**SCHOOL DISTRICT OF THE CITY OF HARRISBURG  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

| 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, 2010 | Revenue Recognized | Expenditures   | Accrued or (Deferred) Revenue at June 30, 2011 |
|--|-------------|---------------------|-------------------------------|------------------------------------|-------------------------|-----------------------------|---|--------------------|----------------|--|
| <b>U.S. DEPARTMENT OF EDUCATION:</b>   |             |                     |                               |                                    |                         |                             |   |                    |                |  |
| Impact Aid   | D           | 84.041              | N/A                           | FYE 2010                           | 116,183                 | -                           | (82,229)                                      | 78,123             | 78,123         | (4,106)  |
| Impact Aid   | D           | 84.041              | N/A                           | FYE 2011                           | 156,308                 | 156,308                     | -   | -                  | -              | (156,308)                                      |
| <b>Impact Aid Total</b>  |             |                     |                               |                                    | <b>272,491</b>          | <b>156,308</b>              | <b>(82,229)</b>                               | <b>78,123</b>      | <b>78,123</b>  | <b>(160,414)</b>                               |
| 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                 | 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                                       | -                  | -              | -  |
| 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                 | 172,421                     | 75,646  | 96,775             | 96,775         | -  |
| Promoting Excellence Through Advanced Library Skills (PETALS 08-09)                        | D           | 84.364A             | S364A080355                   | 08 SEP 01 - 09 AUG 31              | 306,743                 | 75,990                      | 75,990  | -                  | -              | -  |
| <b>Total Passed Through the U.S. Department of Education</b>                               |             |                     |                               |                                    | <b>1,882,716</b>        | <b>842,374</b>              | <b>507,062</b>                                | <b>174,898</b>     | <b>174,898</b> | <b>(160,414)</b>                               |
| <b>Passed Through the Pennsylvania Department of Education:</b>                            |             |                     |                               |                                    |                         |                             |   |                    |                |  |
| Title 1 Grants to Local Educational Agencies (09-10)                                       | I           | 84.010              | 013-100184                    | 09 MAY 15 - 10 SEP 30              | 5,351,027               | 1,382,487                   | (146,794)                                     | 1,529,281          | 1,529,281      | -  |
| Title 1 Grants to Local Educational Agencies (10-11)                                       | I           | 84.010              | 013-110184                    | 10 SEPT 01 - 11 SEP 30             | 5,480,097               | 3,461,892                   | -   | 4,069,646          | 4,069,646      | 607,754  |
| Title 1 Grants to Local Educational Agencies - Academic Achievement (09-10)                | I           | 84.010              | 077-100184                    | 09 JUL 01 - 11 SEP 30              | 8,600                   | 2,867                       | -   | 4,945              | 4,945          | 2,078  |
| ARRA - Title I Grants to Local Educational Agencies (09-10)                                | I           | 84.389              | 127-100184                    | 09 MAY 15 - 10 SEP 30              | 3,654,783               | 1,064,736                   | 1,064,736                                     | -                  | -              | -  |
| ARRA - Title I Grants to Local Educational Agencies - School Improvement (10-11)           | I           | 84.010              | 134-100184                    | 10 JUL 29 - 11 SEP 30              | 374,018                 | 299,214                     | -   | 374,018            | 374,018        | 74,804   |
| 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                 | 57,990                      | 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                 | 20,232                      | 20,232  | -                  | -              | -  |
| Title I Grants to Local Educational Agencies - Program Improvement Set Aside (10-11)       | I           | 84.010              | 042-100184                    | 10 JUL 29 - 11 SEP 30              | 538,990                 | 467,125                     | -   | 538,990            | 538,990        | 71,865   |
| Improving Teacher Quality State Grants (09-10)   | I           | 84.367              | 020-100184                    | 09 MAY 15 - 10 SEP 30              | 1,103,176               | 441,270                     | 441,270                                       | -                  | -              | -  |
| Improving Teacher Quality State Grants (10-11)   | I           | 84.367              | 020-110184                    | 10 SEPT 01 - 11 SEP 30             | 1,115,661               | 604,194                     | -   | 712,070            | 712,070        | 107,876  |
| Safe and Drug-Free Schools and Communities - State Grants (09-10)                          | I           | 84.186              | 100-100184                    | 09 AUG 25 - 11 MAR 31              | 59,356                  | (9,390)                     | (22,049)                                      | 12,659             | 12,659         | -  |
| Adult Education State Grant Program (09-10)  | I           | 84.002              | 041-100044                    | 09 JUL 01 - 10 JUN 30              | 25,492                  | 10,622                      | 10,622  | -                  | -              | -  |
| Career and Technical Education - Basic Grants to States (09-10)                            | I           | 84.048              | 380-100043                    | 09 JUL 01 - 10 JUN 30              | 238,072                 | 39,679                      | 39,679  | -                  | -              | -  |
| Twenty-First Century Community Learning Centers (09-10)                                    | I           | 84.287              | FC4100043191A                 | 08 JAN 15 - 10 JUN 30              | 93,375                  | 67,570                      | 67,570  | -                  | -              | -  |
| Twenty-First Century Community Learning Centers (10-11)                                    | I           | 84.287              | FC4100043191A                 | 10 JUL 01 - 11 JUN 30              | 111,836                 | 82,353                      | -   | 111,836            | 111,836        | 29,483   |
| Twenty-First Century Community Learning Centers (09-10)                                    | I           | 84.287              | FC4100052162                  | 10 APR 08 - 13 JUN 30              | 240,000                 | 240,000                     | 60,000  | 180,000            | 180,000        | -  |
| Twenty-First Century Community Learning Centers (10-11)                                    | I           | 84.287              | FC4100052162                  | 10 JUL 01 - 11 JUN 30              | 480,000                 | 185,161                     | -   | 480,000            | 480,000        | 294,839  |
| Reading First State Grants (08-09)   | I           | 84.357              | 023-090184                    | 08 JUL 01 - 10 JUN 30              | 656,005                 | 94,708                      | -   | 94,708             | 94,708         | -  |
| English Language Acquisition Grants - Title III (08-09)                                    | I           | 84.365              | 010-090184                    | 08 SEP 04 - 09 SEP 30              | 147,716                 | 34,088                      | 34,088  | -                  | -              | -  |
| English Language Acquisition Grants - Title III (09-10)                                    | I           | 84.365              | 010-100184                    | 09 DEC 04 - 10 SEP 30              | 223,265                 | 156,286                     | 5,464   | 150,822            | 150,822        | -  |
| English Language Acquisition Grants - Title III (10-11)                                    | I           | 84.365              | 010-110184                    | 10 SEPT 01 - 12 SEP 30             | 198,370                 | 76,296                      | -   | 36,104             | 36,104         | (40,192)                                       |
| Title I Grants to Local Educational Agencies - School Improvement (10-11)                  | I           | 84.377              | 142-100184                    | 10 DEC 15 - 12 SEPT 30             | 300,000                 | 120,000                     | -   | 300,000            | 300,000        | 180,000  |
| Learn and Serve America  | I           | 94.004              | 019-092026                    | 09 OCT 13 - 10 JUN 30              | 3,500                   | 1,333                       | 1,333   | -                  | -              | -  |
| Learn and Serve America  | I           | 94.004              | 019-092006                    | 09 OCT 13 - 10 JUN 30              | 11,000                  | 4,889                       | 4,889   | -                  | -              | -  |
| Learn and Serve America  | I           | 94.004              | 019-102026                    | 10 OCT 15 - 11 JUN 30              | 11,000                  | 4,889                       | -   | 11,000             | 11,000         | 6,111  |
| Chesapeake Bay Studies - PA Meaningful Watershed School Mini-Grant                         | I           | 11.457              | MO 0933024                    | 09 SEP 30 - 10 SEP 30              | 3,282                   | -                           | (2,707)                                       | 2,707              | 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               | 1,408,735                   | 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                                       | -                  | -              | -  |

|  |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
|--|---|---------|----------------------|------------------------|-------------------|-------------------|------------------|-------------------|-------------------|------------------|
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act   | I | 84.394  | 126-110184           | 10 JUL 01- 11 JUN 30   | 4,867,439         | 3,650,579         | -                | 4,867,439         | 4,867,439         | 1,216,860        |
| ARRA - Education State Technology Grant, Recovery Act (09-10)                          | I | 84.386  | 135-100184           | 09 JUL 01 - 11 SEP 30  | 613,800           | 613,800           | 49,222           | 523,799           | 523,799           | (40,779)         |
| ARRA - Education Jobs Fund   | I | 84.410  | 140-0000139174-790   | 10 AUG 10 - 11 SEPT 30 | 2,883,877         | 2,883,877         | -                | 2,883,877         | 2,883,877         | -                |
| <b>Total Passed Through the Pennsylvania Department of Education</b>                   |   |         |                      |                        | <b>35,190,354</b> | <b>17,721,619</b> | <b>3,348,417</b> | <b>16,883,901</b> | <b>16,883,901</b> | <b>2,510,699</b> |
| <b>Passed Through Berks County Intermediate Unit:</b>                                  |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| Reading First Mini Grant (09-10)   | I | 84.357  | N/A                  | 10 APR 01 - 10 AUG 01  | 10,000            | -                 | (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             | -                 | (4,319)          | 4,319             | 4,319             | -                |
| <b>Total Passed Through Berks County Intermediate Unit</b>                             |   |         |                      |                        | <b>15,000</b>     | <b>-</b>          | <b>(14,319)</b>  | <b>14,319</b>     | <b>14,319</b>     | <b>-</b>         |
| <b>Passed Through Capital Area Intermediate Unit 15:</b>                               |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| Special Education - Grants to States (10-11)   | I | 84.027  | N/A                  | 10 JUL 01 - 11 JUN 30  | 1,967,566         | 929,733           | -                | 1,967,566         | 1,967,566         | 1,037,833        |
| Special Education - Grants to States (09-10)   | I | 84.027  | N/A                  | 09 JUL 01 - 10 JUN 30  | 1,930,696         | 957,584           | 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         | 1,349,869         | 845,243          | 578,778           | 578,778           | 74,152           |
| Reading Recovery (10-11)   | I | 84.357A | N/A                  | 10 AUG 25 - 11 JUN 15  | 64,284            | 50,440            | -                | 64,284            | 64,284            | 13,844           |
| <b>Total Passed Through Capital Area Intermediate Unit 15</b>                          |   |         |                      |                        | <b>6,129,527</b>  | <b>3,287,626</b>  | <b>1,802,827</b> | <b>2,610,628</b>  | <b>2,610,628</b>  | <b>1,125,829</b> |
| <b>Passed Through Harrisburg Area Community College:</b>                               |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| Tech-Prep Education (10-11)  | I | 82.243  | 386-11-1004          | 10 JUL 1 - 11 JUN 30   | 3,473             | 316               | -                | 3,473             | 3,473             | 3,157            |
| <b>Total Passed Through Harrisburg Area Community College</b>                          |   |         |                      |                        | <b>3,473</b>      | <b>316</b>        | <b>-</b>         | <b>3,473</b>      | <b>3,473</b>      | <b>3,157</b>     |
| <b>Passed Through Pennsylvania State System of Higher Education:</b>                   |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| Gaining Early Awareness and Readiness for Undergraduate Programs (10-11)               | I | 84.334S | 2009-GEARUP-02-R1-A2 | 10 SEPT 01- 11 AUG 31  | 368,696           | 194,025           | -                | 262,567           | 262,567           | 68,542           |
| Gaining Early Awareness and Readiness for Undergraduate Programs (09-10)               | I | 84.334S | 2009-GEARUP-02       | 09 SEP 01 - 10 AUG 31  | 328,741           | 64,096            | 56,891           | 27,935            | 27,935            | 20,730           |
| <b>Total Passed Through Pennsylvania State System of Higher Education</b>              |   |         |                      |                        | <b>697,437</b>    | <b>258,121</b>    | <b>56,891</b>    | <b>290,502</b>    | <b>290,502</b>    | <b>89,272</b>    |
| <b>Passed Through Pennsylvania Training and Technical Assistance Network (PATTAN):</b> |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| Inclusive Practice Grant (09-10)   | I | 84.027  | 062-10-0-032         | 09 AUG 01 - 10 JUN 30  | 15,000            | 15,000            | 15,000           | -                 | -                 | -                |
| <b>Total Passed Through PATTAN</b>   |   |         |                      |                        | <b>15,000</b>     | <b>15,000</b>     | <b>15,000</b>    | <b>-</b>          | <b>-</b>          | <b>-</b>         |
| <b>Passed Through Dauphin County:</b>  |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| Block Grants for Prevention and Treatment of Substance Abuse (09-10)                   | I | 93.959  | N/A                  | 09 JUL 01 - 10 JUN 30  | 25,000            | 13,215            | 13,215           | -                 | -                 | -                |
| <b>Total Passed Through Dauphin County</b>   |   |         |                      |                        | <b>25,000</b>     | <b>13,215</b>     | <b>13,215</b>    | <b>-</b>          | <b>-</b>          | <b>-</b>         |
| <b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>  |   |         |                      |                        | <b>43,958,507</b> | <b>22,138,271</b> | <b>5,729,093</b> | <b>19,977,721</b> | <b>19,977,721</b> | <b>3,568,543</b> |
| <b>U.S. DEPARTMENT OF LABOR:</b>   |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| YouthBuild (07-10)   | D | 17.274  | YB 16851-08-080-A-42 | 07 OCT 15 - 10 OCT 14  | 509,410           | -                 | 148,822          | 32,578            | 32,578            | 181,400          |
| <b>TOTAL U.S. DEPARTMENT OF LABOR</b>  |   |         |                      |                        | <b>509,410</b>    | <b>-</b>          | <b>148,822</b>   | <b>32,578</b>     | <b>32,578</b>     | <b>181,400</b>   |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                                    |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| <b>Passed through the Pennsylvania Department of Education:</b>                        |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| Temporary Assistance for Needy Families 10-11  | I | 93.558  | FC4100051634         | 10 JUL 01 - 11 JUN 30  | 102,492           | 66,985            | -                | 102,492           | 102,492           | 35,507           |
| Temporary Assistance for Needy Families 09-10  | I | 93.558  | FC4100051634         | 09 JUL 01 - 10 JUN 30  | 102,492           | 102,492           | 102,492          | -                 | -                 | -                |
| Temporary Assistance for Needy Families 10-11  | I | 93.558  | FC4100051634         | 10 JUL 01 - 11 JUN 30  | 18,331            | 11,830            | -                | 18,331            | 18,331            | 6,501            |
| Temporary Assistance for Needy Families 09-10  | I | 93.558  | FC4100051634         | 09 JUL 01 - 10 JUN 30  | 18,331            | 18,331            | 18,331           | -                 | -                 | -                |
| Temporary Assistance for Needy Families 10-11  | I | 93.558  | FC4100055453         | 10 AUG 16 - 11 JUN 30  | 240,000           | 124,182           | -                | 240,000           | 240,000           | 115,818          |
| Temporary Assistance for Needy Families 09-10  | I | 93.558  | FC4100051639         | 09 JUL 01 - 10 JUN 30  | 315,472           | 216,351           | 216,351          | -                 | -                 | -                |
| <b>Total Passed through the Department of Education</b>                                |   |         |                      |                        | <b>797,118</b>    | <b>540,171</b>    | <b>337,174</b>   | <b>360,823</b>    | <b>360,823</b>    | <b>157,826</b>   |
| <b>Passed through the Pennsylvania Department of Welfare:</b>                          |   |         |                      |                        |                   |                   |                  |                   |                   |                  |
| Medical Assistance Reimbursement for Administration 10-11                              | I | 93.778  | N/A                  | 10 JUL 01 - 11 JUN 30  | 100,614           | 55,271            | -                | 100,614           | 100,614           | 45,343           |
| Medical Assistance Reimbursement for Administration 09-10                              | I | 93.778  | N/A                  | 09 JUL 01 - 10 JUN 30  | 113,669           | 12,461            | 12,461           | -                 | -                 | -                |
| <b>Total Passed through the Pennsylvania Department of Welfare</b>                     |   |         |                      |                        | <b>214,283</b>    | <b>67,732</b>     | <b>12,461</b>    | <b>100,614</b>    | <b>100,614</b>    | <b>45,343</b>    |
| <b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                              |   |         |                      |                        | <b>1,011,401</b>  | <b>607,903</b>    | <b>349,635</b>   | <b>461,437</b>    | <b>461,437</b>    | <b>203,169</b>   |

**SCHOOL DISTRICT OF THE CITY OF HARRISBURG  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

**U.S. DEPARTMENT OF DEFENSE**

**Passed through the United States Navy:**

|  |   |        |     |                       |                |               |               |               |               |               |
|--|---|--------|-----|-----------------------|----------------|---------------|---------------|---------------|---------------|---------------|
| Junior Reserve Officers Training Corps (FYE 10-11) | I | 12,000 | N/A | 10 JUL 01 - 11 JUN 30 | 76,883         | 54,963        | -             | 76,883        | 76,883        | 21,920        |
| Junior Reserve Officers Training Corps (FYE 09-10) | I | 12,000 | N/A | 09 JUL 01 - 10 JUN 30 | 71,102         | 17,192        | 17,192        | -             | -             | -             |
| Total Passed Through the United States Navy        |   |        |     |                       | 147,985        | 72,155        | 17,192        | 76,883        | 76,883        | 21,920        |
| <b>TOTAL OF U.S. DEPARTMENT OF DEFENSE</b>         |   |        |     |                       | <b>147,985</b> | <b>72,155</b> | <b>17,192</b> | <b>76,883</b> | <b>76,883</b> | <b>21,920</b> |

**U.S. DEPARTMENT OF AGRICULTURE**

**Passed through the Pennsylvania Department of Education:**

|  |   |        |              |                       |                   |                   |                  |                   |                   |                  |
|--|---|--------|--------------|-----------------------|-------------------|-------------------|------------------|-------------------|-------------------|------------------|
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (10-11) | I | 10,561 | FC4100051634 | 10 JUL 01 - 11 JUN 30 | 17,820            | 11,618            | -                | 17,820            | 17,820            | 6,202            |
| 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           | -                 | -                 | -                |
| National School Lunch Program (FYE 10-11)  | I | 10,555 | 362          | 10 JUL 01 - 11 JUN 30 | 2,943,951         | F 2,492,110       | -                | 2,943,951         | 2,943,951         | 451,841          |
| National School Lunch Program (FYE 09-10)  | I | 10,555 | 362          | 09 JUL 01 - 10 JUN 30 | 3,098,739         | F 114,269         | 114,269          | -                 | -                 | -                |
| National School Lunch Program (FYE 10-11)  | I | N/A    | 510          | 10 JUL 01 - 11 JUN 30 | 157,749           | S 133,975         | -                | 157,749           | 157,749           | 23,774           |
| National School Lunch Program (FYE 09-10)  | I | N/A    | 510          | 09 JUL 01 - 10 JUN 30 | 165,967           | S 6,033           | 6,033            | -                 | -                 | -                |
| National School Lunch Program (FYE 10-11)  | I | N/A    | 511          | 10 JUL 01 - 11 JUN 30 | 70,588            | S 59,086          | -                | 70,588            | 70,588            | 11,502           |
| National School Lunch Program (FYE 09-10)  | I | N/A    | 511          | 09 JUL 01 - 10 JUN 30 | 81,721            | S 3,331           | 3,331            | -                 | -                 | -                |
| National School Lunch Program (FYE 10-11)  | I | N/A    | 512          | 10 JUL 01 - 11 JUN 30 | 24,893            | S 20,966          | -                | 24,893            | 24,893            | 3,927            |
| National School Lunch Program (FYE 09-10)  | I | N/A    | 512          | 09 JUL 01 - 10 JUN 30 | 25,390            | S 1,073           | 1,073            | -                 | -                 | -                |
| National School Lunch Program (FYE 10-11)  | I | N/A    | 513          | 10 JUL 01 - 11 JUN 30 | 6,020             | S 5,020           | -                | 6,020             | 6,020             | 1,000            |
| National School Lunch Program (FYE 09-10)  | I | N/A    | 513          | 09 JUL 01 - 10 JUN 30 | 6,831             | S 296             | 296              | -                 | -                 | -                |
| School Breakfast Program (FYE 10-11)   | I | 10,553 | 367          | 10 JUL 01 - 11 JUN 30 | 1,177,713         | F 982,366         | -                | 1,177,713         | 1,177,713         | 195,347          |
| School Breakfast Program (FYE 09-10)   | I | 10,553 | 367          | 09 JUL 01 - 10 JUN 30 | 1,384,532         | F 56,995          | 56,995           | -                 | -                 | -                |
| National School Lunch Program (FYE 10-11)  | I | 10,555 | 359          | 10 JUL 01 - 11 JUN 30 | 59,990            | F 51,159          | -                | 59,990            | 59,990            | 8,831            |
| National School Lunch Program (FYE 09-10)  | I | 10,555 | 359          | 09 JUL 01 - 10 JUN 30 | 35,996            | F 1,678           | 1,678            | -                 | -                 | -                |
| Summer Food Service Program for Children (FYE 10-11)   | I | 10,559 | 264          | 11 JUN 17 - 11 AUG 13 | 231,315           | F 186,938         | -                | 231,213           | 231,213           | 44,275           |
| Summer Food Service Program for Children (FYE 09-10)   | I | 10,559 | 264          | 10 JUN 17 - 10 AUG 13 | 241,928           | F 54,990          | 54,990           | -                 | -                 | -                |
| Fresh Fruit and Vegetable Program (09-10)  | I | 10,582 | 362          | 09 JUL 01 - 10 JUN 30 | 22,547            | F 2,508           | 2,508            | -                 | -                 | -                |
| Fresh Fruit and Vegetable Program (10-11)  | I | 10,582 | 362          | 10 JUL 01 - 11 JUN 30 | 67,137            | F 58,774          | -                | 67,137            | 67,137            | 8,363            |
| Total passed through the Pennsylvania Department of Education                                  |   |        |              |                       | 9,838,649         | 4,261,006         | 258,993          | 4,757,074         | 4,757,074         | 755,062          |
| <b>Passed Through the Pennsylvania Department of Agriculture:</b>                              |   |        |              |                       |                   |                   |                  |                   |                   |                  |
| Food Donation (FYE 10-11)  | I | 10,550 | 115-22-275-2 | 10 JUL 01 - 11 JUN 30 | 269,292           | 269,292           | -                | 267,604           | 267,604           | (1,688)          |
| Food Donation (FYE 09-10)  | I | 10,550 | 115-22-275-2 | 09 JUL 01 - 10 JUN 30 | 291,930           | -                 | (2,726)          | 2,726             | 2,726             | -                |
| Total passed through the Pennsylvania Department of Agriculture                                |   |        |              |                       | 561,222           | 269,292           | (2,726)          | 270,330           | 270,330           | (1,688)          |
| <b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>  |   |        |              |                       | <b>10,399,871</b> | <b>4,530,298</b>  | <b>256,267</b>   | <b>5,027,404</b>  | <b>5,027,404</b>  | <b>753,374</b>   |
| <b>TOTAL ASSISTANCE</b>  |   |        |              |                       | <b>56,027,174</b> | <b>27,348,627</b> | <b>6,501,009</b> | <b>25,576,023</b> | <b>25,576,023</b> | <b>4,728,406</b> |



**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011

**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, 2011, the organization had food commodities totaling \$1,688 in inventory.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued  
YEAR ENDED JUNE 30, 2011

**NOTE C - TEST OF 50% RULE**

|   |                             |
|---|-----------------------------|
| Total Expenditures  | \$ 25,576,023               |
| Less: State's Share of National School Lunch Program Expenditures | <u>259,250</u>              |
| <b>Total Federal Expenditures</b>                                 | <b><u>\$ 25,316,773</u></b> |

Programs Selected for Testing:

|   |                             |
|---|-----------------------------|
| Title I Grants to Local Education Agencies (CFDA #84.010)                             | \$ 6,142,863                |
| ARRA - Title I Grants to Local Education Agencies - School Improvement (CFDA #84.010) | 374,018                     |
| Improving Teacher Quality State Grants (CFDA #84.367)                                 | 712,069                     |
| Special Education - Grants to States (CFDA #84.027)                                   | 1,967,566                   |
| ARRA - Special Education - Grants to States (CFDA #84.391A)                           | 578,778                     |
| ARRA - State Fiscal Stabilization Fund - Education State Grants (CFDA #84.394)        | 4,867,439                   |
| Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, #10.559)                     | 4,412,867                   |
| ARRA - Education Jobs Fund (CFDA #84.410)   | 2,883,877                   |
| Twenty-First Century Community Learning Centers (CFDA #84.287)                        | <u>771,836</u>              |
| <b>Total Amount Tested</b>  | <b><u>\$ 22,711,313</u></b> |

|   |                      |
|---|----------------------|
| <b>Percent Tested (\$22,711,313/\$25,316,773)</b> | <b><u>89.71%</u></b> |
|---|----------------------|

**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, 2011**

**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. No significant deficiencies in internal control were disclosed by the audit of the financial statements.
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                                |
| ARRA - Title I Grants to Local Educational Agencies             | CFDA# 84.010                                |
| 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                                |
| ARRA - Education Jobs Fund                                      | CFDA# 84.410                                |
| Twenty-First Century Community Learning Centers Grants          | CFDA# 84.287                                |
| Child Nutrition Cluster   | CFDA#s 10.553,<br>10.555, 10.556,<br>10.559 |
8. The threshold for distinguishing Types A and B programs was \$712,000.
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, 2011**

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

NONE

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding SA 2011-01**

**Federal agency: U.S. Department of Education**  
**Pass-through entity: Capital Area Intermediate Unit 15**

**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 three expenditures out of the 60 tested included payroll expenses for one employee that did not have a position in the Special Education Department, in 2010-2011 fiscal year.

***Effect:***

The District charged an employee to the grant for the 2010-2011 fiscal year that was not allowed.

***Questioned Costs:***

\$55,949

***Auditors' Recommendation:***

We recommend the District closely monitor the salary spreadsheet for the grant to ensure all employees charged to the grant are eligible.

***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 assigned to a Biology teaching position, the questioned costs of \$55,949 were removed from the grant expenditures. The District has replaced the questioned costs with allowable compliant charges to the grant.

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

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued**

**Finding SA 2011-02**

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

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

**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.

***Questioned Costs:***

\$1,073

***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 \$1,073, less the overpayment of \$194.01 resulting from an error in the calculation of finding SA 2010-01.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued**

**Finding SA 2011-03**

**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 2010/2011) Contract No. 126-110184**

**Improving Teacher Quality State Grants (Title II) - CFDA 84.367**  
**(FYE 2010/2011) Contract No. 020-110184**

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

***Condition:***

Journal entry expenditures charged to federal grants were not properly approved.

***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. During testing we noted two journal entries charging expenditures to federal grants were not approved by an authorized individual.

***Effect:***

The potential exists for unallowed expenditures to be recorded for federal grants.

***Questioned Costs:***

\$16,138

***Auditors' Recommendation:***

We recommend the District adhere to its established policy of properly authorizing all journal entries.

***Auditee Response and Corrective Action Plan:***

The District will observe its established journal entry approval system to ensure all journal entries are properly authorized. The \$16,138 potential questioned costs were reviewed and were compliant costs to the grants.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued**

**Finding SA 2011-04**

**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 2010/2011) Contract No. 126-110184**

**Noncompliance and Significant deficiency in Internal Control over Reporting**

***Condition:***

The District did not submit the required final report 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 language on the required final report, "Final Expenditure Reports are due August 1, 2011, or as soon as funds are liquidated, whichever comes first".

***Cause:***

The District filed its final report on September 23, 2011, which was past the required due date.

***Effect:***

Failure to file timely reports could have an adverse effect on the District's grant funding.

***Questioned Costs:***

Unknown

***Auditors' Recommendation:***

We recommend the District closely monitor report submission deadlines to avoid potential adverse effects on federal grant funding.

***Auditee Response and Corrective Action Plan:***

The District will monitor grants and reporting compliance requirements to ensure that reports are filed in a timely manner.



**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued**

**Finding SA 2011-05**

**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 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 charged an unallowed expenditure to the grant.

***Criteria:***

The OMB Circular A-133 Part Four Compliance Supplement for the Title I Grant Cluster, outlines the appropriate activities and expenditures that are allowed to be charged to the grant.

***Cause:***

The District charged an expenditure for the Summer Academy program to the Title I grant, which was determined to be unallowed.

***Effect:***

The District charged unallowed expenses to the federal grant.

***Questioned Costs:***

\$175

***Auditors' Recommendation:***

We recommend the District closely monitor expenditures and activities to ensure they are in line with the approved grant budget and guidelines.

***Auditee Response and Corrective Action Plan:***

The District removed the questioned costs of \$175 from the grant expenditures and has replaced the questioned costs with allowable compliant costs to the grant. The District will monitor expenditures and related activities being charged to grant to ensure that expenditures are within the grant guidelines and approved grant budget.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued**

**Finding SA 2011-06**

**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 2010/2011)**

**Noncompliance and Significant deficiency in Internal Control over the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management and Reporting Compliance Requirements**

***Condition:***

The District failed to correctly record the number of meals for reimbursement from its Daily Sales Reports to the Meals Participation Report, which is used to complete the monthly reimbursement request.

***Criteria:***

According to the OMB Circular A-133 Part Four, Compliance Supplement for the Nutrition Cluster, "When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity." Reporting Compliance requirements under the same supplement also state, "All claims must be supported by accurate meal counts by category and type taken at the point of service or developed through an approved alternative procedure".

***Cause:***

We selected four reimbursement requests and from each request, we tested four days to verify the accuracy of the number of meals claimed and noted the number of meals served for one day from the Daily Sales Report did not agree to the Meals Participation Report.

***Effect:***

The District claimed 92 additional free meals for reimbursement.

***Questioned Costs:***

\$248

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued**

**Finding SA 2011-06 - continued**

***Auditors' Recommendation:***

We recommend the District closely monitor and double check the amounts being transferred from one report to another when preparing their monthly reimbursement claim reports.

***Auditee Response and Corrective Action Plan:***

The District will monitor and double check the data being transferred from the daily sales reports to the Meal Participation Report to ensure the accuracy of the monthly reimbursement claim report.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued**

**Finding SA 2011-07**

**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 2010/2011)**

**Noncompliance and Significant deficiency in Internal Control over the Eligibility Compliance Requirements**

***Condition:***

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

1. Four of the 60 applications tested for eligibility were noncompliant because incorrect determinations were made based on information provided on the applications.
2. Sixteen 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.

***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. 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, 2011**

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued**

**Finding SA 2011-07 - continued**

***Cause:***

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

***Questioned Costs:***

Unknown

***Auditors' Recommendation:***

We recommend the District closely adhere to its internal control procedures established for eligibility determinations.

***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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

**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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS** - 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.

***Auditee's Update:***

The District has remitted the interest in the amount of \$361.22 to the United States Government in December 2011.

Upon further review of this finding, it was determined that \$194.01 associated with Title I CFDA 84.010 (FYE 2007/2008) Contract No. 042-080184 was an error and should not have been returned. The District will reduce its payment of excess interest for SA 2011-02 by the amount of the \$194.01 overpayment.

***Current Status:***

This was also noted as a similar finding for the Title I Grants to Local Educational Agencies; see Finding SA 2011-02.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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.*

***Auditee's Update:***

The District has implemented the journal entry approval system.

***Current Status:***

This was also noted as a similar finding for the State Fiscal Stabilization Fund and Title II - Improving Teacher Quality grants; see Finding SA 2011-03.

Special Education - Grants to States was tested in the current year and no similar findings were noted.

ARRA - Special Education - Grants to States was tested in the current year and no similar findings were noted.

Title I - Grants to Local Educational Agencies (Program Improvement Set Aside) 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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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.

**Auditee's Update:**

The District is developing additional procedures to monitor position assignments to ensure only appropriate staff are assigned to grants.

**Current Status:**

This was also noted as a similar finding for the Special Education - Grants to States; see Finding SA 2011-01.

**THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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.

**Auditee's Update:**

The District is developing additional procedures to monitor position assignments to ensure only appropriate staff are assigned to grants.

**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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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.

***Auditee's Update:***

The District continues to follow its established policies and procedures to ensure staffing in compliance with Circular A-133. The District is developing additional procedures to monitor position assignments to ensure only appropriate staff are assigned to grants.

***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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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 10<sup>th</sup> 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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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 10<sup>th</sup> working day of the month of submission to maintain compliance requirements.

***Auditee's Update:***

The District is developing additional grant monitoring procedures to ensure timely completion of required reports to maintain compliance requirements.

***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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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, 2011**

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - 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.

***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 for the Child Nutrition Cluster; see Finding SA 2011-07.