



**The School District of
the City of Harrisburg
Harrisburg, Pennsylvania
Dauphin County**

Financial Statements
Year Ended June 30, 2021



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THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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INDEPENDENT AUDITOR'S REPORT

**To the Receiver
The School District of the City of Harrisburg
Harrisburg, Pennsylvania**

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, Harrisburg, Pennsylvania as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District of the City of Harrisburg's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The School District of the City of Harrisburg, Harrisburg, Pennsylvania as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As described in Note 13 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 84, "Fiduciary Activities". Our opinions are not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited The School District of the City of Harrisburg's 2020 financial statements, and our report dated April 9, 2021 expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the schedules of the District's proportionate share of the net pension liability-PSERS and pension plan contributions – PSERS, schedule of changes in OPEB liability single employer plan and the schedules of the District's proportionate share of the net OPEB liability-PSERS and OPEB plan contributions – PSERS on pages 3 through 14 and 51 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Harrisburg's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2022, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The School District of the City of Harrisburg's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
September 9, 2022**

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

Management's discussion and analysis ("**MD&A**") of the financial performance of the School District of the City of Harrisburg (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2021. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of eleven schools – five elementary schools, three middle schools, two high schools and an alternative education school for all grades, consisting of approximately 6,550 students. The District is a culturally diverse, urban school district in Dauphin County, Pennsylvania. The City of Harrisburg is home to approximately 50,000 people and the capital of the Commonwealth of Pennsylvania and is considered the metropolitan hub of south-central Pennsylvania. There were 890 employees including 530 professional employees (teachers, nurses and counselors).

The mission of the School District of the City of Harrisburg is to provide a rigorous and relevant education to ALL students in a learning environment that fosters high expectations and data driven and standards aligned instruction provided by committed, highly qualified teachers. The District endeavors to provide a culturally responsive, safe, and positive school environment to enhance, empower and promote the value of lifelong learning for our students. Families and the Harrisburg community are active partners in the educational process.

FINANCIAL HIGHLIGHTS

- On a government-wide basis, including all governmental activities and the business-type activities, the liabilities and deferred inflows of resources of the District exceeded assets and deferred outflows resulting in a deficit in total net position at the close of the 2020-2021 fiscal year of \$197,860,518. During the 2020-2021 fiscal year, the District had an increase in total net position of \$17,343,808. The net position of governmental activities increased by \$18,177,015 and the net position of business-type activities decreased by \$833,207.
- The General Fund reported a decrease in fund balance of \$616,401, bringing the cumulative balance to \$21,193,209 at the conclusion of the 2020-2021 fiscal year.
- At June 30, 2021, the General Fund fund balance includes \$3,427,822 which is considered nonspendable, \$500,000 committed for athletics and band reserve, \$1,000,000 assigned for healthcare reserve, \$1,500,000 assigned for enrollment stabilization, and unassigned amounts of \$14,765,387 or 8.15% of the \$180,961,671 2021-2022 General Fund expenditure budget. This approximates guidelines prescribed by the Pennsylvania Department of Education which allows a district to maintain an unassigned maximum General Fund fund balance of 8% of the following year's expenditures budget.
- Total General Fund revenues and other financing sources were \$1,111,344 or 0.70% more than budgeted amounts and total General Fund expenditures and other financing uses were \$1,842,275 or 1.17% more than budgeted amounts resulting in a net negative variance of \$730,931.
- In December 2019, an outbreak of a novel strain of coronavirus ("**COVID-19**") was identified and has since spread worldwide including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. As a result, the District experienced disruptions and operated under virtual, hybrid and in-person learning models during 2020-2021 as conditions permitted.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position (Deficit)* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

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

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 15 and 16 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains five individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the three major funds and the one non-major fund.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 17 through 20 of this report.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses its Internal Service Fund to account for the District's self-funded medical, dental, prescription and vision plans. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements can be found on Pages 21 through 23 of this report.

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of a scholarship fund. The District is responsible for ensuring that the assets reported in this fund is used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Pages 24 and 25 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 26 through 50 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, schedules of the District's proportionate share of the net pension liability and pension plan contributions-PSERS, schedule of changes in OPEB liability single-employer plan, and the schedules of the District's proportionate share of the net OPEB liability and OPEB plan contributions-PSERS, as well as additional analysis consisting of combining and individual fund financial statements.

The required supplementary information and additional analysis can be found on Pages 51 through 58 of this report.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2020-2021 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$197,860,518. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2021 and 2020.

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
ASSETS						
Current assets	\$ 66,002,326	\$ 52,879,700	\$(2,090,388)	\$(1,122,396)	\$ 63,911,938	\$ 51,757,304
Noncurrent assets	<u>160,679,321</u>	<u>164,961,736</u>	<u>267,942</u>	<u>312,185</u>	<u>160,947,263</u>	<u>165,273,921</u>
Total assets	<u>226,681,647</u>	<u>217,841,436</u>	<u>(1,822,446)</u>	<u>(810,211)</u>	<u>224,859,201</u>	<u>217,031,225</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>42,488,716</u>	<u>38,919,437</u>	<u>406,526</u>	<u>527,143</u>	<u>42,895,242</u>	<u>39,446,580</u>
LIABILITIES						
Current liabilities	19,457,386	20,730,171	252,415	170,523	19,709,801	20,900,694
Noncurrent liabilities	<u>418,480,605</u>	<u>427,448,887</u>	<u>2,368,404</u>	<u>2,734,225</u>	<u>420,849,009</u>	<u>430,183,112</u>
Total liabilities	<u>437,937,991</u>	<u>448,179,058</u>	<u>2,620,819</u>	<u>2,904,748</u>	<u>440,558,810</u>	<u>451,083,806</u>
DEFERRED INFLOWS OF RESOURCES	<u>24,654,847</u>	<u>20,283,747</u>	<u>401,304</u>	<u>417,020</u>	<u>25,056,151</u>	<u>20,700,767</u>
NET POSITION (DEFICIT)						
Net investment in capital assets	(73,869,623)	(77,312,375)	267,942	312,185	(73,601,681)	(77,000,190)
Restricted	18,329,628	6,416,201	-	-	18,329,628	6,416,201
Unrestricted (deficit)	<u>(137,882,480)</u>	<u>(140,805,758)</u>	<u>(4,705,985)</u>	<u>(3,917,021)</u>	<u>(142,588,465)</u>	<u>(144,722,779)</u>
Total net position (deficit)	<u>\$(193,422,475)</u>	<u>\$(211,701,932)</u>	<u>\$(4,438,043)</u>	<u>\$(3,604,836)</u>	<u>\$(197,860,518)</u>	<u>\$(215,306,768)</u>

The District's total assets as of June 30, 2021 were \$224,859,201 of which \$31,661,153 or 14.08% consisted of unrestricted cash and investments and \$154,658,623 or 68.78% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2021 were \$440,558,810 of which \$241,271,593 or 54.76% consisted of general obligation debt used to acquire and construct capital assets and \$157,811,046 or 35.82% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$142,588,465 at June 30, 2021. The District's unrestricted net position increased by \$2,134,314 during 2020-2021 primarily due to the current year results of operations.

A portion of the District's net position reflects its restricted net position which totaled \$18,329,628 as of June 30, 2021. All of the District's restricted net position related to amounts restricted for student activity, capital and debt service expenditures.

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2021, the District's net investment in capital assets increased by \$3,398,509 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other than long-term debt.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

The following table presents condensed information for the *Statement of Activities* of the District for 2021 and 2020:

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
REVENUES						
Program revenues						
Charges for services	\$ 723,831	\$ 379,826	\$ 18,042	\$ 65,433	\$ 741,873	\$ 445,259
Operating grants and contributions	43,387,540	35,783,444	1,903,262	4,779,380	45,290,802	40,562,825
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes levied for general purposes	48,510,265	46,964,184	-	-	48,510,265	46,964,184
Earned income taxes levied for general purposes	4,140,746	4,195,706	-	-	4,140,745	4,195,706
Other taxes levied for general purposes	6,380,250	5,889,727	-	-	6,380,250	5,889,727
Grants and entitlements not restricted to specific programs	56,564,142	56,563,908	-	-	56,564,142	56,563,908
Investment earnings	(133,372)	1,605,070	18	753	(133,354)	1,605,823
Total revenues	<u>159,573,402</u>	<u>151,381,865</u>	<u>1,921,322</u>	<u>4,845,566</u>	<u>161,494,724</u>	<u>156,227,431</u>
EXPENSES						
Instruction	90,791,071	91,990,124	-	-	90,791,071	91,990,124
Instructional student support services	10,851,189	11,675,473	-	-	10,851,189	11,675,473
Administrative and financial support services	14,382,725	13,494,331	-	-	14,382,725	13,494,331
Operation and maintenance of plant services	12,656,016	12,795,256	-	-	12,656,016	12,795,256
Pupil transportation	3,329,026	3,766,313	-	-	3,329,026	3,766,313
Student activities	574,406	689,921	-	-	574,406	689,921
Community services	326,715	604,369	-	-	326,715	604,369
Interest and amortization expense related to noncurrent liabilities	8,485,239	9,479,928	-	-	8,485,239	9,479,928
Food service	-	-	2,754,529	4,930,447	2,754,529	4,930,447
Total expenses	<u>141,396,387</u>	<u>144,495,715</u>	<u>2,754,529</u>	<u>4,930,447</u>	<u>144,150,916</u>	<u>149,426,162</u>
CHANGE IN NET POSITION (DEFICIT)	<u>\$ 18,177,015</u>	<u>\$ 6,886,150</u>	<u>\$ (833,207)</u>	<u>\$ (84,881)</u>	<u>\$ 17,343,808</u>	<u>\$ 6,801,269</u>

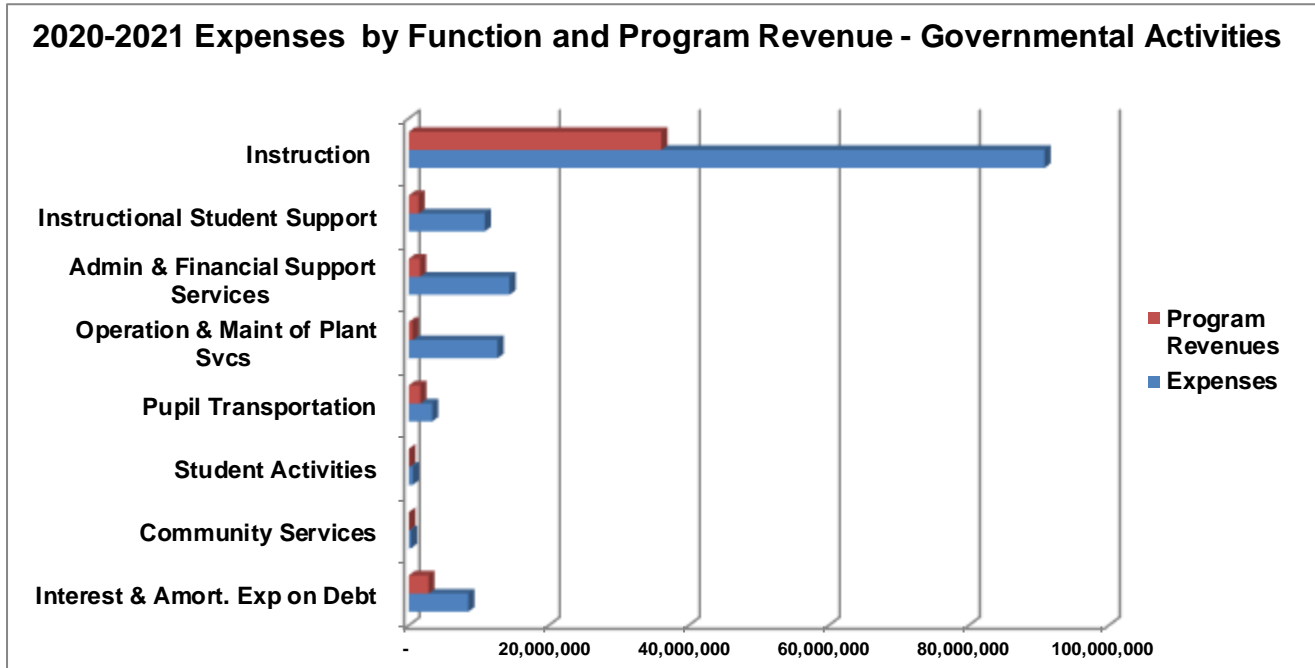
During 2020-2021, the District's financial position increased by \$17,343,808, in part due to decreased medical costs, employee costs, and other cost reductions caused by disruptions related to COVID-19.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

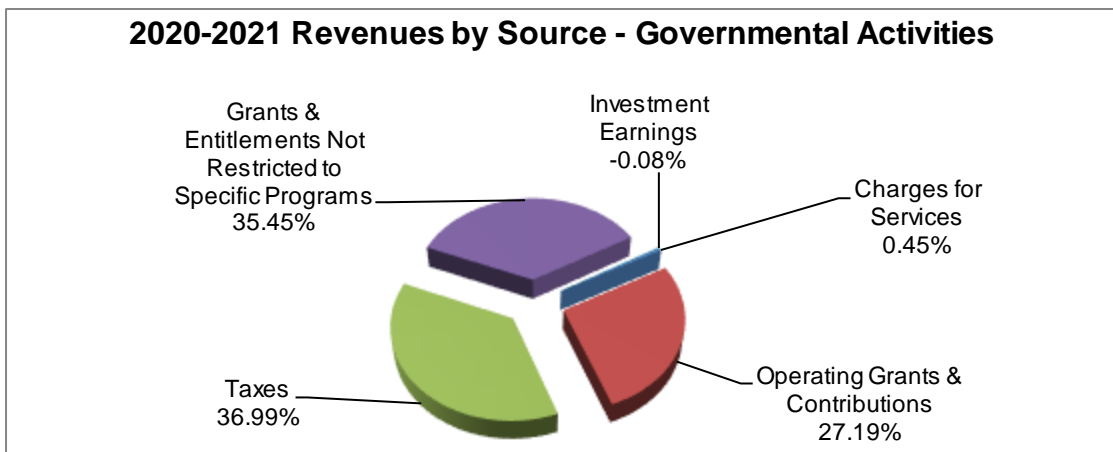
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

GOVERNMENTAL FUNDS

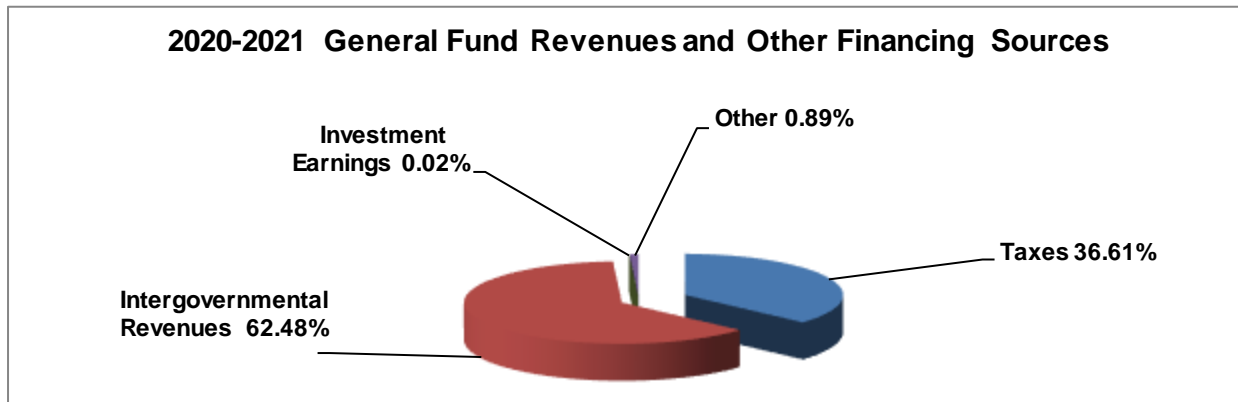
The governmental fund financial statements provide detailed information on the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2021, the District's governmental funds reported a combined fund balance of \$39,616,010 which is an increase of \$11,195,338 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2021 and 2020 and the total 2021 change in governmental fund balances.

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>
General Fund	\$21,193,209	\$21,809,610	\$ (616,401)
Capital Projects Fund	12,093,391	812,780	11,280,611
Debt Service Fund	6,212,055	5,695,840	516,215
Student Activities Fund	<u>117,355</u>	<u>102,442</u>	<u>14,913</u>
	<u>\$39,616,010</u>	<u>\$28,420,672</u>	<u>\$11,195,338</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2020-2021 fiscal year, the General Fund fund balance was \$21,193,209 representing a decrease of \$616,401 in relation to the prior year. The decrease in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2020-2021 fiscal year.

The District's reliance upon state and federal subsidies and grants is demonstrated by the graph below that indicates 62.48% of General Fund revenues are derived from intergovernmental revenues.



General Fund Revenues and Other Financing Sources

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$ 58,337,736	\$ 56,929,916	\$1,407,820	2.47
Intergovernmental revenues	99,559,374	92,067,095	7,492,279	8.14
Investment earnings	40,381	451,494	(411,113)	(91.06)
Other	<u>1,413,147</u>	<u>1,872,683</u>	<u>(459,536)</u>	<u>(24.54)</u>
	<u>\$159,350,638</u>	<u>\$151,321,188</u>	<u>\$8,029,450</u>	<u>5.31</u>

Net tax revenues increased by \$1,407,820 or 2.47% primarily due to an increase in the collection of delinquent real estate taxes and mercantile taxes.

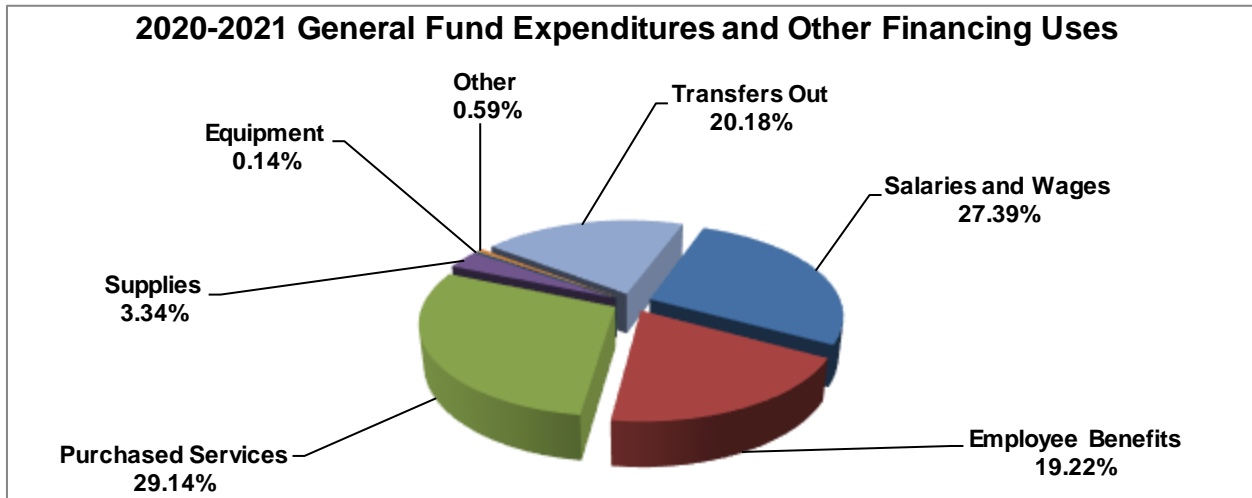
THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

Intergovernmental revenues increased by \$7,492,279 or 8.14% as a result of increases in COVID relief grant funding (CARES Act and ESSER) and the revenues from the submissions for rental reimbursement from the Pennsylvania Department of Education for debt service payments.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$ 43,818,300	\$ 45,406,691	\$ (1,588,391)	(3.50)
Employee benefits	30,745,802	31,230,036	(484,234)	(1.55)
Purchased services	46,622,560	44,454,354	2,168,206	4.88
Supplies	5,340,927	2,818,728	2,522,199	89.48
Equipment	220,306	464,200	(243,894)	(52.54)
Other	943,775	854,490	89,285	10.45
Transfers out	<u>32,275,369</u>	<u>19,666,438</u>	<u>12,608,931</u>	<u>64.11</u>
	<u>\$159,967,039</u>	<u>\$144,894,937</u>	<u>\$15,072,102</u>	<u>10.40</u>

Salaries and wages decreased by \$1,588,391 or 3.50% in 2020-2021 compared to 2019-2020 primarily as a result of staffing vacancies within the District and the impact of remote instruction due to COVID-19.

Employee benefit expenditures decreased by \$484,234 or 1.55% from the prior year as a result of unfilled positions driving an overall reduction in salary expenditures therefore resulting in a decrease in benefits directly tied to salaries.

Purchased services increased by \$2,168,206 or 4.88% in 2020-2021 compared to 2019-2020 primarily related to services needed to provide remote instruction to students and facility improvements to facilitate a return to in-person learning.

Supplies increased by \$2,522,199 in 2020-2021 compared to 2019-2020 due to technology purchases needed in order to provide a device to each student to allow for virtual learning to occur in the 2020-2021 school year.

Transfers out increased by \$12,608,931 or 64.11% to replenish the Capital Reserve Fund in order to address future capital needs and to establish an Internal Service Fund to account for the self-insured medical, dental, prescription, and vision insurance plans.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2020-2021, the fund balance in the Capital Projects Fund increased by \$11,280,611 primarily due to transfers from the General Fund for future projects. The remaining fund balance of \$12,093,391 as of June 30, 2021 is restricted for future capital expenditures.

DEBT SERVICE FUND

The Debt Service Fund accounts for the interest and principal payments due on the District's outstanding general obligation debt. Transfers are made during the year from the General Fund to finance debt service payments as they become due.

Pursuant to a loan agreement with the State Public School Building Authority under its Qualified School Construction Bonds program, the District established a Debt Sinking Fund. The District is required to make deposits annually into the Debt Sinking Fund. The deposits and investment earnings on the deposits are available for payment of maturities under the loan agreement.

As of June 30, 2021, the fund balance in the Debt Service Fund was \$6,212,055 and is restricted for future debt service expenditures.

GENERAL FUND BUDGET INFORMATION

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the Receiver for approval prior to the beginning of the fiscal year on July 1 each year. The most significant budgeted fund is the General Fund.

Total General Fund revenues and other financing sources were \$1,111,344 or 0.70% more than budgeted amounts and total General Fund expenditures and other financing uses were \$1,842,275 or 1.17% more than budgeted amounts resulting in a net negative variance of \$730,931. Major budgetary highlights for 2020-2021 were as follows:

- Total local source revenues were \$6,457,360 more than budgeted due to collections for current real estate, earned income, mercantile and delinquent real estate and occupation taxes, and refunds of prior year expenditures exceeding expectations.
- Total state source revenues were \$1,554,895 less than budgeted amounts as a result less than anticipated funding received through retirement and social Security subsidies which are received on a cost reimbursement model in part due to the impact of COVID-19 and staffing shortages.
- Total federal source revenues were \$3,659,844 less than budgeted amounts as a result less than anticipated funding received through Title I which is received on a cost reimbursement model in part due to the impact of COVID-19, staffing shortages and the continuity of educational services.
- Total regular programs were \$2,625,478 less than budgeted amounts as a result less than anticipated expenditures for salaries and wages related to unfilled positions and vacancies and a reduction in medical and dental services in part due to disruptions caused by COVID-19. In addition, contracted services for substitute teacher and contracted educational services were lower than anticipated due to the remote education model used during most of the 2020-2021 school year.
- Total special programs were \$3,271,629 less than budgeted amounts as a result of lower salary and benefit expenses due to unfilled positions.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

- Total support services were \$8,775,108 less than budgeted amounts primarily related to cost savings for salaries and benefits from unfilled positions, reduced transportation expenses due to the remote instructional model, and reduced contracted custodial services and disposal services.
- Transfers out were \$11,918,539 more than budgeted amounts which represents revenues over expenditures and budgeted appropriations to replenish the Capital Reserve Fund and to establish an Internal Service Fund.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2020-2021, the net position of the business-type activities and Food Service Fund decreased by \$833,207. As of June 30, 2021, the business-type activities and Food Service Fund had a deficit in net position of \$4,438,043. The deficit in net position directly correlates to the Food Service Fund recording its proportion share of the net pension liability in the Pennsylvania State Employees' Retirement System ("**PSERS**").

CAPITAL ASSETS

The District's net investment in capital asset for its governmental and business-type activities as of June 30, 2021 amounted to \$154,658,623 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$4,498,744 or 2.83%. The decrease was the result of current year depreciation expense in excess of capital additions. Major capital additions for 2020-2021 was for roof repair and replacement projects.

Current year capital additions were \$2,055,975 and depreciation expense and the net book value of disposed of capital assets was \$6,554,719.

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$241,271,593 consisting of \$130,270,000 in bonds payable, \$81,750,000 in notes payable and \$8,800,000 in Qualified School Construction Bonds net of deferred credits of \$20,451,593. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$5,476,302 or 2.22% during the current fiscal year.

During 2020-2021, the District issued general obligation bonds, Series of 2020A, B and C totaling \$47.2 million to refund general obligation bonds Series of 2014B-2, 2015 and 2016 to reduce debt service payments in 2020-2021 by approximately \$2.5 million and restructure existing debt to reduce annual debt service to approximately \$19 million.

The District maintains an A- ("stable outlook") rating from Standard and Poor's for its general obligation debt.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is \$344,314,094 which exceeds the District's outstanding general obligation debt as of June 30, 2021.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$157,811,046 as of June 30, 2021. The District's net pension liability decreased by \$1,296,604 or 0.81% during the fiscal year.

The District reports a liability for its other post-employment benefits ("**OPEB**") related to its single employer OPEB plan and its participation in the PSERS health insurance premium assistance program. The District's OPEB liability is an actuarially determined estimate of the unfunded cost of the OPEB obligation which totaled \$18,909,707 as of June 30, 2021. The District's OPEB liability decreased by \$2,299,787 or 10.84% during the fiscal year.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

Other noncurrent liabilities consist of the District's liabilities for compensated absences which totaled \$2,856,663 as of June 30, 2021. The District's compensated absences decreased by \$261,410 or 8.38% during the fiscal year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

- On December 12, 2012, the District was declared to be in a state of moderate distress under the Commonwealth of Pennsylvania's Act 141 of 2012. This designation required the appointment of a Chief Recovery Officer who was charged with developing a financial and academic recovery plan for the District. Subsequently, on June 17, 2019, the District was placed into receivership by the Pennsylvania Department of Education (the "**Receiver**") for a term of three years. The Receiver assumed the powers and duties of the Chief Recovery Officer and responsibility for the governance of the District other than the setting of property taxes, which remains with the School Board. In connection with the District's recovery plan, the Receiver has entered into a partnership with Montgomery County Intermediate Unit for a period of three years to provide key administrative functions of the District and develop an intervention plan designed to stabilize and rebuild the financial and human resources systems of the District, design and implement a K-12 academic plan, design a governance plan, hire key administrative positions, and eventually return the District to local control. The District began hiring key administrative positions directly beginning with the Superintendent in July of 2021, followed by the Business Administrator in January 2022, the Assistant Superintendent in February 2022, and the Director of Human Resources in June 2022.
 - The District adopted a balanced 2021-2022 budget totaling \$180,961,671 and the real estate tax millage rate remained unchanged at 29.78 mills.
 - As part of the Elementary and Secondary School Emergency Relief ("**ESSER**") grant program adopted by the federal government to provide COVID-19 relief to public schools, the District will be receiving significant funding through September 2023 as follows: ESSER I \$4.76 million; ESSER II \$24.8 million and ESSER III through the American Rescue Plan \$50.3 million. District administration is developing plans for use of these funds in compliance with federal requirements, and the funds will be included in future budgets.
 - 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 increase at a rate that is less than the expected increase in expenditures, as was seen during the 2021-2022 Commonwealth of Pennsylvania budget process. The Commonwealth of Pennsylvania provided for approximately 51% of total revenue sources to fund costs supporting the District's educational programs during fiscal 2020-2021 while local sources of revenue, primarily property taxes, provide approximately 38%.
 - In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increases in real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduced certain new requirements on school districts which include the following:
 - ♦ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (4.5% for the School District of the City of Harrisburg for 2021-2022), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
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THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2021

- ♦ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.
- ♦ Gaming revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders. (Act 1 permitted gambling in Pennsylvania.)
- In November 2010 and, again, in 2017 legislation was signed into law to implement a series of actuarial and funding changes to the Public School Employees' Retirement System ("**PSERS**"). The 2017 law will not take effect until July of 2019. The law will change the pension plans for all new hires effective July 1, 2019. The new legislation does not impact the pension benefits of current or retired PSERS members. Based on available projections, school districts will not see relief from the new legislation until 10-20 years in the future. Currently, the employer contribution rate for 2021-2022 is 34.94% which is an increase of 1.2 % from the 2020-2021 employer contribution rate of 34.51%.
- Professional/instructional employees of the District are represented for purposes of collective bargaining by the Harrisburg Education Association ("**HEA**"), which is affiliated with the Pennsylvania State Education Association ("**PSEA**"). This agreement which expired June 30, 2018 was renegotiated in February 2020, for a new three-year term. The expiration date of the new collective bargaining agreement which is in place between the District and the HEA is June 30, 2021. A successor agreement was approved in September 2021 and then again in August 2022 for a period of 1 year each.
- Support staff (including custodians, food service workers, paraprofessionals, etc.) are represented for purposes of collective bargaining by the American Federation of State, County and Municipal Employees ("**AFSCME**"). This agreement expired on June 30, 2019 and the successor agreement was approved in June of 2021, covering through June 30, 2022. The District and AFSCME are currently negotiating a new agreement.
- Non-represented employees are covered by compensation plans for all Act 93 employees. The compensation plan for Act 93 employees expired on June 30, 2021. The 1-year successor agreement was approved in June 2021.
- The District is partnering with its financial advisor to take advantage of refunding opportunities for its general obligation debt in an effort to restructure its debt, reduce future debt service payments and support capital improvements.
- The District is currently in the process of evaluating its buildings and facilities in an effort to prioritize capital projects in conjunction with the development of District-wide capital improvement plan and to best meet the needs of the District's projected future enrollment.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, School District of the City of Harrisburg, 1601 State Street Harrisburg, PA 17103.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2021 with summarized comparative totals for 2020

	Governmental	Business-type	Totals	
	Activities	Activities	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 22,975,876	\$ 184,308	\$ 23,160,184	\$ 19,741,572
Investments	8,500,969	-	8,500,969	6,500,000
Taxes receivable	14,023,591	-	14,023,591	13,540,844
Due from other governments	17,492,696	404,137	17,896,833	11,585,900
Internal balances	2,723,209	(2,723,209)	-	-
Other receivables	216,053	4,000	220,053	333,682
Prepaid expenses	65,000	-	65,000	13,753
Inventories	4,932	40,376	45,308	41,553
Total current assets	66,002,326	(2,090,388)	63,911,938	51,757,304
NONCURRENT ASSETS				
Restricted assets				
Cash held by fiscal agent	230	-	230	1,549
Investments held by fiscal agent	5,628,568	-	5,628,568	5,356,145
Prepaid bond insurance	659,842	-	659,842	758,860
Capital assets, net	154,390,681	267,942	154,658,623	159,157,367
Total noncurrent assets	160,679,321	267,942	160,947,263	165,273,921
Total assets	226,681,647	(1,822,446)	224,859,201	217,031,225
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on debt refunding	12,918,116	-	12,918,116	10,497,919
Deferred charges on proportionate share of pension - PSERS	26,247,113	350,284	26,597,397	26,587,678
Deferred charges OPEB - single employer	2,155,298	40,652	2,195,950	1,075,058
Deferred charges on proportionate share of OPEB - PSERS	1,168,189	15,590	1,183,779	1,285,925
Total deferred outflows of resources	42,488,716	406,526	42,895,242	39,446,580
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	8,490,903	122,804	8,613,707	8,672,262
Accrued salaries, payroll withholdings and benefits	9,677,789	82,339	9,760,128	10,740,372
Accrued interest payable	793,765	-	793,765	1,218,975
Grants received in advance	494,929	47,272	542,201	269,085
Total current liabilities	19,457,386	252,415	19,709,801	20,900,694
NONCURRENT LIABILITIES				
Due within one year	11,449,750	-	11,449,750	12,152,258
Due in more than one year	407,030,855	2,368,404	409,399,259	418,030,854
Total noncurrent liabilities	418,480,605	2,368,404	420,849,009	430,183,112
Total liabilities	437,937,991	2,620,819	440,558,810	451,083,806
DEFERRED INFLOWS OF RESOURCES				
Deferred changes on proportionate share of pension - PSERS	18,095,504	241,496	18,337,000	17,622,000
Deferred charges OPEB - single employer	5,583,368	146,783	5,730,151	2,285,767
Deferred changes on proportionate share of OPEB - PSERS	975,975	13,025	989,000	793,000
Total deferred inflows of resources	24,654,847	401,304	25,056,151	20,700,767
NET POSITION (DEFICIT)				
Net investment in capital assets	(73,869,623)	267,942	(73,601,681)	(77,000,190)
Restricted	18,329,628	-	18,329,628	6,416,201
Unrestricted (deficit)	(137,882,480)	(4,705,985)	(142,588,465)	(144,722,779)
Total net position (deficit)	\$ (193,422,475)	\$ (4,438,043)	\$ (197,860,518)	\$ (215,306,768)

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF ACTIVITIES

Year ended June 30, 2021 with summarized comparative totals for 2020

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position (Deficit)</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	
							<u>2021</u>	<u>2020</u>
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 90,791,071	\$ 649,205	\$ 35,399,331	\$ -	\$ (54,742,535)	\$ -	\$ (54,742,535)	\$ (61,987,047)
Instructional student support	10,851,189	-	1,391,753	-	(9,459,436)	-	(9,459,436)	(10,305,739)
Administrative and financial support services	14,382,725	-	1,599,934	-	(12,782,791)	-	(12,782,791)	(12,086,112)
Operation and maintenance of plant services	12,656,016	54,984	439,445	-	(12,161,587)	-	(12,161,587)	(12,153,581)
Pupil transportation	3,329,026	-	1,637,997	-	(1,691,029)	-	(1,691,029)	(1,958,236)
Student activities	574,406	19,642	64,587	-	(490,177)	-	(490,177)	(568,275)
Community services	326,715	-	59,434	-	(267,281)	-	(267,281)	(506,252)
Interest and amortization expense related to noncurrent liabilities	8,485,239	-	2,795,059	-	(5,690,180)	-	(5,690,180)	(8,767,203)
Total governmental activities	<u>141,396,387</u>	<u>723,831</u>	<u>43,387,540</u>	<u>-</u>	<u>(97,285,016)</u>	<u>-</u>	<u>(97,285,016)</u>	<u>(108,332,445)</u>
BUSINESS-TYPE ACTIVITIES								
Food service	2,754,529	18,042	1,903,262	-	-	(833,225)	(833,225)	(85,634)
Total primary government	<u>\$ 144,150,916</u>	<u>\$ 741,873</u>	<u>\$ 45,290,802</u>	<u>\$ -</u>	<u>(97,285,016)</u>	<u>(833,225)</u>	<u>(98,118,241)</u>	<u>(108,418,079)</u>
GENERAL REVENUES								
Property taxes levied for general purposes					48,510,265	-	48,510,265	46,964,184
Earned income taxes levied for general purposes					4,140,746	-	4,140,746	4,195,706
Other taxes levied for general purposes					6,380,250	-	6,380,250	5,889,727
Grants and entitlements not restricted to specific programs					56,564,142	-	56,564,142	56,563,908
Investment earnings (loss)					(133,372)	18	(133,354)	1,605,823
Total general revenues					<u>115,462,031</u>	<u>18</u>	<u>115,462,049</u>	<u>115,219,348</u>
CHANGE IN NET POSITION (DEFICIT)					18,177,015	(833,207)	17,343,808	6,801,269
NET POSITION (DEFICIT)								
Beginning of year					(211,599,490)	(3,604,836)	(215,204,326)	(222,108,037)
End of year					<u>\$ (193,422,475)</u>	<u>\$ (4,438,043)</u>	<u>\$ (197,860,518)</u>	<u>\$ (215,306,768)</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2021 with summarized comparative totals for 2020

	Major Funds			Non-Major Funds	Totals	
	General Fund	Capital Projects Fund	Debt Service Fund	Student Activities Fund	2021	2020
ASSETS						
Cash	\$ 21,773,436	\$ 424,881	\$ 583,257	\$ 194,302	\$ 22,975,876	\$ 19,790,225
Investments	8,500,969	-	-	-	8,500,969	6,500,000
Restricted assets:						
Cash held by fiscal agent	-	-	230	-	230	1,549
Investments held by fiscal agent	-	-	5,628,568	-	5,628,568	5,356,145
Taxes receivable	14,023,591	-	-	-	14,023,591	13,540,844
Due from other funds	3,357,890	12,500,000	-	-	15,857,890	2,080,497
Due from other governments	17,492,696	-	-	-	17,492,696	11,408,316
Other receivables	216,053	-	-	-	216,053	331,180
Prepaid expenses	65,000	-	-	-	65,000	13,753
Inventories	4,932	-	-	-	4,932	1,503
Total assets	\$ 65,434,567	\$ 12,924,881	\$ 6,212,055	\$ 194,302	\$ 84,765,805	\$ 59,024,012
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 8,217,147	\$ 273,598	\$ -	\$ 158	\$ 8,490,903	\$ 8,628,489
Due to other funds	14,750,000	557,892	-	76,789	15,384,681	610,219
Accrued salaries, payroll withholdings and benefits	9,677,789	-	-	-	9,677,789	10,693,856
Grants received in advance	494,929	-	-	-	494,929	262,808
Total liabilities	33,139,865	831,490	-	76,947	34,048,302	20,195,372
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues - property taxes	11,101,493	-	-	-	11,101,493	10,407,968
FUND BALANCES						
Nonspendable						
Long-term receivables	3,357,890	-	-	-	3,357,890	1,580,497
Prepaid expenses	65,000	-	-	-	65,000	13,753
Inventories	4,932	-	-	-	4,932	1,503
Restricted for						
Capital projects	-	12,093,391	-	-	12,093,391	812,780
Debt service	-	-	6,212,055	-	6,212,055	5,695,840
Student activities	-	-	-	117,355	117,355	102,442
Committed to						
Athletics and band reserve	500,000	-	-	-	500,000	500,000
Assigned to						
Capital improvements	-	-	-	-	-	7,000,000
Healthcare reserve	1,000,000	-	-	-	1,000,000	1,000,000
Enrollment stabilization	1,500,000	-	-	-	1,500,000	1,000,000
Unassigned	14,765,387	-	-	-	14,765,387	10,713,857
Total fund balances	21,193,209	12,093,391	6,212,055	117,355	39,616,010	28,420,672
Total liabilities, deferred inflows of resources and fund balances	\$ 65,434,567	\$ 12,924,881	\$ 6,212,055	\$ 194,302	\$ 84,765,805	\$ 59,024,012

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2021

TOTAL GOVERNMENTAL FUND BALANCES	\$ 39,616,010
<p>Amounts reported for governmental activities in the statement of net position (deficit) are different because:</p>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	154,390,681
Prepaid bond insurance reported in the governmental activities is not a financial resource and therefore is not reported in the governmental funds.	659,842
Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position (deficit).	12,918,116
Deferred outflows of resources and deferred inflows of resources related to pensions and other post-employment benefits are not reported as assets and liabilities in the governmental funds balance sheet.	4,915,753
The Internal Service Fund is used by management to charge the cost of health insurance premiums and claims to the General Fund. The assets and liabilities of the District's Internal Service Fund are included in the governmental activities on the government-wide statement of net position (deficit).	2,250,000
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds balance sheet.	11,101,493
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(418,480,605)
Accrued interest payable on long-term liabilities is included in the government-wide statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	<u>(793,765)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (193,422,475)</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2021 with summarized comparative totals for 2020

	Major Funds			Non-Major Funds	Totals	
	General	Capital	Debt	Student	2021	2020
	Fund	Projects	Service	Activities		
REVENUES						
Local sources	\$ 59,791,264	\$ 823	\$ (175,131)	\$ 20,198	\$ 59,637,154	\$ 60,520,873
State sources	81,597,077	-	-	-	81,597,077	80,877,538
Federal sources	17,962,297	-	-	-	17,962,297	11,189,557
Total revenues	<u>159,350,638</u>	<u>823</u>	<u>(175,131)</u>	<u>20,198</u>	<u>159,196,528</u>	<u>152,587,968</u>
EXPENDITURES						
Current						
Instruction	89,522,337	-	-	-	89,522,337	87,462,588
Support services	35,849,557	-	643,773	-	36,493,330	36,379,227
Operation of noninstructional services	777,435	-	-	5,285	782,720	1,229,830
Facilities acquisition, construction and improvement services	1,270,873	720,212	-	-	1,991,085	-
Debt service	-	-	17,334,828	-	17,334,828	19,242,917
Total expenditures	<u>127,420,202</u>	<u>720,212</u>	<u>17,978,601</u>	<u>5,285</u>	<u>146,124,300</u>	<u>144,314,562</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>31,930,436</u>	<u>(719,389)</u>	<u>(18,153,732)</u>	<u>14,913</u>	<u>13,072,228</u>	<u>8,273,406</u>
OTHER FINANCING SOURCES (USES)						
Sale of/compensation for capital assets	-	-	-	-	-	-
Refund of prior year receipts	(271,468)	-	-	-	(271,468)	(282,903)
Issuance of debt - refunding	-	-	47,240,000	-	47,240,000	-
Payment of debt - refunding	-	-	(11,959,178)	-	(11,959,178)	-
Payment to bond refunding agent	-	-	(34,622,313)	-	(34,622,313)	-
Bond premiums	-	-	9,452	-	9,452	-
Bond discounts	-	-	(23,383.00)	-	(23,383)	-
Transfers in	-	12,000,000	18,025,369	-	30,025,369	19,666,438
Transfers out	(32,275,369)	-	-	-	(32,275,369)	(19,666,438)
Total other financing sources (uses)	<u>(32,546,837)</u>	<u>12,000,000</u>	<u>18,669,947</u>	<u>-</u>	<u>(1,876,890)</u>	<u>(282,903)</u>
NET CHANGE IN FUND BALANCES	(616,401)	11,280,611	516,215	14,913	11,195,338	7,990,503
FUND BALANCES						
Beginning of year	<u>21,809,610</u>	<u>812,780</u>	<u>5,695,840</u>	<u>102,442</u>	<u>28,420,672</u>	<u>20,430,169</u>
End of year	<u>\$ 21,193,209</u>	<u>\$ 12,093,391</u>	<u>\$ 6,212,055</u>	<u>\$ 117,355</u>	<u>\$ 39,616,010</u>	<u>\$ 28,420,672</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2021

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 11,195,338

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 those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay expenditures	\$ 1,991,085	
Depreciation expense	<u>(6,445,586)</u>	(4,454,501)

Because some property 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 inflows of resources increased by this amount in the current period.

Deferred inflows of resources June 30, 2020	(10,407,968)	
Deferred inflows of resources June 30, 2021	<u>11,101,493</u>	693,525

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from issuance of debt - refunding	(47,240,000)	
Repayment of bonds and notes payable	20,135,000	
Payment to fiscal agent - refunding	34,622,313	
Proceeds from note payable premiums	(9,452)	
Payment of notes payable discount	23,383	
Amortization of discounts, premiums, deferred amounts on refunding and prepaid bond insurance	<u>266,237</u>	7,797,481

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures on governmental funds.

Change in net pension liability and related deferred inflows and outflows	329,464	
Current year change in accrued interest payable	425,210	
Current year change in compensated absences	262,651	
Change in net post-employment benefit (OPEB) liability and related deferred inflows and outflows	<u>(322,153)</u>	<u>695,172</u>

The Internal Service Fund is used by management to charge the cost of health and prescription insurance premiums and claims to the General Fund. The change in net position of the Internal Service Fund is reported within the governmental activities.

2,250,000

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES **\$ 18,177,015**

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUNDS

June 30, 2021 with summarized comparative totals for 2020

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2021</u>	<u>2020</u>
	<u>Fund</u>	<u>Fund</u>		
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 184,308	\$ -	\$ 184,308	\$ 127,728
Due from other governments	404,137	-	404,137	177,584
Due from other funds	-	2,250,000	2,250,000	-
Other receivables	4,000	-	4,000	2,520
Inventories	40,376	-	40,376	40,050
Total current assets	<u>632,821</u>	<u>2,250,000</u>	<u>2,882,821</u>	<u>347,882</u>
NONCURRENT ASSETS				
Capital assets, net	267,942	-	267,942	312,185
Total assets	<u>900,763</u>	<u>2,250,000</u>	<u>3,150,763</u>	<u>660,067</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on proportionate share of pension - PSERS	350,284	-	350,284	451,972
Deferred charges OPEB - single employer	40,652	-	40,652	53,308
Deferred charges on proportionate share of OPEB - PSERS	15,590	-	15,590	21,863
Total deferred outflows of resources	<u>406,526</u>	<u>-</u>	<u>406,526</u>	<u>527,143</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	122,804	-	122,804	117,730
Accrued salaries and benefits	82,339	-	82,339	46,516
Unearned revenue	47,272	-	47,272	6,277
Due to other funds	2,723,209	-	2,723,209	1,470,278
Total current liabilities	<u>2,975,624</u>	<u>-</u>	<u>2,975,624</u>	<u>1,640,801</u>
NONCURRENT LIABILITIES				
Compensated absences	14,364	-	14,364	13,123
Net pension liability - PSERS	2,078,348	-	2,078,348	2,393,328
OPEB liability - single employer	184,519	-	184,519	218,968
Net OPEB liability - PSERS	91,173	-	91,173	108,806
Total noncurrent liabilities	<u>2,368,404</u>	<u>-</u>	<u>2,368,404</u>	<u>2,734,225</u>
Total liabilities	<u>5,344,028</u>	<u>-</u>	<u>5,344,028</u>	<u>4,375,026</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension - PSERS	241,496	-	241,496	290,063
Deferred credits OPEB - single employer	146,783	-	146,783	113,424
Deferred credits on proportionate share of OPEB - PSERS	13,025	-	13,025	13,533
Total deferred inflows of resources	<u>401,304</u>	<u>-</u>	<u>401,304</u>	<u>417,020</u>
NET POSITION (DEFICIT)				
Net investment in capital assets	267,942	-	267,942	312,185
Unrestricted	(4,705,985)	2,250,000	(2,455,985)	(3,917,021)
Total net position (deficit)	<u>\$ (4,438,043)</u>	<u>\$ 2,250,000</u>	<u>\$ (2,188,043)</u>	<u>\$ (3,604,836)</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - PROPRIETARY FUNDS

June 30, 2021 with summarized comparative totals for 2020

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service Fund</u>	<u>Service Fund</u>	<u>2021</u>	<u>2020</u>
OPERATING REVENUES				
Charges for services	\$ 18,042	\$ -	\$ 18,042	\$ 65,433
OPERATING EXPENSES				
Salaries and wages	586,024	-	586,024	699,169
Employee benefits	257,380	-	257,380	358,372
Purchased property services	154,515	-	154,515	205,418
Other purchased services	1,507,232	-	1,507,232	3,137,211
Supplies	167,799	-	167,799	435,404
Depreciation	81,579	-	81,579	94,823
Other operating expenses	-	-	-	50
Total operating expenses	<u>2,754,529</u>	<u>-</u>	<u>2,754,529</u>	<u>4,930,447</u>
Operating loss	<u>(2,736,487)</u>	<u>-</u>	<u>(2,736,487)</u>	<u>(4,865,014)</u>
NONOPERATING REVENUES				
Earnings on investments	18	-	18	753
Contributions and donations from private sources	-	-	-	40,000
State sources	166,054	-	166,054	434,300
Federal sources	1,737,208	-	1,737,208	4,305,080
Total nonoperating revenues	<u>1,903,280</u>	<u>-</u>	<u>1,903,280</u>	<u>4,780,133</u>
Change in net position before transfers	<u>(833,207)</u>	<u>-</u>	<u>(833,207)</u>	<u>(84,881)</u>
TRANSFERS				
Transfers in	<u>-</u>	<u>2,250,000</u>	<u>2,250,000</u>	<u>-</u>
CHANGE IN NET POSITION (DEFICIT)	<u>(833,207)</u>	<u>2,250,000</u>	<u>1,416,793</u>	<u>(84,881)</u>
NET POSITION (DEFICIT)				
Beginning of year	<u>(3,604,836)</u>	<u>-</u>	<u>(3,604,836)</u>	<u>(3,519,955)</u>
End of year	<u>\$ (4,438,043)</u>	<u>\$ 2,250,000</u>	<u>\$ (2,188,043)</u>	<u>\$ (3,604,836)</u>

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2021 with summarized comparative totals for 2020

	<u>Major Fund</u>		<u>Totals</u>	
	<u>Food</u>	<u>Internal</u>		
	<u>Service</u>	<u>Service</u>	<u>2021</u>	<u>2020</u>
	<u>Fund</u>	<u>Fund</u>		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 57,557	\$ -	\$ 57,557	\$ 81,596
Cash payments to employees for services	(1,068,501)	-	(1,068,501)	(1,396,130)
Cash payments to supplies for goods and services	(456,025)	-	(456,025)	(3,719,046)
Net cash used for operating activities	<u>(1,466,969)</u>	<u>-</u>	<u>(1,466,969)</u>	<u>(5,033,580)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Contributions and donations from private sources	-	-	-	40,000
State sources	163,259	-	163,259	453,671
Federal sources	1,397,608	-	1,397,608	4,659,999
Net cash provided by noncapital financing activities	<u>1,560,867</u>	<u>-</u>	<u>1,560,867</u>	<u>5,153,670</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(37,336)	-	(37,336)	(4,770)
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	18	-	18	753
Net increase in cash	<u>56,580</u>	<u>-</u>	<u>56,580</u>	<u>116,073</u>
CASH				
Beginning of year	<u>127,728</u>	<u>-</u>	<u>127,728</u>	<u>11,655</u>
End of year	<u>\$ 184,308</u>	<u>\$ -</u>	<u>\$ 184,308</u>	<u>\$ 127,728</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating loss	\$ (2,736,487)	\$ -	\$ (2,736,487)	\$ (4,865,014)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities				
Depreciation	81,579	-	81,579	94,823
Donated commodities used	115,842	-	115,842	241,052
(Increase) decrease in				
Inventories	(326)	-	(326)	(4,842)
Other receivables	(1,480)	-	(1,480)	9,886
Deferred outflows of resources	120,617	-	120,617	184,250
Increase (decrease) in				
Accounts payable	5,074	-	5,074	(696,779)
Accrued salaries and benefits	35,823	-	35,823	(62,377)
Due to other funds	1,252,931	-	1,252,931	519,606
Unearned revenue	40,995	-	40,995	6,277
Compensated absences	1,241	-	1,241	5,723
Net pension liability - PSERS	(314,980)	-	(314,980)	(654,288)
Net OPEB liability - single employer and PSERS	(52,082)	-	(52,082)	(29,462)
Deferred inflows of resources	(15,716)	-	(15,716)	217,565
Net cash used for operating activities	<u>\$ (1,466,969)</u>	<u>\$ -</u>	<u>\$ (1,466,969)</u>	<u>\$ (5,033,580)</u>
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	\$ 115,842	\$ -	\$ 115,842	\$ 241,052

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF NET POSITION - FIDUCIARY FUND

June 30, 2021 with summarized comparative totals for 2020

	Private-Purpose Trust	
	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ <u>108,112</u>	\$ <u>100,472</u>
LIABILITIES		
Accounts payable	<u>15,050</u>	<u>3,600</u>
NET POSITION		
Net position held in trust for scholarships	\$ <u>93,062</u>	\$ <u>96,872</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended June 30, 2021 with summarized comparative totals for 2020

	Private-Purpose Trust Fund	
	<u>2021</u>	<u>2020</u>
ADDITIONS		
Local contributions	\$ 290	\$ 1,041
DEDUCTIONS		
Scholarships/awards and fees paid	<u>4,100</u>	<u>600</u>
CHANGE IN NET POSITION	(3,810)	441
NET POSITION		
Beginning of year	<u>96,872</u>	<u>96,431</u>
End of year	<u>\$ 93,062</u>	<u>\$ 96,872</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District of the City of Harrisburg (the "***District***") operates five elementary schools, three middle schools, two high schools and an alternative education school for all grades to provide education and related services to the residents of City of Harrisburg. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member board form of government (the "***School Board***").

On December 12, 2012, the District was declared to be in a state of moderate distress under the Commonwealth of Pennsylvania's Act 141 of 2012. This designation required the appointment of a Chief Recovery Officer who was charged with developing a financial and academic recovery plan for the District. Subsequently, on June 17, 2019, the District was placed into receivership (the "***Receiver***") for a term of three years. The Receiver assumed the powers and duties of the Chief Recovery Officer and responsibility for the governance of the District other than the setting of property taxes, which remains with the School Board.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("***GAAP***") as applied to governmental units. The Governmental Accounting Standards Board ("***GASB***") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position (deficit) and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position (deficit) presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

The statement of net position (deficit) includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term principal, interest and other related costs.

The Student Activities Fund accounts for funds held on behalf of the students of the District.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources is reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary fund:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

The Internal Service Fund is used to account for the District's self-funded medical, dental, prescription and vision plans.

This fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges for services. Operating expenses for the District's proprietary funds include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds reporting focuses on net assets and changes in net assets and are accounted for using the economic resources measurement focus and the accrual basis of accounting. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and custodial funds. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value based upon quoted market prices, except for certificates of deposit which are recorded at cost, which approximates fair value.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the District. Unobservable inputs reflect the District's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

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Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the District has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the District's own assumptions.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 – August 31	- Discount period, 2% of gross levy
September 1 – October 31	- Face period
November 1 – January 15	- Penalty period, 10% of gross levy
January 15	- Lien date

The County Board of Assessments determines assessed valuations of property, and the taxes are billed and collected by the Treasurer of the City of Harrisburg. The tax on real estate for public school purposes for fiscal 2020-2021 was 29.78 mills (\$29.78 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Taxpayers who have a primary residence within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	- August 31
Installment Two	- October 31
Installment Three	- December 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

All inventories are valued at the lower of cost (first-in, first-out method) or market.

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Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$4,000 and an estimated life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 20-50 years and furniture and equipment – 5-20 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2021.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is recorded in the governmental funds financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources and uses. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures except for refundings paid from proceeds which are reported as other financing costs.

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

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Nonspendable

Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the Receiver. Committed amounts cannot be used for any other purpose unless the Receiver removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Superintendent or Chief Financial Officer or (b) an appointed body (e.g., finance committee) or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as nonspendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

The District strives to maintain a General Fund unassigned fund balance of not less than 5% and not more than 8% of the following year's expenditure budget in accordance with guidelines prescribed by the Pennsylvania Department of Education.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

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Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of New Accounting Pronouncements

Effective July 1, 2020, the District adopted the provisions of GASB Statement No. 84 "*Fiduciary Activities*"; GASB Statement No. 90 "*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*"; GASB Statement No. 93 "*Replacement of Interbank Offered Rates*"; GASB Statement No. 95, "*Postponements of Effective Dates of Certain Authoritative Guidance*" and GASB Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*".

GASB Statement No. 84 improved guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. As a result of the implementation Statement No. 84 the District determined that its student activities did meet the criteria to be reported as a Fiduciary Fund and were reclassified as a Special Revenue Fund.

GASB Statement No. 90 improved the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defined a majority equity interest and specified that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The implementation of GASB Statement No. 90 had no impact on the financial statements of the District for the year ended June 30, 2021.

GASB Statement No. 93 addresses those and other accounting and financial implications that result from the replacement from IBOR by (1) providing exceptions for certain hedging derivatives to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) clarifying that the uncertainty related to the continued availability of IBOR's does not, by itself affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) identifying a secured overnight financing rate and the effective federal funds rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap and; (6) clarifying the definition of a reference rate, as it is used in GASB Statement 53 "*Accounting and Financial Reporting for Derivative Instruments*". The implementation of GASB Statement No. 93 had no impact on the District's financial statements for the year ended June 30, 2021.

GASB Statement No. 95 provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in statements that first became effective or are scheduled to be effective for periods beginning after June 15, 2018, and later. See references to GASB Statement No. 95 within the various pronouncements above to determine the impact on each individual statement. The implementation of GASB Statement No. 95 by the District postponed the implementation of GASB Statement No. 84 until year ended June 30, 2021 as described above and the implementation of GASB Statement No 87 until year ended June 30, 2022 as described below.

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The objectives of GASB Statement No. 97 are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of GASB Statement No. 97 had no impact on the financial statements of the District for the year ended June 30, 2021.

New Accounting Pronouncements

GASB Statement No. 87, "*Leases*" will be effective for the District for the year ended June 30, 2022. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB Statement No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

GASB Statement No. 89, "*Accounting for Interest Cost Incurred Before the End of a Construction Period*", will be effective for the District for the year ended June 30, 2022. The objectives of GASB Statement No. 89 are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 establishes accounting required for interest cost incurred before the end of a construction period. Such interest costs includes all interest that previously was accounted for in accordance with the requirements of GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*", which are superseded by GASB Statement No. 89. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB Statement No. 89 also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with government fund accounting principles.

GASB Statement No. 91, "*Conduit Debt Obligations*" will be effective for the District for the year ended June 30, 2022. GASB Statement No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

GASB Statement No. 92, "*Omnibus 2020*" will be effective for the District for the year ended June 30, 2022. GASB Statement No. 92 addresses a variety of topics to enhance comparability in accounting and financial reporting and improve consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

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GASB Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*" will be effective for the District for the year ended June 30, 2023. GASB Statement No. 94 improves financial reporting by addressing issues related to public-private and public-public partnership arrangements ("**PPP**"s). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

GASB Statement No. 96, "*Subscription-Based Information Technology Arrangements*" will be effective for the District for the year ended June 30, 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("**SBITA**"s) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects Fund.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the Receiver.

After the legal adoption of the budget, the Receiver is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the House Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The Receiver may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the Receiver. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

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(3) DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2021, the carrying amount of the District's deposits was \$23,268,526 and the bank balance was \$23,120,354. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$760,206 was covered by federal depository insurance, and \$8,116,085 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**"), Pennsylvania Local Government Investment Trust ("**PLGIT**") and the Pennsylvania Treasurer's Program for Local Governments ("**INVEST**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF, PLGIT and INVEST act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized statistical rating organization and are subject to independent annual audit. As of June 30, 2021, PSDLAF, PLGIT and INVEST were rated as AAA by a nationally recognized statistical rating agency.

Investments

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

As of June 30, 2021, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>11 – 15</u>
U.S. Treasury strips	\$ 5,628,568	\$ -	\$ -	\$5,628,568	\$ -
PSDLAF collateralized Investment pools	<u>8,500,969</u>	<u>8,500,969</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$14,129,537</u>	<u>\$8,500,969</u>	<u>\$ -</u>	<u>\$5,628,568</u>	<u>\$ -</u>

PSDLAF collateralized investment pools are fully collateralized by U.S. government agency and treasury obligations and certificates of deposit. PSDLAF collateralized investment pools and U.S. Treasury strips were valued using Level 2 inputs.

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 that is in the possession of an outside party. The District had no investments subject to custodial credit risk as of June 30, 2021.

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates.

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Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal or state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

Restricted Deposits and Investments

The District maintains restricted cash and investment balances held by fiscal agents, which are restricted for the repayment of Qualified School Construction Bonds (**See Note 7**). The total carrying amounts and related bank balances of these cash and investment accounts are \$5,628,798 as of June 30, 2021, which are invested in U.S. Treasury securities.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 13,614	\$ -	\$ -	\$ 13,614
Construction in progress	<u>27,554</u>	<u>-</u>	<u>27,554</u>	<u>-</u>
Total capital assets not being depreciated	<u>41,168</u>	<u>-</u>	<u>27,554</u>	<u>13,614</u>
Capital assets being depreciated				
Buildings and improvements	241,578,396	2,018,639	-	243,597,035
Furniture and equipment	<u>19,665,136</u>	<u>-</u>	<u>-</u>	<u>19,665,136</u>
Total capital assets being depreciated	<u>261,243,532</u>	<u>2,018,639</u>	<u>-</u>	<u>263,262,171</u>
Less accumulated depreciation for				
Buildings and improvements	(86,408,748)	(5,358,241)	-	(91,766,989)
Furniture and equipment	<u>(16,030,770)</u>	<u>(1,087,345)</u>	<u>-</u>	<u>(17,118,115)</u>
Total accumulated depreciation	<u>(102,439,518)</u>	<u>(6,445,586)</u>	<u>-</u>	<u>(108,885,104)</u>
Total capital assets being depreciated, net	<u>158,804,014</u>	<u>(4,426,947)</u>	<u>-</u>	<u>154,377,067</u>
Governmental activities, net	<u>\$ 158,845,182</u>	<u>\$ (4,426,947)</u>	<u>\$ 27,554</u>	<u>\$ 154,390,681</u>
Business-type activities				
Machinery and equipment	\$ 2,076,461	\$ 37,336	\$ -	\$ 2,113,797
Less accumulated depreciation	<u>(1,764,276)</u>	<u>(81,579)</u>	<u>-</u>	<u>(1,845,855)</u>
Business-type activities, net	<u>\$ 312,185</u>	<u>\$ (44,243)</u>	<u>\$ -</u>	<u>\$ 267,942</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities	
Instruction	\$1,509,647
Instructional student support	392,767
Administrative and financial support services	1,090,361
Operation and maintenance of plant services	3,331,660
Student activities	<u>121,151</u>
Total depreciation expense – governmental activities	<u>\$6,445,586</u>
Business-type activities	
Food service	<u>\$ 81,579</u>

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(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2021 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 557,892	Capital Projects Fund	\$ 557,892
General Fund	76,789	Student Activities Fund	76,789
Capital Projects Fund	12,500,000	General Fund	12,500,000
Internal Service Fund	2,250,000	General Fund	2,250,000
General Fund	<u>2,723,209</u>	Food Service Fund	<u>2,723,209</u>
	<u>\$18,107,890</u>		<u>\$18,107,890</u>

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses.

A summary of interfund transfers for the year ended June 30, 2021 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	12,000,000	General Fund	12,000,000
Internal Service Fund	2,250,000	General Fund	2,250,000
Debt Service Fund	<u>18,025,369</u>	General Fund	<u>18,025,369</u>
	<u>\$32,275,369</u>		<u>\$32,275,369</u>

Transfers from the General Fund represent transfers to subsidize costs associated with the acquisition of capital assets and debt service requirements.

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2021:

	<u>Balance July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2021</u>	<u>Amount Due Within One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$177,690,000	\$ -	\$47,420,000	\$130,270,000	\$ 8,745,000
Notes payable	35,260,000	47,240,000	750,000	81,750,000	985,000
Qualified school construction bonds	8,800,000	-	-	8,800,000	-
Bond premiums	25,268,156	9,452	4,674,626	20,602,982	1,731,025
Bond discounts	<u>(270,261)</u>	<u>(23,383)</u>	<u>(142,255)</u>	<u>(151,389)</u>	<u>(11,275)</u>
Total general obligation debt	<u>246,747,895</u>	<u>47,226,069</u>	<u>52,702,371</u>	<u>241,271,593</u>	<u>11,449,750</u>
Other noncurrent liabilities					
Compensated absences	3,104,950	-	262,651	2,842,299	-
Net pension liability - PSERS	156,714,322	-	981,624	155,732,698	-
Net OPEB liability - PSERS	7,124,584	-	292,884	6,831,700	-
OPEB liability	<u>13,757,136</u>	<u>2,752,366</u>	<u>4,707,187</u>	<u>11,802,315</u>	<u>-</u>
Total other noncurrent liabilities	<u>180,700,992</u>	<u>2,752,366</u>	<u>6,244,346</u>	<u>177,209,012</u>	<u>-</u>
Total governmental activities	<u>427,448,887</u>	<u>49,978,435</u>	<u>58,946,717</u>	<u>418,480,605</u>	<u>11,449,750</u>
Business-type activities					
Compensated absences	13,123	1,241	-	14,364	-
Net pension liability - PSERS	2,393,328	-	314,980	2,078,348	-
Net OPEB liability - PSERS	108,806	-	17,633	91,173	-
OPEB liability	<u>218,968</u>	<u>38,500</u>	<u>72,949</u>	<u>184,519</u>	<u>-</u>
Total business-type activities	<u>2,734,225</u>	<u>39,741</u>	<u>405,562</u>	<u>2,368,404</u>	<u>-</u>
Total noncurrent liabilities	<u>\$430,183,112</u>	<u>\$50,018,176</u>	<u>\$59,352,279</u>	<u>\$420,849,009</u>	<u>\$11,449,750</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

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Noncurrent liabilities of governmental activities are generally liquidated by the General Fund, while noncurrent liabilities of the business-type activities are liquidated by the Food Service Fund.

(7) GENERAL OBLIGATION DEBT

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted resources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

Qualified School Construction Bonds

The District participates in the Qualified School Construction Bonds ("**QSCB**") program sponsored by the State Public School Building Authority ("**SPSBA**"). The SPSBA was formed by the Commonwealth of Pennsylvania for the purpose of financing the construction and improvement of public school facilities under the jurisdiction of the Pennsylvania Department of Education. The QSCB program was created by the American Recovery and Reinvestment Act ("**ARRA**") and allows schools to borrow at nominal or zero percent to fund new construction, renovation and rehabilitation of schools as well as the purchase of land and equipment. The SPSBA issues the bonds through the QSCB program and provides loans to schools for qualified projects. Under the QSCB program the SPSBA receives direct interest subsidy payments from the United States Treasury which are then transferred to the borrowers as a reimbursement of the interest portion of their loan repayments. On October 6, 2010, the District borrowed \$9,194,000 from the SPSBA under the QSCB program. The District is required to deposit \$574,313 annually into a sinking fund through the maturity date of September 1, 2027. Sinking fund deposits are included as restricted assets held by fiscal agent in the accompanying financial statements.

General obligation debt outstanding as of June 30, 2021 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General obligation bonds				
Series of 2014B-1	2.015% - 4.079%	\$6,740,000	12/01/2023	\$ 6,575,000
Series of 2014B-2	3.00% - 4.00%	\$20,895,000	12/01/2034	11,180,000
Series of 2016	2.00% - 3.125%	\$9,995,000	11/15/2033	9,965,000
Series of 2016A	2.00% - 5.00%	\$125,735,000	12/01/2033	<u>102,550,000</u>
Total general obligation bonds				<u>130,270,000</u>
General obligation notes				
Series of 2017A	1.43% - 3.12%	\$9,675,000	11/15/2024	5,100,000
Series of 2017B	3.00% - 5.00%	29,560,000	11,15/2027	29,465,000
Series of 2020A	0.48% - 2.00%	\$9,995,000	12/01/2033	9,940,000
Series of 2020B	0.50% - 2.00%	\$2,170,000	12/01/2034	2,170,000
Series of 2020C	2.729% - 2.829%	\$35,075,000	12/01/2036	<u>35,075,000</u>
Total general obligation notes				<u>81,750,000</u>
Qualified school construction bonds				
Series of 2010	5.00%	\$9,194,000	09/15/2027	<u>8,800,000</u>
Total general obligation debt				<u>\$220,820,000</u>

Series A of 2020 General Obligation Notes

On September 24, 2020, the District issued \$9,995,000 of general obligation notes, Series A of 2020, the proceeds from which were used to currently refund a portion of the District's outstanding general obligation bonds, Series of 2015 and to pay the cost of issuing the notes.

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Series B of 2020 General Obligation Notes

On October 23, 2020, the District issued \$2,170,000 of general obligation notes, Series B of 2020, the proceeds from which were used to currently refund the remaining portion of the District's outstanding general obligation bonds, Series of 2015, to currently refund a portion of the District's outstanding school revenue bonds, Series A of 2016 and to pay the cost of issuing the notes.

Series C of 2020 General Obligation Notes

On October 23, 2020, the District issued \$35,075,000 of general obligation notes, Series C of 2020, the proceeds from which were used to advance refund a portion of the District's outstanding school revenue bonds, Series B-2 of 2014, to advance refund a portion of the District's outstanding school revenue bonds, Series A of 2016 and to pay the cost of issuing the notes.

The District refunded the general obligation bonds to reduce debt service payments in 2020-2021 by \$2,872,057 and to reduce the annual debt service in 2022 through 2036 to approximately \$19 million.

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Debt Sinking Fund</u>	<u>Total</u>
2022	\$ 9,730,000	\$ 9,059,029	\$ 547,313	\$ 19,336,342
2023	10,180,000	8,605,624	547,313	19,332,937
2024	10,645,000	8,139,456	547,313	19,331,769
2025	11,130,000	7,657,008	547,313	19,334,321
2026	11,660,000	7,128,188	547,313	19,335,501
2027-2031	78,390,000	24,574,688	(8,072,374)	94,892,314
2032-2036	87,445,000	7,069,257	-	94,514,257
2037	1,640,000	23,198	-	1,663,198
	<u>\$220,820,000</u>	<u>\$72,256,448</u>	<u>\$(5,335,809)</u>	<u>\$287,740,639</u>

In-Substance Defeasance

The District has advance refunded a portion of its general obligation bonds by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and earnings from the investments are sufficient to fully service the advance refunded debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. As of June 30, 2021, the amount of defeased outstanding debt was as follows:

<u>Description</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Series 2014B-2	12/01/2026	\$ 9,635,000
Series of 2016A	12/01/2026	18,400,000
		<u>\$28,035,000</u>

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(8) OTHER POST-EMPLOYMENT BENEFITS

Single-Employer Defined Benefit OPEB Plan

The District's other post-employment benefits ("**OPEB**") include a single-employer defined benefit plan that provides medical, prescription drug, dental and vision insurance to all retirees and their spouses. The Receiver has the authority to establish and amend benefit provisions. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

OPEB Plan Membership

Membership in the OPEB plan consisted of the following at July 1, 2020:

Active participants	819
Vested former participants	-
Retired participants	<u>53</u>
Total	<u>872</u>

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the Receiver.

OPEB Liability

The District's OPEB liability has been measured as of June 30, 2021. The total OPEB liability was determined by an actuarial valuation as of July 1, 2020, and by rolling forward the liabilities from the July 1, 2020 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The OPEB liability is \$11,986,634, all of which is unfunded. As of June 30, 2021, the OPEB liability of \$11,802,315 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit) and the remaining \$184,519 of the OPEB liability is recorded as a liability in the proprietary fund statement of net position, and in the business-type activities in the government-wide statement of net position (deficit).

The District's change in its OPEB liability for the year ended June 30, 2021 was as follows:

Balance as of July 1, 2020	<u>\$13,976,104</u>
Changes for the year	
Service cost	1,034,335
Interest on total OPEB liability	488,547
Difference between expected and Actual experience	(3,911,885)
Changes in assumptions	1,267,984
Benefit payments	<u>(868,251)</u>
Net changes	<u>(1,989,270)</u>
Balance as of June 30, 2021	<u>\$11,986,834</u>

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the District recognized OPEB expense of \$1,164,752. At June 30, 2021, the District had deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

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June 30, 2021

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual experience	\$ -	\$4,584,861
Changes in assumptions	1,365,420	1,145,290
Contributions subsequent to the measurement date	<u>830,530</u>	<u>-</u>
	<u>\$2,195,950</u>	<u>\$5,730,151</u>

\$830,530 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,

2022	\$ (358,130)
2023	(358,130)
2024	(358,130)
2025	(358,130)
2026	(358,130)
Thereafter	<u>(2,574,081)</u>
	<u>\$ (4,364,731)</u>

Sensitivity of the OPEB Liability to Change in Healthcare Cost Trend Rates

The following presents the OPEB liability for June 30, 2021, calculated using current healthcare cost trends as well as what the OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
OPEB liability	<u>\$10,622,131</u>	<u>\$11,986,834</u>	<u>\$13,642,895</u>

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District calculated using the discount rate of 1.86%, as well as what the OPEB liability would be if it were calculated using the discount rate that is one percentage point lower (0.86%) or 1 percentage point higher (2.86%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>0.86%</u>	<u>1.86%</u>	<u>2.86%</u>
OPEB Liability	<u>\$12,852,786</u>	<u>\$11,986,834</u>	<u>\$11,171,246</u>

Actuarial Methods and Significant Assumptions

The OPEB Liability as of June 30, 2021, was determined by rolling forward the OPEB Liability as of July 1, 2020 to June 30, 2021 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal
- Discount rate – 1.86% - Standard and Poor's 20-year municipal bond rate. The discount rate changed from 3.36% to 1.86%.
- Salary growth - effective average of 6.25%, comprised of inflation of 2.50%, 1.00% for real wage growth and 0.00 to 2.75% for merit or seniority increases.

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- Assumed healthcare cost trends – 5.50% in 2020 through 2023. Rates gradually decrease from 5.40% in 2024 to 4.00% in 2075 and later based on the Society of Actuaries long-run medical cost trend model.
- Mortality rates were based on the Buck Modified 2016 projection scale to reflect mortality improvement.

Cost Sharing Multiple-Employer Defined Benefit OPEB Plan

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

Plan Description

PSERS provides health insurance premium assistance which, is a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2020, there were no assumed future benefit increases to participating eligible retirees.

Retirees of PSERS can participate in the health insurance premium assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the PSERS' health options program or employer-sponsored health insurance program.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2020, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2021 was 0.82% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$356,779 for the year ended June 30, 2021.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the District reported a liability of \$6,922,873 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2019 to June 30, 2020. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. As of June 30, 2021, the District's proportion was 0.3204 percent, which was a decrease of 0.0197 percent from its proportion measured as of June 30, 2020. As of June 30, 2021, the OPEB liability of \$6,831,700 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit) and the remaining \$91,173 of the OPEB liability is recorded as a liability in the proprietary fund statement of net position (deficit), and in the business-type activities in the government-wide statement of net position (deficit).

For the year ended June 30, 2021, the District recognized OPEB expense of \$344,000. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual experience	\$ 64,000	\$ -
Changes in assumptions	282,000	152,000
Net difference between projected and actual investment earnings	12,000	-
Changes in proportions	469,000	837,000
Contributions subsequent to the measurement date	<u>356,779</u>	<u>-</u>
	<u>\$1,183,779</u>	<u>\$989,000</u>

\$356,779 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,

2022	\$ 16,000
2023	14,000
2024	12,000
2025	(56,000)
2026	(110,000)
Thereafter	<u>(38,000)</u>
	<u>\$ (162,000)</u>

Actuarial Assumptions

The OPEB liability as of June 30, 2020, was determined by rolling forward the PSERS' OPEB liability as of June 30, 2019 to June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal - level % of pay
- Investment return – 2.66% - Standard & Poor's 20-year municipal bond rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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- Premium assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

Participation rate:

- Eligible retirees will elect to participate pre age 65 at 50%
- Eligible retirees will elect to participate post age 65 at 70%

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study that was performed for the five-year period June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2018 determined the employer contribution rate for fiscal year 2020.
- Cost method - amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date.
- Asset valuation method: market value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 combined healthy annuitant tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 combined disabled tables with age set back 7 years for males and 3 years for females and disabled annuitants. (A unisex table based on the RP-2000 combined healthy annuitant tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the OPEB plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year.

<u>OPEB – Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	50.30%	(1.0%)
US Core Fixed Income	46.50%	(0.1%)
Non-US Developed Fixed	<u>3.20%</u>	(0.1%)
	<u>100.00%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2020.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

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Discount Rate

The discount rate used to measure the OPEB liability was 2.66%. Under the OPEB plan's funding policy, contributions are structured for short term funding of health insurance premium assistance. The funding policy sets contribution rates necessary to assure solvency of health insurance premium assistance through the third fiscal year after the actuarial valuation date. The health insurance premium assistance account is funded to establish reserves that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the OPEB plan is considered a "pay-as-you-go" plan. A discount rate of 2.66% which represents the Standard & Poor's 20 year municipal bond rate at June 30, 2020, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of District's Proportionate Share of the Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual health insurance premium assistance. As of June 30, 2020, retirees health insurance premium assistance benefits are not subject to future healthcare cost increases. The healthcare insurance premium assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the net OPEB liability for June 30, 2020, calculated using current healthcare cost trends as well as what net OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	<u>\$6,921,986</u>	<u>\$6,922,873</u>	<u>\$6,923,581</u>

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 2.66%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.66%) or 1-percentage-point higher (3.66%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>1.66%</u>	<u>2.66%</u>	<u>3.66%</u>
District's proportionate share of the net OPEB liability	<u>\$7,893,144</u>	<u>\$6,922,873</u>	<u>\$6,119,406</u>

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS's website at www.psers.pa.gov.

(9) PENSION PLAN

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

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Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Member Contributions

Active members who joined the system prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the system on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the system after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the system after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

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Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2021 was 33.51% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$14,658,397 for the year ended June 30, 2021.

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

At June 30, 2021, the District reported a liability of \$157,811,046 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2019 to June 30, 2020. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2021, the District's proportion was 0.3205 percent, which was a decrease of 0.0196 percent from its proportion measured as of June 30, 2020. As of June 30, 2021, the net pension liability of \$155,732,698 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit) and the remaining \$2,078,348 of the net pension liability is recorded as a liability in the proprietary fund statement of net position (deficit), and in the business-type activities in the government-wide statement of net position (deficit).

For the year ended June 30, 2021, the District recognized pension expense of \$14,045,000. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual experience	\$ 413,000	\$ 3,782,000
Net difference between projected and actual investment earnings	6,936,000	-
Changes in proportions	4,590,000	14,555,000
Contributions subsequent to the measurement date	<u>14,658,397</u>	<u>-</u>
	<u>\$26,597,397</u>	<u>\$18,337,000</u>

\$14,658,397 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,

2022	\$(2,344,000)
2023	(5,826,000)
2024	(288,000)
2025	<u>2,060,000</u>
	<u>\$(6,398,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2020 was determined by rolling forward PSERS' total pension liability at June 30, 2019 to June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

- Actuarial cost method – entry age normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial valuation experience study that was performed for the five year period ending June 30, 2015.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	15.00 %	5.20%
Private equity	15.00 %	7.20%
Fixed income	36.00 %	1.10%
Commodities	8.00 %	1.80%
Absolute return	10.00 %	2.50%
Infrastructure/MLPs	6.00 %	5.70%
Real estate	10.00 %	5.50%
Risk parity	8.00 %	3.30%
Cash	6.00 %	1.00%
Financing (LIBOR)	<u>(14.0)%</u>	(0.70%)
	<u>100.00 %</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2020.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current Discount Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	<u>\$195,245,610</u>	<u>\$157,811,046</u>	<u>\$126,098,741</u>

Pension Plan Fiduciary Net Position

Detailed information about the PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the system's website at www.psers.state.pa.us.

(10) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Dauphin County Technical School

The District and six other Dauphin County school districts participate in the Dauphin County Technical School (the "**DCTS**"). The DCTS provides vocational-technical training and education to students of the participating school districts. The DCTS is controlled by a joint Board comprised of representative school board members of the participating school districts. District oversight of the DCTS operations is the responsibility of the joint board. The District's share of operating costs for the DCTS fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2020-2021 was \$3,687,747.

In addition, the District has entered into an agreement with the DCTS to make a contribution totaling \$2,239,416 in six equal installments of \$373,236 as a contribution to retire future debt service maturities related to the 2015 Guaranteed School Lease Revenue Bonds of the DCTS, commencing on July 31, 2017.

The DCTS prepares financial statements that are available to the public from their administrative offices located at 6001 Locust Lane Harrisburg, PA 17109.

Harrisburg Area Community College

The District and 21 other school districts sponsor the Harrisburg Area Community College (the "**HACC**"). The HACC provides higher education programs to the residents of south central Pennsylvania. Sponsoring school districts pay a share of the HACC's operating and capital costs and in return residents of each of the sponsoring school districts pay a reduced cost to participate in HACC higher education programs. The District's share of operating and capital costs for 2020-2021 was \$366,718.

The HACC prepares financial statements that are available to the public from their administrative offices located at One HACC Drive Harrisburg, PA 17110.

Capital Area Intermediate Unit

The District and 6 school districts from Cumberland County, 2 school districts from York County, 8 school districts from Dauphin County and 3 school districts from Perry County are members of the Capital Area Intermediate Unit (the "**CAIU**"). The CAIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual operating budget of the CAIU, but the participating districts have no ongoing fiduciary interest or responsibility to the CAIU. The CAIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and state and federal liaison services. During 2020-2021, the District contracted with the CAIU for special education services which totaled \$2,273,068 of which \$384,375 was payable as of June 30, 2021.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

(11) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

(12) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs, including workers compensation and employee health accident insurance. For insured programs, there were no significant reductions in insurance coverages during the 2020-2021 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District administers a self-insurance program to provide health insurance and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third-party administrator, who approves and processes all claims. The District self-insured plan has a maximum aggregate liability of \$150,000 per individual and a maximum aggregate benefit per policy term of \$1,000,000. Amounts in excess of \$150,000 are covered through a separate stop-loss policy. The District has recorded a liability for claims incurred through June 30, 2021.

(13) PRIOR PERIOD RESTATEMENT

As a result of the implementation of GASB Statement No. 84 "Fiduciary Activities", the District made a prior period adjustment to reclass student activities that do not meet the criteria of a Custodial Fund to its Student Activity Fund, which is reported as a nonmajor governmental fund.

This prior period adjustment and its effect on fund balance at July 1, 2020 was an increase in the fund balance of the Student Activity Fund of \$102,442. Prior to the implementation of GASB Statement No. 84, custodial fund assets equaled liabilities and did not involve measurement of results of operations.

(14) SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 9, 2022, the date on which the financial statements were available to be issued. Except as noted below, no material subsequent events have occurred since June 30, 2021 that required recognition or disclosure in the financial statements.

On November 18, 2021, the District issued general obligation bonds, Series of 2021, in the amount of \$9,995,000, the proceeds from which were used to currently refund a portion of the District's outstanding general obligation bonds, Series of 2016 and to pay for the costs of issuance. The District currently refunded the general obligation bonds, to reduce future debt service payments by \$785,154.

REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 54,066,850	\$ 53,333,904	\$ 59,791,264	\$ 6,457,360
State sources	83,086,717	83,151,972	81,597,077	(1,554,895)
Federal sources	20,954,450	21,622,141	17,962,297	(3,659,844)
Total revenues	<u>158,108,017</u>	<u>158,108,017</u>	<u>159,350,638</u>	<u>1,242,621</u>
EXPENDITURES				
Instruction				
Regular programs	55,663,735	59,551,277	56,925,799	2,625,478
Special programs	26,316,455	28,437,967	25,166,338	3,271,629
Vocational education	4,178,305	4,178,305	4,060,983	117,322
Other instructional programs	3,937,685	2,837,685	2,574,055	263,630
Nonpublic schools	250,000	469,268	281,943	187,325
Higher education programs	600,000	600,000	366,718	233,282
Pre-kindergarten	166,500	171,362	146,501	24,861
Total instruction	<u>91,112,680</u>	<u>96,245,864</u>	<u>89,522,337</u>	<u>6,723,527</u>
Support services				
Pupil personnel services	5,189,395	5,146,377	4,660,282	486,095
Instructional staff services	6,038,098	6,337,492	4,820,175	1,517,317
Administrative services	8,197,855	8,462,199	7,614,806	847,393
Pupil health	1,963,690	1,966,190	1,008,817	957,373
Business services	1,315,565	1,315,565	1,128,894	186,671
Operation and maintenance of plant services	11,166,862	12,185,917	9,334,097	2,851,820
Student transportation services	4,606,870	4,606,870	3,329,572	1,277,298
Support services - central	3,529,141	3,333,055	3,594,726	(261,671)
Other support services	1,271,000	1,271,000	358,188	912,812
Total support services	<u>43,278,476</u>	<u>44,624,665</u>	<u>35,849,557</u>	<u>8,775,108</u>
Operation of noninstructional services				
Student activities	790,620	841,920	449,403	392,517
Community services	780,495	750,184	328,032	422,152
Total operation of noninstructional services	<u>1,571,115</u>	<u>1,592,104</u>	<u>777,435</u>	<u>814,669</u>
Facilities acquisition, construction and improvement services				
	-	-	1,270,873	(1,270,873)
Total expenditures	<u>135,962,271</u>	<u>142,462,633</u>	<u>127,420,202</u>	<u>15,042,431</u>
Excess (deficiency) of revenues over (under) expenditures	<u>22,145,746</u>	<u>15,645,384</u>	<u>31,930,436</u>	<u>16,285,052</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	(112,850)	(112,850)	(271,468)	(158,618)
Transfers out	(20,491,800)	(20,356,830)	(32,275,369)	(11,918,539)
Transfers in	131,277	131,277	-	(131,277)
Budgetary reserve	(1,672,373)	4,807,549	-	(4,807,549)
Total other financing sources (uses)	<u>(22,145,746)</u>	<u>(15,530,854)</u>	<u>(32,546,837)</u>	<u>(17,015,983)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 114,530</u>	<u>(616,401)</u>	<u>\$ (730,931)</u>
FUND BALANCE				
Beginning of year			21,809,610	
End of year			<u>\$ 21,193,209</u>	

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - PSERS

Year ended June 30

	Measurement Date						
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.3205%	0.3401%	0.3720%	0.3624%	0.3242%	0.3310%	0.3012%
District's proportionate share of the net pension liability	\$ 157,811,046	\$ 159,107,650	\$ 178,578,470	\$ 178,984,000	\$ 160,663,000	\$ 143,374,000	\$ 119,217,000
District's covered-employee payroll	\$ 44,970,406	\$ 46,897,727	\$ 50,090,156	\$ 48,245,680	\$ 41,987,489	\$ 42,585,657	\$ 38,440,676
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	350.92%	339.27%	356.51%	370.98%	382.64%	336.67%	310.13%
Plan fiduciary net position as a percentage of the total pension liability	54.32%	55.66%	54.00%	51.84%	50.14%	54.36%	57.24%

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In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	Measurement Date						
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 14,974,987	\$ 15,230,481	\$ 15,785,180	\$ 14,479,743	\$ 10,646,636	\$ 8,786,412	\$ 6,000,157
Contributions in relation to the contractually required contribution	<u>\$ 14,974,987</u>	<u>\$ 15,230,481</u>	<u>\$ 15,785,180</u>	<u>\$ 14,479,743</u>	<u>\$ 10,646,636</u>	<u>\$ 8,786,412</u>	<u>\$ 6,000,157</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 44,970,406	\$ 46,897,727	\$ 50,090,156	\$ 48,582,522	\$ 41,202,152	\$ 40,081,124	\$ 38,440,676
Contributions as a percentage of covered-employee payroll	33.30%	32.48%	31.51%	29.80%	25.84%	21.92%	15.61%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF CHANGES IN OPEB LIABILITY - SINGLE EMPLOYER PLAN

Year ended June 30

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
TOTAL OPEB LIABILITY				
Service cost	\$ 1,034,335	\$ 1,048,330	\$ 1,107,995	\$ 1,101,775
Interest on total OPEB liability	488,547	429,342	505,489	389,351
Differences between projected and actual experience	(3,911,885)	-	(1,212,139)	-
Changes of assumptions	1,267,984	(402,939)	(1,018,070)	263,210
Benefit payments	<u>(868,251)</u>	<u>(998,766)</u>	<u>(1,145,419)</u>	<u>(1,367,805)</u>
Net change in total OPEB liability	(1,989,270)	75,967	(1,762,144)	386,531
Total OPEB liability, beginning	<u>13,976,104</u>	<u>13,900,137</u>	<u>15,662,281</u>	<u>15,275,750</u>
Total OPEB liability, ending	<u>\$ 11,986,834</u>	<u>\$ 13,976,104</u>	<u>\$ 13,900,137</u>	<u>\$ 15,662,281</u>
Fiduciary net position as a % of total OPEB liability	0.00%	0.00%	0.00%	0.00%
Covered payroll	\$ 41,439,240	\$ 47,188,967	\$ 47,188,967	\$ 42,444,772
Net OPEB liability as a % of covered payroll	28.93%	29.62%	29.46%	36.90%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE OPEB LIABILITY -PSERS

Year ended June 30

	Measurement Date			
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.3204%	0.3401%	0.3720%	0.3624%
District's proportionate share of the net OPEB liability	\$ 6,922,873	\$ 7,233,390	\$ 7,756,010	\$ 7,383,581
District's covered-employee payroll	\$ 44,970,406	\$ 46,897,727	\$ 50,090,156	\$ 48,245,680
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.39%	15.42%	15.48%	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.69%	5.56%	5.56%	5.73%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF THE DISTRICT'S OPEB PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	Measurement Date			
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 377,184	\$ 389,656	\$ 415,613	\$ 400,662
Contributions in relation to the contractually required contribution	<u>\$ 377,184</u>	<u>\$ 389,656</u>	<u>\$ 415,613</u>	<u>\$ 400,662</u>
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 44,970,406	\$ 46,897,727	\$ 50,090,156	\$ 48,245,680
Contributions as a percentage of covered-employee payroll	0.84%	0.83%	0.83%	0.83%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

COMBINING BALANCE SHEET - CAPITAL PROJECTS FUND

June 30, 2021

	<u>Capital Reserve Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 331,708	\$ 93,173	\$ 424,881
Due from other funds	<u>12,500,000</u>	<u>-</u>	<u>12,500,000</u>
Total assets	<u>\$ 12,831,708</u>	<u>\$ 93,173</u>	<u>\$ 12,924,881</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 273,598	\$ -	\$ 273,598
Due to other funds	<u>557,892</u>	<u>-</u>	<u>557,892</u>
Total liabilities	<u>831,490</u>	<u>-</u>	<u>831,490</u>
FUND BALANCES			
Restricted for Capital projects	<u>12,000,218</u>	<u>93,173</u>	<u>12,093,391</u>
Total fund balances	<u>12,000,218</u>	<u>93,173</u>	<u>12,093,391</u>
Total liabilities and fund balances	<u>\$ 12,831,708</u>	<u>\$ 93,173</u>	<u>\$ 12,924,881</u>

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - CAPITAL PROJECTS FUND

Year ended June 30, 2021

	Capital Reserve Fund	Capital Projects Fund	Total
REVENUES			
Local sources	\$ 69	\$ 754	\$ 823
EXPENDITURES			
Facilities acquisition, construction and improvement services	720,212	-	720,212
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(720,143)</u>	<u>754</u>	<u>(719,389)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	12,000,000	-	12,000,000
NET CHANGE IN FUND BALANCES	11,279,857	754	11,280,611
FUND BALANCES			
Beginning of year	720,361	92,419	812,780
End of year	<u>\$ 12,000,218</u>	<u>\$ 93,173</u>	<u>\$ 12,093,391</u>

SINGLE AUDIT

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2021

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Federal Grantor/Pass-Through Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue July 1, 2020	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2021	Passed Through to Subrecipients
Passed-Through the Pennsylvania Department of Education											
Title I - Grants to Local Educational Agencies	I	84.010	013-200184	07/01/19 - 09/30/21	\$ 6,062,476	\$ 3,815,057	\$ 3,815,057	\$ 2,247,419	\$ 2,247,419	\$ 2,247,419	\$ -
Title I - Grants to Local Educational Agencies	I	84.010	013-210184	07/01/20 - 09/30/22	6,993,643	2,236,214	-	4,654,277	4,654,277	2,418,063	-
Title I - Grants to LEAs - Program Improvement - Set Aside	I	84.010	042-190184	08/28/19-09/30/20	1,098,422	928,471	555,752	473,746	473,746	101,027	-
Title I - Grants to LEAs - Program Improvement - Set Aside	I	84.010	042-200184	12/23/20 - 09/30/21	1,028,236	-	-	587,574	587,574	587,574	-
Total CFDA #84.010						<u>6,979,742</u>	<u>4,370,809</u>	<u>7,963,016</u>	<u>7,963,016</u>	<u>5,354,083</u>	<u>-</u>
Title I - Grants to LEAs - School Improvement Grant	I	84.377	142-180184	07/01/18 - 09/30/19	1,567,800	611,314	611,314	-	-	-	-
Title I - Grants to LEAs - School Improvement Grant	I	84.377	142-190184	12/05/19 - 09/30/22	1,345,800	158,329	449,967	224,760	224,760	516,398	-
Total CFDA #84.377						<u>769,643</u>	<u>1,061,281</u>	<u>224,760</u>	<u>224,760</u>	<u>516,398</u>	<u>-</u>
Title II - Improving Teacher Quality	I	84.367	020-200184	07/01/19 - 09/30/20	610,093	239,265	102,468	136,797	136,797	-	-
Title II - Improving Teacher Quality	I	84.367	020-210184	09/09/20 - 09/30/21	627,435	199,592	-	528,762	528,762	329,170	-
Total CFDA #84.367						<u>438,857</u>	<u>102,468</u>	<u>665,559</u>	<u>665,559</u>	<u>329,170</u>	<u>-</u>
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-200184	07/01/19 - 09/30/20	217,012	147,494	18,053	129,441	129,441	-	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-210184	09/09/20 - 09/30/21	223,559	51,591	-	69,738	69,738	18,147	-
Total CFDA #84.365						<u>199,085</u>	<u>18,053</u>	<u>199,179</u>	<u>199,179</u>	<u>18,147</u>	<u>-</u>
Title IV - Student Support and Academic Achievement	I	84.424	144-200184	07/01/19 - 09/30/20	442,735	70,043	70,043	-	-	-	-
Title IV - Student Support and Academic Achievement	I	84.424	144-210184	09/09/20 - 09/30/21	440,215	101,588	-	408,393	408,393	306,805	-
Total CFDA #84.424						<u>171,631</u>	<u>70,043</u>	<u>408,393</u>	<u>408,393</u>	<u>306,805</u>	<u>-</u>
21st Century Community Learning Centers	I	84.287	FC#4100068064	10/01/19 - 09/30/20	475,000	52,795	43,657	9,138	9,138	-	-

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<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2020</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2021</u>	<u>Passed Through to Subrecipients</u>
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance											
	I	93.079	U87PS004151	07/01/15 - 06/30/19	N/A	-	(7,332)	-	-	(7,332)	-
Refugee and Entrant Assistance - Discretionary Grants											
	I	93.576	FC#4100081655	10/01/19 - 09/30/20	57,135	41,291	3,358	37,933	37,933	-	-
Refugee and Entrant Assistance - Discretionary Grants											
	I	93.576	FC#4100081655	10/01/20 - 09/30/21	50,118	7,017	-	17,039	17,039	10,022	-
Total CFDA #93.576						48,308	3,358	54,972	54,972	10,022	-
Impact Aid for Displaced Students Homeless Student Support											
	I	84.938	N/A	09/19/18 - 06/30/20	47,943	20,136	20,136	-	-	-	-
CARES Act aTSI GEER											
	I	84.425C	254-200184	03/13/20 - 09/30/21	156,081	16,430	-	100,690	100,690	84,260	-
COVID-19 -SECIM											
	I	84.425C	252-200184	03/13/20 - 09/30/22	57,115	15,030	-	31,693	31,693	16,663	-
CARES Act - ESSER Fund Local I											
	I	84.425D	200-200184	03/13/20 - 09/30/21	4,767,579	501,850	-	4,607,188	4,607,188	4,105,338	-
CARES Act - ESSER Fund Local II											
	I	84.425D	200-210184	03/13/20 - 09/30/22	24,873,106	-	-	428,561	428,561	428,561	-
Passed Through the Pennsylvania Commission on Crime and Delinquency											
COVID-19 School Health and Safety											
	I	84.425D	2020-ES-01 34989	03/13/20 - 09/30/22	242,653	-	-	231,927	231,927	231,927	-
Total CFDA #84.425						533,310	-	5,400,059	5,400,059	4,866,749	-
Passed Through the Capital Area I.U. #15											
I.D.E.A. - Part B, Section 611											
	I	84.027	N/A	07/01/19 - 06/30/20	1,368,582	466,680	466,680	-	-	-	-
I.D.E.A. - Part B, Section 611											
	I	84.027	N/A	07/01/20 - 06/30/21	1,279,757	609,901	-	1,279,757	1,279,757	669,856	-
Total CFDA #84.027						1,076,581	466,680	1,279,757	1,279,757	669,856	-
I.D.E.A. - Part B, Section 619 - Preschool											
	I	84.173	N/A	07/01/20 - 06/30/21	8,960	8,960	-	8,960	8,960	-	-
Passed-Through the Pennsylvania State System of Higher Education											
Gaining Early Awareness and Readiness for Undergraduate Programs											
	I	84.334	GEARUP 2018-HBG-01	09/25/18 - 09/24/19	819,583	45,683	45,683	-	-	-	-
Gaining Early Awareness and Readiness for Undergraduate Programs											
	I	84.334	GEARUP 2018-HBG-01	09/25/19 - 09/24/20	676,899	402,835	337,191	65,644	65,644	-	-
Gaining Early Awareness and Readiness for Undergraduate Programs											
	I	84.334	GEARUP 2018-HBG-01	09/25/20 - 09/24/21	676,899	125,719	-	161,107	161,107	35,388	-
Total CFDA #84.334						574,237	382,874	226,751	226,751	35,388	-
Total U.S. Department of Education						10,873,285	6,532,027	16,440,544	16,440,544	12,099,286	-

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<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2020</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2021</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. Department of the Treasury</u>											
<u>Passed-Through the Pennsylvania Department of Education</u>											
Coronavirus Relief Fund	I	21.019	161-190230	03/01/20 - 11/30/20	4,862	4,862	-	4,862	4,862	-	-
<u>Passed Through the Pennsylvania Commission on Crime and Delinquency</u>											
Coronavirus Relief Fund	I	21.019	2020-CS-01 33922	03/01/20 - 10/30/20	398,625	398,625	-	398,625	398,625	-	-
Total U.S. Department of Treasury						<u>403,487</u>	<u>-</u>	<u>403,487</u>	<u>403,487</u>	<u>-</u>	<u>-</u>
<u>U.S. Department of Health and Social Services</u>											
<u>Passed-Through the Pennsylvania Department of Education</u>											
Temporary Assistance for Needy Families	I	93.558	FC#4100081175	07/01/19 - 06/30/20	126,000	48,240	48,240	-	-	-	-
Temporary Assistance for Needy Families	I	93.558	FC#4100081175	07/01/20 - 06/30/21	126,000	73,686	-	117,604	117,604	43,918	-
Total CFDA #93.558						<u>121,926</u>	<u>48,240</u>	<u>117,604</u>	<u>117,604</u>	<u>43,918</u>	<u>-</u>
<u>Passed-Through the Pennsylvania Department of Public Welfare</u>											
Medical Assistance Program Reimbursement for Administration	I	93.778	N/A	07/01/20 - 06/30/21	N/A	83,161	(255,480)	-	-	(338,641)	-
Total U.S. Department of Health and Social Services						<u>205,087</u>	<u>(207,240)</u>	<u>117,604</u>	<u>117,604</u>	<u>(294,723)</u>	<u>-</u>
<u>U.S. Department of Defense</u>											
<u>Passed through the United States Navy</u>											
Junior Reserve Officers Training Corps	I	12.000	N/A	07/01/19 - 06/30/20	43,145	13,011	13,011	-	-	-	-
Junior Reserve Officers Training Corps	I	12.000	N/A	07/01/20 - 06/30/21	59,224	45,514	-	59,224	59,224	13,710	-
Total CFDA #12.000						<u>58,525</u>	<u>13,011</u>	<u>59,224</u>	<u>59,224</u>	<u>13,710</u>	<u>-</u>
<u>U.S. Department of Justice</u>											
<u>Passed through the SEA Research Foundation</u>											
Juvenile Mentoring Program	I	16.726	N/A	07/01/20 - 06/30/21	10,000	5,157	4,058	1,099	1,099	-	-

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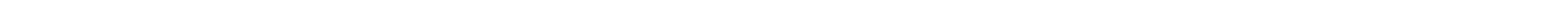
<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2020</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2021</u>	<u>Passed Through to Subrecipients</u>
U.S. Department of Agriculture											
Passed-Through the Pennsylvania Department of Education											
State Matching Share	S	N/A	N/A	07/01/19 - 06/30/20	N/A	7,171	7,171	-	-	-	-
State Matching Share	S	N/A	N/A	07/01/20 - 06/30/21	N/A	34,278	-	44,244	44,244	9,966	-
Total State Matching						41,449	7,171	44,244	44,244	9,966	-
Breakfast Program	I	10.553	N/A	07/01/19 - 06/30/20	N/A	38,381	38,381	-	-	-	-
Breakfast Program	I	10.553	N/A	07/01/20 - 06/30/21	N/A	316,793	-	404,875	404,875	88,082	-
Total CFDA #10.553						355,174	38,381	404,875	404,875	88,082	-
Summer Food Service Program	I	10.559	N/A	07/01/19 - 06/30/20	N/A	70,971	70,971	-	-	-	-
Child Nutrition Discretionary Grants	I	10.579	FC#4100082843	07/01/19 - 06/30/20	30,503	-	-	30,503	30,503	30,503	-
Child and Adult Care Program	I	10.558	N/A	07/01/20 - 06/30/21	N/A	344,829	-	448,395	448,395	103,566	-
Fresh Fruit and Vegetable Program	I	10.582	N/A	07/01/20 - 06/30/21	N/A	39,962	-	52,603	52,603	12,641	-
National School Lunch Program	I	10.555	N/A	07/01/19 - 06/30/20	N/A	61,061	61,061	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/20 - 06/30/21	N/A	525,611	-	684,990	684,990	159,379	-
Passed-Through the Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	07/01/20 - 06/30/21	N/A	116,837	(6,277)	115,842	115,842	(7,272)	-
Total CFDA #10.555						703,509	54,784	800,832	800,832	152,107	-
Total U.S. Department of Agriculture						1,555,894	171,307	1,781,452	1,781,452	396,865	-
Total Federal Awards and Certain State Grants						\$ 13,101,435	\$ 6,513,163	\$ 18,803,410	\$ 18,803,410	\$ 12,215,138	\$ -
Total Federal Awards						\$ 13,059,986	\$ 6,505,992	\$ 18,759,166	\$ 18,759,166	\$ 12,205,172	\$ -
Total State Awards						41,449	7,171	44,244	44,244	9,966	-
Total Federal Awards and Certain State Grants						\$ 13,101,435	\$ 6,513,163	\$ 18,803,410	\$ 18,803,410	\$ 12,215,138	\$ -
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						\$ 1,085,541	\$ 466,680	\$ 1,288,717	\$ 1,288,717	\$ 669,856	\$ -
Child Nutrition Cluster (CFDA's #10.553, #10.555 and #10.559)						\$ 1,129,654	\$ 164,136	\$ 1,205,707	\$ 1,205,707	\$ 240,189	\$ -

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<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2020</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2021</u>	<u>Passed Through to Subrecipients</u>
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Source Codes

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



THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2021

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 National School Lunch Program and passed through the Pennsylvania Department of Agriculture represent federal surplus food consumed by the District during the 2020-2021 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2021 was \$576,465.

(5) QUALIFIED SCHOOL CONSTRUCTION BONDS PROGRAM

The District participates in the Qualified School Construction Bonds ("**QSCB**") program sponsored by the State Public School Building Authority ("**SPSBA**"). In conjunction with the QSCB Program, the District receives subsidy reimbursements for a portion of the interest payments made under its loan agreements with the SPSBA. Reimbursements are federal source revenues but are not considered federal financial assistance. The amount of QSCB subsidy payments recognized for the year ended June 30, 2021 was \$400,388.

(6) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2021

Finding 2020-01

Internal Control over Financial Reporting Material Weakness in Internal Control

Condition: District management in the business office did not possess the expertise necessary to prepare the financial statements and related notes in conformity with generally accepted accounting principles.

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Cause and Effect: District management in the business office did not have the requisite expertise to produce financial statement and related notes in conformity with generally accepted accounting principles. As a result, this created a condition that may adversely affect the District's ability to initiate, record, process or report financial information reliably in accordance with generally accepted accounting principles such that there is more than a reasonable possibility that a material misstatement within the District's financial statements will not be prevented or detected.

Recommendation: The District should employ qualified staff within the business office with prerequisite expertise to prepare and understand financial statements in conformity with generally accepted accounting principles.

Current Status: As part of the Receiver's restructuring resolution that included an initiative for the reorganization of the District's leadership team, the District hired a Chief Financial Officer and an accountant with the prerequisite expertise. The initiative also included a full-time budgeted position for another financial position. Given the District's size and complexity the hiring of a position with a strong accounting background that complements Chief Financial Officer and other accounting is warranted and would mirror the staff of other similar Pennsylvania school districts. This finding is still applicable (**See Finding 2021-01**).

Finding 2020-02

Internal Control Over Financial Reporting Material Weakness in Internal Control

Condition: Our audit procedures identified material misstatements such that we concluded that the District was unable to present its accounting records in accordance with generally accepted accounting principles. As a result, we proposed and management recorded journal entries to correct the misstatements that had a material effect on the District's accounting records.

Criteria: Statement on auditing Standards No. 115 "*Communicating Internal Control Related Matters Identified in an Audit*" ("**SAS 115**") focuses on how the auditor communicates matters related to internal controls to the client. One area SAS 115 emphasizes is internal control over financial reporting.

Cause and Effect: During the year, the Business Office experienced turnover in key finance positions. This could lead to errors and/or fraud not being detected and corrected on a timely basis.

Recommendation: We recommend that procedures and controls are implanted in order to prepare timely and accurate financial information in accordance with generally accepted accounting principles.

Current Status: As part of the Receiver's restructuring resolution that included an initiative for the reorganization of the District's leadership team, the District hired a Chief Financial Officer with significant school district accounting experience. The initiative also included a full-time budgeted position for another financial position. Given the District's size and complexity the hiring of a position with a strong accounting background that complements Chief Financial Officer and other accounting is warranted and would mirror the staff of other similar Pennsylvania school districts. This finding is still applicable (**See Finding 2021-02**).

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2021

Finding 2020-03

Cash Disbursement and Procurement Procedures Significant Deficiency in Internal Control

Condition: As part of our audit procedures we performed tests of controls to determine whether the internal control activities related to cash disbursements were operating effectively. We selected 90 transactions for the fiscal year under audit and noted the following exceptions as part of our procedures.

Exception Type	# of Exceptions	Exception Rate
i. Purchase order was created after invoice date	39	43.33%
Total sample size	90	

The District is not consistently using the purchase requisition date on the purchase orders and purchase orders are being created after the invoice date.

Criteria: An integral component of an entity's internal control is the proper review, verification, authorization and approval of invoices and purchases orders and proper recording.

Cause and Effect: Business office personnel do not have a full understanding of the policies and procedures in place for cash disbursements coupled with a lack of oversight resulted in the purchasing and cash disbursement process being circumvented.

Recommendation: Purchasing and cash disbursement policies and procedures should be reviewed with all business office personnel to ensure compliance.

Current Status: Expenditure testing in 2020-2021 school year showed purchase orders had requisition dates and appropriate supporting documentation, however there were 21 instances of purchase orders being dated after the invoice date, which occurred primarily towards the beginning of the year before consistent policies and practices were implemented. This finding is still applicable (**See Finding 2021-03**).

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2021

Finding SA 2020-01

Federal agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

Title I Grants to LEAs – Grants to Local Educational Agencies – CFDA 84.010

Title I Grants to LEAs – School Improvement Grant – CFDA 84.377

Noncompliance and Material Weakness in Internal Control

Condition: The District did not obtain appropriate documentation to support time and effort charges to Federal programs in a timely fashion.

Criteria: In accordance with the OMB Uniform Grant Guidance, documentation for time and effort reporting must reflect the distribution of activities performed by employees paid with Federal funds.

Cause and Effect: The District did not have sufficient internal controls in place to ensure that appropriate documentation is maintained to support time and effort charges to Federal programs through adequate payroll records and semi-annual certifications.

Recommendation: The District should develop procedures for documenting time and effort in writing and implement controls to ensure that adequate payroll records and semi-annual certifications are being properly maintained.

Current Status: Review of the time and effort certifications for the 2020-2021 school year showed deficiencies remain in the completion of the forms. This finding is still applicable (**See Finding SA-2021-01**).



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

**To the Receiver
The School District of the City of Harrisburg
Harrisburg, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Harrisburg, Harrisburg, Pennsylvania, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District of the City of Harrisburg's basic financial statements, and have issued our report thereon dated September 9, 2022.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (***See Finding 2021-01 and 2021-02***).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency (***See Finding 2021-03***).

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 from 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*.

The School District of City of Harrisburg's Response to Findings

The School District of City of Harrisburg's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District of City of Harrisburg's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
September 9, 2022**



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

**To the Receiver
The School District of the City of Harrisburg
Harrisburg, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited The School District of the City of Harrisburg's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District of the City of Harrisburg's major federal programs for the year ended June 30, 2021. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The School District of the City of Harrisburg's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("**Uniform Guidance**"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the School District of the City of Harrisburg's compliance.

Opinion on Each Major Federal Program

In our opinion, the School District of the City of Harrisburg, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs (**See Finding SA 2021-01**). Our opinion on each major federal program is not modified with respect to this matter.

The School District of the City of Harrisburg's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District of the City of Harrisburg's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The School District of the City of Harrisburg's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (**See Finding SA 2021-01**).

The School District of the City of Harrisburg's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District of the City of Harrisburg's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

BBD, LLP

**Philadelphia, Pennsylvania
September 9, 2022**

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2021

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of The School District of the City of Harrisburg were prepared in accordance with GAAP.
2. One significant deficiency and two material weaknesses relating to the audit of the financial statements of the School District of the City of Harrisburg are reported in the independent auditor's 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.
3. No instances of noncompliance material to the financial statements of the School District of the City of Harrisburg, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. One material weakness in internal control over the major federal award programs was reported in the independent auditor's report on compliance for two major programs and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the School District of the City of Harrisburg expresses an unmodified opinion on all major federal programs.
6. One audit finding that is required to be reported in accordance with 2 CFR Section 200.516(a).
7. The programs tested as major programs were:
 - Title I – Grants to Local Educational Agencies – CFDA Number 84.010
 - Title I – Grants to LEAs School Improvement Grant – CFDA Number 84.377
 - Special Education Cluster
 - I.D.E.A. – Part B, Section 611 – CFDA Number 84.027
 - I.D.E.A. – Part B, Section 619 – CFDA Number 84.173
 - Education Stabilization Fund – CFDA Number 84.425
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The School District of the City of Harrisburg did not qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

Finding 2021-01 **Internal Control over Financial Reporting** **Material Weakness in Internal Control**

Condition: District management in the business office did not possess the expertise necessary to prepare the financial statements and related notes in conformity with generally accepted accounting principles.

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2021

Cause and Effect: District management in the business office did not have the requisite expertise to produce financial statement and related notes in conformity with generally accepted accounting principles. As a result, this created a condition that may adversely affect the District's ability to initiate, record, process or report financial information reliably in accordance with generally accepted accounting principles such that there is more than a reasonable possibility that a material misstatement within the District's financial statements will not be prevented or detected.

Recommendation: The District should employ qualified staff within the business office with prerequisite expertise to prepare and understand financial statements and related notes in conformity with generally accepted accounting principles.

Auditee Response: The District has continued to struggle with attracting and retaining talent, especially in the Business Office. The District has hired a Business Administrator, Accountant, and Director of Finance with extensive experience and expertise. The District will continue to devote the resources necessary to improve in this area.

Finding 2021-02 Internal Control Over Financial Reporting Material Weakness in Internal Control

Condition: Our audit procedures identified material misstatements such that we concluded that the District was unable to present its accounting records in accordance with generally accepted accounting principles. As a result, after the fiscal year ended, the District contracted with another accounting firm to propose and management recorded journal entries to correct the misstatements that had a material effect on the District's accounting records.

Criteria: Statement on auditing Standards No. 115 "*Communicating Internal Control Related Matters Identified in an Audit*" ("**SAS 115**") focuses on how the auditor communicates matters related to internal controls to the client. One area SAS 115 emphasizes is internal control over financial reporting.

Cause and Effect: During the year, the Business Office experienced turnover in key finance positions. This could lead to errors and/or fraud not being detected and corrected on a timely basis.

Recommendation: We recommend that procedures and controls are implanted in order to prepare timely and accurate financial information in accordance with generally accepted accounting principles.

Auditee Response: The District experienced turnover in the Chief Financial Officer position and many of the year-end reconciliations were not performed timely. The District contracted with an accounting firm to assist in getting the records in order to allow for the audit to move forward. The District is continuing to work with the accounting firm to train Business Office staff, develop procedures, and improve internal controls.

Finding 2021-03 Cash Disbursement and Procurement Procedures Significant Deficiency in Internal Control

Condition: As part of our audit procedures we performed tests of controls to determine whether the internal control activities related to cash disbursements were operating effectively. We selected 90 transactions for the fiscal year under audit and noted the following exceptions as part of our procedures.

Exception Type	# of Exceptions	Exception Rate
i. Purchase order was created after invoice date	21	23.33%
Total sample size	90	

The District is not consistently creating purchase orders before the invoice date.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2021

Criteria: An integral component of an entity's internal control is the proper review, verification, authorization and approval of invoices and purchases orders and proper recording.

Cause and Effect: Business office personnel do not have a full understanding of the policies and procedures in place for cash disbursements coupled with a lack of oversight resulted in the purchasing and cash disbursement process being circumvented.

Recommendation: Purchasing and cash disbursement policies and procedures should be reviewed with all business office personnel to ensure compliance.

Auditee Response: The District has been creating purchase orders for all expenditures, regardless of the type of expenditures. This has resulted in purchase orders being created after the receipt of the invoice when the creation of a purchase order is not necessary. The District has developed a Direct Payment process to allow for the processing of vendor payments for items that do not require a purchase order such as utility payments, tuition payments, legal services, taxes, and insurance payments. In addition, the Business Office has conducted staff trainings on the proper procurement process.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding SA 2021-01

Federal agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

Title I Grants to LEAs _ Grants to Local Educational Agencies – CFDA 84.010

Title I Grants to LEAs – School Improvement Grant – CFDA 84.377

Noncompliance and Material Weakness in Internal Control

Condition: The District did not obtain appropriate documentation to support time and effort charges to Federal programs or obtain in a timely fashion.

Criteria: In accordance with the OMB Uniform Grant Guidance, documentation for time and effort reporting must reflect the distribution of activities performed by employees paid with Federal funds.

Cause and Effect: The District did not have sufficient internal controls in place to ensure that appropriate documentation is maintained to support time and effort charges to Federal programs through adequate payroll records and semi-annual certifications.

Recommendation: The District should develop procedures for documenting time and effort in writing and implement controls to ensure that adequate payroll records and semi-annual certifications are being properly maintained.

Auditee Response: The District experienced turnover in the Office of Federal Program resulting in the new Director of Federal Programs being unable to locate all of the Time Certifications forms from the 2020-2021 school year. The current Director of Federal Programs is now receiving payroll reports after each payroll to monitor each grant and using a shared file resource to collect and archive documentation so that it does not get lost in any future transitions.