

**HARRISBURG CITY
SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION AND
SINGLE AUDIT INFORMATION**

JUNE 30, 2013

CONTENTS

	Page
TRANSMITTAL LETTER	4
DISTRIBUTION REPORT	5
INDEPENDENT AUDITORS' REPORT	6 - 8
MANAGEMENT'S DISCUSSION AND ANALYSIS	9 - 21
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	22 - 23
STATEMENT OF ACTIVITIES	24
BALANCE SHEET - GOVERNMENTAL FUNDS	25
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	26
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) - GOVERNMENTAL FUNDS	27
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	28 - 29
STATEMENT OF NET POSITION - PROPRIETARY FUND	30
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND	32
STATEMENT OF FIDUCIARY NET POSITION	33
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	34
NOTES TO FINANCIAL STATEMENTS	35 - 70

CONTENTS - continued

	Page
REQUIRED SUPPLEMENTARY INFORMATION	71
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) - BUDGET AND ACTUAL - GENERAL FUND	72 - 73
OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS	74
SUPPLEMENTARY INFORMATION	75
COMBINING BALANCE SHEETS - NON-MAJOR GOVERNMENTAL FUNDS	76
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) - NON-MAJOR GOVERNMENTAL FUNDS	77
DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL - GENERAL FUND	78 - 79
FIDUCIARY FUNDS - COMBINING BALANCE SHEET	80
FIDUCIARY FUNDS - NONEXPENDABLE TRUST FUND DETAILED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE	81
FIDUCIARY FUNDS - EXPENDABLE TRUST FUND DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	82
FIDUCIARY FUNDS - AGENCY FUNDS SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUNDS HELD FOR OTHERS	83
SINGLE AUDIT INFORMATION	84
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	85 - 86
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	87 - 89
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	90 - 95
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	96 - 97
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	98 - 121

Board of School Directors
Harrisburg City School District

We have performed the Single Audit of the Harrisburg City School District for the year ended June 30, 2013, and will submit the audit report electronically to the Federal Clearinghouse.

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

A Memorandum of Advisory Comments letter was prepared as a result of this audit and was issued separately.

Stambaugh Ness, PC

York, Pennsylvania
December 20, 2013

HARRISBURG CITY SCHOOL DISTRICT
DISTRIBUTION REPORT
JUNE 30, 2013

Number of Copies

1

30

31

To:

Clerk of Courts

District

Total Number of Copies

INDEPENDENT AUDITORS' REPORT

Board of School Directors
Harrisburg City School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harrisburg City School District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Harrisburg City School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Harrisburg City School District's 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.

INDEPENDENT AUDITORS' REPORT - continued

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 Harrisburg City School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress on pages 9 through 21 and 72 through 74 and 78 through 79 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 Harrisburg City School District's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 nonmajor fund financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITORS' REPORT – continued

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of Harrisburg City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrisburg City School District's internal control over financial reporting and compliance.

Stambaugh Ness, PC

York, Pennsylvania
December 20, 2013



HARRISBURG CITY SCHOOL DISTRICT

Administration Building
2101 North Front Street
Harrisburg, PA 17110
Telephone (717) 703-4024
Fax (717) 703-4115

Members of the Board of School Directors
Harrisburg City School District

This section of the Harrisburg City School District's annual financial report provides a discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2013. This discussion and analysis should be read in conjunction with the District's accompanying financial statements, which immediately follow this section.

Background

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

Financial Highlights

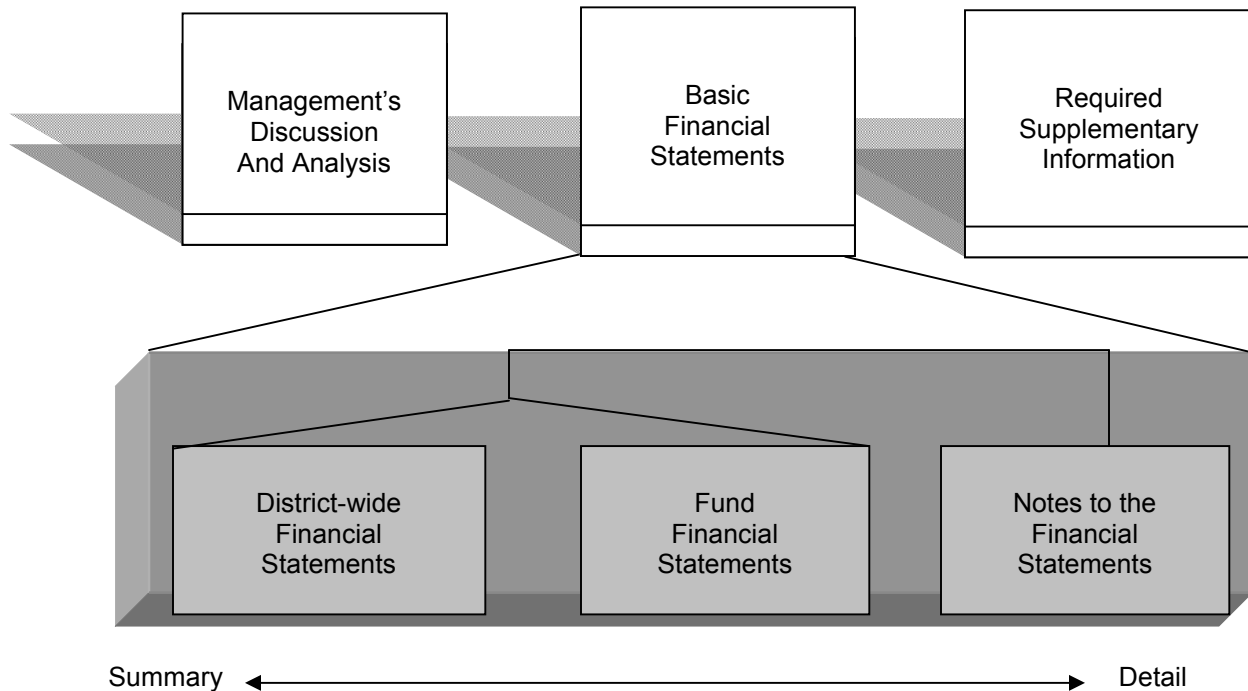
- Total net position of (\$36,236,850).
- The total fund balance of all governmental funds equaled positive \$29,249,414.
- Unassigned general fund balance equaled positive \$6,871,987.
 - Total actual general fund revenues were under the final budget by \$1,203,244 or -0.9%.
 - Total actual general fund expenditures were under the final budget by \$16,443,218 or -11.94%.
- The total governmental activities operating grants and contributions amounted to \$27,510,084 or 22% of the governmental activities expenditures.
- The net position of business-type activities - Food Services - at June 30, 2013, totaled (\$1,336,082) with revenues of \$5,466,963 and expenditures of \$5,442,950.
- The total capital assets, net of accumulated depreciation, for government activities - primarily general fund, capital project funds and capital reserve fund - totaled \$193,937,176.

Overview of the Financial Statements

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

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

Figure A-1 Organization of HARRISBURG CITY SCHOOL DISTRICT Annual Financial Report



Overview of the Financial Statements - continued

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

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

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

District-wide Statements

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

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

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

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

Fund Financial Statements

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

The District has three types of funds as follows:

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

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

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

Financial Analysis of the District as a Whole

Figure A-3

Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
Current and Other Assets	\$ 91,928,060	\$ 88,424,385	\$ 829,808	\$ 228,695	\$ 92,757,868	\$ 88,653,080
Capital Asset	196,744,864	193,937,176	107,755	91,860	196,852,619	194,029,036
Total Assets	288,672,924	282,361,561	937,563	320,555	289,610,507	282,682,116
Current Liabilities	19,463,441	18,595,318	2,042,677	1,498,746	21,506,118	20,094,064
Total Non-current Liabilities	311,148,042	298,667,011	254,981	157,891	311,403,023	298,824,902
Total Liabilities	330,611,483	317,262,329	2,297,658	1,656,637	332,909,141	318,918,966
Net Position						
Net Investment in Capital assets	(75,782,138)	(68,815,863)	107,755	91,860	(75,674,383)	(68,724,003)
Restricted for Debt Service	7,513,958	5,614,283	-	-	7,513,958	5,614,283
Unrestricted	26,329,621	28,300,812	(1,467,850)	(1,427,942)	24,861,771	26,872,870
Total Net Position	(\$41,938,559)	(\$34,900,768)	(\$1,360,095)	(\$1,336,082)	(\$43,298,654)	(\$36,236,850)

The net position increased by \$7,958,088 in the fiscal year. Issues that significantly affect the net position increase in fiscal year 2012-2013 were the following:

- Net expense for governmental activities was \$95,143,901.
- General revenue which includes taxes, grants and subsidies, investment earnings and miscellaneous was \$103,077,976.
- Business Type Activities (Food Service) has a total net operating profit of \$24,013.

Financial Analysis of the District as a Whole - continued

The District's total revenues for the fiscal year were \$138,333,665. Property taxes and other taxes levied for general purposes continue to account for most of the District's revenue in the amount of \$48,765,786 or 35% of total revenues. Another 38% or \$52,634,582 came from state formula aid, such as basic education and student transportation subsidies. Approximately 24% or \$32,708,896 came from operating and capital grants and contributions, with the remainder of \$4,224,401 or 3% coming from fees charged for services and other miscellaneous sources.

The cost of all programs and services was \$130,375,577. The District expenses are predominately related to instructing, caring for (instructional support services & operation/maintenance of school facilities) and transporting students, which represents 83% or \$108,220,383 of total expenses. (See Figures A-4 through A-8)

Figure A-4

Changes in Net Position from Operating Result

<u>Revenue</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011-2012</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2012-2013</u>
Program Revenues						
Charges for Services	\$ 2,373,423	\$ 2,278,642	\$ 217,391	\$ 268,150	\$ 2,590,814	\$ 2,546,792
Operating Grant Contributions	21,569,014	27,510,084	5,120,954	5,198,812	26,689,968	32,708,896
Property Tax and Other Taxes levied for General Purposes	48,782,855	48,765,786	-	-	48,782,855	48,765,786
State Formula Aid	50,684,109	52,634,582	88,432	-	50,772,541	52,634,582
Other	<u>2,405,109</u>	<u>1,677,608</u>	<u>1</u>	<u>1</u>	<u>2,405,110</u>	<u>1,677,609</u>
Total Revenues	<u>\$125,814,510</u>	<u>\$132,866,702</u>	<u>\$5,426,778</u>	<u>\$5,466,963</u>	<u>\$131,241,288</u>	<u>\$138,333,665</u>

Financial Analysis of the District as a Whole - continued

Changes in Net Position from Operating Result - continued

Expenses	Governmental Activities		Business-Type Activities		Total	
	<u>2011-2012</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2012-2013</u>
Instruction	\$72,371,385	\$79,960,849			\$72,371,385	\$ 79,960,849
Instructional student support	5,654,871	6,734,194			5,654,871	6,734,194
Administrative and financial support	9,975,853	9,315,466			9,975,853	9,315,466
Operational and maintenance of plant	13,356,418	9,689,938			13,356,418	9,689,938
Pupil Transportation	2,425,544	2,519,936			2,425,544	2,519,936
Student activities	601,106	469,614			601,106	469,614
Central and other support services	5,297,253	2,018,789			5,297,253	2,018,789
Community services	216,465	318,643			216,465	318,643
Interest/fiscal charges on long-term debt	13,940,735	13,905,198			13,940,735	13,905,198
Food Service	-	-	5,561,731	5,442,950	5,561,731	5,442,950
Total Expenses	<u>\$123,839,630</u>	<u>\$124,932,627</u>	<u>\$5,561,731</u>	<u>\$5,442,950</u>	<u>\$129,401,361</u>	<u>\$130,375,577</u>
Change in Net Position					<u>\$1,839,927</u>	<u>\$7,958,088</u>

Financial Analysis of the District as a Whole - continued

Figure A-5

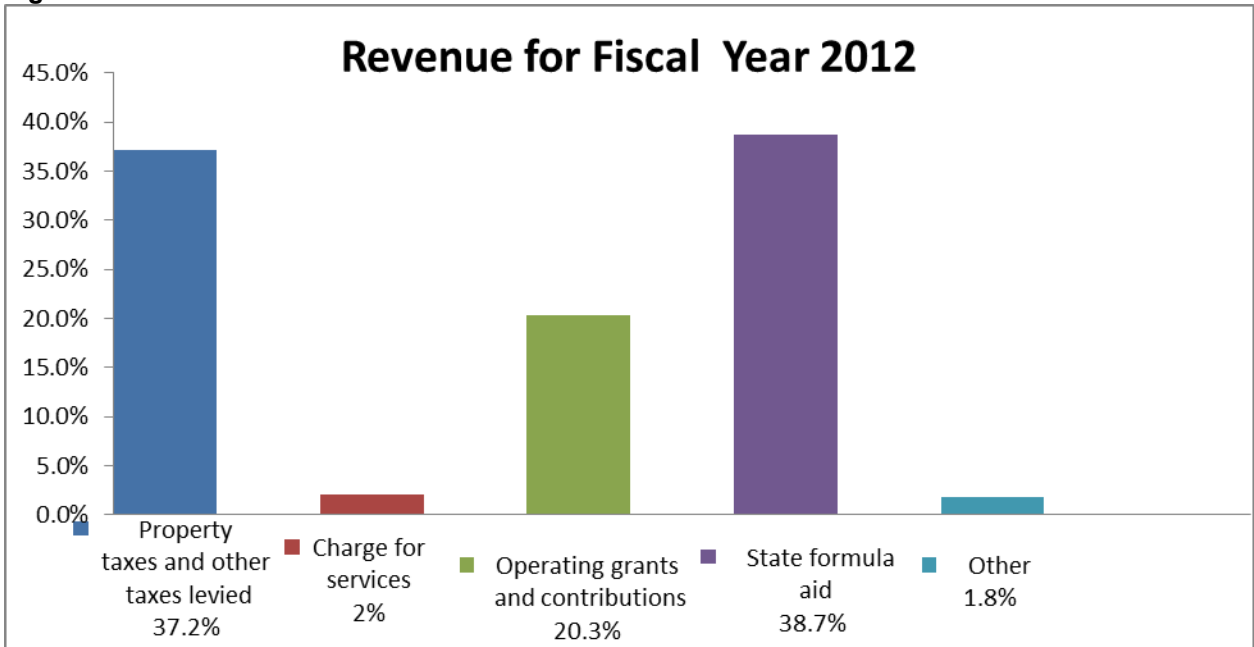
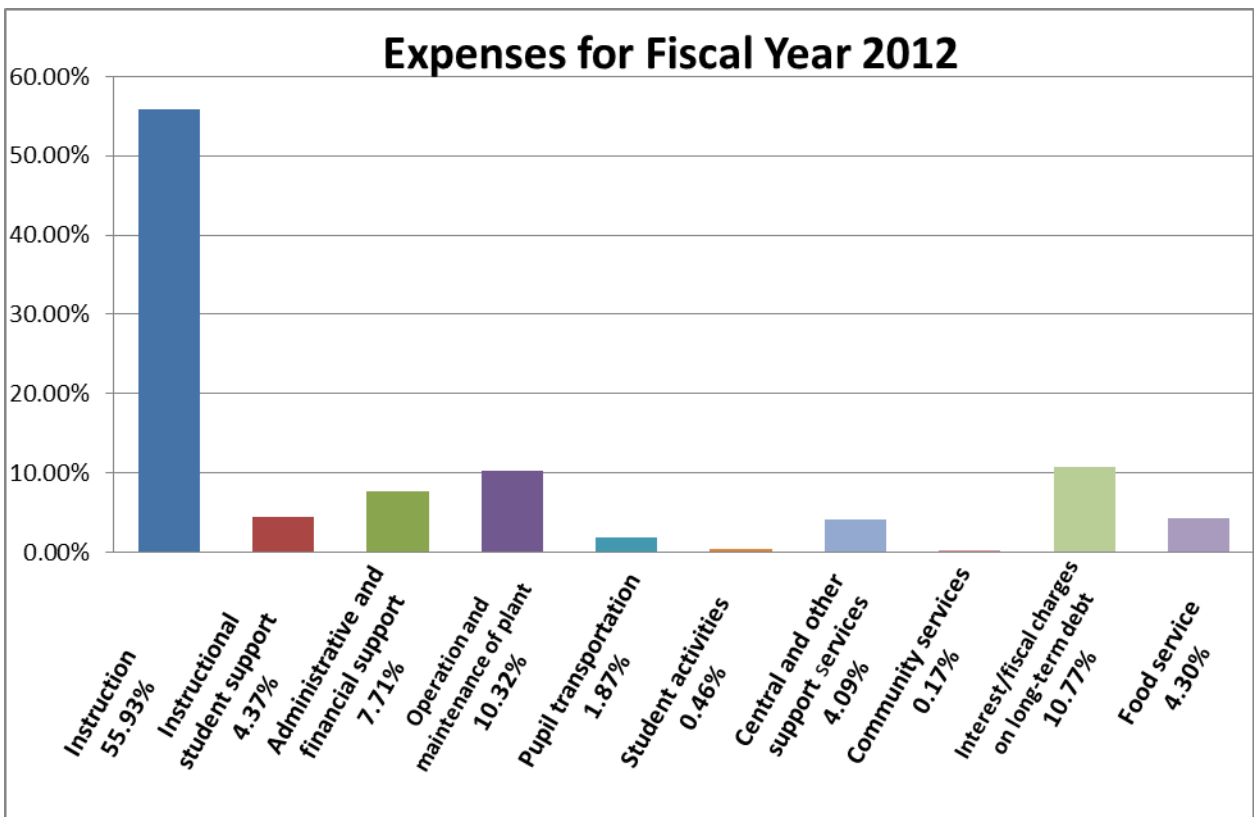


Figure A-6



Financial Analysis of the District as a Whole - continued

Figure A-7

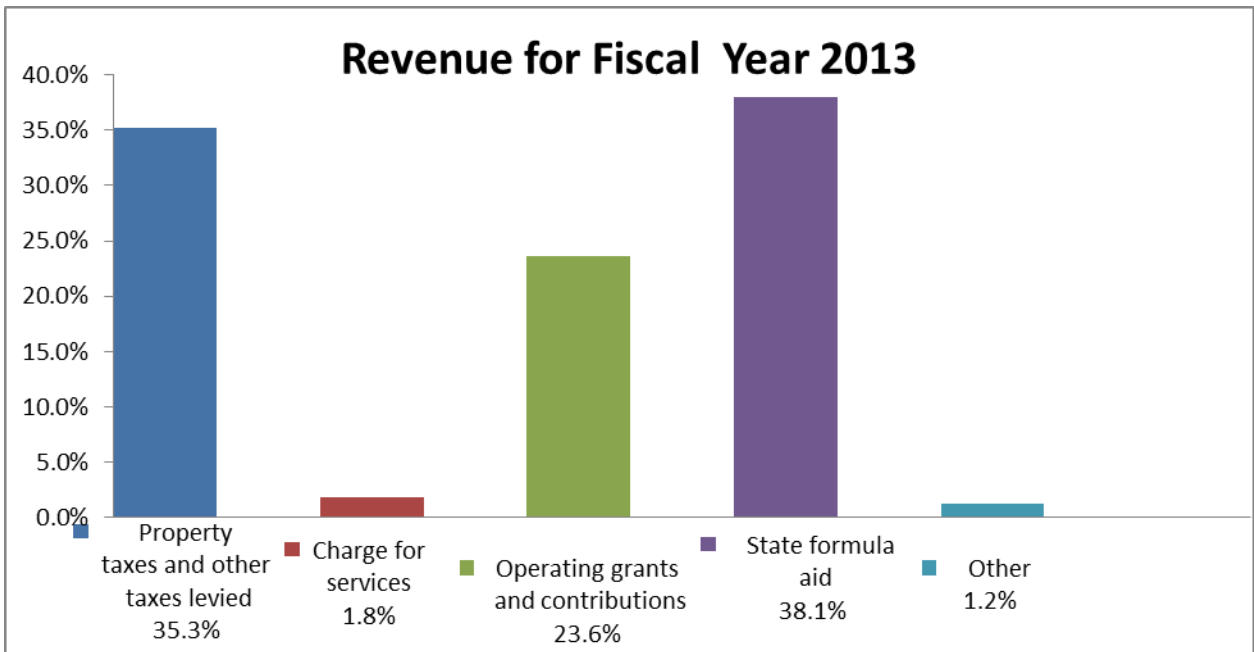
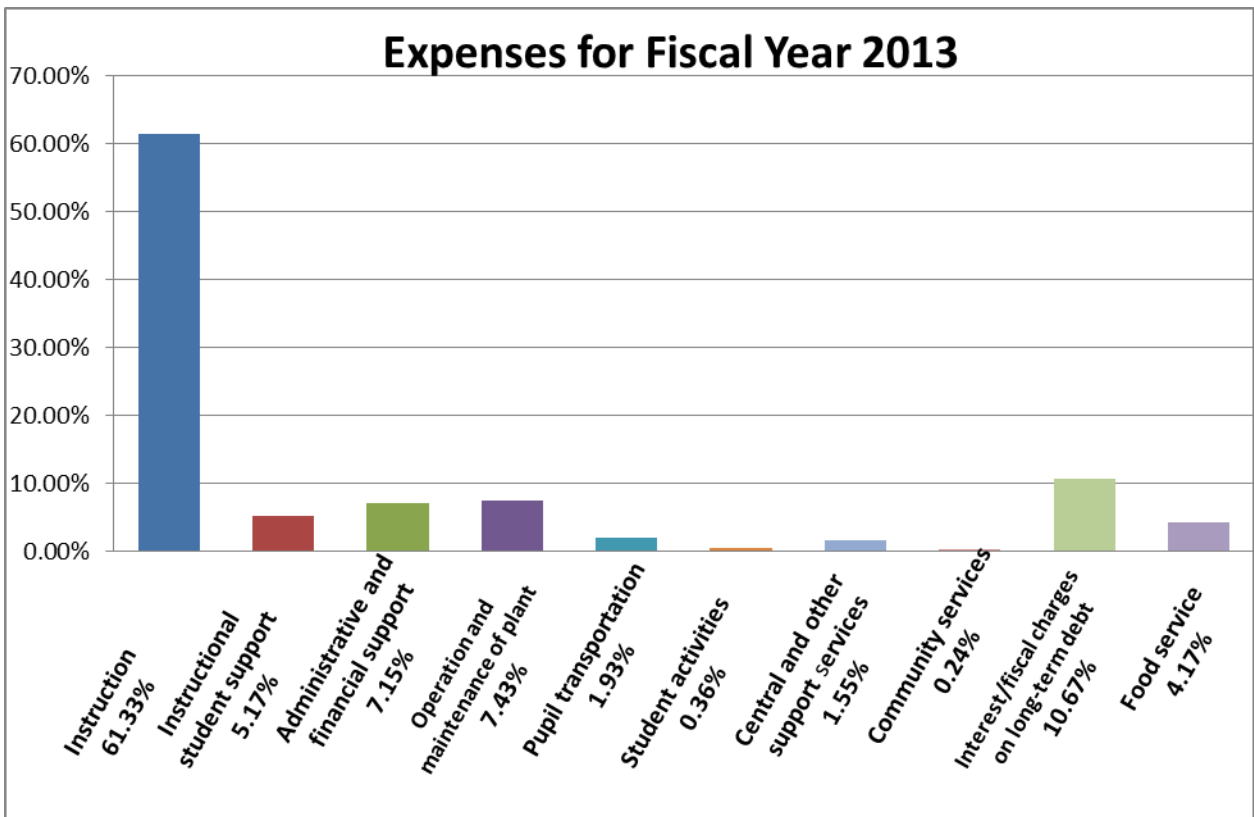


Figure A-8



Financial Analysis of the District as a Whole - continued

Figure A-9 presents the cost of six (6) major District activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. The table also shows each activity's net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions. The net cost of governmental activities decreased by 4.8% to \$95,143,901. The net cost for the District's basic programs decreased for the following reasons: an increase in operating grants and contributions and the implementation of various cost saving measures.

Figure A-9

	Total Cost of Services	Total Cost of Services	Percent of Change	Net Cost of Services	Net Cost of Services	Percent of Change
	2012	2013	2012-2013	2012	2013	2012-2013
Instruction	\$72,371,385	\$79,960,849	10.5%	\$55,055,013	\$59,422,821	7.9%
Instructional Student Support	5,654,871	6,734,194	19.1%	2,990,651	2,742,772	-8.3%
Administrative & Financial Support Services	9,975,853	9,315,466	-6.6%	9,362,260	8,766,512	-6.4%
Operational & Maintenance of Plant Services	13,356,418	9,689,938	-27.5%	12,077,970	7,721,244	-36.1%
Pupil Transportation	2,425,544	2,519,936	3.9%	1,132,059	1,240,242	9.6%
Other	20,055,559	16,712,244	-16.7%	19,279,240	15,250,310	-20.9%
Total	\$123,839,630	\$124,932,627	0.9%	\$99,897,193	\$95,143,901	-4.8%

Financial Analysis of the District

At the end of the fiscal year 2013; governmental funds had total positive fund balance of \$29,249,414. The ending fund balance for the General Fund was \$22,653,632, of which \$6,871,987 is unassigned and \$402,381 is committed for a reserve for athletics and band. Fund balance has also been assigned in the General Fund for health insurance stabilization, future PSERS increases, debt service increases, capital improvements and information technology improvements. The fund balance from the Debt Service fund was \$6,230,681.

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

General Fund Budgetary Highlights

While the District final budget for the general fund anticipated that \$4,457,639 of fund balance would be needed to balance the budget, the actual results for the year reflected a net change in Fund Balance of \$10,782,335, which increased the General Fund balance to positive \$22,653,632.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2013, the District had net investments of \$193,937,176 in a broad range of capital assets, including land, school buildings, administrative offices, athletic facilities, furniture and equipment. (See Figure A-10.) The District placed \$8,382,022 of capital assets into service during the year.

Figure A-10

Capital Assets (net of depreciation)

	Governmental	Governmental	Business-	Business-	Total	Total	Percentage
	Activities	Activities	type	type			
	2012	2013	Activities	Activities	2012	2013	2012-2013
Land and site improvements	\$ 13,700	\$ 13,700	-	-	\$ 13,700	\$ 13,700	0%
Building and building Improvements	239,625,155	246,699,250	-	-	239,625,155	246,699,250	2.95%
Furniture and equipment	33,228,898	34,536,825	1,453,481	1,475,613	34,682,379	36,012,438	3.83%
Construction in Progress	5,020,332	1,578,297	-	-	5,020,332	1,578,297	-68.6%
Accumulated depreciation	(81,143,221)	(88,890,896)	(1,345,726)	(1,383,753)	(82,488,947)	(90,274,649)	9.44%
Total	\$196,744,864	\$193,937,176	\$107,755	\$91,860	\$196,852,619	\$194,029,036	-1.43%

Outstanding Long-Term Debt

At year-end, the District has \$269,813,000 in general obligation bonds and other long-term debt outstanding. The District continued to pay down its debt, retiring \$755,000 of outstanding bonds and other long-term debt. More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.

Figure A-11

Outstanding Long-Term Debt

	Totals		Percent of Change
	2012	2013	2012-2013
Debt Outstanding at Beginning of Year	\$271,263,000	\$270,568,000	-0.3%
Additional Debt During Year	-	-	0.0%
Retirement and Repayments	(695,000)	(755,000)	8.6%
Debt Outstanding at End of Year	<u>\$270,568,000</u>	<u>\$269,813,000</u>	<u>-0.3%</u>

Factors Impacting on the District's Future

- On December 12, 2012, the Harrisburg City School District was declared to be in a state of moderate fiscal distress under the terms of the Commonwealth's Act 141 of 2012. This designation led to the appointment of a Chief Recovery Officer (CRO), Gene G. Veno, on the same day. CRO Veno was charged with developing a Recovery Plan for the District that stabilized its finances while providing for academic improvement. The Recovery Plan was issued on April 26, 2013. The District's Board approved the plan on May 17, 2013 and it was approved by the Secretary of Education on May 31, 2013. The District's Board and Administration has worked diligently to address the various initiatives identified within the Recovery Plan. The Chief Recovery Officer is working to recalibrate the Recovery Plan in response to the positive financial outcome in the 2012-13 fiscal year.
- The Pennsylvania School Employees Retirement System (PSERS) retirement rate will increase 37% from 2012-2013 to 2013-2014, from 12.36% to 16.93% of qualified retirement wages. PSERS projections indicate that employer contribution rates will increase to 21.4% of qualified retirement wages in 2014-2015, a 26.4% increase and continue to rise for several years thereafter. In November 2010, the State Legislature passed Act 120 of 2010, which established rate caps for the employer contributions. Future increases are capped at 4.5% of the prior year's rate plus the premium assistance contribution rate.
- The District expects the historical trend for greater local tax effort to fund instructional programs and services to continue as state and federal funding for public education is expected to decline. The Commonwealth of Pennsylvania provided 48.2% of total revenue sources to fund cost supporting the District's educational programs during fiscal year 2013. Local sources, primarily property taxes support 39.9% of the cost for educational cost and services in Harrisburg City School District. Federal grants and other sources of revenue provide 11.9% of the funds to support programs and services provided by the District.

Factors Impacting on the District's Future - continued

- The previous teachers' contract began in the fiscal year 2007-2008 providing an average increase of 4.5% for the 2007-2008 year. The contract provided for an average increase of 4% for the following years 2008-2009, 2009-2010 and 2010-2011. The Union agreed to a no cost extension to the collective bargaining agreement for 2011-2012 through 2012-2013 and a one-year agreement with a 5% wage reduction and additional 5% employee share of health insurance premium for the 2013-14 fiscal year. Contract negotiations begin this winter for a new agreement.
- The previous classified employees' contract began in the fiscal year 2007-2008 providing for an average increase of 4.5% for the 2007-2008 year. The contract provided for an average increase of 4% for the following years 2008-2009, 2009-2010 and 2010-2011. The Union agreed to a no cost extension to the current collective bargaining agreement for 2011-2012 through 2012-2013 and a one-year agreement with a 5% wage reduction and additional 5% employee share of health insurance premium for the 2013-2014 fiscal year. Contract negotiations begin this winter for a new agreement.
- In recognition of a continuing decline in State and Federal funding for public education and a limited local tax base, the District has undertaken cost cutting measures to systematically reduce the District's budget including downsizing of staff and the closure of several schools.
- Expenditures reductions have also led to an improved cash flow eliminating the need for short-term borrowing and increasing fund balance.
- The District has assigned fund balance to address a variety of future budgetary concerns - health insurance costs, PSERS increases, debt service increases, capital improvements and information technology improvements.

Contacting the District's Financial Management

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

Respectfully submitted,

Sybil Knight-Burney, ED. D.
Superintendent

Peggy Morningstar,
Chief Financial Officer

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 27,358,849	\$ 8,977	\$ 27,367,826
Investments	1,708,331	1,025	1,709,356
Taxes receivable, net	15,228,983	-	15,228,983
Internal balance	1,323,439	-	1,323,439
Due from other governments	6,706,424	82,988	6,789,412
Other receivables	1,091,074	87,219	1,178,293
Prepaid expenses	54,862	-	54,862
Inventories	963	48,486	49,449
	53,472,925	228,695	53,701,620
NONCURRENT ASSETS			
Sinking fund investments	3,896,116	-	3,896,116
Bond discounts and issue costs, net	7,382,778	-	7,382,778
Land and site improvements, net	13,700	-	13,700
Building and building improvements, net	188,659,462	-	188,659,462
Furniture and equipment, net	3,685,717	91,860	3,777,577
Construction in progress	1,578,297	-	1,578,297
Deferred outflow	23,672,566	-	23,672,566
	228,888,636	91,860	228,980,496
	\$282,361,561	\$ 320,555	\$282,682,116

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Internal balance	\$ 14,425	\$ 1,285,534	\$ 1,299,959
Accounts payable	7,148,934	14,089	7,163,023
Accrued interest	1,606,097	-	1,606,097
Current portion of long-term debt	3,005,000	-	3,005,000
Current portion of capital leases	602,040	-	602,040
Current portion of compensated absences	200,892	22,892	223,784
Deferred subsidy revenue	491,530	17,348	508,878
Accrued salaries and benefits	<u>5,526,400</u>	<u>158,883</u>	<u>5,685,283</u>
 Total current liabilities	 18,595,318	 1,498,746	 20,094,064

NONCURRENT LIABILITIES

Long-term debt net of current portion	266,808,000	-	266,808,000
Premium on issue of swap	2,834,589	-	2,834,589
Premium on bond issue	763,307	-	763,307
Capital leases	486,539	-	486,539
Compensated absences	1,995,249	30,497	2,025,746
Derivative instruments - swaps	24,040,135	-	24,040,135
Other post-employment benefits liability	<u>1,739,192</u>	<u>127,394</u>	<u>1,866,586</u>
 Total noncurrent liabilities	 <u>298,667,011</u>	 <u>157,891</u>	 <u>298,824,902</u>
 Total liabilities	 317,262,329	 1,656,637	 318,918,966

NET POSITION

Restricted for debt service	5,614,283	-	5,614,283
Net investment in capital assets	(68,815,863)	91,860	(68,724,003)
Unrestricted	<u>28,300,812</u>	<u>(1,427,942)</u>	<u>26,872,870</u>
 Total net position	 <u>(34,900,768)</u>	 <u>(1,336,082)</u>	 <u>(36,236,850)</u>
	<u>\$282,361,561</u>	<u>\$ 320,555</u>	<u>\$282,682,116</u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Govern- mental Activities	Business- Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 79,960,849	\$ 2,278,642	\$ 18,259,386	\$ (59,422,821)	\$ -	\$ (59,422,821)
Instructional student support	6,734,194	-	3,991,422	(2,742,772)	-	(2,742,772)
Administrative and financial support services	9,315,466	-	548,954	(8,766,512)	-	(8,766,512)
Operation and maintenance of plant services	9,689,938	-	1,968,694	(7,721,244)	-	(7,721,244)
Pupil transportation	2,519,936	-	1,279,694	(1,240,242)	-	(1,240,242)
Student activities	469,614	-	457,359	(12,255)	-	(12,255)
Central and other support services	2,018,789	-	715,744	(1,303,045)	-	(1,303,045)
Community services	318,643	-	288,831	(29,812)	-	(29,812)
Interest/fiscal charges on long-term debt	13,905,198	-	-	(13,905,198)	-	(13,905,198)
 Total governmental activities	 124,932,627	 2,278,642	 27,510,084	 (95,143,901)	 -	 (95,143,901)
BUSINESS-TYPE ACTIVITIES						
Food service	5,442,950	268,150	5,198,812	-	24,012	24,012
 Total primary government	 <u>\$ 130,375,577</u>	 <u>\$ 2,546,792</u>	 <u>\$ 32,708,896</u>	 (95,143,901)	 24,012	 (95,119,889)
 GENERAL REVENUES						
Taxes				48,765,786	-	48,765,786
Grants, subsidies and contributions not restricted				52,634,582	-	52,634,582
Investment earnings - derivatives				73,889	-	73,889
Investment earnings				757,648	1	757,649
Miscellaneous income				846,071	-	846,071
				<u>103,077,976</u>	<u>1</u>	<u>103,077,977</u>
 CHANGE IN NET POSITION				 7,934,075	 24,013	 7,958,088
NET POSITION - BEGINNING - restated				<u>(42,834,843)</u>	<u>(1,360,095)</u>	<u>(44,194,938)</u>
NET POSITION - ENDING				<u>\$ (34,900,768)</u>	<u>\$ (1,336,082)</u>	<u>\$ (36,236,850)</u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

ASSETS

	General Fund	Debt Service Fund	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 26,305,964	\$ 672,489	\$ 380,396	\$ 27,358,849
Investments	46,255	1,662,076	-	1,708,331
Taxes receivable, net	15,228,983	-	-	15,228,983
Due from other funds	1,323,439	-	-	1,323,439
Due from other governments	6,706,424	-	-	6,706,424
Other receivables	1,091,074	-	-	1,091,074
Prepaid expenses	54,862	-	-	54,862
Inventories	963	-	-	963
Sinking fund investments	-	3,896,116	-	3,896,116
	<u>\$ 50,757,964</u>	<u>\$ 6,230,681</u>	<u>\$ 380,396</u>	<u>\$ 57,369,041</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 7,148,064	\$ -	\$ 870	\$ 7,148,934
Due to other funds	-	-	14,425	14,425
Accrued salaries and benefits	5,526,400	-	-	5,526,400
Deferred revenues	15,429,868	-	-	15,429,868
	<u>28,104,332</u>	<u>-</u>	<u>15,295</u>	<u>28,119,627</u>

FUND BALANCES

Nonspendable:				
Reserve for inventories	963	-	-	963
Interfund receivable	1,323,439	-	-	1,323,439
Prepaid expenses	54,862	-	-	54,862
Restricted:				
2002 QZAB	-	3,373,056	-	3,373,056
2010 Debt service fund	-	2,241,227	-	2,241,227
Committed:				
Athletics and band reserve	402,381	-	-	402,381
2009 Debt series	-	616,398	-	616,398
Assigned:				
Capital projects fund	-	-	284,401	284,401
Special revenue fund	-	-	95,995	95,995
Health insurance stabilization	1,500,000	-	-	1,500,000
PSERS increases	5,000,000	-	-	5,000,000
Debt service increases	3,000,000	-	-	3,000,000
Capital improvements	3,000,000	-	-	3,000,000
Information Technology improvements	1,500,000	-	-	1,500,000
Unassigned:				
General fund	6,871,987	-	-	6,871,987
Capital projects fund	-	-	(15,295)	(15,295)
	<u>22,653,632</u>	<u>6,230,681</u>	<u>365,101</u>	<u>29,249,414</u>
	<u>\$ 50,757,964</u>	<u>\$ 6,230,681</u>	<u>\$ 380,396</u>	<u>\$ 57,369,041</u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 29,249,414
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$282,828,072 and the accumulated depreciation is \$88,890,896.</p>	193,937,176
<p>Taxes receivable that are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds, net of allowance.</p>	14,938,338
<p>To record other post-employment benefits (OPEB)</p>	(1,739,192)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:</p>	
Bonds payable	\$ (269,813,000)
Accrued interest on the bonds	(1,606,097)
Bond issue costs (net of accumulated amortization)	7,382,778
Capital leases	(1,088,579)
Premium on issue of swap	(2,834,589)
Premium on bond issue	(763,307)
Compensated absences	(2,196,141)
	(270,918,935)
<p>To record GASB 53 fair market value</p>	(367,569)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ (34,900,768)</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(DEFICIT) - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General Fund	Debt Service Fund	Non- Major Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 52,712,730	\$ 131,088	\$ 737	\$ 52,844,555
State sources	63,650,390	-	-	63,650,390
Federal sources	15,697,660	-	-	15,697,660
Total revenues	<u>132,060,780</u>	<u>131,088</u>	<u>737</u>	<u>132,192,605</u>
EXPENDITURES				
Instruction	72,731,774	-	-	72,731,774
Support services	31,553,661	-	-	31,553,661
Noninstructional services	788,257	-	-	788,257
Facility acquisition and improvement	-	-	2,404,492	2,404,492
Debt service (principal, interest and fees)	13,174	14,488,187	-	14,501,361
Total expenditures	<u>105,086,866</u>	<u>14,488,187</u>	<u>2,404,492</u>	<u>121,979,545</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	26,973,914	(14,357,099)	(2,403,755)	10,213,060
OTHER FINANCING SOURCES (USES)				
Transfers in	-	15,383,960	2,908,962	18,292,922
Transfers out	(15,383,960)	(2,908,962)	-	(18,292,922)
Refunds of prior years receipts	(807,619)	-	-	(807,619)
Total other financing sources (uses)	<u>(16,191,579)</u>	<u>12,474,998</u>	<u>2,908,962</u>	<u>(807,619)</u>
NET CHANGE IN FUND BALANCES	10,782,335	(1,882,101)	505,207	9,405,441
FUND BALANCE (DEFICIT) - BEGINNING	<u>11,871,297</u>	<u>8,112,782</u>	<u>(140,106)</u>	<u>19,843,973</u>
FUND BALANCE - ENDING	<u>\$ 22,653,632</u>	<u>\$ 6,230,681</u>	<u>\$ 365,101</u>	<u>\$ 29,249,414</u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

**TOTAL NET CHANGE IN FUND BALANCES -
GOVERNMENTAL FUNDS** \$9,405,441

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

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

Depreciation expense	\$ (7,747,675)	
Capital outlays	3,360,053	
Construction in progress	<u>1,578,297</u>	
		(2,809,325)

Because some taxes will not be collected for
several months after the District's fiscal year ends, they are not
considered as "available" revenues in the governmental funds.
Deferred tax revenues increased by this amount this year. 602,661

Capital leases are recorded as expenditures in the governmental funds
but are recorded as long-term liabilities in the statement of net position. (1,067,380)

Repayment of bonds and capital leases is an expenditure
in the governmental funds, but the repayment reduces
long-term liabilities in the statement of net position. 1,366,654

Payments on the premium on swap issue is recorded in the
governmental funds in 2013, the premium is being amortized
and interest expense is being recorded on the premium amount.
The SWAP premium decreased this year by this amount. 166,971

Interest on serial bonds is recorded in the
governmental funds when paid, but the statement of
activities records interest expense as it is incurred.
Accrued interest decreased by this amount this year. 46,096

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - continued
YEAR ENDED JUNE 30, 2013

To record the change in other post-employment benefits (OPEB) liability.	39,159
<p>Bond issue costs are recorded as expenditures in the governmental funds, but are recorded as long-term assets in the statement of net assets and amortized over the term of the bonds. Current bond issue costs are as follows:</p>	
Current year bond premium amortization	97,444
Current year bond issue costs amortization	(469,348)
<p>Accrued compensated absences are not recorded as expenditures in the governmental funds, but are in the statement of activities. Accrued compensated absences decreased by this amount this year.</p>	
GASB 53 measurement of change in fair value of ineffective SWAP	<u>73,889</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$7,934,075</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION -
PROPRIETARY FUND
JUNE 30, 2013

ASSETS

	<u>Food Service Fund</u>
CURRENT ASSETS	
Cash	\$ 8,977
Investments	1,025
Other receivables	87,219
Due from other governments	82,988
Inventories	<u>48,486</u>
 Total current assets	 228,695
NONCURRENT ASSETS	
Fixed assets, net	<u>91,860</u>
 Total assets	 <u><u>\$ 320,555</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES	
Accounts payable	\$ 14,089
Due to other funds	1,285,534
Accrued salaries and benefits	158,883
Current portion of compensated absences	22,892
Deferred subsidy revenues	<u>17,348</u>
 Total current liabilities	 1,498,746
NONCURRENT LIABILITIES	
Compensated absences	30,497
Other post-employment benefits	<u>127,394</u>
 Total noncurrent liabilities	 157,891
NET POSITION	
Invested in capital assets, net of related debt	91,860
Unrestricted	<u>(1,427,942)</u>
 Total net position	 <u>(1,336,082)</u>
 Total liabilities and net position	 <u><u>\$ 320,555</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service revenue	\$ 268,150
OPERATING EXPENSES	
Salaries	1,478,412
Employee benefits	969,152
Purchased property service	59,817
Other purchased service	19,707
Supplies	2,877,199
Depreciation	38,027
Other	<u>636</u>
Total operating expenses	<u>5,442,950</u>
OPERATING LOSS	<u>(5,174,800)</u>
NONOPERATING REVENUES	
Earnings on investments	1
Local sources	108,617
State sources	400,979
Federal sources	4,403,679
USDA donated commodities	<u>285,537</u>
Total nonoperating revenues	<u>5,198,813</u>
CHANGE IN NET POSITION	24,013
NET POSITION - BEGINNING	<u>(1,360,095)</u>
NET POSITION - ENDING	<u><u>\$ (1,336,082)</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 224,944	
Cash payments to employees for services	(2,542,877)	
Cash payments to suppliers for goods and services	(3,196,518)	
Cash payments for other operating expenses	<u>(636)</u>	
Net cash used in operating activities		\$ (5,515,087)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants and subsidies received for non-operating activities:		
Local	108,617	
State	435,601	
Federal	<u>4,999,918</u>	
Net cash provided by noncapital financing activities		5,544,136
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment		(22,132)
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments		<u>1</u>
NET DECREASE IN CASH		6,918
CASH - BEGINNING OF YEAR		<u>2,059</u>
CASH - END OF YEAR		<u><u>\$ 8,977</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss		\$ (5,174,800)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation	\$ 38,027	
Donated commodities	285,537	
(Increase) decrease in:		
Inventory	33,642	
Other receivables	(43,206)	
Increase (decrease) in:		
Accounts payable	(48,665)	
Due to other funds	(510,309)	
OPEB liability	25,445	
Accrued salaries and benefits	4,355	
Accumulated compensated absences	<u>(125,113)</u>	
Total adjustment		<u>(340,287)</u>
Net cash used in operating activities		<u><u>\$ (5,515,087)</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

ASSETS

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 118,549	\$ 189,224
Investments	-	28,811
Other receivables	-	2,771
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 118,549</u></u>	<u><u>\$ 220,806</u></u>

LIABILITIES AND NET POSITION

LIABILITIES		
Accounts payable	\$ -	\$ 25,762
Due to other funds	7,793	15,687
Funds held for others	-	179,357
	<u> </u>	<u> </u>
Total liabilities	7,793	220,806
 NET POSITION		
Restricted	<u>110,756</u>	<u>-</u>
	<u><u>\$ 118,549</u></u>	<u><u>\$ 220,806</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2013

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Receipts	\$ 3,785
DEDUCTIONS	
Other	<u>16,312</u>
CHANGE IN NET POSITION	(12,527)
NET POSITION - BEGINNING	<u>123,283</u>
NET POSITION - ENDING	<u><u>\$110,756</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Related Organization

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

The CAIU is a regional education service agency located in central Pennsylvania that has responsibility for providing services in the areas of curriculum development and instructional improvement, educational planning, instructional materials, continuing professional education, pupil personnel, state and federal agency liaison, management services, and special education services. The CAIU serves 24 public school districts, 2 vocational technical schools, and over 50 non-public schools, several charter schools and cyber charter schools.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Related Organization - continued

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

Government-Wide Financial Statements

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

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

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

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

In June 2011, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Policy for Eliminating Internal Activity - Government-Wide Financial Statements

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

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

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

Program Revenues - Government-Wide Financial Statements

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

Policy for Defining Operating and Nonoperating Revenues of Proprietary Funds

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

Policy Regarding Applying Restricted or Unrestricted Revenues

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Accounting

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

Governmental Fund Types

General Fund

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

Special Revenue Funds

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

1. Capital Reserve Fund; authorized by P.L. 145, Act of April 30, 1943, known as Section 1431 of Municipal Code.

Capital Project Funds

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

1. Series 2008 Note - accounts for the costs of acquiring a piece of property and costs of making improvements and renovations to school buildings as financed by the Series 2008 General Obligation Note. The Series 2008 Note was refunded with the Series 2009A Fund.
2. Series 2010 Note - accounts for the costs of HVAC and other related renovations to school buildings as financed by the Series 2010 General Obligation Note.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Governmental Fund Types - continued

Debt Service Funds

1. Series 2002 QZAB Fund - accounts for the sinking fund established by the Series of 2002 General Obligation Qualified Zone Academy Bonds.
2. Series 2009A Fund - accounts for the refinancing of Series 1999, 2006, and 2008 bond issues.
3. Series 2009B Fund - accounts for the refinancing of Series 2007, deficit financing, and new money.
4. Series 2009C Fund - accounts for the refinancing of Series 2002A bond issue.
5. Series 2009D Fund - accounts for the refinancing of Series 2003 bond issue.
6. Series 2010 Fund - accounts for the financing of the Series 2010 General Obligation Note.

Proprietary Fund Types

Enterprise Fund

The Enterprise Fund, an unbudgeted fund, is used to account for all revenue and expenses pertaining to cafeteria operations. The Enterprise Fund is utilized to account for operations that are financed and operated similar to private business enterprises where the stated intent is the costs (expenses, including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered through user charges.

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fiduciary Fund Types

Trust and Agency Funds

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

The following are the District's trust funds:

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

The following are the District's agency funds:

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

Measurement Focus/Basis of Accounting

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

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus/Basis of Accounting - continued

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

Modified Accrual Basis

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

Revenue from Local Sources

The District receives local revenues through various sources which include real estate taxes, earned income tax, occupation tax, local service tax, real estate transfer taxes, amusement tax and business privilege/mercantile tax.

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

The District's financial statements reflect delinquent occupation tax for the current and prior years. An allowance for estimated uncollectible school occupation taxes is based on a historical analysis of collections.

Revenue from State Sources

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

Revenue from Federal Sources

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Accrual Basis

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

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data presented in the financial statements:

- a. The official school budget was prepared for adoption for the General Fund only. The budget was formally adopted by the Board of School Directors at a duly advertised public meeting prior to the expenditure of funds. The budget was properly amended by the Board as needed throughout the year. The budget was adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- b. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.
- c. Unused appropriations for the General Fund lapse at the end of the year.
- d. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds.

Fund Balance Classification

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable amounts are disclosed on the Balance Sheet - Governmental Funds.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Balance Classification - continued

- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified the 2002 QZAB and 2010 Debt Service within the Debt Service Fund as being restricted because its use is limited by legislation or external parties.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of School Directors. These amounts cannot be used for any other purpose unless the Board of School Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District has classified the 2009 Debt series and the Athletics and Band Reserve as being committed resources.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the Superintendent and Chief Financial Officer through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has classified the Capital Projects and Special Revenue Funds as assigned resources. During the current year, the Board assigned amounts in the General Fund. The specific assignments are disclosed on the Balance Sheet - Governmental Funds.
- **Unassigned:** This classification includes the residual fund balance for the General Fund and the amount established for Minimum Funding which represents the portion of the General Fund balance that has been established by a Resolution of the Board of School Directors dated May 2, 2011. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts. The District will strive to maintain a fund balance of not less than 1% and not more than 8% of the annual approved budget.

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Inventory

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

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

Revenue Recognition - Property Taxes

Property taxes are levied on July 1. Taxes are collected at discount until August 31, at their face from September 1, until October 31, and include a penalty thereafter. All unpaid taxes levied July 1, become delinquent November 1, of the same year. The current year's millage for real estate taxes was 26.9650 mills. Interim taxes are assessed at various times during the year as needed. Annually, the District enters into an agreement of sale and purchase of unpaid real estate taxes with The Redevelopment Authority of the City of Harrisburg. The District conducted settlement on January 1, 2013 for the 2012-2013 unpaid real estate taxes.

Taxes receivable as reported on the combined balance sheet represents unpaid occupation taxes outstanding at June 30, 2013. Taxes receivable not deemed available under accounting principles generally accepted in the United States of America are included in deferred revenues.

Cash and Cash Equivalents

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

Vacation, Sick Leave and Other Compensated Absences

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

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Vacation, Sick Leave and Other Compensated Absences - continued

Eligible employees may accumulate an unlimited amount of sick leave. At the time of retirement, teachers are entitled to unused sick leave reimbursement at varying rates. Administrative employees are paid 25 percent of their accumulated unused sick leave at their current daily rate. In estimating the sick leave liability, the District determined whether it was probable that employees will, in the future, meet the conditions to receive a cash payment at termination for their sick leave balances.

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

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

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

Government-wide and Proprietary Fund Net Position

Government-wide and proprietary fund net position is divided into three components:

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

Pension Plan

All full-time employees of the District participate in a cost-sharing multiple employer defined benefit pension plan. The District made all required contributions for the year ended June 30, 2013, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investments

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

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

Derivative Financial Instruments

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

Interfund Transactions

During the course of normal operations, the school district has numerous transactions between funds, including expenditures and transfers of resources to provide services and service debt. Advances between funds which are not expected to be repaid are accounted for as transfers. In those cases where repayment is expected, the advances are accounted for through various due from and due to accounts. The amount due from the Proprietary Fund to the General Fund will not be repaid within the next twelve months.

Fixed Assets - Fund Financial Statements

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Memorandum Only Columns

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

Estimates

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

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

In June 2011, GASB issued Statement No.63, *Financial Reporting of Deferred Out-flows of Resources, Deferred Inflows of Resources, and Net Positions*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement clarifies the appropriate reporting of deferred inflows and deferred outflows of resources which were previously reported as assets and liabilities in order to be consistent with GASB Concepts Statement No. 4, *Elements of Financial Statements*. This statement is not effective until the financial statements for the period ending June 30, 2014. The District's management has not yet determined the impact, if any, of the implementation of this statement on the District's financial statements.

In April 2012, GASB issued Statement No. 66, *Technical Corrections 2012* - an amendment of GASB Statements No. 10 and 62 that is effective for the financial statements for the period ending June 30, 2014. The District's management has not yet determined the impact, if any, of the implementation of this statement on the District's financial statements.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements - continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This statement address reporting standards for defined benefit pension plans whether the plan's financial statements are in a separate financial report issued by the plan or in an employer's report. This statement is not effective until the financial statements for the period ending after June 30, 2014. The District's management has not yet determined the impact, if any, of the implementation of this statement on the District's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension Plans - an amendment of GASB Statement No. 27*. This statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is not effective until the financial statements for the period ending June 30, 2015. The District's management has not yet determined the impact, if any, of the implementation of this statement on the District's financial statements.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This statement will require a governmental entity that extends a non-exchange guarantee to recognize a liability, when qualitative factors and historical data indicates that it is more likely than not that the governmental entity will be required to make a payment on a guarantee. This statement is effective retroactively for periods that begin after June 15, 2013. The District's management has not determined the impact, if any, of the implementation of this statement on the District's financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing Statement No. 68. This statement is effective concurrent with State No. 68, for fiscal years beginning after June 15, 2014. The District's management has not determined the impact, if any, of the implementation of this statement on the District's financial statements.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2013, none of the District's bank balance of \$29,355,720 was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance (FDIC)	\$ 556,089
Secured by pooled collateral as permitted by Act 72 of the Commonwealth of Pennsylvania	<u>28,799,631</u>
Total	<u>\$29,355,720</u>

Reconciliation to Financial Statements

Covered by Federal Depository Insurance (FDIC)	\$ 556,089
Plus: funds covered under Act 72	28,799,631
Less: outstanding checks	<u>(2,412,107)</u>
Carrying amount - bank balances	26,943,613
Plus: deposits in pooled funds considered cash equivalents	<u>731,986</u>
Total cash per financial statements	<u>\$ 27,675,599</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

Investments

As of June 30, 2013, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>5 - 10</u>
Federal National Mortgage Association	\$3,316,967	\$3,316,967	\$ -	\$ -
PA School District Liquid Asset Fund	32,131	32,131	-	-
PA Local Government Investment Trust	1,783,162	1,783,162	-	-
PA Treasurer's INVEST Program for Local Governments	38,488	38,488	-	-
Treasury obligations funds	<u>1,195,521</u>	<u>1,195,521</u>	<u>-</u>	<u>-</u>
Total	<u>\$6,366,269</u>	<u>\$6,366,269</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

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

Credit Risk

The District does not have a formal investment policy that limits its investment choices to certain credit ratings. As of June 30, 2013, the District's investments were rated as:

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

Concentration of Credit Risk

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

Custodial Credit Risk

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

Reconciliation to Financial Statements

Total investments above	\$ 6,366,269
Less: deposits in pooled funds considered cash equivalents	<u>(731,986)</u>
Total investments per financial statements	<u>\$ 5,634,283</u>

NOTE C - PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment of the Business-Type Activities as of June 30, 2013, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Machinery and equipment	\$1,453,481	\$22,132	\$1,475,613
Accumulated depreciation	1,345,726	38,027	<u>1,383,753</u>
Net property, plant, and equipment			<u>\$ 91,860</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE C - PROPERTY, PLANT AND EQUIPMENT - continued

A summary of property, plant, and equipment for the Governmental Activities for the year ended June 30, 2013, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and land improvements	\$ 13,700	\$ -	\$ -	\$ 13,700
Building and improvements	239,625,155	7,074,095	-	246,699,250
Furniture and equipment	33,228,898	1,307,927	-	34,536,825
Construction in progress	<u>5,020,332</u>	<u>1,578,297</u>	<u>5,020,332</u>	<u>1,578,297</u>
Total capital assets	<u>277,888,085</u>	<u>9,960,319</u>	<u>5,020,332</u>	<u>282,828,072</u>
Less accumulated depreciation:				
Building and improvements	52,342,093	5,697,694	-	58,039,787
Furniture and equipment	<u>28,801,128</u>	<u>2,049,981</u>	<u>-</u>	<u>30,851,109</u>
Total accumulated depreciation	<u>81,143,221</u>	<u>\$7,747,675</u>	<u>\$ -</u>	<u>88,890,896</u>
Net property, plant and equipment	<u>\$ 196,744,864</u>			<u>\$193,937,176</u>

Depreciation was charged to individual functions as follows:

Instructional	\$ 1,784,950
Instructional support	107,993
Administrative	220,401
Operation of plant and maintenance	4,257,714
Central support services	1,195,937
Student activities	180,512
Community services	<u>168</u>
Total	<u>\$ 7,747,675</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

A summary of the taxes receivable and related accounts recorded at the fund level at June 30, 2013, follows:

	<u>Earned Income</u>	<u>Real Estate Transfer</u>	<u>School Occupation</u>	<u>Total</u>
Current taxes collected by City, County, or Tax Claim Bureau by June 30, and remitted shortly thereafter	\$129,805	\$ 15,883	\$ 144,957	\$ 290,645
Deferred tax revenues	-	-	<u>14,938,338</u>	<u>14,938,338</u>
Taxes receivable, net	<u>\$129,805</u>	<u>\$ 15,883</u>	<u>\$ 15,083,295</u>	<u>\$ 15,228,983</u>

Deferred revenues consist of the following:

Taxes receivable which were not collected within 60 days subsequent to June 30, 2013			\$ 14,938,338	
Deferred subsidies			<u>491,530</u>	
Total			<u>\$ 15,429,868</u>	
Taxes receivable	\$129,805	\$ 15,883	\$ 22,331,004	\$22,476,692
Estimated uncollectible taxes	-	-	<u>(7,247,709)</u>	<u>(7,247,709)</u>
Taxes receivable, net	<u>\$129,805</u>	<u>\$ 15,883</u>	<u>\$ 15,083,295</u>	<u>\$15,228,983</u>

NOTE E - INVENTORIES

A schedule of the Business-Type Activities' inventories at June 30, 2013, follows:

Material and supplies	\$ 5,103
Purchased food	27,344
Donated commodity food	<u>16,039</u>
	<u>\$48,486</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE F - ACCRUED SALARIES AND BENEFITS

Accrued salaries principally represent teachers' salaries earned during the 2012/2013 school year that were paid subsequent to June 30, 2013. Accrued retirement, social security, and workers' compensation represent the District's liability on salaries paid during June 2013 and on accrued salaries at June 30, 2013. Accrued payroll withholdings represent the employees' share of retirement, social security and other benefits not remitted to the respective entities as of June 30, 2013.

NOTE G - BONDS AND NOTES PAYABLE

A summary of bonds and notes payable at June 30, 2013, which were issued to finance various school facilities acquisitions and renovations follows:

<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
<u>Bonds Payable</u>			
July 31, 2002 - Series 2002 QZAB	July 30, 2016	0.00%	\$ 5,104,000
May 1, 2009 - Series 2009A	November 15, 2033	4.00% to 4.13%	133,765,000
May 1, 2009 - Series 2009B	November 15, 2020	3.50% to 5.25%	22,855,000
May 1, 2009 - Series 2009C	November 15, 2017	4.88% to 5.95%	26,605,000
June 25, 2009 - Series 2009D	December 1, 2027	5.25%	72,295,000
<u>Notes Payable</u>			
Oct 6, 2010 - Series 2010 QSCB	September 15, 2027	5.00%	<u>9,189,000</u>
			<u>\$269,813,000</u>

On August 1, 2002, the District issued \$5,104,000 of General Obligation Qualified Zone Academy Bonds. Proceeds of the bonds were used for payment of costs of rehabilitating or repairing Lincoln Elementary School, purchasing and installing equipment therein and to pay the costs of issuance. The District is required to deposit \$305,046 on July 30th of each year to the sinking fund until maturity. As of June 30, 2013, the District has restricted cash and investments of \$3,316,967 in the sinking fund.

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

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE G - BONDS AND NOTES PAYABLE - continued

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

On June 25, 2009, the State Public School Building Authority issued \$74,850,000 of variable rate School Revenue Bonds, Series 2009D. Proceeds of the bonds were used to refund the Series 2003 adjustable rate School Revenue Bonds and pay the costs of issuance. The variable rate is determined by the remarketing agent in accordance with defined interest rate adjustment dates, interest rate determination or reset dates, and interest rate periods. The interest rate on the bond was effectively fixed at 5.25% through the swap arrangements discussed in Note H.

On October 6, 2010, the District obtained a \$9,194,000 note under the Pennsylvania State Public School Building Authority Qualified School Construction Bond Program, Series 2010 QSCB. Proceeds of the note are to be used for HVAC and roofing projects at several of the schools and to pay the costs of issuance. The note carries an interest rate of 5% annually that is partially offset by federal subsidies, with interest payments due March 15 and September 15.

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 3,579,313	\$ 14,182,345	\$ 17,761,658
2015	6,939,313	13,957,980	20,897,293
2016	7,414,313	13,627,048	21,041,361
2017	12,913,313	13,244,150	26,157,463
2018	8,974,313	12,800,171	21,774,484
2019 - 2023	52,066,563	57,154,380	109,220,943
2024 - 2028	69,326,563	39,690,360	109,016,923
2029 - 2033	87,745,000	16,136,795	103,881,795
2034	<u>20,280,000</u>	<u>498,600</u>	<u>20,778,600</u>
Totals	<u>\$ 269,238,691</u>	<u>\$ 181,291,829</u>	<u>\$ 450,530,520</u>

The annual payment of \$305,046 to the sinking fund for the 2002 QZAB bond issue is not included in the schedule of principal payments for the fiscal years 2014-2017; however, the accumulated amounts of these payments are included in the fiscal year 2017 debt service requirement, which will be used to retire the outstanding bond on July 30, 2016.

The future principal payments scheduled above are net of the annual payment of \$574,309 to a debt service fund made during the current year for the 2010 QSCB bond issue.

Interest expense totaled \$13,159,000 for the year ended June 30, 2013.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE G - BONDS AND NOTES PAYABLE - continued

Changes in Bonds and Notes Payable

Changes in bonds and notes payable during the year ended June 30, 2013, follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
Bonds payable:				
August 2002 issue	\$ 5,104,000	\$ -	\$ -	\$ 5,104,000
Series 2009A issue	133,765,000	-	-	133,765,000
Series 2009B issue	22,855,000	-	-	22,855,000
Series 2009C issue	26,610,000	-	(5,000)	26,605,000
Series 2009D issue	73,045,000	-	(750,000)	72,295,000
Notes payable:				
October 2010 issue	<u>9,189,000</u>	<u>-</u>	<u>-</u>	<u>9,189,000</u>
Total	<u>\$ 270,568,000</u>	<u>\$ -</u>	<u>\$ (755,000)</u>	<u>\$ 269,813,000</u>

NOTE H - SWAP TRANSACTIONS

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

At June 30, 2013, the District has the following derivative instruments outstanding (in thousands):

		<u>Fair Value</u>		<u>Changes in Fair Value</u>	
	<u>Notional</u> <u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>
Governmental Activities:					
<i>Cash flow hedges:</i>					
A	Pay-fixed interest rate swap	\$ 21,258	Deferred outflow	\$ (7,102)	Deferred inflow \$ 2,200
B	Pay-fixed interest rate swap	49,602	Deferred outflow	(16,571)	Deferred inflow 5,133
C	Basis swap	133,765	Investment	(367)	Investment gain 74

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE H - SWAP TRANSACTIONS - continued

Swap Agreements

The School District currently has three interest rate swap agreements with three separate counterparties. The estimated fair value of the interest rate swaps was a net unrealized loss position of \$24,040,135 at June 30, 2013 and is recorded as a liability. The current notional amount for all three agreements is \$204,625,000. The School District utilized a regression method analysis to evaluate the hedge effectiveness for their interest rate swap portfolio. This method evaluates effectiveness by measuring the statistical relationship between the fair value or cash flows of the potential interest rate swap and the item it is hedged against. The analysis confirmed that the changes in cash flows of the potential interest rate swap instrument substantially offsets the changes in cash flows of the item hedged against and met within reason all required criteria.

Fair Values

Accounting Standards Codification 820, "Fair Value Measurements", provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. Accounting Standards Codification 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting Standards Codification 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Accounting Standards Codification 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. The swaps are classified as Level 2 in the fair value hierarchy.

Fair values for the School District's interest rate swap portfolio were estimated using the comparable fair values using the zero-coupon method. This calculates the future net settlement payments or future cash flows, assuming that current rates implied by the comparable yield curve correctly anticipate future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Swap Payments and Associated Debt

Using rates at June 30, 2013, the debt service requirements of the variable-rate debt and net swap payments, assuming interest rates remain substantially similar based on their term are within acceptable levels. As interest rates vary, variable-rate bonds interest rate payments and net swap payments will vary.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE H - SWAP TRANSACTIONS - continued

Hedging Derivative Instruments - Objectives and Terms

The objectives and terms of the District's hedging derivative instruments outstanding at June 30, 2013, and counterparty credit ratings are as follows (in thousands):

<u>Instr.</u>	<u>Derivative Type</u>	<u>Counterparty Credit Rating</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>
A	Pay-fixed interest rate swap	AA-/Aa3	Hedge changes in cash flows on the 2009D obligation Bonds	\$21,258	5/15/09	12/1/27	Pay 5.25% Receive 63% of 1 month LIBOR plus .2%
B	Pay-fixed interest rate swap	A2/AA-	Hedge changes in cash flows on the 2009D obligation Bonds	\$49,602	5/15/09	12/1/27	Pay 5.25% Receive 63% of 1 month LIBOR plus .2%
C	Basis Swap	A+/A2	Hedge changes in cash flows on the 2009A obligation Bonds	\$133,765	11/15/09	11/15/33	Pay SIFMA Municipal Swap Index Receive 74% of 3 month LIBOR plus .3113%

Derivative Instrument Risks

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE H - SWAP TRANSACTIONS - continued

It is also the District's policy to negotiate netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, the non-defaulting party may accelerate and terminate all outstanding transactions and net their fair values so that a single amount will be owed by (or to) the nondefaulting party. As of June 30, 2013, the District is in a negative position after netting the basis swaps with the interest rate swaps and, therefore, there is no credit risk.

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

Basis risk: The District is exposed to basis risk on its pay-fixed interest rate swaps hedging derivative instruments (Instruments A and B) because the variable rate payments received on these derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable-rate debt, which is remarketed every 30 days. As of June 30, 2013, the weighted average interest rate on the District's hedged variable-rate debt is 5.25 percent, while the 63% of LIBOR plus .2% is .32 percent.

The District is exposed to basis risk on its basis swaps hedging derivative instruments (Instrument C) because the variable rate payments received on these derivative instruments are based on a rate or index other than rate or index interest rates the District pays on its hedged variable-rate debt. As of June 30, 2013, the interest rates paid and received under the basis swaps are as follows:

Instrument C	74% of 3 month LIBOR plus .3113% is .51 percent.	SIFMA Municipal swap Index rate is .06 percent.
--------------	---	--

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE H - SWAP TRANSACTIONS - continued

Swap Payments and Associated Debt

Using rates as of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year ending June 30,	Variable-rate Bonds		Interest rate Swaps, net	Total
	Principal	Interest		
2014	\$ 5,000	\$ 6,883,131	\$ 2,955,580	\$ 9,843,711
2015	5,000	6,883,095	2,955,334	9,843,429
2016	155,000	6,882,519	2,947,695	9,985,214
2017	175,000	6,881,331	2,939,070	9,995,401
2018	525,000	6,878,811	2,913,197	10,317,008
2019 - 2023	30,715,000	32,929,786	13,853,895	77,498,681
2024 - 2028	66,455,000	29,056,028	2,837,136	98,348,164
2029 - 2033	87,745,000	16,136,795	(1,295,344)	102,586,451
2034	20,280,000	498,600	(92,038)	20,686,562
	<u>\$ 206,060,000</u>	<u>\$ 113,030,096</u>	<u>\$ 30,014,525</u>	<u>\$ 349,104,621</u>

NOTE I - CAPITAL LEASES

Lease Purchase Obligations

On February 20, 2013, the District entered into an agreement with Dell for the leasing of computers. The lease duration is for three years with annual payments of \$183,586.

On December 12, 2012, the District entered into an agreement with F.N.B. Commercial Leasing for the leasing of technology equipment. The lease duration is set for three years with annual payments of \$181,803.

On October 31, 2011, the District entered into an agreement with Dell for the leasing of laptop computers. The lease duration is for four years with annual payments of \$134,990.

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

Total lease payments, including interest, made during the year ended June 30, 2013, were \$637,968.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE I - CAPITAL LEASES - continued

Future minimum lease payments of capital leases as of June 30, 2013, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 602,040	\$29,862	\$ 631,902
2015	<u>486,539</u>	<u>13,508</u>	<u>500,047</u>
Total	<u>\$1,088,579</u>	<u>\$43,370</u>	<u>\$1,131,949</u>

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

	<u>Governmental Activities</u>
Furniture and equipment	\$2,091,424
Less: accumulated amortization	<u>1,002,180</u>
Net value	<u>\$1,089,244</u>

Amortization of leased equipment is included with depreciation expense.

Changes in Capital Leases

Changes in capital leases during the year ended June 30, 2013, were as follows:

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Technology equipment	<u>\$631,216</u>	<u>\$1,069,017</u>	<u>\$ (611,654)</u>	<u>\$1,088,579</u>

NOTE J - DEFINED BENEFIT PENSION PLAN

Plan Description

Name of Plan:	The Public School Employees' Retirement System (the System).
Type of Plan:	Governmental cost sharing multiple-employer defined benefit plan.
Benefits:	Retirement and disability, legislative mandated ad hoc cost-of-living adjustments, health care insurance premium assistance to qualifying annuitants.
Authority:	The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-8535).

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE J - DEFINED BENEFIT PENSION PLAN - continued

Plan Description - continued

Annual Financial
Report:

The System issues a comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. This report is also available in the publications section of the PSERS website at www.psers.state.pa.us.

Funding Policy
Authority:

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

Contribution
Rates:

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

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013, the rate of employer's contribution was 12.36 percent of covered payroll. The 12.36 percent rate is composed of a pension contribution rate of 11.50 percent and a .86 percent rate for health insurance premium assistance.

Contributions Required and Made

The School District's total payroll for the current year was \$45,106,942 while total covered payroll for retirement purposes was \$42,274,259.

Total contributions made during the year ended June 30, 2013, amounted to \$8,656,450 of which \$5,352,967 was made by the School District and \$3,303,483 was made by employees. Included in the District's contribution is a PSERS credit taken in the amount of \$31,542. These contributions represent 12.66 percent (District) and 7.81 percent (employees) of covered payroll.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE J - DEFINED BENEFIT PENSION PLAN - continued

Contributions Required and Made - continued

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

<u>Fiscal Year Ending</u>	<u>Total Contribution</u>	<u>Percent of Covered Payroll</u>
June 30, 2013	\$ 5,352,967	12.66%
June 30, 2012	4,375,834	8.65
June 30, 2011	3,009,682	5.64

NOTE K - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

Name of Plan: Harrisburg School District Post-Employment Benefits Plan.

Type of Plan: Single-employer defined OPEB plan.

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

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

Funding Policy

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

Contribution Rates:

Member Contributions: For the fiscal year ended June 30, 2013, retired employees paid \$353,062.

Employer Contributions: Employer contributions are made on a pay-as-you-go basis. In 2013, the amount of benefits paid was \$2,662,776.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE K - OTHER POST-EMPLOYMENT BENEFITS - continued

Funding Policy - continued

Net OPEB Obligation
 And Annual
 OPEB Cost:

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), and the amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount contributed to and the changes in the District's net OPEB liability.

Annual Required Contribution (ARC)	\$2,511,705
Interest on net OPEB obligation	(128,467)
Adjustment to ARC	<u>265,824</u>
Annual OPEB cost	2,649,062
Contributions	<u>(2,662,776)</u>
Decrease in net OPEB liability	(13,714)
Net OPEB liability - beginning of year (restated)	<u>1,880,300</u>
Net OPEB liability - end of year	<u>\$1,866,586</u>

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

<u>Year Ended</u>	<u>OPEB Cost</u>	<u>Contribution (ARC)</u>	<u>OPEB Cost Contributed</u>	<u>% of ARC Contributed</u>	<u>OPEB Liability</u>
06/30/2010	\$ 1,955,360	\$ 1,944,568	\$ 3,617,315	186.03%	\$ (662,656)*
06/30/2011	2,733,136	2,676,058	2,178,430	81.04%	(1,265,933)*
06/30/2012	2,726,142	2,676,058	2,653,508	99.16%	(1,880,300)*
06/30/2013	2,649,062	2,511,705	2,662,776	106.01%	(1,866,586)

*Amount restated based on prior period adjustment, see Note U.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE K - OTHER POST-EMPLOYMENT BENEFITS - continued

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/08	\$ -	\$ 16,030,356	\$ 16,030,356	0.00%	\$55,949,258	28.65%
7/1/10	\$ -	\$ 22,202,676	\$ 22,202,676	0.00%	\$51,880,194	42.80%
7/1/12	\$ -	\$ 18,486,095	\$ 18,486,095	0.00%	\$42,274,529	43.73%

Actuarial Methods and Assumptions

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

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The entry age normal cost method actuarial valuation was used based upon census information provided as of May 2013. The actuarial assumptions included utilized a 4.50% interest rate and salary increases for spreading contributions over future pay. Salary increases are composed of a 3% cost of living adjustment, 1% real wage growth, and for teachers and administrators, a merit increase which varies by age from 0.25% to 3%. The valuation assumes a 7.5% healthcare cost trend for fiscal year 2012, reduced by decrements of .5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE K - OTHER POST-EMPLOYMENT BENEFITS - continued

The District provides post-employment health care benefits for certain retirees as required by the union contracts with teachers and administrative personnel, under the District's Early Retirement Incentive Program (ERIP). The benefits vary depending on whether the retiree was a teacher, an administrative employee or support staff. For teachers and administrators, the District pays 100 percent of the allowable benefits for employees who retire with 15 years or more of total service with the District and who meet the criteria for superannuation from either PSERS or from dual or joint combined service with PSERS and State Employees Retirement System (SERS). The District pays the costs of the benefits in effect at the date of retirement until the recipient reaches the age of 65. The District's contributions will be increased at a maximum of 7 percent per year. Costs in excess of 7 percent each year are reimbursed by the retiree. Expenditures of the District are presented net of this reimbursement.

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

As of June 30, 2013, there were 178 retirees who were receiving the premium-coverage benefit. For the year ended June 30, 2013, the District recognized expenditures of approximately \$2,662,776 for health care benefits for retirees.

NOTE L - COMPENSATED ABSENCES

A summary of the District's total compensated absence liabilities for the year ended June 30, 2013 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Vacation, sick, and personal days	<u>\$ 2,856,456</u>	<u>\$ -</u>	<u>\$ 606,926</u>	<u>\$ 2,249,530</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE M - INTERFUND BALANCES

Individual fund interfund receivable and payable balances at June 30, 2013, are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General	\$ 1,323,439	\$ -
Enterprise District food service	-	1,285,534
Non-major governmental funds	-	14,425
Fiduciary funds	<u>-</u>	<u>23,480</u>
	<u>\$ 1,323,439</u>	<u>\$1,323,439</u>

NOTE N - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2013, consisted of the following:

Amounts due from:	
Commonwealth of PA	\$ 1,155,468
Federal government as passed through the PA Department of Education	5,332,009
Tuition - other LEA's	207,427
Federal government as passed through the PA Department of Agriculture	82,988
City treasurer	<u>11,520</u>
Total	<u>\$ 6,789,412</u>

NOTE O - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; job-related injuries to employees; and natural disasters. The District has purchased various insurance policies to protect the assets of the District from these risks of loss. The amounts of settlements have not exceeded insurance coverage during the year ended June 30, 2013.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE P - COMMITMENTS AND CONTINGENCIES

Litigation

The School District is involved in several claims and lawsuits incidental to its operation in which the likelihood of an unfavorable outcome is not yet determinable. The eventual outcome, should not have a material impact on the District's financial position.

Pennsylvania Department of Education - Rental Subsidy

Pennsylvania Department of Education (PDE) has notified the School District that a portion of prior year's state reimbursements for rental subsidies will have to be returned due the School District's closing of certain buildings. Pursuant to discussions with PDE the estimated amount is \$ 365,000. The District recorded the estimated amount as an obligation as of June 30, 2013.

Grants

The School District is party to various grants with Federal and State agencies which are subject to program and compliance audits by the grantors or under the Single Audit Act Amendments of 1996. Findings and questioned costs arising out of such audits are subject to the ultimate disposition by the grantor agency.

During the year, the District returned funds in the amount of \$176,701 to the Department of Labor, based on a determination in prior years which disallowed the above amount of Youth Build expenditures previously claimed by the District.

Commitments

The District had construction contracts of approximately \$1,250,000 that were completed subsequent to June 30, 2013.

NOTE Q - RELATED PARTY TRANSACTIONS

The Capital Area Intermediate Unit provides special education services and other workshops to the District. During the year ended June 30, 2013, the District's expenditures relating to those services and workshops were \$675,610.

NOTE R - DEFICITS IN FUND BALANCE OF INDIVIDUAL FUND

At June 30, 2013, the following fund had a deficit fund balance:

Food Service Fund	\$1,336,082
Capital Projects Fund - Series 2010	\$15,295

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE S - HEALTH INSURANCE COVERAGE

For its health insurance, the School District uses a self-insured plan with a maximum aggregate eligible claims expense per participant of \$150,000 and a maximum aggregate benefit per policy term of \$2,000,000. Amounts in excess of \$150,000 are covered through a separate stop-loss policy.

The School District accrues expenses Incurred but Not Reported (IBNR) through June 30, 2013 through its accounts payable. At June 30, 2013, the amount accrued in accounts payable for IBNR is \$496,618.

NOTE T - CHANGE IN ESTIMATE

In prior years, the School District's management has used all employees that have been employed by the School District for at least five years in order to calculate the estimated liability for compensated absences. Based on review and consideration of employment trends at the School District over the past several years, management has made the decision to use all employees that have been employed by the School District for at least ten years in order to calculate the estimated liability for compensated absences, beginning with the current fiscal year.

This change in estimate resulted in a decrease in the School District's liability for compensated absences by \$292,300.

NOTE U - PRIOR PERIOD ADJUSTMENT

The School District's methodology, measurement and reporting of its obligation for Other Post-Employment Benefits (OPEB) were comprised of two components: (1) amount for current retired employees receiving benefits and (2) an estimated obligation for future employees' benefits on the government-wide statements. The most recent actuarial valuation as of July 1, 2012, pursuant to Governmental Accounting Standards Board Statement No. 45 measures the annual required contribution (ARC) and the OPEB obligation that includes both current and retired employees. Accordingly, the net adjustment to the beginning of year net position is a decrease of \$896,284.

The components of the net change were as follows:

Decrease in the post-employment benefits asset	\$ (4,735,119)
Decrease in Early Retirement Incentive liability	<u>3,838,835</u>
Net change to beginning net position	<u>\$ (896,284)</u>

This adjustment had no effect on the other post-employment benefits liability reported for the proprietary fund.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE U - PRIOR PERIOD ADJUSTMENT - continued

The effect of this change on the overall net position at June 30, 2012 is as follows:

Total governmental activities net position	\$ (41,938,559)
Prior period adjustment	<u>(896,284)</u>
Total governmental activities net position - restated	<u>\$ (42,834,843)</u>

NOTE V - SUBSEQUENT EVENTS

Subsequent to year-end, the District was notified by the Department of Labor that they would allow the District to draw down \$156,489 of funding that was returned during the year, for funds that were initially determined to be unallowable. The District has recorded a receivable for this amount as of June 30, 2013.

Subsequent to year-end, the District was made aware that they would be required to return unused bond proceeds in the amount of \$393,639. This amount has been included in the District's accounts payable at June 30, 2013.

In October 2013, the School District issued the Series of 2013 School Revenue Bonds in the amount of \$23,500,000 used to refinance the existing Series B of 2009 bond issue.

Management has evaluated subsequent events through December 20, 2013, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local revenues	\$49,556,802	\$50,009,683	\$52,712,730	\$ 2,703,047
State program revenues	60,119,663	62,816,647	63,650,390	833,743
Federal program revenues	20,437,694	20,437,694	15,697,660	(4,740,034)
Total revenues	130,114,159	133,264,024	132,060,780	(1,203,244)
EXPENDITURES				
Regular programs	51,042,116	49,541,132	45,002,494	4,538,638
Special programs	19,902,480	21,576,881	20,299,184	1,277,697
Vocational programs	1,980,000	2,725,000	2,723,577	1,423
Other instructional programs	5,590,590	5,584,742	3,972,080	1,612,662
Community/Jr college programs	750,000	750,000	734,439	15,561
Pupil personnel services	4,501,452	4,511,544	4,131,152	380,392
Instructional staff services	5,776,352	5,387,222	2,608,487	2,778,735
Administrative services	6,745,110	6,982,218	6,379,033	603,185
Pupil health	1,175,672	1,177,122	1,030,016	147,106
Business services	1,438,857	1,438,856	1,098,798	340,058
Operation and maintenance of plant services	11,830,917	11,830,917	8,863,742	2,967,175
Student transportation services	2,620,966	2,669,649	2,519,936	149,713
Central and other support services	3,619,401	3,714,901	3,171,226	543,675
Other support services	2,045,000	2,045,000	1,751,271	293,729
Student activities	21,735	595,171	469,614	125,557
Community services	376,626	519,036	318,643	200,393
Debt service	300,000	300,000	13,174	286,826
Total expenditures	119,717,274	121,349,391	105,086,866	16,262,525
Excess of revenues over expenditures	10,396,885	11,914,633	26,973,914	15,059,281

HARRISBURG CITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -
 BUDGET AND ACTUAL - GENERAL FUND - continued
 YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Refund prior year receipts	-	-	(807,619)	(807,619)
Transfers out	(15,911,569)	(16,070,650)	(15,383,960)	686,690
Budgetary reserve	(300,000)	(301,622)	-	301,622
	<u>(16,211,569)</u>	<u>(16,372,272)</u>	<u>(16,191,579)</u>	<u>180,693</u>
Total other financing sources (uses)				
Net change in fund balances	(5,814,684)	(4,457,639)	10,782,335	15,239,974
FUND BALANCE - BEGINNING	<u>-</u>	<u>-</u>	<u>11,871,297</u>	<u>11,871,297</u>
FUND BALANCE - ENDING	<u><u>\$ (5,814,684)</u></u>	<u><u>\$ (4,457,639)</u></u>	<u><u>\$ 22,653,632</u></u>	<u><u>\$ 27,111,271</u></u>

HARRISBURG CITY SCHOOL DISTRICT
OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 16,030,356	\$ 16,030,356	0%	\$ 55,949,258	28.65%
7/1/2010	-	22,202,676	22,202,676	0%	51,880,194	42.80%
7/1/2012	-	18,486,095	18,486,095	0%	42,274,529	43.73%

SUPPLEMENTARY INFORMATION

HARRISBURG CITY SCHOOL DISTRICT
COMBINING BALANCE SHEETS -
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

ASSETS

	Capital Projects			Special Revenue		
	Series 2008 Note	Series 2010 Bond	Total	Capital Reserve Fund	Total	Total
Cash and cash equivalents	\$ 284,401	\$ -	\$ 284,401	\$ 95,995	\$ 95,995	\$ 380,396
	<u>\$ 284,401</u>	<u>\$ -</u>	<u>\$ 284,401</u>	<u>\$ 95,995</u>	<u>\$ 95,995</u>	<u>\$ 380,396</u>

LIABILITIES AND FUND BALANCES (DEFICITS)

Liabilities:						
Accounts payable	\$ -	\$ 870	\$ 870	\$ -	\$ -	\$ 870
Due to other funds	-	14,425	14,425	-	-	14,425
	<u>-</u>	<u>14,425</u>	<u>14,425</u>	<u>-</u>	<u>-</u>	<u>14,425</u>
Total liabilities	-	15,295	15,295	-	-	15,295
Fund balances (deficits):						
Assigned	284,401	-	284,401	95,995	95,995	380,396
Unassigned	-	(15,295)	(15,295)	-	-	(15,295)
	<u>-</u>	<u>(15,295)</u>	<u>(15,295)</u>	<u>-</u>	<u>-</u>	<u>(15,295)</u>
Total fund balances (deficits)	284,401	(15,295)	269,106	95,995	95,995	365,101
	<u>284,401</u>	<u>(15,295)</u>	<u>269,106</u>	<u>95,995</u>	<u>95,995</u>	<u>365,101</u>
	<u>\$ 284,401</u>	<u>\$ -</u>	<u>\$ 284,401</u>	<u>\$ 95,995</u>	<u>\$ 95,995</u>	<u>\$ 380,396</u>

HARRISBURG CITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

	Capital Projects			Special Revenue		Total
	Series 2008 Note	Series 2010 Bond	Total	Capital Reserve Fund	Total	
REVENUES						
Local sources	\$ 710	\$ -	\$ 710	\$ 27	\$ 27	\$ 737
Total revenues	710	-	710	27	27	737
EXPENDITURES						
Facility acquisition and improvement	-	2,404,492	2,404,492	-	-	2,404,492
Total expenditures	-	2,404,492	2,404,492	-	-	2,404,492
Excess (deficiency) of revenues over expenditures	710	(2,404,492)	(2,403,782)	27	27	(2,403,755)
OTHER FINANCING SOURCES						
Transfers in	-	2,908,962	2,908,962	-	-	2,908,962
Total other financing sources	-	2,908,962	2,908,962	-	-	2,908,962
NET CHANGE IN FUND BALANCE (DEFICIT)	710	504,470	505,180	27	27	505,207
FUND BALANCE (DEFICIT) - BEGINNING	283,691	(519,765)	(236,074)	95,968	95,968	(140,106)
FUND BALANCE (DEFICIT) - ENDING	<u>\$ 284,401</u>	<u>\$ (15,295)</u>	<u>\$ 269,106</u>	<u>\$ 95,995</u>	<u>\$ 95,995</u>	<u>\$ 365,101</u>

HARRISBURG CITY SCHOOL DISTRICT
DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources:				
Taxes				
Current real estate taxes	\$ 33,781,802	\$ 33,781,802	\$ 34,437,171	\$ 655,369
Delinquent real estate taxes	5,500,000	5,500,000	4,801,128	(698,872)
Current school occupation	800,000	800,000	673,794	(126,206)
Delinquent school occupation	-	-	1,043,294	1,043,294
Earned income taxes	3,000,000	3,000,000	3,642,966	642,966
Real estate transfer	325,000	325,000	279,653	(45,347)
Emergency and municipal services tax	235,000	235,000	258,278	23,278
Payments in lieu of tax	900,000	900,000	1,070,056	170,056
Public utility realty tax	50,000	50,000	54,739	4,739
Amusement	250,000	250,000	193,398	(56,602)
Business and mercantile	1,600,000	1,600,000	1,708,648	108,648
Total taxes	46,441,802	46,441,802	48,163,125	1,721,323
Other:				
Tuition and other payments from patrons	320,000	320,000	99,366	(220,634)
Earnings from temporary deposits	635,000	635,000	757,648	122,648
Revenues from district activities	-	50,500	-	(50,500)
Rent from school and other facilities	35,000	35,000	123,402	88,402
Revenue received from other Pennsylvania public schools	-	-	336,810	336,810
Revenue received from other intermediate sources	1,900,000	1,900,000	1,842,466	(57,534)
Contributions from private sources	225,000	627,381	795,878	168,497
Miscellaneous	-	-	594,035	594,035
Total other	3,115,000	3,567,881	4,549,605	981,724
Total local sources	49,556,802	50,009,683	52,712,730	2,703,047

HARRISBURG CITY SCHOOL DISTRICT
 DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
 BUDGET AND ACTUAL - GENERAL FUND - continued
 YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
State sources:				
Basic instructional subsidy	42,065,523	43,797,685	43,779,689	(17,996)
Tuition reimbursement	100,000	100,000	63,306	(36,694)
Vocational education	-	-	3,772	3,772
Driver education - student	70	70	-	(70)
Special education of exceptional students	5,128,254	5,128,254	5,128,246	(8)
Act 30 - PRRI	2,000,000	2,000,000	1,712,347	(287,653)
Transportation	1,242,972	1,242,972	1,194,573	(48,399)
Medical and dental services	175,000	175,000	155,704	(19,296)
Retirement reimbursement	2,805,400	2,805,400	3,112,117	306,717
Social security	2,246,169	2,246,169	1,883,976	(362,193)
Sinking fund subsidy	1,500,000	1,500,000	2,847,800	1,347,800
Pennsylvania accountability block grant	-	964,822	964,822	-
State property tax reduction allocation	2,773,436	2,773,436	2,773,436	-
Other state revenues	82,839	82,839	30,602	(52,237)
Total state sources	60,119,663	62,816,647	63,650,390	833,743
Federal sources:				
Payments for federally impacted areas	200,000	200,000	-	(200,000)
Education Consolidation and Improvement Act - Title I	8,569,662	8,569,662	6,342,982	(2,226,680)
Access	300,000	300,000	154,164	(145,836)
Education for Economic Security Act - Title II	1,786,002	1,786,002	1,303,404	(482,598)
Language instruction for LEP and immigrant students - Title III	438,310	438,310	210,491	(227,819)
ARRA Title I School Improvements	6,946,401	6,946,401	5,438,845	(1,507,556)
ARRA QSCB subsidy	444,070	444,070	444,070	-
Other federal grants-in-aid	1,753,249	1,753,249	1,803,704	50,455
Total federal sources	20,437,694	20,437,694	15,697,660	(4,740,034)
Total local, state and federal sources	130,114,159	133,264,024	132,060,780	(1,203,244)
Total revenues	\$ 130,114,159	\$ 133,264,024	\$ 132,060,780	\$ (1,203,244)

HARRISBURG CITY SCHOOL DISTRICT
FIDUCIARY FUNDS - COMBINING BALANCE SHEET
JUNE 30, 2013

ASSETS

	Private Purpose Trust Funds			Agency Funds			
	Non-Expendable Trust Fund	Expendable Trust Fund	Total	Student Activity Fund	Agency Fund	SBI Agency Fund	Total
Cash and cash equivalents	\$ 25,210	\$ 93,339	\$ 118,549	\$ 78,063	\$ 105,090	\$ 6,071	\$ 189,224
Investments	-	-	-	28,811	-	-	28,811
Other receivables	-	-	-	2,501	270	-	2,771
	<u>\$ 25,210</u>	<u>\$ 93,339</u>	<u>\$ 118,549</u>	<u>\$ 109,375</u>	<u>\$ 105,360</u>	<u>\$ 6,071</u>	<u>\$ 220,806</u>

LIABILITIES AND FUND BALANCES

Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ 12,664	\$ 13,098	\$ -	\$ 25,762
Due to other funds	-	7,793	7,793	1,302	14,385	-	15,687
Funds held for others	-	-	-	95,409	77,877	6,071	179,357
	<u>-</u>	<u>7,793</u>	<u>7,793</u>	<u>109,375</u>	<u>105,360</u>	<u>6,071</u>	<u>220,806</u>
Total liabilities							
Fund balances:							
Reserved	25,210	85,546	110,756	-	-	-	-
	<u>\$ 25,210</u>	<u>\$ 93,339</u>	<u>\$ 118,549</u>	<u>\$ 109,375</u>	<u>\$ 105,360</u>	<u>\$ 6,071</u>	<u>\$ 220,806</u>

HARRISBURG CITY SCHOOL DISTRICT
FIDUCIARY FUNDS - NONEXPENDABLE TRUST FUND
DETAILED SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2013

	Revenues	Expenses	Excess (Deficiency) of Revenues Over Expenses	Fund Balance Beginning of Year	Fund Balance End of Year
Class of 1907 - Central H. S.	\$ 1	\$ -	\$ 1	\$ 301	\$ 302
Class of 1917 - Central H. S.	2	-	2	1,004	1,006
Class of 1918 - Central H. S.	2	-	2	903	905
Class of 1925 - Technical H. S.	1	-	1	1,005	1,006
Class of 1930 - William Penn H. S.	-	-	-	201	201
Class of 1931 - William Penn H. S.	-	-	-	302	302
Class of 1943 - William Penn H. S.	1	-	1	200	201
Class of 1958 - John Harris H. S.	1	-	1	200	201
E. E. Miller Award	-	-	-	100	100
Robert A. Lambertson	2	-	2	1,315	1,317
W. S. Steel Memorial (Class of 1915 and 1916 - Central H. S.)	-	-	-	402	402
Frannie Zarkin Katzan Award - William Penn H. S.	-	-	-	251	251
Marti-McCord Musical Achievement Award	2	-	2	1,506	1,508
William Penn High School Business Club Award	5	-	5	453	458
Annie Schlayer Award	1	-	1	528	529
Elizabeth Smith Award	1	-	1	496	497
Karen Lukens Safety Award	7	-	7	6,856	6,863
J. J. Brehm Award	1	-	1	452	453
Frank Goodyear Memorial	5	-	5	3,288	3,293
Jim Keener Memorial	2	-	2	1,058	1,060
Mary Warfield Award	1	-	1	301	302
C. Wolfgang Memorial	1	-	1	372	373
General Scholarship Fund	1	-	1	641	642
Barbara Baton Scholarship Fund	5	-	5	3,033	3,038
	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 42</u>	<u>\$ 25,168</u>	<u>\$ 25,210</u>

HARRISBURG CITY SCHOOL DISTRICT
FIDUCIARY FUNDS - EXPENDABLE TRUST FUND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2013

	<u>Revenues</u>	<u>Expenditures</u>	Excess (Deficiency) of Revenues Over Expenditures	Fund Balance Beginning of Year	Fund Balance End of Year
Evangeline Kimber Award	\$ -	\$ -	\$ -	\$ 1	\$ 1
Clenistine Dunson SBI Scholarship	194	5,812	(5,618)	85,417	79,799
D. Martin Memorial Scholarship Fund	28	-	28	4	32
Jack Devin Scholarship Fund	-	-	-	25	25
Woodrow Aikens Scholarship	10	-	10	4,308	4,318
John Black Scholarship	1	-	1	214	215
English Department Scholarship	1	-	1	113	114
Manny Weaver	-	-	-	2	2
Sunguard Senior Scholarship	-	-	-	204	204
David H. Goldsmith Scholarship	2,005	8,000	(5,995)	6,314	319
Scott Family Scholarship	3	1,000	(997)	1,509	512
James Booser Scholarship	1,501	1,500	1	4	5
	<u>\$ 3,743</u>	<u>\$ 16,312</u>	<u>\$ (12,569)</u>	<u>\$ 98,115</u>	<u>\$ 85,546</u>

HARRISBURG CITY SCHOOL DISTRICT
FIDUCIARY FUNDS - AGENCY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUNDS HELD FOR OTHERS
YEAR ENDED JUNE 30, 2013

	Account Balance Beginning of Year	Receipts	Disbursements	Account Balance End of Year
Student Activity Fund				
Elementary activity	\$ 29,755	\$ 17,161	\$ 9,493	\$ 37,423
Secondary activity	54,301	30,835	27,150	57,986
Total student activity fund	<u>\$ 84,056</u>	<u>\$ 47,996</u>	<u>\$ 36,643</u>	<u>\$ 95,409</u>
Agency Fund				
High and Middle Schools:				
Alumni Account - McIntosh	\$ 89	\$ -	\$ -	\$ 89
Life Skills Support	692	1	-	693
Ben Franklin Coke Commission	5,224	785	-	6,009
Downey Coke Commission	4,019	1,326	2,735	2,610
Rowland Coke Commission	6,128	680	3,065	3,743
Scott Coke Commission	6,570	606	-	7,176
Cheerleading Booster Club	2,496	7	-	2,503
Cougar Club	794	1,104	1,043	855
Girls Varsity Basketball	25	953	978	-
High School Band Boosters	1,669	500	3,072	(903)
CTA Culinary Arts	1	-	1	-
Boys Basketball Club	98	5,138	2,800	2,436
Explore After School	25	375	195	205
Melrose Commission Account	3,040	327	-	3,367
Marshall Commission Account	9,459	356	439	9,376
Track and Field Booster Club	1,545	3	1,500	48
Rowland Student Council	493	454	283	664
Shimmel Coke Commission	161	-	161	-
John Harris Coke Commission	16,066	5,004	14,097	6,973
Special Education Autism Account	1,594	1,787	1,479	1,902
Harrisburg High Music Account	173	-	-	173
Hbg School Special Olympics	208	200	-	408
Annex Coke Commission	369	436	165	640
Foose Coke Commission	5,045	316	3,232	2,129
Camp Curtain Commission	5,236	1,069	935	5,370
Marshall Staff Account	661	1	-	662
Rowland Girls Basketball Account	406	2	-	408
Rowland Cheerleading Account	670	2	-	672
Instrument Rental	5,452	389	2,227	3,614
Cougar Wrestling Club	391	152	370	173
Elementary Band Boosters	867	108	-	975
Sci-Tech Youth & Government	504	1	-	505
Sci-Tech Robotics Club	1,830	4	-	1,834
Sci-Tech Mock Trial Club	1	-	-	1
Kimber Basketball Tournament	2,195	931	2,030	1,096
Harrisburg Players	450	1	434	17
Smallwood Summer League	1,842	13,466	12,797	2,511
Special Education Facilitators	-	217	-	217
Hbg High Faculty Fund	-	8,726	-	8,726
Total agency fund	<u>\$ 86,488</u>	<u>\$ 45,427</u>	<u>\$ 54,038</u>	<u>\$ 77,877</u>
Agency Fund				
S.B.I. Fund	<u>\$ 5,012</u>	<u>\$ 1,059</u>	<u>\$ -</u>	<u>\$ 6,071</u>

SINGLE AUDIT INFORMATION

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

Board of School Directors
Harrisburg City School District

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Harrisburg City School District, which comprise the statement of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated December 20, 2013.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (FS 2013-001).

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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. (FS 2013-002 and FS 2013-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harrisburg City School District'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items SA 2013-001 through SA 2013-007.

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

- continued

Harrisburg City School District's Response to Findings

Harrisburg City School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Harrisburg City School District's responses were 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.

Stambaugh Ness, PC

York, Pennsylvania
December 20, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of School Directors
Harrisburg City School District

Report on Compliance for Each Major Federal Program

We have audited Harrisburg City School District's compliance with the types of compliance requirements described in OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Harrisburg City School District's major federal programs for the year ended June 30, 2013. Harrisburg City School District'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.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Harrisburg City School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 - continued

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items SA 2013-001 through SA 2013-007. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of Harrisburg City School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harrisburg City School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harrisburg City School District's internal control over compliance.

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 - continued

Report on Internal Control over Compliance - continued

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Stambaugh Ness, PC

York, Pennsylvania
December 20, 2013

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

GRANTOR PROGRAM TITLE	Source Code	Federal CFDA Number	Pass-Through Grantor's Number
<u>U.S. Department of Education</u>			
Impact Aid	D	84.041	N/A
<u>Total Passed Through the U.S. Department of Education</u>			
<u>Passed Through the Pennsylvania Department of Education:</u>			
Title I Grants to Local Educational Agencies (FYE 11-12)	I	84.010	013-120184
Title I Grants to Local Educational Agencies (FYE 12-13)	I	84.010	013-130184
Title I Grants to Local Education Agencies Program Improvement Set Aside (11-12)	I	84.010	042-110184
Title I Grants to Local Education Agencies Program Improvement Set Aside (12-13)	I	84.010	042-120184
Twenty-First Century Community Learning Centers (11-12)	I	84.287	FC4100058687
Twenty-First Century Community Learning Centers (11-12)	I	84.287	FC4100052162
Twenty-First Century Community Learning Centers (12-13)	I	84.287	FC4100058687
Twenty-First Century Community Learning Centers (12-13)	I	84.287	FC4100052162
Title III Language Inst LEP/Immigrant Students (10-11)	I	84.365	010-110184
Title III Language Inst LEP/Immigrant Students (11-12)	I	84.365	010-120184
Title III Language Inst LEP/Immigrant Students (12-13)	I	84.365	010-130184
Improving Teacher Quality State Grants (FYE 11-12)	I	84.367	020 120184
Improving Teacher Quality State Grants (FYE 12-13)	I	84.367	020 130184
ARRA - Title I Grants to LEA's - School Improvement (11-12)	I	84.388	139-110184
ARRA - Title I Grants to LEA's - School Improvement (12-13)	I	84.388	139-122184
ARRA - Education Jobs Fund	I	84.410	140-120184
<u>Total Passed Through the Pennsylvania Department of Education</u>			
<u>Passed Through Capital Area Intermediate Unit 15:</u>			
Special Education - Grants to States (11-12)	I	84.027	N/A
Special Education - Grants to States (12-13)	I	84.027	N/A
Special Education - Grants to States (11-12) - Preschool	I	84.173	N/A
Special Education - Grants to States (11-12) - Preschool	I	84.173	N/A
Special Education - Grants to States (12-13) - Preschool	I	84.173	N/A
<u>Total Passed Through Capital Area Intermediate Unit 15</u>			
<u>Passed Through Pennsylvania State System of Higher Education:</u>			
Gaining Early Awareness and Readiness for Undergraduate Programs (11-12)	I	84.334s	2009-GEARUP-02-R1-A3
Gaining Early Awareness and Readiness for Undergraduate Programs (12-13)	I	84.334s	2009-GEARUP-02-R1-A4
<u>Total Passed Through Pennsylvania State System of Higher Education</u>			

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2012	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2013
FYE 2013	99,135	99,135	-	42,772	42,772	(56,363)
	<u>99,135</u>	<u>99,135</u>	<u>-</u>	<u>42,772</u>	<u>42,772</u>	<u>(56,363)</u>
	<u>99,135</u>	<u>99,135</u>	<u>-</u>	<u>42,772</u>	<u>42,772</u>	<u>(56,363)</u>
11 AUG 08 - 13 SEP 30	5,283,492	1,810,001	1,282,575	527,426	527,426	-
12 AUG 01 - 14 SEP 30	6,676,620	4,356,660	-	5,408,068	5,408,068	1,051,408
11 JUL 6 - 12 SEP 30	611,800	81,573	81,573	-	-	-
12 JUN 2 - 13 SEP 30	407,488	407,488	-	407,488	407,488	-
11 DEC 01 - 12 SEPT 30	500,000	500,000	273,305	226,695	226,695	-
11 JUL 01 - 12 JUN 30	480,000	84,195	84,195	-	-	-
12 JUL 01 - 13 SEPT 30	500,000	117,401	-	441,462	441,462	324,061
12 JUL 01 - 13 JUN 30	480,000	237,143	-	480,000	480,000	242,857
10 SEPT 01 - 12 SEP 30	198,370	-	(5,881)	5,881	5,881	-
11 AUG 08 - 13 SEP 30	244,966	152,354	(40,653)	189,299	189,299	(3,708)
12 AUG 01 - 13 SEP 30	199,344	56,955	-	15,311	15,311	(41,644)
11 AUG 08 - 13 SEP 30	958,002	614,498	(29,896)	712,602	712,602	68,208
12 AUG 01 - 13 SEP 30	968,139	277,629	-	590,802	590,802	313,173
11 SEP 23 - 12 SEP 30	4,922,713	757,340	(581,276)	3,610,667	3,610,667	2,272,051
12 JUL 19 - 13 SEP 30	3,877,318	2,067,903	-	1,828,177	1,828,177	(239,726)
12 JUL 9 - 12 SEP 30	44,717	44,717	44,717	-	-	-
	<u>26,352,969</u>	<u>11,565,857</u>	<u>1,108,659</u>	<u>14,443,878</u>	<u>14,443,878</u>	<u>3,986,680</u>
11 JUL 1 - 12 JUN 30	1,867,475	629,916	629,916	-	-	-
12 JUL 1 - 13 JUN 30	1,815,598	1,190,182	-	1,815,598	1,815,598	625,416
11 JUL 1 - 12 JUN 30	13,670	10,317	10,317	-	-	-
11 JUL 1 - 12 JUN 30	12,555	4,025	4,025	-	-	-
12 JUL 1 - 13 JUN 30	8,562	8,562	-	8,562	8,562	-
	<u>3,717,860</u>	<u>1,843,002</u>	<u>644,258</u>	<u>1,824,160</u>	<u>1,824,160</u>	<u>625,416</u>
11 SEPT 01 - 12 AUG 31	374,451	121,816	90,734	31,082	31,082	-
12 SEPT 01 - 13 AUG 31	404,395	205,208	-	329,691	329,691	124,483
	<u>778,846</u>	<u>327,024</u>	<u>90,734</u>	<u>360,773</u>	<u>360,773</u>	<u>124,483</u>

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

GRANTOR PROGRAM TITLE	Source Code	Federal CFDA Number	Pass- Through Grantor's Number
<u>Passed Through Tuscarora Intermediate Unit 11:</u>			
PA Leads Initiative (12-13)	I	84.377	N/A
Passed Through Tuscarora Intermediate Unit 11			
<u>Passed Through Pennsylvania Emergency Management Agency:</u>			
Public Assistance (PA) Grant Program - Tropical Storm Lee	I	97.036	Tropical Storm Lee
Total Passed Through Central Susquehanna Intermediate Unit			
<u>Passed Through Family Health Council of Central Pennsylvania:</u>			
Health Educator Grant 11-12	I	93.977	N/A
Total Passed Through Family Health Council of Central Pennsylvania			
TOTAL U.S. DEPARTMENT OF EDUCATION			
<u>U.S. Department of Health and Human Services</u>			
<u>Passed through the Pennsylvania Department of Education:</u>			
Temporary Assistance for Needy Families 11-12	I	93.558	FC4100051634
Temporary Assistance for Needy Families 11-12	I	93.558	FC4100051634
Temporary Assistance for Needy Families 12-13	I	93.558	FC4100060958
Temporary Assistance for Needy Families 12-13	I	93.558	FC4100060958
Total Passed through the Department of Education			
<u>Passed through the Pennsylvania Department of Welfare</u>			
Medical Assistance Reimbursement for Administration 11-12	I	93.778	N/A
Medical Assistance Reimbursement for Administration 12-13	I	93.778	N/A
Total Passed through the Pennsylvania Department of Welfare			
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>U.S. Department of Defense</u>			
<u>Passed through the United States Navy:</u>			
Junior Reserve Officers Training Corps (FYE 11-12)	I	12.000	N/A
Junior Reserve Officers Training Corps (FYE 12-13)	I	12.000	N/A
TOTAL OF U.S. DEPARTMENT OF DEFENSE			

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2012	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2013
21 NOV 12 - 13 JUN 30	10,000	-	-	10,000	10,000	10,000
	10,000	-	-	10,000	10,000	10,000
N/A	26,733	26,733	26,733	-	-	-
	26,733	26,733	26,733	-	-	-
11 NOV 1 - 12 JUN 30	47,507	19,887	11,581	8,306	8,306	-
	47,507	19,887	11,581	8,306	8,306	-
	31,033,050	13,881,638	1,881,965	16,689,889	16,689,889	4,690,216
11 JUL 18 - 12 JUN 30	18,331	11,850	11,850	-	-	-
11 JUL 18 - 12 JUN 30	148,085	92,426	92,426	-	-	-
12 JUL 1 - 13 JUN 30	163,085	112,350	-	163,085	163,085	50,735
12 JUL 1 - 13 JUN 30	18,331	13,924	-	18,331	18,331	4,407
	347,832	230,550	104,276	181,416	181,416	55,142
11 JUL 01 - 12 JUN 30	147,296	28,863	28,863	-	-	-
12 JUL 01 - 13 JUN 30	140,482	72,219	-	140,482	140,482	68,263
	287,778	101,082	28,863	140,482	140,482	68,263
	635,610	331,632	133,139	321,898	321,898	123,405
11 JUL 01 - 12 JUN 30	53,787	17,289	17,289	-	-	-
12 JUL 01 - 13 JUN 30	52,766	39,240	-	52,766	52,766	13,526
	106,553	56,529	17,289	52,766	52,766	13,526

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

GRANTOR PROGRAM TITLE	Source Code	Federal CFDA Number	Pass- Through Grantor's Number
<u>U.S. Department of Agriculture</u>			
<u>Passed through the Pennsylvania Department of Education:</u>			
School Breakfast Program (FYE 11-12)	I	10.553	367
School Breakfast Program (FYE 12-13)	I	10.553	367
National School Lunch Program (FYE 11-12)	I	10.555	362
National School Lunch Program (FYE 12-13)	I	10.555	362
National School Lunch Program (FYE 11-12)	I	10.555	359
National School Lunch Program (FYE 12-13)	I	10.555	359
Summer Food Service Program for Children (FYE 11-12)	I	10.559	264
Summer Food Service Program for Children (FYE 12-13)	I	10.559	264
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (11-12)	I	10.561	FC4100051634
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (12-13)	I	10.561	FC4100060958
Fresh Fruit and Vegetable Program (11-12)	I	10.582	362
Fresh Fruit and Vegetable Program (12-13)	I	10.582	362
National School Lunch Program (FYE 11-12)	I	N/A	510
National School Lunch Program (FYE 12-13)	I	N/A	510
National School Lunch Program (FYE 11-12)	I	N/A	511
National School Lunch Program (FYE 12-13)	I	N/A	511
National School Lunch Program (FYE 11-12)	I	N/A	512
National School Lunch Program (FYE 11-12)	I	N/A	513
 Passed Through the Pennsylvania Department of Agriculture:			
Food Donation (FYE 11-12)	I	10.555	115-22-275-2
Food Donation (FYE 12-13)	I	10.555	115-22-275-2
<hr/> TOTAL U.S. DEPARTMENT OF AGRICULTURE <hr/>			
TOTAL ASSISTANCE			

SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Grant Period Beginning/ Ending Date</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2012</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2013</u>
11 JUL 01 - 12 JUN 30	1,248,292 F	182,476	182,476	-	-	-
12 JUL 01 - 13 JUN 30	1,351,160 F	1,351,160	-	1,351,160	1,351,160	-
11 JUL 01 -12 JUN 30	2,806,687 F	397,568	397,568	-	-	-
12 JUL 01 -13 JUN 30	2,826,643 F	2,810,999	-	2,826,643	2,826,643	15,644
11 JUL 01 - 12 JUN 30	76,973 F	9,524	9,524	-	-	-
12 JUL 01 - 13 JUN 30	12,252 F	12,252	-	12,252	12,252	-
12 JUN 11 - 12 JULY 26	204,219 F	64,145	64,145	-	-	-
13 JUN 10 - 13 AUG 2	145,334 F	86,857	-	145,334	145,334	58,477
11 JUL 18 - 12 JUN 30	17,820	12,267	12,267	-	-	-
12 JUL 1 - 13 JUN 30	17,820	11,096	-	17,820	17,820	6,724
11 JUL 01 - 12 JUN 30	70,389 F	10,783	10,783	-	-	-
12 JUL 01 - 13 JUN 30	68,099 F	62,267	-	68,099	68,099	5,832
11 JUL 01 - 12 JUN 30	143,684 S	20,053	20,053	-	-	-
12 JUL 01 - 13 JUN 30	140,974 S	140,974	-	140,974	140,974	-
11 JUL 01 - 12 JUN 30	70,712 S	10,253	10,253	-	-	-
12 JUL 01 - 13 JUN 30	74,618 S	74,618	-	74,618	74,618	-
11 JUL 01 - 12 JUN 30	23,509 S	3,406	3,406	-	-	-
11 JUL 01 - 12 JUN 30	6,171 S	910	910	-	-	-
	9,305,356	5,261,608	711,385	4,636,900	4,636,900	86,677
11 JUL 01 - 12 JUN 30	313,473	-	(4,083)	4,083	4,083	-
12 JUL 01 - 13 JUN 30	297,493	297,493	-	281,454	281,454	(16,039)
	610,966	297,493	(4,083)	285,537	285,537	(16,039)
	9,916,322	5,559,101	707,302	4,922,437	4,922,437	70,638
	41,691,535	19,828,900	2,739,695	21,986,990	21,986,990	4,897,785

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Donated Commodities

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

Component Units

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

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2013, the Organization had food commodities totaling \$16,039 in inventory.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued
YEAR ENDED JUNE 30, 2013

NOTE C - TEST OF 50% RULE

Total Expenditures	\$ 21,986,990
Less: State's Share of National School Lunch Program Expenditures	<u>215,592</u>
Total Federal Expenditures	<u>\$ 21,771,398</u>
Programs Selected for Testing:	
Title I Grants to Local Education Agencies (CFDA #84.010)	\$ 6,342,982
Improving Teacher Quality State Grants (CFDA #84.367)	1,303,404
Special Education - Grants to States (CFDA #84.027, #84.173)	1,824,160
Child Nutrition Cluster (CFDA #10.553, #10.555, #10.559)	4,620,926
ARRA - School Improvement, Recovery Act (CFDA #84.388)	5,438,844
Gaining Early Awareness and Readiness for Undergraduate Program GEAR-UP (CFDA #84.334s)	<u>360,773</u>
Total Amount Tested	<u>\$ 19,891,089</u>
Percent Tested (\$19,891,089/\$21,771,398)	<u>91.36%</u>

NOTE D - SOURCE CODES

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

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDITORS' RESULTS

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

Title I Grants to Local Educational Agencies	CFDA#s 84.010
Improving Teacher Quality State Grants	CFDA# 84.367
Special Education - Grants to States	CFDA#s 84.027, 84.173
Gaining Early Awareness and Readiness for Undergraduate Program GEAR-UP	CFDA# 84.334s
ARRA - School Improvement Grant, Recovery Act	CFDA# 84.388
Child Nutrition Cluster	CFDA#s 10.553, 10.555, 10.559
8. The threshold for distinguishing Types A and B programs was \$653,142.
9. Harrisburg City School District was not determined to be a low-risk auditee based upon prior years' audit results.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

FS 2013-001

Material Weakness

Condition:

For the year ending June 30, 2013, the District's final budget forecasted a decrease in the General Fund Balance of approximately \$4.5 million. The actual results for the year were an increase of \$10.8 million. The significant variance was the General Fund expenditures. Actual expenditures were lower by \$16.4 million or 12% of the final budgeted expenditures for the General Fund.

Variances of this magnitude are indicative that the methodology and process used by the District for its annual budget preparation and review are materially deficient.

Criteria:

Authoritative guidance describes a material weakness as a deficiency in the design of controls over a financial process that may result in a more than remote likelihood that a material misstatement will not be prevented or detected.

Effect:

The District's annual budget is a critical tool used to make educational and operational decisions. Deficiencies in the design and execution of the annual budget process may result with inappropriate financial decisions.

Cause:

Based upon magnitude of the variance in the current year's General Fund actual expenditures versus the budgeted expenditures, the District does not have in place adequate processes and methodology to accumulate the required financial data to prepare a proper annual budget.

Auditor's Recommendation:

The District must develop and document a budget preparation process, establish reporting due dates and design enhanced review and approval processes.

Auditee's Response:

The District is revising the budget preparation process to address the deficiencies noted. It is refining the process to accelerate due dates and design enhanced review and approval processes. The process will allow for a preliminary draft budget to comply with the Act 1 timeframe as well as ensure an ongoing review and approval process through final budget adoption. Budget review procedures will provide ongoing review and adjustment of budget to actual projections throughout the fiscal year.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - continued

FS 2013-002

Significant Deficiency

Condition:

The District lacks the necessary technical accounting and financial reporting expertise to adequately address some of the complex accounting issues the District faces. Areas specifically noted during the audit were in the areas of other post-employment benefits and interest rate swap agreements.

The District's personnel are very capable of processing the monthly transactions, but the required understanding of the methodology and mechanics of these transactions is not present.

Criteria:

Authoritative guidance describes a significant deficiency as a condition that may adversely affect the District's ability to initiate, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement within the District's financial statements is for an amount that is more than inconsequential will not be prevented or detected.

Effect:

Lack of understanding of the proper accounting and reporting could lead to material misstatements within the District's financial statements.

Cause:

In the past, the District did not have the requisite expertise to account for, nor provide the required disclosures for these complex accounting matters.

Auditor's Recommendation:

We recommend the District provide the necessary education and guidance to individuals involved with these complex accounting matters for the District.

Auditee's Response:

The District will work with the appointed consultants for other post-employment benefits and swap valuations to ensure a better understanding of the methodology and mechanics of the transactions.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - continued

FS 2013-003

Significant Deficiency

Condition:

Spreadsheets prepared by the District to support account balances or to serve as account reconciliations were not accurate when presented as audit documentation. Upon review of the District prepared analyses / reconciliations, errors were identified in assumptions, calculations and formulas. Account and analyses noted dealt with the measurement and calculation of compensation absences and depreciation.

Criteria:

Authoritative guidance describes a significant deficiency as a condition that may adversely affect the District's ability to initiate, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement within the District's financial statements is for an amount that is more than inconsequential will not be prevented or detected.

Effect:

Erroneous calculations could lead to material misstatements within the District's financial statements.

Cause:

The District lacks a system for spreadsheet management. The current review and approval process is not sufficient.

Auditor's Recommendation:

To mitigate this deficiency, the following procedures should be evaluated and considered for implementation:

- Develop a list of key account analyses and reconciliations
- Define frequency of preparation and review
- Assign roles and responsibilities to individual with the requisite skill set
- Assign knowledgeable individuals to review analyses and reconciliations, document the review and approval process
- Establish preventative controls to prohibit revisions to prescribed formulas embedded in the spreadsheets

Auditee's Response:

The District will establish procedures that include the recommendations and will assign the roles to the appropriate staff with an enhanced level of review by another staff member. Given the manual nature of the transactions and the need to update data annually, the District will incorporate formula review procedures when revisions to formulas are required.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding SA 2013-001

Federal agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

**ARRA - Title I Grants to LEA's - School Improvement - CFDA 84.388
(FYE 2012-2013) Contract No. 139-122184**

Noncompliance and Significant Deficiency in Internal Control over the Allowable Costs/Cost Principle Compliance Requirement

Condition:

The District did not properly document time and effort. We found one employee whose salary was charged to the grant but their time card had no description of the job they completed. Therefore, we were unable to ensure the employee's salary was an allowable cost under the grant.

Criteria:

According to the OMB Circular A-133:

1. An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities that support the single cost objective. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).
2. An employee who works on multiple activities or cost objectives (e.g., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities that are not part of the same cost objective) must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4), (5), and (6). The employee must document the portion of time and effort dedicated to:
 - a. The Federal program or cost objective; and
 - b. Each other program or cost objective supported by consolidated Federal funds or other revenue sources

Only employees with 100% of their salary charged to a grant are required to sign time and effort certificates at the District. Those employees with less than 100% of their salary charged to a grant use their time sheets to document the activities they are working on for time and effort purposes.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-001 - continued

Cause:

The District failed to observe its established internal control procedures to ensure the accuracy and completeness of allowable costs/cost principle requirements for one employee.

Questioned Costs:

\$214

Auditors' Recommendation:

We recommend the District closely adhere to the internal control procedures it has established for time and effort procedures.

Auditee Response and Corrective Action Plan:

The District will observe its established time and effort internal control procedures and will review these requirements with time card approvers and the payroll department.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-002

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

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

Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2010-2011) Contract No. 013-110184

ARRA - Title I Grants to LEA's - School Improvement - CFDA 84.388
(FYE 2011-2012) Contract No. 139-110184

Noncompliance and Significant deficiency in Internal Control over Reporting

Condition:

The District did not submit the required final report to the pass-through entity in a timely manner.

Criteria:

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

According to the language on the required final report, "Final Expenditure Reports are due within 30 days of close of grant or as soon as funds are liquidated, whichever comes first".

Cause:

The District failed to submit their required final report in a timely manner.

Effect:

The District is not in compliance with reporting compliance requirements and could be penalized.

Questioned Costs:

Unknown

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-002 - continued

Auditors' Recommendation:

We recommend the District better monitor the submission of required final reports for their federal grants.

Auditee Response and Corrective Action Plan:

The District continues to monitor grants and reporting compliance requirements to ensure that reports are filed in a timely manner. The District has developed additional internal communication procedures to ensure that the appropriate budget revisions are submitted in a timely manner to ensure timely completion of required reports to maintain compliance requirements. The District has also cross trained staff on the completion of the required reports.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-003

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

Child Nutrition Cluster
School Breakfast Program (SBP) - CFDA 10.553
National School Lunch Program (NSLP) - CFDA 10.555
Food Donation - CFDA 10.555
Summer Food Service Program for Children (SFSPC) - CFDA 10.559
(FYE 2012-2013)

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

Condition:

We selected four months of the year to agree the total meals served on the participation report provided by the District to the total number of meals claimed on the reimbursement request and noted two months that did not agree.

Of the 4 months tested above, we selected 16 days to recalculate the number of meals from the register sales activity reports to the number of meals claimed on the reimbursement request and noted five days were incorrectly calculated.

Criteria:

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

Cause:

The District failed to correctly record the number of meals for reimbursement from the daily sales reports to the Meals Participation Report, which they use to complete the monthly reimbursement request.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-003 - continued

Effect:

Of the days and months tested, it was noted that the District had various errors in the number of meals claimed, which included:

- The District claimed 30 meals less than what was actually served in the four days tested in August.
- The District claimed 130 meals more than actually served in the instances tested in February.
- The District claimed 207 meals less than actually served in the instances tested in October.

The total net effect of these findings is 112 less meals claimed than served for those days/months tested.

Questioned Costs:

\$138

Auditors' Recommendation:

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

Auditee Response and Corrective Action Plan:

The District will monitor and review the accuracy of the data transfer between the reports prior to the submission of the monthly claim reimbursement reports. It will review the importance of this matter with staff involved in the claims submission process.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-004

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

Child Nutrition Cluster
School Breakfast Program (SBP) - CFDA 10.553
National School Lunch Program (NSLP) - CFDA 10.555
Food Donation - CFDA 10.555
Summer Food Service Program for Children (SFSPC) - CFDA 10.559
(FYE 2012-2013)

Noncompliance and Significant Deficiency in Internal Control over the Eligibility Compliance Requirements

Condition:

We selected four months of the year to agree the total meals served on the participation report provided by the District to the total number of meals claimed on the reimbursement request and noted one month where all lunch and breakfast meals were charged as free.

Criteria:

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

1. Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements.

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

Cause:

When a cafeteria manager is absent, they are unable to use the register to collect money; therefore, they will not charge any meals and all students will receive free meals. The District failed to observe its established internal control procedures to ensure the accuracy and completeness of data used for reimbursement.

Questioned Costs:

Unknown; however the amount claimed for reimbursement during that period was \$15,858.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-004 - continued

Auditors' Recommendation:

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

Auditee Response and Corrective Action Plan:

The District will observe its internal control procedures to ensure the accuracy and completeness of data used for reimbursement. The District will also communicate the approved procedures and provide training on the register to additional staff.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-005

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

Child Nutrition Cluster
School Breakfast Program (SBP) - CFDA 10.553
National School Lunch Program (NSLP) - CFDA 10.555
Food Donation - CFDA 10.555
Summer Food Service Program for Children (SFSPC) - CFDA 10.559
(FYE 2012-2013)

Noncompliance and Significant Deficiency in Internal Control over the Procurement and Suspension and Debarment Compliance Requirement

Condition:

The District was unable to provide 4 of the 8 bids requested for testing. We were unable to complete testing procedures.

Criteria:

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

1. Procedures to ensure the accuracy and completeness of data used to determine award of bid.

Cause:

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

Questioned Costs:

Unknown

Auditors' Recommendation:

We recommend the District closely adhere to the internal control procedures it has established for procurement procedures.

Auditee Response and Corrective Action Plan:

The District will observe its internal control procedures to ensure the accuracy and completeness of data used for obtaining and awarding bids. The District will also communicate the approved procedures to all staff responsible for bid procedures.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-006

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

Child Nutrition Cluster
School Breakfast Program (SBP) - CFDA 10.553
National School Lunch Program (NSLP) - CFDA 10.555
Food Donation - CFDA 10.555
Summer Food Service Program for Children (SFSPC) - CFDA 10.559
(FYE 2012-2013)

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

Condition:

The District did not properly obtain the correct meal counts for reimbursement.

Criteria:

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

Cause:

The District failed to obtain accurate reports from the cash registers in order to correctly complete the monthly reimbursement request.

Effect:

The District claimed the amount shown as approved meals for free lunches, rather than the amount of students that actually received free lunch for that day.

Questioned Costs:

Unknown; however the amount claimed for reimbursement for free lunches on that day was \$1,904.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-006 - continued

Auditors' Recommendation:

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

Auditee Response and Corrective Action Plan:

The District will monitor and review the accuracy of the data transfer between the reports prior to the submission of the monthly claim reimbursement reports. It will review the importance of this matter with staff involved in the claims submission process.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

Finding SA 2013-007

Federal agency: U.S. Department of Education

Pass-through entity: Pennsylvania State System of Higher Education

**Gaining Early Awareness and Readiness for Undergraduate Programs -
CFDA 4.334s**

(FYE 2012-2013) Contract No. 2009-GEARUP-02-R1-A4

**Noncompliance and Significant Deficiency in Internal Control over the Allowable
Costs/Cost Principle Compliance Requirement**

Condition:

The district improperly charged sales tax to the grant.

Criteria:

According to the OMB Circular A-87 compliance requirements, "taxes that a government unit is legally required to pay are allowable." A school district is not legally required to pay sales tax; therefore, sales tax is an unallowable charge under the grant.

Cause:

During testing we noted two instances where sales tax was charged to the grant, which was determined to be unallowable costs.

Questioned Costs:

\$26

Auditors' Recommendation:

We recommend the District closely monitor the expenditures, and activities for which expenditures are being charged to the grant, are in line with the approved grant budget and guidelines.

Auditee Response and Corrective Action Plan:

The District will monitor expenditures and related activities being charged to grant to ensure that expenditures are within the grant guidelines and approved grant budget. The District will also review this matter with its accounts payable department to ensure that taxes are not charged to grants.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Finding SA 2012-01

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

ARRA - School Improvement Grants - Recovery Act - CFDA 84.388
(FYE 2011-2012) Contract No. 139-110184

Noncompliance and Significant Deficiency in Internal Control over the Cash Management Process

Condition:

The District earned in excess of \$100 interest on School Improvement Grant funds that were not remitted.

Criteria:

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

Cause:

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

Effect:

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

Questioned Costs:

\$259

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2012-01 - continued

Auditors' Recommendation:

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

Auditee Response and Corrective Action Plan:

The District has developed procedures to track and submit interest earned on cash advances quarterly. It will revise its procedures to ensure new grant revenues received within the fiscal year are included and will compare interest calculations with funding received through various agencies to eliminate any oversight. The District has remitted the interest to the United States Government for the amount of \$259.14 on November 16, 2012.

Auditee's Update:

The District is continuing to improve its grant management procedures to ensure that interest is calculated and remitted in a timely manner.

Current Status:

There were no incidences identified in the current year.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2012-02

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

Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2011-2012) Contract No. 013-120184

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

Condition:

The District improperly charged an unallowed expenditure to the grant.

Criteria:

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

Cause:

During testing we noted one expenditure charged to the grant for costumes, which was determined to be unallowed.

Effect:

The District charged unallowed expenses to the Federal grant.

Questioned Costs:

\$223

Auditors' Recommendation:

We recommend the District closely monitor the expenditures, and activities for which expenditures are being charged to the grant, are in line with the approved grant budget and guidelines.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2012-02 - continued

Auditee Response and Corrective Action Plan:

The District will remove the questioned costs of \$223 from the Title I grant expenditures in the 2012-2013 fiscal year. The District will monitor expenditures and related activities being charged to grant to ensure that expenditures are within the grant guidelines and approved grant budget.

Auditee's Update:

The District continues to monitor expenditures and related activities being charged to the grant to ensure that expenditures are within the grant guidelines and approved grant budget. It has also improved internal controls to ensure that grant administrators are reviewing all recommended expenditures.

Current Status:

This grant was tested in the current year and no similar finding was noted; however unallowed expenditures were noted as being charged to another grant during our current year testing. Please see finding SA 2013-007.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2012-03

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

Child Nutrition Cluster
School Breakfast Program (SBP) - CFDA 10.553
National School Lunch Program (NSLP) - CFDA 10.555
Special Summer Milk Program for Children (SMP) - CFDA 10.556
Summer Food Service Program for Children (SFSPC) - CFDA 10.559
(FYE 2011-2012)

Noncompliance and Significant Deficiency in Internal Control over the Activities Allowed or Unallowed and Reporting Compliance Requirements

Condition:

SN selected four months of the year to agree the total meals served on the participation report provided by the District to the total number of meals claimed on the reimbursement request and noted two months that did not agree.

Of the 4 months tested above, SN selected 16 days to recalculate the number of meals claimed on the reimbursement request and noted six days were incorrectly calculated.

Criteria:

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

Cause:

The District failed to correctly record the number of meals for reimbursement from the daily sales reports to the Meals Participation Report, which they use to complete the monthly reimbursement request.

Effect:

The District claimed 18 meals less than what was actually served in the four days tested in May. The District claimed 26 meals more than actually served in the four days tested in October, which resulted in the determination that there were 337 more than the amount actually served for the entire month of October. The total net effect of these findings is 319 additional meals claimed than served.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2012-03 - continued

Questioned Costs:

\$601

Auditors' Recommendation:

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

Auditee Response and Corrective Action Plan:

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

Auditee's Update:

The importance of this internal control has been reviewed with all staff involved in the process. The District's review team continues to communicate internal control procedures to ensure the accuracy of the monthly reimbursement claim reports.

Current Status:

This was noted as a similar finding in the current year please see finding SA 2013-003.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2012-04

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

Child Nutrition Cluster
School Breakfast Program (SBP) - CFDA 10.553
National School Lunch Program (NSLP) - CFDA 10.555
Special Summer Milk Program for Children (SMP) - CFDA 10.556
Summer Food Service Program for Children (SFSPC) - CFDA 10.559
(FYE 2011-2012)

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

Condition:

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

1. One of the 60 applications tested for eligibility was noncompliant because incorrect determinations were made based on information provided on the application.
2. Two of the 60 applications tested for eligibility were either not properly completed per the instructions on the application or not properly reviewed by the determining official.

Criteria:

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

1. Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements.

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

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2012-04 - continued

Cause:

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

Questioned Costs:

Unknown

Auditors' Recommendation:

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

Auditee Response and Corrective Action Plan:

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

Auditee's Update:

The importance of this internal control has been reviewed with all staff involved in the process. The District's review team continues to communicate internal control procedures to ensure the accuracy of the monthly reimbursement claim reports.

Current Status:

There were no incidences identified in the current year.