

# Harrisburg City School District

**Basic Financial Statements,  
Supplemental Information And  
Single Audit Information**

**June 30, 2018**

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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, 2018, 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) Uniform Grant Guidance. 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.

*Stambaugh Ness, Inc.*

York, Pennsylvania  
February 15, 2019

**HARRISBURG CITY SCHOOL DISTRICT**  
**DISTRIBUTION REPORT**  
**JUNE 30, 2018**

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## 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, 2018, 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.

### ***Auditors' Responsibility***

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

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

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

## 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, 2018, 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 - pages 9 through 19, budgetary comparison information - pages 69-70, schedule of District's OPEB liability - page 71, schedule of District's proportionate share of net pension liability - page 72 and schedule of District's contributions - page 73 are 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, combining statement of revenues, expenditures and changes in fund balance - non-major governmental funds, detailed statement of revenues and other financing sources - budget and actual - General Fund, Fiduciary Funds - statement of net position, nonexpendable and expendable changes in net position and Fiduciary Funds - agency funds schedule of receipts and disbursements and changes in funds held for others appearing on pages 75 through 82 and schedule of expenditures of federal awards appearing on pages 89-90, *as required by Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

## INDEPENDENT AUDITORS' REPORT - continued

### ***Other Matters*** - continued

#### *Other Information* - continued

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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2019 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, Inc.*

York, Pennsylvania  
February 15, 2019





## HARRISBURG CITY SCHOOL DISTRICT

Administration Building  
1601 State Street  
Harrisburg, PA 17103  
Telephone (717) 703-4024  
Fax (717) 703-4115

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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, 2018. 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 Government Accounting Standards Board (GASB) #34, *Accounting Standards*. Where previous standards (pre GASB 34) required modified accrual - no receivables/accruals beyond 60 days, no capital asset depreciation, no debt and related liabilities and no reports of combined net position, GASB 34 requires these items to be reported as part of the Statement of Net Position and Statement of Activities.

### Financial Highlights

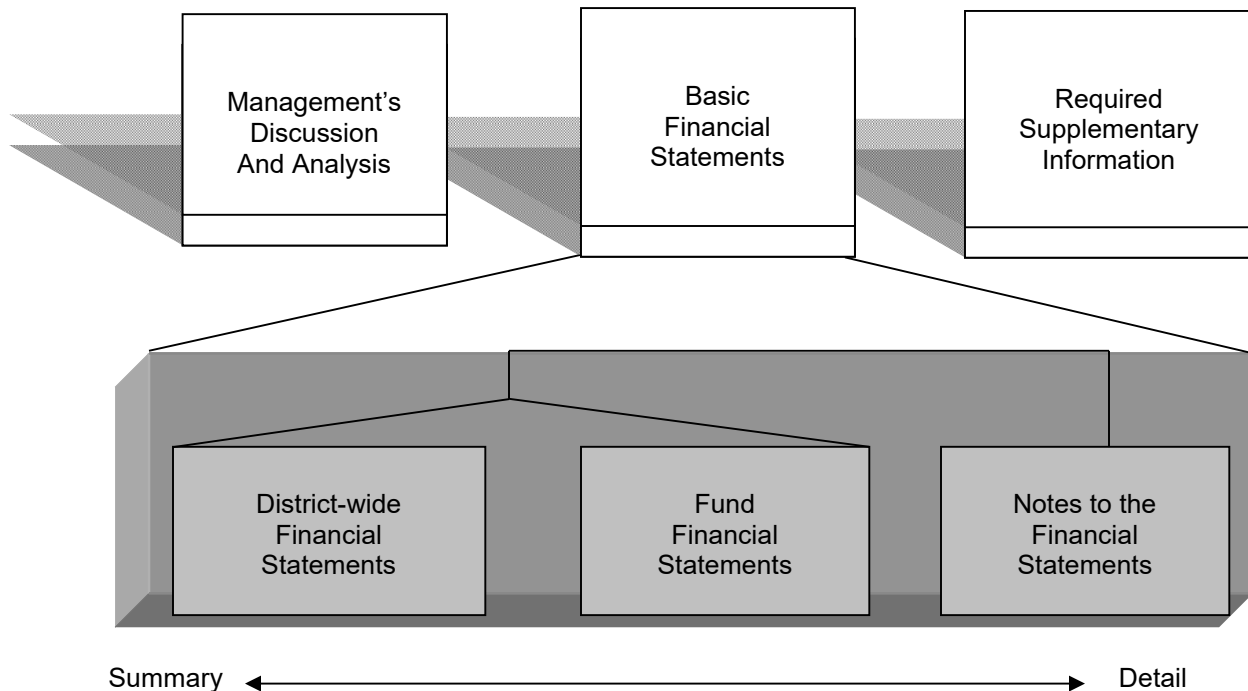
- Total net position of (\$215,442,482)
- The total fund balance of all governmental funds equaled \$22,868,460.
- Unassigned General Fund balance equaled \$1,030,200. Assigned General Fund balances totaled \$16,340,909
  - Total actual general fund revenues were over the final budget by \$739 or 0.00%.
  - Total actual general fund expenditures were over the final budget by \$9,492,411 or 7.44%.
- The total governmental activities operating grants and contributions amounted to \$16,332,654 or 10.26% of the governmental activities expenditures.
- The net position of business-type activities - Food Services - at June 30, 2018, totaled (\$2,675,507) with revenues of \$5,614,594 and expenditures of \$5,196,768.
- The total capital assets, net of accumulated depreciation, for government activities - primarily general fund, capital project funds and capital reserve fund - totaled \$169,297,980. Refer to Note C to the financial statements for more information.

## 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 statements. 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, debt service and capital projects.	Activities the District operates similar to private businesses, such as food services.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> <li>Statement of Net Position</li> <li>Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>Balance Sheet</li> <li>Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>Statement of Net Position</li> <li>Statement of Revenues, Expenses and Changes in Fund Position</li> <li>Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>Statement of Fiduciary Net Position</li> <li>Statement of Changes in Fiduciary Net Position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	General assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, short-term and long-term.	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during the 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.

## Overview of the Financial Statements - continued

### 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, deferred outflows of resources, liabilities and deferred inflows of resources. 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, deferred outflows of resources, liabilities and deferred inflows of resources - 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. The District also receives federal and state funding for these operations.

### 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, the financial statements include reconciliations that explain the relationship (or differences) between them.

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

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

## Financial Analysis of the District as a Whole

**Figure A-3**  
**Condensed Statement of Net Assets (Deficiency)**

	Governmental Activities		Business-Type Activities		Total	
	2017	2018	2017	2018	2017	2018
Current and Other Assets	\$ 108,221,110	\$ 111,972,052	\$ 1,550,978	\$ 1,810,857	\$ 109,772,088	\$ 113,782,909
Capital Assets	173,889,469	169,297,980	475,990	378,492	174,365,459	169,676,472
Total Assets and Deferred Outflows of Resources	282,110,579	281,270,032	2,026,968	2,189,349	284,137,547	283,459,381
Current Liabilities	25,600,887	30,458,063	1,223,005	1,207,891	26,823,892	31,665,954
Total Non-Current Liabilities and Deferred Inflows of Resources	445,229,300	463,578,944	3,789,451	3,656,965	449,018,751	467,235,909
Total Liabilities and Deferred Inflows of Resources	470,830,187	494,037,007	5,012,456	4,864,856	475,842,643	498,901,863
Net Position						
Invested in Capital Assets, Net of Related Debt	(94,474,147)	(99,628,431)	475,990	378,492	(93,998,157)	(99,249,939)
Restricted for Debt Service	2,691,685	3,433,524	-	-	2,691,685	3,433,524
Unrestricted	(96,937,146)	(116,572,068)	(3,461,478)	(3,053,999)	(100,398,624)	(119,626,067)
Total Net Position	\$ (188,719,608)	\$ (212,766,975)	\$ (2,985,488)	\$ (2,675,507)	\$ (191,705,096)	\$ (215,442,482)

The net position decreased by \$23,737,386 for the current fiscal year. Issues that significantly affect the net position decrease in fiscal year 2017-2018 were the following:

- Net expense for governmental activities was \$141,350,449.
- General revenue which includes taxes, grants and subsidies, investment earnings and miscellaneous was \$132,235,958.
- Business-Type Activities (Food Service) had a total increase during 2017-2018 in net position of \$417,826.

The District's total revenues for the fiscal year were \$155,685,316. Property taxes and other taxes levied for general purposes continue to account for most of the District's revenue in the amount of \$55,681,382 or 36% of total revenues. Another 50% or \$77,381,455 came from state formula aid, such as basic education and student transportation subsidies. Approximately 14% or \$21,732,080 came from operating grants and contributions, with the remainder coming from fees charged for services and other miscellaneous sources, netted with any refunds of prior year revenue.

The cost of all programs and services was \$164,381,981. The District expenses are predominately related to instructing, caring for (instructional support services & operation/maintenance of school facilities) and transporting students, which represents 84% or \$138,490,026 of total expenses. (See Figures A-4 through A-8)

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

**Figure A-4**  
**Changes in Net Assets from Operating Results**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2016-2017</b>	<b>2017-2018</b>	<b>2016-2017</b>	<b>2017-2018</b>	<b>2016-2017</b>	<b>2017-2018</b>
<b>Revenues</b>						
Charges for services	\$ 1,938,693	\$ 1,502,110	\$ 106,769	\$ 215,168	\$ 2,045,462	\$ 1,717,278
Operating grants and contributions	16,070,654	16,332,654	5,330,551	5,399,426	21,401,205	21,732,080
Property tax and other taxes levied for general purposes	46,242,752	55,681,382	-	-	46,242,752	55,681,382
Unrestricted grants, subsidies and contributions	81,664,422	77,381,455	-	-	81,664,422	77,381,455
Other	53,722	(826,879)	-	-	53,722	(826,879)
<b>Total Revenues</b>	<b>145,970,243</b>	<b>150,070,722</b>	<b>5,437,320</b>	<b>5,614,594</b>	<b>151,407,563</b>	<b>155,685,316</b>
<b>Expenses</b>						
Instruction	88,595,689	100,034,152			88,595,689	100,034,152
Instructional student support	7,501,722	9,951,204			7,501,722	9,951,204
Administrative and financial support	9,889,648	9,652,748			9,889,648	9,652,748
Operational and maintenance of plant	11,746,431	14,892,088			11,746,431	14,892,088
Pupil Transportation	4,003,397	3,959,834			4,003,397	3,959,834
Student activities	851,791	778,589			851,791	778,589
Central and other support services	6,097,518	6,069,981			6,097,518	6,069,981
Community services	677,818	698,108			677,818	698,108
Interest/fiscal charges on long-term debt	27,231,162	13,148,509			27,231,162	13,148,509
Food Service	-	-	5,384,851	5,196,768	5,384,851	5,196,768
<b>Total Expenses</b>	<b>\$ 156,595,176</b>	<b>\$ 159,185,213</b>	<b>\$ 5,384,851</b>	<b>\$ 5,196,768</b>	<b>161,980,027</b>	<b>164,381,981</b>
<b>Change in Net Position</b>					<b>\$ (10,572,464)</b>	<b>\$ (8,696,665)</b>

Financial Analysis of the District as a Whole - continued

Figure A-5

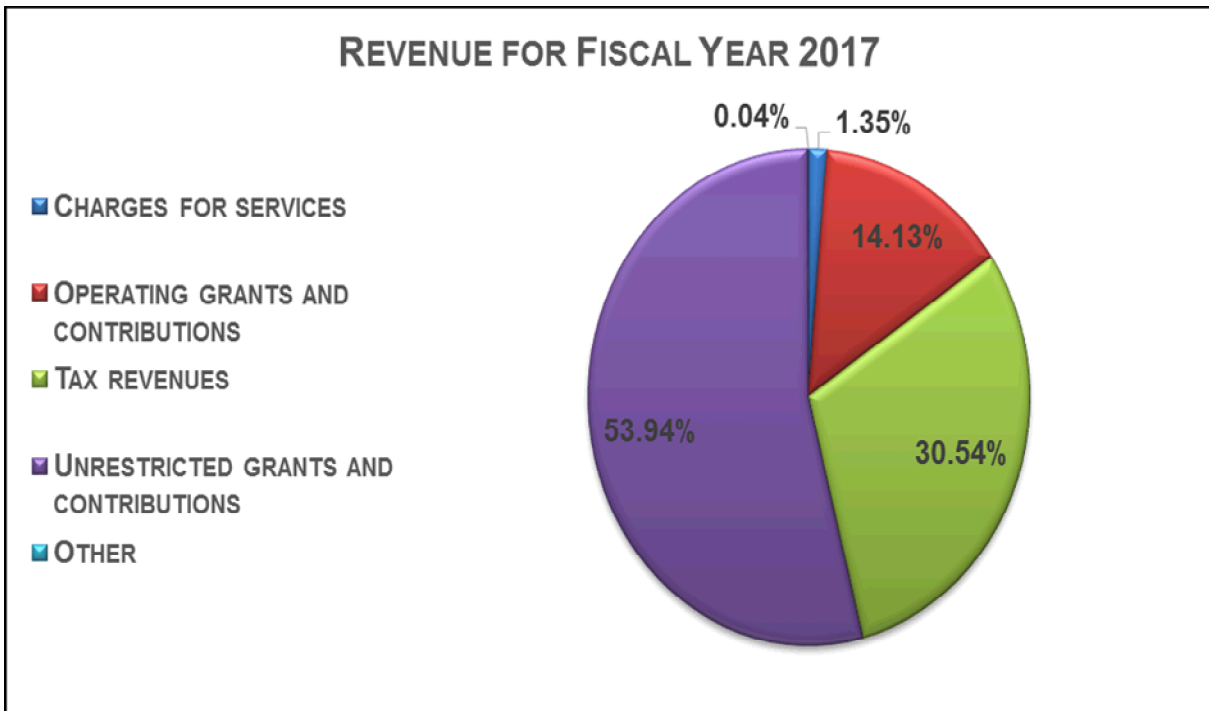
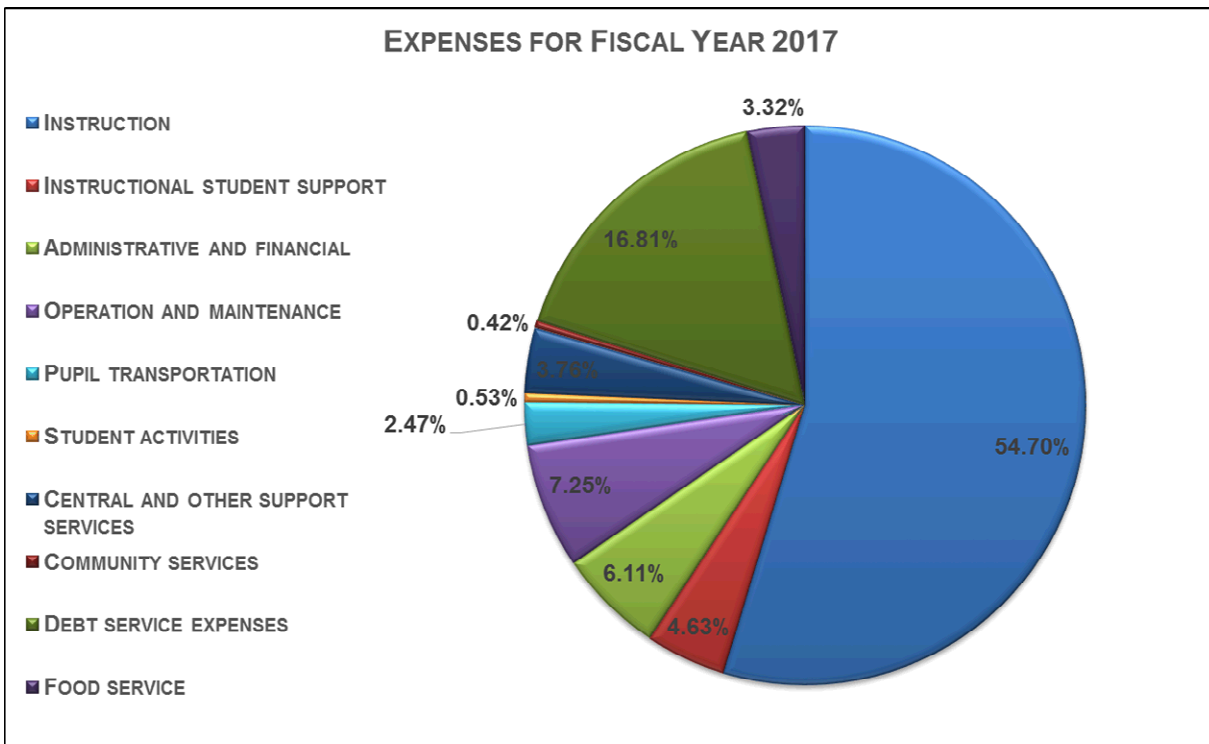


Figure A-6



Financial Analysis of the District as a Whole - continued

Figure A-7

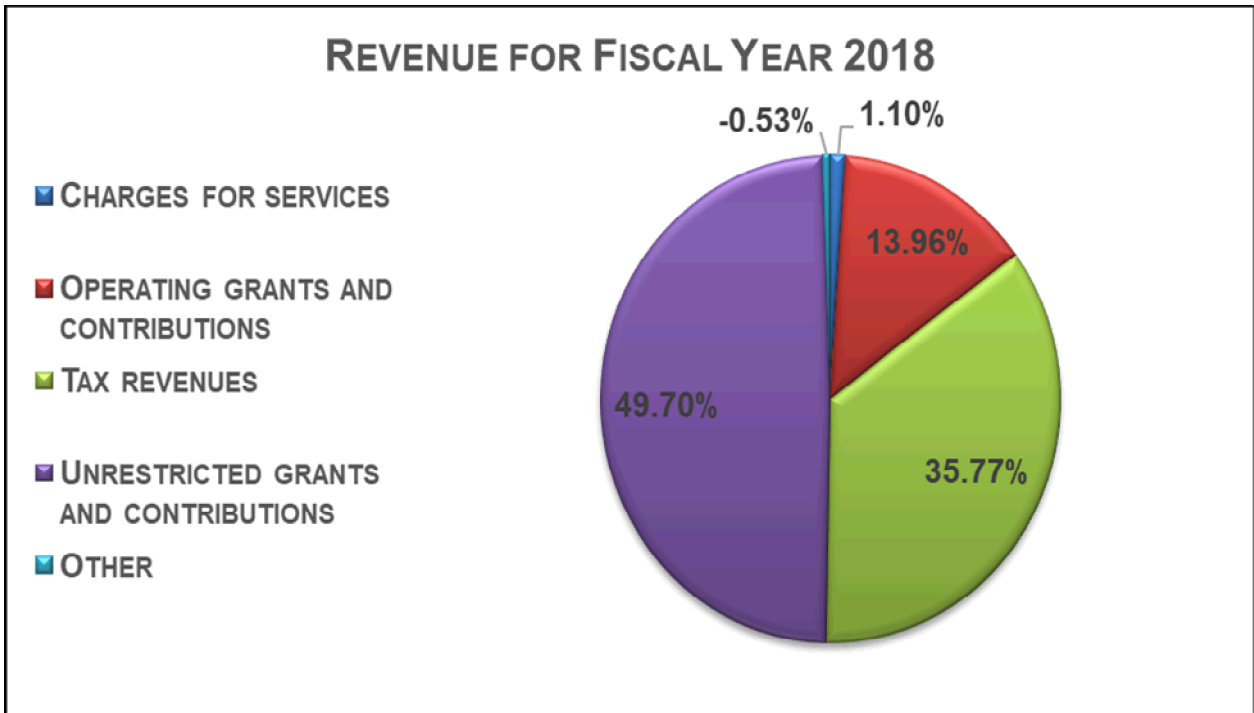
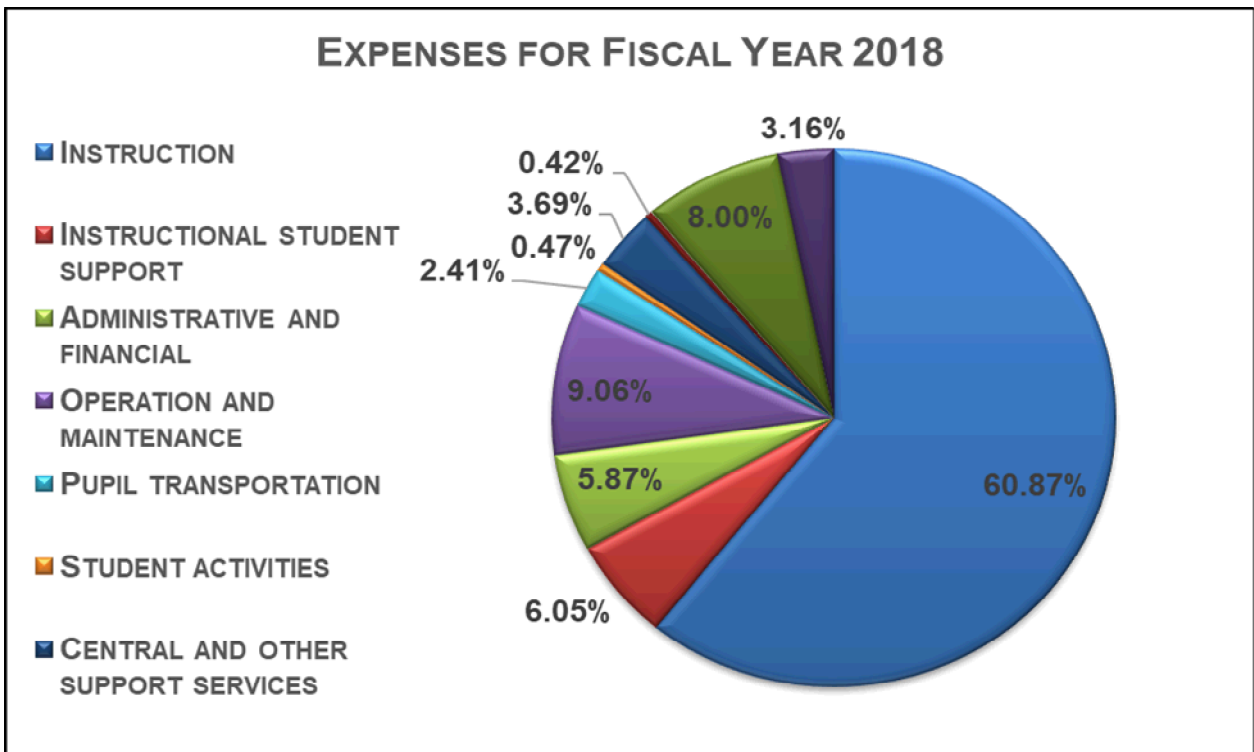


Figure A-8





## 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 increased by 2.0% to \$141,350,449.

**Figure A-9**

	Total Cost of Services 2017	Total Cost of Services 2018	Percent of Change 2017-2018	Net Cost of Services 2017	Net Cost of Services 2018	Percent of Change 2017-2018
Instruction	\$ 88,595,689	\$100,034,152	12.9%	\$ 74,087,617	\$ 86,298,109	16.5%
Instructional Student Support	7,501,722	9,951,204	32.7%	4,720,422	6,615,254	40.1%
Administrative & Financial	9,889,648	9,652,748	-2.4%	9,849,407	9,644,744	-2.1%
Operational & Maintenance	11,746,431	14,892,088	26.8%	11,744,381	14,891,569	26.8%
Pupil Transportation	4,003,397	3,959,834	-1.1%	3,989,680	3,954,398	-0.9%
Other	34,858,289	20,695,187	-40.6%	34,194,322	19,946,375	-41.7%
<b>Total</b>	<b>\$ 156,595,176</b>	<b>\$159,185,213</b>	<b>1.7%</b>	<b>\$ 138,585,829</b>	<b>\$141,350,449</b>	<b>2.0%</b>

At the end of the fiscal year 2018, governmental funds had total positive fund balance of \$22,868,460. The ending fund balance for the General Fund was \$19,144,753, of which \$1,030,200 is unassigned, \$16,340,909 is assigned, \$402,381 is committed for a reserve for athletics and band and \$1,371,263 is nonspendable. Fund balance has also been assigned in the General Fund for health insurance stabilization, future PSERS increases, capital improvements, professional development, and information technology improvements. The fund balance from the Debt Service fund was \$3,737,525 and fund balance from the non-major funds was a deficit of \$13,818.

The business-type activities resulted in an increase during 2017-2018 in net position of \$417,826. 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 an increase in fund balance of \$19,194,817, the actual results for the year reflected a use of or decrease of fund balance in the amount of \$9,703,145.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2018, the District had net investments of \$169,297,980 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 \$7,205,259 of capital assets into service during the year.

**Figure A-10**

	Governmental Activities 2017	Governmental Activities 2018	Business-type Activities 2017	Business-type Activities 2018	Total 2017	Total 2018	Percentage Change 2017-2018
Land and site improvements	\$ 13,614	\$ 13,614	\$ -	\$ -	\$ 13,614	\$ 13,614	0.00%
Building and building Improvements	235,075,129	240,790,201	-	-	235,075,129	240,790,201	2.43%
Furniture and equipment	15,995,562	17,485,749	1,941,423	1,941,423	17,936,985	19,427,172	8.30%
Construction in Progress	5,377,329	306,123	-	-	5,377,329	306,123	-94.30%
Accumulated depreciation	(82,572,165)	(89,297,707)	(1,465,433)	(1,562,931)	(84,037,598)	(90,860,638)	8.12%
<b>Total</b>	<b>\$ 173,889,469</b>	<b>\$ 169,297,980</b>	<b>\$ 475,990</b>	<b>\$ 378,492</b>	<b>\$ 174,365,459</b>	<b>\$169,676,472</b>	<b>-2.69%</b>

### Outstanding Long-Term Debt

At year-end, the District has \$240,114,000 in general obligation bonds and other long-term debt outstanding (See Figure A-11). More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.

**Figure A-11**

	Totals		Percent of Change
	2017	2018	2017-2018
Debt outstanding at beginning of year	\$ 262,748,000	\$ 244,064,500	-7.1%
Additional Debt During Year	128,680,000	39,235,000	100.0%
Retirement and Repayments	(147,363,500)	(43,185,500)	-70.7%
<b>Debt outstanding at end of year</b>	<b>\$ 244,064,500</b>	<b>\$ 240,114,000</b>	<b>-1.6%</b>

## **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). The CRO 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 continuing to work with the District.
- The Pennsylvania School Employees Retirement System (PSERS) employer contribution rate will increase to 34.29% of qualified retirement wages in 2018-2019, an 8.0% increase.
- 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 53.5% of total revenue sources to fund cost supporting the District's educational programs during fiscal year 2018. Local sources, primarily property taxes support 37.2% of the cost for educational cost and services in Harrisburg City School District. Federal grants and other sources of revenue provide 9.3% of the funds to support programs and services provided by the District.
- 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.

## **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, 1601 State Street, Harrisburg, PA 17103.

Respectfully submitted,

Sybil Knight-Burney, ED. D.  
Superintendent

James Snell,  
Chief Financial Officer

Bilal Hasan,  
Business Manager

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	Governmental Activities	Business-Type Activities	Total
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 7,861,093	\$ 6,311	\$ 7,867,404
Investments	17,514,414	-	17,514,414
Taxes receivable, net	11,907,350	-	11,907,350
Internal balance	1,370,947	-	1,370,947
Due from other governments	7,890,783	796,503	8,687,286
Other receivables	1,448,861	78,399	1,527,260
Inventories	316	53,602	53,918
Total current assets	47,993,764	934,815	48,928,579
<b>NONCURRENT ASSETS</b>			
Sinking fund investments	3,433,524	-	3,433,524
Bond discounts, net	308,869	-	308,869
Prepaid bond insurance, net	884,662	-	884,662
Land and site improvements, net	13,614	-	13,614
Building and building improvements, net	165,060,670	-	165,060,670
Furniture and equipment, net	3,917,573	378,492	4,296,065
Construction in progress	306,123	-	306,123
Total noncurrent assets	173,925,035	378,492	174,303,527
Total assets	221,918,799	1,313,307	223,232,106
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	59,351,233	876,042	60,227,275
	\$ 281,270,032	\$ 2,189,349	\$ 283,459,381

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

**CURRENT LIABILITIES**

Internal balance	\$ 315,661	\$ 1,031,557	\$ 1,347,218
Accounts payable	8,793,007	91,772	8,884,779
Accrued interest	1,150,174	-	1,150,174
Current portion of long-term debt	9,581,121	-	9,581,121
Current portion of compensated absences	180,298	-	180,298
Accrued salaries and benefits	<u>10,437,802</u>	<u>84,562</u>	<u>10,522,364</u>
 Total current liabilities	 30,458,063	 1,207,891	 31,665,954

**NONCURRENT LIABILITIES**

Long-term debt net of current portion	230,532,879	-	230,532,879
Pension liability	175,813,040	3,170,960	178,984,000
Premium on bond issue	29,121,280	-	29,121,280
Compensated absences	1,983,027	14,705	1,997,732
Other post-employment benefits liability	<u>18,691,988</u>	<u>344,024</u>	<u>19,036,012</u>
 Total noncurrent liabilities	 <u>456,142,214</u>	 <u>3,529,689</u>	 <u>459,671,903</u>
 Total liabilities	 486,600,277	 4,737,580	 491,337,857

**DEFERRED INFLOWS OF RESOURCES**

	7,436,730	127,276	7,564,006
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**NET POSITION**

Restricted for debt service	3,433,524	-	3,433,524
Net investment in capital assets	(99,628,431)	378,492	(99,249,939)
Unrestricted	<u>(116,572,068)</u>	<u>(3,053,999)</u>	<u>(119,626,067)</u>
 Total net position	 <u>(212,766,975)</u>	 <u>(2,675,507)</u>	 <u>(215,442,482)</u>
	 <u>\$ 281,270,032</u>	 <u>\$ 2,189,349</u>	 <u>\$ 283,459,381</u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

	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
<b>GOVERNMENTAL ACTIVITIES</b>						
Instruction	\$ 100,034,152	\$ 1,330,200	\$ 12,405,843	\$ (86,298,109)	\$ -	\$ (86,298,109)
Instructional student support	9,951,204	-	3,335,950	(6,615,254)	-	(6,615,254)
Administrative and financial support services	9,652,748	-	8,004	(9,644,744)	-	(9,644,744)
Operation and maintenance of plant services	14,892,088	-	519	(14,891,569)	-	(14,891,569)
Pupil transportation	3,959,834	-	5,436	(3,954,398)	-	(3,954,398)
Student activities	778,589	66,930	3,596	(708,063)	-	(708,063)
Central and other support services	6,069,981	-	59,638	(6,010,343)	-	(6,010,343)
Community services	698,108	104,980	513,668	(79,460)	-	(79,460)
Debt service	13,148,509	-	-	(13,148,509)	-	(13,148,509)
 Total governmental activities	 159,185,213	 1,502,110	 16,332,654	 (141,350,449)	 -	 (141,350,449)
<b>BUSINESS-TYPE ACTIVITIES</b>						
Food service	5,196,768	215,168	5,399,426	-	417,826	417,826
 Total primary government	 <u>\$ 164,381,981</u>	 <u>\$ 1,717,278</u>	 <u>\$ 21,732,080</u>	 <u>(141,350,449)</u>	 <u>417,826</u>	 <u>(140,932,623)</u>
 <b>GENERAL REVENUES</b>						
Taxes				55,681,382	-	55,681,382
Grants, subsidies and contributions not restricted				77,381,455	-	77,381,455
Investment earnings				480,966	-	480,966
Refund of prior year revenues				(1,307,845)	-	(1,307,845)
				<u>132,235,958</u>	<u>-</u>	<u>132,235,958</u>
 <b>CHANGE IN NET POSITION</b>				 (9,114,491)	 417,826	 (8,696,665)
<b>NET POSITION - BEGINNING - originally stated</b>				(188,719,608)	(2,985,488)	(191,705,096)
<b>PRIOR PERIOD ADJUSTMENT (see Note R)</b>				<u>(14,932,876)</u>	<u>(107,845)</u>	<u>(15,040,721)</u>
<b>NET POSITION - BEGINNING - restated</b>				<u>(203,652,484)</u>	<u>(3,093,333)</u>	<u>(206,745,817)</u>
<b>NET POSITION - ENDING</b>				<u>\$ (212,766,975)</u>	<u>\$ (2,675,507)</u>	<u>\$ (215,442,482)</u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

**ASSETS**

	General Fund	Debt Service Funds	Non-Major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 7,182,937	\$ 304,001	\$ 374,155	\$ 7,861,093
Investments	17,514,414	-	-	17,514,414
Taxes receivable, net	11,907,350	-	-	11,907,350
Due from other funds	1,370,947	-	-	1,370,947
Due from other governments	7,890,783	-	-	7,890,783
Other receivables	1,448,861	-	-	1,448,861
Inventories	316	-	-	316
Sinking fund investments	-	3,433,524	-	3,433,524
	<u>\$47,315,608</u>	<u>\$ 3,737,525</u>	<u>\$374,155</u>	<u>\$ 51,427,288</u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES**

**LIABILITIES**

Accounts payable	\$ 8,720,695	\$ -	\$ 72,312	\$ 8,793,007
Due to other funds	-	-	315,661	315,661
Accrued salaries and benefits	<u>10,437,802</u>	<u>-</u>	<u>-</u>	<u>10,437,802</u>
Total liabilities	19,158,497	-	387,973	19,546,470

**DEFERRED INFLOWS OF RESOURCES**

	9,012,358	-	-	9,012,358
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**FUND BALANCES**

Nonspendable:				
Interfund receivable	1,370,947	-	-	1,370,947
Reserve for inventories	316	-	-	316
Restricted:				
2010 Debt service fund	-	3,433,524	-	3,433,524
Committed:				
Athletics and band reserve	402,381	-	-	402,381
2009 Debt series	-	88,653	-	88,653
2014 Debt series	-	171,526	-	171,526
2016 Debt series	-	43,822	-	43,822
Assigned:				
2018/2019 Use of fund balance	4,340,909	-	-	4,340,909
Employee incentives	1,500,000	-	-	1,500,000
Capital improvements	7,000,000	-	90,265	7,090,265
PSERS increases	1,500,000	-	-	1,500,000
Information Technology improvements	2,000,000	-	-	2,000,000
Unassigned:				
General fund	1,030,200	-	-	1,030,200
Capital projects fund (deficit)	<u>-</u>	<u>-</u>	<u>(104,083)</u>	<u>(104,083)</u>
Total fund balances (deficit)	<u>19,144,753</u>	<u>3,737,525</u>	<u>(13,818)</u>	<u>22,868,460</u>
	<u>\$47,315,608</u>	<u>\$ 3,737,525</u>	<u>\$374,155</u>	<u>\$ 51,427,288</u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 22,868,460

Amounts reported for governmental activities in the Statement of Net Position are different because:

Deferred inflows and outflows of resources related to the District's pension liability are applicable to future periods and, therefore, are not reported within the funds.

Deferred inflows	(7,056,725)
Deferred outflows	45,355,452

Deferred inflows and outflows of resources related to the District's OPEB liability are applicable to future periods and, therefore, are not reported within the funds.

Deferred outflows	1,331,816
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Deferred outflows related to advanced refunding of bonds

12,663,965

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 \$258,595,687 and the accumulated depreciation is \$89,297,707.

169,297,980

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.

8,632,353

To record other post-employment benefits (OPEB).

(18,691,988)

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

Bonds payable	\$ (240,114,000)
Pension liability	(175,813,040)
Accrued interest on the bonds	(1,150,174)
Prepaid bond insurance (net of accumulated amortization)	884,662
Bond discounts (net of accumulated amortization)	308,869
Premium on bond issue	(29,121,280)
Compensated absences	(2,163,325)

(447,168,288)

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES**

\$ (212,766,975)

See accompanying notes.



**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Local sources	\$ 54,496,535	\$ 263,882	\$ 5,461	\$ 54,765,878
State sources	78,688,289	-	-	78,688,289
Federal sources	13,664,404	-	-	13,664,404
Total revenues	146,849,228	263,882	5,461	147,118,571
 <b>EXPENDITURES</b>				
Instruction	97,185,861	-	-	97,185,861
Support services	38,600,528	319,245	-	38,919,773
Noninstructional services	1,350,284	-	-	1,350,284
Facility acquisition and improvement	-	-	680,431	680,431
Debt service (principal, interest and fees)	9,410	63,038,227	-	63,047,637
Total expenditures	137,146,083	63,357,472	680,431	201,183,986
 <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	9,703,145	(63,093,590)	(674,970)	(54,065,415)
 <b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of long-term debt	-	44,929,651	-	44,929,651
Transfers in	-	22,544,331	-	22,544,331
Transfers out	(18,940,206)	(3,604,125)	-	(22,544,331)
Refunds of prior years receipts	(1,307,845)	-	-	(1,307,845)
Total other financing sources (uses)	(20,248,051)	63,869,857	-	43,621,806
 <b>NET CHANGE IN FUND BALANCES</b>				
	(10,544,906)	776,267	(674,970)	(10,443,609)
 <b>FUND BALANCE - BEGINNING</b>				
	29,689,659	2,961,258	661,152	33,312,069
 <b>FUND BALANCE (DEFICIT) - ENDING</b>				
	<u>\$ 19,144,753</u>	<u>\$ 3,737,525</u>	<u>\$ (13,818)</u>	<u>\$ 22,868,460</u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

**TOTAL NET CHANGE IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS** \$ (10,443,609)

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

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

Depreciation expense	\$(6,725,542)	
Capital outlays	1,827,930	
Construction in progress	<u>306,123</u>	
		(4,591,489)

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. 4,259,996

Debt proceeds are recorded as revenues in the governmental funds,  
but the proceeds increase long-term liabilities in the statement of net position. (39,235,000)

Repayment of bonds is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the  
Statement of Net Position. 43,185,500

Payments on the premium on SWAP issue are recorded in the  
governmental funds, the premium is being amortized  
and interest expense is being recorded on the premium amount.  
The SWAP premium decreased this year by this amount. 952,661

Interest on serial bonds is recorded in the  
governmental funds when paid, but the Statement of  
Activities records interest expense as it is incurred.  
Accrued interest increased by this amount this year. (197,649)

Reflect deferred outflows of resources related to the advanced refunding of  
general obligation bonds. 4,698,852

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES - continued**  
**YEAR ENDED JUNE 30, 2018**

To record the change in other post-employment benefits (OPEB) liability. (352,114)

To record the change in deferred outflows related to the District's OPEB liability. 1,331,816

The District's pension contributions are reported in the governmental funds as expenditures; however, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Increase in deferred outflows related to pension	9,296,141
Decrease in deferred inflows related to pension	4,870,030
Increase in net pension liability	(18,459,639)

Bond insurance costs and discounts 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. Bond premiums are recorded as other financing sources in the governmental funds, but are recorded as long-term liabilities in the Statement of Net Assets and are accreted over the term of the bonds. Related activity is as follows:

Addition of new bond premium	(5,866,741)
Current year bond premium accretion	1,536,746
Capitalization of new prepaid insurance	166,837
Current year prepaid insurance amortization	(88,429)
Current year bond discounts amortization	(183,300)

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.

4,900

**CHANGE IN NET POSITION OF  
GOVERNMENTAL ACTIVITIES**

\$ (9,114,491)

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION -**  
**PROPRIETARY FUND**  
**JUNE 30, 2018**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	Food Service Fund
<b>CURRENT ASSETS</b>	
Cash	\$ 6,311
Other receivables	78,399
Due from other governments	796,503
Inventories	53,602
Total current assets	934,815
<b>NONCURRENT ASSETS</b>	
Property, plant and equipment, net	378,492
Total assets	1,313,307
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
	876,042
Total assets and deferred outflows of resources	\$ 2,189,349

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 91,772
Due to other funds	1,031,557
Accrued salaries and benefits	84,562
Total current liabilities	1,207,891
<b>NONCURRENT LIABILITIES</b>	
Compensated absences	14,705
Other post-employment benefits	344,024
Pension liability	3,170,960
Total noncurrent liabilities	3,529,689
Total liabilities	4,737,580
<b>DEFERRED INFLOWS OF RESOURCES</b>	
	127,276
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	378,492
Unrestricted	(3,053,999)
Total net position	(2,675,507)
Total liabilities, deferred inflows of resources and net position	\$ 2,189,349

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET POSITION - PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2018**

	<u>Food Service Fund</u>
<b>OPERATING REVENUES</b>	
Food service revenue	\$ 215,168
 <b>OPERATING EXPENSES</b>	
Salaries	890,305
Employee benefits	420,563
Purchased professional service	1,157,632
Purchased property service	62,071
Other purchased service	1,283
Supplies	2,567,416
Depreciation	<u>97,498</u>
Total operating expenses	<u>5,196,768</u>
 <b>OPERATING LOSS</b>	 (4,981,600)
 <b>NONOPERATING REVENUES</b>	
Local sources	40,365
State sources	455,162
Federal sources	4,561,881
USDA donated commodities	<u>342,018</u>
Total nonoperating revenues	<u>5,399,426</u>
 <b>CHANGE IN NET POSITION</b>	 417,826
 <b>NET POSITION - BEGINNING (originally stated)</b>	 (2,985,488)
Prior period adjustment (see Note R)	<u>(107,845)</u>
 <b>NET POSITION - BEGINNING (restated)</b>	 <u>(3,093,333)</u>
 <b>NET POSITION - ENDING</b>	 <u><u>\$ (2,675,507)</u></u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from user charges	\$ 152,796	
Cash payments to employees for services	(1,668,837)	
Cash payments to suppliers for goods and services	<u>(3,430,330)</u>	
Net cash from operating activities		(4,946,371)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Grants and subsidies received for non-operating activities:		
Local	39,946	
State	447,412	
Federal	<u>4,459,477</u>	
Net cash from noncapital financing activities		4,946,835

**CASH FLOWS FROM INVESTING ACTIVITIES**

Earnings on Investments		<u>419</u>
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**NET CHANGE IN CASH**

883

**CASH - BEGINNING OF YEAR**

5,428

**CASH - END OF YEAR**

\$ 6,311

Reconciliation of operating loss to net cash from operating activities:

Operating loss		\$ (4,981,600)
Adjustment to reconcile operating loss to net cash from operating activities:		
Depreciation	97,498	
Donated commodities	342,018	
(Increase) decrease in:		
Inventory	16,299	
Other receivables	(62,372)	
Deferred outflows	(117,610)	
Increase (decrease) in:		
Accounts payable	(759,748)	
Due to other funds	759,503	
OPEB liability	34,417	
Compensated absences	2,310	
Pension liability	(138,639)	
Deferred inflows	(123,578)	
Accrued salaries and benefits	<u>(14,869)</u>	
Total adjustment		<u>35,229</u>
Net cash from operating activities		<u><u>\$ (4,946,371)</u></u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2018**

**ASSETS**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 74,840	\$ 112,550
Investments	19,929	29,421
Other receivables	-	47
	<u>          </u>	<u>          </u>
Total assets	<u><u>\$ 94,769</u></u>	<u><u>\$ 142,018</u></u>

**LIABILITIES AND NET POSITION**

<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 13,276
Due to other funds	-	23,729
Funds held for others	-	105,013
	<u>          </u>	<u>          </u>
Total liabilities	-	142,018
 <b>NET POSITION</b>		
Restricted	<u>94,769</u>	<u>-</u>
Total liabilities and net position	<u><u>\$ 94,769</u></u>	<u><u>\$ 142,018</u></u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED JUNE 30, 2018**

	<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>	
Receipts	\$ 204
 <b>DEDUCTIONS</b>	
Other	<u>8,750</u>
 <b>CHANGE IN NET POSITION</b>	(8,546)
 <b>NET POSITION - BEGINNING</b>	<u>103,315</u>
 <b>NET POSITION - ENDING</b>	<u><u>\$ 94,769</u></u>

See accompanying notes.



**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

**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 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 O. 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, 2018**

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

Related Organization - continued

The CAIU's Board of Directors consists of 19 members, 6 members from 6 different Cumberland County school districts, 2 members from York County School Districts, 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.

Joint Venture

The District became a member of the Dauphin County Technical School (DCTS), beginning with the June 30, 2018 fiscal year. The District is one of seven member school districts. DCTS provides vocational-training and education to participating students of the member districts. DCTS is controlled and governed by the Dauphin County Area Vocational-Technical School Joint Board (Vo-tech Board) which is composed of school board members of all the member school districts. No member school district exercises significant control over the fiscal policies or operations of DCTS. The DCTS is not reported as part of the District's reporting entity.

The District bought 11.83% of the net assets of DCTS with a payment of \$3,178,263, which was based on the net asset value of DCTS's 2015-2016 audited financial statements and the District's proportionate share based upon the 2015 STEB certified market values of real estate within the seven-member school districts. As part of the agreement, the District will also make future contributions to DCTS related to their 2015 Guaranteed School Lease Revenue Bonds. The District shall pay a total of \$2,239,416 in six equal installments of \$373,236, the first payment occurring on July 31, 2017.

The District's share of annual operating costs for DCTS fluctuates, based upon the percentage of enrollment of each member school district. The District paid approximately \$3,700,000 in operating costs for the June 30, 2018 fiscal year.

If DCTS ceases to be a going-concern, the District could be obligated to satisfy their proportionate amount of any outstanding debt obligations. Concurrently, the allocable assets could be transferred to the member districts.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. These 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.

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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

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 \$4,000. 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.

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:

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Fund Accounting - continued

Governmental Fund Types

General Fund

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

Capital Project Funds

The Capital Project Funds account for the proceeds and expenditures relating to bond issues and construction projects.

Debt Service Funds

1. Series 2009 - accounts for payments on the Series C of 2009 bonds.
2. Series 2010 - accounts for the sinking fund established by the Qualified School Construction Bond Series 2010.
3. Series 2014 - accounts for payments for the Series of 2014 A, B-1, B-2 and C.
4. Series 2015 - accounts for payments for the Series of 2015 bonds.
5. Series 2016 - accounts for payments for the Series of 2016 bonds.
6. Series 2017 - accounts for payments for the Series of 2017 notes.

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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Fund Accounting - continued

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 principally received from state and federal subsidies.

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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Measurement Focus/Basis of Accounting

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

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

The 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 real estate and occupation tax for the current and prior years. An allowance for estimated uncollectible real estate and school occupation taxes is based on a historical analysis of collections.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Modified Accrual Basis - continued

Revenue from State Sources

State subsidies due to 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.

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.
- 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.



**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Fund Balance - Governmental Funds

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. 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. This classification includes items such as prepaid expenses, inventories and long-term interfund balances.
- **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 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, 2014 Debt series, 2016 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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Fund Balance - Governmental Funds - continued

- **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.

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 27.8 mills. Interim taxes are assessed at various times during the year as needed.

Taxes receivable as reported on the combined balance sheet represents unpaid occupation and real estate taxes outstanding at June 30, 2018. Taxes receivable not deemed available under accounting principles generally accepted in the United States of America are included on the Fund Financial Statements as deferred inflows of resources.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Proprietary Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Vacation, Sick Leave and Other Compensated Absences

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

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

Eligible employees may accumulate an unlimited amount of sick leave. At the time of retirement, teachers are entitled to unused sick leave reimbursement at varying rates. Administrative employees are paid their accumulated unused sick leave at 25 percent of 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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

**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), the Pennsylvania Treasurer's INVEST Program for Local Governments (INVEST), and regional financial institutions. Investments in these funds have daily liquidity and are valued at the current cost which equals market value.

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

Interfund Transactions

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

Fixed Assets - Fund Financial Statements

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

Memorandum Only Columns

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

Estimates

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2018

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

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows and inflows of resources, which represents a consumption or receipt of net position that applies to a future period(s) and so will not be recognized as an outflow (expense) or inflow (revenue) of resources until then.

The District's deferred outflows as of June 30, 2018 on the Statement of Net Position consist of:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Pension related items (Note H)	\$ 45,355,452	\$ 818,030	\$ 46,173,482
Advanced refunding of bonds	12,663,965	-	12,663,965
OPEB related items (Note I)	<u>1,331,816</u>	<u>58,012</u>	<u>1,389,828</u>
Total	<u>\$ 59,351,233</u>	<u>\$ 876,042</u>	<u>\$ 60,227,275</u>

The District's deferred inflows as of June 30, 2018 on the Statement of Net Position consist of:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Pension related items (Note H)	\$ 7,056,725	\$ 127,276	\$ 7,184,001
Deferred subsidies	<u>380,005</u>	<u>-</u>	<u>380,005</u>
Total	<u>\$ 7,436,730</u>	<u>\$ 127,275</u>	<u>\$ 7,564,006</u>

The District's deferred inflows as of June 30, 2018 for the General Fund on the Balance Sheet - Governmental Funds represents \$8,632,353 of unavailable tax revenues.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This statement is effective for periods beginning after December 15, 2019. The District's management has not determined the impact, if any, of the implementation of this statement on the District's financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement is effective for periods beginning after June 15, 2018. The District's management has not determined the impact, if any, of the implementation of this statement on the District's financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement is effective for periods beginning after December 15, 2019. 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, 2018

**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 District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2018, none of the District's bank balance of \$10,819,090 was exposed to custodial credit risk, coverage is as follows:

Covered by Federal Depository Insurance (FDIC)	\$ 1,256,311
Secured by pooled collateral as permitted by Act 72 of the Commonwealth of Pennsylvania	9,278,889
Pennsylvania Local Government Investment Trust (PLGIT)	<u>283,890</u>
Total	<u>\$ 10,819,090</u>

Reconciliation to Financial Statements

Covered by Federal Depository Insurance (FDIC)	\$ 1,256,311
Plus: funds covered under Act 72	9,278,889
Plus: PLGIT	283,890
Less: outstanding checks	<u>(2,764,296)</u>
Total cash per financial statements	<u>\$ 8,054,794</u>

Investments

As of June 30, 2018, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	5 - 10
PA School District Liquid Asset Fund	\$ 17,500,000	\$ 17,500,000	\$ -	\$ -
Treasury obligation funds	3,433,524	3,433,524	-	-
PLGIT	25,508	25,508	-	-
PA Treasurer's INVEST	<u>38,256</u>	<u>38,256</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 20,997,288</u>	<u>\$ 20,997,288</u>	<u>\$ -</u>	<u>\$ -</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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, 2018, the District's investments were rated as:

<u>Investment</u>	<u>Standard &amp; Poor's</u>
PA Local Government Investment Trust	AAA
PA School District Liquid Asset Fund	AAA
PA Treasurer's INVEST Program	A+

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. As of June 30, 2018, the District had 83% of its investments with PA School District Liquid Asset Fund and 16% of its investments in treasury funds.

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.



**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

A summary of property, plant and equipment of the Business-Type Activities as of June 30, 2018, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Machinery and equipment	\$ 1,941,423	\$ -	\$ 1,941,423
Accumulated depreciation	<u>1,465,433</u>	<u>97,498</u>	<u>1,562,931</u>
Net property, plant, and equipment	<u>\$ 475,990</u>	<u>\$ 97,498</u>	<u>\$ 378,492</u>

A summary of property, plant, and equipment for the Governmental Activities for the year ended June 30, 2018, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and land improvements	\$ 13,614	\$ -	\$ -	\$ 13,614
Building and improvements	235,075,129	5,715,072	-	240,790,201
Furniture and equipment	15,995,562	1,490,187	-	17,485,749
Construction in progress	<u>5,377,329</u>	<u>306,123</u>	<u>5,377,329</u>	<u>306,123</u>
Total capital assets	<u>256,461,634</u>	<u>7,511,382</u>	<u>5,377,329</u>	<u>258,595,687</u>
Less accumulated depreciation:				
Building and improvements	70,409,217	5,320,314	-	75,729,531
Furniture and equipment	<u>12,162,948</u>	<u>1,405,228</u>	<u>-</u>	<u>13,568,176</u>
Total accumulated depreciation	<u>82,572,165</u>	<u>\$6,725,542</u>	<u>\$ -</u>	<u>89,297,707</u>
Net property, plant and equipment	<u>\$ 173,889,469</u>			<u>\$ 169,297,980</u>

The District has three buildings for sale as of June 30, 2018. Total net book value of those assets at June 30, 2018 is \$4,929,606.

Depreciation was charged to individual functions as follows:

Instructional	\$1,575,216
Instructional support	409,827
Administrative	189,620
Operation of plant and maintenance	3,476,366
Central support services	948,100
Student activities	<u>126,413</u>
Total	<u>\$6,725,542</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Taxes receivable at the fund level represent the face amount of taxes levied, but unpaid, as of June 30, 2018. Those taxes which are not collected within 60 days after June 30, 2018 are shown as deferred revenue.

Taxes receivable, net	\$11,907,350
Deferred inflows of resources - tax revenues	<u>(8,632,353)</u>

Taxes receivable included in current year tax revenue	<u>\$ 3,274,997</u>
--	---------------------

Deferred inflows of resources related to tax revenues consists of the following:

Taxes receivable which were not collected within sixty days subsequent to June 30, 2018 related to:

Delinquent School Occupation Taxes	\$ 3,580,704
Delinquent Real Estate Taxes	<u>5,051,649</u>
	<u>\$ 8,632,353</u>

Taxes receivable as of June 30, 2018 are net of an allowance for estimable uncollectible taxes of \$7,334,912.

**NOTE E - INVENTORIES**

A schedule of the Business-Type Activities' inventories at June 30, 2018, follows:

Material and supplies	\$ 16,326
Purchased food	<u>37,276</u>
	<u>\$ 53,602</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE F - ACCRUED SALARIES AND BENEFITS**

Accrued salaries principally represent teachers' salaries earned during the 2017/2018 school year that were paid subsequent to June 30, 2018. Accrued retirement, social security, and workers' compensation represent the District's liability on salaries paid during June 2018 and on accrued salaries at June 30, 2018. Accrued payroll withholdings represent the employees' share of retirement, social security and other benefits not remitted to the respective entities as of June 30, 2018.

**NOTE G - BONDS AND NOTES PAYABLE**

A summary of bonds and notes payable at June 30, 2018 as follows:

<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
<u>Bonds Payable</u>			
June 2014 - Series 2014 A	December 1, 2020	1.27% to 3.28%	\$ 18,885,000
June 2014 - Series 2014 B-1	December 1, 2023	2.02% to 4.08%	6,735,000
June 2014 - Series 2014 B-2	December 1, 2034	3.00% to 4.00%	20,850,000
November 2015			
- Refunding Series of 2015	November 15, 2032	2.00% to 3.375%	9,950,000
March 2016			
- Refunding Series of 2016	November 15, 2033	2.00% to 3.125%	9,990,000
July 2016 - Series 2016 A	December 1, 2033	2.00% to 5.00%	125,730,000
July 2016 - Series 2016 B	December 1, 2020	2.116%	2,945,000
<u>Notes Payable</u>			
October 6, 2010 - Series 2010 QSCB	September 15, 2027	5.00%	9,194,000
July 2017 - Series 2017 A of 2017	November 15, 2024	1.43% to 3.12%	6,275,000
July 2017 - Series 2017 B of 2017	November 15, 2027	3.00% to 5.00%	<u>29,560,000</u>
			<u>\$240,114,000</u>

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.

In June 2014, the District issued the following bond issues: 2014 Series A - \$23,880,000; 2014 Series B-1 - \$6,740,000; 2014 Series B-2 - \$20,895,000. The 2014 Series A proceeds were used to redeem the 2013 bond issue, payment of accrued interest and associated issuance costs. The 2014 Series B-1 proceeds were used to fully terminate the interest rate swap agreement with Royal Bank of Canada (RBC) that were related to a portion of the 2009 D bonds and associated issuance costs. The 2014 Series B-2 proceeds were used to redeem the 2009 D issue and associated issuance costs.

**HARRISBURG CITY SCHOOL DISTRICT**  
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**NOTE G - BONDS AND NOTES PAYABLE - continued**

In November 2015, the District issued Refunding Series of 2015 for \$9,960,000. The proceeds were used to advance refund a portion of the outstanding principal of \$8,455,000 and interest thereon on the Series A of 2009 issue and payments of associated costs and expenses in connection with the issuance and sale of the Bonds.

In March 2016, the District issued Refunding Series of 2016 for \$9,995,000. The proceeds were used to advance refund a portion of the outstanding principal of \$8,380,000 and interest thereon on the Series A of 2009 issue and payments of associated costs and expenses in connection with the issuance and sale of the Bonds.

In July 2016, the District issued General Obligation Bonds (2016A and 2016B) totaling \$128,680,000. The bond proceeds were used to refund Series A of 2009 issue, to refund a portion of Series C of 2014, to terminate a portion of the District's SWAP and to cover the bond issuance costs.

In August 2017, the District issued General Obligation Notes (2017A and 2017B) totaling \$39,235,000. The note proceeds were used to advance refund Series 2014C Bond, terminate the SWAP related to the Series 2014C Bond, advance refund the Series 2009C Bonds and to cover the bond issue costs.

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

Year ending June 30,	Principal	Interest	Totals
2019	\$ 9,581,121	\$ 9,593,855	\$ 19,174,976
2020	9,571,121	9,552,125	19,123,246
2021	10,836,121	9,574,824	20,410,945
2022	12,056,121	9,156,562	21,212,683
2023	12,171,121	8,644,372	20,815,493
2024 - 2028	72,235,608	35,651,255	107,886,863
2029 - 2033	88,915,000	14,786,563	103,701,563
2034 - 2038	<u>21,465,000</u>	<u>443,669</u>	<u>21,908,669</u>
Totals	<u>\$ 236,831,213</u>	<u>\$ 97,403,225</u>	<u>\$ 334,234,438</u>

The future principal payments scheduled above are net of the annual payments of \$574,313 to the 2010 Debt Service Fund made over the past four fiscal years for the 2010 QSCB bond issue. The amount in the Fund at June 30, 2018 was \$3,282,787.

Interest expense totaled approximately \$10,336,000 for the year ended June 30, 2018.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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, 2018, follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>
Bonds payable:				
Series 2009 C issue	\$ 3,500,000	\$ -	\$ (3,500,000)	\$ -
Series 2014 A issue	23,705,000	-	(4,820,000)	18,885,000
Series 2014 B-1 issue	6,740,000	-	(5,000)	6,735,000
Series 2014 B-2 issue	20,855,000	-	(5,000)	20,850,000
Series 2014 C issue	31,440,500	-	(31,440,500)	-
Refunding Series 2015	9,955,000	-	(5,000)	9,950,000
Refunding Series 2016	9,995,000	-	(5,000)	9,990,000
Series 2016 A issue	125,735,000	-	(5,000)	125,730,000
Series 2016 B issue	2,945,000	-	-	2,945,000
Notes payable:				
October 2010 issue	9,194,000	-	-	9,194,000
July 2017 – Series A	-	9,675,000	(3,400,000)	6,275,000
July 2017 – Series B	-	<u>29,560,000</u>	-	<u>29,560,000</u>
 Total	 <u>\$ 244,064,500</u>	 <u>\$39,235,000</u>	 <u>\$ (43,185,500)</u>	 <u>\$ 240,114,000</u>

**NOTE H - DEFINED BENEFIT PENSION PLAN**

Summary of Significant Accounting Policies:

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

General Information about the Pension Plan:

Plan Description

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of services regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 creates two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Employer Contributions:

The School Districts' contractually required contribution rate for fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$16,362,482 for the year ended June 30, 2018.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

State Funding

The District typically receives a 50% reimbursement from the Commonwealth of Pennsylvania for its retirement expense. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100% of the District's share of these amounts. During the year ended June 30, 2018, the District recognized revenue of \$11,344,326 as reimbursement for its current year pension payments.

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

At June 30, 2018, the District reported a liability of \$178,984,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.3624 percent, which was an increase of 0.0382 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized pension expense of \$20,126,000.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,867,000	\$ 1,082,000
Changes in assumptions	4,862,000	-
Net difference between projected and actual investment earnings	4,147,000	-
Changes in proportions	18,935,000	6,102,000
Difference between employer contributions and proportionate share of total contributions	182,251	-
Contributions subsequent to the measurement date	<u>16,180,231</u>	<u>-</u>
	<u>\$ 46,173,482</u>	<u>\$ 7,184,000</u>

\$16,180,231 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ (3,136,070)
2020	8,446,840
2021	11,994,805
2022	<u>2,918,299</u>
Total	<u>\$ 20,223,874</u>



**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2018

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

Changes in Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the System's total pension liability as of the June 30, 2017 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.25%, includes inflation at 2.75%
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit and seniority increases
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Investments

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	<u>(20.0%)</u>	1.1%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2018

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

Investments - continued

For the year ended, the annual money-weighted rate of return on pension plan investments, net of pension investment expense, was 10.15%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

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

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

	<u>1% Decrease</u> <u>6.25%</u>	<u>Current</u> <u>Discount Rate</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
District's proportionate share of the net pension liability	<u>\$220,313,000</u>	<u>\$178,984,000</u>	<u>\$144,090,000</u>

Pension Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

**NOTE I - OTHER POST-EMPLOYMENT BENEFITS**

Plan Description

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

Type of Plan: Single-employer defined OPEB plan.

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 Consulting Actuary, Conrad Siegel Actuaries, 501 Corporate Circle, P.O. Box 5900, Harrisburg, PA 17110-0900.

Date of report: The actuarial valuation was completed as of July 1, 2016 and then rolled forward to July 1, 2017.

Summary of Plan Provisions

- Administrators
  - Eligibility: Act 110/43\*
  - Coverage: Medical, prescription drug, dental and vision
  - Premium sharing:
    - If the member reaches 15 years of service with the district and superannuation, the district will pay the full premium less the PSERS supplement for medical and prescription drug coverage for both member and spouse. The member and spouse must pay the full premium for dental and vision coverage. If the spouse is over 65, Medicare will pay primary for benefits. Should an increase of greater than 7% occur during one year, the member will be responsible to contribute any increase beyond the 7% cap.
    - If the member reaches eligibility through Act 110/43 but is no eligible for the district subsidized benefit above, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.
  - Dependents: Spouses included
  - Duration:
    - The member's benefit will cease at member Medicare eligibility.
    - The spouse may continue benefits until the earlier of member Medicare age or member death.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Summary of Plan Provisions - continued

- Teachers (retired prior to 7/1/1999)
  - Eligibility: N/A - already retired
  - Coverage: Medical, prescription drug, dental and vision
  - Premium sharing:
    - If the member reaches 15 years of service with the district and superannuation, the district will pay the full premium less the PSERS supplement for medical, prescription drug, dental and vision coverage for both the member and spouse. If the spouse is over 65, Medicare will pay primary for benefits. Should an increase of greater than 7% occur during one year, the member will be responsible to contribute any increase beyond the 7% cap.
  - Dependents: Spouses included
  - Duration:
    - The member's benefit will cease at member Medicare eligibility.
    - The spouse may continue benefits until the earlier of member Medicare age or member death.
- Teachers (retire after 7/1/1999)
  - Eligibility: Act 110/43\*
  - Coverage: Medical, prescription drug, dental and vision
  - Premium sharing:
    - If the member reaches 15 years of service with the district and superannuation, the district will pay the full premium less the PSERS supplement for medical and prescription drug coverage for both member and spouse. The member and spouse must pay the full premium for dental and vision coverage. If the spouse is over 65, Medicare will pay primary for benefits. Should an increase of greater than 7% occur during one year, the member will be responsible to contribute any increase beyond the 7% cap.
    - If the member reaches eligibility through Act 110/43 but is no eligible for the district subsidized benefit above, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.
  - Dependents: Spouses included
  - Duration:
    - The member's benefit will cease at member Medicare eligibility.
    - The spouse may continue benefits until the earlier of member Medicare age or member death.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

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

Summary of Plan Provisions - continued

- AFSCME
  - Eligibility: Act 110/43\*
  - Coverage: Medical, prescription drug, dental and vision
  - Premium sharing:
    - If the member reaches either age 60 with 30 years of PSERS service or 35 years of PSERS service, the district will pay the full premium less the PSERS supplement for medical and prescription drug coverage for the member only. The member must pay the full premium for dental and vision coverage. The spouse may continue coverage by paying the full premium as determined for the purpose of COBRA. If the spouse is over 65, Medicare will pay primary for benefits.
    - If the member reaches eligibility through Act 110/43 but is not eligible for the district subsidized benefit above, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.
  - Dependents: Spouses included
  - Duration:
    - The member's benefit will cease at member Medicare eligibility.
    - The spouse may continue benefits until the earlier of member Medicare age or member death.

\*Act 110/43 Eligibility: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement.

Changes in Benefits

In the current year, there were no changes in benefits.

Actuarial Assumptions

- Interest Rate - 3.13% Based on S&P Municipal Bond 20 Year High Grade Rate Index at 7/1/2017
- Salary - An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75 to 0%.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2018

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

Actuarial Assumptions - continued

- Withdrawal - Rates of withdrawal vary by age, gender and years of service. Sample rates for employees with more than 10 years of service are shown below. Rates for new employees start at 22.9% for both men and women and decrease with age and service.

<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>	<u>Age</u>	<u>Male Rate</u>	<u>Female Rate</u>
25	2.57%	5.02%	45	1.37%	1.65%
30	2.57%	4.02%	50	1.92%	2.06%
35	1.50%	2.85%	55	3.38%	3.11%
40	1.34%	1.60%	60	5.57%	6.40%

- Mortality - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Disability - No disability was assumed.
- Retirement - Assumed retirement rates are based on PSERS plan experience and vary by age, service and gender.

	<u>Age 55 &amp; 25 years of service</u>		<u>Superannuation</u>	
<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	19%	19%	27%	10%
56	17%	17%	32%	30%
57	17%	17%	32%	30%
58	17%	17%	32%	35%
59	22%	21%	31%	36%
60	14%	17%	31%	36%
61	29%	30%	29%	31%
62	51%	61%	51%	61%
63	26%	26%	26%	26%
64	21%	22%	21%	22%
65	100%	100%	100%	100%

- Percent of Eligible Retirees Electing Coverage in Plan - 90% of those receiving a district subsidized benefit, and 50% of all other employees eligible to receive benefits are assumed to elect coverage.
- Percent Married at Retirement - 50% of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.
- Spouse Age - Wives are assumed to be two years younger than their husbands.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2018

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

Actuarial Assumptions - continued

- Per Capita Claims Cost - Making use of weighted averages for various plan designs, the per capita claims costs for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision costs are assumed to not vary with age or gender. The resulting costs are as follows:

<u>Age</u>	<u>Medical and Prescription Drug Combined</u>	
	<u>Males</u>	<u>Females</u>
45-49	\$ 7,112	\$10,271
50-54	\$ 9,419	\$11,608
55-59	\$11,472	\$12,147
60-64	\$14,970	\$13,954
65+	\$ 9,262	\$ 9,262

- Retiree Contributions - Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate.
- Health Care Cost Trend Rate - 6.0% in 2017 and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on Society of Actuaries Long-Run Medical Cost Trend Model.
- Actuarial Cost Method - Entry Age Normal - Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.
- Participant Date - Based on census information as of June 2016.

Changes in Assumptions

- The discount rate changed from 2.49% to 3.13%
- The trend assumption was updated
- Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

Benefits Paid

For fiscal year June 30, 2018, the estimated amount of benefits paid was \$1,367,805.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2018

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

Plan Participants

Active Participants	946
Retired Participants	102
Total	1048

Deferred Outflows of Resources

\$1,389,828 is reported as deferred outflows of resources related to the District's OPEB plan resulting from changes in assumptions (\$244,409) and benefit payments subsequent to the measurement date (\$1,145,419). The subsequent benefit payments will be recognized as a reduction of the net pension liability in subsequent years. The changes in assumptions reported as deferred outflows of resources will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 18,801
2020	18,801
2021	18,801
2022	18,801
2023	18,801
Thereafter	<u>150,404</u>
Total	<u>\$ 244,409</u>

Deferred Inflows of Resources

There are no deferred inflows of resources related to the District's OPEB plan.

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease <u>2.13%</u>	Current Discount Rate <u>3.13%</u>	1% Increase <u>4.13%</u>
District's OPEB liability	<u>\$16,863,762</u>	<u>\$15,662,281</u>	<u>\$14,539,798</u>



**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2018

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

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that is 1-percentage-point lower or 1-percentage-point higher than the current rates:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
District's OPEB liability	<u>\$13,743,532</u>	<u>\$15,662,281</u>	<u>\$17,984,967</u>

**NOTE J - COMPENSATED ABSENCES**

A summary of the District's total compensated absence liabilities for the year ended June 30, 2018 is as follows:

	<u>Vacation, Sick and Personal Days</u>
Beginning balance	\$ 2,180,620
Net change in current year	<u>(2,590)</u>
Ending balance	<u>\$ 2,178,030</u>

**NOTE K - INTERFUND BALANCES**

The fund level balance sheet reflects the following interfund receivable and payable balances at June 30, 2018:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General	\$ 1,370,947	\$ -
Enterprise District food service	-	1,031,557
Non-major funds	-	315,661
Fiduciary funds	<u>-</u>	<u>23,729</u>
	<u>\$ 1,370,947</u>	<u>\$ 1,370,947</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2018

**NOTE L - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables at June 30, 2018, consisted of the following:

Amounts due from:	
Commonwealth of PA	\$ 5,341,596
Federal government as passed through the PA Department of Education	3,098,687
Other local governments	<u>247,003</u>
Total	<u>\$ 8,687,286</u>

**NOTE M - 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, 2018.

**NOTE N - 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. Based upon management's assessment of these claims and lawsuits and estimated provision has been recorded.

During the first quarter of the 2018-2019 fiscal year the District along with four other taxing authorities received requests for real estate tax and PURTA refunds based on the entities claim of tax-exempt status. The District has opposed the request for refunds and challenged the exempt status of the properties held by the entity and filed its own complaint. The eventual outcome of this matter is unknown at this time; although, should the District be unsuccessful in its position the estimated refund amounts would be material to the District.

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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2018

**NOTE O - RELATED PARTY TRANSACTIONS**

The Capital Area Intermediate Unit provides special education services and other workshops to the District. During the year ended June 30, 2018, the District's expenditures relating to those services and workshops were approximately \$1,800,000. Accounts Payable due to Capital Area Intermediate Unit were \$641,000 at June 30, 2018.

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

At June 30, 2018, the following fund had a deficit net position:

Food Service Fund	<u>\$ 2,675,507</u>
Capital Reserve Fund	<u>\$ 104,083</u>

**NOTE Q - 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, 2018 through its accounts payable. At June 30, 2018, the amount accrued in accounts payable for IBNR is approximately \$746,000.

**NOTE R - PRIOR PERIOD ADJUSTMENTS**

The District implemented GASB 75 – *Accounting and Financial reporting for Postretirement Benefits Other Than Pensions* for the year ended June 30, 2018, which required the District to calculate and record the District's full liability related to its other post-employment benefit (OPEB) plan on its Statement of Net Position. This resulted in a reduction of the beginning net position of the Governmental Activities in the amount of \$14,932,876 and the Business-Type Activities in the amount of \$107,845.

Total impact of the above prior period adjustments on the beginning net position is as follows:

Net Position - June 30, 2017 (originally stated)	\$(191,705,096)
Adjustment - GASB 75	<u>(15,040,721)</u>
Net Position - June 30, 2017 (restated)	<u>\$(206,745,817)</u>

**NOTE S - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of the Independent Auditors' Report, 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 -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Budget Positive (Negative)</u>
<b>REVENUES</b>				
Local revenues	\$ 52,360,209	\$ 52,360,209	\$ 54,496,535	\$ 2,136,326
State program revenues	78,648,177	78,648,177	78,688,289	40,112
Federal program revenues	15,840,103	15,840,103	13,664,404	(2,175,699)
	<u>146,848,489</u>	<u>146,848,489</u>	<u>146,849,228</u>	<u>739</u>
<b>EXPENDITURES</b>				
Regular programs	54,204,847	54,204,847	57,869,382	(3,664,535)
Special programs	22,375,242	22,375,242	27,033,784	(4,658,542)
Vocational programs	4,028,534	4,028,534	6,860,518	(2,831,984)
Other instructional programs	4,761,303	4,761,303	4,858,702	(97,399)
Community/Jr College programs	575,000	575,000	416,619	158,381
Pre-Kindergarten	144,500	144,500	146,856	(2,356)
Pupil personnel services	4,674,792	4,674,792	5,337,402	(662,610)
Instructional staff services	2,450,243	2,450,243	2,802,364	(352,121)
Administrative services	7,879,024	7,879,024	7,724,951	154,073
Pupil health	1,431,903	1,431,903	856,008	575,895
Business services	1,599,573	1,599,573	1,418,932	180,641
Operation and maintenance of plant services	12,177,554	12,177,554	11,379,156	798,398
Student transportation services	3,728,021	3,728,021	3,959,834	(231,813)
Central and other support services	4,146,228	4,146,228	3,976,315	169,913
Other support services	2,050,000	2,050,000	1,145,566	904,434
Student activities	719,530	719,530	652,176	67,354
Community services	432,378	432,378	698,108	(265,730)
Debt service	275,000	275,000	9,410	265,590
	<u>127,653,672</u>	<u>127,653,672</u>	<u>137,146,083</u>	<u>(9,492,411)</u>
Total expenditures				
Excess of revenues over expenditures	19,194,817	19,194,817	9,703,145	(9,491,672)

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - GENERAL FUND - continued**  
**YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Refund prior year receipts	-	-	(1,307,845)	(1,307,845)
Sale or Loss Compensation for fixed assets	225,000	225,000	-	(225,000)
Transfers out	(19,588,695)	(19,588,695)	(18,940,206)	648,489
Special and extraordinary items	(3,650,448)	(3,650,448)	-	3,650,448
Budgetary reserve	<u>(2,210,003)</u>	<u>(2,210,003)</u>	<u>-</u>	<u>2,210,003</u>
 Total other financing sources (uses)	 <u>(25,224,146)</u>	 <u>(25,224,146)</u>	 <u>(20,248,051)</u>	 <u>4,976,095</u>
 Net change in fund balances	 <u><u>\$(6,029,329)</u></u>	 <u><u>\$(6,029,329)</u></u>	 (10,544,906)	 <u><u>\$(4,515,577)</u></u>
 <b>FUND BALANCE - BEGINNING</b>			 <u>29,689,659</u>	
 <b>FUND BALANCE - ENDING</b>			 <u><u>\$ 19,144,753</u></u>	

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT'S OPEB LIABILITY**  
**YEAR ENDED JUNE 30, 2018**

	<u>June 30, 2018</u>
Total OPEB liability	\$ 15,662,281
Plan fiduciary net position	-
Net OPEB liability	<u>\$ 15,662,281</u>
Beginning liability	\$ 15,275,750
Service cost	1,101,775
Interest	389,351
Changes in assumptions	263,210
Benefit payments	(1,367,805)
Net changes	386,531
Ending liability	<u>\$ 15,662,281</u>
Covered-employee payroll	<u>\$ 42,444,772</u>
Total OPEB liability as a % of covered-employee payroll	<u>36.90%</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE**  
**NET PENSION LIABILITY**  
**YEAR ENDED JUNE 30, 2018**

<u>Fiscal Year</u>	<u>District's Proportion of the Net Pension Liability</u>	<u>District's Proportionate Share of the Net Pension Liability</u>	<u>District's Covered Employee Payroll</u>	<u>District's Proportionate Share of Net Pension Liability as a Percentage of Its Covered Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2018	\$ 178,984,000	0.3624%	\$ 48,245,680	371%	51.84%
June 30, 2017	160,663,000	0.3242%	41,987,489	383%	50.14%
June 30, 2016	143,374,000	0.3310%	42,585,657	337%	54.36%
June 30, 2015	119,217,000	0.3012%	38,440,676	310%	57.24%



**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT'S CONTRIBUTIONS**  
**YEAR ENDED JUNE 30, 2018**

Fiscal Year	Contractually Required Contribution (Cash Basis)	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	District's Covered Employee Payroll (Cash Basis)	Contributions as a Percentage of Covered Employee Payroll
June 30, 2018	\$ 16,180,231	\$ (16,180,231)	\$ -	\$ 50,072,728	32%
June 30, 2017	14,479,743	(14,479,743)	-	48,582,522	30%
June 30, 2016	10,646,636	(10,646,636)	-	41,202,152	26%
June 30, 2015	8,786,412	(8,786,412)	-	40,081,124	22%

**SUPPLEMENTARY INFORMATION**

**HARRISBURG CITY SCHOOL DISTRICT**  
**COMBINING BALANCE SHEETS -**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

**ASSETS**

	Capital Projects	Special Revenue	
	Series 2008 Note	Capital Reserve Fund	Total
Cash and cash equivalents	\$ 90,265	\$ 283,890	\$ 374,155
	<u>\$ 90,265</u>	<u>\$ 283,890</u>	<u>\$ 374,155</u>

**LIABILITIES AND FUND BALANCES**

Liabilities:			
Accounts payable	\$ -	\$ 72,312	\$ 72,312
Due to other funds	-	315,661	315,661
	<u>-</u>	<u>387,973</u>	<u>387,973</u>
Total liabilities	-	387,973	387,973
Fund balances:			
Assigned	90,265	(104,083)	(13,818)
	<u>90,265</u>	<u>(104,083)</u>	<u>(13,818)</u>
Total fund balances	90,265	(104,083)	(13,818)
	<u>\$ 90,265</u>	<u>\$ 283,890</u>	<u>\$ 374,155</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 NON-MAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2018

	<u>Capital Projects</u>	<u>Special Revenue</u>	
	<u>Series 2008 Note</u>	<u>Capital Reserve Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Local sources	<u>\$ 844</u>	<u>\$ 4,617</u>	<u>\$ 5,461</u>
Total revenues	844	4,617	5,461
<b>EXPENDITURES</b>			
Facility acquisition and improvement	<u>68,878</u>	<u>611,553</u>	<u>680,431</u>
Total expenditures	<u>68,878</u>	<u>611,553</u>	<u>680,431</u>
Deficiency of revenues over expenditures	(68,034)	(606,936)	(674,970)
<b>OTHER FINANCING SOURCES</b>			
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(68,034)	(606,936)	(674,970)
<b>FUND BALANCE - BEGINNING</b>	<u>158,299</u>	<u>502,853</u>	<u>661,152</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 90,265</u></u>	<u><u>\$ (104,083)</u></u>	<u><u>\$ (13,818)</u></u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Local sources:				
Taxes				
Current real estate taxes	\$ 36,286,209	\$ 36,286,209	\$ 36,025,927	\$ (260,282)
Delinquent real estate taxes	4,162,000	4,162,000	5,260,523	1,098,523
Current school occupation	720,000	720,000	605,836	(114,164)
Delinquent school occupation	-	-	326,316	326,316
Earned income taxes	3,570,000	3,570,000	3,833,896	263,896
Real estate transfer	750,000	750,000	985,744	235,744
Emergency and municipal services tax	210,000	210,000	223,576	13,576
Payments in lieu of tax	1,921,000	1,921,000	1,936,583	15,583
Public utility realty tax	50,000	50,000	49,686	(314)
Amusement	300,000	300,000	295,643	(4,357)
Business and mercantile	1,835,000	1,835,000	1,877,656	42,656
<b>Total taxes</b>	<b>49,804,209</b>	<b>49,804,209</b>	<b>51,421,386</b>	<b>1,617,177</b>
Other:				
Tuition and other payments from patrons	210,000	210,000	185,114	(24,886)
Earnings from temporary deposits	175,000	175,000	480,966	305,966
Revenues from district activities	46,000	46,000	66,930	20,930
Rent from school and other facilities	160,000	160,000	104,980	(55,020)
Revenue received from other intermediate sources	1,395,000	1,395,000	1,330,200	(64,800)
Contributions from private sources	450,000	450,000	487,935	37,935
Miscellaneous	120,000	120,000	419,024	299,024
<b>Total other</b>	<b>2,556,000</b>	<b>2,556,000</b>	<b>3,075,149</b>	<b>519,149</b>
<b>Total local sources</b>	<b>52,360,209</b>	<b>52,360,209</b>	<b>54,496,535</b>	<b>2,136,326</b>

**HARRISBURG CITY SCHOOL DISTRICT**  
**DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -**  
**BUDGET AND ACTUAL - GENERAL FUND - continued**  
**YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
State sources:				
Basic instructional subsidy	50,306,827	50,306,827	50,267,731	(39,096)
Tuition reimbursement	100,000	100,000	64,577	(35,423)
Migratory children	-	-	1,520	1,520
Special education of exceptional students	5,862,876	5,862,876	5,783,145	(79,731)
Pre-K counts	144,500	144,500	134,995	(9,505)
Act 30 - PRRI	1,200,000	1,200,000	1,213,675	13,675
Transportation	1,430,000	1,430,000	1,769,360	339,360
Medical and dental services	125,000	125,000	124,024	(976)
Retirement reimbursement	10,260,000	10,260,000	11,135,121	875,121
Social security	2,200,000	2,200,000	2,259,740	59,740
Sinking fund subsidy	2,340,009	2,340,009	1,324,004	(1,016,005)
Pennsylvania accountability block grant	1,807,251	1,807,251	1,807,251	-
State property tax reduction allocation	2,771,714	2,771,714	2,771,714	-
Other state revenues	100,000	100,000	31,432.00	(68,568)
<b>Total state sources</b>	<b>78,648,177</b>	<b>78,648,177</b>	<b>78,688,289</b>	<b>40,112</b>
Federal sources:				
Payments for federally impacted areas	53,500	53,500	8,970	(44,530)
Education Consolidation and Improvement Act - Title I	6,510,276	6,510,276	6,545,515	35,239
Access	345,000	345,000	524,006	179,006
Education for Economic Security Act - Title II	985,122	985,122	676,375	(308,747)
Language instruction for LEP and immigrant students - Title III	382,808	382,808	160,279	(222,529)
ARRA QSCB subsidy	395,075	395,075	396,350	1,275
Other federal grants-in-aid	7,168,322	7,168,322	5,352,909	(1,815,413)
<b>Total federal sources</b>	<b>15,840,103</b>	<b>15,840,103</b>	<b>13,664,404</b>	<b>(2,175,699)</b>
<b>Total local, state and federal sources</b>	<b>\$ 146,848,489</b>	<b>\$ 146,848,489</b>	<b>\$ 146,849,228</b>	<b>\$ 739</b>

**HARRISBURG CITY SCHOOL DISTRICT**  
**FIDUCIARY FUNDS - STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

**ASSETS**

	Private Purpose Trust Funds			Agency Funds		
	Non-Expendable Trust Fund	Expendable Trust Fund	Total	Student Activity Fund	Agency Fund	Total
Cash and cash equivalents	\$ 16,068	\$ 58,772	\$ 74,840	\$ 59,607	\$ 52,943	\$ 112,550
Investments	9,522	10,407	19,929	29,421	-	29,421
Other receivables	-	-	-	47	-	47
	<u>\$ 25,590</u>	<u>\$ 69,179</u>	<u>\$ 94,769</u>	<u>\$ 89,075</u>	<u>\$ 52,943</u>	<u>\$ 142,018</u>

**LIABILITIES AND NET POSITION**

Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 11,783	\$ 1,493	\$ 13,276
Due to other funds	-	-	-	16,436	7,293	23,729
Funds held for others	-	-	-	60,856	44,157	105,013
	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,075</u>	<u>52,943</u>	<u>142,018</u>
Total liabilities						
Net position:						
Restricted	<u>25,590</u>	<u>69,179</u>	<u>94,769</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 25,590</u>	<u>\$ 69,179</u>	<u>\$ 94,769</u>	<u>\$ 89,075</u>	<u>\$ 52,943</u>	<u>\$ 142,018</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**FIDUCIARY FUNDS - NONEXPENDABLE TRUST FUND**  
**CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2018**

	<u>Revenues</u>	<u>Expenses</u>	<u>Excess of Revenues Over Expenses</u>	<u>Fund Balance Beginning of Year</u>	<u>Fund Balance End of Year</u>
Annie Schlayer Award	\$ 5	\$ -	\$ 5	\$ 532	\$ 537
Barbara Baton Scholarship Fund	23	-	23	3,064	3,087
C. Wolfgang Memorial	3	-	3	376	379
Class of 1907 - Central H. S.	2	-	2	304	306
Class of 1917 - Central H. S.	8	-	8	1,014	1,022
Class of 1918 - Central H. S.	6	-	6	914	920
Class of 1925 - Technical H. S.	8	-	8	1,014	1,022
Class of 1930 - William Penn H. S.	1	-	1	203	204
Class of 1931 - William Penn H. S.	3	-	3	304	307
Class of 1943 - William Penn H. S.	1	-	1	203	204
Class of 1958 - John Harris H. S.	1	-	1	203	204
E. E. Miller Award	1	-	1	101	102
Elizabeth Smith Award	5	-	5	500	505
Frank Goodyear Memorial	27	-	27	3,319	3,346
Frannie Zarkin Katzan Award - William Penn H. S.	1	-	1	254	255
General Scholarship Fund	5	-	5	647	652
J. J. Brehm Award	4	-	4	456	460
Jim Keener Memorial	9	-	9	1,068	1,077
Karen Lukens Safety Award	55	-	55	6,893	6,948
Marte McCord Musical Achievement Award	13	-	13	1,520	1,533
Mary Warfield Award	4	-	4	303	307
Robert A. Lamberton	11	-	11	1,328	1,339
William Penn High School Business Club Award	4	-	4	461	465
W. S. Steel Memorial (Class of 1915 and 1916 - Central H. S.)	4	-	4	405	409
	<u>\$ 204</u>	<u>\$ -</u>	<u>\$ 204</u>	<u>\$ 25,386</u>	<u>\$ 25,590</u>



**HARRISBURG CITY SCHOOL DISTRICT**  
**FIDUCIARY FUNDS - EXPENDABLE TRUST FUND**  
**CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2018**

	<u>Revenues</u>	<u>Expenses</u>	<u>Excess (Deficiency) of Revenues Over Expenses</u>	<u>Fund Balance Beginning of Year</u>	<u>Fund Balance End of Year</u>
Clenistine Dunson SBI Scholarship	\$ 2,199	\$ 7,982	\$ (5,783)	\$ 70,741	\$ 64,958
D. Martin Memorial Scholarship Fund	-	-	-	32	32
English Department Scholarship	1	-	1	115	116
Evangeline Kimber Award	-	-	-	1	1
Jack Devan Scholarship Fund	-	-	-	26	26
James Booser Scholarship	3,002	6,000	(2,998)	3,024	26
John Black Scholarship	1	-	1	217	218
Scott Family Scholarship	-	-	-	12	12
Sunguard Senior Scholarship	2	-	2	206	208
The Hall Foundation	2,010	-	2,010	-	2,010
Woodrow Aikens Scholarship	15	2,000	(1,985)	3,354	1,369
WP Senior Scholarship	2	-	2	201	203
	<u>\$ 7,232</u>	<u>\$ 15,982</u>	<u>\$ (8,750)</u>	<u>\$ 77,929</u>	<u>\$ 69,179</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**FIDUCIARY FUNDS - AGENCY FUNDS**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND**  
**CHANGES IN FUNDS HELD FOR OTHERS**  
**YEAR ENDED JUNE 30, 2018**

	Account Balance Beginning of Year	Receipts	Disbursements	Account Balance End of Year
<b>Student Activity Fund</b>				
Elementary activity	\$ 24,982	\$ 18,213	\$ 18,400	\$ 24,795
Secondary activity	35,735	59,011	58,685	36,061
Total student activity fund	<u>\$ 60,717</u>	<u>\$ 77,224</u>	<u>\$ 77,085</u>	<u>\$ 60,856</u>
<b>Agency Fund</b>				
High and Middle Schools:				
Admin Building Employees Account	\$ 332	\$ 412	\$ 430	\$ 314
Annex Coke Commission	1,120	9	-	1,129
Ben Franklin Coke Commission	1,568	1,218	1,446	1,340
Boys Basketball Club	1,981	3,692	3,617	2,056
Camp Curtain Commission	1,018	356	-	1,374
Cheerleading Booster Club	2,228	902	660	2,470
Cougar Club	2,835	5,398	6,862	1,371
Cougar Wrestling Club	(256)	-	-	(256)
Downey Coke Commission	2,955	1,705	2,644	2,016
EF Tours Club	-	1,155	1,155	-
Elementary Band Boosters	986	8	-	994
Emotional Support Spec. Ed	93	1	-	94
Explore After School	577	5	-	582
Foose Coke Commission	984	7,005	2,930	5,059
Girls Varsity Basketball	1,359	10	-	1,369
Harrisburg High Music Account	72	1	-	73
Harrisburg Players	17	-	-	17
Hbg High Faculty Fund	7,653	60	-	7,713
Hbg School Special Olympics	4,823	7,332	10,526	1,629
Instrument Rental	653	5	-	658
John Harris Coke Commission	473	1,605	1,617	461
Kimber Basketball Tournament	680	1,870	2,317	233
Life Skills Support	701	5	-	706
Marshall Account	-	709	600	109
Marshall Commission Account	3,237	464	2,343	1,358
Marshall Ski Club	-	1,390	239	1,151
Melrose Commission Account	459	437	169	727
Middle School Basketball	-	301	177	124
Rowland Cheerleading Account	680	5	-	685
Rowland Coke Commission	374	328	244	458
Rowland Girls Basketball Account	412	3	-	415
Sci-Tech Agency Account	2,093	1,369	2,093	1,369
Sci-Tech Art Attack Club	100	1	-	101
Sci-Tech EPI Club	-	127	-	127
Sci-Tech Future Aquaponics Club	-	375	-	375
Sci-Tech Future Teachers Club	25	-	-	25
Sci-Tech Key Club	167	2	-	169
Sci-Tech Mock Trial Club	25	-	-	25
Sci-Tech NHS Club	50	-	-	50
Sci-Tech Robotics Club	307	2	-	309
Sci-Tech Science Olympiad Club	225	161	225	161
Sci-Tech Senior Advisory	-	91	85	6
Sci-Tech Youth & Government	171	-	150	21
Scott Coke Commission	1,554	248	979	823
Smallwood Summer League	(190)	190	-	-
Special Education Autism Account	2,562	19	194	2,387
Special Education Facilitators	822	7	-	829
Student/ Family Emergency	-	490	-	490
Track and Field Booster Club	457	4	-	461
Total agency fund	<u>\$ 46,382</u>	<u>\$ 39,477</u>	<u>\$ 41,702</u>	<u>\$ 44,157</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, 2018, and the related notes to the financial statements and have issued our report thereon dated February 15, 2019.

### 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified.

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 considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses (FS 2018-001 and FS 2018-002).

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.

**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

**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 that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs (SA 2018-001, SA 2018-002, SA 2018-003 and SA 2018-004).

**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, Inc.*

York, Pennsylvania  
February 15, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE**

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 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, 2018. Harrisburg City School District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE - continued**

**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, 2018.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs (SA 2018-001, SA 2018-002, SA 2018-003 and SA 2018-004). Our opinion on each major federal program is not modified with respect to these matters.

Harrisburg City School District's response 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 such opinion on the response.

**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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harrisburg City School District's internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE- continued**

**Report on Internal Control over Compliance - continued**

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

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. We considered the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs (SA 2018-001, SA 2018-002, SA 2018-003 and SA 2018-004) to be significant deficiencies.

Harrisburg City School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and the District's Corrective Action Plan. 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 response.

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

*Stambaugh Ness, Inc.*

York, Pennsylvania  
February 15, 2019



SCHOOL DISTRICT OF THE CITY OF HARRISBURG  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (INCLUDING STATE NUTRITION CLUSTER GRANTS)  
 FOR THE YEAR ENDED JUNE 30, 2018

GRANTOR PROGRAM TITLE	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at 7/1/2017	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at 6/30/2018
<b>U.S. Department of Education</b>										
Impact Aid	D	84.041	N/A	FYE 2017	\$ -	\$ 54,042	\$ 45,072	\$ 8,970	\$ 8,970	\$ -
<b>Total Passed Through the U.S. Department of Education</b>					667,801	54,042	45,072	8,970	8,970	-
<i>Passed Through the Pennsylvania Department of Education:</i>										
Title I Grants to Local Educational Agencies (FYE 16-17)	I	84.010	013-170184	16 OCT 01 - 17 SEP 30	5,868,525	1,425,456	1,190,441	235,015	235,015	-
Title I Grants to Local Educational Agencies (FYE 17-18)	I	84.010	013-180184	17 SEP 01 - 18 SEP 30	5,907,164	4,987,418	-	5,537,957	5,537,957	550,539
Title I Grants to Lea's Program Improvement Set Aside (16-17)	I	84.010	042-160184	16 AUG 01 - 17 SEP 30	663,488	147,442	54,730	92,712	92,712	-
Title I Grants to Lea's Program Improvement Set Aside (17-18)	I	84.010	042-170184	17 AUG 16 - 18 SEP 30	727,520	623,589	-	679,831	679,831	56,242
Title I Grants to LEA's - School Improvement Grant (1003g) (16-17)	I	84.377	142-160184	16 OCT 1 - 17 SEP 30	1,658,800	774,107	118,427	655,680	655,680	-
Title I Grants to LEA's - School Improvement Grant (1003g) (17-18)	I	84.377	142-170184	17 SEP 1 - 18 SEP 30	1,702,400	1,178,585	-	1,390,532	1,390,532	211,947
Title I Grants to LEA's - School Improvement Grant (1003g) (16-17)	I	84.388	142-171184	16 JUL 01 - 17 SEPT 30	1,318,058	702,964	(146,120)	849,084	849,084	-
Title I Grants to LEA's - School Improvement Grant (1003g) (17-18)	I	84.377	142-181814	17 SEP 01 - 18 SEPT 30	1,885,282	580,087	-	501,064	501,064	(79,023)
Improving Teacher Quality State Grants (FYE 16-17)	I	84.367	020 170184	16 OCT 01 - 17 SEPT 30	904,339	276,634	232,131	44,503	44,503	-
Improving Teacher Quality State Grants (FYE 17-18)	I	84.367	020 180184	17 SEP 01 - 18 SEPT 30	631,872	631,872	-	631,872	631,872	-
Title IV - Student Support and Academic Enrichment (FYE 17-18)	I	84.424	144-180184	17 SEP 01 - 18 SEPT 30	135,084	114,302	-	75,803	75,803	(38,499)
Twenty-First Century Community Learning Centers (16-17)	I	84.287	FC4100068064	16 OCT 01 - 17 SEPT 30	400,000	273,550	121,475	148,662	148,662	(3,413)
Twenty-First Century Community Learning Centers (17-18)	I	84.287	FC4100068064A	17 OCT 01 - 18 SEPT 30	400,000	64,306	-	273,932	273,932	209,626
Title III Language Inst LEP/Immigrant Students (16-17)	I	84.365	010-170184	16 OCT 01 - 17 SEP 30	236,837	127,528	(10,701)	138,229	138,229	-
Title III Language Inst LEP/Immigrant Students (17-18)	I	84.365	010-180184	17 SEP 01 - 18 SEP 30	210,808	64,864	-	22,050	22,050	(42,814)
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention & School Based Surveillance (15-16)	I	93.079	U87PS004151	15 AUG 01 - 16 JUL 31	5,600	5,600	(7,289)	-	-	(12,889)
Impact Aid	D	84.938C	23-6003787	FYE 2017	\$ 667,801	\$ -	\$ -	\$ 667,801	\$ 667,801	\$ 667,801
<b>Total Passed Through the Pennsylvania Department of Education</b>					22,655,777	11,978,304	1,553,094	11,944,727	11,944,727	851,716
<i>Passed Through Capital Area Intermediate Unit 15:</i>										
Special Education - Grants to States (16-17)	I	84.027	N/A	16 OCT 01 - 17 JUN 30	1,416,063	421,009	421,009	-	-	-
Special Education - Grants to States (17-18)	I	84.027	N/A	17 OCT 01 - 18 JUN 30	1,322,196	1,061,742	-	1,322,196	1,322,196	260,454
Special Education - Grants to States (17-18) - Preschool	I	84.173	N/A	17 JUL 01 - 18 JUN 30	8,004	8,004	-	8,004	8,004	-
<b>Total Passed Through Capital Area Intermediate Unit 15</b>					2,746,263	1,490,755	421,009	1,330,200	1,330,200	260,454
<i>Passed Through Pennsylvania State System of Higher Education:</i>										
Gaining Early Awareness and Readiness for Undergraduate Programs (16-17)	I	84.334s	GEARUP 2017-HBG-01	16 SEPT 25 - 17 SEPT 24	629,929	337,885	220,444	117,442	117,442	-
Gaining Early Awareness and Readiness for Undergraduate Programs (17-18)	I	84.334s	GEARUP 2018-HBG-01	15 SEPT 25 - 18 SEPT 30	673,123	235,922	-	416,304	416,304	180,382
<b>Total Passed Through Pennsylvania State System of Higher Education</b>					1,303,052	573,807	220,444	533,746	533,746	180,382
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>					27,372,893	14,096,908	2,239,619	13,817,643	13,817,643	1,292,552

**U.S. Department of Health and Human Services**

Temporary Assistance for Needy Families 16-17	I	93.558	FC4100060958	16 JUL 01 - 17 JUN 30	123,230	28,723	28,723	-	-	-
Temporary Assistance for Needy Families 16-17	I	93.558	FC4100060958	16 JUL 01 - 17 JUN 30	19,069	6,742	6,742	-	-	-
Temporary Assistance for Needy Families 17-18	I	93.558	FC4100071401	17 JUL 01 - 18 JUN 30	235,000	161,379	-	235,000	235,000	73,621
<b>Total Passed through the Department of Education</b>					<b>377,299</b>	<b>196,844</b>	<b>35,465</b>	<b>235,000</b>	<b>235,000</b>	<b>73,621</b>
<u>Passed through the Pennsylvania Department of Welfare:</u>										
Medical Assistance Reimbursement for Administration 17-18	I	93.778	N/A	17 JUL 01 - 18 JUN 30	40,492	94,611	(81,140) **	40,492	40,492	(135,259)
<b>Total Passed through the Pennsylvania Department of Welfare</b>					<b>40,492</b>	<b>94,611</b>	<b>(81,140)</b>	<b>40,492</b>	<b>40,492</b>	<b>(135,259)</b>
<b>TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>					<b>417,791</b>	<b>291,455</b>	<b>(45,675)</b>	<b>275,492</b>	<b>275,492</b>	<b>(61,638)</b>
<u>U.S. Department of Defense:</u>										
<u>Passed through the United States Navy:</u>										
Junior Reserve Officers Training Corps (FYE 17-18)	I	12.000	N/A	17 JUL 01 - 18 JUN 30	21,628	7,994	-	21,628	21,628	13,634
<b>TOTAL OF U.S. DEPARTMENT OF DEFENSE</b>					<b>77,735</b>	<b>7,994</b>	<b>-</b>	<b>21,628</b>	<b>21,628</b>	<b>13,634</b>
<b>Sub Total</b>					<b>27,868,419</b>	<b>14,396,357</b>	<b>2,193,944</b>	<b>14,114,763</b>	<b>14,114,763</b>	<b>1,244,548</b>
<u>U.S. Department of Agriculture:</u>										
<u>Passed through the Pennsylvania Department of Education:</u>										
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (16-17)	I	10.561	FC4100060958	16 JUL 01 - 17 JUN 30	-	35,434	35,434	-	-	-
National School Lunch Program (FYE 16-17)	I	10.555	362	16 JUL 01 -17 JUN 30	3,102,106	386,986	386,986	-	-	-
National School Lunch Program (FYE 17-18)	I	10.555	362	17 JUL 01 -18 JUN 30	3,146,372	2,627,340	-	3,146,372	3,146,372	519,032
National School Breakfast and Lunch Program (FYE 16-17)	I	N/A	510/511	16 JUL 01 -17 JUN 30	199,192	24,530	24,530	-	-	-
National School Breakfast and Lunch Program (FYE 17-18)	I	N/A	510/511	17 JUL 01 -18 JUN 30	191,676	165,861	-	191,676	191,676	25,815
School Breakfast Program (FYE 16-17)	I	10.553	365	16 JUL 01 - 17 JUN 30	1,281,908	166,526	166,526	-	-	-
School Breakfast Program (FYE 17-18)	I	10.553	365	17 JUL 01 - 18 JUN 30	1,279,350	1,104,215	-	1,279,350	1,279,350	175,135
Summer Food Service Program for Children (FYE 16-17)	I	10.559	264	16 JUN 01 - 17 JULY 30	123,148	123,148	123,148	-	-	-
Summer Food Service Program for Children (FYE 17-18)	I	10.559	264	17 JUN 01 - 18 JULY 30	78,482	-	-	78,482	78,482	78,482
<b>Total Passed through the Pennsylvania Department of Education</b>					<b>9,402,234</b>	<b>4,634,040</b>	<b>736,624</b>	<b>4,695,880</b>	<b>4,695,880</b>	<b>798,464</b>
<u>Passed Through the Pennsylvania Department of Agriculture:</u>										
Food Donation (FYE 16-17)	I	10.555	115-22-275-2	16 JUL 01 - 17 JUN 30	328,643	-	(14,840)	14,840	14,840	-
Food Donation (FYE 17-18)	I	10.555	115-22-275-2	17 JUL 01 - 18 JUN 30	327,178	327,178	-	327,178	327,178	-
Child and Adult Care Food Program==is this PDE or PDA	I	10.558	115-22-275-2	17 JUL 01- 18 JUN 30	24,507	24,507	-	24,507	24,507	-
<b>Total Passed through the Pennsylvania Department of Agricultural</b>					<b>680,328</b>	<b>351,685</b>	<b>(14,840)</b>	<b>366,525</b>	<b>366,525</b>	<b>-</b>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>					<b>10,082,562</b>	<b>4,985,725</b>	<b>721,784</b>	<b>5,062,405</b>	<b>5,062,405</b>	<b>798,464</b>
<b>TOTAL ASSISTANCE</b>					<b>\$ 37,950,981</b>	<b>\$ 19,382,082</b>	<b>\$ 2,915,728</b>	<b>\$ 19,177,168</b>	<b>\$ 19,177,168</b>	<b>\$ 2,043,012</b>

**HARRISBURG CITY SCHOOL DISTRICT**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018

**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 ("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 Uniform Guidance, *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, 2018, the District did not have any food commodities in their inventory.

**HARRISBURG CITY SCHOOL DISTRICT**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued  
YEAR ENDED JUNE 30, 2018

**NOTE C - TEST OF 40% RULE**

Total Expenditures	\$ 19,177,168
Less: State's Share of National School Lunch Program Expenditures	<u>191,676</u>
<b>Total Federal Expenditures</b>	<b><u>\$ 18,985,492</u></b>
Programs Selected for Testing:	
School Improvement Grants (CFDA #84.377)	\$ 3,396,360
Improving Teacher Quality State Grant (CFDA #84.367)	676,375
Special Education Clusters (CFDA #84.027, 84.173)	1,330,200
Child Nutrition Programs Cluster (CFDA #10.553, 10.555, 10.559)	<u>4,504,204</u>
<b>Total Amount Tested</b>	<b><u>\$ 9,907,139</u></b>
<b>Percent Tested (\$9,907,139/\$18,985,492)</b>	<b><u>52%</u></b>

**NOTE D - SOURCE CODES**

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

**NOTE E - BEGINNING BALANCES**

The beginning balances of two programs were adjusted as follows:

- Impact Aid, CFDA# 84.041 beginning balance was reduced by \$26,599 for an amount deemed uncollectable
- Medical Assistance Reimbursement for Administration, CFDA# 12.000 was adjusted to agree to the to proper June 30, 2017 deferred revenue balance.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2018**

**A. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?	<u> X </u>	Yes	<u>    </u>	No
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	<u>    </u>	Yes	<u> X </u>	No
Noncompliance material to financial statements noted?	<u>    </u>	Yes	<u> X </u>	No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?	<u>    </u>	Yes	<u> X </u>	No
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	<u> X </u>	Yes	<u>    </u>	No

Type of auditors' report issued on compliance for the major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)3?	<u> X </u>	Yes	<u>    </u>	No
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**Identification of the major programs:**

CFDA Number(s)	Name of Federal Programs/Cluster
84.377	Title I Grants to LEA's - School Improvement Grant
84.027, 84.173	Special Education Cluster
84.367	Improving Teacher Quality State Grant
10.553, 10.555, 10.559	Nutrition Cluster

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

Auditee qualified as low-risk auditee?	<u>    </u>	Yes	<u> X </u>	No
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**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**FS 2018-001**

**Material Weakness**

**Condition:**

The District lacks the necessary technical accounting and financial reporting expertise to adequately address certain complex accounting issues the District faces, which includes the preparation of the financial statements, footnotes and related GASB 34 entries.

The District's personnel are capable of processing and reporting daily and monthly financial activities at the fund level.

**Criteria:**

Authoritative guidance describes a material weakness 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 reasonable possibility that a misstatement within the District's financial statements is for an amount that is material and will not be prevented or detected.

**Effect:**

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

**Cause:**

The District does not have the requisite expertise to account for, nor provide the required disclosures for the more complex accounting matters.

**Auditors' 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 Business Office management continues to expand its technical accounting expertise with additional training and professional development opportunities provided by PASBO. Additionally, the Business Office Management is realigning duties and restructuring vacant positions to address the current needs of the District.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT - continued**

**FS 2018-002**

**Material Weakness**

**Condition:**

For the year ending June 30, 2018, the District's final budget forecasted a decrease in the General Fund fund balance of approximately \$6 million; however, the actual results for the year were a decrease of approximately \$10.5 million. During the audit process, it was also noted that there were several variations of the 17/18 budget. Please refer to the required supplementary schedules on pages 69 and 70.

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

**Criteria:**

Authoritative guidance describes a material weakness as a deficiency, or combination of deficiencies in internal control, such that it 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 and 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:**

The District has not had in place consistent and adequate processes and methodology to accumulate the required financial data to prepare the annual budget.

**Auditors' Recommendation:**

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

**Auditee's Response:**

The Business Office is currently assessing and revising its processes and assumptions related to its budgeting process.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2018-001**

**Federal agency: U.S. Department of Education**

**Pass-through entity: Pennsylvania Department of Education**

**Title I Grants to LEA's - School Improvement Grant - CFDA 84.377  
(FYE 2017-2018) Contract No. 142-181814**

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

***Condition:***

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

***Criteria:***

As implied in OMB Uniform Grant Guidance Part 3 Compliance Supplement, interest earned on advances is required by local government grantees and subgrantees to be submitted promptly, but at least quarterly to the Federal agency. Up to \$100 per year may be kept for administrative expenses.

***Cause:***

The cash management compliance requirement in regard 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:***

\$381

***Auditors' Recommendation:***

We recommend the District develop procedures to track and submit interest earned on advances quarterly to comply with Uniform Guidance requirements.



**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2018-001 - continued**

**Auditee's Response:**

The district has developed procedures to track and submit interest earned on cash advances quarterly.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2018-002**

**Federal agency: U.S. Department of Education**

**Pass-through entity: Pennsylvania Department of Education**

**Title I Grants to LEA's - School Improvement Grant - CFDA 84.377  
(FYE 2017-2018) Contract No. 142-170184**

**Title II – Improving Teacher Quality State Grant - CFDA 84.367  
(FYE 2017-2018) Contract No. 020-180184**

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

***Condition:***

The District failed to submit two of the required quarterly report to PDE, one for Title II and one for SIG.

***Criteria:***

As implied in the grant agreement with Pennsylvania Department of Education, the grantee agrees to submit the Reconciliation of Cash on Hand Quarterly Report and the Final Expenditure Report.

***Cause:***

The District failed to submit the December 2017 Quarterly Report for SIG and the March 2018 report for Title II.

***Effect:***

The District failed to submit, on a quarterly basis, the Reconciliation of Cash on Hand Quarterly Report to PDE

***Questioned Costs:***

N/A

***Auditors' Recommendation:***

We recommend the District develop procedures to ensure the Reconciliation of Cash on Hand Quarterly Report are submitted to PDE.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2018-002 - continued**

**Auditee's Response:**

The District will implement a schedule of all reporting due dates and monitoring compliance with filing due dates on a monthly basis.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2018-003**

**Federal agency: U.S. Department of Education**

**Pass-through entity: Pennsylvania Department of Education**

**Title II Improving Teacher Quality State Grant - CFDA 84.367  
(FYE 2016-2017) Contract No. 020-170184**

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

***Condition:***

The District failed to submit the Final Expenditure Report within the required timeframe.

***Criteria:***

As implied in the grant agreement with Pennsylvania Department of Education, the grantee agrees to submit the Reconciliation of Cash on Hand Quarterly Report and the Final Expenditure Report.

***Cause:***

The District failed to submit the Final Expenditure Report within 30 days of the close of the grant or as soon as funds are liquidated, whichever comes first.

***Effect:***

The District failed submit the Final Expenditure Report within the required timeframe. The approved project period for the grant was through September 30, 2017, which required the Final Expenditure Report be submitted before October 30, 2017. The Final Expenditure Report was submitted November 15, 2017.

***Questioned Costs:***

N/A

***Auditors' Recommendation:***

We recommend the District develop procedures to ensure the Final Expenditure Report is submitted to PDE within the required timeframe.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2018-003 - continued**

**Auditee's Response:**

The District will implement a schedule of all reporting due dates and monitoring compliance with filing due dates on a monthly basis.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2018-004**

**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**

**Noncompliance and Significant Deficiency in Internal Controls over the Allowable Cost/Cost Principles, Cash Management and Reporting Compliance Requirements**

***Condition:***

The District uses the daily sales reports from the cash register system to create a monthly participation report by school, which is then used to prepare the reimbursement claim form online each month.

The Commonwealth of Pennsylvania conducted an examination of school lunch and breakfast program during the 2017 / 2018 fiscal year and found issues where the reimbursement claims forms reported more meals than what was reported on the check summary reports. The reimbursement claims variances occurred during October and December 2017.

***Criteria:***

As implied in OMB Uniform Grant Guidance Part 6 Internal Control for Activities Allowed or Unallowed and Allowable Costs/Cost Principles, accountability for authorization is fixed in an individual who is knowledgeable of the requirements for grant expenditures.

***Cause:***

The District failed to correctly record the number of meals for reimbursement from the daily sales reports to the participation reports, which they used to complete the monthly reimbursement request.

***Effect:***

The District claimed a greater number of meals on their reimbursement form than what was reported on their check summary.

***Questioned Costs:***

\$32,518.37

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2018-004 - continued**

**Auditors' Recommendation:**

We recommend the District develop procedures to review and approve the Reimbursement Claim Forms.

**Auditee's Response:**

The District Food Service Manager has implemented procedures to review and approve the Reimbursement Claim Forms.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2017-001**

**Federal agency: U.S. Department of Education**

**Pass-through entity: Pennsylvania Department of Education**

**Title I Grants to LEA's - School Improvement Grant - CFDA 84.377  
(FYE 2016-2017) Contract No. 142-171184**

**Title I Grants to LEA's - School Improvement Grant - CFDA 84.388  
(FYE 2016-2017) Contract No. 142-160184**

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

***Condition:***

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

***Criteria:***

As implied in OMB Uniform Grant Guidance Part 3 Compliance Supplement, interest earned on advances is required by local government grantees and subgrantees to be submitted promptly, but at least quarterly to the Federal agency. Up to \$100 per year may be kept for administrative expenses.

***Cause:***

The cash management compliance requirement in regard 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:***

\$146

***Auditors' Recommendation:***

We recommend the District develop procedures to track and submit interest earned on advances quarterly to comply with Uniform Guidance requirements.



**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2017-001 - continued**

**Auditee's Response:**

The district has developed procedures to track and submit interest earned on cash advances quarterly.

**Auditee Update:**

The District has redeveloped procedures to track and submit interest earned on cash advances quarterly more effectively. During the June 30, 2018 audit this deficiency was again noted under SA 2018-001.

**Status:**

Due to turnover in the accounting staff, the District has trained new employees and provide procedures to track and submit interest earned on cash advances quarterly. The Business Office has also implemented an internal Business Calendar to ensure interest earned is submitted timely.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2017-002**

**Federal agency: U.S. Department of Education**

**Pass-through entity: Pennsylvania Department of Education**

**Title I Grants to LEA's - School Improvement Grant - CFDA 84.377  
(FYE 2016-2017) Contract No. 142-171184**

**Title I Grants to LEA's - School Improvement Grant - CFDA 84.388  
(FYE 2016-2017) Contract No. 142-160184**

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

***Condition:***

The District failed to obtain signed time and effort documents in a timely manner.

***Criteria:***

As implied in OMB Uniform Grant Guidance, Department of Education Cross- Cutting Section, "an employee who works in part on the consolidated administrative cost objective and in part on a Federal program whose administrative funds have not been consolidated or an activities funded from other revenue sources, an SEA or LEA must maintain time and effort distribution records in accordance with 2 CFR section 200.430 (i)(l)(vii) that supports the portion of time and effort dedicated to the consolidated cost objective and each program or other cost objective supported by nonconsolidated Federal funds or other revenue sources".

***Cause:***

The District failed to follow required procedures to obtain the signed documentation.

***Effect:***

The District's time and effort documents were signed subsequent to the related fiscal year.

***Questioned Costs:***

Not applicable

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2017-002 - continued**

***Auditors' Recommendation:***

We recommend the District ensure that its internal control procedures are followed related to this compliance requirement.

***Auditee's Response:***

The District has developed procedures to track and complete time and effort documents in a timely manner for all grants.

***Auditee Update:***

The District has developed procedures to track and complete Time and Effort documents in a timely manner for all grants.

***Status:***

All grant related Time and Effort documents are now completed by the Federal Program Department ensuring accurate and timely completion.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2017-003**

**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**

**Noncompliance and Material Weakness in Internal Controls over the Allowable Cost/Cost Principles, Cash Management and Reporting Compliance Requirements**

***Condition:***

The District uses the daily sales reports from the cash register system to create a monthly participation report by school, which is then used to prepare the reimbursement claim form online each month.

For May 2017, the check summary which is used to submit for reimbursement did not tie to the reimbursement claim form. The reimbursement claim form was greater than the summary, therefore, they claimed too many meals.

It was also noted during our audit that the Commonwealth of Pennsylvania performed their own review of this fiscal year and similar issues were noted with November and December 2016.

***Criteria:***

As implied in OMB Uniform Grant Guidance Part 6 Internal Control for Activities Allowed or Unallowed and Allowable Costs/Cost Principles, accountability for authorization is fixed in an individual who is knowledgeable of the requirements for grant expenditures.

***Cause:***

The District failed to correctly record the number of meals for reimbursement from the daily sales reports to the participation reports, which they used to complete the monthly reimbursement request.

***Effect:***

The District claimed a greater number of meals on their reimbursement form than what was reported on their check summary.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2017-003 - continued**

***Questioned Costs:***

May 2017 - \$20,195

November and December 2016 - \$103,091

Total Questioned Costs = \$123,286

***Auditors' Recommendation:***

We recommend consulting with your contracted nutrition firm to design and implement reports that integrate with their point-of-sale system. Supporting documentation maintained should agree with the amounts reported for reimbursement.

***Auditee's Response:***

The District is working with our contracted nutrition firm to correct these issues going forward. A new point-of-sale system is being considered and procedures to track meals and submit them have been assessed.

***Auditee Update:***

The District has implemented a new point-of-sale system throughout the District and retrained staff to utilize the software to record data accurately.

***Status:***

The District continues to utilize our new point-of-sale system PrimeroEdge.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2017-004**

**Federal agency: U.S. Department of Education**

**Pass-through entity: Pennsylvania Department of Education**

**Title I Grants to LEA's - School Improvement Grant - CFDA 84.377  
(FYE 2016-2017) Contract No. 142-171184**

**Title I Grants to LEA's - School Improvement Grant - CFDA 84.388  
(FYE 2016-2017) Contract No. 142-160184**

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

***Condition:***

The District failed to follow its purchase order process for expenses related to its Title I Grants to LEA's - School Improvement Grant.

***Criteria:***

As implied in OMB Uniform Grant Guidance Part 6 Internal Control for Activities Allowed or Unallowed and Allowable Costs/Cost Principles, accountability for authorization is fixed in an individual who is knowledgeable of the requirements for grant expenditures.

***Cause:***

The District created purchase orders that were dated after the actual expenditure occurred for eight of the forty expenditures tested.

***Effect:***

The District's expenses, although allowable to be charged to the grant, did not properly follow the purchase order (internal control) process.

***Questioned Costs:***

Not applicable

***Auditors' Recommendation:***

We recommend the District ensure that its internal control procedures are followed.

***Auditee's Response:***

The District has implemented procedures to ensure all expenses are to follow the District's purchase order approval process.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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

**Finding SA 2017-004 - continued**

**Auditee Update:**

The District continues to adhere to procedures to ensure all expenses follow the appropriate purchase order approval process.

**Status:**

The District continues to adhere to procedures to ensure all expenses follow the appropriate purchase order approval process.



# HARRISBURG SCHOOL DISTRICT

1601 State Street • Harrisburg, PA 17103  
(717) 703-4026 • FAX (717) 703-4127

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## BUSINESS SERVICES

### Harrisburg School District's Audit Management Response

#### CORRECTIVE ACTION PLAN

Harrisburg City School District respectfully submits the following corrective action plan for the year ended June 30, 2018:

#### **FS 2018-001 Complex Accounting Matters**

##### **Material Weakness**

##### **Auditors' 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 Business Office management continues to expand its technical accounting expertise with additional training and professional development opportunities provided by PASBO. Additionally, the Business Office Management is realigning duties and restructuring vacant positions to address the current needs of the District.

#### **FS 2018-002 – Budgeting**

##### **Material Weakness**

##### **Auditors' Recommendation:**

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

##### **Auditee's Response:**

The Business Office is currently assessing and revising its processes and assumptions related to its budgeting process.

#### **SA 2018-001 – Excess Interest**

##### **Noncompliance and Significant Deficiency in Internal Control**

##### **Auditors' Recommendation:**

We recommend the District develop procedures to track and submit interest earned on advances quarterly to comply with Uniform Guidance requirements.

##### **Auditee's Response:**

The district has developed procedures to track and submit interest earned on cash advances quarterly.

#### **SA 2018-002 – Quarterly Expenditure Reports**

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



**CORRECTIVE ACTION PLAN – continued**

**Auditors' Recommendation:**

We recommend the District develop procedures to ensure the Reconciliation of Cash on Hand Quarterly Report are submitted to PDE.

**Auditee's Response:**

The District will implement a schedule of all reporting due dates and monitoring compliance with filing due dates on a monthly basis.

**SA 2018-003 – Final Expenditure Reports**

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

**Auditors' Recommendation:**

We recommend the District develop procedures to ensure the Final Expenditure Report is submitted to PDE within the required timeframe.

**Auditee's Response:**

The District will implement a schedule of all reporting due dates and monitoring compliance with filing due dates on a monthly basis.

**SA 2018-004 – National School Lunch Program**

**Noncompliance and Material Weakness in Internal Control**

**Auditors' Recommendation:**

We recommend the District develop procedures to review and approve the Reimbursement Claim Forms.

**Auditee's Response:**

The District Food Service Manager has implemented procedures to review and approve the Reimbursement Claim Forms.

**Summary Schedule of Prior Year Audit Findings**

**SA 2017-001 – Excess Interest**

**Noncompliance and Significant Deficiency in Internal Control**

**Auditors' Recommendation:**

We recommend the District develop procedures to track and submit interest earned on advances quarterly to comply with Uniform Guidance requirements.

**Auditee's Response:**

The district has developed procedures to track and submit interest earned on cash advances quarterly.

**Auditee Update:** The district has redeveloped procedures to track and submit interest earned on cash advances quarterly more effectively.

**Current Status:** Due to the turnover in accounting staff the district has trained new employees and provide procedures to track and submit interest earned on cash advances quarterly. The Business Office has also implemented an internal Business Calendar to ensure interest earned are submitted timely.

**SA 2017-002 – Time and Effort Documentation**

**Noncompliance and Significant Deficiency in Internal Control**

**Auditors' Recommendation:**

We recommend the District ensure that its internal control procedures are followed related to this compliance requirement.

*“An Equal Rights And Opportunity School District”*

**CORRECTIVE ACTION PLAN – continued**

**Auditee’s Response:**

The District has developed procedures to track and complete time and effort documents in a timely manner.

**Auditee Update:** The District has developed procedures to track and complete time and effort documents in a timely manner for all grants.

**Current Status:** All grant-related Time and Effort documentation are now completed by the Federal Program Department ensuring accurate and timely completion.

**SA 2017-003 – National School Lunch Program  
Noncompliance and Material Weakness in Internal Control**

**Auditors’ Recommendation:**

We recommend consulting with your contracted nutrition firm to design and implement reports that integrate with their point-of-sale system. Supporting documentation maintained should agree with the amounts reported for reimbursement.

**Auditee’s Response:**

The District is working with our contracted nutrition firm to correct these issues going forward. A new point-of-sale system is being considered and procedures to track meals and submit them have been assessed.

**Auditee Update:** The District has implemented a new point-of-sale system through the district and retrained staff to utilize the software to record data accurately.

**Current Status:** The District continues to utilize our new point-of-sale system PrimeroEdge.

**SA 2017-004 – Purchase Orders  
Significant Deficiency in Internal Control**

**Auditors’ Recommendation:**

We recommend the District ensure that its internal control procedures are followed.

**Auditee’s Response:**

The District has implemented procedures to ensure all expenses are to follow the District’s purchase order approval process.

**Auditee Update:** The District continues to adhere to procedures to ensure all expenses follow the appropriate purchase order approval process.

**Current Status:** The District continues to adhere to procedures to ensure all expenses follow the appropriate purchase order approval process.

Sincerely,



Bilal Hasan  
Acting Business Administrator