

**HARRISBURG CITY  
SCHOOL DISTRICT**

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

**JUNE 30, 2014**

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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, 2014, and will submit the audit report electronically to the Federal Clearinghouse.

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

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

*Stambaugh Ness, PC*

York, Pennsylvania  
December 18, 2014  
(Except for Note C appearing on page 90, dated June 26, 2015)

**HARRISBURG CITY SCHOOL DISTRICT**  
**DISTRIBUTION REPORT**  
**JUNE 30, 2014**

**Number of Copies**

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District

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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, 2014, and the related notes to the financial statements, which collectively comprise Harrisburg City School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## INDEPENDENT AUDITORS' REPORT - continued

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harrisburg City School District, as of June 30, 2014, 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.

### ***Emphasis-of-Matter***

As described in Note A, the School District has implemented a reporting model to account for Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, as prescribed by GASB Statement 65, *Items Previously Recognized as Assets and Liabilities*, as of July 1, 2013. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress on pages 9 through 21 and 69 through 71 and 75 through 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harrisburg City School District's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

## 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 December 18, 2014 (except for Note C appearing on page 90, dated June 26, 2015) on our consideration of Harrisburg City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrisburg City School District's internal control over financial reporting and compliance.

*Stambaugh Ness, PC*

York, Pennsylvania

December 18, 2014

(Except for Note C appearing on page 90, dated June 26, 2015)





## HARRISBURG CITY SCHOOL DISTRICT

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1601 State Street  
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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, 2014. This discussion and analysis should be read in conjunction with the District's accompanying financial statements, which immediately follow this section.

### Background

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

### Financial Highlights

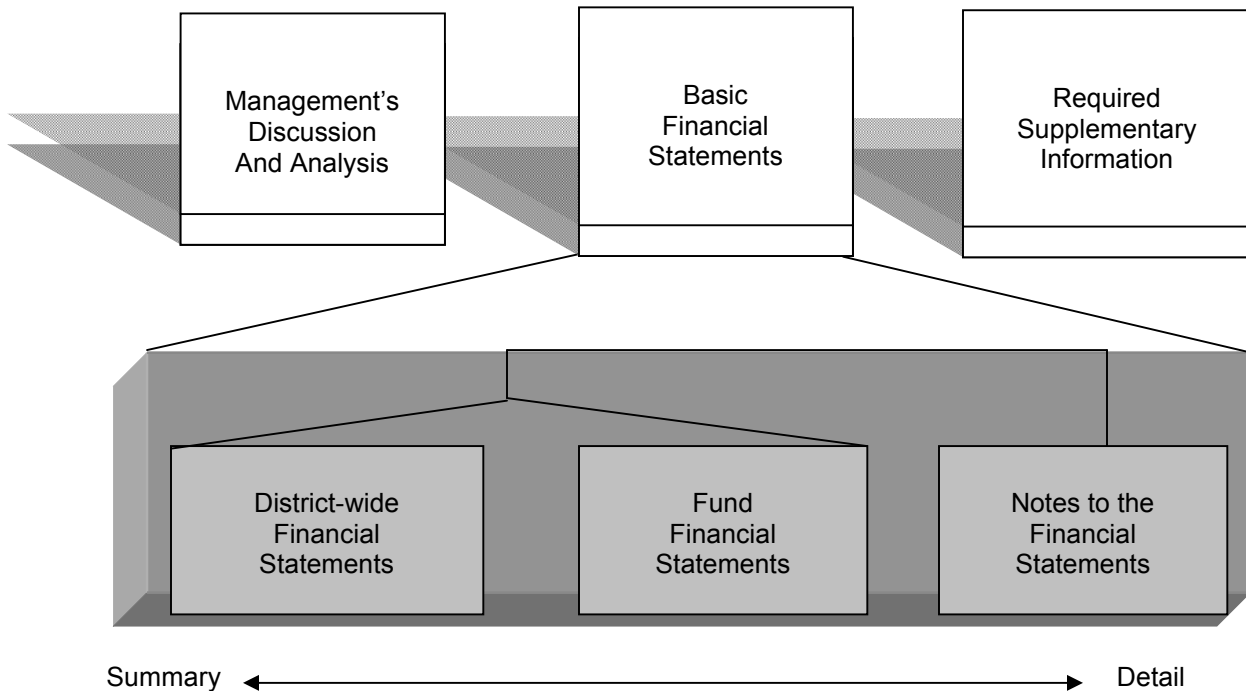
- Total net position of (\$49,291,537).
- The total fund balance of all governmental funds equaled positive \$38,823,903.
- Unassigned general fund balance equaled positive \$7,682,310.
  - Total actual general fund revenues were under the final budget by \$7,875,508 or -5.65%.
  - Total actual general fund expenditures were under the final budget by \$22,735,427 or -18.35%.
- The total governmental activities operating grants and contributions amounted to \$23,056,160 or 17.87% of the governmental activities expenditures.
- The net position of business-type activities - Food Services - at June 30, 2014, totaled (\$877,108) with revenues of \$5,656,217 and expenditures of \$5,197,243.
- The total capital assets, net of accumulated depreciation, for government activities - primarily general fund, capital project funds and capital reserve fund - totaled \$187,936,150.

## Overview of the Financial Statements

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

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

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



**Overview of the Financial Statements** - continued

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

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

Fund Financial Statements				
	District-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	Activities of the District which are not proprietary or fiduciary, such as general operating and capital projects.	Activities the District operates similar to private businesses, such as food services.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> <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 net 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 year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions and deductions during the year, regardless of when cash is received or paid.

## District-wide Statements

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

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

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

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

## Fund Financial Statements

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

The District has three types of funds as follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current Assets, Other Assets and Deferred Outflows of Resources	\$ 86,026,370	\$148,325,353	\$ 228,695	\$ 481,207	\$86,255,065	\$148,806,560
Capital Assets	193,937,176	187,936,150	91,860	72,331	194,029,036	188,008,481
Total Assets and Deferred Outflows of Resources	279,963,546	336,261,503	320,555	553,538	280,284,101	336,815,041
Current Liabilities	18,595,318	93,285,302	1,498,746	1,203,381	20,094,064	94,488,683
Total Non-current Liabilities and Deferred Inflows of Resources	298,667,011	291,390,630	157,891	227,265	298,824,902	291,617,895
Total Liabilities and Deferred Inflows of Resources	317,262,329	384,675,932	1,656,637	1,430,646	318,918,966	386,106,578
Net Position						
Net Investment in Capital assets	(68,815,863)	(84,313,662)	91,860	91,860	(68,724,003)	(84,221,802)
Restricted for Debt Service	5,614,283	4,966,826	-	-	5,614,283	4,966,826
Unrestricted	25,902,797	30,932,407	(1,427,942)	(968,968)	24,474,855	29,963,439
Total Net Position	(\$37,298,783)	(\$48,414,429)	(\$1,336,082)	(\$877,108)	(\$38,634,865)	(\$49,291,537)

The net position decreased by \$10,656,672 for the current fiscal year. The overall decrease in net position includes the restatement of the prior year's beginning net position by \$2,398,015 which is discussed in Note T. Issues that significantly affect the net position decrease in fiscal year 2013-2014 were the following:

- Net expense for governmental activities was \$104,176,808.
- General revenue which includes taxes, grants and subsidies, investment earnings and miscellaneous was \$93,061,162.
- Business-Type Activities (Food Service) has a total net operating profit of \$458,974.

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

The District's total revenues for the fiscal year were \$123,587,712. Property taxes and other taxes levied for general purposes continue to account for most of the District's revenue in the amount of \$38,676,352 or 31% of total revenues. Refer to Note U which discusses the impact on tax revenues reported in the Statement of Activities. Another 44% or \$53,649,243 came from state formula aid, such as basic education and student transportation subsidies. Approximately 22% or \$27,312,308 came from operating and capital grants and contributions, with the remainder of \$3,949,809 or 4% coming from fees charged for services and other miscellaneous sources.

The cost of all programs and services was \$134,244,384. The District expenses are predominately related to instructing, caring for (instructional support services & operation/maintenance of school facilities) and transporting students, which represents 77% or \$103,260,578 of total expenses. (See Figures A-4 through A-8)

**Figure A-4**

**Changes in Net Position from Operating Result**

<u>Revenue</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012-2013</u>	<u>2013-2014</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2012-2013</u>	<u>2013-2014</u>
Program Revenues						
Charges for Services	\$ 2,278,642	\$ 1,814,173	\$ 268,150	\$ 132,025	\$ 2,546,792	\$ 1,946,198
Operating Grant Contributions	27,510,084	23,056,160	5,198,812	4,256,148	32,708,896	27,312,308
Property Tax and Other Taxes levied for General Purposes	48,765,786	38,676,352	-	-	48,765,786	38,676,352
State Formula Aid	52,634,582	53,649,243	-	-	52,634,582	53,649,243
Other	<u>1,677,608</u>	<u>735,567</u>	<u>1</u>	<u>1,268,044</u>	<u>1,677,609</u>	<u>2,003,611</u>
Total Revenues	<u>\$132,866,702</u>	<u>\$117,931,495</u>	<u>\$5,466,963</u>	<u>\$5,656,217</u>	<u>\$138,333,665</u>	<u>\$123,587,712</u>

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

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

Expenses	Governmental Activities		Business-Type Activities		Total	
	<u>2012-2013</u>	<u>2013-2014</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2012-2013</u>	<u>2013-2014</u>
Instruction	\$73,998,124	\$71,509,367			\$ 73,998,124	\$ 71,509,367
Instructional student support	6,842,187	5,866,435			6,842,187	5,866,435
Administrative and financial support	9,535,867	9,142,427			9,535,867	9,142,427
Operational and maintenance of plant	13,947,652	13,605,999			13,947,652	13,605,999
Pupil transportation	2,519,936	3,136,350			2,519,936	3,136,350
Student activities	650,126	612,100			650,126	612,100
Central and other support services	3,214,726	4,734,430			3,214,726	4,734,430
Community services	318,811	381,370			318,811	381,370
Interest/fiscal charges on long-term debt	13,905,198	20,058,663			13,905,198	20,058,663
Food Service	-	-	5,442,950	5,197,243	5,442,950	5,197,243
Total Expenses	<u>\$124,932,627</u>	<u>\$129,047,141</u>	<u>\$5,442,950</u>	<u>\$5,197,243</u>	<u>\$130,375,577</u>	<u>\$134,244,384</u>
Change in Net Position					<u>\$7,958,088</u>	<u>\$(10,656,672)</u>

Financial Analysis of the District as a Whole - continued

Figure A-5

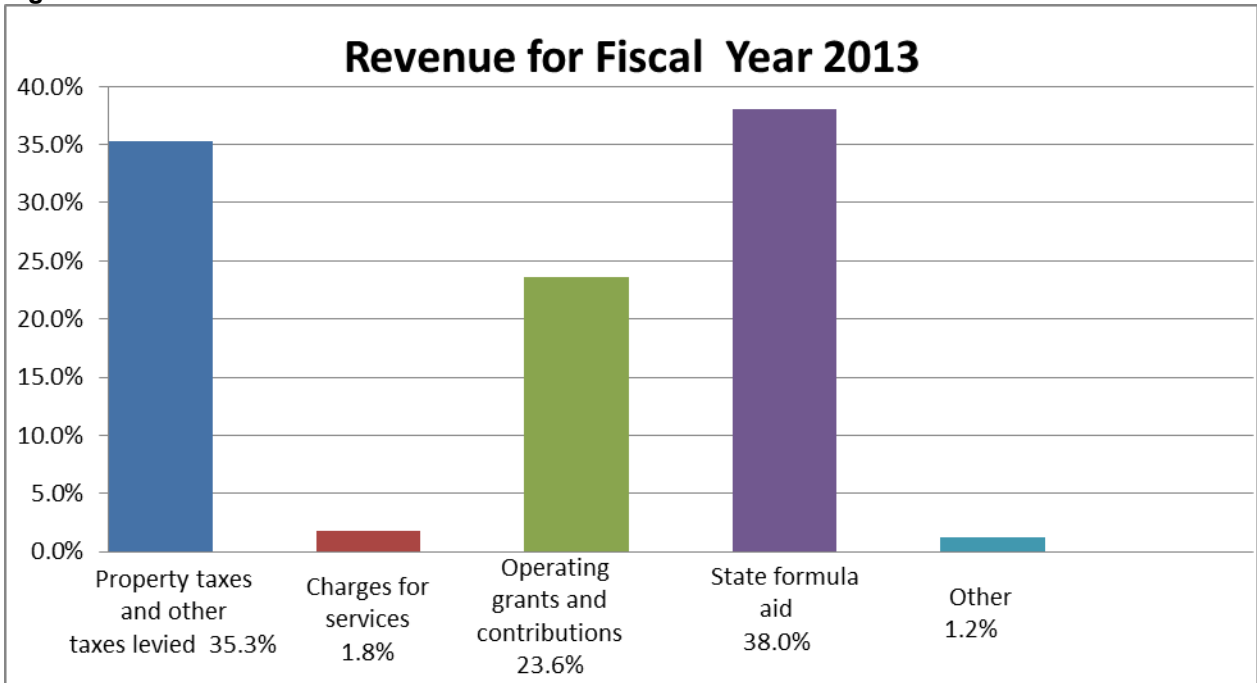
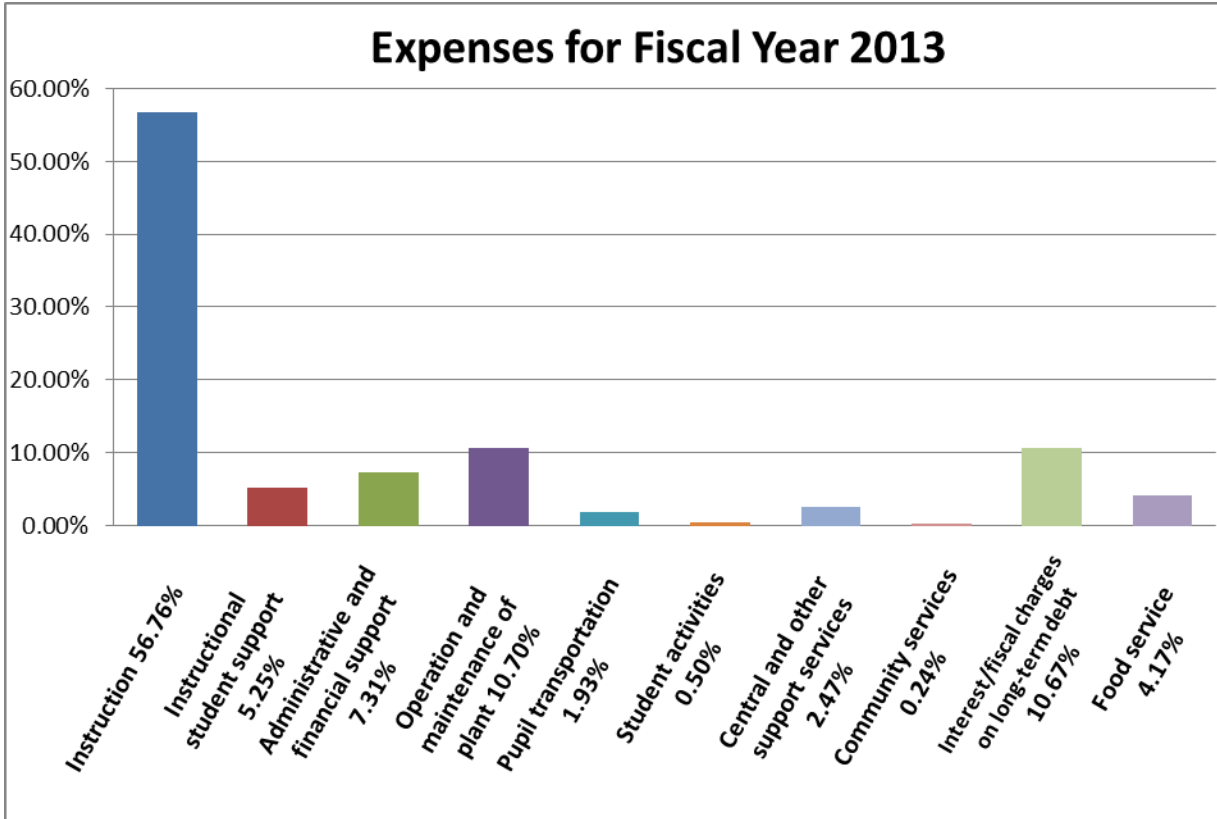


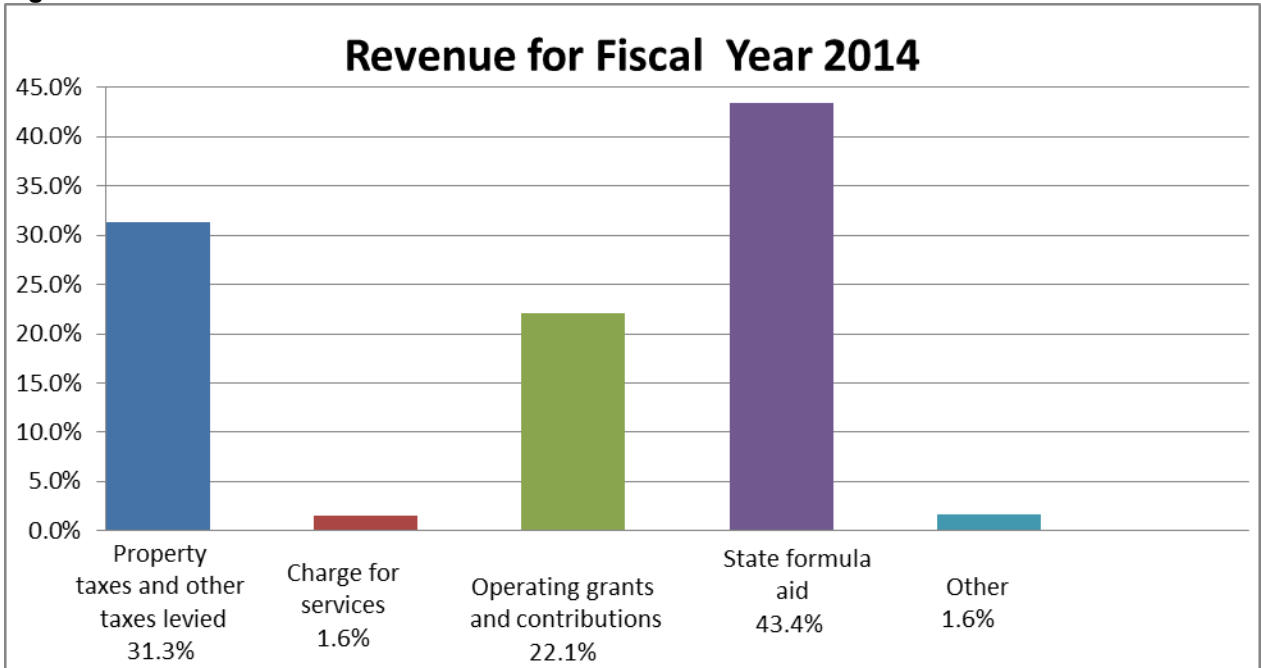
Figure A-6



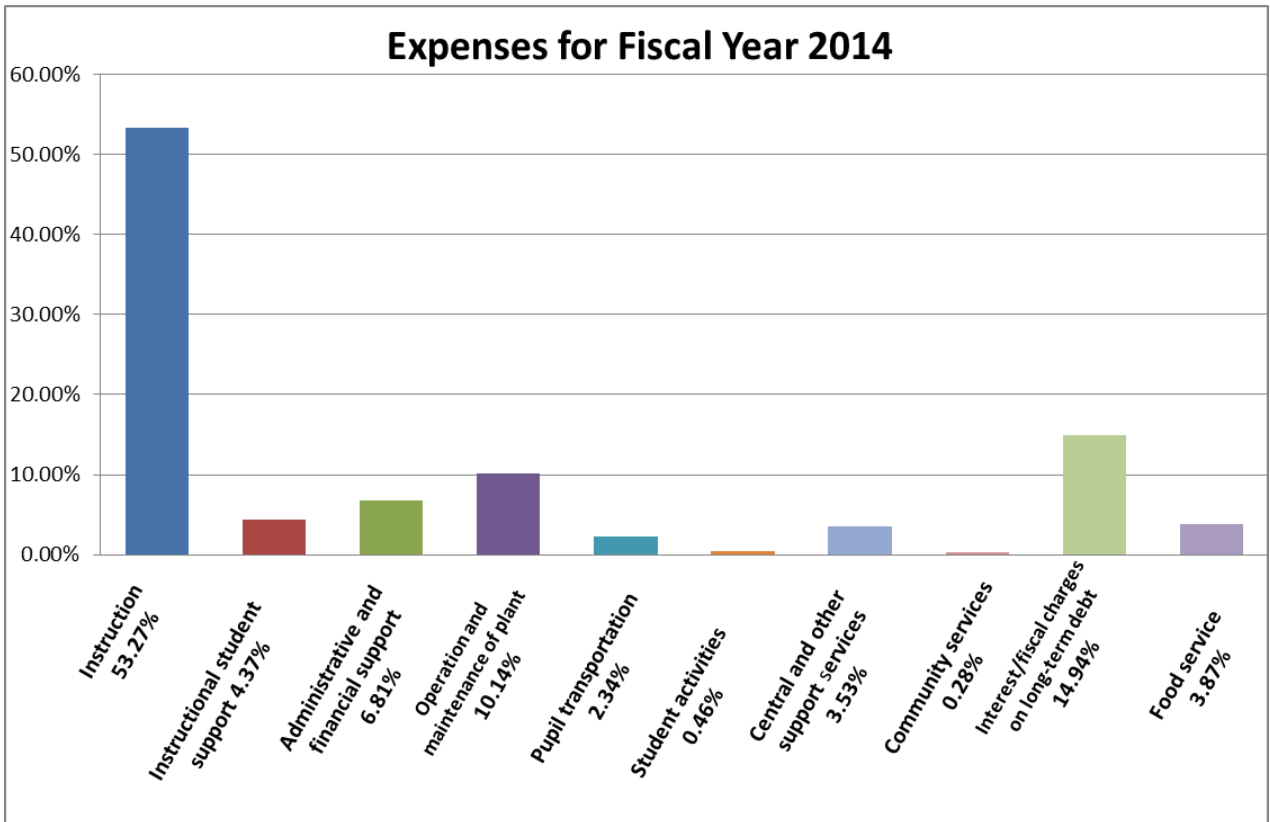


**Financial Analysis of the District as a Whole - continued**

**Figure A-7**



**Figure A-8**



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

Figure A-9 presents the cost of six (6) major District activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. The table also shows each activity's net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions. The net cost of governmental activities increased by 9.5% to \$104,176,808. The net cost for the instruction decreased due to various cost saving measures.

**Figure A-9**

	Total Cost of Services	Total Cost of Services	Percent of Change	Net Cost of Services	Net Cost of Services	Percent of Change
	2013	2014	2013-2014	2013	2014	2013-2014
Instruction	\$73,998,124	\$71,509,367	-3.4%	\$53,460,096	\$54,714,837	2.4%
Instructional Student Support	6,842,187	5,866,435	-14.3%	2,850,765	2,173,547	-23.8%
Administrative & Financial Support Services	9,535,867	9,142,427	-4.1%	8,986,913	8,453,571	-5.9%
Operational & Maintenance of Plant Services	13,947,652	13,605,999	-2.5%	11,978,958	11,869,617	-0.9%
Pupil Transportation	2,519,936	3,136,350	24.5%	1,240,242	2,165,473	74.6%
Other	18,088,861	25,786,563	42.6%	16,626,927	24,799,763	49.2%
<b>Total</b>	<b>\$124,932,627</b>	<b>\$129,047,141</b>	<b>3.3%</b>	<b>\$95,143,901</b>	<b>\$104,176,808</b>	<b>9.5%</b>

**Financial Analysis of the District**

At the end of the fiscal year 2014; governmental funds had total positive fund balance of \$38,823,903. The ending fund balance for the General Fund was \$29,960,478, of which \$7,682,310 is unassigned and \$402,381 is committed for a reserve for athletics and band. Fund balance has also been assigned in the General Fund for health insurance stabilization, future PSERS increases, debt service increases, capital improvements, delinquent tax initiatives, professional development, and information technology improvements. The fund balance from the Debt Service fund was \$5,550,504 and fund balance from the non-major funds was \$3,312,921.

The business-type activities resulted in an increase in net position of \$458,974. In addition to the District-wide financial statement, Food Services are reported in greater detail in the proprietary fund statements. The District elected to reduce the obligation of approximately \$1.3 million due from the Food Service operation based upon anticipated operating results over the next five years. This action serves to accurately reflect the financial position of the operation in the future.

## General Fund Budgetary Highlights

While the District final budget for the general fund anticipated that \$3,056,618 of fund balance would be needed to balance the budget, the actual results for the year reflected a net increase in Fund Balance of \$7,306,846, which increased the General Fund balance to positive \$29,960,478.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2014, the District had net investments of \$188,008,481 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 \$2,363,704 of capital assets into service during the year.

Figure A-10

Capital Assets (net of depreciation)

	Governmental Activities	Governmental Activities	Business- type Activities	Business- type Activities	Total	Total	Percentage Change
	2013	2014	2013	2014	2013	2014	2013-2014
Land and site improvements	\$13,700	\$13,700	\$ -	\$ -	\$ 13,700	\$13,700	0%
Building and building improvements	246,699,250	248,466,866	-	-	246,699,250	248,466,866	0.72%
Furniture and equipment	34,536,825	35,130,281	1,475,613	1,478,245	36,012,438	36,608,526	1.66%
Construction in Progress	1,578,297	28,101	-	-	1,578,297	28,101	-98.22%
Accumulated depreciation	(88,890,896)	(95,702,798)	(1,383,753)	(1,405,914)	(90,274,649)	(97,108,712)	7.57%
<b>Total</b>	<b>\$193,937,176</b>	<b>\$187,936,150</b>	<b>\$91,860</b>	<b>\$72,331</b>	<b>\$194,029,036</b>	<b>\$188,008,481</b>	<b>-3.10%</b>

## Outstanding Long-Term Debt

At year-end, the District has \$272,793,000 in general obligation bonds and other long-term debt outstanding. The District retired \$121,650,000 of outstanding bonds and other long-term debt. The District issued additional debt during the year in the amount of \$124,625,000 to restructure current debt as well as eliminate one SWAP agreement. More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.

Figure A-11

### Outstanding Long-Term Debt

	Totals	
	2013	2014
Debt Outstanding at Beginning of Year	\$270,573,000	\$269,818,000
Additional Debt During Year	-	124,625,000
Retirement and Repayments	(755,000)	(121,650,000)
Debt Outstanding at End of Year	<u>\$269,818,000</u>	<u>\$272,793,000</u>

## Factors Impacting on the District's Future

- On December 12, 2012, the Harrisburg City School District was declared to be in a state of moderate fiscal distress under the terms of the Commonwealth's Act 141 of 2012. This designation led to the appointment of a Chief Recovery Officer (CRO), Gene G. Veno, on the same day. CRO Veno was charged with developing a Recovery Plan for the District that stabilized its finances while providing for academic improvement. The Recovery Plan was issued on April 26, 2013. The District's Board approved the plan on May 17, 2013 and it was approved by the Secretary of Education on May 31, 2013. The District's Board and Administration has worked diligently to address the various initiatives identified within the Recovery Plan. The Chief Recovery Officer is working to recalibrate the Recovery Plan in response to the positive financial outcome in the 2012-13 and 2013-14 fiscal years.
- The Pennsylvania School Employees Retirement System (PSERS) retirement rate will increase 25.9% from 2013-2014 to 2014-2015, from 16.93% to 21.31% of qualified retirement wages. PSERS projections indicate that employer contribution rates will increase to 25.8% of qualified retirement wages in 2015-2016, a 21.1% increase and continue to rise for several years thereafter. In November 2010, the State Legislature passed Act 120 of 2010, which established rate caps for the employer contributions. Future increases are capped at 4.5% of the prior year's rate plus the premium assistance contribution rate.
- The District expects the historical trend for greater local tax effort to fund instructional programs and services to continue as state and federal funding for public education is expected to decline. The Commonwealth of Pennsylvania provided 49.5% of total revenue sources to fund cost supporting the District's educational programs during fiscal year 2014. Local sources, primarily property taxes support 41.5% of the cost for educational cost and services in Harrisburg City School District. Federal grants and other sources of revenue provide 9.0% of the funds to support programs and services provided by the District.

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

- The previous teachers' contract began in the fiscal year 2007-2008 providing an average increase of 4.5% for the 2007-2008 year. The contract provided for an average increase of 4% for the following years 2008-2009, 2009-2010 and 2010-2011. The Union agreed to a no cost extension to the collective bargaining agreement for 2011-2012 through 2012-2013 and a one-year agreement with a 5% wage reduction and additional 5% employee share of health insurance premium for the 2013-14 fiscal year. Prior to June 30, 2014 the aforementioned 5% wage reduction was paid to the employees.
- The previous classified employees' contract began in the fiscal year 2007-2008 providing for an average increase of 4.5% for the 2007-2008 year. The contract provided for an average increase of 4% for the following years 2008-2009, 2009-2010 and 2010-2011. The Union agreed to a no cost extension to the current collective bargaining agreement for 2011-2012 through 2012-2013 and a one-year agreement with a 5% wage reduction and additional 5% employee share of health insurance premium for the 2013-2014 fiscal year. Prior to June 30, 2014 the aforementioned 5% wage reduction was paid to the employees.
- In recognition of a continuing decline in State and Federal funding for public education and a limited local tax base, the District has undertaken cost cutting measures to systematically reduce the District's budget including downsizing of staff and the closure of several schools.
- Expenditures reductions have also led to an improved cash flow eliminating the need for short-term borrowing and increasing fund balance.
- The District has assigned fund balance to address a variety of future budgetary concerns - health insurance costs, PSERS increases, debt service increases, capital improvements and information technology improvements.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Harrisburg City School District, 1601 State Street, Harrisburg, PA 17103.

Respectfully submitted,

Sybil Knight-Burney, ED. D.  
Superintendent

Peggy Morningstar,  
Chief Financial Officer

William Gretton,  
Interim Business Manager

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 110,935,246	\$ 44,907	\$ 110,980,153
Investments	2,049,036	-	2,049,036
Taxes receivable, net	4,050,038	-	4,050,038
Internal balance	854,666	-	854,666
Due from other governments	4,080,676	353,940	4,434,616
Other receivables	1,030,866	17,366	1,048,232
Prepaid expenses	1,342,800	-	1,342,800
Inventories	17,367	64,994	82,361
	<hr/>	<hr/>	<hr/>
Total current assets	124,360,695	481,207	124,841,902
<b>NONCURRENT ASSETS</b>			
Sinking fund investments	4,964,900	-	4,964,900
Bond discounts, net	2,982,863	-	2,982,863
Land and site improvements, net	13,700	-	13,700
Building and building improvements, net	185,212,507	-	185,212,507
Furniture and equipment, net	2,681,842	72,331	2,754,173
Construction in progress	28,101	-	28,101
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	195,883,913	72,331	195,956,244
Total assets	320,244,608	553,538	320,798,146
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	16,016,895	-	16,016,895
	<hr/>	<hr/>	<hr/>
	<u>\$ 336,261,503</u>	<u>\$ 553,538</u>	<u>\$ 336,815,041</u>

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

**CURRENT LIABILITIES**

Internal balance	\$ 38,785	\$ 797,075	\$ 835,860
Accounts payable	79,189,819	252,855	79,442,674
Accrued interest	1,104,186	-	1,104,186
Current portion of long-term debt	6,365,000	-	6,365,000
Current portion of capital leases	480,466	-	480,466
Current portion of compensated absences	378,532	66,366	444,898
Accrued salaries and benefits	<u>5,728,514</u>	<u>87,085</u>	<u>5,815,599</u>

Total current liabilities	93,285,302	1,203,381	94,488,683
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**NONCURRENT LIABILITIES**

Long-term debt net of current portion	266,428,000	-	266,428,000
Premium on issue of swap	1,776,174	-	1,776,174
Premium on bond issue	1,959,208	-	1,959,208
Compensated absences	1,573,033	48,621	1,621,654
Derivative instruments - swaps	16,556,244	-	16,556,244
Other post-employment benefits liability	<u>2,578,551</u>	<u>161,849</u>	<u>2,740,400</u>

Total noncurrent liabilities	<u>290,871,210</u>	<u>210,470</u>	<u>291,081,680</u>
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Total liabilities	384,156,512	1,413,851	385,570,363
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**DEFERRED INFLOWS OF RESOURCES**

	519,420	16,795	536,215
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**NET POSITION**

Restricted for debt service	4,966,826	-	4,966,826
Net investment in capital assets	(84,313,662)	91,860	(84,221,802)
Unrestricted	<u>30,932,407</u>	<u>(968,968)</u>	<u>29,963,439</u>

Total net position	<u>(48,414,429)</u>	<u>(877,108)</u>	<u>(49,291,537)</u>
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	<u>\$ 336,261,503</u>	<u>\$ 553,538</u>	<u>\$ 336,815,041</u>
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See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2014**

	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	\$ 71,509,367	\$ 1,814,173	\$ 14,980,357	\$ (54,714,837)	\$ -	\$ (54,714,837)
Instructional student support	5,866,435	-	3,692,888	(2,173,547)	-	(2,173,547)
Administrative and financial support services	9,142,427	-	688,856	(8,453,571)	-	(8,453,571)
Operation and maintenance of plant services	13,605,999	-	1,736,382	(11,869,617)	-	(11,869,617)
Pupil transportation	3,136,350	-	970,877	(2,165,473)	-	(2,165,473)
Student activities	612,100	-	37,372	(574,728)	-	(574,728)
Central and other support services	4,734,430	-	609,293	(4,125,137)	-	(4,125,137)
Community services	381,370	-	340,135	(41,235)	-	(41,235)
Interest/fiscal charges on long-term debt	20,058,663	-	-	(20,058,663)	-	(20,058,663)
 Total governmental activities	 129,047,141	 1,814,173	 23,056,160	 (104,176,808)	 -	 (104,176,808)
<b>BUSINESS-TYPE ACTIVITIES</b>						
Food service	5,197,243	132,025	4,256,148	-	(809,070)	(809,070)
 Total primary government	 <u>\$ 134,244,384</u>	 <u>\$ 1,946,198</u>	 <u>\$ 27,312,308</u>	 <u>(104,176,808)</u>	 <u>(809,070)</u>	 <u>(104,985,878)</u>
<b>GENERAL REVENUES</b>						
Taxes				38,676,352	-	38,676,352
Grants, subsidies and contributions not restricted				53,649,243	-	53,649,243
Investment earnings - derivatives				(171,787)	-	(171,787)
Investment earnings				672,860	-	672,860
Miscellaneous income				1,502,538	-	1,502,538
Transfers				(1,268,044)	1,268,044	-
				<u>93,061,162</u>	<u>1,268,044</u>	<u>94,329,206</u>
 <b>CHANGE IN NET POSITION</b>				 (11,115,646)	 458,974	 (10,656,672)
 <b>NET POSITION - BEGINNING - restated</b>				 <u>(37,298,783)</u>	 <u>(1,336,082)</u>	 <u>(38,634,865)</u>
 <b>NET POSITION - ENDING</b>				 <u>\$ (48,414,429)</u>	 <u>\$ (877,108)</u>	 <u>\$ (49,291,537)</u>

See accompanying notes.



**HARRISBURG CITY SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
 JUNE 30, 2014

**ASSETS**

	General Fund	Debt Service Funds	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 37,611,134	\$ 72,942,986	\$ 381,126	\$ 110,935,246
Investments	2,049,036	-	-	2,049,036
Taxes receivable, net	4,050,038	-	-	4,050,038
Due from other funds	854,666	-	3,000,000	3,854,666
Due from other governments	4,080,676	-	-	4,080,676
Other receivables	1,030,866	-	-	1,030,866
Prepaid expenses	3,754	-	-	3,754
Inventories	17,367	-	-	17,367
Sinking fund investments	-	4,964,900	-	4,964,900
	<u>\$ 49,697,537</u>	<u>\$ 77,907,886</u>	<u>\$ 3,381,126</u>	<u>\$ 130,986,549</u>

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

**LIABILITIES**

Accounts payable	\$ 6,803,017	\$ 72,357,382	\$ 29,420	\$ 79,189,819
Due to other funds	3,000,000	-	38,785	3,038,785
Accrued salaries and benefits	5,728,514	-	-	5,728,514

Total liabilities	15,531,531	72,357,382	68,205	87,957,118
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**DEFERRED INFLOWS OF RESOURCES**

	4,205,528	-	-	4,205,528
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**FUND BALANCES**

Nonspendable:				
Reserve for inventories	17,367	-	-	17,367
Interfund receivable	854,666	-	-	854,666
Prepaid expenses	3,754	-	-	3,754
Restricted:				
2002 QZAB	-	3,830,883	-	3,830,883
2010 Debt service fund	-	1,135,943	-	1,135,943
Committed:				
Athletics and band reserve	402,381	-	-	402,381
2009 Debt series	-	476,032	-	476,032
2013 Debt series	-	20,426	-	20,426
2014 Debt series	-	87,220	-	87,220
Assigned:				
Special revenue fund	-	-	3,088,513	3,088,513
Delinquent tax initiative	3,000,000	-	-	3,000,000
Debt service increases	3,000,000	-	-	3,000,000
Capital improvements	5,000,000	-	285,113	5,285,113
PSERS increases	5,000,000	-	-	5,000,000
Health insurance stabilization	3,000,000	-	-	3,000,000
Professional development	500,000	-	-	500,000
Information Technology improvements	1,500,000	-	-	1,500,000
Unassigned:				
General fund	7,682,310	-	-	7,682,310
Capital projects fund	-	-	(60,705)	(60,705)

Total fund balances	29,960,478	5,550,504	3,312,921	38,823,903
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	<u>\$ 49,697,537</u>	<u>\$ 77,907,886</u>	<u>\$ 3,381,126</u>	<u>\$ 130,986,549</u>
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See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 38,823,903</b>
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$283,638,948 and the accumulated depreciation is \$95,702,798.</p>	187,936,150
<p>Taxes receivable that are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds, net of allowance.</p>	3,686,108
<p>To record other post-employment benefits (OPEB)</p>	(2,578,551)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:</p>	
Bonds payable	\$ (272,793,000)
Accrued interest on the bonds	(1,104,186)
Prepaid bond insurance (net of accumulated amortization)	1,339,046
Bond discounts (net of accumulated amortization)	2,982,863
Capital leases	(480,466)
Premium on issue of swap	(1,776,174)
Premium on bond issue	(1,959,208)
Compensated absences	<u>(1,951,565)</u>
	(275,742,690)
<p>To record GASB 53 fair market value</p>	<u>(539,349)</u>
<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ (48,414,429)</u></u></b>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2014**

	General Fund	Debt Service Funds	Non- Major Funds	Total Governmental Funds
<b>REVENUES</b>				
Local sources	\$ 54,114,375	\$ 162,688	\$ 730	\$ 54,277,793
State sources	64,570,520	-	-	64,570,520
Federal sources	11,724,837	-	-	11,724,837
<b>Total revenues</b>	<b>130,409,732</b>	<b>162,688</b>	<b>730</b>	<b>130,573,150</b>
<b>EXPENDITURES</b>				
Instruction	69,361,330	-	-	69,361,330
Support services	30,929,110	-	-	30,929,110
Noninstructional services	860,714	-	-	860,714
Facility acquisition and improvement	-	-	1,317,383	1,317,383
Debt service (principal, interest and fees)	17,791	25,015,344	-	25,033,135
<b>Total expenditures</b>	<b>101,168,945</b>	<b>25,015,344</b>	<b>1,317,383</b>	<b>127,501,672</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>29,240,787</b>	<b>(24,852,656)</b>	<b>(1,316,653)</b>	<b>3,071,478</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of long-term debt	-	126,893,298	-	126,893,298
Refunding of long-term debt	-	(118,650,000)	-	(118,650,000)
Transfers in	-	89,597,040	4,310,451	93,907,491
Transfers out	(21,507,676)	(73,667,859)	-	(95,175,535)
Sale of fixed assets	60,000	-	-	60,000
Refunds of prior years receipts	(486,265)	-	(45,978)	(532,243)
<b>Total other financing sources (uses)</b>	<b>(21,933,941)</b>	<b>24,172,479</b>	<b>4,264,473</b>	<b>6,503,011</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>7,306,846</b>	<b>(680,177)</b>	<b>2,947,820</b>	<b>9,574,489</b>
<b>FUND BALANCE - BEGINNING</b>	<b>22,653,632</b>	<b>6,230,681</b>	<b>365,101</b>	<b>29,249,414</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 29,960,478</b>	<b>\$ 5,550,504</b>	<b>\$ 3,312,921</b>	<b>\$ 38,823,903</b>

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, 2014**

**TOTAL NET CHANGE IN FUND BALANCES -  
GOVERNMENTAL FUNDS** \$ 9,574,489

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	\$ (6,811,903)	
Capital outlays	782,775	
Construction in progress	<u>28,101</u>	
		(6,001,027)

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 decreased by this amount this year. (11,252,230)

Debt proceeds are recorded as revenues in the governmental funds,  
but the proceeds increase long-term liabilities in the statement of net position. (124,630,000)

Repayment of bonds and capital leases is an expenditure  
in the governmental funds, but the repayment reduces  
long-term liabilities in the statement of net position. 122,258,121

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. 170,328

Interest on serial bonds is recorded in the  
governmental funds when paid, but the statement of  
activities records interest expense as it is incurred.  
Accrued interest decreased by this amount this year. 501,911

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, 2014**

To record the change in other post-employment benefits (OPEB) liability.	(839,359)
To record the premium on the new bond issue as a liability on the governmental statement of net position.	(1,959,208)
To record the prepaid bond insurance costs on the new bond issue as an asset on the governmental statement of net position.	45,781
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. Current bond insurance costs are as follows:	
Current year bond premium amortization	1,651,394
Current year prepaid insurance amortization	(255,746)
Current year bond discounts amortization	(452,889)
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.	244,576
GASB 53 measurement of change in fair value of SWAP	<u>(171,787)</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ (11,115,646)</u></u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION -**  
**PROPRIETARY FUND**  
**JUNE 30, 2014**

**ASSETS**

	Food Service Fund
<b>CURRENT ASSETS</b>	
Cash	\$ 44,907
Other receivables	17,366
Due from other governments	353,940
Inventories	64,994
Total current assets	481,207
<b>NONCURRENT ASSETS</b>	
Fixed assets, net	72,331
Total assets	\$ 553,538

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

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 252,855
Due to other funds	797,075
Accrued salaries and benefits	87,085
Current portion of compensated absences	66,366
Total current liabilities	1,203,381
<b>NONCURRENT LIABILITIES</b>	
Compensated absences	48,621
Other post-employment benefits	161,849
Total noncurrent liabilities	210,470
Total liabilities	1,413,851
<b>DEFERRED INFLOWS OF RESOURCES</b>	16,795
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	72,331
Unrestricted	(949,439)
Total net position	(877,108)
Total liabilities, deferred inflows of resources and net position	\$ 553,538

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET POSITION - PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2014**

	<u>Food Service Fund</u>
<b>OPERATING REVENUES</b>	
Food service revenue	\$ 132,025
 <b>OPERATING EXPENSES</b>	
Salaries	1,157,279
Employee benefits	1,054,828
Purchased professional service	293,843
Purchased property service	71,569
Other purchased service	1,120
Supplies	2,596,443
Depreciation	<u>22,161</u>
Total operating expenses	<u>5,197,243</u>
 <b>OPERATING LOSS</b>	 <u>(5,065,218)</u>
 <b>NONOPERATING REVENUES</b>	
Local sources	28,516
State sources	354,827
Federal sources	3,717,268
USDA donated commodities	155,537
Transfers in	<u>1,268,044</u>
Total nonoperating revenues	<u>5,524,192</u>
 <b>CHANGE IN NET POSITION</b>	 458,974
 <b>NET POSITION - BEGINNING</b>	 <u>(1,336,082)</u>
 <b>NET POSITION - ENDING</b>	 <u><u>\$ (877,108)</u></u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2014**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from user charges	\$ 201,878	
Cash payments to employees for services	(2,187,852)	
Cash payments to suppliers for goods and services	<u>(3,073,639)</u>	
Net cash used in operating activities		\$ (5,059,613)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Grants and subsidies received for non-operating activities:		
Local	28,516	
State	338,418	
Federal	3,462,172	
Transfers in	<u>1,268,044</u>	
Net cash provided by noncapital financing activities		5,097,150
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of equipment	<u>(2,632)</u>	
Net cash used by capital financing activities		(2,632)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposition of investment		<u>1,025</u>
<b>NET INCREASE IN CASH</b>		35,930
<b>CASH - BEGINNING OF YEAR</b>		<u>8,977</u>
<b>CASH - END OF YEAR</b>		<u><u>\$ 44,907</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss		\$ (5,065,218)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation	\$ 22,161	
Donated commodities	155,537	
(Increase) decrease in:		
Inventory	(16,508)	
Other receivables	69,853	
Increase (decrease) in:		
Accounts payable	238,766	
Due to other funds	(488,459)	
OPEB liability	34,455	
Accrued salaries and benefits	(71,798)	
Accumulated compensated absences	<u>61,598</u>	
Total adjustment		<u>5,605</u>
Net cash used in operating activities		<u><u>\$ (5,059,613)</u></u>

See accompanying notes.



**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2014**

**ASSETS**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 106,892	\$ 167,957
Investments	-	28,824
Other receivables	-	373
	<u>                    </u>	<u>                    </u>
Total assets	<u><u>\$ 106,892</u></u>	<u><u>\$ 197,154</u></u>

**LIABILITIES AND NET POSITION**

<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 480
Due to other funds	-	18,806
Funds held for others	-	177,868
	<u>                    </u>	<u>                    </u>
Total liabilities	-	197,154
 <b>NET POSITION</b>		
Restricted	<u>106,892</u>	<u>-</u>
	<u><u>\$ 106,892</u></u>	<u><u>\$ 197,154</u></u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED JUNE 30, 2014**

	<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>	
Receipts	\$ 1,916
<b>DEDUCTIONS</b>	
Other	<u>5,780</u>
<b>CHANGE IN NET POSITION</b>	(3,864)
<b>NET POSITION - BEGINNING</b>	<u>110,756</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 106,892</u></u>

See accompanying notes.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

Reporting Entity

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

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

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

Related Organization

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

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Related Organization - continued

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

Government-Wide Financial Statements

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

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

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

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

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Policy for Eliminating Internal Activity - Government-Wide Financial Statements

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

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

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

Program Revenues - Government-Wide Financial Statements

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

Policy for Defining Operating and Nonoperating Revenues of Proprietary Funds

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

Policy Regarding Applying Restricted or Unrestricted Revenues

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Fund Accounting

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

Governmental Fund Types

General Fund

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

Special Revenue Funds

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

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

Capital Project Funds

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

1. Series 2008 Note - accounts for the costs of acquiring a piece of property and costs of making improvements and renovations to school buildings as financed by the Series 2008 General Obligation Note. The Series 2008 Note was refunded with the Series 2009A Fund.
2. Series 2010 Bond - accounts for the costs of HVAC, roof repairs and other related renovations to school buildings as financed by the Series 2010 General Obligation Note.
3. Series 2009 Bond - accounts for the costs of equipment and hardware purchases throughout the District.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Governmental Fund Types - continued

Debt Service Funds

1. Series 2002 QZAB Fund - accounts for the sinking fund established by the Series of 2002 General Obligation Qualified Zone Academy Bonds.
2. Series 2009 - at June 30, 2014, the proceeds from the 2014 bond issues were included in the cash balance of this fund and the corresponding redemption of the 2009D bonds.
3. Series 2010 - accounts for the sinking fund established by the Qualified School Construction Bond Series 2010.
4. Series 2013 - accounts for the proceeds from bond refinancing by the Series of 2014 A and the redemption of the Series of 2013.
5. Series 2014 - Fund accounts for the proceeds of the Series of 2014 B-1, B-2 and C and the redemption of the Series of 2009D and the swap termination.

Proprietary Fund Types

Enterprise Fund

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

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Fiduciary Fund Types

Trust and Agency Funds

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

The following are the District's trust funds:

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

The following are the District's agency funds:

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

Measurement Focus/Basis of Accounting

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

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

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.



**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Modified Accrual Basis

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

Revenue from Local Sources

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

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

The District's financial statements reflect delinquent occupation tax for the current and prior years. An allowance for estimated uncollectible school occupation taxes is based on a historical analysis of collections. This methodology was changed in the current year, please refer to Note U.

Revenue from State Sources

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

Revenue from Federal Sources

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

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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Budgets and Budgetary Accounting

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

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

Fund Balance Classification

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable amounts are disclosed on the Balance Sheet - Governmental Funds.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified the 2002 QZAB and 2010 Debt Service within the Debt Service Fund as being restricted because its use is limited by legislation or external parties.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Fund Balance Classification - continued

- **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, 2013 Debt series, 2014 Debt series and the Athletics and Band Reserve as being committed resources.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the Superintendent and Chief Financial Officer through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has classified the Capital Projects and Special Revenue Funds as assigned resources. During the current year, the Board assigned amounts in the General Fund. The specific assignments are disclosed on the Balance Sheet - Governmental Funds.
- **Unassigned:** This classification includes the residual fund balance for the General Fund and the amount established for Minimum Funding which represents the portion of the General Fund balance that has been established by a Resolution of the Board of School Directors dated May 2, 2011. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts. The District will strive to maintain a fund balance of not less than 1% and not more than 8% of the annual approved budget.

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

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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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 27.9156 mills. Interim taxes are assessed at various times during the year as needed. Annually, the District enters into an agreement of sale and purchase of unpaid real estate taxes with The Redevelopment Authority of the City of Harrisburg. The District conducted settlement on January 1, 2014 for the 2013-2014 unpaid real estate taxes.

Taxes receivable as reported on the combined balance sheet represents unpaid occupation taxes outstanding at June 30, 2014. Taxes receivable not deemed available under accounting principles generally accepted in the United States of America are included in deferred revenues.

Cash and Cash Equivalents

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

Vacation, Sick Leave and Other Compensated Absences

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

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

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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Vacation, Sick Leave and Other Compensated Absences - continued

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

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

Government-wide and Proprietary Fund Net Position

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

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

Pension Plan

All full-time employees of the District participate in a cost-sharing multiple employer defined benefit pension plan. The District made all required contributions for the year ended June 30, 2014, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

Investments

The School District invests funds with The Pennsylvania School District Liquid Asset Fund (PSDLAF), Pennsylvania Local Government Investment Trust (PLGIT), and the Pennsylvania Treasurer's INVEST Program for Local Governments (INVEST). 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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Derivative Financial Instruments

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

Interfund Transactions

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

Management estimates the amount Due from the Proprietary Fund to the General Fund will be recovered over the next five years. During the June 30, 2014 fiscal year, the District recognized an impairment of approximately \$1.3 million of the previously accumulated balance.

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.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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.

Deferred Outflows and Inflows of Resources

In March 2012, GASB issued Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. The objective of this statement is to enhance the guidance to determine which balances being reported as assets and liabilities should be reported as deferred outflows of resources or deferred inflows of resources. The financial statements incorporate the changes required by Statement No. 65. A restatement was required to properly incorporate these changes (See Note T).

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources, which represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has one item recorded as a deferred outflow of resources in the amount of \$16,016,895, which represents the fair market value of their effective swaps.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources, which represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports unavailable subsidy revenue in the amount of \$519,420 on the statement of net position as deferred inflows of resources. The District also reports unavailable tax and subsidy revenues, in the amount of \$3,686,108 and \$519,420, respectively, on the governmental fund balance sheet as deferred inflows of resources.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This statement will require a governmental entity that extends a non-exchange guarantee to recognize a liability, when qualitative factors and historical data indicates that it is more likely than not that the governmental entity will be required to make a payment on a guarantee. This statement was effective for the year ending June 30, 2014. Based upon management's assessment and review at June 30, 2014, there is not a condition requiring the recording of such an obligation.

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

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

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

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2014, \$72,691,033\* of the District's bank balance of \$113,825,635 was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance (FDIC)	\$ 751,925
Secured by pooled collateral as permitted by Act 72 of the Commonwealth of Pennsylvania	40,267,064
PLGIT	115,613
Uninsured	<u>72,691,033*</u>
Total	<u>\$113,825,635</u>



**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Reconciliation to Financial Statements

Covered by Federal Depository Insurance (FDIC)	\$ 751,925
Plus: funds covered under Act 72	40,267,064
Plus: PLGIT	115,613
Uninsured	72,691,033*
Less: outstanding checks	<u>(2,570,633)</u>
 Total cash per financial statements	 <u><u>\$ 111,255,002</u></u>

\* \$72,470,000 of this amount was withdrawn from the District's accounts, on the following business day to provide for refunding requirements under the Series of 2014 issues.

Investments

As of June 30, 2014, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	5 - 10
Federal National Mortgage Association	\$ 3,828,957	\$ 3,828,957	\$ -	\$ -
PA School District Liquid Asset Fund	2,034,907	2,034,907	-	-
PA Local Government Investment Trust	5,473	5,473	-	-
PA Treasurer's INVEST Program for Local Governments	37,480	37,480	-	-
Treasury obligations funds	<u>1,135,943</u>	<u>1,135,943</u>	<u>-</u>	<u>-</u>
 Total	 <u><u>\$ 7,042,760</u></u>	 <u><u>\$ 7,042,760</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>

Interest Rate Risk

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Credit Risk

The District does not have a formal investment policy that limits its investment choices to certain credit ratings. As of June 30, 2014, the District's investments were rated as:

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

A summary of property, plant and equipment of the Business-Type Activities as of June 30, 2014, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Machinery and equipment	\$1,475,613	\$ 2,632	\$1,478,245
Accumulated depreciation	1,383,753	22,161	<u>1,405,914</u>
Net property, plant, and equipment			<u>\$ 72,331</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

A summary of property, plant, and equipment for the Governmental Activities for the year ended June 30, 2014, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and land improvements	\$ 13,700	\$ -	\$ -	\$ 13,700
Building and improvements	246,699,250	1,767,616	-	248,466,866
Furniture and equipment	34,536,825	593,456	-	35,130,281
Construction in progress	<u>1,578,297</u>	<u>28,101</u>	<u>1,578,297</u>	<u>28,101</u>
Total capital assets	282,828,072	2,389,173	1,578,297	283,638,948
Less accumulated depreciation:				
Building and improvements	58,039,787	5,214,572	-	63,254,359
Furniture and equipment	<u>30,851,109</u>	<u>1,597,330</u>	<u>-</u>	<u>32,448,439</u>
Total accumulated depreciation	<u>88,890,896</u>	<u>\$6,811,902</u>	<u>\$ -</u>	<u>95,702,798</u>
Net property, plant and equipment	<u>\$193,937,176</u>			<u>\$187,936,150</u>
Depreciation was charged to individual functions as follows:				
Instructional				\$ 1,578,929
Instructional support				254,672
Administrative				199,132
Operation of plant and maintenance				3,650,754
Central support services				995,660
Student activities				<u>132,755</u>
Total				<u>\$ 6,811,902</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

A summary of the taxes receivable and related accounts recorded at the fund level at June 30, 2014, follows:

	<u>Earned Income</u>	<u>Real Estate Transfer</u>	<u>School Occupation</u>	<u>LST</u>	<u>Total</u>
Current taxes collected by City, County, or Tax Claim Bureau by June 30, and remitted shortly thereafter	\$ 72,014	\$ 28,471	\$ 259,797	\$ 3,648	\$ 363,930
Deferred tax revenues	-	-	3,686,108	-	3,686,108
Taxes receivable, net	<u>\$ 72,014</u>	<u>\$ 28,471</u>	<u>\$3,945,905</u>	<u>\$ 3,648</u>	<u>\$4,050,038</u>

Deferred revenues consist of the following:

Taxes receivable which were not collected within 60 days subsequent to June 30, 2014	\$ 3,686,108
Deferred subsidies	<u>519,420</u>
Total	<u>\$ 4,205,528</u>

Taxes receivable	\$72,014	\$ 28,471	\$23,160,868	\$ 23,265,001
Estimated uncollectible taxes	-	-	<u>(19,214,963)</u>	<u>(19,214,963)</u>
Taxes receivable, net	<u>\$72,014</u>	<u>\$ 28,471</u>	<u>\$ 3,945,905</u>	<u>\$ 4,050,038</u>

**NOTE E - INVENTORIES**

A schedule of the Business-Type Activities' inventories at June 30, 2014, follows:

Material and supplies	\$ 8,536
Purchased food	39,663
Donated commodity food	<u>16,795</u>
	<u>\$64,994</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE F - ACCRUED SALARIES AND BENEFITS**

Accrued salaries principally represent teachers' salaries earned during the 2013/2014 school year that were paid subsequent to June 30, 2014. Accrued retirement, social security, and workers' compensation represent the District's liability on salaries paid during June 2014 and on accrued salaries at June 30, 2014. Accrued payroll withholdings represent the employees' share of retirement, social security and other benefits not remitted to the respective entities as of June 30, 2014.

**NOTE G - BONDS AND NOTES PAYABLE**

A summary of bonds and notes payable at June 30, 2014, which were issued to finance various school facilities acquisitions and renovations follows:

<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
<u>Bonds Payable</u>			
July 31, 2002 - Series 2002 QZAB	July 30, 2016	0.00%	\$ 5,104,000
May 1, 2009 - Series 2009 A	November 15, 2033	4.00% to 4.13%	133,765,000
May 1, 2009 - Series 2009 C	November 15, 2017	4.88% to 5.95%	23,605,000
June 30, 2014 - Series 2014 A	December 1, 2020	1.27% to 3.28%	23,880,000
June 30, 2014 - Series 2014 B-1	December 1, 2023	2.02% to 4.08%	6,740,000
June 30, 2014 - Series 2014 B-2	December 1, 2034	3.00% to 4.00%	20,895,000
June 30, 2014 - Series 2014 C	December 1, 2027	4.84%	49,610,000
<u>Notes Payable</u>			
October 6, 2010 - Series 2010 QSCB	September 15, 2027	5.00%	<u>9,194,000</u>
			<u>\$272,793,000</u>

On August 1, 2002, the District issued \$5,104,000 of General Obligation Qualified Zone Academy Bonds. Proceeds of the bonds were used for payment of costs of rehabilitating or repairing Lincoln Elementary School, purchasing and installing equipment therein and to pay the costs of issuance. The District is required to deposit \$305,046 on July 30<sup>th</sup> of each year to the sinking fund until maturity. As of June 30, 2014, the District has restricted cash, investments and accrued earnings of \$3,821,000 in the sinking fund.

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE G - BONDS AND NOTES PAYABLE - continued**

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

On 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.

On November 15, 2013, the District issued \$23,500,000 of fixed rate School Revenue Bonds for the advance refunding of 2009 Series B of \$22,855,000 and payment of estimated costs and expenses associated with the issue. This issue was subsequently redeemed by the 2014 Series A issued on June 30, 2014.

On June 30, 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 and 2014 Series C - \$49,610,000. The proceeds from these bonds were used to redeem prior bond issues and terminate a swap instrument.

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 related to a portion of the 2009 D bonds and associated issuance costs.

The 2014 Series B-2 and 2014 Series C proceeds were used to redeem the 2009 D issue and associated issuance 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
2015	\$ 6,939,313	\$ 12,784,747	\$ 19,724,060
2016	7,374,313	12,604,997	19,979,310
2017	13,073,313	12,224,345	25,297,658
2018	9,274,313	11,854,363	21,128,676
2019	9,579,313	11,574,411	21,153,724
2020 - 2024	63,466,565	54,045,569	117,512,134
2025 - 2029	66,277,245	33,285,461	99,562,706
2030 - 2034	94,425,000	12,233,976	106,658,976
2035 - 2039	<u>1,230,000</u>	<u>24,600</u>	<u>1,254,600</u>
Totals	<u>\$ 271,639,375</u>	<u>\$ 160,632,469</u>	<u>\$ 432,271,844</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE G - BONDS AND NOTES PAYABLE - continued**

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

The future principal payments scheduled above are net of the annual payments of \$574,313 to the 2010 Debt Service Fund made in fiscal years 2012-13 and 2013-14 for the 2010 QSCB bond issue.

Interest expense totaled \$13,494,000 for the year ended June 30, 2014. Also, the swap termination agreement, which was funded by the 2014 Series B-1, incurred a charge of \$6,667,800 for the year ended June 30, 2014.

Changes in Bonds and Notes Payable

Changes in bonds and notes payable during the year ended June 30, 2014, follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Bonds payable:				
August 2002 issue	\$ 5,104,000	\$ -	\$ -	\$ 5,104,000
Series 2009 A issue	133,765,000	-	-	133,765,000
Series 2009 B issue	22,855,000	-	(22,855,000)	-
Series 2009 C issue	26,605,000	-	(3,000,000)	23,605,000
Series 2009 D issue	72,295,000	-	(72,295,000)	-
Series 2013 issue	-	23,500,000	(23,500,000)	-
Series 2014 A issue	-	23,880,000	-	23,880,000
Series 2014 B-1 issue	-	6,740,000	-	6,740,000
Series 2014 B-2 issue	-	20,895,000	-	20,895,000
Series 2014 C issue	-	49,610,000	-	49,610,000
Notes payable:				
October 2010 issue	<u>9,194,000</u>	<u>-</u>	<u>-</u>	<u>9,194,000</u>
Total	<u>\$ 269,818,000</u>	<u>\$124,625,000</u>	<u>\$(121,650,000)</u>	<u>\$272,793,000</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE H - SWAP TRANSACTIONS**

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

At June 30, 2014, the District has the following derivative instruments outstanding (in thousands):

	<u>Notional Amount</u>	<u>Fair Value</u>		<u>Changes in Fair Value</u>	
		<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>
<b>Governmental Activities:</b>					
<i>Cash flow hedges:</i>					
A	Pay-fixed interest rate swap	\$49,598	Deferred outflow	Deferred inflow	\$ 544
B	Basis swap	\$133,765	Investment	Investment loss	\$ (171)

Swap Agreements

The School District currently has two interest rate swap agreements with two separate counterparties. The estimated fair value of the interest rate swaps was a net unrealized loss position of \$16,556,000 at June 30, 2014 and is recorded as a liability. The current notional amount for the two agreements is \$183,367,000. The School District utilized a regression method analysis to evaluate the hedge effectiveness for their interest rate swap portfolio. This method evaluates effectiveness by measuring the statistical relationship between the fair value or cash flows of the potential interest rate swap and the item it is hedged against. The analysis confirmed that the changes in cash flows of the potential interest rate swap instrument substantially offsets the changes in cash flows of the item hedged against and met within reason all required criteria.

Fair Values

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



**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE H - SWAP TRANSACTIONS** - continued

Fair Values - continued

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

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

Swap Payments and Associated Debt

Using rates at June 30, 2014, the debt service requirements of the variable-rate debt and net swap payments, assuming interest rates remain substantially similar based on their term are within acceptable levels. As interest rates vary, variable-rate bonds interest rate payments and net swap payments will vary.

Derivative Instrument Risks

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

It is also the District's policy to negotiate netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, the non-defaulting party may accelerate and terminate all outstanding transactions and net their fair values so that a single amount will be owed by (or to) the nondefaulting party. As of June 30, 2014, the District is in a negative position after netting the basis swaps with the interest rate swaps and, therefore, there is no credit risk.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE H - SWAP TRANSACTIONS** - continued

Derivative Instrument Risks - continued

**Interest rate risk:** The District is exposed to interest rate risk on its swap agreements. On the pay-fixed, receive variable interest rate swaps (Instrument A), the District's net payment increases as LIBOR index decreases. On the basis swap, the District's net payment increases as the ISDA swap rate or the SIFMA municipal swap index decreases. As of June 30, 2014, the weighted average interest rate on the District's hedged variable-rate debt is 5.25%, while the 63% of the one-month LIBOR plus .32% is .41%.

**Basis risk:** The District is exposed to basis risk on its pay-fixed interest rate swaps hedging derivative instruments (Instrument B) because the variable rate payments received on these derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable-rate debt, which is remarketed every 30 days.

The District is exposed to basis risk on its basis swaps hedging derivative instruments (Instrument B) because the variable rate payments received on these derivative instruments are based on a rate or index other than rate or index interest rates the District pays on its hedged variable-rate debt. As of June 30, 2014, the interest rates paid and received under the basis swaps are as follows:

Instrument B	74% of 3 month LIBOR plus .3113% is .48%.	SIFMA Municipal swap Index rate is .05%.
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Swap Payments and Associated Debt

Using rates as of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year ending June 30,	Variable-rate Bonds		Interest rate Swaps, net	Total
	Principal	Interest		
2015	\$ 5,000	\$ 8,967,019	\$ 1,820,447	\$ 10,792,466
2016	110,000	8,964,000	1,815,127	10,889,127
2017	125,000	8,957,831	1,809,082	10,891,913
2018	370,000	8,944,838	1,791,187	11,106,025
2019	420,000	8,924,100	1,770,874	11,114,974
2020 - 2024	34,380,000	41,431,619	7,708,810	83,520,429
2025 - 2029	55,835,000	30,225,007	(429,137)	85,630,870
2030 - 2034	92,130,000	11,755,561	(835,333)	103,050,228
	\$ 183,375,000	\$128,169,975	\$ 15,451,057	\$ 326,996,032

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE I - CAPITAL LEASES**

Lease Purchase Obligations

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

On December 12, 2012, the District entered into an agreement with F.N.B. Commercial Leasing for the leasing of technology equipment. The lease duration is set for three years with annual payments of \$191,964.

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

Total lease payments, including interest, made during the year ended June 30, 2014, were \$632,000.

Future minimum lease payments of capital leases as of June 30, 2014, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	<u>\$480,466</u>	<u>\$19,581</u>	<u>\$500,047</u>

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

	<u>Governmental Activities</u>
Furniture and equipment	\$2,091,424
Less: accumulated amortization	<u>1,428,262</u>
Net value	<u>\$ 663,162</u>

Amortization of leased equipment is included with depreciation expense.

Changes in Capital Leases

Changes in capital leases during the year ended June 30, 2014, were as follows:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Technology equipment	<u>\$1,088,579</u>	<u>\$ -</u>	<u>\$(608,113)</u>	<u>\$480,466</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE J - DEFINED BENEFIT PENSION PLAN**

Plan Description

Name of Plan:	The Public School Employees' Retirement System (the System).
Type of Plan:	Governmental cost sharing multiple-employer defined benefit plan.
Benefits:	Retirement and disability, legislative mandated ad hoc cost-of-living adjustments, health care insurance premium assistance to qualifying annuitants.
Authority:	The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-8535).
Annual Financial Report:	The System issues a comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Barbara D. Flurie, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. This report is also available in the publications section of the PSERS website at <a href="http://www.psers.state.pa.us">www.psers.state.pa.us</a> .
Funding Policy Authority:	The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.
Contribution Rates:	Member Contributions: Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member's qualifying compensation. Members who joined the System after June 30, 2001, contribute at 7.50 percent (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Plan Description - continued

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93 percent of covered payroll. The 16.93 percent rate is composed of a pension contribution rate of 16.00 percent and a .93 percent rate for health insurance premium assistance.

Contributions Required and Made

The School District's total payroll for the current year was \$41,603,584 while total covered payroll for retirement purposes was \$36,119,451.

Total contributions made during the year ended June 30, 2014, amounted to \$9,290,758 of which \$6,436,619 was made by the School District and \$2,854,139 was made by employees. Included in the District's contribution is a PSERS credit taken in the amount of \$66,606. These contributions represent 17.82 percent (District) and 7.90 percent (employees) of covered payroll.

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

<u>Fiscal Year Ending</u>	<u>Total Contribution</u>	<u>Percent of Covered Payroll</u>
June 30, 2014	\$ 6,115,023	16.93%
June 30, 2013	5,225,098	12.36
June 30, 2012	4,375,834	8.65

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

Plan Description

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

Type of Plan: Single-employer defined OPEB plan.

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

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Funding Policy

Funding Policy  
 Authority:

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

Contribution  
 Rates:

Member Contributions: For the fiscal year ended June 30, 2014, retired employees paid \$357,721.

Employer Contributions: Employer contributions are made on a pay-as-you-go basis. In 2014, the amount of benefits paid was \$1,774,199.

Net OPEB Obligation  
 And Annual  
 OPEB Cost:

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

Annual Required Contribution (ARC)	\$2,511,705
Interest on net OPEB obligation	(127,486)
Adjustment to ARC	<u>263,794</u>
Annual OPEB cost	2,648,013
Contributions	<u>(1,774,199)</u>
Increase in net OPEB liability	873,814
Net OPEB liability - beginning of year	<u>1,866,586</u>
Net OPEB liability - end of year	<u>\$2,740,400</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

<u>Year Ended</u>	<u>OPEB Cost</u>	<u>Contribution (ARC)</u>	<u>OPEB Cost Contributed</u>	<u>% of ARC Contributed</u>	<u>OPEB Liability</u>
06/30/2010	\$ 1,955,360	\$1,944,568	\$ 3,617,315	186.03%	\$ (662,656)
06/30/2011	2,733,136	2,676,058	2,178,430	81.04%	(1,265,933)
06/30/2012	2,726,142	2,676,058	2,653,508	99.16%	(1,880,300)
06/30/2013	2,649,062	2,511,705	2,662,776	106.01%	(1,866,586)
06/30/2014	2,648,013	2,511,705	1,774,199	70.64%	(2,740,400)

Schedule of Funding Progress

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

Actuarial Methods and Assumptions

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

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

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

Actuarial Methods and Assumptions - continued

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

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

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

As of June 30, 2014, there were 166 retirees who were receiving the premium-coverage benefit. For the year ended June 30, 2014, the District recognized expenditures of approximately \$1,774,199 for health care benefits for retirees.

**NOTE L - COMPENSATED ABSENCES**

A summary of the District's total compensated absence liabilities for the year ended June 30, 2014 is as follows:

	<u>Vacation, Sick and Personal Days</u>
Beginning balance	\$2,249,530
Net change in current year	<u>(182,978)</u>
Ending balance	<u>\$2,066,552</u>



**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE M - INTERFUND BALANCES**

The fund level balance sheet reflects the following interfund receivable and payable balances at June 30, 2014:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General	\$ 854,666	\$3,000,000
Enterprise District food service	-	797,075
Non-major governmental funds	3,000,000	38,785
Fiduciary funds	<u>-</u>	<u>18,806</u>
	<u>\$3,854,666</u>	<u>\$3,854,666</u>

**NOTE N - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables at June 30, 2014, consisted of the following:

Amounts due from:	
Commonwealth of PA	\$ 1,393,391
Federal government as passed through the PA Department of Education	2,250,104
Tuition - other LEA's	212,354
Federal government as passed through the PA Department of Agriculture	337,531
City treasurer	<u>241,236</u>
Total	<u>\$4,434,616</u>

**NOTE O - RISK MANAGEMENT**

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; job-related injuries to employees; and natural disasters. The District has purchased various insurance policies to protect the assets of the District from these risks of loss. The amounts of settlements have not exceeded insurance coverage during the year ended June 30, 2014.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE P - COMMITMENTS AND CONTINGENCIES**

Litigation

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

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.

Commitments

The District had construction contracts of approximately \$3,154,000 to be completed subsequent to June 30, 2014.

**NOTE Q - RELATED PARTY TRANSACTIONS**

The Capital Area Intermediate Unit provides special education services and other workshops to the District. During the year ended June 30, 2014, the District's expenditures relating to those services and workshops were \$664,033.

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

At June 30, 2014, the following fund had a deficit fund balance:

Food Service Fund	\$877,108
Capital Projects Fund - Series 2009	\$60,705

**NOTE S - HEALTH INSURANCE COVERAGE**

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

The School District accrues expenses Incurred but Not Reported (IBNR) through June 30, 2014 through its accounts payable. At June 30, 2014, the amount accrued in accounts payable for IBNR is \$700,153.

**HARRISBURG CITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE T - PRIOR PERIOD ADJUSTMENT**

The District implemented GASB 65 for the year ended June 30, 2014. Due to this implementation bond issue costs which were previously amortized over the life of the bond are now to be expensed. This resulted in an adjustment to the beginning net position of the governmental funds in the amount of \$2,398,015.

Net Position - June 30, 2013	\$ (34,900,768)
Adjustment - GASB 65	<u>(2,398,015)</u>
Net Position - June 30, 2013 (restated)	<u><u>\$ (37,298,783)</u></u>

**NOTE U - CHANGE IN ESTIMATE**

During the year ended June 30, 2014, management changed the methodology used in measuring the allowance for uncollectable delinquent occupational taxes. The current methodology applied is based on a collections trend analysis from the prior four years collections of delinquent occupation tax.

This change in estimate methodology resulted in an increase of \$12,285,000 in the allowance for taxes receivable and therefore a decrease in the deferred revenues by the same amount at the fund level statements. The government-wide statement of activities is impacted by this change in estimate in the current year as an adjustment to tax revenues.

**NOTE V - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 18, 2014, 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, 2014**

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>REVENUES</b>				
Local revenues	\$ 51,226,376	\$ 51,226,376	\$ 54,114,375	\$ 2,887,999
State program revenues	70,662,360	70,662,360	64,570,520	(6,091,840)
Federal program revenues	16,396,504	16,396,504	11,724,837	(4,671,667)
	<u>138,285,240</u>	<u>138,285,240</u>	<u>130,409,732</u>	<u>(7,875,508)</u>
<b>EXPENDITURES</b>				
Regular programs	52,604,933	54,475,599	42,882,489	11,593,110
Special programs	22,368,192	22,151,678	19,541,100	2,610,578
Vocational programs	3,917,480	3,917,480	3,188,005	729,475
Other instructional programs	5,282,948	4,015,704	3,015,045	1,000,659
Community/Jr college programs	733,740	733,740	734,691	(951)
Pupil personnel services	3,458,150	3,609,100	3,168,936	440,164
Instructional staff services	4,051,454	3,858,305	2,380,645	1,477,660
Administrative services	7,379,325	7,293,629	6,220,399	1,073,230
Pupil health	993,596	1,023,345	937,187	86,158
Business services	1,316,229	1,308,354	1,299,444	8,910
Operation and maintenance of plant services	10,563,283	10,608,916	8,663,991	1,944,925
Student transportation services	3,975,753	3,992,628	3,136,350	856,278
Central and other support services	3,612,242	3,657,705	3,337,197	320,508
Other support services	2,041,000	2,041,000	1,784,961	256,039
Student activities	596,989	606,910	479,344	127,566
Community services	424,593	465,279	381,370	83,909
Debt service	145,000	145,000	17,791	127,209
	<u>123,464,907</u>	<u>123,904,372</u>	<u>101,168,945</u>	<u>22,735,427</u>
Excess of revenues over expenditures	14,820,333	14,380,868	29,240,787	14,859,919

**HARRISBURG CITY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - GENERAL FUND - continued**  
**YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES</b>				
<b>(USES)</b>				
Refund prior year receipts	-	-	(486,265)	(486,265)
Transfers in	424,753	424,753	-	(424,753)
Transfers out	(18,001,704)	(18,081,469)	(21,507,676)	(3,426,207)
Sale of fixed assets	-	-	60,000	60,000
Budgetary reserve	<u>(300,000)</u>	<u>219,230</u>	<u>-</u>	<u>(219,230)</u>
 Total other financing sources (uses)	 <u>(17,876,951)</u>	 <u>(17,437,486)</u>	 <u>(21,933,941)</u>	 <u>(4,496,455)</u>
 Net change in fund balances	 (3,056,618)	 (3,056,618)	 7,306,846	 10,363,464
<b>FUND BALANCE - BEGINNING</b>	<u>12,513,862</u>	<u>12,513,862</u>	<u>22,653,632</u>	<u>10,139,770</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 9,457,244</u></u>	<u><u>\$ 9,457,244</u></u>	<u><u>\$ 29,960,478</u></u>	<u><u>\$ 20,503,234</u></u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**OTHER POST-EMPLOYMENT BENEFITS**  
**SCHEDULE OF FUNDING PROGRESS**  
**YEAR ENDED JUNE 30, 2014**

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

**SUPPLEMENTARY INFORMATION**



**HARRISBURG CITY SCHOOL DISTRICT**  
**COMBINING BALANCE SHEETS -**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2014**

**ASSETS**

	Capital Projects			Special Revenue			
	Series 2008 Note	Series 2010 Bond	Series 2009 Bond	Total	Capital Reserve Fund	Total	Total
Cash and cash equivalents	\$ 285,113	\$ -	\$ -	\$ 285,113	\$ 96,013	\$ 96,013	\$ 381,126
Due from other funds	-	-	-	-	3,000,000	3,000,000	3,000,000
	<u>\$ 285,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,113</u>	<u>\$ 3,096,013</u>	<u>\$ 3,096,013</u>	<u>\$ 3,381,126</u>

**LIABILITIES AND FUND BALANCES (DEFICITS)**

Liabilities:							
Accounts payable	\$ -	\$ -	\$ 21,920	\$ 21,920	\$ 7,500	\$ 7,500	\$ 29,420
Due to other funds	-	-	38,785	38,785	-	-	38,785
	<u>-</u>	<u>-</u>	<u>60,705</u>	<u>60,705</u>	<u>7,500</u>	<u>7,500</u>	<u>68,205</u>
Total liabilities	-	-	60,705	60,705	7,500	7,500	68,205
Fund balances (deficits):							
Assigned	285,113	-	-	285,113	3,088,513	3,088,513	3,373,626
Unassigned	-	-	(60,705)	(60,705)	-	-	(60,705)
	<u>-</u>	<u>-</u>	<u>(60,705)</u>	<u>(60,705)</u>	<u>-</u>	<u>-</u>	<u>(60,705)</u>
Total fund balances (deficits)	285,113	-	(60,705)	224,408	3,088,513	3,088,513	3,312,921
	<u>\$ 285,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,113</u>	<u>\$ 3,096,013</u>	<u>\$ 3,096,013</u>	<u>\$ 3,381,126</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -  
 NON-MAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2014

	Capital Projects			Special Revenue			
	Series 2008 Note	Series 2010 Bond	Series 2009 Bond	Total	Capital Reserve Fund	Total	Total
<b>REVENUES</b>							
Local sources	\$ 712	\$ -	\$ -	\$ 712	\$ 18	\$ 18	\$ 730
Total revenues	712	-	-	712	18	18	730
<b>EXPENDITURES</b>							
Facility acquisition and improvement	-	1,187,926	102,640	1,290,566	7,500	7,500	1,298,066
Miscellaneous	-	19,317	-	19,317	-	-	19,317
Total expenditures	-	1,207,243	102,640	1,309,883	7,500	7,500	1,317,383
Excess (deficiency) of revenues over expenditures	712	(1,207,243)	(102,640)	(1,309,171)	(7,482)	(7,482)	(1,316,653)
<b>OTHER FINANCING SOURCES</b>							
Transfers in	-	1,268,516	41,935	1,310,451	3,000,000	3,000,000	4,310,451
Refund of prior year revenue	-	(45,978)	-	(45,978)	-	-	(45,978)
Total other financing sources	-	1,222,538	41,935	1,264,473	3,000,000	3,000,000	4,264,473
<b>NET CHANGE IN FUND BALANCE (DEFICIT)</b>	712	15,295	(60,705)	(44,698)	2,992,518	2,992,518	2,947,820
<b>FUND BALANCE (DEFICIT) - BEGINNING</b>	284,401	(15,295)	-	269,106	95,995	95,995	365,101
<b>FUND BALANCE (DEFICIT) - ENDING</b>	<u>\$ 285,113</u>	<u>\$ -</u>	<u>\$ (60,705)</u>	<u>\$ 224,408</u>	<u>\$ 3,088,513</u>	<u>\$ 3,088,513</u>	<u>\$ 3,312,921</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Local sources:				
Taxes				
Current real estate taxes	\$ 34,765,953	\$ 34,765,953	\$ 35,907,670	\$ 1,141,717
Delinquent real estate taxes	6,250,000	6,250,000	4,980,436	(1,269,564)
Current school occupation	785,000	785,000	591,252	(193,748)
Delinquent school occupation			1,059,643	1,059,643
Earned income taxes	3,575,000	3,575,000	3,437,066	(137,934)
Real estate transfer	325,000	325,000	430,441	105,441
Emergency and municipal services tax	195,000	195,000	226,646	31,646
Payments in lieu of tax	1,000,000	1,000,000	1,088,062	88,062
Public utility realty tax	54,000	54,000	51,780	(2,220)
Amusement	260,000	260,000	290,978	30,978
Business and mercantile	1,500,000	1,500,000	1,864,608	364,608
<b>Total taxes</b>	<b>48,709,953</b>	<b>48,709,953</b>	<b>49,928,582</b>	<b>1,218,629</b>
Other:				
Tuition and other payments from patrons	260,000	260,000	277,079	17,079
Earnings from temporary deposits	490,000	490,000	672,860	182,860
Revenues from district activities	60,000	60,000	41,956	(18,044)
Rent from school and other facilities	55,000	55,000	71,896	16,896
Revenue received from other Pennsylvania public schools	-	-	29,411	29,411
Revenue received from other intermediate sources	1,465,445	1,465,445	1,465,727	282
Contributions from private sources	125,978	125,978	409,316	283,338
Miscellaneous	60,000	60,000	1,217,548	1,157,548
<b>Total other</b>	<b>2,516,423</b>	<b>2,516,423</b>	<b>4,185,793</b>	<b>1,669,370</b>
<b>Total local sources</b>	<b>51,226,376</b>	<b>51,226,376</b>	<b>54,114,375</b>	<b>2,887,999</b>

**HARRISBURG CITY SCHOOL DISTRICT**  
**DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -**  
**BUDGET AND ACTUAL - GENERAL FUND - continued**  
**YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
State sources:				
Basic instructional subsidy	\$ 44,287,990	\$ 44,287,990	\$ 44,334,660	\$ 46,670
Tuition reimbursement	65,000	65,000	129,330	64,330
Migratory children	-	-	1,014	1,014
Special education of exceptional students	5,100,643	5,100,643	5,128,228	27,585
Act 30 - PRRI	2,000,000	2,000,000	1,743,656	(256,344)
Transportation	1,585,376	1,585,376	1,025,206	(560,170)
Medical and dental services	155,000	155,000	133,229	(21,771)
Retirement reimbursement	4,431,288	4,431,288	4,108,912	(322,376)
Social security	1,707,795	1,707,795	1,706,171	(1,624)
Sinking fund subsidy	2,933,619	2,933,619	2,490,087	(443,532)
Pennsylvania accountability block grant	964,822	964,822	964,822	-
State property tax reduction allocation	2,774,603	2,774,603	2,774,603	-
Other state revenues	4,656,224	4,656,224	30,602	(4,625,622)
<b>Total state sources</b>	<b>70,662,360</b>	<b>70,662,360</b>	<b>64,570,520</b>	<b>(6,091,840)</b>
Federal sources:				
Payments for federally impacted areas	75,000	75,000	-	(75,000)
Education Consolidation and Improvement Act - Title I	8,193,810	8,193,810	5,588,389	(2,605,421)
Access	510,000	510,000	154,344	(355,656)
Education for Economic Security Act - Title II	1,303,919	1,303,919	377,337	(926,582)
Language instruction for LEP and immigrant students - Title III	410,375	410,375	359,151	(51,224)
ARRA Title I school improvements	4,782,400	4,782,400	3,843,797	(938,603)
ARRA QSCB subsidy	-	-	423,669	423,669
Other federal grants-in-aid	1,121,000	1,121,000	978,150	(142,850)
<b>Total federal sources</b>	<b>16,396,504</b>	<b>16,396,504</b>	<b>11,724,837</b>	<b>(4,671,667)</b>
<b>Total local, state and federal sources</b>	<b>\$ 138,285,240</b>	<b>\$ 138,285,240</b>	<b>\$ 130,409,732</b>	<b>\$ (7,875,508)</b>

**HARRISBURG CITY SCHOOL DISTRICT**  
**FIDUCIARY FUNDS - STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

**ASSETS**

	Private Purpose Trust Funds			Agency Funds			
	Non-Expendable Trust Fund	Expendable Trust Fund	Total	Student Activity Fund	Agency Fund	SBI Agency Fund	Total
Cash and cash equivalents	\$ 25,226	\$ 81,666	\$ 106,892	\$ 69,040	\$ 92,047	\$ 6,870	\$ 167,957
Investments	-	-	-	28,824	-	-	28,824
Other receivables	-	-	-	315	58	-	373
	<u>\$ 25,226</u>	<u>\$ 81,666</u>	<u>\$ 106,892</u>	<u>\$ 98,179</u>	<u>\$ 92,105</u>	<u>\$ 6,870</u>	<u>\$ 197,154</u>

**LIABILITIES AND NET POSITION**

Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 480	\$ -	\$ 480
Due to other funds	-	-	-	14,001	4,805	-	18,806
Funds held for others	-	-	-	84,178	86,820	6,870	177,868
	-	-	-	98,179	92,105	6,870	197,154
Total liabilities	-	-	-	98,179	92,105	6,870	197,154
Net Position							
Reserved	25,226	81,666	106,892	-	-	-	-
	<u>\$ 25,226</u>	<u>\$ 81,666</u>	<u>\$ 106,892</u>	<u>\$ 98,179</u>	<u>\$ 92,105</u>	<u>\$ 6,870</u>	<u>\$ 197,154</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**FIDUCIARY FUNDS - NONEXPENDABLE TRUST FUND**  
**CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2014**

	<u>Revenues</u>	<u>Expenses</u>	Excess (Deficiency) of Revenues Over Expenses	Fund Balance Beginning of Year	Fund Balance End of Year
Class of 1907 - Central H. S.	\$ -	\$ -	\$ -	\$ 302	\$ 302
Class of 1917 - Central H. S.	1	-	1	1,006	1,007
Class of 1918 - Central H. S.	2	-	2	905	907
Class of 1925 - Technical H. S.	1	-	1	1,006	1,007
Class of 1930 - William Penn H. S.	-	-	-	201	201
Class of 1931 - William Penn H. S.	-	-	-	302	302
Class of 1943 - William Penn H. S.	-	-	-	201	201
Class of 1958 - John Harris H. S.	-	-	-	201	201
E. E. Miller Award	1	-	1	100	101
Robert A. Lambertson	2	-	2	1,317	1,319
W. S. Steel Memorial (Class of 1915 and 1916 - Central H. S.)	1	-	1	402	403
Frannie Zarkin Katzan Award - William Penn H. S.	1	-	1	251	252
Marti-McCord Musical Achievement Award	3	-	3	1,508	1,511
William Penn High School Business Club Award	-	-	-	458	458
Annie Schlayer Award	1	-	1	529	530
Elizabeth Smith Award	1	-	1	497	498
Karen Lukens Safety Award	11	25	(14)	6,863	6,849
J. J. Brehm Award	-	-	-	453	453
Frank Goodyear Memorial	6	-	6	3,293	3,299
Jim Keener Memorial	2	-	2	1,060	1,062
Mary Warfield Award	-	-	-	302	302
C. Wolfgang Memorial	1	-	1	373	374
General Scholarship Fund	2	-	2	642	644
Barbara Baton Scholarship Fund	5	-	5	3,038	3,043
	<u>\$ 41</u>	<u>\$ 25</u>	<u>\$ 16</u>	<u>\$ 25,210</u>	<u>\$ 25,226</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**FIDUCIARY FUNDS - EXPENDABLE TRUST FUND**  
**CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2014**

	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficiency) of Revenues Over Expenditures</u>	<u>Fund Balance Beginning of Year</u>	<u>Fund Balance End of Year</u>
Evangeline Kimber Award	\$ -	\$ -	\$ -	\$ 1	\$ 1
Clenistine Dunson SBI Scholarship	181	3,253	(3,072)	79,799	76,727
D. Martin Memorial Scholarship Fund	-	-	-	32	32
Jack Devin Scholarship Fund	1	-	1	25	26
Woodrow Aikens Scholarship	11	-	11	4,318	4,329
John Black Scholarship	-	-	-	215	215
English Department Scholarship	-	-	-	114	114
Manny Weaver	-	2	(2)	2	-
Sunguard Senior Scholarship	1	-	1	204	205
David H. Goldsmith Scholarship	1,681	2,000	(319)	319	-
Scott Family Scholarship	-	500	(500)	512	12
James Booser Scholarship	-	-	-	5	5
	<u>\$ 1,875</u>	<u>\$ 5,755</u>	<u>\$ (3,880)</u>	<u>\$ 85,546</u>	<u>\$ 81,666</u>

**HARRISBURG CITY SCHOOL DISTRICT**  
**FIDUCIARY FUNDS - AGENCY FUNDS**  
**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND**  
**CHANGES IN FUNDS HELD FOR OTHERS**  
**YEAR ENDED JUNE 30, 2014**

	Account Balance Beginning of Year	Receipts	Disbursements	Account Balance End of Year
<b>Student Activity Fund</b>				
Elementary activity	\$ 37,423	\$ 18,865	\$ 16,602	\$ 39,686
Secondary activity	57,986	38,707	52,201	44,492
Total student activity fund	<u>\$ 95,409</u>	<u>\$ 57,572</u>	<u>\$ 68,803</u>	<u>\$ 84,178</u>
<b>Agency Fund</b>				
High and Middle Schools:				
Alumni Account - McIntosh	\$ 89	\$ -	\$ -	\$ 89
Life Skills Support	693	2	-	695
Ben Franklin Coke Commission	6,009	457	411	6,055
Downey Coke Commission	2,610	3,050	398	5,262
Rowland Coke Commission	3,743	1,692	4,085	1,350
Scott Coke Commission	7,176	134	724	6,586
Cheerleading Booster Club	2,503	7	-	2,510
Cougar Club	855	3	-	858
Girls Varsity Basketball	-	401	247	154
High School Band Boosters	(903)	-	-	(903)
Boys Basketball Club	2,436	4,620	5,161	1,895
Explore After School	205	503	-	708
Melrose Commission Account	3,367	351	-	3,718
Marshall Commission Account	9,376	183	245	9,314
Track and Field Booster Club	48	-	-	48
Rowland Student Council	664	1	665	-
John Harris Coke Commission	6,973	1,202	4,048	4,127
Special Education Autism Account	1,902	3,235	-	5,137
Harrisburg High Music Account	173	1	-	174
Hbg School Special Olympics	408	387	314	481
Annex Coke Commission	640	900	429	1,111
Foose Coke Commission	2,129	1,663	2,197	1,595
Camp Curtain Commission	5,370	516	435	5,451
Marshall Staff Account	662	69	300	431
Rowland Girls Basketball Account	408	1	-	409
Rowland Cheerleading Account	672	2	-	674
Instrument Rental	3,614	1,156	4,123	647
Cougar Wrestling Club	173	1,201	731	643
Elementary Band Boosters	975	3	-	978
Sci-Tech Youth & Government	505	1	-	506
Sci-Tech Robotics Club	1,834	5	-	1,839
Sci-Tech Mock Trial Club	1	-	-	1
Kimber Basketball Tournament	1,096	4,355	3,264	2,187
Harrisburg Players	17	-	-	17
Smallwood Summer League	2,511	14,699	4,031	13,179
Special Education Facilitators	217	599	-	816
Hbg High Faculty Fund	8,726	23	671	8,078
Total agency fund	<u>\$ 77,877</u>	<u>\$ 41,422</u>	<u>\$ 32,479</u>	<u>\$ 86,820</u>
<b>Agency Fund</b>				
S.B.I. Fund	<u>\$ 6,071</u>	<u>799</u>	<u>\$ -</u>	<u>\$ 6,870</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, 2014, and the related notes to the financial statements and have issued our report thereon dated December 18, 2014 (except for Note C appearing on page 90, dated June 26, 2015).

**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 or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (FS 2014-001).

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency (FS 2014-002).

**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 or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying schedule of findings and questioned costs as items SA 2014-001 through SA 2014-003.

**Harrisburg City School District's Response to Findings**

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

**Purpose of This Report**

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

*Stambaugh Ness, PC*

York, Pennsylvania

December 18, 2014

(Except for Note C appearing on page 90, dated June 26, 2015)

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

Board of School Directors  
Harrisburg City School District

**Report on Compliance for Each Major Federal Program**

We have audited Harrisburg City School District's compliance with the types of compliance requirements described in OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Harrisburg City School District's major federal programs for the year ended June 30, 2014. Harrisburg City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 - 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, 2014.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items SA 2014-001 through SA 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

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

**Report on Internal Control over Compliance**

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

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items SA 2014-001 through SA 2014-003 that we consider 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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Stambaugh Ness, PC*

York, Pennsylvania  
December 18, 2014  
(Except for Note C appearing on page 90, dated June 26, 2015)

SCHOOL DISTRICT OF THE CITY OF HARRISBURG  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (INCLUDING STATE NUTRITION CLUSTER GRANTS)  
FOR THE YEAR ENDED JUNE 30, 2014

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 7/1/2013	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at 6/30/2014
<b>U.S. Department of Education</b>										
Impact Aid	D	84.041	N/A	FYE 2014	\$ 70,944	\$ 70,944	\$ (56,363)	\$ 40,271	\$ 40,271	\$ (87,036)
<b>Total Passed Through the U.S. Department of Education</b>					<b>70,944</b>	<b>70,944</b>	<b>(56,363)</b>	<b>40,271</b>	<b>40,271</b>	<b>(87,036)</b>
<u>Passed Through the Pennsylvania Department of Education:</u>										
Title I Grants to Local Educational Agencies (FYE 12-13)	I	84.010	013-130184	12 AUG 01 - 14 SEP 30	6,676,620	2,319,959	1,051,408	1,268,551	1,268,551	-
Title I Grants to Local Educational Agencies (FYE 13-14)	I	84.010	013-140184	13 OCT 8 - 14 SEPT 30	6,608,425	3,304,212	-	3,926,613	3,926,613	622,401
Title I Grants to Lea's Program Improvement Set Aside (13-14)	I	84.010	042-130184	13 JUL 30 - 14 SEP 30	393,224	393,224	-	393,224	393,224	-
ARRA - Title I Grants to LEA's - School Improvement (11-12)	I	84.388	139-110184	11 SEP 23 - 12 SEP 30	4,922,713	2,272,051	2,272,051	-	-	-
ARRA - Title I Grants to LEA's - School Improvement (12-13)	I	84.388	139-122184	12 JUL 19 - 13 SEP 30	3,877,318	1,805,438	(239,726)	2,045,164	2,045,164	-
ARRA - Title I Grants to LEA's - School Improvement (13-14)	I	84.377A	142-13-3184	13 JUL 31 - 14 SEP 30	3,156,288	1,683,354	-	1,798,635	1,798,635	115,281
Improving Teacher Quality State Grants (FYE 11-12)	I	84.367	020 120184	11 AUG 08 - 13 SEP 30	958,002	68,208	68,208	-	-	-
Improving Teacher Quality State Grants (FYE 12-13)	I	84.367	020 130184	12 AUG 01 - 13 SEP 30	968,139	345,255	313,173	377,337	377,337	345,255
Improving Teacher Quality State Grants (FYE 13-14)	I	84.367	020 140184	13 OCT 8 - 14 SEPT 30	921,436	307,145	-	-	-	(307,145)
Twenty-First Century Community Learning Centers (12-13)	I	84.367	FC4100052162	12 JUL 01 - 13 JUN 30	480,000	242,857	242,857	-	-	-
Twenty-First Century Community Learning Centers (12-13)	I	84.287	FC4100058687	12 JUL 01 - 13 SEPT 30	500,000	382,599	324,061	58,538	58,538	-
Twenty-First Century Community Learning Centers (13-14)	I	84.287	FC4100058687	13 OCT 01 - 14 SEPT 30	500,000	326,862	-	450,360	450,360	123,498
Title III Language Inst Lep/Immigrant Students (11-12)	I	84.365	010-120184	11 AUG 08 - 13 SEP 30	244,966	38,088	(3,708)	41,796	41,796	-
Title III Language Inst LEP/Immigrant Students (12-13)	I	84.365	010-130184	12 AUG 01 - 13 SEP 30	199,344	-	(41,644)	184,033	184,033	142,389
Title III Language Inst LEP/Immigrant Students (13-14)	I	84.365	010-140184	13 OCT 8 - 14 SEPT 30	211,031	70,344	-	133,322	133,322	62,978
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention & School Based Surveillance	I	93.079	U87PS004151	14 MAR 25 - 18 JUL 31	22,500	2,500	-	-	-	(2,500)
<b>Total Passed Through the Pennsylvania Department of Education</b>					<b>30,640,006</b>	<b>13,562,096</b>	<b>3,986,680</b>	<b>10,677,573</b>	<b>10,677,573</b>	<b>1,102,157</b>
<u>Passed Through Capital Area Intermediate Unit 15:</u>										
Special Education - Grants to States (12-13)	I	84.027	N/A	12 JUL 1 - 13 JUN 30	1,815,598	625,416	625,416	-	-	-
Special Education - Grants to States (13-14)	I	84.027	N/A	13 JUL 1 - 14 JUN 30	1,458,624	832,754	-	1,458,906	1,458,906	626,152
Special Education - Grants to States (13-14) - Preschool	I	84.173	N/A	13 JUL 1 - 14 JUN 30	6,821	6,821	-	6,821	6,821	-
<b>Total Passed Through Capital Area Intermediate Unit 15</b>					<b>3,281,043</b>	<b>1,464,991</b>	<b>625,416</b>	<b>1,465,727</b>	<b>1,465,727</b>	<b>626,152</b>
<u>Passed Through Pennsylvania State University:</u>										
State Administrative Expenses for Child Nutrition	I	10.560	N/A	13 APR 24 - 14 JUN 30	3,000	1,500	(1,310)	2,810	2,810	-
<b>Total Passed Through Pennsylvania State University</b>					<b>3,000</b>	<b>1,500</b>	<b>(1,310)</b>	<b>2,810</b>	<b>2,810</b>	<b>-</b>
<u>Passed Through Pennsylvania State System of Higher Education:</u>										
Gaining Early Awareness and Readiness for Undergraduate Programs (12-13)	I	84.334s	2009-GEARUP-02-R1-A4	12 SEPT 01 - 13 AUG 31	404,395	139,515	124,483	15,032	15,032	-
Gaining Early Awareness and Readiness for Undergraduate Programs (13-14)	I	84.334s	2009-GEARUP-02-R1-A5	13 SEPT 01 - 14 JUN 30	195,557	102,250	-	159,122	159,122	56,872
<b>Total Passed Through Pennsylvania State System of Higher Education</b>					<b>599,952</b>	<b>241,765</b>	<b>124,483</b>	<b>174,154</b>	<b>174,154</b>	<b>56,872</b>
<u>Passed Through Tuscarora Intermediate Unit 11:</u>										
PA Leads Initiative (12-13)	I	84.377	N/A	21 NOV 12 - 13 JUN 30	10,000	10,000	10,000	-	-	-
<b>Total Passed Through Tuscarora Intermediate Unit 11</b>					<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>					34,604,945	15,351,296	4,688,906	12,360,535	12,360,535	1,698,145
<b>U.S. Department of Health and Human Services</b>										
<u>Passed through the Pennsylvania Department of Education:</u>										
Temporary Assistance for Needy Families 12-13	I	93.558	FC4100060958	12 JUL 1 - 13 JUN 30	163,085	50,735	50,735	-	-	-
Temporary Assistance for Needy Families 12-13	I	93.558	FC4100060958	12 JUL 1 - 13 JUN 30	18,331	4,407	4,407	-	-	-
Temporary Assistance for Needy Families 13-14	I	93.558	FC4100060958	13 JUL 1 - 14 JUN 30	163,085	111,944	-	163,085	163,085	51,141
Temporary Assistance for Needy Families 13-14	I	93.558	FC4100060958	13 JUL 1 - 14 JUN 30	18,331	12,147	-	18,331	18,331	6,184
Total Passed through the Department of Education					362,832	179,233	55,142	181,416	181,416	57,325
<u>Passed through the Pennsylvania Department of Welfare:</u>										
Medical Assistance Reimbursement for Administration 12-13	I	93.778	N/A	12 JUL 01 - 13 JUN 30	140,482	68,263	68,263	-	-	-
Medical Assistance Reimbursement for Administration 13-14	I	93.778	N/A	13 JUL 01 - 14 JUN 30	22,500	86,221	-	86,221	86,221	-
Total Passed through the Pennsylvania Department of Welfare					162,982	154,484	68,263	86,221	86,221	-
<b>TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>					525,814	333,717	123,405	267,637	267,637	57,325
<b>U.S. Department of Defense:</b>										
<u>Passed through the United States Navy:</u>										
Junior Reserve Officers Training Corps (FYE 12-13)	I	12.000	N/A	12 JUL 01 - 13 JUN 30	52,766	13,526	13,526	-	-	-
Junior Reserve Officers Training Corps (FYE 13-14)	I	12.000	N/A	13 JUL 01 - 14 JUN 30	44,758	44,758	-	55,593	55,593	10,835
<b>TOTAL OF U.S. DEPARTMENT OF DEFENSE</b>					97,524	58,284	13,526	55,593	55,593	10,835
<b>Sub Total</b>					35,228,283	15,743,297	4,825,837	12,683,765	12,683,765	1,766,305
<b>U.S. Department of Agriculture:</b>										
<u>Passed through the Pennsylvania Department of Education:</u>										
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (12-13)	I	10.561	FC4100060958	12 JUL 1 - 13 JUN 30	17,820	6,724	6,724	-	-	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (13-14)	I	10.561	FC4100060958	13 JUL 1 - 14 JUN 30	17,820	11,524	-	17,820	17,820	6,296
National School Lunch Program (FYE 12-13)	I	10.555	362	12 JUL 01 -13 JUN 30	2,826,643	15,644	15,644	-	-	F -
National School Lunch Program (FYE 13-14)	I	10.555	362	13 JUL 01 -14 JUN 30	2,572,783	2,331,470	-	2,564,755	2,564,755	F 233,285
National School Lunch Program (FYE 13-14)	I	N/A	510	13 JUL 01 -14 JUN 30	118,247	107,218	-	118,247	118,247	S 11,029
National School Lunch Program (FYE 13-14)	I	N/A	511	13 JUL 01 -14 JUN 30	54,871	49,492	-	54,871	54,871	S 5,379
School Breakfast Program (FYE 13-14)	I	10.553	365	13 JUL 01 - 14 JUN 30	1,018,938	920,190	-	1,018,939	1,018,939	F 98,749
National School Lunch Program (FYE 13-14)	I	10.555	359	13 JUL 01 - 14 JUN 30	5,497	-	-	5,497	5,497	F 5,497
Summer Food Service Program for Children (FYE 12-13)	I	10.559	264	13 JUN 10 - 13 AUG 2	145,334	58,477	58,477	-	-	-
Summer Food Service Program for Children (FYE 13-14)	I	10.559	264	13 JUN 16 - 13 JULY 30	68,637	68,637	-	68,637	68,637	F -
Fresh Fruit and Vegetable Program (12-13)	I	10.582	362	12 JUL 01 -13 JUN 30	68,099	5,832	5,832	-	-	-
Fresh Fruit and Vegetable Program (13-14)	I	10.582	362	13 JUL 01 -14 JUN 30	56,630	56,630	-	56,630	56,630	F -
Total Passed through the Pennsylvania Department of Education					6,971,319	3,631,838	86,677	3,905,396	3,905,396	360,235
<u>Passed Through the Pennsylvania Department of Agriculture:</u>										
Food Donation (FYE 12-13)	I	10.555	115-22-275-2	12 JUL 01 - 13 JUN 30	297,493	-	(16,039)	16,039	16,039	-
Food Donation (FYE 13-14)	I	10.555	115-22-275-2	13 JUL 01 - 14 JUN 30	156,293	156,293	-	139,498	139,498	(16,795)
Total Passed through the Pennsylvania Department of Agriculture					453,786	156,293	(16,039)	155,537	155,537	(16,795)
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>					7,425,105	3,788,131	70,638	4,060,933	4,060,933	343,440
<b>TOTAL ASSISTANCE</b>					\$ 42,653,388	\$ 19,531,428	\$ 4,896,475	\$ 16,744,698	\$ 16,744,698	\$ 2,109,745



**HARRISBURG CITY SCHOOL DISTRICT**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014

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

Basis of Accounting

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

Donated Commodities

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

Component Units

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

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

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2014, the Organization had food commodities totaling \$16,795 in inventory.

**HARRISBURG CITY SCHOOL DISTRICT**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued  
YEAR ENDED JUNE 30, 2014

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

Total Expenditures	\$ 16,744,698
Less: State's Share of National School Lunch Program Expenditures	<u>173,118</u>
<b>Total Federal Expenditures</b>	<b><u>\$ 16,571,579</u></b>
Title I Grants to Local Education Agencies (CFDA #84.010)	\$ 5,588,388
Improving Teacher Quality State Grants (CFDA #84.367)	377,337
Child Nutrition Cluster (CFDA #10.553, #10.555, #10.559)	3,813,365
ARRA - School Improvement, Recovery Act (CFDA #84.388)	3,843,799
Gaining Early Awareness and Readiness for Undergraduate Program GEAR-UP (CFDA #84.334s)	174,154
Twenty-First Century Community Learning Centers (CFDA #84.287)	<u>508,898*</u>
<b>Total Amount Tested</b>	<b><u>\$ 14,305,941</u></b>
<b>Percent Tested (\$14,305,941/\$16,571,579)</b>	<b><u>86.33%</u></b>

**NOTE D - SOURCE CODES**

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

*\*This program was originally not included as a major program tested. Audit procedures were conducted and our reports have been dual dated limited to that program.*

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**A. SUMMARY OF AUDITORS' RESULTS**

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

Title I Grants to Local Educational Agencies	CFDA# 84.010
Improving Teacher Quality State Grants	CFDA# 84.367
Gaining Early Awareness and Readiness for Undergraduate Program GEAR-UP	CFDA# 84.334s
ARRA - School Improvement Grant, Recovery Act	CFDA# 84.388
Child Nutrition Cluster	CFDA#s 10.553, 10.555, 10.559
Twenty-First Century Community Learning Centers	CFDA#s 84.287*
8. The threshold for distinguishing Types A and B programs was \$497,063.
9. Harrisburg City School District was not determined to be a low-risk auditee based upon prior years' audit results.

*\*This program was originally not included as a major program tested. Audit procedures were conducted and our reports have been dual dated limited to that program.*

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**FS 2014-001**

**Material Weakness**

**Condition:**

For the year ending June 30, 2014, the District's final budget forecasted a decrease in the General Fund Balance of approximately \$3 million. The actual results for the year were an increase of \$7.2 million. Please refer to the required supplementary information schedules on pages 69 and 70.

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

**Criteria:**

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

**Effect:**

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

**Cause:**

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

**Auditors' Recommendation:**

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

**Auditee's Response:**

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**FS 2014-002**

**Significant Deficiency**

**Condition:**

The District lacks the necessary technical accounting and financial reporting expertise to adequately address certain complex accounting issues the District faces.

The District's personnel are capable of processing and reporting monthly financial activities.

**Criteria:**

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

**Effect:**

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

**Cause:**

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

**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 staff and management will attain the necessary accounting and reporting expertise through additional training.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2014-001**

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

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

**Improving Teacher Quality State Grants - CFDA 84.367  
(FYE 2011-2012) Contract No. 020-120184**

**Title I Grants to Local Educational Agencies - CFDA 84.010  
(FYE 2012-2013) Contract No. 013-130184**

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

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

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

**Criteria:**

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

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

**Cause:**

The District failed to submit their required final reports for the above listed grants in a timely manner.

**Effect:**

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

**Questioned Costs:**

Unknown

**Auditors' Recommendation:**

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2014-001 - continued**

**Auditee Response and Corrective Action Plan:**

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2014-002**

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

**Child Nutrition Cluster**  
**School Breakfast Program (SBP) - CFDA 10.553**  
**National School Lunch Program (NSLP) - CFDA 10.555**  
**Food Donation - CFDA 10.555**  
**Summer Food Service Program for Children (SFSPC) - CFDA 10.559**  
**(FYE 2013-2014)**

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

**Condition:**

The District 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 for each month.

We selected four months during the current year. Total meals served on the participation report were compared to the total number of meals claimed on the reimbursement request submitted.

Of the four months tested, we selected four days from each or 16 days in total, to recalculate the number of meals from the participation report to the daily sales reports.

As a result of the testing above, we noted the following:

- For August, the total meals from the reimbursement claim form did not tie to the total of the August participation report. We noted various calculation errors throughout the participation reports.
- In addition, of the four days selected to tie the participation reports to the daily sales reports for each school, eight reports were unable to be located from various schools.
- For October, the participation report for one school could not be located by the District. Accordingly, we were unable to complete the testing procedures noted above.
- For February, of the days tested, we noted five daily sales reports from various schools did not tie to the related participation reports.



**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2014-002 - continued**

**Condition:** - continued

- For May, of the days tested, we noted two daily sales reports from various schools did not tie to the related participation reports.

**Criteria:**

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

**Cause:**

The District failed to correctly record the number of meals for reimbursement from the daily sales reports to the participation reports, which they use to complete the monthly reimbursement request. The District also failed to retain the supporting documents for the monthly reimbursement claim forms.

**Effect:**

Due to the lack of documentation, we were unable to determine if the District over or under reported eligible meals for reimbursement.

**Questioned Costs:**

As noted above, the lack of documentation precludes the measurement of questioned costs or any potential reimbursements owed to the District.

**Auditors' Recommendation:**

We recommend consulting with your contracted nutrition firm to design and implement reports that integrate with their point-of-sale system. The District must retain necessary documents to support the amounts claimed.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2014-002 - continued**

**Auditee Response and Corrective Action Plan:**

The District will monitor and review the accuracy of the data transfer between the reports prior to the submission of the monthly claim reimbursement reports. A new POS system has been purchased to more accurately record and document transactions. The conversion to Community Feeding will assure that all students are eligible and able to be part of the program. The District will review the importance of this matter with staff involved in the claims submission process.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2014-003**

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

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

**Child Nutrition Cluster**

**School Breakfast Program (SBP) - CFDA 10.553**

**National School Lunch Program (NSLP) - CFDA 10.555**

**Food Donation - CFDA 10.555**

**Summer Food Service Program for Children (SFSPC) - CFDA 10.559  
(FYE 2013-2014)**

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

**Condition:**

We selected a total of 60 student applications for free and reduced price lunches to review for eligibility determination requirements. Applications were reviewed for completeness, accuracy, and authorization. We also selected five applications for testing of verification procedures. Exceptions were noted as follows:

1. One of the 60 applications tested for eligibility was noncompliant because an incorrect determination was made based on the application information provided.
2. Two of the 60 applications tested for eligibility were not properly completed per the instructions on the application.
3. One application of the five tested for verification purposes were incomplete due to not receiving the requested income verification documentation from the family.
4. There is no consistent process for review and/or documented approval of the student eligibility forms.

**Criteria:**

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

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

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2014-003 - continued**

**Cause:**

The District lacked internal control procedures to ensure the accuracy and completeness of eligibility determinations and did not correctly determine eligibility for one student tested and did not change the eligibility status for the student application where no income verification was received.

**Effect:**

Based on the information on the application, one student received free lunches that should have only received the reduced lunch benefit. Two other applications were determined to be eligible to receive the free lunch benefit, but were not properly completed. One student continued to receive reduced lunch, but should have been changed to paid lunches when the family failed to return the required income verification documentation.

**Questioned Costs:**

Unknown

***Auditors' Recommendation:***

We recommend that the District follow the required verification procedures and implement a review and approval process related to any eligibility determinations going forward.

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

The District has purchased an updated Point of Service (POS) system that will be installed in early, 2015. This system will provide accounting for all services provided by the Food Service operation, and document all transactions by location on a daily basis. The District has been approved for the Community Feeding program, which provides free lunch services to all students. The review of the records will be accomplished weekly and compared with attendance information to provide accuracy in the claims reporting process.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-001**

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

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

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

**Condition:**

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

**Criteria:**

According to the OMB Circular A-133:

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

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-001 - continued**

**Cause:**

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

**Questioned Costs:**

\$214

**Auditors' Recommendation:**

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

**Auditee Response and Corrective Action Plan:**

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

**Auditee's Update:**

The District has reviewed the oversight and discussed the review of all payments to individuals prior to payments being approved. Signatures of appropriate individuals and Supervisors are required prior to payment being processed.

**Current Status:**

This grant was tested in the current year and no similar finding was noted.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-002**

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

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

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

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

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

**Condition:**

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

**Criteria:**

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

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

**Cause:**

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

**Effect:**

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

**Questioned Costs:**

Unknown

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-002 - continued**

**Auditors' Recommendation:**

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

**Auditee Response and Corrective Action Plan:**

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

**Auditee's Update:**

The District has assigned this task to a Grant Accountant who is monitoring the report timelines and submitting the reports according to schedule. Part of this process is to make all adjusting entries prior to the scheduled date, and follow-up with a revision should additional information become available. This individual is in the process of training a second staff member within the department to monitor and submit these reports.

**Current Status:**

This was noted as a similar finding in the current year; please see finding SA 2014-001.



**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-003**

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

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

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

**Condition:**

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

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

**Criteria:**

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

**Cause:**

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-003 - continued**

**Effect:**

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

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

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

**Questioned Costs:**

\$138

**Auditors' Recommendation:**

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

**Auditee Response and Corrective Action Plan:**

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

**Auditee's Update:**

The District has recently purchased and will have installed a new Point of Service (POS) system that will accurately reflect all transactions of the Food Service operation. Also, the District has adopted the Community Feeding option for all students, and therefore, all enrolled students are eligible for free breakfast and lunch offerings. Recording of students has been addressed this fiscal year, but will be totally automated upon the installation and use of the POS system that will account for all free meals as well as monetary transactions.

**Current Status:**

This was noted as a similar finding in the current year; please see finding SA 2014-002.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-004**

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

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

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

**Condition:**

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

**Criteria:**

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

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

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

**Cause:**

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

**Questioned Costs:**

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-004 - continued**

**Auditors' Recommendation:**

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

**Auditee Response and Corrective Action Plan:**

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

**Auditee's Update:**

The District has recently purchased and will have installed a new Point of Service (POS) system that will accurately reflect all transactions of the Food Service operation. Also, the District has adopted the Community Feeding option for all students, and therefore, all enrolled students are eligible for free breakfast and lunch offerings. Recording of students has been addressed this fiscal year, but will be totally automated upon the installation and use of the POS system that will account for all free meals as well as monetary transactions.

**Current Status:**

This was noted as a similar finding in the current year; please see finding SA 2014-002.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-005**

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

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

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

**Condition:**

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

**Criteria:**

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

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

**Cause:**

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

**Questioned Costs:**

Unknown

**Auditors' Recommendation:**

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

**Auditee Response and Corrective Action Plan:**

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-005 - continued**

**Auditee's Update:**

The District has initiated a procedure that all bids and bid results will be stored within the Business Office and accountability for these documents will be with the Administrative personnel at that location.

**Current Status:**

This grant was tested in the current year and due to the District outsourcing their Food Service needs, this requirement was not present in the current year.

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-006**

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

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

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

**Condition:**

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

**Criteria:**

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

**Cause:**

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

**Effect:**

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

**Questioned Costs:**

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-006 - continued**

**Auditors' Recommendation:**

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

**Auditee Response and Corrective Action Plan:**

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

**Auditee's Update:**

The District has recently purchased and will have installed a new Point of Service (POS) system that will accurately reflect all transactions of the Food Service operation. Also, the District has adopted the Community Feeding option for all students, and therefore, all enrolled students are eligible for free breakfast and lunch offerings. Recording of students has been addressed this fiscal year, but will be totally automated upon the installation and use of the POS system that will account for all free meals as well as monetary transactions.

**Current Status:**

This grant was tested in the current year and there were similar findings, please see finding SA 2014-002



**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-007**

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

**Gaining Early Awareness and Readiness for Undergraduate Programs -**  
**CFDA 4.334s**  
**(FYE 2012-2013) Contract No. 2009-GEARUP-02-R1-A4**

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

**Condition:**

The district improperly charged sales tax to the grant.

**Criteria:**

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

**Cause:**

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

**Questioned Costs:**

\$26

**Auditors' Recommendation:**

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

**Auditee Response and Corrective Action Plan:**

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

**HARRISBURG CITY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding SA 2013-007 - continued**

**Auditee's Update:**

The District has informed all staff and implemented a procedure whereby sales tax will not be reimbursed to the purchaser. The Business Administrator and Accounts Payable staff reviews all payments to individuals and delete reimbursement for any sales tax appearing on requests for payments or invoices.

**Current Status:**

This grant was tested in the current year and no similar finding was noted.