

**HARRISBURG CITY
SCHOOL DISTRICT**

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

JUNE 30, 2016

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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, 2016, and will submit the audit report electronically to the Federal Clearinghouse.

The Single Audit was done to fulfill the requirements of the Office of Management and Budget's (OMB) Uniform Grant Guidance (and 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 document has been issued separately, identifying comments for management's consideration.

Stambaugh Ness, PC

York, Pennsylvania
March 9, 2017

HARRISBURG CITY SCHOOL DISTRICT
DISTRIBUTION REPORT
JUNE 30, 2016

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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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress on pages 9 through 19 and 69 through 73 and 77 through 78 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 Uniform Grant Guidance (and OMB 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 March 7, 2017 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
March 9, 2017



HARRISBURG CITY SCHOOL DISTRICT

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Harrisburg, PA 17103
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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, 2016. 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

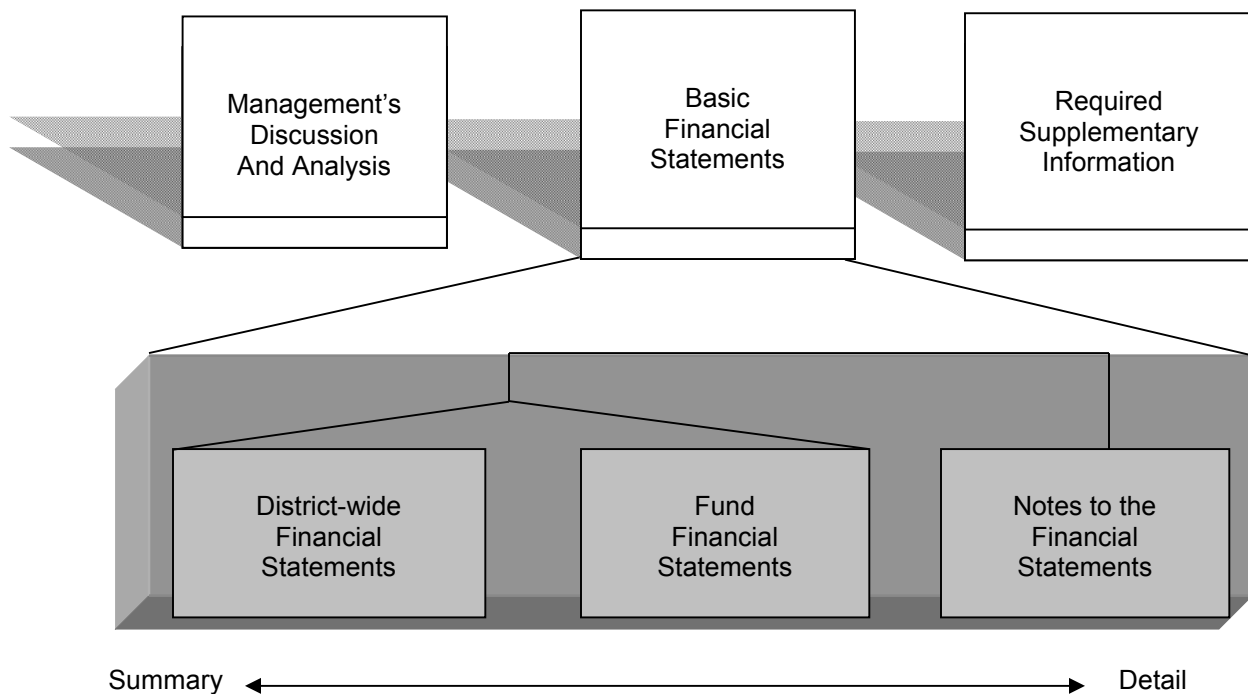
- Total net position of (\$174,157,280).
- The total fund balance of all governmental funds equaled positive \$38,642,031.
- Unassigned general fund balance equaled positive \$6,444,096.
 - Total actual general fund revenues were over the final budget by \$240,277 or 0.18%.
 - Total actual general fund expenditures were over the final budget by \$4,223,853 or 3.71%.
- The total governmental activities operating grants and contributions amounted to \$15,575,842 or 11.13% of the governmental activities expenditures.
- The net position of business-type activities - Food Services - at June 30, 2016, totaled (\$3,529,635) with revenues of \$5,223,072 and expenditures of \$4,367,106.
- The total capital assets, net of accumulated depreciation, for government activities - primarily general fund, capital project funds and capital reserve fund - totaled \$180,722,012.

Overview of the Financial Statements

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

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

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



Overview of the Financial Statements - continued

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

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

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

District-wide Statements

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

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

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

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

Fund Financial Statements

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

The District has three types of funds as follows:

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

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

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

Financial Analysis of the District as a Whole

Figure A-3

Condensed Statement of Net Assets (Deficiency)

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Current and Other Assets	\$ 91,785,954	\$ 105,832,621	\$ 892,496	\$ 2,233,248	\$ 92,678,450	\$ 108,065,869
Capital Assets	181,607,907	180,722,012	56,500	75,504	181,664,407	180,797,516
Total Assets and Deferred Outflows of Resources	273,393,861	286,554,633	948,996	2,308,752	274,342,857	288,863,385
Current Liabilities	22,447,208	33,892,410	1,199,084	2,168,320	23,646,292	36,060,730
Total Non-Current Liabilities and Deferred Inflows of Resources	419,838,004	423,289,868	4,135,513	3,670,067	423,973,517	426,959,935
Total Liabilities and Deferred Inflows of Resources	442,285,212	457,182,278	5,334,597	5,838,387	447,619,809	463,020,665
Net Position						
Invested in Capital Assets, Net of Related Debt	(83,883,824)	(80,701,215)	56,500	75,504	(83,827,324)	(80,625,711)
Restricted for Debt Service	5,976,683	6,987,748	-	-	5,976,683	6,987,748
Unrestricted	(90,984,210)	(96,914,178)	(4,442,101)	(3,605,139)	(95,426,311)	(100,519,317)
Total Net Position	\$ (168,891,351)	\$ (170,627,645)	\$ (4,385,601)	\$ (3,529,635)	\$ (173,276,952)	\$ (174,157,280)

The net position decreased by \$880,328 for the current fiscal year. Issues that significantly affect the net position decrease in fiscal year 2015-2016 were the following:

- Net expense for governmental activities was \$122,789,105.
- General revenue which includes taxes, grants and subsidies, investment earnings and miscellaneous was \$121,052,811.
- Business-Type Activities (Food Service) had a total increase in net position of \$855,966.

The District's total revenues for the fiscal year were \$143,455,846. Property taxes and other taxes levied for general purposes continue to account for most of the District's revenue in the amount of \$52,690,986 or 37% of total revenues. Another 48% or \$68,587,277 came from state formula aid, such as basic education and student transportation subsidies. Approximately 14% or \$20,678,773 came from operating and capital grants and contributions, with the remainder coming from fees charged for services and other miscellaneous sources, netted with any refunds of prior year revenue.

The cost of all programs and services was \$144,336,174. The District expenses are predominately related to instructing, caring for (instructional support services & operation/maintenance of school facilities) and transporting students, which represents 81% or \$117,404,473 of total expenses. (See Figures A-4 through A-8)

Financial Analysis of the District as a Whole - continued

Figure A-4

Changes in Net Assets from Operating Results

	Governmental Activities		Business-Type Activities		Total	
	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016
Revenues						
Charges for services	\$ 1,606,038	\$ 1,604,121	\$ 110,397	\$ 120,141	\$ 1,716,435	\$ 1,724,262
Operating grant contributions	25,651,321	15,575,842	4,629,766	5,102,931	30,281,087	20,678,773
Property tax and other taxes levied for general purposes	51,042,665	52,690,986	-	-	51,042,665	52,690,986
Unrestricted grants, subsidies and contributions	54,096,006	68,587,277	-	-	54,096,006	68,587,277
Other	2,017,467	(225,452)	-	-	2,017,467	(225,452)
Total Revenues	134,413,497	138,232,774	4,740,163	5,223,072	139,153,660	143,455,846
Expenses						
Instruction	72,558,196	82,546,662			72,558,196	82,546,662
Instructional student support	5,991,176	7,154,084			5,991,176	7,154,084
Administrative and financial support	9,250,567	11,375,961			9,250,567	11,375,961
Operational and maintenance of plant	10,296,625	12,809,770			10,296,625	12,809,770
Pupil Transportation	3,221,636	3,517,996			3,221,636	3,517,996
Student activities	616,067	684,953			616,067	684,953
Central and other support services	7,039,907	5,999,144			7,039,907	5,999,144
Community services	425,747	679,082			425,747	679,082
Interest/fiscal charges on long-term debt	12,565,720	15,201,416			12,565,720	15,201,416
Food Service	-	-	4,510,434	4,367,106	4,510,434	4,367,106
Total Expenses	\$ 121,965,641	\$ 139,969,068	\$ 4,510,434	\$ 4,367,106	126,476,075	144,336,174
Change in Net Position					\$ 12,677,585	\$ (880,328)

Financial Analysis of the District as a Whole - continued

Figure A-5

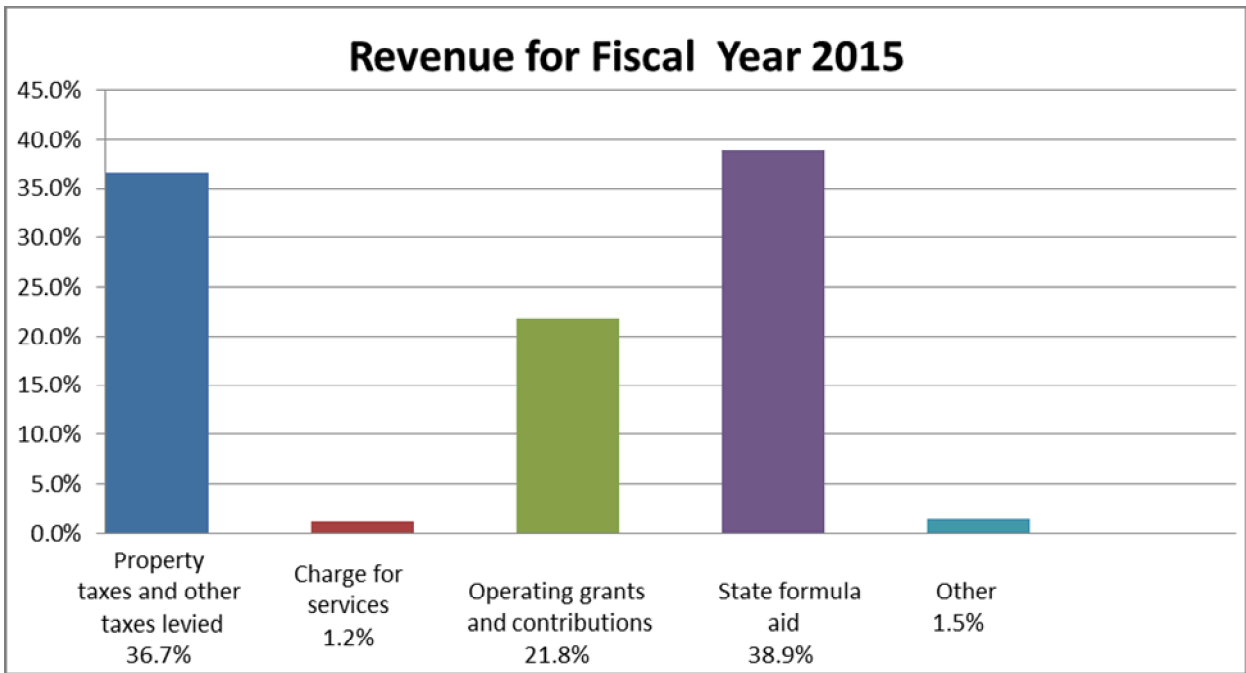
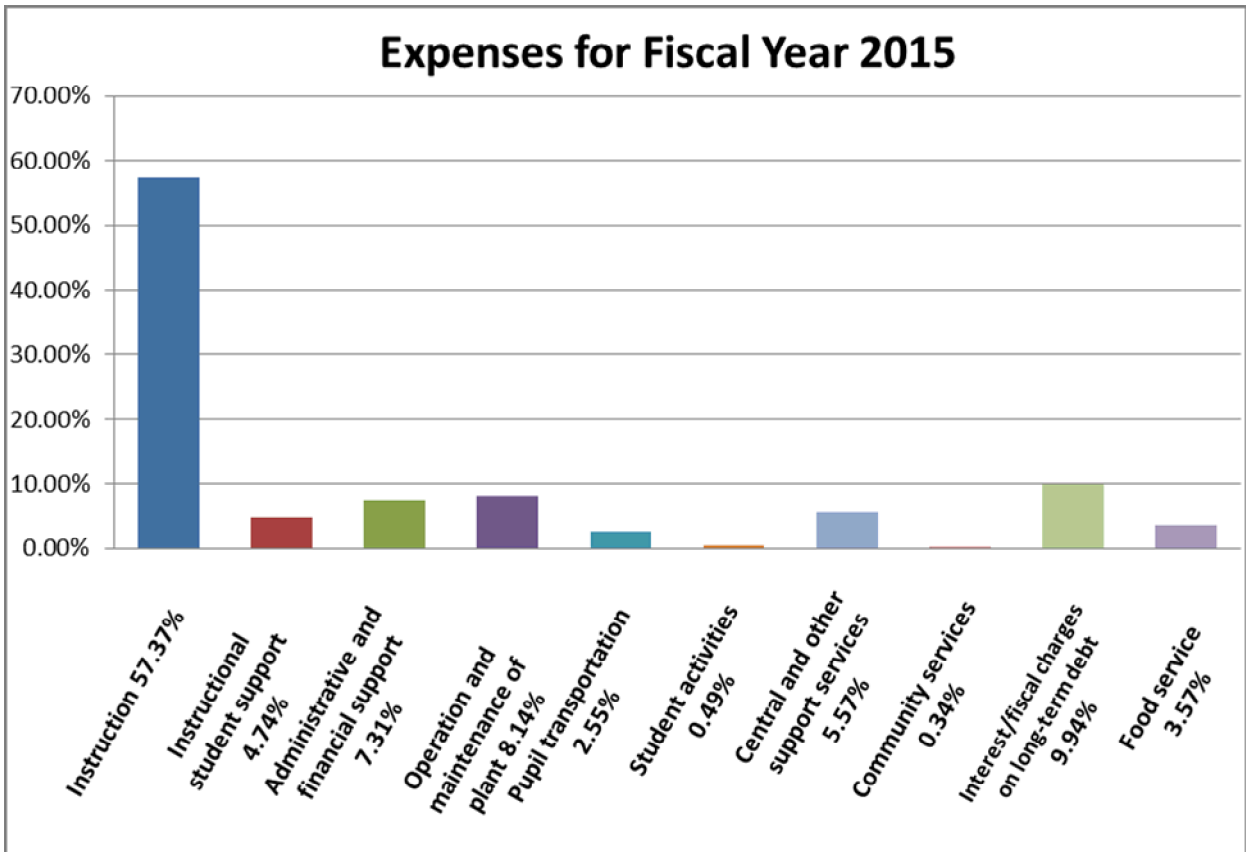


Figure A-6



Financial Analysis of the District as a Whole - continued

Figure A-7

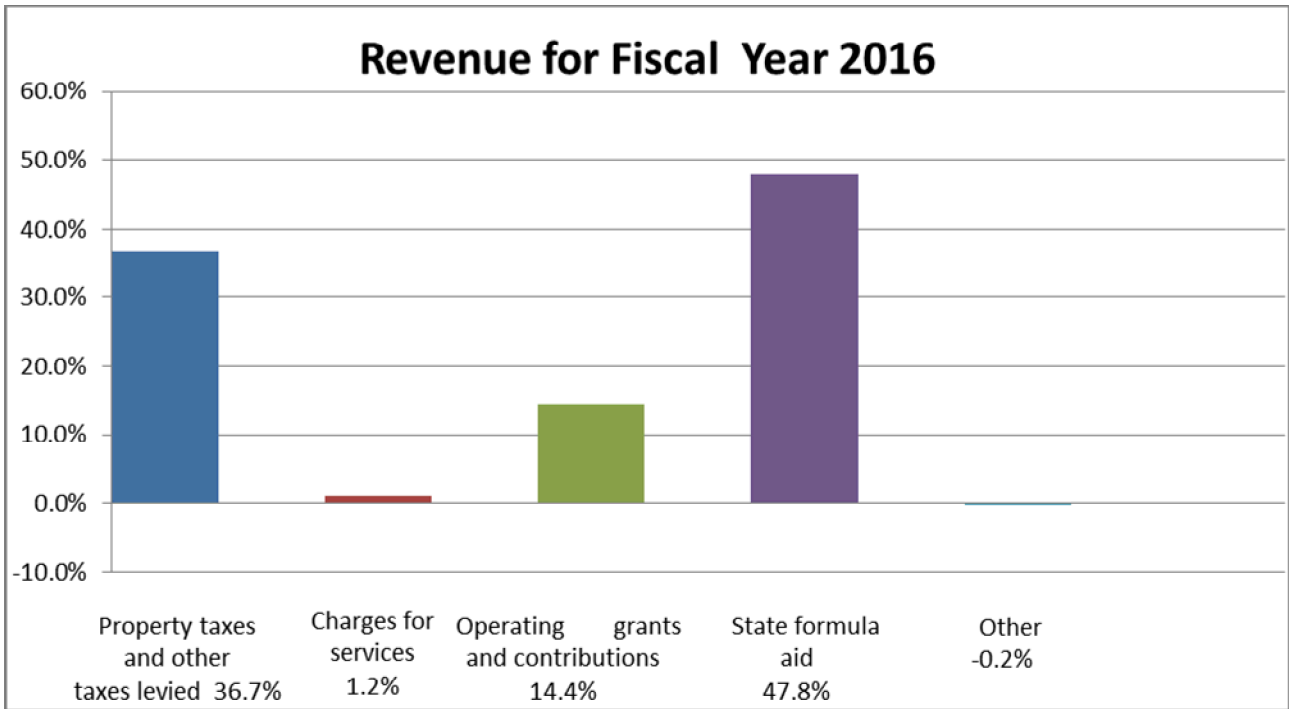
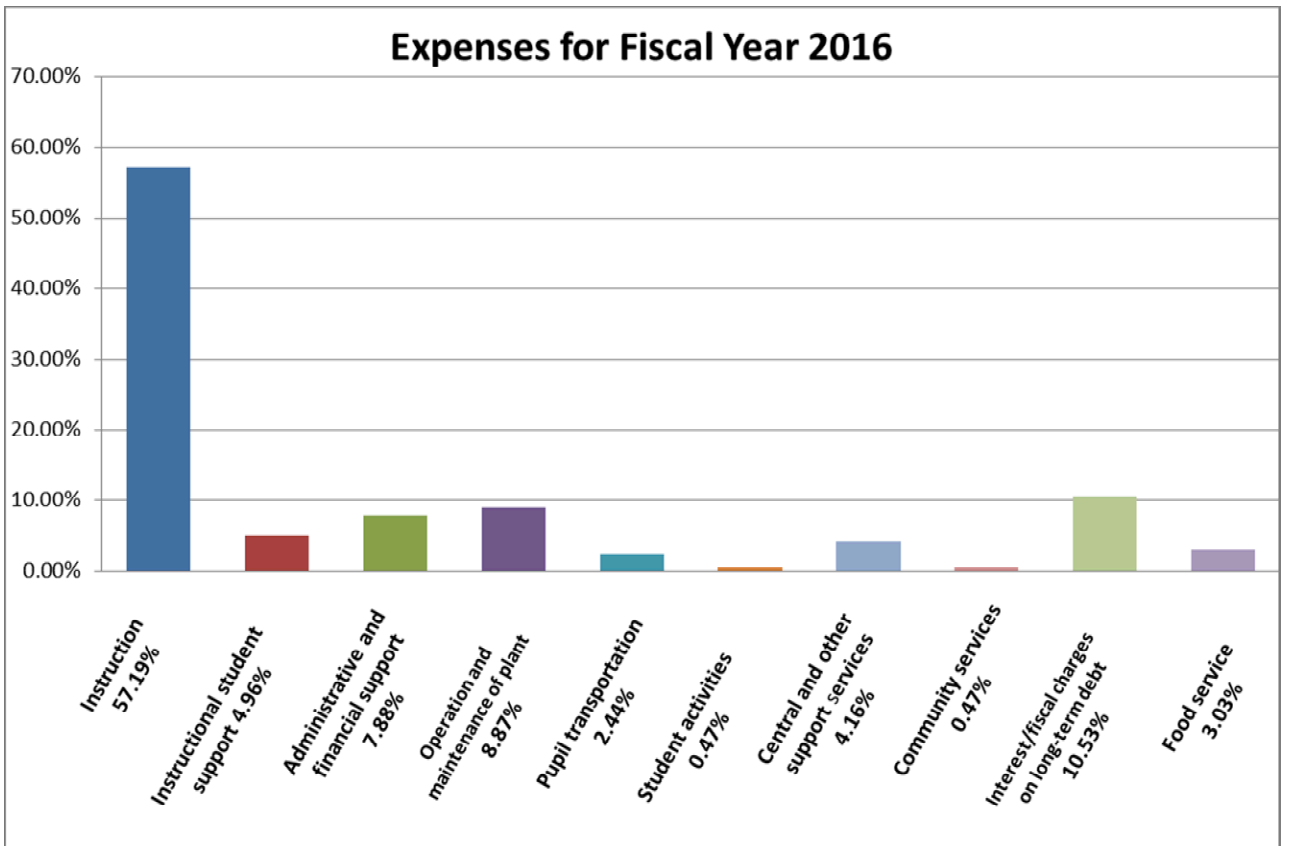


Figure A-8



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 29.7% to \$122,789,105.

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
	2015	2016	2015-2016	2015	2016	2015-2016
Instruction	\$ 72,558,196	\$ 82,546,662	13.8%	\$ 54,098,299	\$ 69,403,014	28.3%
Instructional Student Support	5,991,176	7,154,084	19.4%	2,335,986	3,960,897	69.6%
Administrative & Financial Support Services	9,250,567	11,375,961	23.0%	8,398,010	11,334,548	35.0%
Operational & Maintenance of Plant Services	10,296,625	12,809,770	24.4%	8,528,320	12,805,765	50.2%
Pupil Transportation	3,221,636	3,517,996	9.2%	1,902,758	3,503,676	84.1%
Other	20,647,441	22,564,595	9.3%	19,444,909	21,781,205	12.0%
Total	\$ 121,965,641	\$ 139,969,068	14.8%	\$ 94,708,282	\$ 122,789,105	29.7%

Financial Analysis of the District

At the end of the fiscal year 2016; governmental funds had total positive fund balance of \$38,642,031. The ending fund balance for the General Fund was \$30,172,327, of which \$6,444,096 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 \$7,158,983 and fund balance from the non-major funds was \$1,310,721.

The business-type activities resulted in an increase in net position of \$855,966. In addition to the District-wide financial statement, Food Services are reported in greater detail in the proprietary fund statements.

General Fund Budgetary Highlights

While the District final budget for the general fund anticipated an increase in fund balance of \$1,414,954, the actual results for the year reflected a use of or decrease of Fund Balance in the amount of \$3,691,873.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016, the District had net investments of \$180,797,516 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 \$6,951,790 of capital assets into service during the year.

Figure A-10

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total		Percentage Change 2015-2016
	2015	2016	2015	2016	2015	2016	
Land and site improvements	\$ 13,614	\$ 13,614	\$ -	\$ -	\$ 13,614	\$ 13,614	0.00%
Building and building improvements	243,719,986	245,623,619	-	-	243,719,986	245,623,619	0.78%
Furniture and equipment	36,344,851	37,860,681	1,478,245	1,507,006	37,823,096	39,367,687	4.10%
Construction in progress	1,822,411	3,422,344	-	-	1,822,411	3,422,344	87.80%
Accumulated depreciation	(100,292,955)	(106,198,246)	(1,421,745)	(1,431,602)	(101,714,700)	(107,629,848)	5.82%
Total	\$ 181,607,907	\$ 180,722,012	\$ 56,500	\$ 75,404	\$ 181,664,407	\$ 180,797,416	-0.48%

Outstanding Long-Term Debt

At year-end, the District has \$262,748,000 in general obligation bonds and other long-term debt outstanding. More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.

Figure A-11

Outstanding Long-Term Debt

	Totals		Percent of Change
	2015	2016	2015-2016
Debt outstanding at beginning of year	\$272,793,000	\$266,428,000	-2.3%
Additional Debt During Year	-	19,955,000	100.0%
Retirement and Repayments	(6,365,000)	(23,635,000)	271.3%
Debt outstanding at end of year	<u>\$266,428,000</u>	<u>\$262,748,000</u>	<u>-1.4%</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). The CRO was charged with developing a Recovery Plan for the District that stabilized its finances while providing for academic improvement. The Recovery Plan was issued on April 26, 2013. The District's Board approved the plan on May 17, 2013 and it was approved by the Secretary of Education on May 31, 2013. The District's Board and Administration has worked diligently to address the various initiatives identified within the Recovery Plan. The Chief Recovery Officer is continuing to work with the District.
- Pennsylvania School Employees Retirement System (PSERS) projections indicate that employer contribution rates will increase to 30.03% of qualified retirement wages in 2016-2017, a 16.22% 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 52.7% of total revenue sources to fund cost supporting the District's educational programs during fiscal year 2016. Local sources, primarily property taxes support 38.8% of the cost for educational cost and services in Harrisburg City School District. Federal grants and other sources of revenue provide 8.5% of the funds to support programs and services provided by the District.
- In recognition of a continuing decline in State and Federal funding for public education and a limited local tax base, the District has undertaken cost cutting measures to systematically reduce the District's budget.
- 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

William Gretton,
Interim Chief Financial Officer

Kenneth Medina,
Business Manager

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 16,806,906	\$ 1,763	\$ 16,808,669
Investments	17,832,436	-	17,832,436
Taxes receivable, net	11,934,948	-	11,934,948
Internal balance	1,758,034	-	1,758,034
Due from other governments	11,744,196	1,666,481	13,410,677
Other receivables	706,443	22,601	729,044
Prepaid expenses	5,485	-	5,485
Inventories	62,331	60,236	122,567
Total current assets	60,850,779	1,751,081	62,601,860
NONCURRENT ASSETS			
Sinking fund investments	6,986,178	-	6,986,178
Bond discounts, net	3,125,141	-	3,125,141
Prepaid bond insurance, net	1,267,157	-	1,267,157
Land and site improvements, net	13,614	-	13,614
Building and building improvements, net	174,029,361	-	174,029,361
Furniture and equipment, net	3,256,693	75,504	3,332,197
Construction in progress	3,422,344	-	3,422,344
Total noncurrent assets	192,100,488	75,504	192,175,992
Total assets	252,951,267	1,826,585	254,777,852
DEFERRED OUTFLOWS OF RESOURCES			
	33,603,366	482,167	34,085,533
	\$ 286,554,633	\$ 2,308,752	\$ 288,863,385

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES

Internal balance	\$ 32,779	\$ 1,701,857	\$ 1,734,636
Accounts payable	10,041,499	325,497	10,366,996
Accrued interest	1,390,889	-	1,390,889
Current portion of long-term debt	13,078,313	-	13,078,313
Current portion of compensated absences	152,324	-	152,324
Accrued salaries and benefits	9,196,606	140,966	9,337,572
	<u>33,892,410</u>	<u>2,168,320</u>	<u>36,060,730</u>
Total current liabilities	33,892,410	2,168,320	36,060,730

NONCURRENT LIABILITIES

Long-term debt net of current portion	249,669,687	-	249,669,687
Pension liability	140,187,749	3,186,251	143,374,000
Premium on issue of swap	1,513,038	-	1,513,038
Premium on bond issue	1,800,368	-	1,800,368
Compensated absences	2,099,549	12,698	2,112,247
Derivative instruments - SWAP	12,389,106	-	12,389,106
Other post-employment benefits liability	3,025,049	181,523	3,206,572
	<u>410,684,546</u>	<u>3,380,472</u>	<u>414,065,018</u>
Total noncurrent liabilities	410,684,546	3,380,472	414,065,018

Total liabilities	444,576,956	5,548,792	450,125,748
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DEFERRED INFLOWS OF RESOURCES

	12,605,322	289,595	12,894,917
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NET POSITION

Restricted for debt service	6,987,748	-	6,987,748
Net investment in capital assets	(80,701,215)	75,504	(80,625,711)
Unrestricted	(96,914,178)	(3,605,139)	(100,519,317)
	<u>(170,627,645)</u>	<u>(3,529,635)</u>	<u>(174,157,280)</u>
Total net position	(170,627,645)	(3,529,635)	(174,157,280)
	<u>\$ 286,554,633</u>	<u>\$ 2,308,752</u>	<u>\$ 288,863,385</u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Govern- mental Activities	Business- Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 82,546,662	\$ 1,410,658	\$ 11,732,990	\$ (69,403,014)	\$ -	\$ (69,403,014)
Instructional student support	7,154,084	-	3,193,187	(3,960,897)	-	(3,960,897)
Administrative and financial support services	11,375,961	-	41,413	(11,334,548)	-	(11,334,548)
Operation and maintenance of plant services	12,809,770	-	4,005	(12,805,765)	-	(12,805,765)
Pupil transportation	3,517,996	-	14,320	(3,503,676)	-	(3,503,676)
Student activities	684,953	41,083	4,264	(639,606)	-	(639,606)
Central and other support services	5,999,144	-	58,374	(5,940,770)	-	(5,940,770)
Community services	679,082	152,380	527,289	587	-	587
Debt service	15,201,416	-	-	(15,201,416)	-	(15,201,416)
 Total governmental activities	 139,969,068	 1,604,121	 15,575,842	 (122,789,105)	 -	 (122,789,105)
BUSINESS-TYPE ACTIVITIES						
Food service	4,367,106	120,141	5,102,931	-	855,966	855,966
 Total primary government	 <u>\$ 144,336,174</u>	 <u>\$ 1,724,262</u>	 <u>\$ 20,678,773</u>	 <u>(122,789,105)</u>	 <u>855,966</u>	 <u>(121,933,139)</u>
 GENERAL REVENUES						
Taxes				52,690,986	-	52,690,986
Grants, subsidies and contributions not restricted				68,587,277	-	68,587,277
Investment earnings				110,764	-	110,764
Refund of prior year revenues				(336,216)	-	(336,216)
				<u>121,052,811</u>	<u>-</u>	<u>121,052,811</u>
 CHANGE IN NET POSITION				 (1,736,294)	 855,966	 (880,328)
 NET POSITION - BEGINNING - restated				 <u>(168,891,351)</u>	 <u>(4,385,601)</u>	 <u>(173,276,952)</u>
 NET POSITION - ENDING				 <u>\$ (170,627,645)</u>	 <u>\$ (3,529,635)</u>	 <u>\$ (174,157,280)</u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2016

ASSETS

	General Fund	Debt Service Funds	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 15,290,152	\$ 172,805	\$ 1,343,949	\$ 16,806,906
Investments	17,832,436	-	-	17,832,436
Taxes receivable, net	11,934,948	-	-	11,934,948
Due from other funds	1,758,034	-	-	1,758,034
Due from other governments	11,744,196	-	-	11,744,196
Other receivables	706,443	-	-	706,443
Prepaid expenses	5,485	-	-	5,485
Inventories	62,331	-	-	62,331
Sinking fund investments	-	6,986,178	-	6,986,178
	<u>\$ 59,334,025</u>	<u>\$ 7,158,983</u>	<u>\$ 1,343,949</u>	<u>\$ 67,836,957</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 10,041,050	\$ -	\$ 449	\$ 10,041,499
Due to other funds	-	-	32,779	32,779
Accrued salaries and benefits	9,196,606	-	-	9,196,606
	<u>19,237,656</u>	<u>-</u>	<u>33,228</u>	<u>19,270,884</u>

DEFERRED INFLOWS OF RESOURCES

	9,924,042	-	-	9,924,042
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FUND BALANCES

Nonspendable:				
Interfund receivable	1,758,034	-	-	1,758,034
Prepaid expenses	5,485	-	-	5,485
Reserve for inventories	62,331	-	-	62,331
Restricted:				
2002 QZAB	-	4,798,950	-	4,798,950
2010 Debt service fund	-	2,188,798	-	2,188,798
Committed:				
Athletics and band reserve	402,381	-	-	402,381
2009 Debt series	-	83,491	-	83,491
2014 Debt series	-	87,744	-	87,744
Assigned:				
Special revenue fund	-	-	1,066,527	1,066,527
Employee incentives	1,000,000	-	-	1,000,000
Capital improvements	7,000,000	-	244,194	7,244,194
PSERS increases	3,000,000	-	-	3,000,000
Delinquent tax initiative	1,000,000	-	-	1,000,000
Health insurance stabilization	3,000,000	-	-	3,000,000
Debt service increases	2,500,000	-	-	2,500,000
Information Technology improvements	3,000,000	-	-	3,000,000
Professional development	1,000,000	-	-	1,000,000
Unassigned:				
General fund	6,444,096	-	-	6,444,096
	<u>30,172,327</u>	<u>7,158,983</u>	<u>1,310,721</u>	<u>38,642,031</u>
	<u>\$ 59,334,025</u>	<u>\$ 7,158,983</u>	<u>\$ 1,343,949</u>	<u>\$ 67,836,957</u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 38,642,031
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Deferred inflows and outflows of resources related to the District's pension liability are applicable to future periods and, therefore are not reported within the funds.</p>	
Deferred inflows	(12,442,207)
Deferred outflows	21,214,260
<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 \$286,920,258 and the accumulated depreciation is \$106,198,246.</p>	180,722,012
<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>	9,760,927
<p>To record other post-employment benefits (OPEB)</p>	(3,025,049)
<p>Long-term liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the long-term liabilities at year end consist of:</p>	
Bonds payable	\$ (262,748,000)
Pension liability	(140,187,749)
Accrued interest on the bonds	(1,390,889)
Prepaid bond insurance (net of accumulated amortization)	1,267,157
Bond discounts (net of accumulated amortization)	3,125,141
Premium on issue of SWAP	(1,513,038)
Premium on bond issue	(1,800,368)
Compensated absences	(2,251,873)
	(405,499,619)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ (170,627,645)

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	Debt Service Funds	Non- Major Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 52,756,812	\$ 169,942	\$ 3,228	\$ 52,929,982
State sources	71,581,888	-	-	71,581,888
Federal sources	11,579,731	-	-	11,579,731
Total revenues	135,918,431	169,942	3,228	136,091,601
EXPENDITURES				
Instruction	80,891,880	-	-	80,891,880
Support services	35,793,968	-	-	35,793,968
Noninstructional services	1,253,039	-	-	1,253,039
Facility acquisition and improvement	-	-	3,894,617	3,894,617
Debt service (principal, interest and fees)	35,046	38,910,862	-	38,945,908
Total expenditures	117,973,933	38,910,862	3,894,617	160,779,412
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	17,944,498	(38,740,920)	(3,891,389)	(24,687,811)
OTHER FINANCING SOURCES (USES)				
Proceeds of long-term debt	-	19,955,000	-	19,955,000
Gain on liquidation of SWAP	2,092,000	-	-	2,092,000
Transfers in	-	20,213,030	3,600,000	23,813,030
Transfers out	(23,392,155)	(420,875)	-	(23,813,030)
Refunds of prior years receipts	(336,216)	-	-	(336,216)
Total other financing sources (uses)	(21,636,371)	39,747,155	3,600,000	21,710,784
NET CHANGE IN FUND BALANCES	(3,691,873)	1,006,235	(291,389)	(2,977,027)
FUND BALANCE - BEGINNING	33,864,200	6,152,748	1,602,110	41,619,058
FUND BALANCE - ENDING	\$ 30,172,327	\$ 7,158,983	\$ 1,310,721	\$ 38,642,031

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, 2016

TOTAL NET CHANGE IN FUND BALANCES -
GOVERNMENTAL FUNDS **\$(2,977,027)**

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	\$ (5,905,291)	
Capital outlays	1,515,830	
Construction in progress	<u>3,503,566</u>	
		(885,895)

Because some taxes will not be collected for
several months after the District's fiscal year ends, they are not
considered as "available" revenues in the governmental funds.
Deferred tax revenues increased by this amount this year. 2,477,389

Debt proceeds are recorded as revenues in the governmental funds,
but the proceeds increase long-term liabilities in the statement of net position. (19,955,000)

Repayment of bonds is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the
Statement of Net Position. 23,635,000

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. 131,568

Interest on serial bonds is recorded in the
governmental funds when paid, but the Statement of
Activities records interest expense as it is incurred.
Accrued interest increased by this amount this year. (325,459)

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, 2016

To record the change in other post-employment benefits (OPEB) liability. (195,913)

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

Increase in deferred outflow related to pensions	12,536,118
Increase in deferred inflow related to pensions	11,023,859
Increase in net pension liability	(24,231,761)

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	79,420
Capitalization of new prepaid insurance	123,500
Current year prepaid insurance amortization	(99,375)
Capitalization of new bond discounts	481,557
Current year bond discounts amortization	(177,474)

Accrued compensated absences are not recorded as expenditures in the governmental funds, but are in the Statement of Activities. Accrued compensated absences increased by this amount this year. (431,657)

GASB 53 measurement of change in fair value of SWAP (2,945,144)

CHANGE IN NET POSITION OF
GOVERNMENTAL ACTIVITIES \$ (1,736,294)

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF NET POSITION -
PROPRIETARY FUND
JUNE 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Food Service Fund</u>
CURRENT ASSETS	
Cash	\$ 1,763
Other receivables	22,601
Due from other governments	1,666,481
Inventories	<u>60,236</u>
Total current assets	1,751,081
NONCURRENT ASSETS	
Property, plant and equipment, net	<u>75,504</u>
Total assets	1,826,585
DEFERRED OUTFLOWS OF RESOURCES	
	<u>482,167</u>
Total assets and deferred outflows of resources	<u><u>\$ 2,308,752</u></u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES	
Accounts payable	\$ 325,497
Due to other funds	1,701,857
Accrued salaries and benefits	<u>140,966</u>
Total current liabilities	2,168,320
NONCURRENT LIABILITIES	
Compensated absences	12,698
Other post-employment benefits	181,523
Pension liability	<u>3,186,251</u>
Total noncurrent liabilities	<u>3,380,472</u>
Total liabilities	5,548,792
DEFERRED INFLOWS OF RESOURCES	289,595
NET POSITION	
Invested in capital assets, net of related debt	75,504
Unrestricted	<u>(3,605,139)</u>
Total net position	<u>(3,529,635)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 2,308,752</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service revenue	\$ 120,141
 OPERATING EXPENSES	
Salaries	966,331
Employee benefits	69,774
Purchased professional service	673,408
Purchased property service	84,773
Other purchased service	879
Supplies	2,562,085
Depreciation	<u>9,856</u>
Total operating expenses	<u>4,367,106</u>
 OPERATING LOSS	 (4,246,965)
 NONOPERATING REVENUES	
Local sources	63,111
State sources	425,086
Federal sources	4,358,070
USDA donated commodities	<u>256,664</u>
Total nonoperating revenues	<u>5,102,931</u>
 CHANGE IN NET POSITION	 855,966
 NET POSITION - BEGINNING	 <u>(4,385,601)</u>
 NET POSITION - ENDING	 <u><u>\$ (3,529,635)</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 150,879
Cash payments to employees for services	(1,716,052)
Cash payments to suppliers for goods and services	<u>(3,246,672)</u>
Net cash from operating activities	\$ (4,811,845)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants and subsidies received for non-operating activities:	
Increase in due to General Fund	884,165
Local	63,111
State	376,055
Federal	<u>3,511,950</u>
Net cash from noncapital financing activities	4,835,281
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	<u>(28,761)</u>
Net cash used by capital financing activities	<u>(28,761)</u>
NET CHANGE IN CASH	(5,325)
CASH - BEGINNING OF YEAR	<u>7,088</u>
CASH - END OF YEAR	<u><u>\$ 1,763</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (4,246,965)
Adjustment to reconcile operating loss to net cash from operating activities:	
Depreciation	\$ 9,856
(Increase) decrease in:	
Inventory	4,119
Other receivables	30,738
Deferred outflows	(238,113)
Increase (decrease) in:	
Accounts payable	74,537
OPEB liability	(339)
Compensated absences	(20,302)
Pension liability	(74,761)
Deferred inflows	(377,271)
Accrued salaries and benefits	<u>26,656</u>
Total adjustment	<u>(564,880)</u>
Net cash from operating activities	<u><u>\$ (4,811,845)</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

ASSETS

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 111,860	\$ 161,833
Investments	-	28,875
Other receivables	-	7,885
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 111,860</u></u>	<u><u>\$ 198,593</u></u>

LIABILITIES AND NET POSITION

LIABILITIES		
Accounts payable	\$ 2,800	\$ 6,496
Due to other funds	2,000	21,398
Funds held for others	-	170,699
	<u> </u>	<u> </u>
Total liabilities	4,800	198,593
 NET POSITION		
Restricted	<u>107,060</u>	<u>-</u>
	<u><u>\$ 111,860</u></u>	<u><u>\$ 198,593</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Receipts	\$ 48
DEDUCTIONS	
Other	<u> 2,369</u>
CHANGE IN NET POSITION	(2,321)
NET POSITION - BEGINNING	<u> 109,381</u>
NET POSITION - ENDING	<u><u> \$ 107,060</u></u>

See accompanying notes.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Related Organization

Related organizations are not reported as component units in these financial statements, but significant transactions are disclosed in Note P. 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, 2016

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. These Statements include the primary government, except for the fiduciary funds of the primary government.

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

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

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

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016

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 unassigned fund balances are considered as resources available for use.

Capital Project Funds

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

1. Series 2008 Note - accounts for the costs of equipment and hardware purchases throughout the District.

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Governmental Fund Types - continued

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.

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 state and federal subsidies.

Fiduciary Fund Types

Trust and Agency Funds

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

The following are the District's trust funds:

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fiduciary Fund Types - continued

Trust and Agency Funds - continued

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.

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, 2016

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

Revenue from State Sources

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

Revenue from Federal Sources

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

Accrual Basis

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 - Governmental Funds

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. This classification includes items such as prepaid expenses, inventories and long-term interfund balances.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified the 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, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Balance - Governmental Funds - 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, 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, 2016

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.

Taxes receivable as reported on the combined balance sheet represents unpaid occupation and real estate taxes outstanding at June 30, 2016. 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 Fund considers 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, 2016

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, 2016.

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, 2016

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 four years.

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, 2016

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 addition to assets, the Statement of Net Position reports 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's deferred outflows as of June 30, 2016 for the governmental activities on the Statement of Net Position consist of: \$12,389,106, which represents the fair market value of their swaps, \$9,886,300, which represents changes in proportions, \$917,928, which represents the difference between employer contributions and the proportionate share of total contributions for the District's pension plan and \$10,410,032, which represents contributions subsequent to the measurement date for the District's pension plan.

The District's deferred outflows as of June 30, 2016 for the business-type activities on the Statement of Net Position consist of: \$224,700, which represents changes in proportions, \$20,863, which represents the difference between employer contributions and the proportionate share of total contributions for the District's pension plan and \$236,604, which represents contributions subsequent to the measurement date for the District's pension plan.

In addition to liabilities, the Statement of Net Position reports 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's deferred inflows as of June 30, 2016 for the governmental activities on the Statement of Net Position consist of: \$163,114, which represents deferred subsidy revenues, \$578,844, which represents the difference between expected and actual experience, \$283,555, which represents the net difference between projected and actual investment earnings for the District's pension plan and \$11,579,809, which represents changes in proportions for the District's pension plan.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred Outflows and Inflows of Resources - continued

The District's deferred inflows as of June 30, 2016 for the business-type activities on the Statement of Net Position consist of: \$6,803, which represents unavailable subsidy revenues, \$13,156, which represents the difference between expected and actual experience \$6,445, which represents the net difference between projected and actual investment earnings for the District's pension plan and \$263,191, which represents changes in proportions for the District's pension plan.

The District's deferred inflows as of June 30, 2016 for the General Fund on the Balance Sheet - Governmental Funds consist of: \$9,924,042, which represents unavailable tax and subsidy revenues.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for periods beginning after June 15, 2017. The District's management has not determined the impact, if any, of the implementation of this statement on the District's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This statement is effective for periods beginning after December 15, 2015. The District's management has not determined the impact, if any, of the implementation of this statement on the District's financial statements.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2016, none of the District's bank balance of \$19,106,948 was exposed to custodial credit risk, coverage is as follows:

Covered by Federal Depository Insurance (FDIC)	\$ 924,568
Secured by pooled collateral as permitted by Act 72 of the Commonwealth of Pennsylvania	17,062,992
Pennsylvania Local Government Investment Trust (PLGIT)	<u>1,119,388</u>
Total	<u><u>\$ 19,106,948</u></u>

Reconciliation to Financial Statements

Covered by Federal Depository Insurance (FDIC)	\$ 924,568
Plus: funds covered under Act 72	17,062,992
Plus: PLGIT	1,119,388
Less: outstanding checks	<u>(2,024,586)</u>
Total cash per financial statements	<u><u>\$ 17,082,362</u></u>

Investments

As of June 30, 2016, 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	\$ 4,797,376	\$ 4,797,376	\$ -	\$ -
PA School District Liquid Asset Fund	17,818,280	17,818,280	-	-
PLGIT	5,488	5,488	-	-
PA Treasurer's INVEST Program for Local Governments	37,547	37,547	-	-
Treasury obligations funds	<u>2,188,798</u>	<u>2,188,798</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 24,847,489</u></u>	<u><u>\$ 24,847,489</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

Interest Rate Risk

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

Credit Risk

The District does not have a formal investment policy that limits its investment choices to certain credit ratings. As of June 30, 2016, the District's investments were rated as:

<u>Investment</u>	<u>Standard & 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.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE C - PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment of the Business-Type Activities as of June 30, 2016, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Machinery and equipment	\$1,478,245	\$28,761	\$1,507,006
Accumulated depreciation	1,421,646	9,856	<u>1,431,502</u>
Net property, plant, and equipment			<u>\$ 75,504</u>

A summary of property, plant, and equipment for the Governmental Activities for the year ended June 30, 2016, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and land improvements	\$ 13,614	\$ -	\$ -	\$ 13,614
Building and improvements	243,719,986	1,903,633	-	245,623,619
Furniture and equipment	36,344,851	1,515,830	-	37,860,681
Construction in progress	<u>1,822,411</u>	<u>3,503,566</u>	<u>1,903,633</u>	<u>3,422,344</u>
Total capital assets	281,900,862	6,923,029	1,903,633	286,920,258
Less accumulated depreciation:				
Building and improvements	66,473,627	5,120,631	-	71,594,258
Furniture and equipment	<u>33,819,328</u>	<u>784,660</u>	<u>-</u>	<u>34,603,988</u>
Total accumulated depreciation	<u>100,292,955</u>	<u>\$5,905,291</u>	<u>\$ -</u>	<u>106,198,246</u>
Net property, plant and equipment	<u>\$181,607,907</u>			<u>\$180,722,012</u>

Depreciation was charged to individual functions as follows:

Instructional	\$ 1,383,101
Instructional support	359,844
Administrative	166,494
Operation of plant and maintenance	3,052,387
Central support services	832,469
Student activities	<u>110,996</u>
Total	<u>\$ 5,905,291</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016, follows:

	<u>Delinquent Real Estate and Transfer</u>	<u>School Occupation</u>	<u>Other Taxes</u>	<u>Total</u>
Current taxes collected by City, County, or Tax Claim Bureau by June 30, and remitted shortly thereafter	\$ 1,987,240	\$ 150,016	\$ 36,765	\$ 2,174,021
Deferred tax revenues	<u>4,820,404</u>	<u>4,940,523</u>	-	<u>9,760,927</u>
Taxes receivable, net	<u>\$ 6,807,644</u>	<u>\$ 5,090,539</u>	<u>\$ 36,765</u>	<u>\$ 11,934,948</u>
Deferred revenues consist of the following:				
Taxes receivable	\$ 7,481,204	\$ 16,647,975	\$ 36,765	\$ 24,165,944
Estimated uncollectible taxes	<u>(673,560)</u>	<u>(11,557,436)</u>	-	<u>(12,230,996)</u>
Taxes receivable, net	<u>\$ 6,807,644</u>	<u>\$ 5,090,539</u>	<u>\$ 36,765</u>	<u>\$ 11,934,948</u>
Taxes receivable which were not collected within 60 days subsequent to June 30, 2016			\$ 9,760,927	
Deferred subsidies			<u>163,115</u>	
Total			<u>\$ 9,924,042</u>	

NOTE E - INVENTORIES

A schedule of the Business-Type Activities' inventories at June 30, 2016, follows:

Material and supplies	\$ 13,221
Purchased food	40,212
Donated commodity food	<u>6,803</u>
	<u>\$ 60,236</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - ACCRUED SALARIES AND BENEFITS

Accrued salaries principally represent teachers' salaries earned during the 2015/2016 school year that were paid subsequent to June 30, 2016. Accrued retirement, social security, and workers' compensation represent the District's liability on salaries paid during June 2016 and on accrued salaries at June 30, 2016. Accrued payroll withholdings represent the employees' share of retirement, social security and other benefits not remitted to the respective entities as of June 30, 2016.

NOTE G - BONDS AND NOTES PAYABLE

A summary of bonds and notes payable at June 30, 2016 as follows:

<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
<u>Bonds Payable</u>			
July 2002 - Series 2002 QZAB	July 30, 2016	0.00%	\$ 5,104,000
May 2009 - Series 2009 A	November 15, 2033	4.00% to 4.13%	116,930,000
May 2009 - Series 2009 C	November 15, 2017	4.88% to 5.95%	10,560,000
June 2014 - Series 2014 A	December 1, 2020	1.27% to 3.28%	23,880,000
June 2014 - Series 2014 B-1	December 1, 2023	2.02% to 4.08%	6,740,000
June 2014 - Series 2014 B-2	December 1, 2034	3.00% to 4.00%	20,890,000
June 2014 - Series 2014 C	December 1, 2027	4.84%	49,495,000
November 2015			
- Refunding Series of 2015	November 15, 2032	2.00% to 3.375%	9,960,000
March 2016			
- Refunding Series of 2016	November 15, 2033	2.00% to 3.125%	9,995,000
<u>Notes Payable</u>			
October 6, 2010 - Series 2010 QSCB	September 15, 2027	5.00%	<u>9,194,000</u>
			<u>\$262,748,000</u>

On August 1, 2002, the District issued \$5,104,000 of General Obligation Qualified Zone Academy Bonds. Proceeds of the bonds were used for payment of costs of rehabilitating or repairing Lincoln Elementary School, purchasing and installing equipment therein and to pay the costs of issuance. The District is required to deposit \$305,046 on July 30th of each year to the sinking fund until maturity. As of June 30, 2016, the District has restricted cash, and investments of \$4,799,000 in the sinking fund. The final payment was made in July 2016.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - BONDS AND NOTES PAYABLE - continued

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. During 2015-2016, the District issued Refunding Series of 2015 and 2016 which legally defeased \$16,835,000 of the issue.

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.

In June 2014, the District issued the following bond issues: 2014 Series A - \$23,880,000; 2014 Series B-1 - \$6,740,000; 2014 Series B-2 - \$20,895,000 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 were 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.

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

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - BONDS AND NOTES PAYABLE - continued

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

Year ending June 30,	Principal	Interest	Totals
2017	\$ 13,078,313	\$ 11,687,641	\$ 24,765,954
2018	9,284,313	11,012,613	20,296,926
2019	9,589,313	10,732,661	20,321,974
2020	9,849,313	10,476,231	20,325,544
2021	9,970,000	11,979,135	21,949,135
2022 - 2026	63,481,565	41,525,817	105,007,382
2027 - 2031	84,176,385	21,868,647	106,045,032
2032 - 2036	<u>61,129,798</u>	<u>2,828,656</u>	<u>63,958,454</u>
Totals	<u>\$ 260,559,000</u>	<u>\$ 122,111,401</u>	<u>\$ 382,670,401</u>

The future principal payments scheduled above are net of the annual payments of \$574,313 to the 2010 Debt Service Fund made over the past four fiscal years for the 2010 QSCB bond issue. The amount in the Fund at June 30 2016 was \$2,189,000.

Interest expense totaled approximately \$11,928,000 for the year ended June 30, 2016.

Changes in Bonds and Notes Payable

Changes in bonds and notes payable during the year ended June 30, 2016, follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Bonds payable:				
August 2002 issue	\$ 5,104,000	\$ -	\$ -	\$ 5,104,000
Series 2009 A issue	133,765,000	-	(16,835,000)	116,930,000
Series 2009 C issue	17,245,000	-	(6,685,000)	10,560,000
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	-	(5,000)	20,890,000
Series 2014 C issue	49,605,000	-	(110,000)	49,495,000
Refunding Series 2015	-	9,960,000	-	9,960,000
Refunding Series 2016	-	9,995,000	-	9,995,000
Notes payable:				
October 2010 issue	<u>9,194,000</u>	<u>-</u>	<u>-</u>	<u>9,194,000</u>
Total	<u>\$ 266,428,000</u>	<u>\$ 19,955,000</u>	<u>\$(23,635,000)</u>	<u>\$ 262,748,000</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE H - SWAP TRANSACTIONS

In July 2015, the District terminated the SWAP contract associated with the 2009A bond issue. The District realized a gain on settlement of approximately \$ 2,000,000. As of June 30, 2016, the District has one derivative instrument detailed here (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>
Governmental Activities:					
<i>Cash flow hedges:</i>					
Pay-fixed interest rate swap	\$ 31,441	Deferred outflow	\$(12,389)	Deferred outflow	\$ 1,663

Swap Agreement

The School District currently has one interest rate swap agreement. The estimated fair value of the interest rate swap was a net unrealized loss position of \$12,389,000 at June 30, 2016 and is recorded as a liability. The current notional amount for the agreement is \$31,440,500.

Fair Values

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

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE H - SWAP TRANSACTIONS - continued

Derivative Instrument Risks

Credit risk: The School District is exposed to credit risk on hedging derivative instruments that are in asset positions, which is not applicable at June 30, 2016. 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.

Interest rate risk: The District is exposed to interest rate risk on the swap agreement. On the pay-fixed, receive variable interest rate swaps, the District's net payment decreases as LIBOR index increases. As of June 30, 2016, the weighted average interest rate on the District's hedged fixed rate debt is 5.25%, while the 63% of the one-month LIBOR plus .20% is .49% and increase of .17% from the prior year.

NOTE I - DEFINED BENEFIT PENSION PLAN

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pension Plans - an amendment of GASB Statement No. 27. This statement improved accounting and financial reporting by state and local governments for pensions. It also improved information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - DEFINED BENEFIT PENSION PLAN - continued

General Information about the Pension Plan:

Plan Description

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

Benefits Provided

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

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

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - DEFINED BENEFIT PENSION PLAN - continued

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

The School Districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$11,585,427 for the year ended June 30, 2016.

State Funding:

The District typically receives approximately 60% reimbursement from the Commonwealth of Pennsylvania for its retirement expense. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100% of the District's share of these amounts. During the year ended June 30, 2016, the District recognized revenue of \$7,214,769 as reimbursement for its current year pension payments.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - DEFINED BENEFIT PENSION PLAN - continued

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

At June 30, 2016, the District reported a liability of \$143,374,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was 0.3310 percent, which was an increase of 0.0298 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$11,241,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 592,000
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	290,000
Changes in proportions	10,111,000	11,843,000
Difference between employer contributions and proportionate share of total contributions	938,791	-
Contributions subsequent to the measurement date	<u>10,646,636</u>	<u>-</u>
	<u>\$ 21,696,427</u>	<u>\$ 12,725,000</u>

\$10,646,636 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:

2017	\$ (7,537,599)
2018	(7,537,599)
2019	(7,537,599)
2020	<u>2,805,220</u>
Total	<u>\$ (19,807,577)</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - DEFINED BENEFIT PENSION PLAN - continued

Actuarial Assumptions

The total pension liability as of June 30, 2015 as determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March, 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - DEFINED BENEFIT PENSION PLAN - continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Markets global equity	22.5%	4.8%
Private Markets (equity)	15.0%	6.6%
Private Real Estate	12.0%	4.5%
Global Fixed Income	7.5%	2.4%
U.S. Long Treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High Yield Bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute Return	10.0%	4.9%
Risk Parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>(14.0%)</u>	1.1%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contributions rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
District's proportionate share of the net pension liability	<u>\$176,722,000</u>	<u>\$143,374,000</u>	<u>\$115,344,000</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - DEFINED BENEFIT PENSION PLAN - continued

Pension Plan Fiduciary Net Position

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

NOTE J - 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.

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, 2016, retired employees paid \$247,408.
Employer Contributions: Employer contributions are made on a pay-as-you-go basis. In 2016, the amount of benefits paid was \$1,698,209.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE J - OTHER POST-EMPLOYMENT BENEFITS - continued

Net OPEB Obligation
 And Annual
 OPEB Cost:

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

Annual Required Contribution (ARC)	\$ 1,802,044
Interest on net OPEB obligation	(119,983)
Adjustment to ARC	<u>211,722</u>
Annual OPEB cost	1,893,783
Contributions	<u>(1,698,209)</u>
Increase in net OPEB liability	195,574
Net OPEB liability - beginning of year	<u>3,010,998</u>
Net OPEB liability - end of year	<u>\$ 3,206,572</u>

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

<u>Year Ended</u>	<u>OPEB Cost</u>	<u>Contribution (ARC)</u>	<u>OPEB Cost Contributed</u>	<u>% of ARC Contributed</u>	<u>OPEB Liability</u>
06/30/2011	\$ 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)
06/30/2015	1,896,334	1,802,044	1,625,736	90.22%	(3,010,998)
06/30/2016	1,893,783	1,802,044	1,698,209	94.24%	(3,206,572)

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE J - OTHER POST-EMPLOYMENT BENEFITS - continued

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
7/1/14	-	14,063,577	14,063,577	0.00%	40,041,296	35.12%

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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The entry age normal cost method actuarial valuation was used based upon census information provided as of November 2015. 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 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators, a merit increase which varies by age from 0.25% to 2.75%. The valuation assumes a 6.5% healthcare cost trend for fiscal year 2014, reduced by decrements of .5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE J - OTHER POST-EMPLOYMENT BENEFITS - continued

Actuarial Methods and Assumptions - continued

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

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

As of June 30, 2016, there were approximately 130 retirees who were receiving the premium-coverage benefit. For the year ended June 30, 2016, the District recognized expenditures of approximately \$1,700,000 for health care benefits for retirees.

NOTE K - COMPENSATED ABSENCES

A summary of the District's total compensated absence liabilities for the year ended June 30, 2016 is as follows:

	<u>Vacation, Sick and Personal Days</u>
Beginning balance	\$ 1,853,216
Net change in current year	<u>411,355</u>
Ending balance	<u>\$ 2,264,571</u>

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE L - INTERFUND BALANCES

The fund level balance sheet reflects the following interfund receivable and payable balances at June 30, 2016:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General	\$ 1,758,034	\$ -
Enterprise District food service	-	1,701,857
Non-major funds	-	32,779
Fiduciary funds	<u>-</u>	<u>23,398</u>
	<u>\$ 1,758,034</u>	<u>\$1,758,034</u>

NOTE M - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2016, consisted of the following:

Amounts due from:	
Commonwealth of PA	\$ 5,432,678
Federal government as passed through the PA Department of Education	7,770,561
Other local governments	198,738
City treasurer	<u>8,700</u>
Total	<u>\$13,410,677</u>

NOTE N - 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, 2016.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE O - COMMITMENTS AND CONTINGENCIES

Litigation

The School District is involved in several claims and lawsuits incidental to its operation in which the likelihood of an unfavorable outcome is not yet determinable. Based upon management's assessment of these claims and lawsuits and estimated provision has been recorded.

Further, in December 2016 an appeal filed by the District was denied regarding a litigation matter. In January 2017 the District's legal counsel filed for request to review the appeal for this matter. Should the eventual outcome of this matter be found to be unfavorable for the District, the result would have a material impact on the District's financial position. Based upon management's assessment of this claim, an estimated provision has been recorded.

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 \$1,600,000 to be completed subsequent to June 30, 2016.

NOTE P - RELATED PARTY TRANSACTIONS

The Capital Area Intermediate Unit provides special education services and other workshops to the District. During the year ended June 30, 2016, the District's expenditures relating to those services and workshops were approximately \$1,200,000.

NOTE Q - DEFICITS IN FUND BALANCE OF INDIVIDUAL FUND

At June 30, 2016, the following fund had a deficit net position:

Food Service Fund	<u>\$ 3,529,635</u>
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HARRISBURG CITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE R - 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, 2016 through its accounts payable. At June 30, 2016, the amount accrued in accounts payable for IBNR is \$999,406.

NOTE S - PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required to account for real estate taxes that were not available soon enough to pay for the current period's expenditures (60 day rule), and therefore, are deferred in the general fund; however these funds are to be included in the government-wide (GASB 34) as revenues. This resulted in a positive adjustment to the beginning net position balance of the governmental activities in the amount of \$3,661,306.

Net Position - June 30, 2015	\$ (172,552,657)
Adjustment - real estate tax revenues	<u>3,661,306</u>
Net Position - June 30, 2015 (restated)	<u><u>\$ (168,891,351)</u></u>

NOTE T - SUBSEQUENT EVENTS

General Obligation Bonds - Series 2016

In July 2016, the District issued General Obligation Bonds (2016A and 2016B) totaling \$155,192,234. The bond proceeds derived by the District in addition to \$2,000,000 funded by the District were used to refund Series 2009A in the amount of \$130,539,012 and Series 2014C in the amount of \$18,116,437. The District also used the proceeds from the issuance and sale of the Bonds to terminate a portion of the District's remaining SWAP in the amount of \$4,911,596 and to cover the bond issuance costs.

Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local revenues	\$ 54,361,304	\$ 54,361,304	\$ 52,756,812	\$ (1,604,492)
State program revenues	71,434,610	71,434,610	71,581,888	147,278
Federal program revenues	9,882,240	9,882,240	11,579,731	1,697,491
Total revenues	135,678,154	135,678,154	135,918,431	240,277
EXPENDITURES				
Regular programs	48,533,460	48,533,460	50,399,121	(1,865,661)
Special programs	21,273,595	21,273,595	21,657,319	(383,724)
Vocational programs	4,375,150	4,375,150	4,069,365	305,785
Other instructional programs	2,267,045	2,267,045	4,227,461	(1,960,416)
Community/Jr College programs	565,000	565,000	479,468	85,532
Pre-Kindergarten	-	-	59,146	(59,146)
Pupil personnel services	4,037,940	4,037,940	4,521,721	(483,781)
Instructional staff services	1,762,540	1,762,540	1,821,179	(58,639)
Administrative services	6,922,870	6,922,870	9,078,115	(2,155,245)
Pupil health	1,071,780	1,071,780	939,501	132,279
Business services	1,603,020	1,603,020	1,382,449	220,571
Operation and maintenance of plant services	10,162,300	10,162,300	9,366,332	795,968
Student transportation services	4,304,580	4,304,580	3,517,996	786,584
Central and other support services	3,665,890	3,665,890	3,444,380	221,510
Other support services	2,045,000	2,045,000	1,722,295	322,705
Student activities	634,710	634,710	573,957	60,753
Community services	280,700	280,700	679,082	(398,382)
Debt service	244,500	244,500	35,046	209,454
Total expenditures	113,750,080	113,750,080	117,973,933	(4,223,853)
Excess of revenues over expenditures	21,928,074	21,928,074	17,944,498	(3,983,576)

HARRISBURG CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND - continued
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES				
(USES)				
Proceeds from external financing	-	-	2,092,000	2,092,000
Refund prior year receipts	-	-	(336,216)	(336,216)
Transfers in	3,512,500	3,512,500	-	(3,512,500)
Transfers out	(23,725,620)	(23,725,620)	(23,392,155)	333,465
Budgetary reserve	(300,000)	(300,000)	-	300,000
Total other financing sources (uses)	<u>(20,513,120)</u>	<u>(20,513,120)</u>	<u>(21,636,371)</u>	<u>(1,123,251)</u>
Net change in fund balances	<u>\$ 1,414,954</u>	<u>\$ 1,414,954</u>	(3,691,873)	<u>\$ (5,106,827)</u>
 FUND BALANCE - BEGINNING			33,864,200	
 FUND BALANCE - ENDING			\$ 30,172,327	

HARRISBURG CITY SCHOOL DISTRICT
OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2016

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)
7/1/2010	-	\$ 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%
7/1/2014	-	14,063,577	14,063,577	0%	40,041,296	35.12%

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	\$ 143,374,000	\$ 119,217,000
District's proportionate share of the net pension liability	0.3310%	0.3012%
District's covered-employee payroll	\$ 42,585,657	\$ 38,440,676
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
YEAR ENDED JUNE 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (cash basis)	\$ 10,646,636	\$ 8,786,412
Contributions in relation to the contractually required contribution	<u>(10,646,636)</u>	<u>(8,786,412)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll (cash basis)	<u>\$ 41,202,152</u>	<u>\$ 40,081,124</u>
Contributions as a percentage of covered-employee payroll	26%	22%

SUPPLEMENTARY INFORMATION

HARRISBURG CITY SCHOOL DISTRICT
COMBINING BALANCE SHEETS -
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

ASSETS

	Capital Projects	Special Revenue	
	Series 2008 Note	Capital Reserve Fund	Total
Cash and cash equivalents	\$ 244,195	\$ 1,099,754	\$ 1,343,949
	\$ 244,195	\$ 1,099,754	\$ 1,343,949

LIABILITIES AND FUND BALANCES

Liabilities:			
Accounts payable	\$ -	\$ 449	\$ 449
Due to other funds	-	32,779	32,779
Total liabilities	-	33,228	33,228
Fund balances:			
Assigned	244,195	1,066,526	1,310,721
Total fund balances	244,195	1,066,526	1,310,721
	\$ 244,195	\$ 1,099,754	\$ 1,343,949

HARRISBURG CITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2016

	<u>Capital Projects</u>	<u>Special Revenue</u>	
	<u>Series 2008 Note</u>	<u>Capital Reserve Fund</u>	<u>Total</u>
REVENUES			
Local sources	\$ 521	\$ 2,707	\$ 3,228
Total revenues	521	2,707	3,228
EXPENDITURES			
Facility acquisition and improvement	-	3,894,617	3,894,617
Total expenditures	-	3,894,617	3,894,617
Deficiency of revenues over expenditures	521	(3,891,910)	(3,891,389)
OTHER FINANCING SOURCES			
Transfers in	-	3,600,000	3,600,000
Total other financing sources	-	3,600,000	3,600,000
NET CHANGE IN FUND BALANCE	521	(291,910)	(291,389)
FUND BALANCE - BEGINNING	<u>243,674</u>	<u>1,358,436</u>	<u>1,602,110</u>
FUND BALANCE - ENDING	<u>\$ 244,195</u>	<u>\$ 1,066,526</u>	<u>\$ 1,310,721</u>

HARRISBURG CITY SCHOOL DISTRICT
DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources:				
Taxes				
Current real estate taxes	\$ 36,958,539	\$ 36,958,539	\$ 36,665,557	\$ (292,982)
Delinquent real estate taxes	4,500,000	4,500,000	4,165,978	(334,022)
Current school occupation	695,000	695,000	470,817	(224,183)
Delinquent school occupation	-	-	279,129	279,129
Earned income taxes	3,750,000	3,750,000	3,501,848	(248,152)
Real estate transfer	750,000	750,000	605,762	(144,238)
Emergency and municipal services tax	225,000	225,000	187,647	(37,353)
Payments in lieu of tax	1,900,000	1,900,000	1,921,492	21,492
Public utility realty tax	52,000	52,000	49,241	(2,759)
Amusement	300,000	300,000	360,032	60,032
Business and mercantile	1,550,000	1,550,000	2,006,094	456,094
Total taxes	50,680,539	50,680,539	50,213,597	(466,942)
Other:				
Tuition and other payments from patrons	400,000	400,000	-	(400,000)
Earnings from temporary deposits	775,000	775,000	110,764	(664,236)
Revenues from district activities	50,000	50,000	41,083	(8,917)
Rent from school and other facilities	175,000	175,000	152,380	(22,620)
Revenue received from other intermediate sources	1,300,000	1,300,000	1,636,560	336,560
Contributions from private sources	680,765	680,765	446,401	(234,364)
Miscellaneous	300,000	300,000	156,027	(143,973)
Total other	3,680,765	3,680,765	2,543,215	(1,137,550)
Total local sources	54,361,304	54,361,304	52,756,812	(1,604,492)

HARRISBURG CITY SCHOOL DISTRICT
DETAILED STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - GENERAL FUND - continued
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
State sources:				
Basic instructional subsidy	\$ 45,286,600	\$ 45,286,600	\$ 46,355,967	\$ 1,069,367
Empowerment	-	-	9,851	9,851
Tuition reimbursement	125,000	125,000	92,079	(32,921)
Migratory children	1,000	1,000	1,784	784
Special education of exceptional students	5,179,900	5,179,900	5,501,485	321,585
Pre-K counts	3,500,000	3,500,000	29,962	(3,470,038)
Act 30 - PRR1	2,040,000	2,040,000	1,680,117	(359,883)
Transportation	1,610,400	1,610,400	1,429,883	(180,517)
Medical and dental services	150,000	150,000	122,091	(27,909)
Retirement reimbursement	6,009,750	6,009,750	7,228,724	1,218,974
Social security	1,757,292	1,757,292	1,943,051	185,759
Sinking fund subsidy	2,500,000	2,500,000	2,581,414	81,414
Pennsylvania accountability block grant	-	-	1,807,251	1,807,251
State property tax reduction allocation	2,774,668	2,774,668	2,774,668	-
Other state revenues	500,000	500,000	23,561	(476,439)
Total state sources	71,434,610	71,434,610	71,581,888	147,278
Federal sources:				
Payments for federally impacted areas	75,000	75,000	96,904	21,904
Education Consolidation and Improvement Act - Title I	7,497,000	7,497,000	7,155,296	(341,704)
Access	349,800	349,800	169,303	(180,497)
Education for Economic Security Act - Title II	772,000	772,000	1,061,346	289,346
Language instruction for LEP and immigrant students - Title III	305,880	305,880	204,071	(101,809)
ARRA Title I school improvements	-	-	1,217,218	1,217,218
ARRA QSCB subsidy	-	-	395,075	395,075
Other federal grants-in-aid	882,560	882,560	1,280,518	397,958
Total federal sources	9,882,240	9,882,240	11,579,731	1,697,491
Total local, state and federal sources	\$ 135,678,154	\$ 135,678,154	\$ 135,918,431	\$ 240,277

HARRISBURG CITY SCHOOL DISTRICT
FIDUCIARY FUNDS - STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS

	Private Purpose Trust Funds			Agency Funds		
	Non-Expendable Trust Fund	Expendable Trust Fund	Total	Student Activity Fund	Agency Fund	Total
Cash and cash equivalents	\$ 25,316	\$ 86,544	\$ 111,860	\$ 93,028	\$ 68,805	\$ 161,833
Investments	-	-	-	28,875	-	28,875
Other receivables	-	-	-	1,253	6,632	7,885
	<u>\$ 25,316</u>	<u>\$ 86,544</u>	<u>\$ 111,860</u>	<u>\$ 123,156</u>	<u>\$ 75,437</u>	<u>\$ 198,593</u>

LIABILITIES AND NET POSITION

Liabilities:						
Accounts payable	\$ -	\$ 2,800	\$ 2,800	\$ 4,675	\$ 1,820	\$ 6,495
Due to other funds	-	2,000	2,000	9,483	11,915	21,398
Funds held for others	-	-	-	108,998	61,702	170,700
	<u>-</u>	<u>4,800</u>	<u>4,800</u>	<u>123,156</u>	<u>75,437</u>	<u>198,593</u>
Total liabilities						
Net Position						
Restricted	<u>25,316</u>	<u>81,744</u>	<u>107,060</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 25,316</u>	<u>\$ 86,544</u>	<u>\$ 111,860</u>	<u>\$ 123,156</u>	<u>\$ 75,437</u>	<u>\$ 198,593</u>

HARRISBURG CITY SCHOOL DISTRICT
FIDUCIARY FUNDS - NONEXPENDABLE TRUST FUND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

	<u>Revenues</u>	<u>Expenses</u>	<u>Excess of Revenues Over Expenses</u>	<u>Fund Balance Beginning of Year</u>	<u>Fund Balance End of Year</u>
Class of 1907 - Central H. S.	\$ -	\$ -	\$ -	\$ 303	\$ 303
Class of 1917 - Central H. S.	2	-	2	1,009	1,011
Class of 1918 - Central H. S.	2	-	2	908	910
Class of 1925 - Technical H. S.	4	-	4	1,007	1,011
Class of 1930 - William Penn H. S.	-	-	-	202	202
Class of 1931 - William Penn H. S.	-	-	-	303	303
Class of 1943 - William Penn H. S.	-	-	-	202	202
Class of 1958 - John Harris H. S.	-	-	-	202	202
E. E. Miller Award	-	-	-	101	101
Robert A. Lambertson	2	-	2	1,322	1,324
W. S. Steel Memorial (Class of 1915 and 1916 - Central H. S.)	-	-	-	404	404
Frannie Zarkin Katzan Award - William Penn H. S.	1	-	1	252	253
Marte McCord Musical Achievement Award	3	-	3	1,513	1,516
William Penn High School Business Club Award	1	-	1	459	460
Annie Schlayer Award	-	-	-	531	531
Elizabeth Smith Award	-	-	-	499	499
Karen Lukens Safety Award	14	-	14	6,860	6,874
J. J. Brehm Award	1	-	1	454	455
Frank Goodyear Memorial	6	-	6	3,304	3,310
Jim Keener Memorial	1	-	1	1,064	1,065
Mary Warfield Award	1	-	1	302	303
C. Wolfgang Memorial	1	-	1	374	375
General Scholarship Fund	1	-	1	645	646
Barbara Baton Scholarship Fund	8	-	8	3,048	3,056
	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ 48</u>	<u>\$ 25,268</u>	<u>\$ 25,316</u>

HARRISBURG CITY SCHOOL DISTRICT
FIDUCIARY FUNDS - EXPENDABLE TRUST FUND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

	<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
J.H. Class of 1951	1,000	1,000	-	-	-
Clenistine Dunson SBI Scholarship	5,465	6,350	(885)	75,956	75,071
D. Martin Memorial Scholarship Fund	-	-	-	32	32
Jack Devan Scholarship Fund	-	-	-	26	26
Woodrow Aikens Scholarship	7	1,000	(993)	4,338	3,345
John Black Scholarship	-	-	-	216	216
English Department Scholarship	1	-	1	114	115
WP Senior Scholarship	-	-	-	201	201
Sunguard Senior Scholarship	1	-	1	205	206
Scott Family Scholarship	-	-	-	12	12
James Booser Scholarship	1,507	2,000	(493)	3,012	2,519
	<u>\$ 7,981</u>	<u>\$ 10,350</u>	<u>\$ (2,369)</u>	<u>\$ 84,113</u>	<u>\$ 81,744</u>

HARRISBURG CITY SCHOOL DISTRICT
FIDUCIARY FUNDS - AGENCY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUNDS HELD FOR OTHERS
YEAR ENDED JUNE 30, 2016

	Account Balance Beginning of Year	Receipts	Disbursements	Account Balance End of Year
Student Activity Fund				
Elementary activity	\$ 42,570	\$ 26,894	\$ 27,459	\$ 42,005
Secondary activity	53,630	64,163	50,800	66,993
Total student activity fund	<u>\$ 96,200</u>	<u>\$ 91,057</u>	<u>\$ 78,259</u>	<u>\$ 108,998</u>
Agency Fund				
High and Middle Schools:				
Admin Building Employees Account	\$ -	\$ 436	\$ -	\$ 436
Annex Coke Commission	1,115	3	-	1,118
Ben Franklin Coke Commission	9,163	1,491	8,459	2,195
Boys Basketball Club	3,380	2,915	5,552	743
Camp Curtain Commission	4,074	531	2,755	1,850
Cheerleading Booster Club	2,517	107	-	2,624
Cougar Club	860	502	1,015	347
Cougar Wrestling Club	476	1	733	(256)
Downey Coke Commission	4,137	2,965	3,351	3,751
Elementary Band Boosters	981	2	-	983
Emotional Support Spec. Ed	-	393	200	193
Explore After School	575	1	-	576
Foose Coke Commission	1,326	753	1,281	798
Girls Varsity Basketball	155	801	-	956
Harrisburg High Music Account	174	-	102	72
Harrisburg Players	17	-	-	17
Hbg High Faculty Fund	8,101	1,021	1,488	7,634
Hbg School Special Olympics	1,946	7,653	5,109	4,490
High School Band Boosters	(103)	103	-	-
Instrument Rental	649	2	-	651
John Harris Coke Commission	449	7,007	7,426	30
Kimber Basketball Tournament	2,058	1,859	2,336	1,581
Life Skills Support	697	2	-	699
Marshall Commission Account	8,783	299	3,779	5,303
Marshall Staff Account	74	2,904	2,978	-
Melrose Commission Account	595	180	342	433
Rowland Cheerleading Account	676	2	-	678
Rowland Coke Commission	1,659	1,544	1,118	2,085
Rowland Girls Basketball Account	409	2	-	411
Sci-Tech Agency Account	1	718	1	718
Sci-Tech Key Club	-	700	323	377
Sci-Tech Robotics Club	1,437	954	1,309	1,082
Sci-Tech Youth & Government	508	2	-	510
Scott Coke Commission	2,578	125	1,595	1,108
Smallwood Summer League	2,889	12,645	2,017	13,517
Special Education Autism Account	3,395	17	696	2,716
Special Education Facilitators	818	2	-	820
Track and Field Booster Club	455	1	-	456
Total agency fund	<u>\$ 67,024</u>	<u>\$ 48,643</u>	<u>\$ 53,965</u>	<u>\$ 61,702</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, 2016, and the related notes to the financial statements and have issued our report thereon dated March 7, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (FS 2016-001 through FS 2016-002).

**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.

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
March 9, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE
(AND 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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harrisburg City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE
(AND 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, 2016.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item SA 2016-001 that we consider to be a significant deficiency.

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

Report on Internal Control over Compliance - continued

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Stambaugh Ness, PC

York, Pennsylvania
March 9, 2017

**SCHOOL DISTRICT OF THE CITY OF HARRISBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (INCLUDING STATE NUTRITION CLUSTER GRANTS)
FOR THE YEAR ENDED JUNE 30, 2016**

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 7/1/2015	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at 6/30/2016
U.S. Department of Education										
Impact Aid	D	84.041	N/A	FYE 2016	\$ 32,129	\$ 32,129	\$ (38,176)	\$ 96,904	\$ 96,904	\$ 26,599
Total Passed Through the U.S. Department of Education					32,129	32,129	(38,176)	96,904	96,904	26,599
<u>Passed Through the Pennsylvania Department of Education:</u>										
Title I Grants to Local Educational Agencies (FYE 15-16)	I	84.010	013-160184	15 SEP 30 - 16 SEP 30	5,750,135	884,636	-	4,975,980	4,975,980	4,091,344
Title I Grants to Local Educational Agencies (FYE 14-15)	I	84.010	013-150184	14 AUG 01 - 15 SEP 30	6,032,202	2,560,173	931,476	1,628,697	1,628,697	-
Title I Grants to Lea's Program Improvement Set Aside (14-15)	I	84.010	042-140184	14 AUG 01 - 15 SEP 30	647,291	138,705	114,610	24,095	24,095	-
Title I School Intervention Grant (15-16)	I	84.010	042-150184	15 JUN 02 - 16 SEP 30	639,877	479,908	-	526,524	526,524	46,616
Title I Grants to LEA's - School Improvement Grant (1003g) (15-16)	I	84.388	142-150184	15 SEP 25 - 16 SEP 30	1,732,650	799,685	-	1,217,218	1,217,218	417,533
Improving Teacher Quality State Grants (FYE 15-16)	I	84.367	020 160184	15 SEP 30 - 16 SEP 30	915,892	140,906	-	722,650	722,650	581,744
Improving Teacher Quality State Grants (FYE 13-14)	I	84.367	020 140184	13 OCT 08 - 14 SEPT 30	919,880	306,368	306,368	-	-	-
Improving Teacher Quality State Grants (FYE 14-15)	I	84.367	020 150184	14 AUG 01 - 15 SEP 30	920,599	197,018	(141,678)	338,696	338,696	-
Twenty-First Century Community Learning Centers (15-16)	I	84.287	FC4100068064	15 OCT 01 - 16 SEPT 30	400,000	145,013	-	217,871	217,871	72,858
Twenty-First Century Community Learning Centers (14-15)	I	84.287	FC4100068064	14 OCT 01 - 15 SEPT 30	400,000	300,000	124,695	175,305	175,305	-
Title III Language Inst LEP/Immigrant Students (15-16)	I	84.365	010-160184	15 SEP 30 - 16 SEP 30	223,965	34,456	-	124,677	124,677	90,221
Title III Language Inst LEP/Immigrant Students (14-15)	I	84.365	010-150184	14 AUG 01 - 15 SEP 30	233,515	50,039	4,004	79,394	79,394	33,359
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention & School Based Surveillance (13-14)	I	93.079	U87PS004151	14 MAR 25 - 18 JUL 31	2,500	-	(250)	-	-	(250)
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention & School Based Surveillance (14-15)	I	93.079	U87PS004151	14 AUG 01 - 15 JUL 31	5,000	-	(1,338)	1,338	1,338	-
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention & School Based Surveillance (15-16)	I	93.079	U87PS004151	15 AUG 01 - 16 JUL 31	5,600	5,600	-	1,793	1,793	(3,807)
Total Passed Through the Pennsylvania Department of Education					18,829,106	6,042,507	1,337,887	10,034,238	10,034,238	5,329,618
<u>Passed Through Capital Area Intermediate Unit 15:</u>										
Special Education - Grants to States (15-16)	I	84.027	N/A	15 OCT 01 - 16 SEP 30	1,455,456	813,983	-	1,079,213	1,079,213	265,230
Special Education - Grants to States (14-15)	I	84.027	N/A	14 JUL 01 - 15 SEP 30	1,488,119	594,924	278,661	316,263	316,263	-
Special Education - Grants to States (15-16) - Preschool	I	84.173	N/A	15 JUL 01 - 16 JUN 30	15,183	15,183	-	15,183	15,183	-
Total Passed Through Capital Area Intermediate Unit 15					2,958,758	1,424,090	278,661	1,410,659	1,410,659	265,230
<u>Passed Through Pennsylvania State System of Higher Education:</u>										
Gaining Early Awareness and Readiness for Undergraduate Programs (15-16)	I	84.334s	GEARUP 2016-HBG-01	15 SEPT 25 - 16 SEPT 24	638,047	128,589	-	354,210	354,210	225,621
Gaining Early Awareness and Readiness for Undergraduate Programs (14-15)	I	84.334s	GEARUP 2015-HBG-01	14 SEPT 25 - 15 SEPT 24	650,902	214,038	45,163	168,875	168,875	-
Total Passed Through Pennsylvania State System of Higher Education					1,288,949	342,627	45,163	523,085	523,085	225,621
TOTAL U.S. DEPARTMENT OF EDUCATION					23,108,942	7,841,353	1,623,535	12,064,886	12,064,886	5,847,068

U.S. Department of Health and Human Services

Passed through the Pennsylvania Department of Education:

Temporary Assistance for Needy Families 15-16	I	93.558	FC4100060958	15 JUL 01 - 16 JUN 30	174,566	-	-	174,566	174,566	174,566
Temporary Assistance for Needy Families 15-16	I	93.558	FC4100060958	15 JUL 01 - 16 JUN 30	19,308	-	-	19,308	19,308	19,308
Temporary Assistance for Needy Families 14-15	I	93.558	FC4100060958	14 JUL 01 - 15 JUN 30	163,085	111,775	111,775	-	-	-
Temporary Assistance for Needy Families 14-15	I	93.558	FC4100060958	14 JUL 01 - 15 JUN 30	18,331	12,099	12,099	-	-	-
Total Passed through the Department of Education					375,290	123,874	123,874	193,874	193,874	193,874

Passed through the Pennsylvania Department of Welfare:

Medical Assistance Reimbursement for Administration 14-15	I	93.778	N/A	14 JUL 01 - 15 JUN 30	50,835	50,835	50,835	-	-	-
Medical Assistance Reimbursement for Administration 15-16	I	93.778	N/A	15 JUL 01 - 16 JUN 30	138,059	71,636	-	138,059	138,059	66,423
Total Passed through the Pennsylvania Department of Welfare					188,894	122,471	50,835	138,059	138,059	66,423

TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

564,184	246,345	174,709	331,933	331,933	260,297
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U.S. Department of Defense:

Passed through the United States Navy:

Junior Reserve Officers Training Corps (FYE 15-16)	I	12.000	N/A	15 JUL 01 - 16 JUN 30	55,887	55,887	-	55,887	55,887	-
Junior Reserve Officers Training Corps (FYE 14-15)	I	12.000	N/A	14 JUL 01 - 15 JUN 30	30,398	6,738	5,643	1,095	1,095	-
TOTAL OF U.S. DEPARTMENT OF DEFENSE					86,285	62,625	5,643	56,982	56,982	-

U.S. Department of Labor:

Passed through the Pennsylvania Department of Education:

Career & Technical Education Grant	I	17.267	FC4100068021	15 OCT 1 - 16 JUN 30	89,000	89,000	-	77,996	77,996	(11,004)
TOTAL OF U.S. DEPARTMENT OF LABOR					89,000	89,000	-	77,996	77,996	(11,004)

Sub Total

23,848,411	8,239,323	1,803,887	12,531,797	12,531,797	6,096,361
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U.S. Department of Agriculture:

Passed through the Pennsylvania Department of Education:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (13-14)	I	10.561	FC4100060958	13 JUL 01 - 14 JUN 30	18,309	-	-	18,309	18,309	18,309
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (14-15)	I	10.561	FC4100060958	14 JUL 01 - 15 JUN 30	17,820	11,484	11,484	-	-	-
National School Lunch Program (FYE 15-16)	I	10.555	362	15 JUL 01 -16 JUN 30	2,991,335	2,246,809	-	2,991,335	2,991,335	744,526
National School Lunch Program (FYE 14-15)	I	10.555	362	14 JUL 01 -15 JUN 30	2,774,251	282,362	282,362	-	-	-
National School Lunch Program (FYE 15-16)	I	N/A	510/511	15 JUL 01 -16 JUN 30	193,029	125,504	-	193,029	193,029	67,525
National School Lunch Program (FYE 14-15)	I	N/A	510/511	14 JUL 01 -15 JUN 30	177,788	18,493	18,493	-	-	-
School Breakfast Program (FYE 15-16)	I	10.553	365	15 JUL 01 - 16 JUN 30	1,060,977	942,190	-	1,254,428	1,254,428	312,238
School Breakfast Program (FYE 14-15)	I	10.553	365	14 JUL 01 - 15 JUN 30	1,007,330	132,139	132,139	-	-	-
Summer Food Service Program for Children (FYE 15-16)	I	10.559	264	15 JUL 01 - 16 JUN 30	109,440	-	-	109,440	109,440	109,440
Summer Food Service Program for Children (FYE 14-15)	I	10.559	264	14 JUN 16 - 15 JULY 30	180,149	75,280	72,413	2,867	2,867	-
Fresh Fruit and Vegetable Program (14-15)	I	10.582	362	14 JUL 01 -15 JUN 30	55,940	17,780	17,780	-	-	-
Total Passed through the Pennsylvania Department of Education					8,586,368	3,852,041	534,671	4,569,408	4,569,408	1,252,038

Passed Through the Pennsylvania Department of Agriculture:

Food Donation (FYE 14-15)	I	10.555	115-22-275-2	14 JUL 01 - 15 JUN 30	180,229	-	(15,796)	15,796	15,796	-
Food Donation (FYE 15-16)	I	10.550	115-22-275-2	15 JUL 01 - 16 JUN 30	247,384	247,384	-	240,868	240,868	(6,516)
Total Passed through the Pennsylvania Department of Agricultural					427,613	247,384	(15,796)	256,664	256,664	(6,516)

TOTAL U.S. DEPARTMENT OF AGRICULTURE

9,013,981	4,099,425	518,875	4,826,072	4,826,072	1,245,522
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TOTAL ASSISTANCE

\$ 32,862,392	\$ 12,338,748	\$ 2,322,762	\$ 17,357,869	\$ 17,357,869	\$ 7,341,883
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HARRISBURG CITY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

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 Uniform Guidance (and OMB 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, 2016, the Organization had food commodities totaling \$6,516 in inventory.

HARRISBURG CITY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued
YEAR ENDED JUNE 30, 2016

NOTE C - TEST OF 40% RULE

Total Expenditures	\$ 17,357,869
Less: State's Share of National School Lunch Program Expenditures	<u>193,029</u>
Total Federal Expenditures	<u>\$ 17,164,840</u>
Programs Selected for Testing:	
Title I Grants to Local Education Agencies (CFDA #84.010)	\$ 7,155,296
Twenty-First Century Community Learning Centers (CFDA #84.287)	393,176
Special Education - Grants to States (CFDA #84.027, #84.173)	<u>1,410,659</u>
Total Amount Tested	<u>\$ 8,959,131</u>
Percent Tested (\$8,959,131/\$17,164,840)	<u>52.2%</u>

NOTE D - SOURCE CODES

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

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial
statements noted? Yes X No

Federal Awards

Internal control over major programs:

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

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

- Any audit findings disclosed that
are required to be reported in
accordance with 2 CFR 200.516(a)3? X Yes No

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
84.010	Title I Grants to Local Education Agencies
84.287	Twenty-First Century Community Learning Centers
84.027 & 84.173	Special Education - Grants to States

Dollar threshold used to distinguish between
type A and type B programs: \$ 514,945

Auditee qualified as low-risk auditee? Yes X No

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

FS 2016-001

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 management will continue to look for ways that staff can expand their technical accounting expertise.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - continued

FS 2016-002

Significant Deficiency

Condition:

The District contracted a third party service provider to take inventory of the District's assets; however the District has not been able to reconcile the differences between their prior year schedules and the inventory taken. Due to this, the District relied on the audit team to assist in calculating the current year depreciation of fixed assets and identifying current year additions to fixed assets.

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 tracking of fixed assets could lead to material misstatements within the District's financial statements.

Cause:

Due to turnover in the District's Business Office, there was no tracking of fixed assets. The District contracted with a third party service provider to assess inventory values; however the District must reconcile their existing records to the new inventory to ensure all capitalized items are appropriately included or disposed of.

Auditors' Recommendation:

We recommend the District reconcile the fixed asset differences and then implement processes and procedures to ensure proper review and tracking.

Auditee's Response:

The Business Office staff and management will reconcile fixed assets and ensure procedures are in place for future tracking and calculating of depreciation.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding SA 2016-001

Federal agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

**Twenty-First Century Community Learning Centers - CFDA 84.287
(FYE 2015-2016) Contract No. FC4100068064**

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

Condition:

The District failed to follow its purchase order process for expenses related to its Twenty-First Century Community Learning Centers grant.

Criteria:

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

Cause:

The District made direct payments to the vendor without following its purchase order process due to timing.

Effect:

The District's expenses, although allowable to be charged to the grant, were not properly approved.

Questioned Costs:

Not applicable

Auditors' Recommendation:

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

Auditee's Response:

The District has stopped all practices of making direct payments and all expenses are to follow the District's purchase order approval process.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Finding SA 2015-001

Federal agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

**Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2013-2014) Contract No. 013-140184**

**Title I Grants to Local Educational Agencies - CFDA 84.010
(FYE 2014-2015) Contract No. 013-150184**

**Title II Improving Teacher Quality State Grants - CFDA 84.367
(FYE 2013-2014) Contract No. 020-140184**

**Title II Improving Teacher Quality State Grants - CFDA 84.367
(FYE 2014-2015) Contract No. 020-150184**

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

Condition:

The District earned in excess of \$100 interest on Title I & Title II funds that were not remitted.

Criteria:

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

Cause:

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

Effect:

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

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2015-001 - continued

Auditee Update:

The District is tracking and remitting interest earned within the appropriate timeframe.

Current Status:

This 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, 2016

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2015-002

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 2014-2015)**

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:

- One school's supporting documentation could not be furnished for any of the days chosen due to the registers being down. The numbers were tallied and included with the high school numbers when submitted for reimbursement.
- For one day chosen in January 2015, there were three schools which the District could not furnish supporting documentation for amounts reimbursed.
- For January 2015, the check summary which is used to submit for reimbursement did not tie to the reimbursement claim form. The reimbursement claim form was less than the summary; therefore, they did not claim enough meals.
- For one day chosen in January 2015, there were four schools where the supporting documentation did not tie to the reimbursement.
- In March 2015, there were twelve of 44 reports missing for breakfast and ten of 44 reports missing for lunch.
- In March 2015, there was one report for breakfast and one report for lunch that did not tie to the reimbursement.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2015-002

Auditee Update:

The District has been working with a third party service provider and the Commonwealth of Pennsylvania to ensure proper reporting.

Current Status:

This grant was not required to be tested in the current year; however, during the audit this item was followed up on and it appears the District has taken significant steps to correct this issue for the current year and going forward.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2015-003

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 2014-2015)

Noncompliance and Significant Deficiency in Internal Control over the Procurement and Suspension and Debarment compliance requirement.

Condition:

The District uses a bid process to purchase food and cafeteria paper goods, through its third party service provider.

Criteria:

All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110. Select a sample of procurements and subawards and test whether the non-Federal entity followed its procedures before entering into a covered transaction.

Cause:

The District failed to furnish supporting documentation of bids.

Effect:

Due to the lack of documentation, we were unable to determine if the District followed the correct procurement procedures.

Questioned Costs:

Unknown

Auditors' Recommendation:

We recommend the District closely monitor the process being used by the outsourced service provider in obtaining and maintaining required supporting documentation for bids and related purchases.

HARRISBURG CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - continued

Finding SA 2015-003 - continued

Auditee Response and Corrective Action Plan:

The District will review the requirements with the outsourced service provider and monitor the processes and required document retention throughout the year.

Auditee Update:

The District has been working with the third party service provider to ensure this documentation is filed properly and available for review.

Current Status:

This grant was not required to be tested in the current year; however, during the audit this item was followed up on and it appears the District has taken significant steps to correct this issue for the current year and going forward.