



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

Financial Statements
Year Ended June 30, 2020



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THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Harrisburg, Harrisburg, Pennsylvania as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District of the City of Harrisburg's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The School District of the City of Harrisburg, Harrisburg, Pennsylvania as of June 30, 2020, 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

Report on Summarized Comparative Information

We have previously audited The School District of the City of Harrisburg's 2019 financial statements, and our report dated March 30, 2020 expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the schedules of the District's proportionate share of the net pension liability-PSERS and pension plan contributions – PSERS, schedule of changes in OPEB liability single employer plan and the schedules of the District's proportionate share of the net OPEB liability-PSERS and OPEB plan contributions – PSERS on pages 3 through 14 and 49 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2021, on our consideration of the School District of the City of Harrisburg's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The School District of the City of Harrisburg's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
April 9, 2021**

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

Management's discussion and analysis ("**MD&A**") of the financial performance of the School District of the City of Harrisburg (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2020. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of eleven schools – five elementary schools, three middle schools, two high schools and an alternative education school for all grades, consisting of approximately 6,575 students. The District is a culturally diverse, urban school district in Dauphin County, Pennsylvania. The City of Harrisburg is home to approximately 50,000 people and the capital of the Commonwealth of Pennsylvania and is considered the metropolitan hub of south-central Pennsylvania. There were 1,054 employees including 574 professional employees (teachers, nurses and counselors).

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

FINANCIAL HIGHLIGHTS

- On a government-wide basis, including all governmental activities and the business-type activities, the liabilities and deferred inflows of resources of the District exceeded assets and deferred outflows resulting in a deficit in total net position at the close of the 2019-2020 fiscal year of \$215,306,768. During the 2019-2020 fiscal year, the District had an increase in total net position of \$6,801,269. The net position of governmental activities increased by \$6,886,150 and the net position of business-type activities decreased by \$84,881.
- The General Fund reported an increase in fund balance of \$6,426,251, bringing the cumulative balance to \$21,809,610 at the conclusion of the 2019-2020 fiscal year.
- At June 30, 2020, the General Fund fund balance includes \$1,595,753 which is considered nonspendable, \$500,000 committed for athletics and band reserve, \$7,000,000 assigned for capital improvements, \$1,000,000 assigned for healthcare reserve, \$1,000,000 assigned for enrollment stabilization, and unassigned amounts of \$10,713,857 or 6.77% of the \$158,239,294 2020-2021 General Fund expenditure budget. This is in compliance with guidelines prescribed by the Pennsylvania Department of Education which allows a district to maintain an unassigned maximum General Fund fund balance of 8% of the following year's expenditures budget.
- Total General Fund revenues and other financing sources were \$4,379,603 or 2.81% less than budgeted amounts and total General Fund expenditures and other financing uses were \$13,901,796 or 8.75% less than budgeted amounts resulting in a net positive variance of \$9,522,193. Original budgeted amounts used \$3,095,942 of General Fund fund balance as of June 30, 2019 to balance the budget and actual amounts did not use any.
- In December 2019, an outbreak of a novel strain of coronavirus ("**COVID-19**") was identified and has since spread worldwide including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 14, 2020, Pennsylvania Governor Tom Wolf ordered the closure of the physical location of every "non-essential business" in Dauphin County, Pennsylvania for what was an extended period of time resulting in a disruption of District services and a diminishing of the ability of the District to generate revenues. Furthermore, the Governor signed into law Act 13 of 2020 that required any employee of the District who was employed as of the closure to receive their full compensation that they would have been entitled to receive from the District had COVID-19 not occurred.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

Governmental Activities

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

Business-Type Activities

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

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

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

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

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

Proprietary Funds

The District maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type.

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

Fiduciary Funds

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

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

Notes to the Financial Statements

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

The notes to the financial statements can be found on Pages 26 through 48 of this report.

Other Information

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

The required supplementary information and additional analysis can be found on Pages 49 through 56 of this report.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2019-2020 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$215,306,768. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2020 and 2019.

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|----------------------------|------------------------|-----------------------------|----------------------|------------------------|------------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| ASSETS | | | | | | |
| Current assets | \$ 52,879,700 | \$ 49,859,535 | \$(1,122,396) | \$ (98,477) | \$ 51,757,304 | \$ 49,761,058 |
| Noncurrent assets | <u>164,961,736</u> | <u>169,367,421</u> | <u>312,185</u> | <u>402,238</u> | <u>165,273,921</u> | <u>169,769,659</u> |
| Total assets | <u>217,841,436</u> | <u>219,226,956</u> | <u>(810,211)</u> | <u>303,761</u> | <u>217,031,225</u> | <u>219,530,717</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>38,919,437</u> | <u>50,882,455</u> | <u>527,143</u> | <u>711,393</u> | <u>39,446,580</u> | <u>51,593,848</u> |
| LIABILITIES | | | | | | |
| Current liabilities | 20,730,171 | 24,802,851 | 170,523 | 923,402 | 20,900,694 | 25,726,253 |
| Noncurrent liabilities | <u>427,448,887</u> | <u>457,216,188</u> | <u>2,734,225</u> | <u>3,412,252</u> | <u>430,183,112</u> | <u>460,628,440</u> |
| Total liabilities | <u>448,179,058</u> | <u>482,019,039</u> | <u>2,904,748</u> | <u>4,335,654</u> | <u>451,083,806</u> | <u>486,354,693</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>20,283,747</u> | <u>6,678,454</u> | <u>417,020</u> | <u>199,455</u> | <u>20,700,767</u> | <u>6,877,909</u> |
| NET POSITION (DEFICIT) | | | | | | |
| Net investment in capital assets | (77,312,375) | (81,714,273) | 312,185 | 402,238 | (77,000,190) | (81,312,035) |
| Restricted | 6,416,201 | 4,840,039 | - | - | 6,416,201 | 4,840,039 |
| Unrestricted (deficit) | <u>(140,805,758)</u> | <u>(141,713,848)</u> | <u>(3,917,021)</u> | <u>(3,922,193)</u> | <u>(144,722,779)</u> | <u>(145,636,041)</u> |
| Total net position (deficit) | <u>\$(211,701,932)</u> | <u>\$(218,588,082)</u> | <u>\$(3,604,836)</u> | <u>\$(3,519,955)</u> | <u>\$(215,306,768)</u> | <u>\$(222,108,037)</u> |

The District's total assets as of June 30, 2020 were \$217,031,225 of which \$26,241,572 or 12.09% consisted of unrestricted cash and investments and \$159,157,367 or 73.33% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2020 were \$451,083,806 of which \$246,747,895 or 54.70% consisted of general obligation debt used to acquire and construct capital assets and \$159,107,650 or 35.27% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$144,722,779 at June 30, 2020. The District's unrestricted net position increased by \$913,262 during 2019-2020 primarily due to the current year results of operations net of the changes in the net pension liability and related deferred outflows and inflows of resources.

A portion of the District's net position reflects its restricted net position which totaled \$6,416,201 as of June 30, 2020. All of the District's restricted net position related to amounts restricted for capital and debt service expenditures.

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2020, the District's net investment in capital assets increased by \$4,311,845 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other than long-term debt.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

The following table presents condensed information for the *Statement of Activities* of the District for 2020 and 2019:

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|----------------------------|-----------------------|-----------------------------|---------------------|---------------------|-----------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| REVENUES | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 379,826 | \$ 328,285 | \$ 65,433 | \$ 107,941 | \$ 445,259 | \$ 436,226 |
| Operating grants and contributions | 35,783,444 | 40,245,548 | 4,779,380 | 5,595,223 | 40,562,825 | 45,840,771 |
| Capital grants and contributions | - | - | - | 85,208 | - | 85,208 |
| General revenues | | | | | | |
| Property taxes levied for general purposes | 46,964,184 | 47,865,578 | - | - | 46,964,184 | 47,865,578 |
| Earned income taxes levied for general purposes | 4,195,706 | 4,003,609 | - | - | 4,195,706 | 4,003,609 |
| Other taxes levied for general purposes | 5,889,727 | 4,858,497 | - | - | 5,889,727 | 4,858,497 |
| Grants and entitlements not restricted to specific programs | 56,563,908 | 55,205,126 | - | - | 56,563,908 | 55,205,126 |
| Investment earnings | 1,605,070 | 1,062,333 | 753 | 1,047 | 1,605,823 | 1,063,380 |
| Total revenues | <u>151,381,865</u> | <u>153,568,976</u> | <u>4,845,566</u> | <u>5,789,419</u> | <u>156,227,431</u> | <u>159,358,395</u> |
| EXPENSES | | | | | | |
| Instruction | 91,990,124 | 100,200,546 | - | - | 91,990,124 | 100,200,546 |
| Instructional student support services | 11,675,473 | 10,442,955 | - | - | 11,675,473 | 10,442,955 |
| Administrative and financial support services | 13,494,331 | 14,614,505 | - | - | 13,494,331 | 14,614,505 |
| Operation and maintenance of plant services | 12,795,256 | 15,533,320 | - | - | 12,795,256 | 15,533,320 |
| Pupil transportation | 3,766,313 | 3,880,529 | - | - | 3,766,313 | 3,880,529 |
| Student activities | 689,921 | 834,508 | - | - | 689,921 | 834,508 |
| Community services | 604,369 | 549,970 | - | - | 604,369 | 549,970 |
| Interest and amortization expense related to noncurrent liabilities | 9,479,928 | 9,843,908 | - | - | 9,479,928 | 9,843,908 |
| Food service | - | - | 4,930,447 | 6,633,867 | 4,930,447 | 6,633,867 |
| Total expenses | <u>144,495,715</u> | <u>155,900,241</u> | <u>4,930,447</u> | <u>6,633,867</u> | <u>149,426,162</u> | <u>162,534,108</u> |
| CHANGE IN NET POSITION (DEFICIT) | <u>\$ 6,886,150</u> | <u>\$ (2,331,265)</u> | <u>\$ (84,881)</u> | <u>\$ (844,448)</u> | <u>\$ 6,801,269</u> | <u>\$ (3,175,713)</u> |

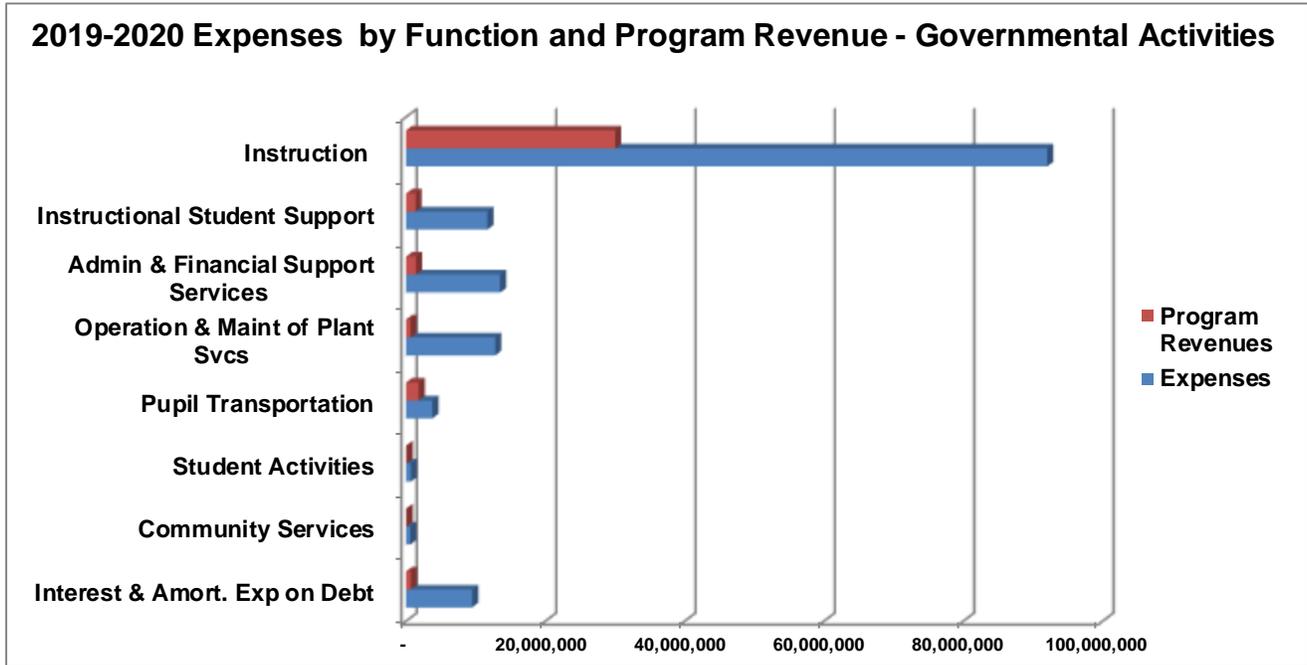
During 2019-2020, the District's financial position increased by \$6,801,269, in part due to decreased medical costs, employee costs, and other cost reductions caused by the COVID-19 shutdown. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

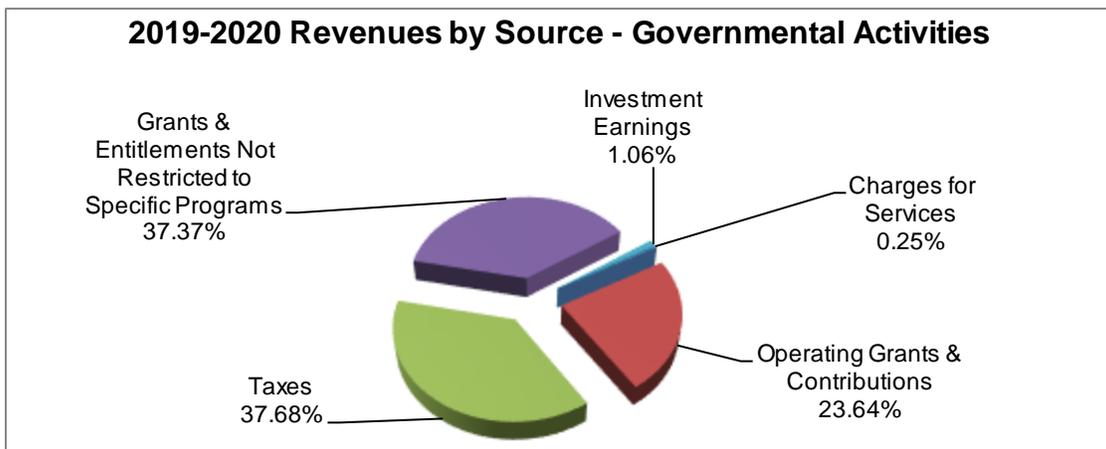
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

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



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



THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

GOVERNMENTAL FUNDS

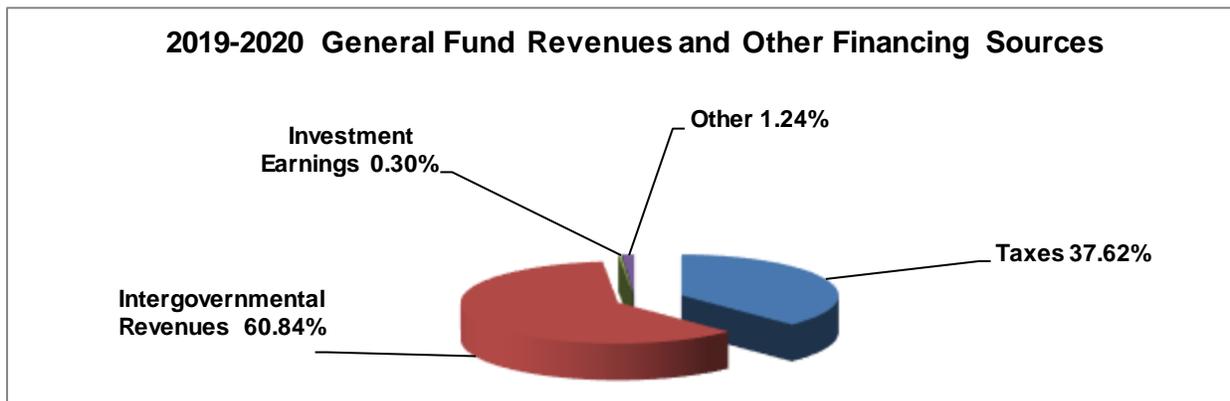
The governmental fund financial statements provide detailed information on the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2020, the District's governmental funds reported a combined fund balance of \$28,318,230 which is an increase of \$8,003,347 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2020 and 2019 and the total 2020 change in governmental fund balances.

| | <u>2020</u> | <u>2019</u> | <u>\$ Change</u> |
|-----------------------|---------------------|---------------------|--------------------|
| General Fund | \$21,809,610 | \$15,383,359 | \$6,426,251 |
| Capital Projects Fund | 812,780 | 308,391 | 504,389 |
| Debt Service Fund | <u>5,695,840</u> | <u>4,623,133</u> | <u>1,072,707</u> |
| | <u>\$28,318,230</u> | <u>\$20,314,883</u> | <u>\$8,003,347</u> |

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2019-2020 fiscal year, the General Fund fund balance was \$21,809,610 representing an increase of \$6,426,251 in relation to the prior year. The increase in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2019-2020 fiscal year.

The District's reliance upon state and federal subsidies and grants is demonstrated by the graph below that indicates 60.84% of General Fund revenues are derived from intergovernmental revenues.



General Fund Revenues and Other Financing Sources

| | <u>2020</u> | <u>2019</u> | <u>\$ Change</u> | <u>% Change</u> |
|----------------------------|----------------------|----------------------|---------------------|-----------------|
| Tax revenues | \$ 56,929,916 | \$ 55,071,769 | \$ 1,858,147 | 3.37 |
| Intergovernmental revenues | 92,067,095 | 95,004,105 | (2,937,010) | (3.09) |
| Investment earnings | 451,494 | 642,025 | (190,531) | (29.68) |
| Other | <u>1,872,683</u> | <u>1,061,868</u> | <u>810,815</u> | <u>76.36</u> |
| | <u>\$151,321,188</u> | <u>\$151,779,767</u> | <u>\$ (458,579)</u> | <u>(0.30)</u> |

Net tax revenues increased by \$1,858,147 or 3.37% primarily due to an increase in real estate taxes received in 2019-2020 compared to 2018-2019 primarily as a result of a millage increase of 3.40% and increases in collections for earned income taxes, realty transfer taxes and delinquent occupation taxes.

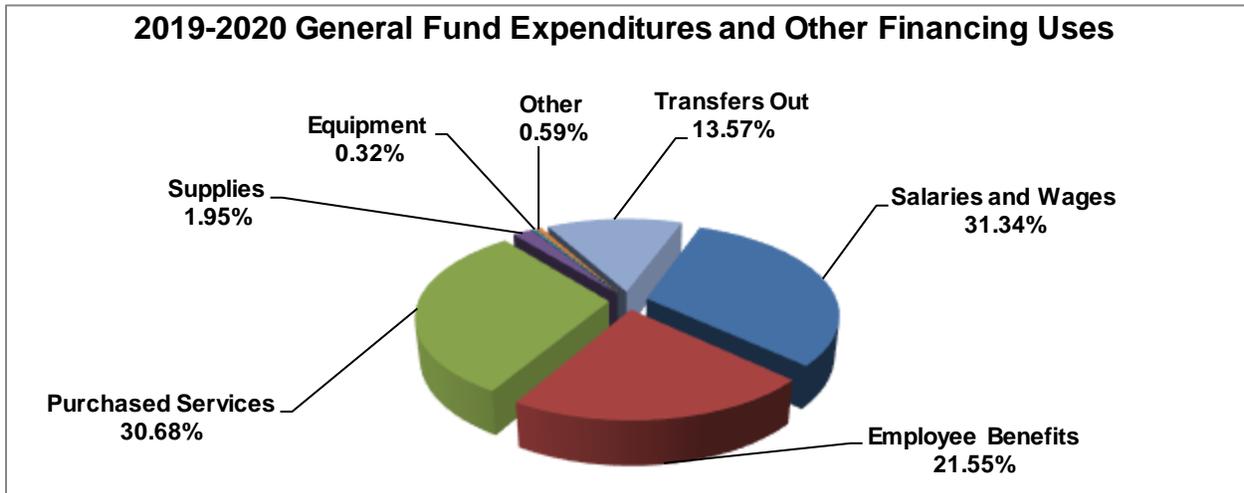
THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

Intergovernmental revenues decreased by \$2,937,010 or 3.09% as a result of decreased funding received for reimbursements through the medical ACCESS program and a decrease in funding received through Title I which is received on a cost reimbursement model in part due to the impact of COVID-19 on the continuity of educational services.

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



General Fund Expenditures and Other Financing Uses

| | <u>2020</u> | <u>2019</u> | <u>\$ Change</u> | <u>% Change</u> |
|--------------------|----------------------|----------------------|-----------------------|-----------------|
| Salaries and wages | \$ 45,406,691 | \$ 45,999,856 | \$ (593,165) | (1.29) |
| Employee benefits | 31,230,036 | 35,384,722 | (4,154,686) | (11.74) |
| Purchased services | 44,454,354 | 47,493,408 | (3,039,054) | (6.40) |
| Supplies | 2,818,728 | 2,819,746 | (1,018) | (0.04) |
| Equipment | 464,200 | 1,059,593 | (595,393) | (56.19) |
| Other | 854,490 | 1,532,040 | (677,550) | (44.23) |
| Transfers out | <u>19,666,438</u> | <u>21,251,796</u> | <u>(1,585,358)</u> | <u>(7.46)</u> |
| | <u>\$144,894,937</u> | <u>\$155,541,161</u> | <u>\$(10,646,224)</u> | <u>(6.84)</u> |

Salaries and wages decreased by \$593,165 or 1.29% in 2019-2020 compared to 2018-2019 primarily as a result of the elimination of approximately 10 employees as part of the 2019-2020 budgeting process in an effort to address the District's budget deficit.

Employee benefit expenditures decreased by \$4,154,686 or 11.74% from the prior year. As a result of COVID-19, medical and dental services were not readily available for several months and claims incurred were significantly reduced.

Purchased services decreased by \$3,039,054 or 6.40% in 2019-2020 compared to 2018-2019 primarily related to a decrease in contracted services for substitute teacher services, building maintenance and transportation services coupled with a decrease in cyber and charter school tuition costs which were all in part due to the COVID-19 shutdown from March 2020 through the end of the school year.

The decrease equipment was \$595,530 due to a concerted effort by the District to implement budget cuts and cost efficiencies in 2019-2020 to address the District's budget deficit.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

Other expenditures decreased by \$677,550 or 44.23% in 2019-2020 compared to 2018-2019 due to a decrease in passthrough funding to other local education agencies and refunds of prior year revenues consisting primarily of the tax refunds.

Transfers out decreased by \$1,585,358 or 7.46% commensurate with a budgeted decrease in transfers out to the Debt Service Fund and Capital Projects Fund in 2019-2020 when compared to 2018-2019.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2019-2020, the fund balance in the Capital Projects Fund increased by \$504,389 primarily due to transfers from the General Fund. The remaining fund balance of \$812,780 as of June 30, 2020 is restricted for future capital expenditures.

DEBT SERVICE FUND

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

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

As of June 30, 2020, the fund balance in the Debt Service Fund was \$5,695,840 and is restricted for future debt service expenditures.

GENERAL FUND BUDGET INFORMATION

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

Total General Fund revenues and other financing sources were \$4,379,603 or 2.81% less than budgeted amounts and total General Fund expenditures and other financing uses were \$13,901,796 or 8.75% less than budgeted amounts resulting in a net positive variance of \$9,522,193. Original budgeted amounts used \$3,095,942 of General Fund fund balance as of June 30, 2019 to balance the budget and actual amounts did not use any. Major budgetary highlights for 2019-2020 were as follows:

- Total local source revenues were \$3,128,533 more than budgeted amounts due to collections for current real estate, earned income, mercantile and delinquent real estate and occupation taxes, investment earnings and refunds of prior year expenditures exceeding expectations.
- Total state source revenues were \$3,569,062 less than budgeted amounts as a result less than anticipated funding received through retirement and social Security subsidies which are received on a cost reimbursement model in part due to the impact of COVID-19.
- Total federal source revenues were \$3,939,074 less than budgeted amounts as a result less than anticipated funding received through Title I which is received on a cost reimbursement model in part due to the impact of COVID-19 and the continuity of educational services.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

- Total regular programs were \$7,654,462 less than budgeted amounts as a result less than anticipated expenditures for salaries and wages related to unfilled positions and vacancies and a reduction in medical and dental services in part due to the COVID-19 shutdown. In addition, contracted services for substitute teacher and contracted educational services and tuition were suspended due to the school closure from March 13, 2020 through the end of the year.
- Total support services were \$4,382,722 less than budgeted amounts primarily related to cost savings for utility usage and contracted services for building maintenance and transportation not needed because of the building closures caused by COVID-19. Also, unfilled positions and vacancies and a reduction in medical and dental services in part due to the COVID-19 shutdown contributed to the positive variance.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2019-2020, the net position of the business-type activities and Food Service Fund decreased by \$84,881. As of June 30, 2020, the business-type activities and Food Service Fund had a deficit in net position of \$3,604,836. The deficit in net position directly correlates to the Food Service Fund recording its proportion share of the net pension liability in the Pennsylvania State Employees' Retirement System ("**PSERS**").

CAPITAL ASSETS

The District's net investment in capital asset for its governmental and business-type activities as of June 30, 2020 amounted to \$159,157,367 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$5,493,324 or 3.34%. The decrease was the result of current year depreciation expense in excess of capital additions.

Current year capital additions were \$660,295 and depreciation expense was \$6,153,619.

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$246,747,895 consisting of \$177,690,000 in bonds payable, \$35,260,000 in notes payable and \$8,800,000 in Qualified School Construction Bonds net of deferred credits of \$24,997,895. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$10,887,258 or 4.23% during the current fiscal year.

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

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is \$335,750,506 which exceeds the District's outstanding general obligation debt as of June 30, 2020.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$159,107,650 as of June 30, 2020. The District's net pension liability decreased by \$19,470,820 or 10.90% during the fiscal year.

The District reports a liability for its other post-employment benefits ("**OPEB**") related to its single employer OPEB plan and its participation in the PSERS health insurance premium assistance program. The District's OPEB liability is an actuarially determined estimate of the unfunded cost of the OPEB obligation which totaled \$21,209,494 as of June 30, 2020. The District's OPEB liability decreased by \$446,653 or 2.06% during the fiscal year.

Other noncurrent liabilities consist of the District's liabilities for compensated absences which totaled \$3,118,073 as of June 30, 2020. The District's compensated absences increased by \$359,403 or 13.03% during the fiscal year.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

FACTORS BEARING ON THE DISTRICT'S FUTURE

- On December 12, 2012, the District was declared to be in a state of moderate distress under the Commonwealth of Pennsylvania's Act 141 of 2012. This designation required the appointment of a Chief Recovery Officer who was charged with developing a financial and academic recovery plan for the District. Subsequently, on June 17, 2019, the District was placed into receivership by the Pennsylvania Department of Education (the "**Receiver**") for a term of three years. The Receiver assumed the powers and duties of the Chief Recovery Officer and responsibility for the governance of the District other than the setting of property taxes, which remains with the School Board. In connection with the District's recovery plan, the Receiver has entered into a partnership with Montgomery County Intermediate Unit for a period of three years to provide key administrative functions of the District and develop an intervention plan designed to stabilize and rebuild the financial and human resources systems of the District, design and implement a K-12 academic plan, design a governance plan, hire key administrative positions, and eventually return the District to local control.
- The District adopted a balanced 2020-2021 budget totaling \$158,239,294 and the real estate tax millage rate remained unchanged at 29.78 mills.
- COVID-19 has had a significant impact on the District in 2019-2020. In response the District shifted to a full remote model of instruction. The local economy suffered significant employment losses and the District adjusted the 2020-2021 budget and future forecasts accordingly. District administration is anticipating that future local revenues will be adversely affected by COVID-19 related effects to the local economy including real estate, earned income and local business taxes.

As part of the Elementary and Secondary School Emergency Relief ("**ESSER**") grant program adopted by the federal government to provide COVID-19 relief to public schools, the District will be receiving significant funding through September 2023 as follows: ESSER I \$4.76 million; ESSER II \$25.8 million and ESSER III through the American Rescue Plan \$50.2 million. District administration is developing plans for use of these funds in compliance with federal requirements, and the funds will be included in future budgets.

- The District expects the historical trend for greater local tax effort to fund instructional programs and services to continue as state and federal funding for public education is expected to increase at a rate that is less than the expected increase in expenditures, as was seen during the 2020-2021 Commonwealth of Pennsylvania budget process. The Commonwealth of Pennsylvania provided for approximately 55% of total revenue sources to fund costs supporting the District's educational programs during fiscal 2019-2020 while local sources of revenue, primarily property taxes, provide approximately 40%.
- In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increases in real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduced certain new requirements on school districts which include the following:
 - ♦ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (3.90% for the School District of the City of Harrisburg for 2020-2021), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
 - ♦ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2020

- ♦ Gaming revenues distributed under the provisions of Act 1 are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders. (Act 1 permitted gambling in Pennsylvania.)
- In November 2010 and, again, in 2017 legislation was signed into law to implement a series of actuarial and funding changes to the Public School Employees' Retirement System ("**PSERS**"). The 2017 law will not take effect until July of 2019. The law will change the pension plans for all new hires effective July 1, 2019. The new legislation does not impact the pension benefits of current or retired PSERS members. Based on available projections, school districts will not see relief from the new legislation until 10-20 years in the future. Currently, the employer contribution rate for 2020-2021 is 34.51% which is an increase of 0.64% from the 2019-2020 employer contribution rate of 34.29%.
- Professional/instructional employees of the District are represented for purposes of collective bargaining by the Harrisburg Education Association ("**HEA**"), which is affiliated with the Pennsylvania State Education Association ("**PSEA**"). This agreement which expired June 30, 2018 was renegotiated in February 2020, for a new three-year term. The expiration date of the new collective bargaining agreement which is in place between the District and the HEA is June 30, 2021.
- Support staff (including custodians, food service workers, paraprofessionals, etc.) are represented for purposes of collective bargaining by the American Federation of State, County and Municipal Employees ("**AFSCME**"). This agreement expired on June 30, 2019 and is in the process of being renegotiated.
- Non-represented employees are covered by compensation plans for all Act 93 employees. The compensation plan for Act 93 employees expires on June 30, 2021.
- The District is partnering with its financial advisor to take advantage of refunding opportunities for its general obligation debt in an effort to restructure its debt, reduce future debt service payments and support capital improvements.
- The District is currently in the process of evaluating its buildings and facilities in an effort to prioritize capital projects in conjunction with the development of District-wide capital improvement plan and to best meet the needs of the District's projected future enrollment.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2020 with summarized comparative totals for 2019

| | Governmental | Business-type | Totals | |
|--|-------------------------|-----------------------|-------------------------|-------------------------|
| | Activities | Activities | 2020 | 2019 |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | |
| CURRENT ASSETS | | | | |
| Cash | \$ 19,613,844 | \$ 127,728 | \$ 19,741,572 | \$ 10,673,602 |
| Investments | 6,500,000 | - | 6,500,000 | 13,000,000 |
| Taxes receivable | 13,540,844 | - | 13,540,844 | 12,606,074 |
| Due from other governments | 11,408,316 | 177,584 | 11,585,900 | 12,433,195 |
| Internal balances | 1,470,278 | (1,470,278) | - | - |
| Other receivables | 331,162 | 2,520 | 333,682 | 1,009,390 |
| Prepaid expenses | 13,753 | - | 13,753 | - |
| Inventories | 1,503 | 40,050 | 41,553 | 38,797 |
| Total current assets | 52,879,700 | (1,122,396) | 51,757,304 | 49,761,058 |
| NONCURRENT ASSETS | | | | |
| Restricted assets | | | | |
| Cash held by fiscal agent | 1,549 | - | 1,549 | 2,217 |
| Investments held by fiscal agent | 5,356,145 | - | 5,356,145 | 4,294,990 |
| Prepaid bond insurance | 758,860 | - | 758,860 | 821,761 |
| Capital assets, net | 158,845,182 | 312,185 | 159,157,367 | 164,650,691 |
| Total noncurrent assets | 164,961,736 | 312,185 | 165,273,921 | 169,769,659 |
| Total assets | 217,841,436 | (810,211) | 217,031,225 | 219,530,717 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred amounts on debt refunding | 10,497,919 | - | 10,497,919 | 11,580,942 |
| Deferred charges on proportionate share of pension - PSERS | 26,135,706 | 451,972 | 26,587,678 | 37,446,704 |
| Deferred charges OPEB - single employer | 1,021,750 | 53,308 | 1,075,058 | 1,224,374 |
| Deferred charges on proportionate share of OPEB - PSERS | 1,264,062 | 21,863 | 1,285,925 | 1,341,828 |
| Total deferred outflows of resources | 38,919,437 | 527,143 | 39,446,580 | 51,593,848 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT) | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | 8,554,532 | 117,730 | 8,672,262 | 8,815,092 |
| Accrued salaries, payroll withholdings and benefits | 10,693,856 | 46,516 | 10,740,372 | 15,381,143 |
| Accrued interest payable | 1,218,975 | - | 1,218,975 | 1,249,260 |
| Grants received in advance | 262,808 | 6,277 | 269,085 | 280,758 |
| Total current liabilities | 20,730,171 | 170,523 | 20,900,694 | 25,726,253 |
| NONCURRENT LIABILITIES | | | | |
| Due within one year | 12,152,258 | - | 12,152,258 | 10,887,258 |
| Due in more than one year | 415,296,629 | 2,734,225 | 418,030,854 | 449,741,182 |
| Total noncurrent liabilities | 427,448,887 | 2,734,225 | 430,183,112 | 460,628,440 |
| Total liabilities | 448,179,058 | 2,904,748 | 451,083,806 | 486,354,693 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred changes on proportionate share of pension - PSERS | 17,331,937 | 290,063 | 17,622,000 | 4,513,000 |
| Deferred charges OPEB - single employer | 2,172,343 | 113,424 | 2,285,767 | 2,070,909 |
| Deferred changes on proportionate share of OPEB - PSERS | 779,467 | 13,533 | 793,000 | 294,000 |
| Total deferred inflows of resources | 20,283,747 | 417,020 | 20,700,767 | 6,877,909 |
| NET POSITION (DEFICIT) | | | | |
| Net investment in capital assets | (77,312,375) | 312,185 | (77,000,190) | (81,312,035) |
| Restricted | 6,416,201 | - | 6,416,201 | 4,840,039 |
| Unrestricted (deficit) | (140,805,758) | (3,917,021) | (144,722,779) | (145,636,041) |
| Total net position (deficit) | \$ (211,701,932) | \$ (3,604,836) | \$ (215,306,768) | \$ (222,108,037) |

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF ACTIVITIES

Year ended June 30, 2020 with summarized comparative totals for 2019

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position (Deficit)</u> | | | |
|--|-----------------------|-------------------------------------|---|---|--|-------------------------------------|-------------------------|-------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Totals</u> | |
| | | | | | | | <u>2020</u> | <u>2019</u> |
| GOVERNMENTAL ACTIVITIES | | | | | | | | |
| Instruction | \$ 91,990,124 | \$ 276,837 | \$ 29,726,240 | \$ - | \$ (61,987,047) | \$ - | \$ (61,987,047) | \$ (68,127,604) |
| Instructional student support | 11,675,473 | - | 1,369,734 | - | (10,305,739) | - | (10,305,739) | (9,357,180) |
| Administrative and financial support services | 13,494,331 | - | 1,408,219 | - | (12,086,112) | - | (12,086,112) | (13,296,325) |
| Operation and maintenance of plant services | 12,795,256 | 58,983 | 582,692 | - | (12,153,581) | - | (12,153,581) | (13,179,992) |
| Pupil transportation | 3,766,313 | - | 1,808,077 | - | (1,958,236) | - | (1,958,236) | (2,134,191) |
| Student activities | 689,921 | 44,006 | 77,640 | - | (568,275) | - | (568,275) | (700,597) |
| Community services | 604,369 | - | 98,117 | - | (506,252) | - | (506,252) | (475,400) |
| Interest and amortization expense related to noncurrent liabilities | 9,479,928 | - | 712,725 | - | (8,767,203) | - | (8,767,203) | (8,055,119) |
| Total governmental activities | <u>144,495,715</u> | <u>379,826</u> | <u>35,783,444</u> | <u>-</u> | <u>(108,332,445)</u> | <u>-</u> | <u>(108,332,445)</u> | <u>(115,326,408)</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | | | | |
| Food service | 4,930,447 | 65,433 | 4,779,380 | - | - | (85,634) | (85,634) | (845,495) |
| Total primary government | <u>\$ 149,426,162</u> | <u>\$ 445,259</u> | <u>\$ 40,562,824</u> | <u>\$ -</u> | <u>(108,332,445)</u> | <u>(85,634)</u> | <u>(108,418,079)</u> | <u>(116,171,903)</u> |
| GENERAL REVENUES | | | | | | | | |
| Property taxes levied for general purposes | | | | | 46,964,184 | - | 46,964,184 | 47,865,578 |
| Earned income taxes levied for general purposes | | | | | 4,195,706 | - | 4,195,706 | 4,003,609 |
| Other taxes levied for general purposes | | | | | 5,889,727 | - | 5,889,727 | 4,858,497 |
| Grants and entitlements not restricted to specific programs | | | | | 56,563,908 | - | 56,563,908 | 55,205,126 |
| Investment earnings | | | | | 1,605,070 | 753 | 1,605,823 | 1,063,380 |
| Total general revenues | | | | | <u>115,218,595</u> | <u>753</u> | <u>115,219,348</u> | <u>112,996,190</u> |
| CHANGE IN NET POSITION (DEFICIT) | | | | | 6,886,150 | (84,881) | 6,801,269 | (3,175,713) |
| NET POSITION (DEFICIT) | | | | | | | | |
| Beginning of year | | | | | <u>(218,588,082)</u> | <u>(3,519,955)</u> | <u>(222,108,037)</u> | <u>(218,932,324)</u> |
| End of year | | | | | <u>\$ (211,701,932)</u> | <u>\$ (3,604,836)</u> | <u>\$ (215,306,768)</u> | <u>\$ (222,108,037)</u> |

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020 with summarized comparative totals for 2019

| | Major Funds | | | Totals | |
|---|----------------------|-------------------|---------------------|----------------------|----------------------|
| | General | Capital | Debt | 2020 | 2019 |
| | Fund | Projects | Service | | |
| | | | | | |
| ASSETS | | | | | |
| Cash | \$ 18,852,699 | \$ 422,999 | \$ 338,146 | \$ 19,613,844 | \$ 10,661,947 |
| Investments | 6,500,000 | - | - | 6,500,000 | 13,000,000 |
| Restricted assets: | | | | | |
| Cash held by fiscal agent | - | - | 1,549 | 1,549 | 2,217 |
| Investments held by fiscal agent | - | - | 5,356,145 | 5,356,145 | 4,294,990 |
| Taxes receivable | 13,540,844 | - | - | 13,540,844 | 12,606,074 |
| Due from other funds | 1,580,497 | 500,000 | - | 2,080,497 | 1,060,891 |
| Due from other governments | 11,408,316 | - | - | 11,408,316 | 11,640,269 |
| Other receivables | 331,162 | - | - | 331,162 | 996,984 |
| Prepaid expenses | 13,753 | - | - | 13,753 | - |
| Inventories | 1,503 | - | - | 1,503 | 3,589 |
| Total assets | \$ 52,228,774 | \$ 922,999 | \$ 5,695,840 | \$ 58,847,613 | \$ 54,266,961 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | \$ 8,554,532 | \$ - | \$ - | \$ 8,554,532 | \$ 8,000,583 |
| Due to other funds | 500,000 | 110,219 | - | 610,219 | 110,219 |
| Accrued salaries, payroll withholdings and benefits | 10,693,856 | - | - | 10,693,856 | 15,272,250 |
| Grants received in advance | 262,808 | - | - | 262,808 | 280,758 |
| Total liabilities | 20,011,196 | 110,219 | - | 20,121,415 | 23,663,810 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable revenues - property taxes | 10,407,968 | - | - | 10,407,968 | 10,288,268 |
| FUND BALANCES | | | | | |
| Nonspendable | | | | | |
| Long-term receivables | 1,580,497 | - | - | 1,580,497 | 1,060,891 |
| Prepaid expenses | 13,753 | - | - | 13,753 | - |
| Inventories | 1,503 | - | - | 1,503 | 3,589 |
| Restricted for | | | | | |
| Capital projects | - | 812,780 | - | 812,780 | 308,391 |
| Debt service | - | - | 5,695,840 | 5,695,840 | 4,623,133 |
| Committed to | | | | | |
| Athletics and band reserve | 500,000 | - | - | 500,000 | 402,381 |
| Balance 2019-2020 budget | - | - | - | - | 1,843,023 |
| Assigned to | | | | | |
| Capital improvements | 7,000,000 | - | - | 7,000,000 | 7,000,000 |
| Healthcare reserve | 1,000,000 | - | - | 1,000,000 | - |
| Enrollment stabilization | 1,000,000 | - | - | 1,000,000 | - |
| Unassigned | 10,713,857 | - | - | 10,713,857 | 5,073,475 |
| Total fund balances | 21,809,610 | 812,780 | 5,695,840 | 28,318,230 | 20,314,883 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 52,228,774 | \$ 922,999 | \$ 5,695,840 | \$ 58,847,613 | \$ 54,266,961 |

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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

June 30, 2020

| | |
|---|--------------------------------|
| TOTAL GOVERNMENTAL FUND BALANCES | \$ 28,318,230 |
| <p>Amounts reported for governmental activities in the statement of net position (deficit) are different because:</p> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet. | 158,845,182 |
| Prepaid bond insurance reported in the governmental activities is not a financial resource and therefore is not reported in the governmental funds. | 758,860 |
| Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position (deficit). | 10,497,919 |
| Deferred outflows of resources and deferred inflows of resources related to pensions and other post-employment benefits are not reported as assets and liabilities in the governmental funds balance sheet. | 8,137,771 |
| Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds balance sheet. | 10,407,968 |
| Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet. | (427,448,887) |
| Accrued interest payable on long-term liabilities is included in the government-wide statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable. | <u>(1,218,975)</u> |
| NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES | <u>\$ (211,701,932)</u> |

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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

Year ended June 30, 2020 with summarized comparative totals for 2019

| | Major Funds | | | Totals | |
|--|----------------------|-------------------|---------------------|----------------------|----------------------|
| | General | Capital | Debt | 2020 | 2019 |
| | Fund | Projects | Service | | |
| | | | | | |
| REVENUES | | | | | |
| Local sources | \$ 59,254,093 | \$ 4,389 | \$ 1,149,186 | \$ 60,407,668 | \$ 57,178,879 |
| State sources | 80,877,538 | - | - | 80,877,538 | 80,292,333 |
| Federal sources | 11,189,557 | - | - | 11,189,557 | 14,711,772 |
| Total revenues | <u>151,321,188</u> | <u>4,389</u> | <u>1,149,186</u> | <u>152,474,763</u> | <u>152,182,984</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Instruction | 87,462,588 | - | - | 87,462,588 | 95,582,433 |
| Support services | 36,379,227 | - | - | 36,379,227 | 37,123,192 |
| Operation of noninstructional services | 1,103,781 | - | - | 1,103,781 | 1,176,164 |
| Facilities acquisition, construction and improvement services | - | - | - | - | 987,214 |
| Debt service | - | - | 19,242,917 | 19,242,917 | 19,476,605 |
| Total expenditures | <u>124,945,596</u> | <u>-</u> | <u>19,242,917</u> | <u>144,188,513</u> | <u>154,345,608</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>26,375,592</u> | <u>4,389</u> | <u>(18,093,731)</u> | <u>8,286,250</u> | <u>(2,162,624)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Sale of/compensation for capital assets | - | - | - | - | 17,091 |
| Refund of prior year receipts | (282,903) | - | - | (282,903) | (408,044) |
| Transfers in | - | 500,000 | 19,166,438 | 19,666,438 | 21,251,796 |
| Transfers out | (19,666,438) | - | - | (19,666,438) | (21,251,796) |
| Total other financing sources (uses) | <u>(19,949,341)</u> | <u>500,000</u> | <u>19,166,438</u> | <u>(282,903)</u> | <u>(390,953)</u> |
| NET CHANGE IN FUND BALANCES | 6,426,251 | 504,389 | 1,072,707 | 8,003,347 | (2,553,577) |
| FUND BALANCES | | | | | |
| Beginning of year | <u>15,383,359</u> | <u>308,391</u> | <u>4,623,133</u> | <u>20,314,883</u> | <u>22,868,460</u> |
| End of year | <u>\$ 21,809,610</u> | <u>\$ 812,780</u> | <u>\$ 5,695,840</u> | <u>\$ 28,318,230</u> | <u>\$ 20,314,883</u> |

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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

Year ended June 30, 2020

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 8,003,347

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

| | | |
|-----------------------------|--------------------|-------------|
| Capital outlay expenditures | \$ 655,525 | |
| Depreciation expense | <u>(6,058,796)</u> | (5,403,271) |

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount in the current period.

| | | |
|---|-------------------|---------|
| Deferred inflows of resources June 30, 2019 | (10,288,268) | |
| Deferred inflows of resources June 30, 2020 | <u>10,407,968</u> | 119,700 |

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

| | | |
|---|----------------|-----------|
| Repayment of bonds and notes payable | 8,980,000 | |
| Amortization of discounts, premiums, deferred amounts on refunding and prepaid bond insurance | <u>761,334</u> | 9,741,334 |

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

| | | |
|--|------------------|--------------------|
| Change in net pension liability and related deferred inflows and outflows | (4,751,357) | |
| Current year change in accrued interest payable | 30,285 | |
| Current year change in compensated absences | (353,680) | |
| Change in net post-employment benefit (OPEB) liability and related deferred inflows and outflows | <u>(500,208)</u> | <u>(5,574,960)</u> |

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ 6,886,150

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUND

June 30, 2020 with summarized comparative totals for 2019

| | <u>Major Fund</u> | |
|--|--------------------------|-----------------------|
| | <u>Food Service Fund</u> | |
| | <u>2020</u> | <u>2019</u> |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| CURRENT ASSETS | | |
| Cash | \$ 127,728 | \$ 11,655 |
| Due from other governments | 177,584 | 792,926 |
| Other receivables | 2,520 | 12,406 |
| Inventories | 40,050 | 35,208 |
| Total current assets | <u>347,882</u> | <u>852,195</u> |
| NONCURRENT ASSETS | | |
| Capital assets, net | 312,185 | 402,238 |
| Total assets | <u>660,067</u> | <u>1,254,433</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charges on proportionate share of pension - PSERS | 451,972 | 639,065 |
| Deferred charges OPEB - single employer | 53,308 | 49,428 |
| Deferred charges on proportionate share of OPEB - PSERS | 21,863 | 22,900 |
| Total deferred outflows of resources | <u>527,143</u> | <u>711,393</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 117,730 | 814,509 |
| Accrued salaries and benefits | 46,516 | 108,893 |
| Unearned revenue | 6,277 | - |
| Due to other funds | 1,470,278 | 950,672 |
| Total current liabilities | <u>1,640,801</u> | <u>1,874,074</u> |
| NONCURRENT LIABILITIES | | |
| Compensated absences | 13,123 | 7,400 |
| Net pension liability - PSERS | 2,393,328 | 3,047,616 |
| OPEB liability - single employer | 218,968 | 224,872 |
| Net OPEB liability - PSERS | 108,806 | 132,364 |
| Total noncurrent liabilities | <u>2,734,225</u> | <u>3,412,252</u> |
| Total liabilities | <u>4,375,026</u> | <u>5,286,326</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred credits on proportionate share of pension - PSERS | 290,063 | 77,019 |
| Deferred credits OPEB - single employer | 113,424 | 117,419 |
| Deferred credits on proportionate share of OPEB - PSERS | 13,533 | 5,017 |
| Total deferred inflows of resources | <u>417,020</u> | <u>199,455</u> |
| NET POSITION (DEFICIT) | | |
| Net investment in capital assets | 312,185 | 402,238 |
| Unrestricted | <u>(3,917,021)</u> | <u>(3,922,193)</u> |
| Total net position (deficit) | <u>\$ (3,604,836)</u> | <u>\$ (3,519,955)</u> |

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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

June 30, 2020 with summarized comparative totals for 2019

| | Major Fund | |
|--|--------------------------|-----------------------|
| | Food Service Fund | |
| | 2020 | 2019 |
| OPERATING REVENUES | | |
| Charges for services | \$ 65,433 | \$ 107,941 |
| OPERATING EXPENSES | | |
| Salaries and wages | 699,169 | 791,358 |
| Employee benefits | 358,372 | 919,583 |
| Purchased property services | 205,418 | 84,224 |
| Other purchased services | 3,137,211 | 4,234,380 |
| Supplies | 435,404 | 497,750 |
| Depreciation | 94,823 | 106,522 |
| Other operating expenses | 50 | 50 |
| Total operating expenses | <u>4,930,447</u> | <u>6,633,867</u> |
| Operating loss | <u>(4,865,014)</u> | <u>(6,525,926)</u> |
| NONOPERATING REVENUES | | |
| Earnings on investments | 753 | 1,047 |
| Contributions and donations from private sources | 40,000 | 41,000 |
| State sources | 434,300 | 426,576 |
| Federal sources | 4,305,080 | 5,212,855 |
| Total nonoperating revenues | <u>4,780,133</u> | <u>5,681,478</u> |
| CHANGE IN NET POSITION (DEFICIT) | (84,881) | (844,448) |
| NET POSITION (DEFICIT) | | |
| Beginning of year | <u>(3,519,955)</u> | <u>(2,675,507)</u> |
| End of year | <u>\$ (3,604,836)</u> | <u>\$ (3,519,955)</u> |

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

Year ended June 30, 2020 with summarized comparative totals for 2019

| | Major Fund | |
|--|--------------------------|-----------------------|
| | Food Service Fund | |
| | <u>2020</u> | <u>2019</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from charges for services | \$ 81,596 | \$ 173,934 |
| Cash payments to employees for services | (1,396,130) | (1,648,102) |
| Cash payments to suppliers for goods and services | <u>(3,719,046)</u> | <u>(3,798,143)</u> |
| Net cash used for operating activities | <u>(5,033,580)</u> | <u>(5,272,311)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Contributions and donations from private sources | 40,000 | 41,000 |
| State sources | 453,671 | 383,118 |
| Federal sources | <u>4,659,999</u> | <u>4,982,758</u> |
| Net cash provided by noncapital financing activities | <u>5,153,670</u> | <u>5,406,876</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition of capital assets | <u>(4,770)</u> | <u>(130,268)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Earnings on investments | <u>753</u> | <u>1,047</u> |
| Net increase in cash | 116,073 | 5,344 |
| CASH | | |
| Beginning of year | <u>11,655</u> | <u>6,311</u> |
| End of year | <u>\$ 127,728</u> | <u>\$ 11,655</u> |
| Reconciliation of operating loss to net cash provided by (used for) operating activities: | | |
| Operating loss | \$ (4,865,014) | \$ (6,525,926) |
| Adjustments to reconcile operating loss to net cash provided by (used for) operating activities | | |
| Depreciation | 94,823 | 106,522 |
| Donated commodities used | 241,052 | 277,131 |
| (Increase) decrease in | | |
| Inventories | (4,842) | 18,394 |
| Other receivables | 9,886 | 65,993 |
| Deferred outflows of resources | 184,250 | 164,649 |
| Increase (decrease) in | | |
| Accounts payable | (696,779) | 722,736 |
| Accrued salaries and benefits | (62,377) | 24,333 |
| Due to other funds | 519,606 | (80,885) |
| Unearned revenue | 6,277 | - |
| Compensated absences | 5,723 | (7,305) |
| Net pension liability - PSERS | (654,288) | (123,344) |
| Net OPEB liability - single employer and PSERS | (29,462) | 13,212 |
| Deferred inflows of resources | <u>217,565</u> | <u>72,179</u> |
| Net cash used for operating activities | <u>\$ (5,033,580)</u> | <u>\$ (5,272,311)</u> |
| SUPPLEMENTAL DISCLOSURE | | |
| Noncash noncapital financing activity | | |
| USDA donated commodities | <u>\$ 241,052</u> | <u>\$ 277,131</u> |

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2020

| | Private- Purpose Trust | Agency |
|---|---------------------------------------|-------------------|
| ASSETS | | |
| Cash | \$ 100,472 | \$ 176,381 |
| Other receivables | <u>-</u> | <u>18</u> |
| Total assets | <u>100,472</u> | <u>176,399</u> |
| LIABILITIES | | |
| Accounts payable | 3,600 | \$ 73,957 |
| Funds held for others | <u>-</u> | <u>102,442</u> |
| | <u>3,600</u> | <u>\$ 176,399</u> |
| NET POSITION | | |
| Net position held in trust for scholarships | <u>\$ 96,872</u> | |

See accompanying notes

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended June 30, 2020 with summarized comparative totals for 2019

| | Private-Purpose Trust Fund | |
|-----------------------------------|---------------------------------------|-------------------------|
| | <u>2020</u> | <u>2019</u> |
| ADDITIONS | | |
| Local contributions | \$ 1,041 | \$ 8,162 |
| DEDUCTIONS | | |
| Scholarships/awards and fees paid | <u>600</u> | <u>6,500</u> |
| CHANGE IN NET POSITION | 441 | 1,662 |
| NET POSITION | | |
| Beginning of year | <u>96,431</u> | <u>94,769</u> |
| End of year | <u>\$ 96,872</u> | <u>\$ 96,431</u> |

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Reporting Entity

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

Basis of Presentation

Government-Wide Financial Statements

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

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Revenue Recognition

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Expenditure Recognition

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

Proprietary Funds

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

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

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

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of the students of the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

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

Investments

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

Fair Value Measurements of Assets and Liabilities

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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

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

Interfund Receivables and Payables

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

Property Taxes

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

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

The County Board of Assessments determines assessed valuations of property, and the taxes are billed and collected by the Treasurer of the City of Harrisburg. The tax on real estate for public school purposes for fiscal 2019-2020 was 29.78 mills (\$29.78 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

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

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

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

Prepaid Items and Inventories

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Capital Assets

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

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

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

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

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2020.

Compensated Absences

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

Long-Term Obligations

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

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

Fund Equity

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

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

Unassigned

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

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

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

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Use of Estimates

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

New Accounting Pronouncements

GASB Statement No. 84, "*Fiduciary Activities*" will be effective for the District for the year ended June 30, 2021. The objective GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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

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

GASB Statement No. 90, "*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*", will be effective for the District for the year ended June 30, 2021. The primary objects of GASB Statement No. 90 are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

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

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

(3) DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2020, the carrying amount of the District's deposits was \$20,019,974 and the bank balance was \$22,546,772. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$751,549 was covered by federal depository insurance, and \$6,569,310 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**"), Pennsylvania Local Government Investment Trust ("**PLGIT**") and the Pennsylvania Treasurer's Program for Local Governments ("**INVEST**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF, PLGIT and INVEST act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized statistical rating organization and are subject to independent annual audit. As of June 30, 2020, PSDLAF, PLGIT and INVEST were rated as AAA by a nationally recognized statistical rating agency.

Investments

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

As of June 30, 2020, the District had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (In Years)</u> | | | |
|--|---------------------|---|--------------|--------------------|----------------|
| | | <u>Less than 1</u> | <u>1 – 5</u> | <u>6 – 10</u> | <u>11 – 15</u> |
| U.S. Treasury strips | \$ 5,356,145 | \$ - | \$ - | \$5,356,145 | \$ - |
| PSDLAF collateralized Investment pools | 6,500,000 | 6,500,000 | - | - | - |
| | <u>\$11,856,145</u> | <u>\$6,500,000</u> | <u>\$ -</u> | <u>\$5,356,145</u> | <u>\$ -</u> |

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral that is in the possession of an outside party. The District had no investments subject to custodial credit risk as of June 30, 2020.

Interest Rate Risk

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

Credit Risk

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

Restricted Deposits and Investments

The District maintains restricted cash and investment balances held by fiscal agents, which are restricted for the repayment of Qualified School Construction Bonds (**See Note 7**). The total carrying amounts and related bank balances of these cash and investment accounts are \$5,357,694 as of June 30, 2020, which are invested in U.S. Treasury securities.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|--------------------------|------------------|------------------|-----------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 13,614 | \$ - | \$ - | \$ 13,614 |
| Construction in progress | 27,554 | - | - | 27,554 |
| Total capital assets not being depreciated | <u>41,168</u> | <u>-</u> | <u>-</u> | <u>41,168</u> |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 241,545,496 | 32,900 | - | 241,578,396 |
| Furniture and equipment | 19,042,511 | 622,625 | - | 19,665,136 |
| Total capital assets being depreciated | <u>260,588,007</u> | <u>655,525</u> | <u>-</u> | <u>261,243,532</u> |

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

| | | | | |
|--|----------------------|----------------------|-------------|-----------------------|
| Less accumulated depreciation for | | | | |
| Buildings and improvements | (81,068,729) | (5,340,019) | - | (86,408,748) |
| Furniture and equipment | <u>(15,311,993)</u> | <u>(718,777)</u> | - | <u>(16,030,770)</u> |
| Total accumulated depreciation | <u>(96,380,722)</u> | <u>(6,058,796)</u> | - | <u>(102,439,518)</u> |
| Total capital assets being depreciated, net | <u>164,207,285</u> | <u>(5,403,271)</u> | - | <u>158,804,014</u> |
| Governmental activities, net | <u>\$164,248,453</u> | <u>\$(5,403,271)</u> | <u>\$ -</u> | <u>\$ 158,845,182</u> |
| Business-type activities | | | | |
| Machinery and equipment | \$ 2,071,691 | \$ 4,770 | \$ - | \$ 2,076,461 |
| Less accumulated depreciation | <u>(1,669,453)</u> | <u>(94,823)</u> | - | <u>(1,764,276)</u> |
| Business-type activities, net | <u>\$ 402,238</u> | <u>\$ (90,053)</u> | <u>\$ -</u> | <u>\$ 312,185</u> |

The District has two buildings for sale with a total net book value of \$2,034,310 as of June 30, 2020

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

| | |
|---|--------------------|
| Governmental activities | |
| Instruction | \$1,419,055 |
| Instructional student support | 369,198 |
| Administrative and financial support services | 1,024,930 |
| Operation and maintenance of plant services | 3,131,732 |
| Student activities | <u>113,881</u> |
| Total depreciation expense – governmental activities | <u>\$6,058,796</u> |
| Business-type activities | |
| Food service | <u>\$ 94,823</u> |

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2020 is as follows:

| <u>Receivable To</u> | <u>Amount</u> | <u>Payable From</u> | <u>Amount</u> |
|-----------------------|---------------------|-----------------------|---------------------|
| General Fund | \$ 110,219 | Capital Projects Fund | \$ 110,219 |
| Capital Projects Fund | 500,000 | General Fund | 500,000 |
| General Fund | <u>1,470,278</u> | Food Service Fund | <u>1,470,278</u> |
| | <u>\$ 2,080,497</u> | | <u>\$ 2,080,497</u> |

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

A summary of interfund transfers for the year ended June 30, 2020 is as follows:

| <u>Transfers In</u> | <u>Amount</u> | <u>Transfers Out</u> | <u>Amount</u> |
|-----------------------|---------------------|----------------------|---------------------|
| Capital Projects Fund | \$ 500,000 | General Fund | \$ 500,000 |
| Debt Service Fund | <u>19,166,438</u> | General Fund | <u>19,166,438</u> |
| | <u>\$19,666,438</u> | | <u>\$19,666,438</u> |

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2020:

| | <u>Balance July 1, 2019</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2020</u> | <u>Amount Due Within One Year</u> |
|---|---------------------------------|--------------------|---------------------|----------------------------------|---|
| Governmental activities | | | | | |
| General obligation debt | | | | | |
| Bonds payable | \$186,485,000 | \$ - | \$ 8,795,000 | \$177,690,000 | \$ 9,550,000 |
| Notes payable | 35,445,000 | - | 185,000 | 35,260,000 | 695,000 |
| Qualified school construction bonds | 8,800,000 | - | - | 8,800,000 | - |
| Bond premiums | 27,194,718 | - | 1,926,562 | 25,268,156 | 1,926,562 |
| Bond discounts | <u>(289,565)</u> | <u>-</u> | <u>(19,304)</u> | <u>(270,261)</u> | <u>(19,304)</u> |
| Total general obligation debt | <u>257,635,153</u> | <u>-</u> | <u>10,887,258</u> | <u>246,747,895</u> | <u>12,152,258</u> |
| Other noncurrent liabilities | | | | | |
| Compensated absences | 2,751,270 | 353,680 | - | 3,104,950 | - |
| Net pension liability - PSERS | 175,530,854 | - | 18,816,532 | 156,714,322 | - |
| Net OPEB liability – PSERS | 7,623,646 | - | 499,062 | 7,124,584 | - |
| OPEB liability | <u>13,675,265</u> | <u>1,457,554</u> | <u>1,375,683</u> | <u>13,757,136</u> | <u>-</u> |
| Total other noncurrent liabilities | <u>199,581,035</u> | <u>1,811,234</u> | <u>20,691,277</u> | <u>180,700,992</u> | <u>-</u> |
| Total governmental activities | <u>457,216,188</u> | <u>1,811,234</u> | <u>31,578,535</u> | <u>427,448,887</u> | <u>12,152,258</u> |
| Business-type activities | | | | | |
| Compensated absences | 7,400 | 5,723 | - | 13,123 | - |
| Net pension liability - PSERS | 3,047,616 | - | 654,288 | 2,393,328 | - |
| Net OPEB liability – PSERS | 132,364 | - | 23,558 | 108,806 | - |
| OPEB liability | <u>224,872</u> | <u>20,118</u> | <u>26,022</u> | <u>218,968</u> | <u>-</u> |
| Total business-type activities | <u>3,412,252</u> | <u>25,841</u> | <u>703,868</u> | <u>2,734,225</u> | <u>-</u> |
| Total noncurrent liabilities | <u>\$460,628,440</u> | <u>\$1,837,075</u> | <u>\$32,282,403</u> | <u>\$430,183,112</u> | <u>\$12,152,258</u> |

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

(7) GENERAL OBLIGATION DEBT

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

Qualified School Construction Bonds

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

General obligation debt outstanding as of June 30, 2020 consisted of the following:

| <u>Description</u> | <u>Interest Rate(s)</u> | <u>Original Issue Amount</u> | <u>Final Maturity</u> | <u>Principal Outstanding</u> |
|--|-------------------------|------------------------------|-----------------------|------------------------------|
| General obligation bonds | | | | |
| Series of 2014A | 1.273% - 3.284% | \$23,880,000 | 12/01/2020 | \$ 1,545,000 |
| Series of 2014B-1 | 2.015% - 4.079% | \$6,740,000 | 12/01/2023 | 6,725,000 |
| Series of 2014B-2 | 3.00% - 4.00% | \$20,895,000 | 12/01/2034 | 20,840,000 |
| Series of 2015 | 2.00% - 3.375% | \$9,960,000 | 11/15/2023 | 9,935,000 |
| Series of 2016 | 2.00% - 3.125% | \$9,995,000 | 11/15/2023 | 9,980,000 |
| Series of 2016A | 2.00% - 5.00% | \$125,735,000 | 12/01/2033 | 125,720,000 |
| Series of 2016B | 2.116% | \$2,945,000 | 12/01/2020 | <u>2,945,000</u> |
| Total general obligation bonds | | | | <u>177,690,000</u> |
| General obligation notes | | | | |
| Series of 2017A | 1.43% - 3.12% | \$9,675,000 | 11/15/2024 | 5,750,000 |
| Series of 2017B | 3.00% - 5.00% | \$29,560,000 | 11/15/2027 | <u>29,510,000</u> |
| Total general obligation notes | | | | <u>35,260,000</u> |
| Qualified school construction bonds | | | | |
| Series of 2010 | 5.00% | \$9,194,000 | 09/15/2027 | <u>8,800,000</u> |
| Total general obligation debt | | | | <u>\$221,750,000</u> |

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

| <u>Year ending June 30,</u> | <u>Principal Maturities</u> | <u>Interest Maturities</u> | <u>Debt Sinking Fund</u> | <u>Total</u> |
|-----------------------------|-----------------------------|----------------------------|--------------------------|----------------------|
| 2021 | \$ 10,245,000 | \$ 9,961,884 | \$ 547,313 | \$ 20,754,197 |
| 2022 | 11,465,000 | 9,527,435 | 547,313 | 21,539,748 |
| 2023 | 11,580,000 | 8,997,817 | 547,313 | 21,125,130 |
| 2024 | 11,815,000 | 8,467,394 | 547,313 | 20,829,707 |
| 2025 | 13,245,000 | 7,901,468 | 547,313 | 21,693,781 |
| 2026-2030 | 86,120,000 | 27,682,139 | (7,525,061) | 106,277,078 |
| 2031-2035 | <u>77,280,000</u> | <u>6,874,645</u> | <u>-</u> | <u>84,154,645</u> |
| | <u>\$221,750,000</u> | <u>\$79,412,782</u> | <u>\$(4,788,496)</u> | <u>\$296,374,286</u> |

(8) OTHER POST-EMPLOYMENT BENEFITS

Single-Employer Defined Benefit OPEB Plan

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

OPEB Plan Membership

Membership in the OPEB plan consisted of the following at July 1, 2018:

| | |
|----------------------------|------------|
| Active participants | 925 |
| Vested former participants | - |
| Retired participants | <u>64</u> |
| Total | <u>989</u> |

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Funding Policy

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

OPEB Liability

The District's OPEB liability has been measured as of June 30, 2020. The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, and by rolling forward the liabilities from the July 1, 2018 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The OPEB liability is \$13,976,104, all of which is unfunded. As of June 30, 2020, the OPEB liability of \$13,757,136 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit) and the remaining \$218,968 of the OPEB liability is recorded as a liability in the proprietary fund statement of net position, and in the business-type activities in the government-wide statement of net position (deficit).

The District's change in its OPEB liability for the year ended June 30, 2020 was as follows:

| | |
|------------------------------------|---------------------|
| Balance as of July 1, 2019 | <u>\$13,900,137</u> |
| Changes for the year | |
| Service cost | 1,048,330 |
| Interest on total OPEB liability | 429,342 |
| Changes in assumptions | (402,939) |
| Benefit payments | <u>(998,766)</u> |
| Net changes | <u>75,967</u> |
| Balance as of June 30, 2020 | <u>\$13,976,104</u> |

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$1,308,392. At June 30, 2020, the District had deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference between projected and actual experience | \$ - | \$1,038,977 |
| Changes in assumptions | 206,807 | 1,246,790 |
| Contributions subsequent to the measurement date | <u>868,251</u> | <u>-</u> |
| | <u>\$1,075,058</u> | <u>\$2,285,767</u> |

\$868,251 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30,</u> | |
|----------------------------|-----------------------|
| 2021 | \$ (169,280) |
| 2022 | (169,280) |
| 2023 | (169,280) |
| 2024 | (169,280) |
| 2025 | (169,280) |
| Thereafter | <u>(1,232,560)</u> |
| | <u>\$ (2,078,960)</u> |

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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

| | <u>1% Decrease</u> | <u>Trend Rate</u> | <u>1% Increase</u> |
|----------------|---------------------|---------------------|---------------------|
| OPEB liability | <u>\$12,256,191</u> | <u>\$13,976,104</u> | <u>\$16,057,644</u> |

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District calculated using the discount rate of 3.36%, as well as what the OPEB liability would be if it were calculated using the discount rate that is one percentage point lower (2.36%) or 1 percentage point higher (4.36%) than the current rate:

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|----------------|---------------------|------------------------------|---------------------|
| | <u>2.36%</u> | <u>3.36%</u> | <u>4.36%</u> |
| OPEB Liability | <u>\$15,058,261</u> | <u>\$13,976,104</u> | <u>\$12,966,116</u> |

Actuarial Methods and Significant Assumptions

The OPEB Liability as of June 30, 2020, was determined by rolling forward the OPEB Liability as of July 1, 2019 to June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal
- Discount rate – 3.36% - Standard and Poor's 20-year municipal bond rate. The discount rate changed from 2.98% to 3.36%.
- Salary growth - effective average of 6.25%, comprised of inflation of 2.50%, 1.00% for real wage growth and 0.00 to 2.75% for merit or seniority increases.
- Assumed healthcare cost trends – 5.50% in 2019 through 2021. Rates gradually decrease from 5.40% in 2022 to 3.80% in 2075 and later based on the Society of Actuaries long-run medical cost trend model.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect experience and projected using a modified version of the MP-2015 mortality improvement scale.

Cost Sharing Multiple-Employer Defined Benefit OPEB Plan

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

Plan Description

PSERS provides health insurance premium assistance which, is a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' health options program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2020 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$376,925 for the year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$7,233,390 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2020, the District's proportion was 0.3401 percent, which was a decrease of 0.0319 percent from its proportion measured as of June 30, 2019. As of June 30, 2020, the OPEB liability of \$7,124,584 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit) and the remaining \$108,806 of the OPEB liability is recorded as a liability in the proprietary fund statement of net position (deficit), and in the business-type activities in the government-wide statement of net position (deficit).

For the year ended June 30, 2020, the District recognized OPEB expense of \$405,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|--|---|
| Net difference between projected and actual experience | \$ 41,000 | \$ - |
| Changes in assumptions | 240,000 | 215,000 |
| Net difference between projected and actual investment earnings | 12,000 | - |
| Changes in proportions | 616,000 | 578,000 |
| Contributions subsequent to the measurement date | <u>376,925</u> | <u>-</u> |
| | <u>\$1,285,925</u> | <u>\$793,000</u> |

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

\$376,925 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,

| | |
|------------|------------------|
| 2021 | \$ 52,000 |
| 2022 | 52,000 |
| 2023 | 50,000 |
| 2024 | 49,000 |
| 2025 | (16,000) |
| Thereafter | <u>(71,000)</u> |
| | <u>\$116,000</u> |

Actuarial Assumptions

The OPEB liability as of June 30, 2019, was determined by rolling forward the PSERS' OPEB liability as of June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal - level % of pay
- Investment return – 2.79% - Standard & Poor's 20-year municipal bond rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

Participation rate:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2019.
- Cost method - amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date.
- Asset valuation method: market value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 combined healthy annuitant tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 combined disabled tables with age set back 7 years for males and 3 years for females and disabled annuitants. (A unisex table based on the RP-2000 combined healthy annuitant tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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

| <u>OPEB – Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------------|--------------------------|---|
| Cash | 13.20% | 0.20% |
| US Core Fixed Income | 83.10% | 1.00% |
| Non-US Developed Fixed | <u>3.70%</u> | 0.00% |
| | <u>100.00%</u> | |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

Discount Rate

The discount rate used to measure the OPEB liability was 2.79%. Under the OPEB plan's funding policy, contributions are structured for short term funding of health insurance premium assistance. The funding policy sets contribution rates necessary to assure solvency of health insurance premium assistance through the third fiscal year after the actuarial valuation date. The health insurance premium assistance account is funded to establish reserves that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the OPEB plan is considered a "pay-as-you-go" plan. A discount rate of 2.79% which represents the Standard & Poor's 20 year municipal bond rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual health insurance premium assistance. As of June 30, 2019, retirees health insurance premium assistance benefits are not subject to future healthcare cost increases. The healthcare insurance premium assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the net OPEB liability for June 30, 2019, calculated using current healthcare cost trends as well as what net OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

| | <u>1% Decrease</u> | <u>Trend Rate</u> | <u>1% Increase</u> |
|--|--------------------|--------------------|--------------------|
| District's proportionate share of the net OPEB liability | <u>\$7,232,278</u> | <u>\$7,233,390</u> | <u>\$7,234,288</u> |

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

The following presents the net OPEB liability, calculated using the discount rate of 2.79%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.79%) or 1-percentage-point higher (3.79%) than the current rate:

| | <u>1% Decrease</u> <u>1.79%</u> | <u>Current Discount Rate</u> <u>2.79%</u> | <u>1% Increase</u> <u>3.79%</u> |
|--|------------------------------------|--|------------------------------------|
| District’s proportionate share of the net OPEB liability | <u>\$8,240,000</u> | <u>\$7,233,390</u> | <u>\$6,398,825</u> |

OPEB Plan Fiduciary Net Position

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

(9) PENSION PLAN

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

Plan Description

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

Benefits Provided

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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

Contributions

Member Contributions

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

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

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

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

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2020 was 33.43% 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 \$15,009,678 for the year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$159,107,650 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2018 to June 30, 2019. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2020, the District's proportion was 0.3401 percent, which was a decrease of 0.0319 percent from its proportion measured as of June 30, 2019. As of June 30, 2020, the net pension liability of \$156,714,322 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit) and the remaining \$2,393,328 of the net pension liability is recorded as a liability in the proprietary fund statement of net position (deficit), and in the business-type activities in the government-wide statement of net position (deficit).

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

For the year ended June 30, 2020, the District recognized pension expense of \$19,261,000. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Net difference between projected and actual experience | \$ 876,000 | \$ 5,274,000 |
| Changes in assumptions | 1,521,000 | - |
| Net difference between projected and actual investment earnings | - | 456,000 |
| Changes in proportions | 9,181,000 | 11,892,000 |
| Contributions subsequent to the measurement date | <u>15,009,678</u> | <u>-</u> |
| | <u>\$26,587,678</u> | <u>\$17,622,000</u> |

\$15,009,678 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,

| | |
|------|----------------------|
| 2021 | \$ 993,000 |
| 2022 | (1,952,000) |
| 2023 | (5,366,000) |
| 2024 | <u>281,000</u> |
| | <u>\$(6,044,000)</u> |

Actuarial Assumptions

The total pension liability as of June 30, 2019 was determined by rolling forward PSERS' total pension liability at June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial valuation experience study that was performed for the five year period ending June 30, 2015.

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|--------------------------|---|
| Global public equity | 20.00% | 5.60% |
| Fixed income | 36.00% | 1.90% |
| Commodities | 8.00% | 2.70% |
| Absolute return | 10.00% | 3.40% |
| Risk parity | 10.00% | 4.10% |
| Infrastructure/MLPs | 8.00% | 5.50% |
| Real estate | 10.00% | 4.10% |
| Alternative investments | 15.00% | 7.40% |
| Cash | 3.00% | 0.30% |
| Financing (LIBOR) | <u>(20.0)%</u> | 0.70% |
| | <u>100.00%</u> | |

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2019.

Discount Rate

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

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

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

| | <u>1% Decrease 6.25%</u> | <u>Current Discount Rate 7.25%</u> | <u>1% Increase 8.25%</u> |
|---|------------------------------|--|------------------------------|
| District's proportionate share of the net pension liability | <u>\$198,186,055</u> | <u>\$159,107,650</u> | <u>\$126,017,838</u> |

Pension Plan Fiduciary Net Position

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

(10) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Dauphin County Technical School

The District and six other Dauphin County school districts participate in the Dauphin County Technical School (the "**DCTS**"). The DCTS provides vocational-technical training and education to students of the participating school districts. The DCTS is controlled by a joint Board comprised of representative school board members of the participating school districts. District oversight of the DCTS operations is the responsibility of the joint board. The District's share of operating costs for the DCTS fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2019-2020 was \$3,510,456.

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

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

Harrisburg Area Community College

The District and 21 other school districts sponsor the Harrisburg Area Community College (the "**HACC**"). The HACC provides higher education programs to the residents of south central Pennsylvania. Sponsoring school districts pay a share of the HACC's operating and capital costs and in return residents of each of the sponsoring school districts pay a reduced cost to participate in HACC higher education programs. The District's share of operating and capital costs for 2019-2020 was \$556,749.

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

Capital Area Intermediate Unit

The District and 6 school districts from Cumberland County, 2 school districts from York County, 8 school districts from Dauphin County and 3 school districts from Perry County are members of the Capital Area Intermediate Unit (the "**CAIU**"). The CAIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating district. The School Board of each participating district must approve the annual operating budget of the CAIU, but the participating districts have no ongoing fiduciary interest or responsibility to the CAIU. The CAIU is a self-sustaining organization that provides a broad array of services to participating districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and state and federal liaison services. During 2019-2020, the District contracted with the CAIU for special education services which totaled \$1,858,763 of which \$336,613 was payable as of June 30, 2020.

(11) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Litigation

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

(12) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs, including workers compensation and employee health accident insurance. For insured programs, there were no significant reductions in insurance coverages during the 2019-2020 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District administers a self-insurance program to provide health insurance and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third-party administrator, who approves and processes all claims. The District self-insured plan has a maximum aggregate liability of \$150,000 per individual and a maximum aggregate benefit per policy term of \$2,000,000. Amounts in excess of \$150,000 are covered through a separate stop-loss policy. The District has recorded a liability for claims incurred through June 30, 2020.

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 9, 2021, the date on which the financial statements were available to be issued. Except as noted below, no material subsequent events have occurred since June 30, 2020 that required recognition or disclosure in the financial statements.

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

On October 23, 2020, the District issued general obligation notes, Series of 2020B and general obligation notes, Series of 2020C in the amounts of \$2,170,000 and 35,075,000 respectively, the proceeds from which were used to (1) currently refund the District's remaining outstanding general obligation bonds, Series of 2015; (2) currently refund a portion of the District's general obligation bonds, Series of 2016 A; (3) advance refund a portion of the District's outstanding general obligation bonds, Series of 2014B-2; (4) advance refund a portion of the District's outstanding general obligation bonds, Series of 2016A; and (5) to pay for the costs of issuance.

The District refunded the general obligation bonds to reduce debt service payments in the 2020-2021 school year by \$2,872,057 and to reduce annual total debt service in the fiscal years 2022 through 2036 to approximately \$18.94 million.

REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2020

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|-------------------------|----------------------|---|
| REVENUES | | | | |
| Local sources | \$ 56,125,560 | \$ 56,125,560 | \$ 59,254,093 | \$ 3,128,533 |
| State sources | 84,446,600 | 84,446,600 | 80,877,538 | (3,569,062) |
| Federal sources | 15,128,631 | 15,128,631 | 11,189,557 | (3,939,074) |
| Total revenues | <u>155,700,791</u> | <u>155,700,791</u> | <u>151,321,188</u> | <u>(4,379,603)</u> |
| EXPENDITURES | | | | |
| Instruction | | | | |
| Regular programs | 61,158,954 | 59,088,099 | 51,433,637 | 7,654,462 |
| Special programs | 27,760,964 | 27,575,956 | 27,710,753 | (134,797) |
| Vocational education | 4,236,000 | 4,138,245 | 3,883,692 | 254,553 |
| Other instructional programs | 4,355,840 | 3,032,703 | 3,423,983 | (391,280) |
| Nonpublic schools | - | - | 281,419 | (281,419) |
| Higher education programs | 604,612 | 604,612 | 556,749 | 47,863 |
| Pre-kindergarten | 274,091 | 161,339 | 172,355 | (11,016) |
| Total instruction | <u>98,390,461</u> | <u>94,600,954</u> | <u>87,462,588</u> | <u>7,138,366</u> |
| Support services | | | | |
| Pupil personnel services | 4,870,283 | 6,544,074 | 5,273,954 | 1,270,120 |
| Instructional staff services | 2,800,156 | 4,375,360 | 4,254,576 | 120,784 |
| Administrative services | 6,940,548 | 8,318,922 | 7,878,594 | 440,328 |
| Pupil health | 673,687 | 1,339,523 | 1,204,487 | 135,036 |
| Business services | 1,399,406 | 1,083,641 | 954,882 | 128,759 |
| Operation and maintenance of plant services | 9,898,437 | 10,184,523 | 9,482,555 | 701,968 |
| Student transportation services | 3,986,051 | 4,086,030 | 3,757,297 | 328,733 |
| Support services - central | 3,847,912 | 3,547,301 | 3,039,211 | 508,090 |
| Other support services | 1,157,492 | 1,282,575 | 533,671 | 748,904 |
| Total support services | <u>35,573,972</u> | <u>40,761,949</u> | <u>36,379,227</u> | <u>4,382,722</u> |
| Operation of noninstructional services | | | | |
| Student activities | 426,827 | 676,011 | 542,190 | 133,821 |
| Community services | 688,790 | 923,962 | 561,591 | 362,371 |
| Total operation of noninstructional services | <u>1,115,617</u> | <u>1,599,973</u> | <u>1,103,781</u> | <u>496,192</u> |
| Debt service | | | | |
| | 833,825 | - | - | - |
| Total expenditures | <u>135,913,875</u> | <u>136,962,876</u> | <u>124,945,596</u> | <u>12,017,280</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>19,786,916</u> | <u>18,737,915</u> | <u>26,375,592</u> | <u>7,637,677</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Refund of prior year receipts | - | (150,000) | (282,903) | (132,903) |
| Transfers out | (21,882,858) | (21,381,909) | (19,666,438) | 1,715,471 |
| Budgetary reserve | (1,000,000) | (301,948) | - | 301,948 |
| Total other financing sources (uses) | <u>(22,882,858)</u> | <u>(21,833,857)</u> | <u>(19,949,341)</u> | <u>1,884,516</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ (3,095,942)</u> | <u>\$ (3,095,942)</u> | <u>6,426,251</u> | <u>\$ 9,522,193</u> |
| FUND BALANCE | | | | |
| Beginning of year | | | 15,383,359 | |
| End of year | | | <u>\$ 21,809,610</u> | |

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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

Year ended June 30

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS - PSERS

Year ended June 30

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF CHANGES IN OPEB LIABILITY - SINGLE EMPLOYER PLAN

Year ended June 30

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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

Year ended June 30

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF THE DISTRICT'S OPEB PLAN CONTRIBUTIONS - PSERS

Year ended June 30

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

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

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

COMBINING BALANCE SHEET - CAPITAL PROJECTS FUND

June 30, 2020

| | <u>Capital Reserve Fund</u> | <u>Capital Projects Fund</u> | <u>Total</u> |
|--|-------------------------------------|--------------------------------------|-------------------|
| ASSETS | | | |
| Cash | \$ 330,580 | \$ 92,419 | \$ 422,999 |
| Due from other funds | <u>500,000</u> | <u>-</u> | <u>500,000</u> |
| Total assets | <u>\$ 830,580</u> | <u>\$ 92,419</u> | <u>\$ 922,999</u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Due to other funds | <u>\$ 110,219</u> | <u>\$ -</u> | <u>\$ 110,219</u> |
| FUND BALANCES | | | |
| Restricted for | | | |
| Capital projects | <u>720,361</u> | <u>92,419</u> | <u>812,780</u> |
| Total fund balances | <u>720,361</u> | <u>92,419</u> | <u>812,780</u> |
| Total liabilities and fund balances | <u>\$ 830,580</u> | <u>\$ 92,419</u> | <u>\$ 922,999</u> |

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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

Year ended June 30, 2020

| | Capital Reserve Fund | Capital Projects Fund | Total |
|--|-------------------------------------|--------------------------------------|-------------------|
| REVENUES | | | |
| Local sources | <u>\$ 3,455</u> | <u>\$ 934</u> | <u>\$ 4,389</u> |
| EXPENDITURES | | | |
| Facilities acquisition, construction and improvement services | <u>-</u> | <u>-</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>3,455</u> | <u>934</u> | <u>4,389</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | <u>500,000</u> | <u>-</u> | <u>500,000</u> |
| NET CHANGE IN FUND BALANCES | <u>503,455</u> | <u>934</u> | <u>504,389</u> |
| FUND BALANCES | | | |
| Beginning of year | <u>216,906</u> | <u>91,485</u> | <u>308,391</u> |
| End of year | <u>\$ 720,361</u> | <u>\$ 92,419</u> | <u>\$ 812,780</u> |

SINGLE AUDIT

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2020

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| Federal Grantor/Pass-Through Grantor/Project Title | Source Code | Federal CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/Ending Dates | Grant Amount | Total Received for Year | Accrued (Deferred) Revenue July 1, 2019 | Revenue Recognized | Expenditures | Accrued (Deferred) Revenue June 30, 2020 | Passed Through to Subrecipients |
|--|-------------|---------------------|-------------------------------|-------------------------------------|--------------|-------------------------|---|--------------------|------------------|--|---------------------------------|
| Passed-Through the Pennsylvania Department of Education | | | | | | | | | | | |
| Title I - Grants to Local Educational Agencies | I | 84.010 | 013-190184 | 07/01/18 - 09/30/19 | \$ 5,915,447 | \$ 4,225,201 | \$ 2,909,961 | \$ 1,315,240 | \$ 1,315,240 | \$ - | \$ - |
| Title I - Grants to Local Educational Agencies | I | 84.010 | 013-200184 | 07/01/19 - 09/30/20 | 6,062,476 | - | - | 3,815,057 | 3,815,057 | 3,815,057 | - |
| Title I - Grants to LEAs - Program Improvement - Set Aside | I | 84.010 | 042-180184 | 07/01/17 - 09/30/19 | 787,696 | 501,261 | 298,161 | 203,100 | 203,100 | - | - |
| Title I - Grants to LEAs - Program Improvement - Set Aside | I | 84.010 | 042-190184 | 07/01/19 - 09/30/20 | 1,098,422 | 55,446 | - | 611,198 | 611,198 | 555,752 | - |
| Title I - Grants to LEAs - Program Improvement - Set Aside | I | 84.010 | 152-180184 | 07/01/18 - 09/30/19 | 1,501,068 | <u>912,932</u> | <u>304,331</u> | <u>608,601</u> | <u>608,601</u> | <u>-</u> | <u>-</u> |
| Total CFDA #84.010 | | | | | | <u>5,694,840</u> | <u>3,512,453</u> | <u>6,553,196</u> | <u>6,553,196</u> | <u>4,370,809</u> | <u>-</u> |
| Title I - Grants to LEAs - School Improvement Grant | I | 84.377 | 142-180184 | 07/01/18 - 09/30/19 | 1,567,800 | 86,510 | 548,211 | 149,613 | 149,613 | 611,314 | - |
| Title I - Grants to LEAs - School Improvement Grant | I | 84.377 | 142-190814 | 07/01/19 - 09/30/20 | 1,345,800 | <u>-</u> | <u>-</u> | <u>449,967</u> | <u>449,967</u> | <u>449,967</u> | <u>-</u> |
| Total CFDA #84.377 | | | | | | <u>86,510</u> | <u>548,211</u> | <u>599,580</u> | <u>599,580</u> | <u>1,061,281</u> | <u>-</u> |
| Title II - Improving Teacher Quality | I | 84.367 | 020-190184 | 07/01/18 - 09/30/19 | 550,278 | 390,721 | 357,759 | 32,962 | 32,962 | - | - |
| Title II - Improving Teacher Quality | I | 84.367 | 020-200184 | 07/01/19 - 09/30/20 | 610,093 | <u>370,828</u> | <u>-</u> | <u>473,296</u> | <u>473,296</u> | <u>102,468</u> | <u>-</u> |
| Total CFDA #84.367 | | | | | | <u>761,549</u> | <u>357,759</u> | <u>506,258</u> | <u>506,258</u> | <u>102,468</u> | <u>-</u> |
| Title III - Language Instruction LEP/ Immigrant Students | I | 84.365 | 010-190184 | 07/01/18 - 09/30/19 | 238,013 | 170,009 | 44,336 | 125,673 | 125,673 | - | - |
| Title III - Language Instruction LEP/ Immigrant Students | I | 84.365 | 010-200184 | 07/01/19 - 09/30/20 | 217,012 | <u>69,518</u> | <u>-</u> | <u>87,571</u> | <u>87,571</u> | <u>18,053</u> | <u>-</u> |
| Total CFDA #84.365 | | | | | | <u>239,527</u> | <u>44,336</u> | <u>213,244</u> | <u>213,244</u> | <u>18,053</u> | <u>-</u> |
| Title IV - Student Support and Academic Achievement | I | 84.424 | 144-190184 | 07/01/18 - 09/30/19 | 430,144 | 307,246 | 307,246 | - | - | - | - |
| Title IV - Student Support and Academic Achievement | I | 84.424 | 144-200184 | 07/01/19 - 09/30/20 | 442,735 | <u>372,692</u> | <u>-</u> | <u>442,735</u> | <u>442,735</u> | <u>70,043</u> | <u>-</u> |
| Total CFDA #84.424 | | | | | | <u>679,938</u> | <u>307,246</u> | <u>442,735</u> | <u>442,735</u> | <u>70,043</u> | <u>-</u> |
| 21st Century Community Learning Centers | I | 84.287 | FC#4100068064 | 10/01/18 - 09/30/19 | 475,000 | 208,114 | 195,899 | 12,215 | 12,215 | - | - |
| 21st Century Community Learning Centers | I | 84.287 | FC#4100068064 | 10/01/19 - 09/30/20 | 475,000 | <u>145,746</u> | <u>-</u> | <u>189,403</u> | <u>189,403</u> | <u>43,657</u> | <u>-</u> |
| Total CFDA #84.287 | | | | | | <u>353,860</u> | <u>195,899</u> | <u>201,618</u> | <u>201,618</u> | <u>43,657</u> | <u>-</u> |

Continued on next page

| <u>Federal Grantor/Pass-Through Grantor/Project Title</u> | <u>Source Code</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Grant Period Beginning/Ending Dates</u> | <u>Grant Amount</u> | <u>Total Received for Year</u> | <u>Accrued (Deferred) Revenue July 1, 2019</u> | <u>Revenue Recognized</u> | <u>Expenditures</u> | <u>Accrued (Deferred) Revenue June 30, 2020</u> | <u>Passed Through to Subrecipients</u> |
|---|--------------------|----------------------------|--------------------------------------|--|---------------------|--------------------------------|--|---------------------------|---------------------|---|--|
| Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance | I | 93.079 | U87PS004151 | 07/01/15 - 06/30/20 | N/A | - | (7,332) | - | - | (7,332) | - |
| Refugee and Entrant Assistance - Discretionary Grants | I | 93.576 | FC#4100081655 | 10/01/18 - 09/30/19 | 51,553 | 17,463 | 5,139 | 12,324 | 12,324 | - | - |
| Refugee and Entrant Assistance - Discretionary Grants | I | 93.576 | FC#4100081655 | 10/01/19 - 09/30/20 | 57,135 | 2,442 | - | 5,800 | 5,800 | 3,358 | - |
| Total CFDA #93.576 | | | | | | 19,905 | 5,139 | 18,124 | 18,124 | 3,358 | - |
| Passed Through the Capital Area I.U. #15 | | | | | | | | | | | |
| I.D.E.A. - Part B, Section 611 | I | 84.027 | N/A | 07/01/18 - 06/30/19 | 1,353,066 | 500,816 | 500,816 | - | - | - | - |
| I.D.E.A. - Part B, Section 611 | I | 84.027 | N/A | 07/01/19 - 06/30/20 | 1,368,582 | 901,902 | - | 1,368,582 | 1,368,582 | 466,680 | - |
| Total CFDA #84.027 | | | | | | 1,402,718 | 500,816 | 1,368,582 | 1,368,582 | 466,680 | - |
| I.D.E.A. - Part B, Section 619 - Preschool | I | 84.173 | N/A | 07/01/18 - 06/30/19 | 7,800 | 7,800 | 7,800 | - | - | - | - |
| I.D.E.A. - Part B, Section 619 - Preschool | I | 84.173 | N/A | 07/01/19 - 06/30/20 | 7,000 | 7,000 | - | 7,000 | 7,000 | - | - |
| | | | | | | 14,800 | 7,800 | 7,000 | 7,000 | - | - |
| Passed Through the Lancaster-Lebanon I.U. #13 | | | | | | | | | | | |
| I.D.E.A. - Part B, Section 611 | I | 84.027 | N/A | 07/01/18 - 06/30/19 | 20,000 | 16,365 | 16,365 | - | - | - | - |
| Passed-Through the Pennsylvania State System of Higher Education | | | | | | | | | | | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | I | 84.334 | GEARUP 2018-HBG-01 | 09/25/18 - 09/24/19 | 819,583 | 259,490 | 232,905 | 72,268 | 72,268 | 45,683 | - |
| Gaining Early Awareness and Readiness for Undergraduate Programs | I | 84.334 | GEARUP 2018-HBG-01 | 09/25/19 - 09/24/20 | 676,899 | 54,518 | - | 391,709 | 391,709 | 337,191 | - |
| Total CFDA #84.334 | | | | | | 314,008 | 232,905 | 463,977 | 463,977 | 382,874 | - |
| Impact Aid for Displaced Students Homeless Student Support | I | 84.938 | N/A | 09/19/18 - 06/30/20 | 47,943 | - | - | 20,136 | 20,136 | 20,136 | - |
| Total U.S. Department of Education | | | | | | 9,584,020 | 5,721,597 | 10,394,450 | 10,394,450 | 6,532,027 | - |
| U.S. Department of Health and Social Services | | | | | | | | | | | |
| Passed-Through the Pennsylvania Department of Education | | | | | | | | | | | |
| Temporary Assistance for Needy Families | I | 93.558 | FC#4100071401 | 07/01/18 - 06/30/19 | 235,000 | 92,336 | 92,336 | - | - | - | - |
| Temporary Assistance for Needy Families | I | 93.558 | FC#4100081175 | 07/01/19 - 06/30/20 | 126,000 | 77,760 | - | 126,000 | 126,000 | 48,240 | - |
| Total CFDA #93.558 | | | | | | 170,096 | 92,336 | 126,000 | 126,000 | 48,240 | - |

Continued on next page

| <u>Federal Grantor/Pass-Through Grantor/Project Title</u> | <u>Source Code</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Grant Period Beginning/Ending Dates</u> | <u>Grant Amount</u> | <u>Total Received for Year</u> | <u>Accrued (Deferred) Revenue July 1, 2019</u> | <u>Revenue Recognized</u> | <u>Expenditures</u> | <u>Accrued (Deferred) Revenue June 30, 2020</u> | <u>Passed Through to Subrecipients</u> |
|--|--------------------|----------------------------|--------------------------------------|--|---------------------|--------------------------------|--|---------------------------|---------------------|---|--|
| <u>Passed-Through the Pennsylvania Department of Public Welfare</u> | | | | | | | | | | | |
| Medical Assistance Program Reimbursement for Administration | I | 93.778 | N/A | 07/01/19 - 06/30/20 | N/A | 18,512 | (236,968) | - | - | (255,480) | - |
| Total U.S. Department of Health and Social Services | | | | | | <u>188,608</u> | <u>(144,632)</u> | <u>126,000</u> | <u>126,000</u> | <u>(207,240)</u> | <u>-</u> |
| <u>U.S. Department of Defense</u> | | | | | | | | | | | |
| <u>Passed through the United States Navy</u> | | | | | | | | | | | |
| Junior Reserve Officers Training Corps | I | 12.000 | N/A | 07/01/18 - 06/30/19 | 43,145 | 11,931 | 11,931 | - | - | - | - |
| Junior Reserve Officers Training Corps | I | 12.000 | N/A | 07/01/19 - 06/30/20 | 59,828 | 46,817 | - | 59,828 | 59,828 | 13,011 | - |
| Total CFDA #12.000 | | | | | | <u>58,748</u> | <u>11,931</u> | <u>59,828</u> | <u>59,828</u> | <u>13,011</u> | <u>-</u> |
| <u>U.S. Department of Justice</u> | | | | | | | | | | | |
| <u>Passed through the SEA Research Foundation</u> | | | | | | | | | | | |
| Juvenile Mentoring Program | I | 16.726 | N/A | 07/01/18 -06/30/19 | 18,025 | 16,341 | 12,740 | 3,601 | 3,601 | - | - |
| Juvenile Mentoring Program | I | 16.726 | N/A | 07/01/19 -06/30/20 | 10,000 | 513 | - | 4,571 | 4,571 | 4,058 | - |
| Total CFDA #16.726 | | | | | | <u>16,854</u> | <u>12,740</u> | <u>8,172</u> | <u>8,172</u> | <u>4,058</u> | <u>-</u> |
| <u>U.S. Department of Agriculture</u> | | | | | | | | | | | |
| <u>Passed-Through the Pennsylvania Department of Education</u> | | | | | | | | | | | |
| State Matching Share | S | N/A | N/A | 07/01/18 - 06/30/19 | N/A | 22,873 | 22,873 | - | - | - | - |
| State Matching Share | S | N/A | N/A | 07/01/19 - 06/30/20 | N/A | 141,614 | - | 148,785 | 148,785 | 7,171 | - |
| Total State Matching | | | | | | <u>164,487</u> | <u>22,873</u> | <u>148,785</u> | <u>148,785</u> | <u>7,171</u> | <u>-</u> |
| Breakfast Program | I | 10.553 | N/A | 07/01/18 - 06/30/19 | N/A | 159,779 | 159,779 | - | - | - | - |
| Breakfast Program | I | 10.553 | N/A | 07/01/19 - 06/30/20 | N/A | 925,956 | - | 964,337 | 964,337 | 38,381 | - |
| Total CFDA #10.553 | | | | | | <u>1,085,735</u> | <u>159,779</u> | <u>964,337</u> | <u>964,337</u> | <u>38,381</u> | <u>-</u> |
| Summer Food Service Program | I | 10.559 | N/A | 07/01/18 - 06/30/19 | N/A | 88,254 | 88,254 | - | - | - | - |
| Summer Food Service Program | I | 10.559 | N/A | 07/01/19 - 06/30/20 | N/A | 283,699 | - | 354,670 | 354,670 | 70,971 | - |
| Total CFDA #10.559 | | | | | | <u>371,953</u> | <u>88,254</u> | <u>354,670</u> | <u>354,670</u> | <u>70,971</u> | <u>-</u> |

Continued on next page

| <u>Federal Grantor/Pass-Through Grantor/Project Title</u> | <u>Source Code</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Grant Period Beginning/Ending Dates</u> | <u>Grant Amount</u> | <u>Total Received for Year</u> | <u>Accrued (Deferred) Revenue July 1, 2019</u> | <u>Revenue Recognized</u> | <u>Expenditures</u> | <u>Accrued (Deferred) Revenue June 30, 2020</u> | <u>Passed Through to Subrecipients</u> |
|--|--------------------|----------------------------|--------------------------------------|--|---------------------|--------------------------------|--|---------------------------|----------------------|---|--|
| Child Nutrition Discretionary Grants | I | 10.579 | FC#4100082839 | 07/01/18 - 06/30/19 | 18,604 | 18,604 | 18,604 | - | - | - | - |
| Child Nutrition Discretionary Grants | I | 10.579 | FC#4100082840 | 07/01/18 - 06/30/19 | 12,420 | 12,420 | 12,420 | - | - | - | - |
| Child Nutrition Discretionary Grants | I | 10.579 | FC#4100082841 | 07/01/18 - 06/30/19 | 12,575 | 12,575 | 12,575 | - | - | - | - |
| Child Nutrition Discretionary Grants | I | 10.579 | FC#4100082842 | 07/01/18 - 06/30/19 | 12,420 | 12,420 | 12,420 | - | - | - | - |
| Child Nutrition Discretionary Grants | I | 10.579 | FC#4100082843 | 07/01/18 - 06/30/19 | 29,188 | 29,188 | 29,188 | - | - | - | - |
| Total CFDA #10.579 | | | | | | 85,207 | 85,207 | - | - | - | - |
| Child and Adult Care Program | I | 10.558 | N/A | 07/01/18 - 06/30/19 | N/A | 28,294 | 28,294 | - | - | - | - |
| Child and Adult Care Program | I | 10.558 | N/A | 07/01/19 - 06/30/20 | N/A | 46,790 | - | 46,790 | 46,790 | - | - |
| Total CFDA #10.558 | | | | | | 75,084 | 28,294 | 46,790 | 46,790 | - | - |
| Fresh Fruit and Vegetable Program | I | 10.582 | N/A | 07/01/19 - 06/30/20 | N/A | 124,835 | - | 124,835 | 124,835 | - | - |
| National School Lunch Program | I | 10.555 | N/A | 07/01/18 - 06/30/19 | N/A | 380,371 | 380,371 | - | - | - | - |
| National School Lunch Program | I | 10.555 | N/A | 07/01/19 - 06/30/20 | N/A | 2,512,335 | - | 2,573,396 | 2,573,396 | 61,061 | - |
| Passed-Through the Pennsylvania Department of Agriculture | | | | | | | | | | | |
| National School Lunch Program | I | 10.555 | N/A | 07/01/19 - 06/30/20 | N/A | 247,329 | - | 241,052 | 241,052 | (6,277) | - |
| Total CFDA #10.555 | | | | | | 3,140,035 | 380,371 | 2,814,448 | 2,814,448 | 54,784 | - |
| Total U.S. Department of Agriculture | | | | | | <u>5,047,336</u> | <u>764,778</u> | <u>4,453,865</u> | <u>4,453,865</u> | <u>171,307</u> | <u>-</u> |
| Total Federal Awards and Certain State Grants | | | | | | <u>\$ 14,895,566</u> | <u>\$ 6,366,414</u> | <u>\$ 15,042,315</u> | <u>\$ 15,042,315</u> | <u>\$ 6,513,163</u> | <u>\$ -</u> |
| Total Federal Awards | | | | | | \$ 14,731,079 | \$ 6,343,541 | \$ 14,893,530 | \$ 14,893,530 | \$ 6,505,992 | \$ - |
| Total State Awards | | | | | | 164,487 | 22,873 | 148,785 | 148,785 | 7,171 | - |
| Total Federal Awards and Certain State Grants | | | | | | <u>\$ 14,895,566</u> | <u>\$ 6,366,414</u> | <u>\$ 15,042,315</u> | <u>\$ 15,042,315</u> | <u>\$ 6,513,163</u> | <u>\$ -</u> |
| Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173) | | | | | | <u>\$ 1,433,883</u> | <u>\$ 524,981</u> | <u>\$ 1,375,582</u> | <u>\$ 1,375,582</u> | <u>\$ 466,680</u> | <u>\$ -</u> |
| Child Nutrition Cluster (CFDA's #10.553, #10.555 and #10.559) | | | | | | <u>\$ 4,597,723</u> | <u>\$ 628,404</u> | <u>\$ 4,133,455</u> | <u>\$ 4,133,455</u> | <u>\$ 164,136</u> | <u>\$ -</u> |

Source Codes

D - Direct Funding

I - Indirect Funding

S - State Share

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

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

June 30, 2020

(1) FEDERAL EXPENDITURES

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

(2) BASIS OF ACCOUNTING

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

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 National School Lunch Program and passed through the Pennsylvania Department of Agriculture represent federal surplus food consumed by the District during the 2019-2020 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2020 was \$154,374.

(5) QUALIFIED SCHOOL CONSTRUCTION BONDS PROGRAM

The District participates in the Qualified School Construction Bonds ("**QSCB**") program sponsored by the State Public School Building Authority ("**SPSBA**"). In conjunction with the QSCB Program, the District receives subsidy reimbursements for a portion of the interest payments made under its loan agreements with the SPSBA. Reimbursements are federal source revenues but are not considered federal financial assistance. The amount of QSCB subsidy payments recognized for the year ended June 30, 2020 was \$399,325.

(6) INDIRECT COSTS

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2020

Finding 2019-01

Internal Control over Financial Reporting Material Weakness in Internal Control

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

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

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

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

Current Status: As part of the Receiver's restructuring resolution that included an initiative for the reorganization of the District's leadership team, the District hired a Chief Financial Officer and an accountant with the prerequisite expertise. The initiative also included a full-time budgeted position for another financial position. Given the District's size and complexity the hiring of a position with a strong accounting background that complements Chief Financial Officer and other accounting is warranted and would mirror the staff of other similar Pennsylvania school districts. This finding is still applicable (*See Finding 2020-01*).

Finding 2019-02

Annual Budget Development Material Weakness in Internal Control

Condition: The District's General Fund fund balance has decreased from approximately \$30 million as of June 30, 2017 to approximately \$15 million as of June 30, 2019 representing a 50% decrease within a two-year period, which was in part due to the planned use of fund balance to balance the budget and overspending of budgeted amounts. Unassigned General Fund fund balance represents approximately 3 percent of total expenditures which is not in compliance with the District's fund balance policy which is 5 percent. In addition, the District has had negative budget variances within numerous functions that would suggest that the methodology, process and documentation used by the District for its annual budget preparation and review are deficient.

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare an annual budget that establishes parameters in which the District can operate and provide a standard against which the District's fiscal performance can be evaluated.

Cause and Effect: The District lacks procedures for the development of the of the District's annual budget, which would include reports and analysis to support budgeted amounts. As a result, the District's internal control structure is such that increases the risk for overspending and incorrect budget assumptions.

Recommendation: Budgeting principles and policies should be developed collaboratively by the District's leadership and staff which should address reserve benchmarks to hedge against risk, long-term forecasting and asset maintenance and replacement.

Current Status: The comparison between the annual budget and actual results for the 2019-2020 school year showed more consistent results with most variances caused by the shutdown due to COVID-19. This finding is no longer applicable.

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2020

Finding 2019-03

Cash Disbursement and Procurement Procedures Significant Deficiency in Internal Control

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

| Exception Type | # of Exceptions | Exception Rate |
|--|-----------------|----------------|
| i. Purchase order lacked requisition date | 42 | 44.91% |
| ii. Purchase order was created after invoice date | 41 | 45.56% |
| iii. Supporting documentation, requisition, purchase order, invoice and check do not agree | 6 | 6.67% |
| Total sample size | 90 | |

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

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

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

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

Current Status: Expenditure testing in 2019-2020 school year showed purchase orders had requisition dates and appropriate supporting documentation, however there were 39 instances of purchase orders being dated after the invoice date, which occurred primarily towards the beginning of the year before consistent policies and practices were implemented. This finding is still applicable (**See Finding 2020-02**).

Finding 2019-04

Monitoring Activities of Third-Party Contractors Significant Deficiency in Internal Control

Condition: The District contracts with two third-parties to provide temporary staffing needs, for which they provide the District with a detailed weekly invoice. During our audit procedures, we did not identify any procedures within the business office to review and verify that the third-party employee was in attendance for each day invoiced. Currently, third-party employees are required to document their attendance by signing-in daily on a form maintained at each school location. However, the sign in sheet is not being reconciled to the weekly third-party invoice.

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

Cause and Effect: Lack of controls implemented within the business office with respect to monitoring third party contractors, which may result in the District paying for daily charges that were not provided.

Recommendation: Policies and procedures should be developed for the proper review, verification, authorization and approval of weekly invoices from the third-party contractors providing substitute services.

Current Status: Testing of third party contractor activity showed there was appropriate backup documentation for the third party's time worked. This finding is no longer applicable

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2020

Finding SA 2019-01

Federal agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

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

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

Noncompliance and Material Weakness in Internal Control

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

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

Cause and Effect: The District did not have sufficient internal controls in place to ensure that appropriate documentation is maintained to support time and effort charges to Federal programs through adequate payroll records and semi-annual certifications. As a result, the District either experienced delays in receiving Federal funds until the time and effort documentation was subsequently produced after year end or payroll charges were not considered to be eligible for reimbursement.

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

Current Status: Review of the time and effort certifications for the 2019-2020 school year showed deficiencies remain in the completion of the forms. This finding is still applicable (**See Finding SA-2020-01**).



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District of the City of Harrisburg, Harrisburg, Pennsylvania, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District of the City of Harrisburg's basic financial statements, and have issued our report thereon dated April 9, 2021.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (***See Finding 2020-01 and 2020-02***).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency (***See Finding 2020-03***).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The School District of the City of Harrisburg's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
April 9, 2021**



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

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

Report on Compliance for Each Major Federal Program

We have audited The School District of the City of Harrisburg's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District of the City of Harrisburg's major federal programs for the year ended June 30, 2020. The School District of the City of Harrisburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The School District of the City of Harrisburg's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("**Uniform Guidance**"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of Harrisburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School District of the City of Harrisburg, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs (**See Finding SA 2020-01**). Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (**See Finding SA 2020-01**).

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

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

BBD, LLP

**Philadelphia, Pennsylvania
April 9, 2021**

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

SUMMARY OF AUDITOR'S RESULTS

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

FINDINGS—FINANCIAL STATEMENT AUDIT

Finding 2020-01 **Internal Control over Financial Reporting** **Material Weakness in Internal Control**

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

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

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

Auditee Response: As part of the Receiver's restructuring resolution that included an initiative for the reorganization of the District's leadership team, the District hired a Chief Financial Officer and an accountant. The initiative also included a full-time budgeted position for another financial position. The shutdown caused by COVID-19 delayed the hiring of a position with a strong accounting background that would complement the Chief Financial Officer and the other accounting staff.

Finding 2020-02 Internal Control Over Financial Reporting Material Weakness in Internal Control

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

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

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

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

Auditee Response: The District has hired a Chief Financial Officer and accountant with the prerequisite expertise and have another full time position budgeted within the Business Office to ensure that timely and accurate financial information is prepared in accordance with generally accepted accounting principles.

Finding 2020-03 Cash Disbursement and Procurement Procedures Significant Deficiency in Internal Control

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

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

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

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

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

Auditee Response: The implementation of the internal controls and business office procedures coupled with new Business Office staff resolved many of the issues throughout the year. Many of the exceptions noted were prior to the implementation of new business office procedures. In addition, the District is in the process of implementing blanket purchase orders to resolve the dating issue.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding SA 2020-01

Federal agency: U.S. Department of Education

Pass-through entity: Pennsylvania Department of Education

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

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

Noncompliance and Material Weakness in Internal Control

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

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

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

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

Auditee Response: The shutdown caused by COVID-19 and the subsequent telework of the District's educational staff created disruptions in the process of documenting proper time and effort reporting. The implementation of the internal controls and business office procedures coupled with new Business Office staff will ensure proper time and effort reporting.