

**Redevelopment Authority of
the City of Harrisburg**

Financial Statements and
Supplementary Information

Year Ended December 31, 2011 with
Independent Auditor's Reports

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

YEAR ENDED DECEMBER 31, 2011
TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statement of Net Assets	1
Statement of Activities	2
Balance Sheet – Governmental Funds	3
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7

Supplementary Information:

Schedule of Expenditures of Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29

Independent Auditor's Reports in Accordance with OMB Circular A-133:

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 <i>Government Auditing Standards</i>	30
--	----

**REDEVELOPMENT AUTHORITY OF
THE CITY OF HARRISBURG**

YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

(CONTINUED)

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	32
Schedule of Findings and Questioned Costs	34
Summary Schedule of Prior Audit Findings	40

Independent Auditor's Report

Board of Directors
Redevelopment Authority of
the City of Harrisburg

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Authority of the City of Harrisburg (Authority), as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Harrisburg, Pennsylvania
July 11, 2012

THIS PAGE INTENTIONALLY LEFT BLANK

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

STATEMENT OF NET ASSETS

DECEMBER 31, 2011

Assets	Governmental Activities
Current assets:	
Cash	\$ 1,210,313
Investments	118,769
Restricted investments	2,879,803
Accounts receivable	172,659
Grants receivable	398,372
Loans receivable	350,775
Total current assets	5,130,691
Non-current assets:	
Right to building	20,369,411
Capital assets, not being depreciated	2,728,699
Capital assets, being depreciated, net	5,695,378
Total non-current assets	28,793,488
Total Assets	33,924,179
Liabilities	
Current liabilities:	
Accounts payable	446,061
Accrued interest	29,744
Current portion of bonds and notes payable	336,454
Unearned revenue	125,000
Security deposits	1,000
Due to other governments	283,388
Current portion of compensated absences	17,841
Total current liabilities	1,239,488
Non-current liabilities:	
Bonds and notes payable	50,202,918
Environmental remediation liability	123,829
Compensated absences	31,142
Total non-current liabilities	50,357,889
Total Liabilities	51,597,377
Net Assets	
Invested in capital assets, net of related debt	7,134,270
Restricted	2,878,958
Unrestricted	(27,686,426)
Total Net Assets	\$ (17,673,198)

The accompanying notes are an integral part of these financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Community development	\$ 5,393,770	\$ 231,577	\$ 1,162,187	\$ 1,300,552	\$ (2,699,454)
Total Governmental Activities	\$ 5,393,770	\$ 231,577	\$ 1,162,187	\$ 1,300,552	(2,699,454)
General revenues:					
Rental income					895,623
Miscellaneous income					101,815
Interest income					151,657
Proceeds from the sale of an asset					236,000
Total general revenues					1,385,095
Change in Net Assets					(1,314,359)
Net Assets:					
Beginning of year					(16,358,839)
End of year					\$ (17,673,198)

The accompanying notes are an integral part of these financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2011

Assets	General	Transportation Center	CSM	Total
Cash	\$ 509,625	\$ 99,652	\$ 601,036	\$ 1,210,313
Investments	118,769	-	-	118,769
Restricted investments	2,878,958	845	-	2,879,803
Due from other funds	468,076	8,283	-	476,359
Accounts receivable	139,542	10,282	22,835	172,659
Grants receivable	203,998	123,566	70,808	398,372
Loans receivable	-	-	350,775	350,775
Total Assets	\$ 4,318,968	\$ 242,628	\$ 1,045,454	\$ 5,607,050
Liabilities and Fund Balance				
Liabilities:				
Due to other funds	\$ 8,283	\$ 239,630	\$ 228,446	\$ 476,359
Accounts payable	216,810	201,374	27,877	446,061
Deferred revenue	-	-	125,000	125,000
Security deposits	-	-	1,000	1,000
Due to other governments	283,388	-	-	283,388
Accrued interest	-	29,744	-	29,744
Notes due and payable	-	271,427	-	271,427
Total Liabilities	508,481	742,175	382,323	1,632,979
Fund Balance:				
Nonspendable:				
Loans receivable	-	-	350,775	350,775
Restricted:				
Repayment of the 1998 Guaranteed Revenue Bonds	2,878,958	-	-	2,878,958
Repayment of the Transportation Center Note	-	845	-	845
Committed:				
Real estate development	-	-	312,356	312,356
Unassigned	931,529	(500,392)	-	431,137
Total Fund Balance	3,810,487	(499,547)	663,131	3,974,071
Total Liabilities and Fund Balance	\$ 4,318,968	\$ 242,628	\$ 1,045,454	\$ 5,607,050

The accompanying notes are an integral part of these financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

DECEMBER 31, 2011

Total Fund Balance - Governmental Funds \$ 3,974,071

Amounts reported for governmental activities in the statements of net assets are different because:

The right to building used in governmental activities is not a financial resource and, therefore, is not reported in the governmental funds. 20,369,411

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 8,424,077

Long-term liabilities, including bonds and notes payable, compensated absences, and environmental remediation liabilities applicable to the Authority's governmental activities, are not due and payable in the current period that are not reported as fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Bonds and notes payable	(50,539,372)	
Note payable due and payable at December 31, 2011	271,427	
Compensated absences	(48,983)	
Environmental remediation liability	(123,829)	(50,440,757)

Total Net Assets - Governmental Activities \$ (17,673,198)

The accompanying notes are an integral part of these financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

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

YEAR ENDED DECEMBER 31, 2011

	General	Transportation Center	CSM	Total
Revenues:				
Service revenue	\$ 195,778	\$ -	\$ 241,871	\$ 437,649
Intergovernmental	946,559	1,267,219	-	2,213,778
Interest income	146,150	12	5,495	151,657
Other rental income	-	67,156	-	67,156
Miscellaneous income	69,762	34,625	6,984	111,371
Space rental income	-	662,331	166,136	828,467
Total revenues	1,358,249	2,031,343	420,486	3,810,078
Expenditures:				
Current:				
Program expenditures	1,146,426	833,380	503,953	2,483,759
Capital outlay	-	1,252,694	-	1,252,694
Debt service:				
Principal	-	-	21,316	21,316
Interest	-	10,886	29,298	40,184
Total expenditures	1,146,426	2,096,960	554,567	3,797,953
Excess (Deficiency) of Revenues Over Expenditures	211,823	(65,617)	(134,081)	12,125
Other Financing Sources:				
Proceeds from the sale of assets	-	-	236,000	236,000
Total other financing sources	-	-	236,000	236,000
Net Change in Fund Balance	211,823	(65,617)	101,919	248,125
Fund Balance:				
Beginning of year	3,598,664	(433,930)	561,212	3,725,946
End of year	\$ 3,810,487	\$ (499,547)	\$ 663,131	\$ 3,974,071

The accompanying notes are an integral part of these financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balance - Governmental Funds \$ 248,125

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(156,025)	
Capital outlay	<u>1,252,694</u>	1,096,669

Bond and note proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of principal on debt is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.

Payment of long-term liabilities	21,316	
Amortization on forgivable loan	<u>33,333</u>	54,649

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

Accretion of interest	(2,697,228)	
Change in environmental remediation liability	(12,806)	
Change in compensated absences payable	<u>(3,768)</u>	<u>(2,713,802)</u>

Change in Net Assets - Governmental Activities \$ (1,314,359)

The accompanying notes are an integral part of these financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Redevelopment Authority of the City of Harrisburg (Authority) is incorporated under the provisions of the Commonwealth of Pennsylvania Urban Development Act Number 385 of May 24, 1945, as amended, for the purpose of providing redevelopment and other related activities within the City of Harrisburg (City). The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB).

A summary of the Authority's significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Reporting Entity

The Authority is considered a component unit of the City and the Authority's financial activities are included in the City's financial statements.

Measurement Focus and Basis of Accounting

The basic financial statements of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

1. Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of applicable GASB pronouncements.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Capital assets are recorded in the government-wide financial statements and depreciated over their useful lives, rather than being expensed at the time of acquisition or construction.

Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liability, rather than as an expenditure.

Environmental remediation liabilities are recorded as liabilities in the government-wide financial statements when their existence is estimable. Amounts paid to reduce the environmental remediation liability are reported as a reduction of the related liability, rather than as an expenditure.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The Authority chooses to eliminate the indirect costs between governmental activities to avoid a “doubling up” effect.

2. Fund Financial Statements

The underlying accounting system of the Authority is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor fund in the aggregate.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. Service revenue, intergovernmental revenue, interest, and space rental income associated with the current fiscal period are all considered to be susceptible to accrual and thus have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Authority.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources." Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

Purchases and construction of capital assets are recognized as expenditures and the asset value is not capitalized in the governmental funds.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities unless due and payable.

The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, and environmental remediation, are recorded only when due and payable.

Basis of Presentation

The determination of major funds is based on minimum criteria as set forth in GASB pronouncements. The following are the Authority's major funds:

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

General Fund

The General Fund is used to account for all financial resources except those reported in another fund. Revenues of this fund are primarily derived from state and federal grants, and fees for services. Many of the basic activities of the Authority are accounted for in this fund.

Transportation Center Fund

The Transportation Center Fund is used to account for the proceeds of revenues and expenditures related to the operation of the train station.

Contract Service & Maintenance (CSM) Fund

The CSM fund is used to account for various redevelopment projects, including the related revenues and expenditures of projects within the City.

Accounts Receivable

Accounts receivable consists of tenant parking and tenant rent for the Transportation Center Fund and other miscellaneous receivables in each fund. The Authority uses the specific write-off method in recording uncollectible accounts. As of December 31, 2011, the allowance for bad debts was \$31,054.

Loans Receivable

Loans receivable consist of loans made to various entities for redevelopment projects within the City.

The Authority received two Up-Front Grants in the amount of \$10.6 million from the United States Department of Housing and Urban Development for a redevelopment project within the City. The grant funds were loaned to developers for use in connection with a low-income housing project. The loans vary in term and require full payment of principal and interest at the end of the loan term. By their nature, the likelihood that these loans will be collected is remote and, as a result, the loans are completely offset with an allowance for doubtful accounts at December 31, 2011.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In accordance with GASB pronouncements, the Authority has adopted the following policy for current refundings and advance refundings resulting in defeasance of debt. The difference between the reacquisition price and the net carrying amount of the old debt, as well as the related bond issuance costs, will be deferred and amortized in a systematic and rational manner over the remaining life of the old debt or life of the new debt, whichever is shorter. On the statement of net assets, the deferred amount is reported as a deduction from or addition to the new debt liability.

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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in the governmental funds.

Interfund Transactions

The Authority affects a variety of transactions between the funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2011, appropriate interfund receivables or payables have been established.

Accrued Compensated Absences

The Authority's employees are granted vacation benefits in varying amounts depending on the number of years of service. Employees may accumulate up to 37.5 hours of vacation leave, which may be carried over to subsequent years. Sick leave benefits accrue up to a maximum of 675 hours, but can only be used as sick time and not taken in pay. Sick leave accumulated in excess of 675 hours may be converted, at the discretion of the Executive Director, to vacation time. The conversion of sick leave to vacation leave will occur on the ratio of three (3) hours excess sick leave to one (1) hour vacation leave. The vacation leave

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

accrued in this manner may be carried over to the new calendar year in addition to the maximum vacation leave carryover otherwise permitted. The liability related to compensated absences is reported in the statement of net assets.

Estimates

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

Restricted Investments

Restricted investments represent resources set aside for liquidation of specific obligations, as detailed in Note 3.

Right to Building

As further discussed in Note 6, in 1998, the Authority purchased the right, title, and interest in and to certain portions of the Strawberry Square Site located in the City. The Authority is not entitled to any ownership of the buildings until 2016. The future right to the building is valued on the statement of activities at amortized cost. No amortization was required to be recorded through December 31, 2011.

Capital Assets

Capital assets of the Authority result from expenditures in the governmental funds. Capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at historical cost at the acquisition date. Donated fixed assets are reported at their fair market value as of the date received. The Authority maintains a capitalization threshold of \$5,000 for vehicles, equipment, and furniture and fixtures. Leasehold improvements, land improvements, buildings, and building improvements have a capitalization threshold of \$25,000. All capital assets are depreciated, except for land, land improvements (excavation, fill, grading, landscaping), construction in progress, easements, and rights of way.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and building improvements	40 years
Land improvements	20 years
Furniture and fixtures	10 years
Leasehold improvements	7-10 years
Vehicles	7-10 years
Equipment	5 years

Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, and intangible assets, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the Authority not restricted for any project or other purpose.

In the fund financial statements, governmental funds report fund balance in categories based on the level of constraint placed upon the funds. These levels are as follows:

- *Nonspendable* – This category represents funds that are not in spendable form.
- *Restricted* – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

- Committed - This category represents funds that are limited in use due to the constraints on purpose and circumstances of spending imposed by the Board of Directors (Board). Such commitment is made via a Board resolution and must be made prior to the end of the calendar year. Removal of the commitment requires a Board resolution.
- Unassigned – This category represents all other funds not otherwise defined.

The Authority's policy is to use funds in the order of the most restrictive to the least restrictive.

Risk Management

The Authority 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. There were no significant reductions in insurance coverages in 2011. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Pending Changes in Accounting Principles

In June of 2011, the GASB issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources, which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this statement are effective for the Authority's December 31, 2012 financial statements

In April of 2012, the GASB issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" Statement No. 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The provisions of this statement are effective for the Authority's December 31, 2013 financial statements.

The effect of implementation of these statements has not yet been determined.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

Adoption of GASB Statement

The Board has adopted GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This statement's objective is to clarify fund definitions and to enhance the usefulness of fund balance information. As a result of this statement, the titles and definitions of governmental fund balances have changed.

2. DEPOSITS AND INVESTMENTS

The deposit and investment policy of the Authority adheres to state statutes, prudent business practices, and applicable trust indentures. The Authority deposits cash in local financial institutions.

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 to it. The Authority does not have a deposit policy for custodial credit risk.

As of December 31, 2011, the Authority's book balance was \$1,210,313 and the bank balance was \$1,216,677. Of the bank balance, \$1,199,900 was covered by federal depository insurance. The remaining balance of \$16,777 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

Investments

The investments of the Authority at December 31, 2011 were as follows:

<u>Investments</u>	Fair (Contract) Value
Money market funds	\$ 152,241
External investment pool	845
Guaranteed investment contracts	2,845,486
Total investments	<u>\$ 2,998,572</u>
<u>Investments</u>	
Governmental activities:	
Unrestricted	\$ 118,769
Restricted	2,879,803
Total investments	<u>\$ 2,998,572</u>

The Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for the Authority's funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST), which separately issues audited financial statements that are available to the public. The fair value of the Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight of the pool.

Custodial Credit Risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have an investment policy for custodial credit risk. At December 31, 2011, the Authority was not exposed to custodial credit risk, because the investments held by the Authority are not evidenced by securities in book entry or paper form.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

Concentration of Credit Risk – The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2011, more than 5 percent of the Authority's investments were held with the following issuer:

Issuer	Contract Value	Percentage
Guaranteed investment contracts		
Bank of America - 5.3%	\$ 2,845,486	94.89%

Credit Risk – The Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Authority's investments had the following level of exposure to credit risk as of December 31, 2011:

	Fair (Contract) Value	Rating
Money market funds	\$ 152,241	AAA
External investment pool	845	AAA
Guaranteed investment contracts	2,845,486	Unrated

Interest Rate Risk – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the Authority's investments and their related average maturities as of December 31, 2011:

	Fair (Contract) Value	Investment Maturities			
		2012	2013 -2017	2018-2022	Subsequent to 2022
Money market funds	\$ 152,241	\$ 152,241	\$ -	\$ -	\$ -
External investment pool	845	845	-	-	-
Guaranteed investment contracts	2,845,486	-	1,270,473	-	1,575,013
Total	\$ 2,998,572	\$ 153,086	\$ 1,270,473	\$ -	\$ 1,575,013

**REDEVELOPMENT AUTHORITY OF
THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

3. RESTRICTED INVESTMENTS

Investments whose use is limited to a specific purpose has been classified as restricted in the balance sheet. Restricted investments are composed of the following:

Governmental Funds:	
General Fund:	
Restricted for repayment of the 1998 Guaranteed Revenue Bonds	\$ 2,878,958
Transportation Center Fund:	
Restricted for repayment of the Transportation Center Note	<u>845</u>
Total restricted investments	<u><u>\$ 2,879,803</u></u>

4. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The Authority records interfund activity for amounts that one fund loans to another fund or for the value of expenditures that one fund pays on behalf of another fund. A summary of the Authority's interfund receivables and payables at December 31, 2011 is as follows:

	Due from	Due to
General Fund	\$ 468,076	\$ 8,283
Transportation Center Fund	8,283	239,630
CSM Fund	-	228,446
	<u>\$ 476,359</u>	<u>\$ 476,359</u>

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

5. CAPITAL ASSETS

The changes in the Authority's capital assets for the year ended December 31, 2011 were as follows:

	January 1, 2011	Additions	Retirements	December 31, 2011
Capital assets, not being depreciated:				
Construction in progress	\$ 1,446,005	\$ 1,252,694	\$ -	\$ 2,698,699
Land	30,000	-	-	30,000
Total capital assets, not being depreciated	<u>1,476,005</u>	<u>1,252,694</u>	<u>-</u>	<u>2,728,699</u>
Capital assets, being depreciated:				
Buildings	2,093,040	-	-	2,093,040
Leasehold improvements	4,147,949	-	-	4,147,949
Total capital assets, being depreciated	<u>6,240,989</u>	<u>-</u>	<u>-</u>	<u>6,240,989</u>
Less: accumulated depreciation for:				
Buildings	78,489	52,326	-	130,815
Leasehold improvements	311,097	103,699	-	414,796
Total accumulated depreciation	<u>389,586</u>	<u>156,025</u>	<u>-</u>	<u>545,611</u>
Total capital assets being depreciated, net	<u>5,851,403</u>	<u>(156,025)</u>	<u>-</u>	<u>5,695,378</u>
Total capital assets, net	<u>\$ 7,327,408</u>	<u>\$ 1,096,669</u>	<u>\$ -</u>	<u>\$ 8,424,077</u>

6. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2011 was as follows:

	January 1, 2011	Additions/ Accretion	Retirements/ Amortization	December 31, 2011	Current Portion
Note payable - Transportation Center	\$ 271,427	\$ -	\$ -	\$ 271,427	\$ 271,427
Note payable - FHLB/Citizens	450,000	-	(33,333)	416,667	33,333
Note payable - Metro Bank	623,874	-	(21,316)	602,558	31,694
Due to other government	170,832	-	-	170,832	-
1998 Series A Guaranteed Revenue Bonds	15,472,522	1,072,972	-	16,545,494	-
1998 Series B Guaranteed Revenue Bonds	30,908,138	1,624,256	-	32,532,394	-
	<u>\$ 47,896,793</u>	<u>\$ 2,697,228</u>	<u>\$ (54,649)</u>	<u>\$ 50,539,372</u>	<u>\$ 336,454</u>

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

The following is an analysis of debt service requirements to maturity on the long-term debt using the interest rate in effect at December 31, 2011:

Years Ending December 31,	Principal	Interest	Total
2012	\$ 336,454	\$ 48,858	\$ 385,312
2013	66,073	18,068	84,141
2014	67,153	16,988	84,141
2015	68,268	15,873	84,141
2016	3,749,421	14,720	3,764,141
2017-2021	37,535,768	54,938	37,590,706
2022-2026	32,307,513	19,859	32,327,372
2027-2031	11,080,000	-	11,080,000
2032-2036	9,840,832	-	9,840,832
	95,051,482	\$ 189,304	\$ 95,240,786
Unamortized discount on capital appreciation bonds	(44,512,110)		
	\$ 50,539,372		

During 2000, the Authority entered into an agreement with the Commonwealth of Pennsylvania Department of Transportation for an Infrastructure Bank Loan in a maximum amount of \$1,400,000 to rehabilitate the Harrisburg Transportation Center. The proceeds from this issuance were used for transportation center improvements. The note bears interest at 3.75% and is payable through December 31, 2009. The final principal payment of \$271,427, as well as \$29,744 of accrued interest, has not been paid as of December 31, 2011, as the Authority is seeking loan forgiveness for the outstanding principal balance and related interest. Because the principal and interest payments are due and payable at December 31, 2011, the liability has been accrued in the governmental fund financial statements.

On November 10, 2008, the Authority entered into a loan agreement with Citizens Bank in the amount of \$500,000. The proceeds of the loan were used to finance the construction of Susquehanna Harbor Safe Haven (SHSH). The loan was facilitated through a Direct Subsidy agreement. Under this agreement, the loan balance is to be forgiven over a fifteen-year period, given that certain compliance requirements are met.

On November 10, 2008, the Authority entered into a loan agreement with Metro Bank, formerly Commerce Bank of Harrisburg, in the amount of \$650,000. The proceeds from the loan were used for construction of the SHSH project. The loan bears interest of 4.83% for the first three years and followed by prime thereafter until maturity. The interest rate at December 31, 2011 was 3.25%.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

Included in the Authority's long-term debt is \$170,832 due to another government. This amount relates to the closeout of a Weatherization project funded by the Commonwealth of Pennsylvania. At the time of closeout, it was determined that this balance was owed to the grantor; however, no request has been made for payment by the grantor. Additionally, the Authority has requested that the grantor waive the remaining obligation.

On December 19, 1998, the Authority issued Federally Taxable Guaranteed Revenue Bonds, Series A of 1998, in the face amount of \$41,680,000 and Series B of 1998 in the face amount of \$51,910,000 with interest rates of 6.7% and 5.1%, respectively. The Series A and Series B of 1998 are capital appreciation bonds. As such, the proceeds at the time of issuance were \$6,920,525 and \$16,716,758, respectively. The related proceeds of both issues were used to finance the acquisition of the Authority's right, title, and interest in and to certain portions of the Strawberry Square Site located in the City; to fund a debt service reserve fund for the 1998 bonds; and to pay costs of issuance. The Authority is not entitled to any ownership of the buildings until 2016. The City guaranteed the repayment of these bond issuances.

Defeased Debt

The Authority defeased their First Mortgage Office Building Revenue Bonds, Series of 2002, by placing the proceeds of net bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the Authority's financial statements. At December 31, 2011, the outstanding balance of the First Mortgage Office Building Revenue Bonds, Series of 2002, was \$4,110,000.

7. CONDUIT DEBT ISSUES

On February 3, 1994, the Authority issued Taxable Guaranteed Revenue Bonds Series A in the amount of \$10 million. The related proceeds were issued on behalf of the Capital City Economic Development Corporation to construct a hotel in the City. The loan agreement between the Authority and the Capital City Economic Development Corporation stipulates that the Capital City Economic Development Corporation is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment as a result of the loan agreement. At December 31, 2011, the balance outstanding was \$5,160,000.

On April 13, 1995, the Authority issued Federally Taxable Tax Increment Financing Bonds, Series A of 1995, in the amount of \$10.5 million. The related proceeds were issued on behalf of the Pennsylvania National Mutual Casualty Insurance Company to construct an office complex in the City. The loan agreement between the Authority and the Pennsylvania

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

National Mutual Casualty Insurance Company stipulates that the Pennsylvania National Mutual Casualty Insurance Company is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment as a result of the loan agreement. At December 31, 2011, the balance outstanding was \$2,209,018.

On July 16, 1996, the Authority issued a nonrecourse Revenue Note to Allfirst Bank in an amount not to exceed \$5,000,000. The related proceeds were loaned to the Homeland Center, a Pennsylvania nonprofit corporation for the acquisition, construction, and equipping certain capital additions, improvements, and renovations to the corporation's long-term care facility for the elderly located in the City. The loan agreement between the Authority and the Homeland Center has been assigned to Allfirst Bank as repayment of the Revenue Note. The Authority is not obligated under the note agreement as a result of this assignment. The entire principal balance, along with any accrued interest, is due at maturity in April 2017.

On December 27, 2001, the Authority issued Federally Taxable Guaranteed Revenue Bonds, Series of 2001, in the principal amount of \$20,170,000. The related proceeds were issued on behalf of the Harristown Development Corporation. The proceeds were to be used to refund the Federally Taxable Guaranteed Revenue Bonds, Series A and B of 1993. The loan agreement between the Authority and the Harristown Development Corporation stipulates that the Harristown Development Corporation is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment of the bonds as a result of the loan agreement. At December 31, 2011, the balance outstanding was \$16,140,000.

On April 5, 2004, the Authority issued conduit debt in the form of Taxable Guaranteed Revenue Bonds, Series of 2004, in the principal amount of \$2,115,000. The related proceeds were issued on behalf of the Harristown Development Corporation. The proceeds were issued to fund certain capital improvements and working capital at the hotel (the "Hilton Hotel") owned by the Harristown Development Corporation. The loan agreement between the Authority and Harristown Development Corporation stipulates that the Harristown Development Corporation is responsible for principal and interest payment on the bonds. The Authority is not obligated for repayment of the bonds as a result of the loan agreement. At December 31, 2011, the balance outstanding was \$1,670,000.

In 2005, the Authority issued conduit debt in the form of Federally Taxable Guaranteed Revenue Bonds (Series A-2 of 2005). The debt was issued in the amount of \$9 million. The related proceeds were issued on behalf of Harrisburg City Baseball Club, Inc. (HCBC). A loan agreement was entered between the Authority and HCBC. The proceeds will be utilized by HCBC for the renovation and upgrade of Metro Bank Park, formerly Commerce Bank Park. HCBC pledged existing and projected revenues from the stadium to pay the loan. In addition, the City has guaranteed repayment of the bonds through a Guaranty agreement.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

The Authority is not obligated for repayment of the bonds. At December 31, 2011, the aggregate outstanding balance was \$7,865,000.

In December 2006, the Authority authorized the execution of a Federally Taxable Guaranteed Revenue Note in an amount not to exceed \$7.2 million. The note was to finance the leasing of the McCormick Public Service Center from the City and then the subleasing of the building back to the City. The funds from the issuance of the note were turned over to the City. The City's lease payments will pay the debt service on the note. The Authority is not obligated for repayment of this note. At December 31, 2011, the balance outstanding was \$3,216,146.

The Authority has entered into an agreement to purchase real estate tax liens from the Harrisburg School District for tax years 2006 through 2010. This transaction has been treated as a collateralized borrowing. The Authority entered into a line of credit agreement in the amount of \$7.5 million to fund the purchase of the tax liens. Under the terms of the agreement, the Authority is not obligated for repayment of the line of credit as a result of the security agreement with the bank. On February 25, 2011, the Authority amended the terms of its conduit debt agreement to purchase real estate tax liens from the Harrisburg School District. The line of credit was increased from \$7.5 million to a maximum of \$8 million. In addition, the total additional indebtedness incurred under the note was \$5,189,362. At December 31, 2011, the balance on the line of credit was \$5,166,882.

8. LITIGATION

From time to time, the Authority is involved in various lawsuits arising in the ordinary course of its activities. The Authority's Solicitor and the Authority's management believe that the resolution of these actions is not expected to have a material adverse effect on the financial statements of the Authority.

9. PENSION PLAN

The Authority participates in a defined contribution pension plan (Plan) for their employees; the Plan was established on January 1, 1998. The Authority contributes 4.5% of each covered employee's gross compensation to the Plan. Each participant is also required to contribute 4.5% of gross compensation in the Plan. The Plan is administered and its assets are held in trust by ICMA Retirement Corporation. The Authority contributed \$15,786 to the Plan, or 4.5% of covered payroll in the amount of \$350,428. Each permanent (full-time or part-time) employee is eligible to participate. Plan members contributed \$15,178 for the year ended December 31, 2011.

**REDEVELOPMENT AUTHORITY OF
THE CITY OF HARRISBURG**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

Participants in the Plan vest according to the following schedule:

<u>Completed Years of Services</u>	<u>% Vested</u>
1	20
2	40
3	60
4	80
5	100

10. LEASE REVENUE

The Authority, through the Transportation Center Fund, leases space and parking to a commercial rail company and other tenants with lease ending dates varying through 2016. Additionally, the Authority, through the CSM Fund, leases space to a non-profit corporation with a lease ending date of 2012. These leases are noncancellable operating leases.

Minimum rentals on noncancellable leases through 2016 are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2012	\$ 767,183
2013	417,596
2014	121,009
2015	59,307
2016	<u>19,949</u>
Total	<u>\$ 1,385,044</u>

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

11. LEASE COMMITMENTS

Operating Lease

The Authority leases space from the National Railroad Passenger Corporation (Amtrak) through 2013. The minimum lease payments for the term of the lease are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2012	\$ 127,447
2013	127,447
Total	<u>\$ 254,894</u>

The lease is adjusted annually on January 1 for the National Consumer Price Index. The above amounts do not reflect the annual CPI increase. Management does not anticipate a significant increase in the above amounts.

In addition, the Authority has an informal lease with the City for office space in the City Government Center. The Authority is currently not being charged a lease fee by the City.

Total rental expenditures for the year ended December 31, 2011 approximated \$127,447.

12. FUND BALANCE/NET ASSET DEFICITS

The following is a schedule of deficits by fund at December 31, 2011:

<u>Fund</u>	<u>Deficit Amount</u>
Governmental Activities	\$ 17,673,198
Transportation Center	499,547

The Governmental activities deficit is related to the 1998 Series A and B bond issuances. Since the right to building is recorded at amortized cost and the debt includes appreciation, the total debt outstanding, less the asset's amortized cost, reduces unrestricted net assets. The outstanding debt on these issuances is \$49,077,888 and the amortized cost of the right to building is \$20,369,411. These balances reduced the governmental activities net assets from

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

a positive \$11,035,279 to the deficit balance of \$17,673,198. The City guarantees the payment of those bond issuances. In addition, the Authority will gain title to certain buildings in the year 2016 in relation to the issuance of these bonds.

Funds sufficient to provide for the Transportation Center deficits are to be made from future activities, according to management. Additionally, as discussed in Note 6, management is attempting to have a grantor waive the payment of the related debt principal and interest payments.

13. ENVIRONMENTAL REMEDIATION LIABILITY

The Authority assumed and acquired title to several properties which required environmental remediation. These properties were acquired for redevelopment. After the projects are complete, the properties will be acquired by a local educational institution and/or a nonprofit healthcare organization.

The Authority is required to remediate these properties. The Authority has estimated that total project costs will amount to \$961,000 and \$120,500. These estimates are based on projected remediation costs. The estimates are included in grant proposals, which were approved by the Department of Environmental Protection.

The \$123,829 ending balance of the contamination liability is based on the total estimated project cost, less costs incurred to date. The Authority does not expect to receive insurance recoveries that have the potential to reduce the recorded liability. The estimated liability may potentially change, due to factors such as price increases or changes in technology. The Authority has made significant progress on the projects to date and continues work subsequent to year-end.

14. COMMITMENTS AND CONTINGENCIES

Economic Dependence

The Authority receives grants from the Federal Transit Administration and the Department of Housing and Urban Development. These revenues are material to the financial statements and would impact the Authority significantly if the funding were reduced or terminated. Should grant funding not be available, the Authority could cease to provide services supported by the grant funding.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011

Grants

The Authority obtains grant revenue from federal and state sources. Should the funding source determine that the Authority has expended grant funds for purchases that are un-allowed under the grant contract, the Authority may have to pay back the funds. However, ultimate disallowance of any costs claimed is ultimately the responsibility of the granting agency. Accordingly, no adjustment has been made to the financial statements for any questioned costs pending final resolution by the granting agency.

Construction Commitments

The Authority is committed for capital projects disbursements in the approximate amount of \$93,977 as of December 31, 2011.

15. RELATED PARTY

The Authority has various contracts with the City, a related party, for property management and acquisition services. These activities are reflected in the Contract Services Fund of the Authority in the amount of \$26,250 as of December 31, 2011.

16. SUBSEQUENT EVENT

On March 15 2012, the Authority was given notice of an event of default which occurred under the Taxable Guaranteed Revenue Bonds, Series of 2001 trust indenture, dated as of December 1, 2001 between the Authority and the trustee. Pursuant to a guarantee agreement dated December 1, 2001, among the issuer, the trustee, and the City, the City has guaranteed the payment of principal and interest on the bonds when due. To date, there has been no default on the payment of principal or interest on the bonds when due; consequently, the trustee has not been required to notify the City of any payment to be made by the City under the guarantee.

The event of default has occurred under Section 7.01(g)(ii) of the indenture by reason of the City admitting, in writing, that it is unable to pay its debts as they generally become due, as evidenced by the City's admission that it is unable to pay, on March 15, 2012, debt service on certain of its general obligation debt which became due and payable on that date.

The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Supplementary Information

**REDEVELOPMENT AUTHORITY OF
THE CITY OF HARRISBURG**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2011

Federal Grantor Project Title	Source Code	Federal CFDA Number	Grant/ Pass-Through Grantor's Number	Period Beginning/ Ending Date	Program or Award Amount	Cash Received	Expenditures
U.S. Department of Housing & Urban Development:							
Multifamily Property Disposition Program	D	14.199	UPG03PA01326	02/16/04-08/31/12	\$ 4,960,000	\$ 326,283	\$ 530,280
Multifamily Property Disposition Program	D	14.199	UPG03PA02326	02/16/04-08/31/12	6,120,000	620,276	620,276
Total U.S. Department of Housing & Urban Development							<u>1,150,556</u>
U.S. Department of Transportation:							
Highway Planning and Construction (Federal-Aid Highway Program)							
	D	20.205	PA-15-X002-00	10/01/08-09/30/11	1,200,000	967,794	1,060,380
Federal Transit Grants Cluster:							
Passed through the PA Department of Transportation:							
ARRA - Federal Transit Formula Grants (Urbanized Area Formula Program)	I	20.507	EG00000851	12/16/10-9/30/11	150,000	139,614	67,352
Passed through the Cumberland-Dauphin-Harrisburg Transit Authority:							
Federal Transit Formula Grants	I	20.507	MOA - Bus Shelters	11/17/11	16,165	-	16,165
Subtotal Federal Transit Grants Cluster:							<u>83,517</u>
Passed through the PA Department of Transportation:							
Formula Grants for Other Than Urbanized Areas (Nonurbanized Area Formula Program)	I	20.509	EG00000851	12/16/10-9/30/11	122,500	102,737	100,423
Total U.S. Department of Transportation							<u>1,210,145</u>
Total Expenditures of Federal Awards							<u>\$2,156,704</u>

Legend:

- D - Direct Funding
- I - Indirect Funding
- CFDA - Catalog of Federal Domestic Assistance

See accompanying notes to schedule of expenditures of federal awards.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2011

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards for the year ended December 31, 2011 includes the federal grant activity of the Redevelopment Authority of the City of Harrisburg (Authority) and is presented on the modified accrual basis of accounting.

2. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the Authority's basic financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

**Redevelopment Authority of
the City of Harrisburg**

Independent Auditor's Reports in
Accordance with OMB Circular A-133

Year Ended December 31, 2011

THIS PAGE INTENTIONALLY LEFT BLANK

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*

Board of Directors
Redevelopment Authority of
the City of Harrisburg

We have audited the governmental activities and each major fund of the Redevelopment Authority of the City of Harrisburg (Authority) as of and for the year ended December 31, 2011, and have issued our report thereon dated July 11, 2012. 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.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a

Board of Directors
Redevelopment Authority of
the City of Harrisburg
Independent Auditor's Report on Internal
Control over Financial Reporting

reasonable possibility that a material misstatement of the Authority'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 as Findings 2011-01, 2011-02, 2011-03, and 2011-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated July 11, 2012.

* * * * *

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mahe Duessel

Harrisburg, Pennsylvania
July 11, 2012

Independent Auditor's Report on Compliance with Requirements that Could
Have a Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133

Board of Directors
Redevelopment Authority of
the City of Harrisburg

Compliance

We have audited the Redevelopment Authority of the City of Harrisburg's (Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2011. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority'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. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in Finding 2011-05 in the accompanying schedule of findings and questioned costs, the Authority did not comply with certain OMB Circular A-133 reporting requirements that are applicable to its Highway Planning and Construction and Multifamily Property Disposition programs. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

Board of Directors
Redevelopment Authority of the City of Harrisburg
Independent Auditor's Report on Compliance with
Requirements that Could Have a Direct and
Material Effect on Each Major Program

Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-05 to be a material weakness.

* * * * *

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maher Duessel

Harrisburg, Pennsylvania
July 11, 2012

**REDEVELOPMENT AUTHORITY OF
THE CITY OF HARRISBURG**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2011

I. Summary of Audit Results

1. Type of auditor's report issued: Unqualified

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?

yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?

yes none reported

5. Type of auditor's report issued on compliance for major programs: Qualified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

7. Major Programs:

CFDA Number(s)

14.199

20.205

Name of Federal Program or Cluster

Multifamily Property Disposition Program

Highway Planning and Construction Program
(Federal-Aid Highway Program)

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000

9. Auditee qualified as low-risk auditee? yes no

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2011

- II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

Finding 2011-01 – Accounting Records

Condition: The Redevelopment Authority of the City of Harrisburg (Authority) provided a schedule of additional receivables, revenues, liabilities, and expenses. However, the schedule provided by the Authority was not a complete summary of transactions that needed to be recorded at December 31, 2011. The Authority also did not properly record activity for the 1998 Series A and B Bonds.

Criteria: The accounts of the Authority should include all significant transactions in the period of benefit.

Cause: Transactions were not recorded and/or improperly recorded in the period of benefit.

Effect: The financial records did not reflect the correct financial activity of the period, which would have resulted in a material misstatement of the financial statements.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: The Authority should ensure that internal control procedures over financial reporting are sufficient to identify and record all material adjustments.

Management's Response: The Authority agrees that financial transactions must be recognized within the period of benefit. Because the Authority records financial transactions on a "cash basis", the fiscal staff produced a year-end statement of pending transactions. However, the audit revealed that even with our improved procedures, a few transactions were incorrectly recorded. Corrections were made, and closer review of year-end statement preparation will be conducted.

Finding 2011-02 – Recording Grant Activity

Condition: The Authority improperly recorded activity of pass-through grants.

Criteria: Pass-through grants are received by a recipient government, the Authority, to transfer to or spend on behalf of a secondary recipient. Revenues and expenditures of pass-through grants should be recorded in the financial statements of the secondary recipient.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2011

Cause: There are no procedures in place to ensure that grant contracts were reviewed in order to determine appropriate accounting treatment of pass-through grants.

Effect: Revenues and expenditures were improperly recorded in the Authority's financial statements from activity of pass-through grants.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: The Authority should review all grant contracts and ensure that grants that are pass-through in nature are not recorded in their financial statements.

Management's Response: The Authority has adopted a specific schedule of pass-through grant activities, and made significant progress toward improving the fiscal recording of these transactions. The audit revealed very few transactions that were incorrectly recorded. The Authority has reviewed these with fiscal staff to avoid similar future events.

Finding 2011-03 – External Financial Statement Preparation

Condition: As part of the audit process, the auditors prepare the financial statements of the Authority based on information that is provided by the Authority. The financial statements are subsequently reviewed by management.

Criteria: The Authority should have procedures in place and resources available to adequately prepare their own external financial statements.

Cause: Due to the complexity of changing accounting and reporting requirements, it is unlikely that the Authority would have the resources available to prepare their own external financial statements.

Effect: Complete and accurate financial statements were not prepared by the Authority for the audit.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: The Authority should implement controls over financial reporting and adopt policies and procedures in order to prepare their own external financial statements.

Management's Response: The Authority finds that the costs of instituting additional procedures and resources to prepare its own external financial statements outweigh the benefits and will not be expanding staff or contracting outside resources for the preparation

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2011

of its own financial statements. The Authority continues to conduct its financial recordkeeping in accordance with accounting standards generally accepted in the United States, and continues to implement improvements to its procedures in accordance with recommendations of its Independent Auditor.

Finding 2011-04 – Preparing Bank Reconciliations

Condition: The December bank reconciliation for a General Fund checking account did not properly reflect all account activity for the month.

Criteria: The Authority should have procedures in place to ensure that all transactions are properly reflected in monthly bank reconciliations.

Cause: The Authority did not have procedures in place to prepare accurate and complete bank reconciliations.

Effect: Complete and accurate bank reconciliations were not prepared by the Authority for the General Fund checking account.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: The Authority should implement procedures to prepare complete and accurate bank reconciliations that reflect all account activity.

Management's Response: The Authority has procedures in place to reconcile bank statements. However, all bank reconciliations for the year, except one in December 2011, were correctly reconciled. The Authority learned that one non-check deposit was received in a General Fund checking account in December 2011, but was recorded in the records as received in January 2012. An adjusting entry was made to correct the error, and this was reviewed with fiscal staff to avoid recurrence of similar events in the future.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2011

III. Findings and questioned costs for federal awards.

The following are findings for federal awards, which would include audit findings as defined in OMB Circular A-133 §.510(a).

Finding 2011-05 - Schedule of Expenditures of Federal Awards

U.S. Department of Housing and Urban Development – Multifamily Property Disposition Program (CFDA#14.199); U.S. Department of Transportation - Highway Planning and Construction (CFDA#20.205)

Condition: The schedule provided by the Authority was not a complete and accurate summary of federal expenditures for the year ended December 31, 2011.

Criteria: The Authority should have in place, an internal control system relative to federal awards that is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations. In addition, an internal controls system pertaining to the compliance requirements for federal programs should provide reasonable assurance that transactions are properly recorded and accounted for to: 1) permit the preparation of reliable financial statements and federal reports; 2) maintain accountability over assets; and 3) demonstrate compliance with laws, regulations, and other compliance requirements. OMB Circular A-133, Section .310 states that the auditee shall prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. The schedule is required to include, at a minimum: 1) individual federal programs by federal agency; 2) the name of the pass-through entity and the identifying number assigned by the pass-through entity; and 3) the total federal awards expended for each individual federal program.

Cause: Receipts and expenditures did not accurately reflect the amounts in the financial records due to the lack of procedures in place to ensure that all federal expenditures are accurately reported on the schedule of expenditures of federal awards. In addition, receipts and expenditures for several grants included amounts that were reported in prior periods.

Effect: The schedule of expenditures of federal awards provided for the audit was not complete and accurate.

Questioned Costs: This finding does not result in questioned costs.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2011

Recommendation: The Authority should establish procedures to ensure that the individual designated with the responsibility of oversight of all federal grants captures all federal expenditures for reporting on and preparing the schedule of expenditures of federal awards. Other personnel within the Authority should be cross-trained to perform duties associated with the grants, should this individual become unable to perform the duties.

Management's Response: Authority has procedures in place, and fiscal staff designated responsible for the preparation of the schedule of expenditures of federal awards. The Authority learned that a few transactions were recorded incorrectly, and adjusting entries were made subsequent to the close-out of the subject audit year. The Authority has reviewed this with fiscal and senior staff, and will take steps to cross-train other personnel in the expenditures of federal awards.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2011

FINANCIAL STATEMENT FINDINGS

Finding 2010-01 – Accounting Records

Condition: The Authority did not properly record additional receivables/revenues, reverse receivables/revenues, record additional liabilities/expenses, and reverse liabilities/expenses. The Authority also did not properly record activity for the 1998 Series A and B Bonds.

Current Status: See the current year finding 2011-01.

Finding 2010-02 – Recording Line of Credit Activity

Condition: The Authority has a line of credit agreement to be used for construction costs related to the rehabilitation of the city island baseball stadium. The Authority did not have bank statements to support activity on the line of credit, including payments that were made and drawdowns that occurred on the line of credit.

Current Status: This finding has been corrected in the current year.

Finding 2010-03 – Recording Grant Activity

Condition: The Authority improperly recorded activity of pass-through grants.

Current Status: See the current year finding 2011-02.

Finding 2010-04 – Improving Controls over Cash Receipts

Condition: The Administrative Project Manager opens and organizes all mail received by the Authority. The Administrative Project Manager also logs the receipts in a ledger book, records the entries in the accounting software, and makes the deposits.

Current Status: This finding has been corrected in the current year.

Finding 2010-05 – External Financial Statement Preparation

Condition: As part of the audit process, the auditors prepare the financial statements of the Authority based on information that is provided by the Authority. The financial statements are subsequently reviewed by management.

Current Status: See the current year finding 2011-03.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2011

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2010-06 - Schedule of Expenditures of Federal Awards

Federal Transit Grants Cluster – Capital Investment Grants (CFDA#20.500)

Condition: The Authority was unable to provide a complete summary of federal expenditures for the year ended December 31, 2010.

Current Status: See current year finding 2011-05.