Redevelopment Authority of the City of Harrisburg

Financial Statements

Year Ended December 31, 2012 with
Independent Auditor's Report

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

YEAR ENDED DECEMBER 31, 2012

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Independent Auditor's Report

Board of Directors
Redevelopment Authority of
the City of Harrisburg

Report on the Financial Statements

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), Pennsylvania, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority'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. 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 and each major fund of the Authority as of December 31, 2012, and the respective changes in financial position, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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.

Maher Duessel

Harrisburg, Pennsylvania
July 22, 2013

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REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

STATEMENT OF NET POSITION

DECEMBER 31, 2012

	Governmental Activities
Assets	
Current assets:	
Cash	$ 852,856
Investments	72,831
Restricted investments	3,032,974
Accounts receivable	186,373
Grants receivable	120,500
Loans receivable	351,350
Total current assets	4,616,884
Non-current assets:	
Right to building	20,369,411
Capital assets, not being depreciated	30,000
Capital assets, being depreciated, net	8,201,757
Total non-current assets	28,601,168
Total Assets	33,218,052
Liabilities	
Current liabilities:	
Accounts payable	58,363
Accrued interest	41,038
Current portion of bonds and notes payable	337,500
Unearned revenue	114,200
Security deposits	1,000
Due to other governments	36,736
Current portion of compensated absences	18,089
Total current liabilities	606,926
Non-current liabilities:	
Bonds and notes payable	53,000,109
Environmental remediation liability	40,636
Compensated absences	34,802
Total non-current liabilities	53,075,547
Total Liabilities	53,682,473
Net Position	
Net investment in capital assets	7,000,816
Restricted	3,032,974
Unrestricted	(30,498,211)
Total Net Position	$ (20,464,421)

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, 2012

Functions/Programs:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:					
Community development	$ 4,906,271	$ 204,926	$ 556,633	$ 124,250	$ (4,020,462)
Total Governmental Activities	$ 4,906,271	$ 204,926	$ 556,633	$ 124,250	(4,020,462)
	General revenues:				
	Rental income				931,914
	Miscellaneous income				64,449
	Interest income				159,553
	Total general revenues				1,155,916
	Change in Net Position				(2,864,546)
	Net Position:				
	Beginning of year, restated				(17,599,875)
	End of year				$ (20,464,421)

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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

BALANCE SHEET
GOVERNMENTAL FUNDS

DECEMBER 31, 2012

	General	Transportation Center	CSM	Total
Assets				
Cash	$ 350,901	$ 84,338	$ 417,617	$ 852,856
Investments	72,831	-	-	72,831
Restricted investments	3,032,128	846	-	3,032,974
Due from other funds	436,459	1,200	8,639	446,298
Accounts receivable	60,195	50,831	75,347	186,373
Grants receivable	-	-	120,500	120,500
Loans receivable	-	-	351,350	351,350
Total Assets	$ 3,952,514	$ 137,215	$ 973,453	$ 5,063,182
Liabilities and Fund Balance				
Liabilities:				
Due to other funds	$ 1,200	$ 239,630	$ 205,468	$ 446,298
Accounts payable	3,057	32,218	23,088	58,363
Unearned revenue	-	-	114,200	114,200
Security deposits	-	-	1,000	1,000
Due to other governments	36,736	-	-	36,736
Accrued interest	-	41,038	-	41,038
Notes due and payable	-	271,427	-	271,427
Total Liabilities	40,993	584,313	343,756	969,062
Fund Balance:				
Nonspendable:				
Loans receivable	-	-	351,350	351,350
Restricted:				
Repayment of the 1998 Guaranteed Revenue Bonds	3,032,128	-	-	3,032,128
Repayment of the Transportation Center Note	-	846	-	846
Committed:				
Real estate development	-	-	278,347	278,347
Unassigned	879,393	(447,944)	-	431,449
Total Fund Balance	3,911,521	(447,098)	629,697	4,094,120
Total Liabilities and Fund Balance	$ 3,952,514	$ 137,215	$ 973,453	$ 5,063,182

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 POSITION

DECEMBER 31, 2012

Total Fund Balance - Governmental Funds		$ 4,094,120
Amounts reported for governmental activities in the statement of net position 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.		8,231,757
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 position.		
Bonds and notes payable	(53,337,609)	
Note payable due and payable at December 31, 2012	271,427	
Compensated absences	(52,891)	
Environmental remediation liability	(40,636)	(53,159,709)
Total Net Position - Governmental Activities		$(20,464,421)

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, 2012

	General	Transportation Center	CSM	Total
Revenues:				
Service revenue	$ 179,917	$ -	$ 154,917	$ 334,834
Intergovernmental	408,437	90,917	10,800	510,154
Interest income	153,334	16	6,203	159,553
Other rental income	-	90,033	-	90,033
Miscellaneous income	9,492	60,413	2,032	71,937
Space rental income	-	675,745	166,136	841,881
Total revenues	751,180	917,124	340,088	2,008,392
Expenditures:				
Current:				
Program expenditures	723,469	830,819	324,723	1,879,011
Capital outlay	-	22,562	-	22,562
Debt service:				
Principal	-	-	25,532	25,532
Interest	-	11,294	23,267	34,561
Total expenditures	723,469	864,675	373,522	1,961,666
Net Change in Fund Balance	27,711	52,449	(33,434)	46,726
Fund Balance:				
Beginning of year, restated	3,883,810	(499,547)	663,131	4,047,394
End of year	$ 3,911,521	$ (447,098)	$ 629,697	$ 4,094,120

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, 2012

Net Change in Fund Balance - Governmental Funds		$ 46,726
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	(206,899)	
Capital outlay	14,579	(192,320)
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 position, 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 position.		
Payment of long-term liabilities	25,532	
Amortization on forgivable loan	33,333	58,865
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	(2,857,102)	
Change in environmental remediation liability	83,193	
Change in compensated absences payable	(3,908)	(2,777,817)
Change in Net Position - Governmental Activities		$ (2,864,546)

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

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 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.

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.

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:

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, 2012, the allowance for bad debts was $31,054.

Loans Receivable

Loans receivable consists 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, 2012.

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 position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 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 position, 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 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.

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, 2012, 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 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 position.

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 building 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, 2012.

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 position 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.

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 Position/Fund Balances

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, and intangible assets, into one component of net position. 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 Position* – 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 Position* – This category represents net position 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.

- 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 2012. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Pending Changes in Accounting Principles

GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities."* The objective of this Statement is to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this Statement are effective for the Authority's December 31, 2013 financial statements.

GASB Statement No. 66, *"Technical Corrections – an Amendment of GASB Statements No. 10 and No. 62."* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions,"* and No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* The provisions of this Statement are effective for the Authority's December 31, 2013 financial statements.

GASB Statements No. 67 and No. 68, *"Financial Reporting for Pension Plans"* and *"Accounting and Financial Reporting for Pensions."* The objective of these Statements is to revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of these Statements are effective for the Authority's December 31, 2014 and 2015 financial statements.

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

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, 2012, the Authority's book balance was $852,856 and the bank balance was $882,208. Of the bank balance, $523,083 was covered by federal depository insurance. The remaining balance of $359,125 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.

Investments

The investments of the Authority at December 31, 2012 were as follows:

Investments	Fair (Contract) Value
Money market funds	$ 106,305
External investment pool	846
Guaranteed investment contracts	2,998,654
Total investments	$ 3,105,805

Investments	
Governmental activities:	
Unrestricted	$ 72,831
Restricted	3,032,974
Total investments	$ 3,105,805

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, 2012, 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.

Concentration of Credit Risk – The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2012, 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%	$ 2,998,654	96.55%

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, 2012:

	Fair (Contract) Value	Rating
Money market funds	$ 106,305	AAA
External investment pool	846	AAA
Guaranteed investment contracts	2,998,654	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, 2012:

		Investment Maturities			
	Fair (Contract) Value	2013	2014-2018	2019-2023	Subsequent to 2023
Money market funds	$ 106,305	$ 106,305	$ -	$ -	$ -
External investment pool	846	846	-	-	-
Guaranteed investment contracts	2,998,654	-	1,338,657	-	1,659,997
Total	$ 3,105,805	$ 107,151	$ 1,338,657	$ -	$ 1,659,997

3. Restricted Investments

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

Governmental Funds:	
General Fund:	
Restricted for repayment of the 1998 Guaranteed Revenue Bonds	$ 3,032,128
Transportation Center Fund:	
Restricted for repayment of the Transportation Center Note	846
Total restricted investments	$ 3,032,974

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, 2012 is as follows:

	Due from	Due to
General Fund	$ 436,459	$ 1,200
Transportation Center Fund	1,200	239,630
CSM Fund	8,639	205,468
	$ 446,298	$ 446,298

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

5. Capital Assets

The changes in the Authority's capital assets for the year ended December 31, 2012 were as follows:

	January 1, 2012	Additions	Retirements	December 31, 2012
Capital assets, not being depreciated:				
Construction in progress	$ 2,698,699	$ 14,579	$ (2,713,278)	$ -
Land	30,000	-	-	30,000
Total capital assets, not being depreciated	2,728,699	14,579	(2,713,278)	30,000
Capital assets, being depreciated:				
Buildings	2,093,040	-	-	2,093,040
Leasehold improvements	4,147,949	2,713,278	-	6,861,227
Total capital assets, being depreciated	6,240,989	-	-	8,954,267
Less accumulated depreciation for:				
Buildings	130,815	52,326	-	183,141
Leasehold improvements	414,796	154,573	-	569,369
Total accumulated depreciation	545,611	206,899	-	752,510
Total capital assets being depreciated, net	5,695,378	(206,899)	-	8,201,757
Total capital assets, net	$ 8,424,077	$ (192,320)	$ (2,713,278)	$ 8,231,757

6. Long-term Debt

Long-term debt activity for the year ended December 31, 2012 was as follows:

	January 1, 2012	Additions/ Accretion	Retirements/ Amortization	December 31, 2012	Current Portion
Note payable - Transportation Center	$ 271,427	$ -	$ -	$ 271,427	$ 271,427
Note payable - FHLB/Citizens	416,667	-	(33,333)	383,334	33,333
Note payable - Metro Bank	602,558	-	(25,532)	577,026	32,740
Due to other government	170,832	-	-	170,832	-
1998 Series A Guaranteed Revenue Bonds	16,545,494	1,147,969	-	17,693,463	-
1998 Series B Guaranteed Revenue Bonds	32,532,394	1,709,133	-	34,241,527	-
	$ 50,539,372	$ 2,857,102	$ (58,865)	$ 53,337,609	$ 337,500

The following is an analysis of debt service requirements to maturity on the long-term debt using the interest rates in effect at December 31, 2012:

Years Ending December 31,	Principal	Interest	Total
2013	$ 337,500	$ 59,106	$ 396,606
2014	67,153	16,988	84,141
2015	68,268	15,873	84,141
2016	3,749,421	14,720	3,764,141
2017	7,450,611	13,530	7,464,141
2018-2022	37,672,336	48,370	37,720,706
2023-2027	26,876,498	12,897	26,889,395
2028-2032	11,250,000	-	11,250,000
2033-2037	7,520,832	-	7,520,832
	94,992,619	$ 181,484	$ 95,174,103
Unamortized discount on capital appreciation bonds	(41,655,010)		
	$ 53,337,609		

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 was payable through December 31, 2009. The final principal payment of $271,427, as well as $41,038 of accrued interest, has not been paid as of December 31, 2012, 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, 2012, 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, 2012 was 3.25%.

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. The bonds were redeemed on May 15, 2012, and the remaining $115,024 balance in the trust account was disbursed to the Authority.

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, 2012, the balance outstanding was $4,665,000.

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

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, 2012, the balance outstanding was $740,659.

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. On June 29, 2012, the bonds were zeroed out and cancelled.

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, 2012, the Authority had no outstanding balance for this debt.

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.

The Authority is not obligated for repayment of the bonds. At December 31, 2012, the aggregate outstanding balance was $7,605,000.

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, 2012, the balance outstanding was $2,431,146.

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. In January 2011, 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, 2012, the balance on the line of credit was $5,302,231.

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 $15,785 to the Plan, or 4.5% of covered payroll in the amount of $351,156. Each permanent (full-time or part-time) employee is eligible to participate. Plan members contributed $17,007 for the year ended December 31, 2012.

Participants in the Plan vest according to the following schedule:

Completed Years of Services	% Vested
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 2017. Additionally, the Authority, through the CSM Fund, leases space to a non-profit corporation with a lease ending date of 2015. These leases are noncancellable operating leases.

Minimum rentals on noncancellable leases through 2017 are as follows:

Year Ended December 31,	Amount
2013	$ 628,655
2014	318,624
2015	174,140
2016	52,177
2017	24,435
Total	$ 1,198,031

11. Lease Commitments

Operating Lease

The Authority leases space from the National Railroad Passenger Corporation (Amtrak) through 2013. The lease was amended on June 27, 2013 to extend the term through July 14, 2014. The minimum lease payments for the remaining term of the lease are $65,225 for the years ended December 31, 2013 and 2014.

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

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, 2012 approximated $141,326.

12. Fund Balance/Net Position Deficits

The following is a schedule of deficits by fund at December 31, 2012:

Fund	Deficit Amount
Governmental Activities	$ 20,464,421
Transportation Center	447,098

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 position. The outstanding debt on these issuances is $51,934,990 and the amortized cost of the right to building is $20,369,411. These balances reduced the governmental activities net position from a positive $11,101,158 to the deficit balance of $20,464,421. 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. Restatement

Beginning net position of governmental activities of the Authority has been increased by \$73,323 from (\$17,673,198) to (\$17,599,875) and beginning fund balance of the General Fund of the Authority has been increased by \$73,323 from \$3,810,487 to \$3,883,810. These increases are to properly record investments related to a revolving loan program that had not been reported previously.

Had the above adjustments been recorded in the proper period, the effect on the change in net position/fund balance of governmental activities/General Fund of the Authority for the year ended December 31, 2011 would have been immaterial.

14. Environmental Remediation Liability

The Authority assumed and acquired title to a property that requires environmental remediation. The property was acquired for redevelopment. After the project is complete, the property will be acquired by a local educational institution.

The Authority is required to remediate this property. The Authority has estimated that total project costs will amount to \$961,000. This estimate is based on projected remediation costs. The estimate is included in a grant proposal, which was approved by the Department of Environmental Protection.

The \$40,636 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.

15. 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.

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.

16. 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 CSM Fund of the Authority in the amount of $18,145 for the year ended December 31, 2012.