

**HARRISBURG DOWNTOWN
IMPROVEMENT DISTRICT, INC.
Harrisburg, Pennsylvania**

Independent Auditors' Report
Financial Statements

For the Years Ended December 31, 2017 and 2016

**HARRISBURG DOWNTOWN
IMPROVEMENT DISTRICT, INC.**

Harrisburg, Pennsylvania

TABLE OF CONTENTS

Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to the Financial Statements	6

Klacik & Associates, P.C.

Certified Public Accountants

Serving the Mid-Atlantic Region since 1954
Member ACIPA, PICPA, MACPA

Independent Auditor's Report

To the Board of Directors
Harrisburg Downtown Improvement District, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the Harrisburg Downtown Improvement District, Inc. which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harrisburg Downtown Improvement District, Inc. as of December 31, 2017 and 2016, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Klacik & Associates PC

Shamokin, Pennsylvania
April 7, 2018

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.

Harrisburg, Pennsylvania

Statements of Financial Position
For the Years Ended December 31, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash and Cash Equivalents	\$ 404,394	\$ 392,190
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$1,000	749	1,717
Other Receivable	3,660	85,143
Prepaid Expenses	7,010	6,992
Total Current Assets	415,813	486,042
Property, Equipment, and Leasehold Improvements		
Leasehold Improvements	30,000	30,000
Furniture & Equipment	64,232	64,232
	94,232	94,232
Less: Accumulated Depreciation	(94,232)	(94,106)
Total Property, Equipment, and Leasehold Improvements	-	126
Other Assets		
Project Costs	84,595	84,595
Less: Accumulated Amortization	(65,728)	(61,402)
Total Other Assets	18,867	23,193
Total Assets	<u>\$ 434,680</u>	<u>\$ 509,361</u>
Liabilities and Unrestricted Net Position		
Current Liabilities		
Accounts Payable	\$ 29,909	\$ 45,972
Deferred Income	-	2,217
Total Liabilities	29,909	48,189
Unrestricted Net Position	404,771	461,172
Total Liabilities and Unrestricted Net Position	<u>\$ 434,680</u>	<u>\$ 509,361</u>

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

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.

Harrisburg, Pennsylvania

Statements of Activities

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Property Assessments, Net of Discounts, Interest, and Penalty	\$ 626,603	\$ 635,142
Tax-exempt Contributions	40,000	49,933
Special Projects	52,255	37,550
Special Events	25,425	17,289
	<u>744,283</u>	<u>739,914</u>
Operating Expenses		
Cleaning Services	261,281	295,495
Salaries and Benefits	219,582	210,929
Special Events	70,124	16,304
Administrative	30,884	44,422
Property Protection and Public Safety Services	68,382	62,446
Rent	31,423	30,954
Marketing and Advertising	51,951	30,305
Beautification Project	21,729	84,210
Special Projects	34,170	22,127
Depreciation and Amortization	4,451	7,851
Insurance	5,397	5,553
Visitor's Information Center	2,855	1,696
	<u>802,229</u>	<u>812,292</u>
Net Operating Expenses	(57,946)	(72,378)
Other Income		
Interest Income	1,545	1,625
Total Other Income, Net	<u>1,545</u>	<u>1,625</u>
Changes in Unrestricted Net Position	(56,401)	(70,753)
Unrestricted Net Position, Beginning	<u>461,172</u>	<u>531,925</u>
Unrestricted Net Position, Ending	<u>\$ 404,771</u>	<u>\$ 461,172</u>

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

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.

Harrisburg, Pennsylvania

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Changes in Unrestricted Net Assets	\$ (56,401)	\$ (70,753)
Adjustments to Reconcile Changes in Unrestricted Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation	4,451	7,851
(Increase) Decrease in Assets:		
Assessments Receivable	967	(381)
Other Receivable	81,483	(82,741)
Prepaid Expenses	(18)	9,614
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	<u>(18,278)</u>	<u>19,833</u>
Net Cash Provided by (Used In) Operating Activities	<u>12,204</u>	<u>(116,577)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,204	(116,577)
Cash and Cash Equivalents - Beginning	<u>392,190</u>	<u>508,767</u>
Cash and Cash Equivalents - Ending	<u>\$ 404,394</u>	<u>\$ 392,190</u>

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

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 1 – Organization

The Harrisburg Downtown Improvement District, Inc., a Pennsylvania non-profit corporation, (the “Corporation”) was formed on April 22, 2004, under the provisions of the Neighborhood Improvement District Act, as of December 20, 2000, to provide neighborhood improvement district management association services, overseeing a neighborhood improvement district located in the Downtown Business District of Harrisburg, Pennsylvania. Such services shall include services which improve the ability of commercial establishments to service its consumers, transportation, public relations programs, advertising, district maintenance, security services, and services which improve the ability of property owners to enjoy a safer and more attractive neighborhood.

Upon the approval of a plan for business improvements and administrative services by the Corporation’s Board of Directors, a public hearing was held on June 29, 2004. Neither the Corporation nor the office of the Harrisburg City Clerk received objections within 45 days of the hearing and on September 14, 2004, the Council of the City of Harrisburg ratified the plan, established a Neighborhood Improvement District and authorized the Corporation to administer just services to the District. The adoption of this ordinance allowed the Corporation, effective October 1, 2004, to replace the Harrisburg Downtown Improvement District Authority (Authority) by providing the same business improvements and administrative services to a larger downtown business district. Upon the adoption of various resolutions, the Authority was terminated effective September 30, 2004 and all of the Authority’s assets, liabilities, and contractual rights were assumed by the Corporation.

On December 15, 2015, the Corporation was reauthorized by Council of the City of Harrisburg for a two-year term beginning January 1, 2016 to administer services to the District ending December 31, 2017. On September 12, 2017 the Corporation reauthorized the service agreement for five years beginning January 1, 2018 to December 31, 2022.

There are nine members on the Corporation’s board representing all classes of property and each shall serve without compensation.

The Corporation’s operations are not dependent on any particular vendor, nor is there any concentration of supplies or materials that could materially influence its operation.

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 2 – Summary of Significant Accounting Policies

Reporting Entity

The Corporation was created under the provisions of the Neighborhood Improvement District Act to provide certain business improvements and administrative services to downtown Harrisburg, Pennsylvania. These financial statements include operations of all activities for which the Corporation has financial responsibility.

Net Position

To ensure compliance with restrictions placed on the resources available to the Corporation, net position and changes therein are classified and reported as follows:

Unrestricted Net Position – Net position that is not subject to donor-imposed stipulations or such restrictions have expired.

Temporarily Restricted Net Position – Net position that is subject to donor-imposed stipulations that may or will be met either by actions of the Corporation or the passage of time. The Corporation currently has no temporarily restricted net position

Permanently Restricted Net Position – Net position subject to donor-imposed stipulations that must be maintained permanently. The Corporation currently has no permanently restricted net position.

As of December 31, 2017 and 2016 the Corporation's net positions of \$404,771 and \$461,172 were unrestricted.

Basis of Accounting

The Corporation uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and mutual funds secured by government securities. The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the Statements of Cash Flows. The carrying amount reported in the Statements of Financial Position for cash and cash equivalents approximates their fair value.

Use of 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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 2 – Summary of Significant Accounting Policies-Continued

Marketing and Advertising Costs

The Corporation expensed advertising costs as incurred. Total marketing and advertising expense for the years ended December 31, 2017 and 2016 amounted to \$51,951 and \$30,305 respectively.

Concentrations of Credit Risk

Credit risk is limited to assessments receivable, investments, and cash balances. As of December 31, 2017 the Corporation had \$147,806 and \$204,496 on deposit in each money market account.

Assessments Receivable

Assessments receivable are stated at outstanding balances, less an allowance for doubtful accounts. The allowance for doubtful accounts is established through provisions charged against income. Accounts deemed to be uncollectible are charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on past experience, aging of the receivables, adverse situations that may affect a property owner's ability to pay, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires estimates that may be susceptible to significant change. Unpaid balances remaining after the stated payment terms are considered past due.

Property, Equipment and Leasehold Improvements

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals and enhancements are capitalized and deduction is made for retirements resulting from renewals or enhancements.

Leasehold improvements pertain to the design and construction of certain improvements within the Corporation's leased space, which are stated at cost and depreciated over the lease term using the straight-line method of depreciation.

Management has set a policy using a dollar amount to capitalize expenditures of \$5,000. Management reviews expenditures to determine whether to capitalize.

All reported capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture & Equipment	5-10
Leasehold Improvements	10-20

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 2 – Summary of Significant Accounting Policies-Continued

Property Assessments

Revenue resulting from the assessments of real property located within the District is the Corporation's primary source of funding. Once enacted, the assessments are obligations of the property owners for the period representing the Corporation's existence. Property owners authorized an assessment of 1.75 mils for the years ending through December 31, 2017. Tax-exempt properties that have decided to pay a contribution in lieu of assessment are recorded only when such contributed assessments are received. During the years ended December 31, 2017 and 2016, the Corporation received \$40,000 and \$49,933 respectively of such in lieu of assessments. The related income was recorded as tax-exempt contributions.

Real estate assessments attach an enforceable lien on property as of January 1. Assessments paid through March 31 are given a 2% discount. Amounts paid after June 30 are assessed a 4% penalty and amounts paid after September 30 are assessed an 8% penalty. After December 31, a lien may be placed on the property for unpaid real estate assessments.

Income Taxes

The Corporation is a non-profit corporation that is exempt from income tax under provisions of Internal Revenue Code Section 501(c) (3), and state income tax statutes, to be excluded from taxes on exempt function income. Therefore, no provision is made for taxes on income.

The Corporation's Federal Exempt Organization Business Income Tax Returns for the years ended December 31, 2016, 2015 and 2014 remain subject to examination by the Internal Revenue Service.

Subsequent Events

The Corporation has evaluated subsequent events through April 7, 2018 which is the date the financial statements were available to be issued.

Note 3 - Cash and Cash Equivalents

As of December 31, 2017 and 2016, there were no cash or cash equivalents for which there remain donor-imposed temporary or permanent restrictions. The total cash balance of \$404,394 consists of the following:

Petty Cash	\$	200
Checking Account		49,463
Cash - Visa Check Card		1,304
Health Reimbursement		1,125
Money Market		147,806
Money Market 2		204,496
	\$	<u>404,394</u>

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 4 – Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following as of December 31, 2017.

	<u>2017</u>	<u>2016</u>
Leasehold Improvements	\$ 30,000	\$ 30,000
Visitor Information Center Equipment	6,897	6,897
Marketing and Office Equipment	<u>57,335</u>	<u>57,335</u>
Subtotal	94,232	94,232
Accumulated Depreciation	<u>(94,232)</u>	<u>(94,106)</u>
Total	<u>\$ -</u>	<u>\$ 126</u>

Project costs consist of the following as of December 31, 2017:

	<u>2017</u>	<u>2016</u>
Plaza Improvement Project Costs	\$ 39,908	\$ 39,908
DID Territory Improvement Project Costs	<u>44,687</u>	<u>44,687</u>
Subtotal	84,595	84,595
Accumulated Depreciation	<u>(65,728)</u>	<u>(61,402)</u>
Total	<u>\$ 18,867</u>	<u>\$ 23,193</u>

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 amounted to \$4,451 and \$7,851 respectively.

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 5 – Transactions with Related Parties

The Corporation executed a lease agreement, with a corporation for which a board member is also an employee of such corporation. The leased space, which is located in the Corporation's District, consists of three offices and an area currently being used as a Visitors Information Center, for a total useable area of 1,876 square feet, and three parking spaces located in the corporation's parking garage. The lease agreement is effective January 1, 2011 and expired December 31, 2015. An amendment to the lease agreement was executed on October 21, 2015 for one (1) five (5) year period starting January 1, 2016 and ending December 31, 2020. The base rent shall increase .25 per square foot annually, with the initial base rent for the year ended December 31, 2017 to be \$16.75 per square foot for a total base rent of \$31,423.

Rent expense for the years ended December 31, 2017 and 2016 amounted to \$31,423 and \$30,594 respectively. Additionally, the Corporation increased its commitment by assuming the lease for three unreserved parking spaces in the corporation's parking garage. The Corporation's arrangement for parking was coterminous with the original lease agreement. Effective January 1, 2016, and throughout the term of the Lease the parking rent will be \$135.00 per space per month.

No amount of rent payable was outstanding as of December 31, 2017 and 2016. The Corporation paid approximately \$405 monthly to rent the three parking spaces. In addition, the parking rate for the four spaces designed for the parking of cleaning equipment is \$280 per month.

Future minimum lease payments relating to the HDID's offices, Visitors Information Center and Parking are \$36,752 for the year ending December 31, 2018, \$37,221 for the year ending December 31, 2019, and \$37,690 for the year ending December 31, 2020.

On February 17, 2011, the Corporation executed a Property Protection Services Agreement (Agreement) with Harrisburg Property Services, Inc. (HPS) to provide safety patrols to the District Wednesday through Saturday 6 p.m. to 9 p.m. Consideration to HPS under the assigned Agreement was paid monthly based on billings computed using hours worked times rates defined in the contract.

Note 6 – Commitments

A Contract effective January 1, 2011 and ending December 31, 2013, was entered into with ABM Janitorial Services to provide all services and labor necessary to commence and complete a cleaning program with the District. The vendor will be compensated on a cost plus basis not to exceed \$302,512 annually. Hourly wage rates, supplies, equipment expenses and other costs are detailed in the proposal. Yearly 12 month extensions since the end date have been agreed upon. A 12 month extension was agreed upon in December 2017 to continue through December 2018 with subsequent 12 month extensions.

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 7 – Functional Expenses

The Corporation provides services within the District which improve the ability of commercial establishments to service its consumers, transportation, public relations programs, advertising, district maintenance, security services, and services which improve the ability of property owners to enjoy a safer and more attractive neighborhood. Management deemed the fundraising expenses associated with these services to be insignificant. The functional expense classification of providing these services consist of the following for the years ended December 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
Program Services	\$ 678,122	\$ 691,511
Management & General Services	124,107	120,781
Total	<u>\$ 802,229</u>	<u>\$ 812,292</u>

Note 8 – Employee Benefits

Effective January 1, 2007, the Corporation has adopted a Simple IRA plan for all employees receiving at least \$500 in compensation in the current year. Under this plan, the Corporation will match 100% of each participant's elective deferral up to 3% of that participant's annual compensation. Employees are immediately vested in 100% of the employee and employer contributions to the plan. Total employer matching expense during the years ended December 31, 2017 and 2016 amounted to \$5,295 and \$5,233 respectively.