

City of Harrisburg, Pennsylvania

Financial Statements and Required
Supplementary Information and
Supplementary Information

Year Ended December 31, 2017 with
Independent Auditor's Reports

MaherDuessel

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CITY OF HARRISBURG

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Independent Auditor's Report

**The Honorable
Eric R. Papenfuse, Mayor
and Honorable Members
of City Council
City of Harrisburg,
Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania (City) as of and for the year ended December 31,

2017, and the related notes to the financial statements, which collectively comprise the City'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 did not audit the financial statements of the Harrisburg Downtown Improvement District, Inc., which represent 1 percent, -2 percent, and 6 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Harrisburg Downtown Improvement District, Inc., is based solely on the report of another auditor. 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. The financial statements of the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards*. 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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), budgetary comparison information, and historical pension plan and other post-employment benefit plan information on pages i through xiii, 101 through 103, and 104 through 111, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
September 25, 2018

This section of the City of Harrisburg's (City) Comprehensive Annual Financial Report (CAFR) presents Management's Discussion and Analysis of the City's financial performance during the year ending December 31, 2017. Readers are encouraged to consider the information within the context of the preceding Transmittal Letter and the following financial statements. The discussion also focuses on the **primary government** and unless otherwise noted, component units are not included.

Financial Highlights

- The City's assets and deferred outflows of resources as of December 31, 2017 exceeded liabilities and deferred inflows of resources by \$31,320,853, whereas at the end of 2016 assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$24,329,371. This government-wide increase in net position for 2017 amounts to \$6,991,482, including \$5,224,910 for governmental activities and \$1,766,572 for business-type activities (see below the individual summary explanations highlighting these increases in the City's net position); the three component classifications of net position are summarized as follows:
 - Net investment in capital assets, in the amount of \$65,477,008 and \$57,789,161 as of December 31, 2017 and 2016, respectively, represents all capital assets including infrastructure.
 - Restricted net position with external restrictions imposed by creditors or laws or regulations of other governments amounted to \$25,955,979 and \$26,346,723 as of December 31, 2017 and 2016, respectively.
 - Unrestricted net position, which is net position not restricted for any particular purpose, amounts to (\$60,112,134) and (\$59,806,513) as of December 31, 2017 and 2016, respectively.
- As noted above for governmental activities, net position increased \$5,224,910 during the current year. The overall significant activities comprising this increase include \$69,245,990 in total expenses, \$17,833,890 in total program revenues, and \$56,637,010 in general revenues and other changes in net position.
- As noted above for business-type activities, net position increased \$1,766,572 during the current year. The overall significant activities comprising this increase include \$13,606,234 in total expenses, \$15,035,652 in total program revenues, and \$337,154 in general revenues and other changes in net position.

Overview of the Financial Statements

The financial section of the CAFR consists of five parts in the following order: the independent auditor's report on the financial statement audit, Management's Discussion and Analysis (MD&A), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements can be further classified into the following three types: government-wide financial statements, fund financial statements, and notes to the basic financial statements.

1. **Government-Wide Financial Statements** The government-wide financial statements provide a summary of the City's financial condition in a similar fashion to the private business sector. The focus of these statements is the economic resources measurement and full accrual basis of accounting.

The City's net position is reported as the difference between combined assets and deferred outflows of resources, and combined liabilities and deferred inflows of resources. Increases and decreases in net position serve as a good indicator of the financial condition improving or deteriorating.

The Statement of Activities presents information on how net position changed during the year. All changes are recorded as soon as the change occurs even though cash may not be received yet; cash flow may even occur in a later fiscal year, such as uncollected taxes and vacation leave earned, but not used. The Statement of Net Position and the Statement of Activities distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The City's governmental activities are comprised of general government, community and economic development, public safety (police and fire), public works, environment, and interest on long-term debt. The business-type activities of the City are accounted for within the Harrisburg Senators Fund and the Neighborhood Services Fund.

2. **Fund Financial Statements** A fund is a grouping of related accounts used to control resources that are separated by activity. Fund accounting is used by the City to monitor and show compliance with budgetary requirements. Funds are either governmental, proprietary, or fiduciary funds.
 - a. **Governmental Funds** Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such

information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented by both in order to better understand the long-term impact of near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports three major governmental funds: (1) the General Fund, which accounts for all financial resources of the general government except those accounted for in another fund; (2) the Grant Programs Fund, which accounts for the revenues and expenditures of federal, state, and other grant programs including the Community Development Block Grant Entitlement Program; and (3) the Debt Service Fund, which accounts for the accumulation of resources, which are principally transfers from other funds, for the payment of general long-term obligation principal, interest, and related costs. Data from all the other non-major governmental funds are combined into a single aggregated presentation with individual fund data provided in the form of combining statements in supplementary information.

- b. **Proprietary Funds** The City's proprietary funds are all classified as enterprise funds. They are used to account for the operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the expenses of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or when the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and/or other purposes.

The City reports two major enterprise funds: (1) the Harrisburg Senators Fund, which accounts for the revenues and expenses associated with the payment of debt on the financing of a new stadium of the Harrisburg Senators, a AA minor league baseball franchise formerly owned by the City; and (2) the Neighborhood Services Fund, which includes the revenues and expenses associated with the provision of refuse collection services to the residents and commercial establishments of the City, the collection and remittance of incinerator/resource recovery disposal fees billed by the City and remitted to the Lancaster County Solid Waste Management Authority for its provision of solid waste incineration services to the residents and commercial and industrial establishments of the City, and the fiscal management of the former City services (public

works function) expenditures portion of the General Fund relative to serving the public community.

- c. **Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City's fiduciary funds are all classified as trust and agency funds. Fiduciary fund financial statements report similarly to proprietary funds.

3. **Notes to the Basic Financial Statements** The Notes give additional information that is necessary to understand fully the data provided in the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

4. **Other Information** The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund, in required supplementary information, to demonstrate compliance with this budget. In addition, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. The combining statements referred to earlier in connection with non-major governmental funds and agency funds are presented immediately following the required supplementary information.

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

Government-wide Financial Analysis

CITY OF HARRISBURG
CONDENSED STATEMENT OF NET POSITION
DECEMBER 31, 2017 AND 2016

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 86,044,693	\$ 78,466,607	\$ 16,734,029	\$ 17,147,095	\$ 102,778,722	\$ 95,613,702
Capital assets, net accum. deprec.	91,124,858	91,253,597	34,258,438	32,499,604	125,383,296	123,753,201
Total assets	177,169,551	169,720,204	50,992,467	49,646,699	228,162,018	219,366,903
Deferred outflows for pensions	8,710,311	17,626,420	1,116,736	890,313	9,827,047	18,516,733
Current and other liabilities	14,806,724	13,230,693	1,546,656	1,095,760	16,353,380	14,326,453
Noncurrent liabilities	173,350,257	184,259,199	13,681,614	14,470,929	187,031,871	198,730,128
Total liabilities	188,156,981	197,489,892	15,228,270	15,566,689	203,385,251	213,056,581
Deferred inflows for pensions	3,138,923	497,684	144,038	-	3,282,961	497,684
Net investment in						
capital assets	38,466,843	31,676,658	27,010,165	26,112,503	65,477,008	57,789,161
Restricted	22,966,422	24,561,407	2,989,557	1,785,316	25,955,979	26,346,723
Unrestricted	(66,849,307)	(66,879,017)	6,737,173	7,072,504	(60,112,134)	(59,806,513)
Total net position	\$ (5,416,042)	\$ (10,640,952)	\$ 36,736,895	\$ 34,970,323	\$ 31,320,853	\$ 24,329,371

Net position and its change generally serve over time as a useful indicator of the government's financial position. For 2017, the changes in net position for governmental activities and business-type activities decreased \$3,596,327 from 2016 and increased \$6,079,465 from 2016, respectively. The decrease for governmental activities is comprised of \$1,201,043 more in program revenues, \$4,017,334 more in expenses, and \$780,036 less in general revenues/other changes in net position. The increase for business-type activities is comprised of \$1,318,877 more in program revenues, \$991,386 less in expenses, and \$3,769,202 more in general revenues/other changes in net position. Sections appear later in this discussion with more detailed explanations as to the decreased change in net position for governmental activities (page ix) and the increased change in net position for business-type activities (page x).

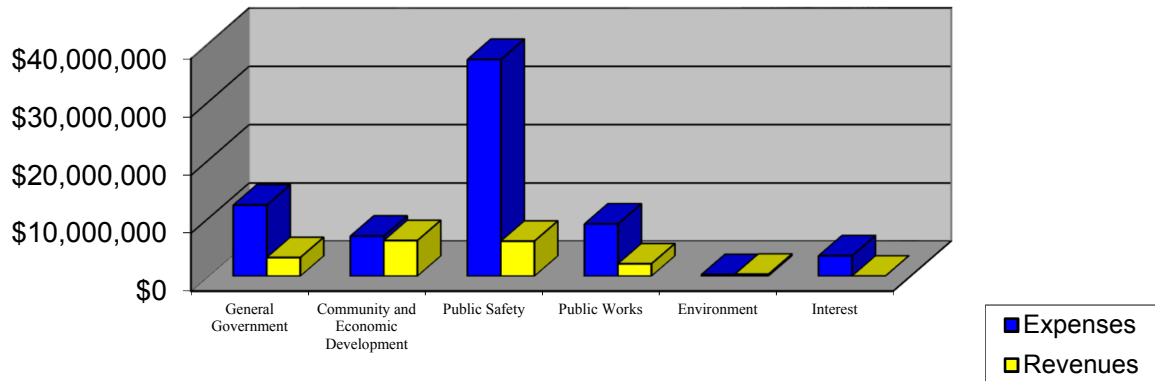
The largest portion of the City's net position is its investment in capital assets (i.e., land, artifacts, building, land and building improvements, equipment and furniture, infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used by the City to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must come from other sources as these capital assets cannot be used to liquidate these debt obligations.

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

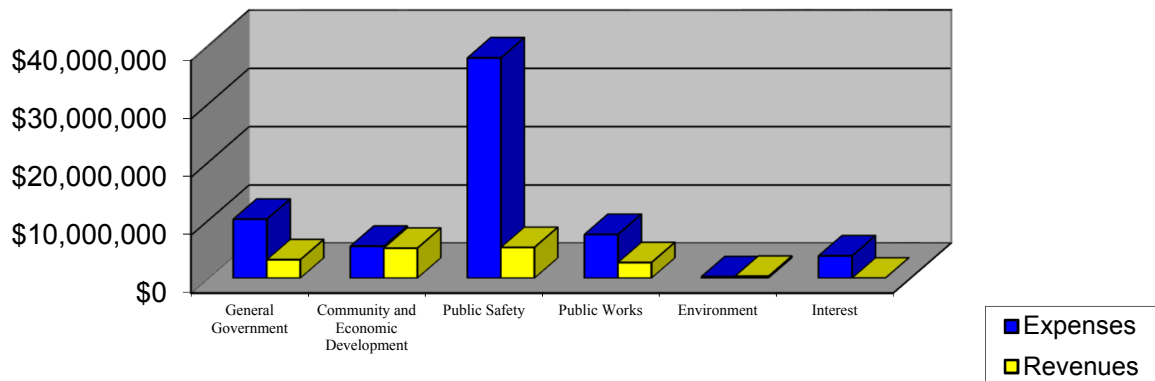
CITY OF HARRISBURG
CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 8,552,265	\$ 8,164,063	\$ 14,983,835	\$ 13,675,010	\$ 23,536,100	\$ 21,839,073
Operating grants and contributions	9,155,652	7,706,809	51,817	41,765	9,207,469	7,748,574
Capital grants and contributions	125,973	761,975	-	-	125,973	761,975
General revenues:						
Taxes	45,481,025	43,292,385	-	-	45,481,025	43,292,385
Grants and contributions not restricted to specific functions	8,863,715	8,216,905	-	-	8,863,715	8,216,905
Other	2,589,935	2,448,766	39,489	26,942	2,629,424	2,475,708
Total revenues	74,768,565	70,590,903	15,075,141	13,743,717	89,843,706	84,334,620
Expenses						
General government	12,283,431	10,194,954	-	-	12,283,431	10,194,954
Community/Economic development	6,921,061	5,509,957	-	-	6,921,061	5,509,957
Public safety	37,246,320	37,862,228	-	-	37,246,320	37,862,228
Public works	9,023,397	7,558,344	-	-	9,023,397	7,558,344
Environment	262,425	250,661	-	-	262,425	250,661
Interest on long-term debt	3,509,356	3,852,512	-	-	3,509,356	3,852,512
Neighborhood services	-	-	12,317,774	13,317,968	12,317,774	13,317,968
Harrisburg Senators	-	-	1,288,460	1,279,652	1,288,460	1,279,652
Total expenses	69,245,990	65,228,656	13,606,234	14,597,620	82,852,224	79,826,276
Change in net position before transfers	5,522,575	5,362,247	1,468,907	(853,903)	6,991,482	4,508,344
Transfers	(297,665)	3,458,990	297,665	(3,458,990)	-	-
Change in net position	5,224,910	8,821,237	1,766,572	(4,312,893)	6,991,482	4,508,344
Net position, January 1	(10,640,952)	(19,462,189)	34,970,323	39,283,216	24,329,371	19,821,027
Net position, December 31	\$ (5,416,042)	\$ (10,640,952)	\$ 36,736,895	\$ 34,970,323	\$ 31,320,853	\$ 24,329,371

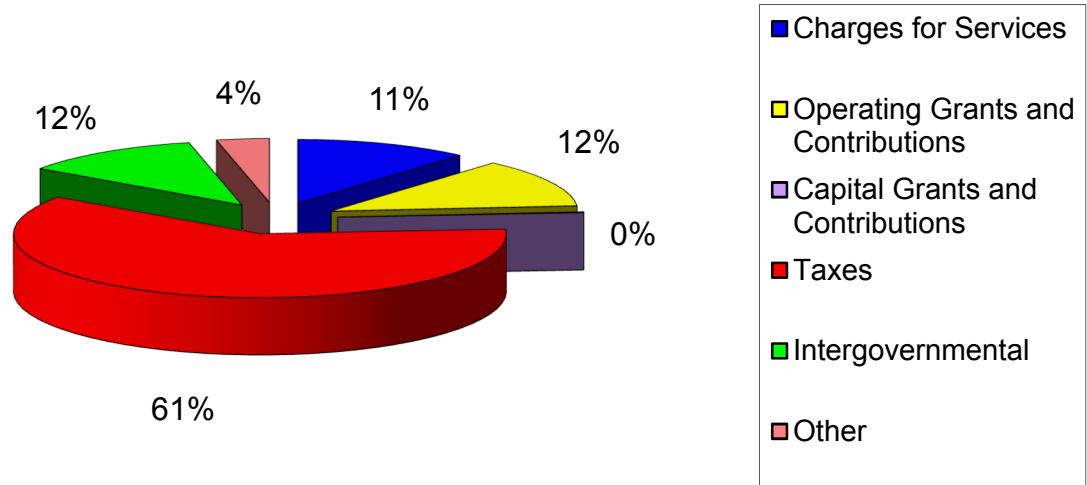
Expenses and Program Revenues Governmental Activities - 2017



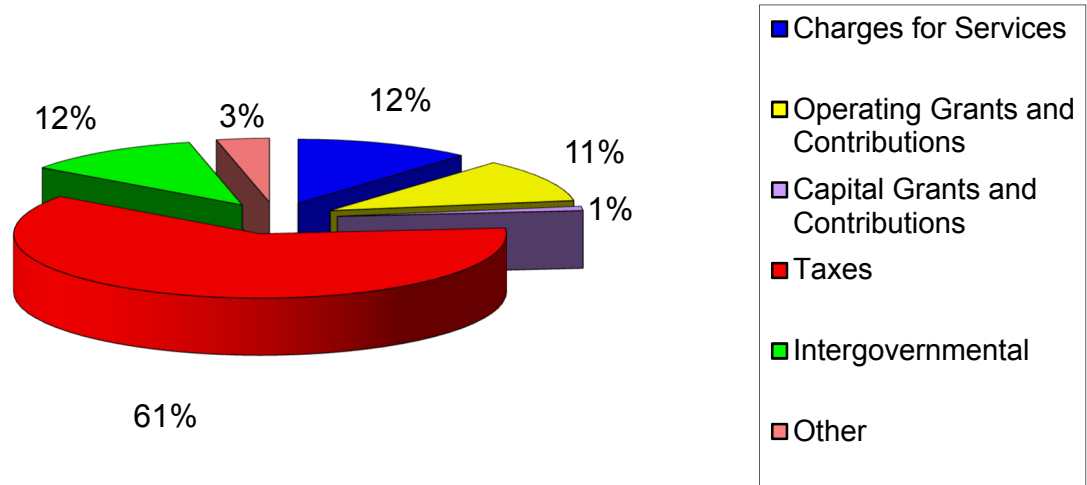
Expenses and Program Revenues Governmental Activities - 2016



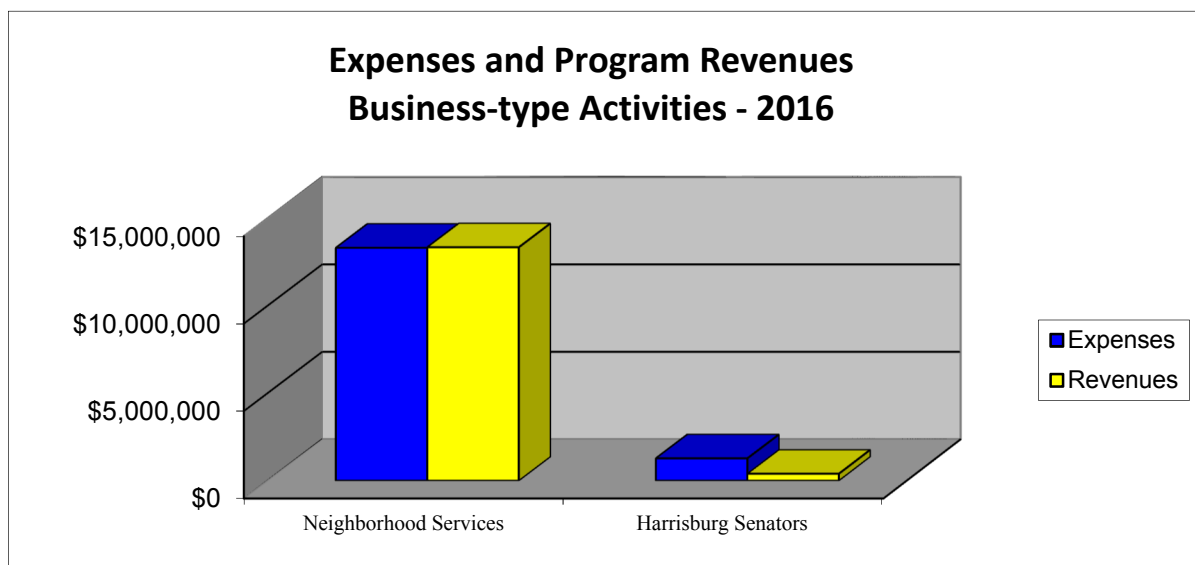
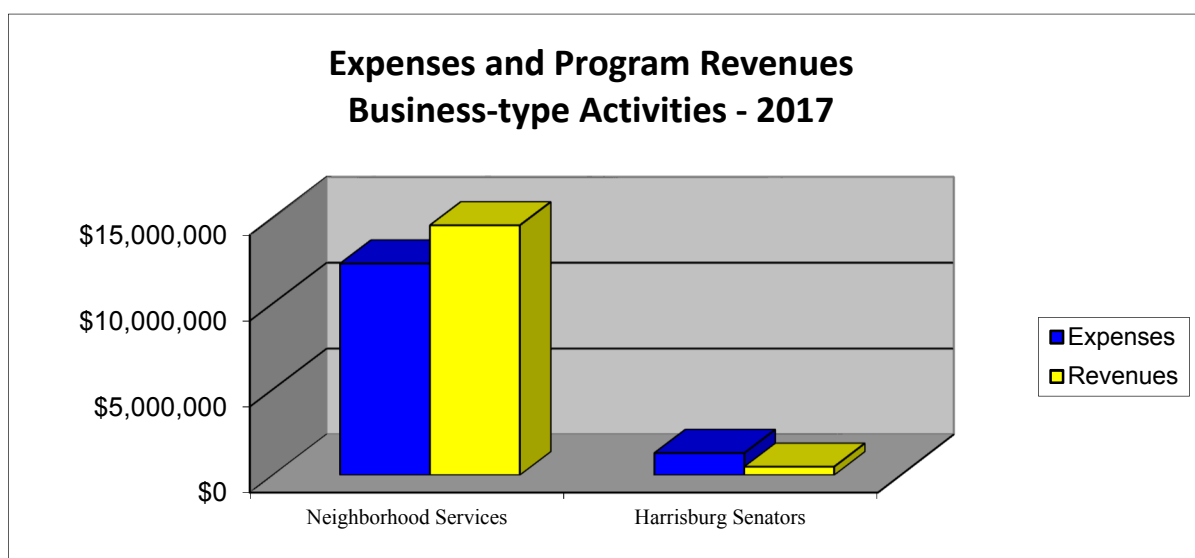
**Revenues by Source - Governmental Activities
 2017**



**Revenues by Source - Governmental Activities
 2016**



Governmental Activities: Change in net position in 2017 for governmental activities amounted to \$5,224,910 compared with a change in net position of \$8,821,237 occurring for 2016, for a resulting decrease of \$3,596,327 in such change. This decrease is comprised of General Government expenses increasing by \$2,088,477 mainly due to an increase of \$353,400 in related pension expense and the occurring release of \$1,695,999 in Harrisburg Strong Plan growth funds for applicable settlement distributions, and Public Works expenses increasing by \$1,465,053 mostly due to an increase of \$1,416,221 in related pension expense.



Business-Type Activities: Change in net position in 2017 for business-type activities amounted to \$1,766,572 compared with a change in net position of (\$4,312,893) occurring for 2016, for a resulting increase of \$6,079,465 in such change. This increase is comprised of Charges for services revenue increasing by \$1,218,036 for the Neighborhood Services Fund due to increases in both refuse and disposal utility billing revenues related to the City realizing a full year's benefit from acquiring several new commercial billing accounts from private waste haulers, Transfers – internal activities positively increasing by \$3,756,655 mainly due to prior year internal transfers between governmental and business-type activities reflecting the need to establish certain liability balances within the then new Neighborhood Services Fund, and Neighborhood services expenses decreasing by \$1,000,194 related to several factors including \$120,438 less in compensated absences expense due to the prior year being significantly affected by the transfer of accrued leave liability from governmental activities to business-type activities, \$284,098 less in workers' compensation expense as a result of an adjustment to the calculated reserve for incurred losses, \$377,565 less in miscellaneous contracted services reflecting very significant costs occurring in the prior year arising from a January 2016 winter storm event, and \$206,234 less in property taxes applicable to the City's public works complex facility attributed to 2016 including multiple years of such unpaid taxes.

Financial Analysis of the City's Funds

Governmental Funds The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements; in particular unassigned fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year. As of December 31, 2017, the City's governmental funds reported a combined ending fund balance of \$47,788,919 representing an increase of \$5,583,776 during 2017.

The General Fund is the City's primary operating governmental fund and experienced a net increase in fund balance during 2017 amounting to \$3,639,850 including total revenues of \$64,614,063 affected by increases in taxes, building permit fees, and insurance reimbursements; total expenditures of \$51,000,227 affected by increases in settlement distributions, consulting and capital expenditures for information technology, public safety expenditures relative to personnel and pension, and public works expenditures involving traffic control and building upgrades; and total net other financing uses of \$9,973,986 affected by decreases in bond insurance advances and transfers in from the Capital Projects Fund.

The Grant Programs Fund generally does not report a fund balance. In this fund, revenue is recognized only when allowable expenditures are incurred and the legal and contractual requirements of the individual programs are met. The fund balance of the Other

Governmental Funds increased during 2017 by \$1,978,552, and such change is comprised of several factors including \$905,234 in hotel tax revenue within the Capital Projects Fund not transferred to the General Fund, \$264,198 in grant funding support from PennDOT specific to the City's Third Street infrastructure project within the Capital Projects Fund, \$500,000 in interfund transfer from the General Fund to the Capital Projects Fund for enabling additional financial resources for the City's ongoing street and road improvement projects, and \$338,983 in resulting excess of revenues over expenditures applicable to the State Liquid Fuels Tax Fund.

General Fund Budgetary Highlights

On a budgetary (non-GAAP) basis, the General Fund's actual amounts for 2017 resulted in a positive net change in fund balance of \$2,263,560, resulting in an overall net \$11.2 million favorable variance when compared to final budget amounts for the fiscal year; this favorable variance is summarized with several related factors as follows:

Total revenues being over budget by approximately \$4.3 million is mainly comprised of \$962,620 in stronger real estate tax revenue and associated penalty amounts, \$1,945,752 in higher than anticipated collections for local services taxes reflecting a too conservative budget estimation, \$648,606 in higher than anticipated collections for earned income taxes, and \$689,800 more in building permit fees related to the Bureau of Codes experiencing increased activity correlated with the City expanding its staff of inspectors.

Total expenditures being under budget by approximately \$9.2 million is mostly comprised of several favorable variances including \$2,069,904 for the Bureau of Police (personnel and capital costs), \$291,876 for the Bureau of Fire (capital costs), \$172,830 for Codes Enforcement (personnel costs), \$2,495,180 for Traffic and Engineering (consulting, engineering, and capital costs), \$879,979 for Vehicle Management (fuels and vehicle parts/supplies), \$2,352,543 in medical benefit claim costs reflecting excess budget estimation, \$670,126 for the Bureau of Information Technology (consulting and capital costs), and \$184,396 for the Bureau of Parks and Recreation (personnel costs).

Total net other financing uses being over budget by approximately \$2.3 million is more reflective of \$2.2 million in transfer-in reimbursement from the Federal Grants Fund not occurring prior to the end of the year, related to the General Fund providing temporary advance funds for costs associated with the South 14th Street sinkhole project prior to receipt of Federally awarded pre-disaster mitigation/disaster recovery grant funding.

Finally, the beginning of year budgetary basis fund balance has been restated by approximately \$1.2 million, so as to reflect the reclassification of previously reported special revenue funds now recognized as being part of the General Fund's financial statement presentation.

Capital Asset and Debt Administration

1. **Capital assets** The City's capital assets for its governmental activities and business-type activities as of December 31, 2017 amount to \$91,124,858 and \$34,258,438 (net of accumulated depreciation), respectively. This investment in capital assets includes land, artifacts, buildings, land and building improvements, equipment and furniture, and infrastructure.

Major capital asset events during 2017 included the following:

- Governmental activities: Highlighted capital additions are comprised of \$1.2 million for buildings including improvements for the City Government Center, \$1.4 million for machinery and equipment including assets of an information technology nature, and \$1.6 million for infrastructure including various traffic control and lighting upgrades.
- Business-type activities: Highlighted capital additions are comprised of \$2.7 million for machinery and equipment including the sanitation/public works department upgrading its vehicles fleet with the acquisition of 7 new rear-loading refuse trucks.

Additional information on the City's capital assets can be found beginning on page 56 of this report.

2. **Long-term debt** The only debt activity in the City's governmental or business-type activities was the required principal and interest payments under existing debt arrangements, including restructuring activity relative to the City's bond insurer.

Additional information on the City's long-term debt can be found beginning on page 59 of this report.

Economic Factors

Arguably, one of the most significant factors affecting financial position is the City's ongoing efforts to achieve a healthy budget free from previous burdening structural deficit conditions as it continues to further manage existing debt service requirements.

Additionally, the most significant unfunded mandate affecting the City is the liberal allowance for tax-exemption existing in Pennsylvania. What was already a broadly-accommodating state law was further

loosened several years ago by additional state legislative action. Today, approximately 49% of all real estate in the City is exempt from paying any type of taxes under state law. The number of properties achieving tax-exemption increases by the year. Some of the tax exempt-properties are among the greatest generators of demand for City services, and what results is a continuing inequitable and unfair burden on the City placing a higher tax rate on those who do pay property taxes.

Some of the factors affecting the City's costs are matters over which a local government has little control; other factors are only marginally controllable. The following items represent circumstances which will impact future costs:

- (a) Healthcare costs tend to rise each year and the City does continue to project these costs to remain substantial; however, even with some occurring staff size increases within various City departments in recent years these costs have somewhat stabilized. It is still anticipated that as the City continues to become more fully staffed, there will be a related increase in such costs.
- (b) Salaries and wages for the City's Police (FOP), Firefighter (IAFF), and Non-Uniformed (AFSCME) collective bargaining units were negotiated to 1% increases for fiscal year 2016; for fiscal year 2017, increases of .5% (twice), 2%, and 1% occurred for FOP, IAFF, and AFSCME, respectively; and for fiscal year 2018, increases of .5% (twice), 2%, and 1% again are to occur for FOP, IAFF, and AFSCME, respectively.
- (c) Pension benefits and OPEB obligations of the primary government are also considered here, as these liabilities have experienced continuous increases in recent years.
- (d) The Harrisburg Strong Plan provides for the agreed-to settlement of reimbursable amounts owed to several suburban municipalities in accordance with a negotiated compromise of the involved claim, and reimbursement to the City's bond insurer for advances made on the City's behalf involving the 1997 Series General Obligation Refunding Bonds and Notes. These related repayments have been scheduled to occur over multiple years beginning in 2013 through fiscal year 2032.

Requests for Information

This financial report is designed for those who have an interest in the City's finances. Questions concerning any of the information provided in this report, requests for additional information, or complete financial statements for the discretely presented component units should be addressed to the City's Bureau of Financial Management, The Rev. Dr. Martin Luther King Jr., City Government Center, 10 North Second Street, Suite 302, Harrisburg, PA 17101. You may also find more information regarding the City at our website www.harrisburgpa.gov.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Assets					
Cash and cash equivalents	\$ 24,401,514	\$ 7,085,225	\$ 31,486,739	\$ 2,587,963	\$ 34,074,702
Investments, at fair value	10,703,473	3,671	10,707,144	-	10,707,144
Receivables, net of allowance for uncollectible accounts					
Taxes	14,306,390	-	14,306,390	-	14,306,390
Accounts	-	3,810,630	3,810,630	138,869	3,949,499
Rent	1,120,335	-	1,120,335	895,609	2,015,944
Loans	628,105	-	628,105	197,745	825,850
Lease	-	-	-	6,192,636	6,192,636
Notes	8,113,624	-	8,113,624	-	8,113,624
Grants	-	-	-	11,338	11,338
Other	4,004,030	1,311,912	5,315,942	-	5,315,942
Internal balances	268,410	(268,410)	-	-	-
Due from component unit	895,608	-	895,608	-	895,608
Other assets	846,503	43,936	890,439	15,566	906,005
Restricted assets					
Cash and cash equivalents	6,218,554	407,508	6,626,062	-	6,626,062
Investments, at fair value	4,538,241	658,740	5,196,981	1,232,859	6,429,840
Security deposit	-	1,350,000	1,350,000	-	1,350,000
Net pension asset	9,999,906	2,330,817	12,330,723	-	12,330,723
Capital assets, not being depreciated	27,101,669	370,021	27,471,690	30,000	27,501,690
Capital assets, less accumulated depreciation and amortization	64,023,189	33,888,417	97,911,606	47,658,088	145,569,694
Total assets	177,169,551	50,992,467	228,162,018	58,960,673	287,122,691
Deferred Outflows of Resources					
Deferred outflows of resources for pensions	8,710,311	1,116,736	9,827,047	-	9,827,047

(continued)

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Liabilities					
Accounts payable and other current liabilities	3,473,509	1,400,423	4,873,932	246,621	5,120,553
Matured bond coupons	20,097	-	20,097	-	20,097
Accrued liabilities	7,142,171	146,233	7,288,404	117,742	7,406,146
Due to primary government	-	-	-	1,405,609	1,405,609
Unearned revenue	4,170,947	-	4,170,947	-	4,170,947
Noncurrent liabilities:					
Due within one year	11,425,692	910,089	12,335,781	2,254,916	14,590,697
Due in more than one year	53,839,567	7,943,192	61,782,759	20,645,889	82,428,648
Net pension liability	11,254,140	-	11,254,140	-	11,254,140
Other post-employment benefits	80,337,588	4,828,333	85,165,921	-	85,165,921
Liability under guarantee	16,493,270	-	16,493,270	-	16,493,270
Total liabilities	188,156,981	15,228,270	203,385,251	24,670,777	228,056,028
Deferred Inflows of Resources					
Deferred inflows of resources for pensions	3,138,923	144,038	3,282,961	-	3,282,961
Deferred lease revenue	-	-	-	56,490,862	56,490,862
Total deferred inflows of resources	3,138,923	144,038	3,282,961	56,490,862	59,773,823
Net position					
Net investment in capital assets	38,466,843	27,010,165	65,477,008	(24,636,119)	40,840,889
Restricted for:					
Revolving loan program	300,259	-	300,259	172,855	473,114
Environment	523,414	-	523,414	-	523,414
Public works	1,604,909	-	1,604,909	-	1,604,909
Community and economic development	99,796	-	99,796	-	99,796
Neighborhood mitigation	-	-	-	223,447	223,447
Tourism	2,058,525	-	2,058,525	-	2,058,525
Debt service	-	658,740	658,740	-	658,740
Growth funds	8,312,026	-	8,312,026	-	8,312,026
Net pension asset	9,999,906	2,330,817	12,330,723	-	12,330,723
Other	67,587	-	67,587	-	67,587
Insurer agreement	-	-	-	320,621	320,621
Unrestricted	(66,849,307)	6,737,173	(60,112,134)	1,718,230	(58,393,904)
Total net position	\$ (5,416,042)	\$ 36,736,895	\$ 31,320,853	\$ (22,200,966)	\$ 9,119,887

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 12,283,431	\$ 3,173,538	\$ -	\$ 29,974
Community and economic development	6,921,061	482,700	5,661,191	-
Public safety	37,246,320	3,806,802	2,168,164	63,210
Public works	9,023,397	763,992	1,326,297	32,789
Environment	262,425	325,233	-	-
Interest on long-term debt	3,509,356	-	-	-
Total governmental activities	<u>69,245,990</u>	<u>8,552,265</u>	<u>9,155,652</u>	<u>125,973</u>
Business-type activities				
Harrisburg Senators	1,288,460	488,384	-	-
Neighborhood services	12,317,774	14,495,451	51,817	-
Total business-type activities	<u>13,606,234</u>	<u>14,983,835</u>	<u>51,817</u>	<u>-</u>
Total primary government	<u>\$ 82,852,224</u>	<u>\$ 23,536,100</u>	<u>\$ 9,207,469</u>	<u>\$ 125,973</u>
Component units				
Harrisburg Parking Authority	\$ 1,603,687	\$ 182,777	\$ -	\$ -
Harrisburg Downtown Improvement District	802,229	626,603	117,680	-
Redevelopment Authority	4,532,086	8,574,696	54,281	72,221
Total component units	<u>\$ 6,938,002</u>	<u>\$ 9,384,076</u>	<u>\$ 171,961</u>	<u>\$ 72,221</u>

General revenues
Property taxes
Real estate transfer taxes
Local services taxes
Earned income taxes
Business privilege taxes
Franchise taxes
Public utility realty taxes
Payments in lieu of taxes
Grants and contributions not restricted to specific functions
Gain on sale of assets
Other income
Unrestricted investment earnings
Transfers - internal activities
Extraordinary item
Total general revenues, transfers, and extraordinary item
Change in net position
Net position - January 1, 2017 - restated
Net position - December 31, 2017

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Units	Total
Governmental Activities	Business-type Activities	Total		
\$ (9,079,919)	\$ -	\$ (9,079,919)	\$ -	\$ (9,079,919)
(777,170)	-	(777,170)	-	(777,170)
(31,208,144)	-	(31,208,144)	-	(31,208,144)
(6,900,319)	-	(6,900,319)	-	(6,900,319)
62,808	-	62,808	-	62,808
(3,509,356)	-	(3,509,356)	-	(3,509,356)
<u>(51,412,100)</u>	<u>-</u>	<u>(51,412,100)</u>	<u>-</u>	<u>(51,412,100)</u>
-	(800,076)	(800,076)	-	(800,076)
-	2,229,494	2,229,494	-	2,229,494
-	1,429,418	1,429,418	-	1,429,418
<u>(51,412,100)</u>	<u>1,429,418</u>	<u>(49,982,682)</u>	<u>-</u>	<u>(49,982,682)</u>
-	-	-	(1,420,910)	(1,420,910)
-	-	-	(57,946)	(57,946)
-	-	-	4,169,112	4,169,112
-	-	-	2,690,256	2,690,256
17,676,374	-	17,676,374	-	17,676,374
636,111	-	636,111	-	636,111
6,565,218	-	6,565,218	-	6,565,218
11,558,850	-	11,558,850	-	11,558,850
7,854,818	-	7,854,818	-	7,854,818
604,679	-	604,679	-	604,679
42,611	-	42,611	-	42,611
542,364	-	542,364	-	542,364
8,863,715	-	8,863,715	-	8,863,715
27,412	-	27,412	-	27,412
-	3,655	3,655	37,514	41,169
2,562,523	35,834	2,598,357	1,211,748	3,810,105
(297,665)	297,665	-	-	-
-	-	-	613,506	613,506
<u>56,637,010</u>	<u>337,154</u>	<u>56,974,164</u>	<u>1,862,768</u>	<u>58,836,932</u>
5,224,910	1,766,572	6,991,482	4,553,024	11,544,506
<u>(10,640,952)</u>	<u>34,970,323</u>	<u>24,329,371</u>	<u>(26,753,990)</u>	<u>(2,424,619)</u>
<u>\$ (5,416,042)</u>	<u>\$ 36,736,895</u>	<u>\$ 31,320,853</u>	<u>\$ (22,200,966)</u>	<u>\$ 9,119,887</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets					
Cash and cash equivalents	21,417,354	\$ 2,978,071	\$ -	\$ 6,089	\$ 24,401,514
Investments, at fair value	2,646,990	2,003,134	41,208	6,012,141	10,703,473
Receivables, net of allowance for uncollectible accounts					
Taxes	14,264,119	-	-	42,271	14,306,390
Rent	1,120,335	-	-	-	1,120,335
Loans	300,259	327,846	-	-	628,105
Notes	8,113,624	-	-	-	8,113,624
Other	2,695,009	961,955	-	347,066	4,004,030
Due from other funds	5,853,272	720,351	-	305,998	6,879,621
Due from component unit	895,608	-	-	-	895,608
Other assets	269,768	576,735	-	-	846,503
Restricted assets					
Cash and cash equivalents	3,841,372	-	-	2,377,182	6,218,554
Investments, at fair value	4,538,241	-	-	-	4,538,241
Total assets	<u>\$ 65,955,951</u>	<u>\$ 7,568,092</u>	<u>\$ 41,208</u>	<u>\$ 9,090,747</u>	<u>\$ 82,655,998</u>

(continued)

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 2,573,687	\$ 684,307	\$ -	\$ 215,515	\$ 3,473,509
Accrued liabilities	683,230	11,219	-	1,661	696,110
Compensated absences	58,837	-	-	-	58,837
Matured bond coupons payable	-	-	20,097	-	20,097
Due to other funds	795,220	3,448,951	35,385	2,331,655	6,611,211
Unearned revenue	134,015	3,423,615	-	-	3,557,630
Total liabilities	<u>4,244,989</u>	<u>7,568,092</u>	<u>55,482</u>	<u>2,548,831</u>	<u>14,417,394</u>
Deferred inflows of resources					
Unavailable revenue - taxes	9,705,810	-	-	-	9,705,810
Unavailable revenue - notes receivable	8,113,624	-	-	-	8,113,624
Unavailable revenue - component unit	743,685	-	-	-	743,685
Unavailable revenue - other entities	1,886,566	-	-	-	1,886,566
Total deferred inflows of resources	<u>20,449,685</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,449,685</u>
Fund balance					
Nonspendable	269,768	-	-	-	269,768
Restricted for					
Revolving loan program	300,259	-	-	-	300,259
Environment	-	-	-	523,414	523,414
Public works	-	-	-	1,604,909	1,604,909
Community and economic development	-	-	-	99,796	99,796
Tourism	-	-	-	2,058,525	2,058,525
Other	67,587	-	-	-	67,587
Capital projects	-	-	-	1,755,272	1,755,272
Growth funds	8,312,026	-	-	-	8,312,026
Assigned for					
General government	27,734	-	-	-	27,734
Capital projects	-	-	-	500,000	500,000
Public works	102,428	-	-	-	102,428
Public safety	785,002	-	-	-	785,002
Community and economic development	279,129	-	-	-	279,129
2018 budget	9,212,650	-	-	-	9,212,650
Encumbrances					
Public works	739,713	-	-	-	739,713
Public safety	46,521	-	-	-	46,521
Community and economic development	36,126	-	-	-	36,126
Unassigned	21,082,334	-	(14,274)	-	21,068,060
Total fund balance	<u>41,261,277</u>	<u>-</u>	<u>(14,274)</u>	<u>6,541,916</u>	<u>47,788,919</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 65,955,951</u>	<u>\$ 7,568,092</u>	<u>\$ 41,208</u>	<u>\$ 9,090,747</u>	<u>\$ 82,655,998</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017

Fund balance - total governmental funds \$ 47,788,919

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

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

Governmental capital assets	\$ 258,388,104	
Less accumulated depreciation	<u>(167,263,246)</u>	91,124,858

Receivables that are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds.		20,449,685
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Net pension asset, net of related deferred inflows and outflows of resources		15,571,294
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Guarantee fees are reported on the statement of net position for governmental activities and amortized over the life of the guarantee period, but are not available to pay current-period expenditures and, therefore, are not reported in the funds.		(613,317)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Workers' compensation	(1,986,397)	
Bonds payable	(12,226,042)	
Notes payable	(27,793,667)	
Capital leases payable	(2,036,439)	
Compensated absences	(5,085,575)	
Compensated absences due and payable at December 31, 2017	58,837	
Claims and judgments	(675,000)	
Due to bond insurer	(14,912,139)	
Settlement with suburban municipalities	(1,225,000)	
Liability under guarantee	(16,493,270)	
Net pension liability	(11,254,140)	
Other post-employment benefits	(80,337,588)	
Accrued interest payable	<u>(5,771,061)</u>	<u>(179,737,481)</u>

Net position of governmental activities		<u>\$ (5,416,042)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	44,093,231	\$ -	\$ -	\$ -	\$ 44,093,231
Licenses and permits	707,027	-	-	-	707,027
Intergovernmental revenue	8,792,363	5,403,658	-	1,915,728	16,111,749
Department earnings and program revenue	5,610,151	78,744	-	1,175,149	6,864,044
Fines and forfeits	865,222	-	-	-	865,222
Investment income	1,865,868	5,549	118	33,394	1,904,929
Miscellaneous	2,680,201	15,367	-	-	2,695,568
Total revenues	64,614,063	5,503,318	118	3,124,271	73,241,770
Expenditures					
Current					
General government	10,075,684	5,110	-	-	10,080,794
Community and economic development	1,801,784	3,555,906	-	-	5,357,690
Public safety	32,098,578	1,139,599	-	-	33,238,177
Public works	6,014,321	32,789	-	1,005,104	7,052,214
Environment	-	-	-	260,458	260,458
Capital outlay	-	-	-	124,950	124,950
Debt service					
Principal retirements	1,009,830	510,000	9,843,440	5,177	11,368,447
Interest and fiscal charges	30	95,037	106,394	-	201,461
Total expenditures	51,000,227	5,338,441	9,949,834	1,395,689	67,684,191
Excess of revenues over (under) expenditures	13,613,836	164,877	(9,949,716)	1,728,582	5,557,579
Other financing sources (uses)					
Debt issuance	296,450	-	-	-	296,450
Sale of general capital assets	27,412	-	-	-	27,412
Transfers in	795,380	336,117	9,949,834	500,000	11,581,331
Transfers out	(11,093,228)	(500,994)	(34,744)	(250,030)	(11,878,996)
Total other financing sources (uses)	(9,973,986)	(164,877)	9,915,090	249,970	26,197
Net change in fund balances	3,639,850	-	(34,626)	1,978,552	5,583,776
Fund balances - beginning of year - restated	37,621,427	-	20,352	4,563,364	42,205,143
Fund balances - end of year	\$ 41,261,277	\$ -	\$ (14,274)	\$ 6,541,916	\$ 47,788,919

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

CITY OF HARRISBURG, PENNSYLVANIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

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

Net change in fund balance - total governmental funds		\$ 5,583,776
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlays	\$ 5,677,867	
Depreciation expense	<u>(5,631,606)</u>	46,261
<p>When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported with the governmental activities.</p>		
		(175,000)
<p>The net pension asset (liability) is recorded as an asset (liability) in the government-wide financial statements, but not in the fund financial statements. This amount represents the change in the net pension asset (liability), net of deferred inflows and outflows of resources.</p>		
		(5,111,367)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		1,536,667
<p>Governmental funds report guarantee fees as revenues when received. However, in the statement of activities, the fees are amortized over the guarantee period and reported as investment income.</p>		
Amortization		109,094
<p>The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>		
Issuance	(296,450)	
Principal repayments	10,368,120	
Settlement with suburban municipalities	<u>1,000,000</u>	11,071,670
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Workers' compensation	595,174	
Vested compensated absences	(55,655)	
Other post-employment benefits	(3,801,683)	
Accrued interest	(997,132)	
Amortization of liability under guarantee	(1,266,459)	
Amortization of bond discounts	<u>(2,310,436)</u>	<u>(7,836,191)</u>
Change in net position of governmental activities		<u>\$ 5,224,910</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2017

	Harrisburg Senators Fund	Neighborhood Services Fund	Total Proprietary Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 7,085,225	\$ 7,085,225
Investments, at fair value	-	3,671	3,671
Receivables, net of allowance for uncollectible accounts			
Accounts	-	3,810,630	3,810,630
Other	-	1,311,912	1,311,912
Due from other funds	78,386	614	79,000
Prepaid expenses and other assets	43,936	-	43,936
Total current assets	<u>122,322</u>	<u>12,212,052</u>	<u>12,334,374</u>
Long-term assets			
Restricted assets			
Cash and cash equivalents	111,726	295,782	407,508
Investments, at fair value	658,740	-	658,740
Security deposit	-	1,350,000	1,350,000
Net pension asset	-	2,330,817	2,330,817
Capital assets, not being depreciated	-	370,021	370,021
Capital assets, less accumulated depreciation and amortization	29,978,902	3,909,515	33,888,417
Total long-term assets	<u>30,749,368</u>	<u>8,256,135</u>	<u>39,005,503</u>
Total assets	<u>30,871,690</u>	<u>20,468,187</u>	<u>51,339,877</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources for pension	-	1,116,736	1,116,736
LIABILITIES			
Current liabilities			
Accounts payable	-	1,400,423	1,400,423
Accrued liabilities	39,920	106,313	146,233
Due to other funds	-	347,410	347,410
Current portion of workers' compensation	-	260,450	260,450
Current portion of lease rental bonds payable	340,000	-	340,000
Current portion of capitalized lease obligations	-	278,721	278,721
Current portion of vested compensated absences	-	30,918	30,918
Total current liabilities	<u>379,920</u>	<u>2,424,235</u>	<u>2,804,155</u>
Long-term liabilities			
Workers' compensation	-	640,448	640,448
Lease rental bonds payable	5,761,411	-	5,761,411
Capitalized lease obligations	-	1,058,253	1,058,253
Vested compensated absences	-	483,080	483,080
Other post-employment benefits	-	4,828,333	4,828,333
Total long-term liabilities	<u>5,761,411</u>	<u>7,010,114</u>	<u>12,771,525</u>
Total liabilities	<u>6,141,331</u>	<u>9,434,349</u>	<u>15,575,680</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pensions	-	144,038	144,038
NET POSITION			
Net investment in capital assets	24,067,603	2,942,562	27,010,165
Restricted			
Debt service	658,740	-	658,740
Net pension asset	-	2,330,817	2,330,817
Unrestricted	4,016	6,733,157	6,737,173
Total net position	<u>\$ 24,730,359</u>	<u>\$ 12,006,536</u>	<u>\$ 36,736,895</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

	Harrisburg Senators Fund	Neighborhood Services Fund	Total Proprietary Funds
Operating revenues			
Charges for service	\$ 488,384	\$ 14,495,451	\$ 14,983,835
Operating expenses			
Salaries and wages	-	3,148,874	3,148,874
Fringe benefits	-	42,832	42,832
Communications	-	81,918	81,918
Professional fees	-	9,536	9,536
Utilities	-	297,853	297,853
Insurance	-	66,600	66,600
Maintenance and repairs	25,000	324,839	349,839
Contracted services	-	7,193,754	7,193,754
Property taxes	-	69,069	69,069
Rent	-	97,709	97,709
Supplies	-	548,685	548,685
Depreciation and amortization	928,600	390,951	1,319,551
Total operating expenses	953,600	12,272,620	13,226,220
Operating income (loss)	(465,216)	2,222,831	1,757,615
Nonoperating revenues (expenses)			
State subsidy	-	51,817	51,817
Investment income	1,762	34,072	35,834
Miscellaneous income	-	3,655	3,655
Interest expense	(328,716)	(45,154)	(373,870)
Amortization of bond issue costs	(6,144)	-	(6,144)
Total nonoperating revenues (expenses)	(333,098)	44,390	(288,708)
Income (loss) before transfers	(798,314)	2,267,221	1,468,907
Transfers in	297,665	-	297,665
Change in net position	(500,649)	2,267,221	1,766,572
Net position - beginning of year	25,231,008	9,739,315	34,970,323
Net position - end of year	\$ 24,730,359	\$ 12,006,536	\$ 36,736,895

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

	Harrisburg Senators Fund	Neighborhood Services Fund	Total Proprietary Funds
Cash flows from operating activities			
Received from user charges	\$ 488,384	\$ 14,676,261	\$ 15,164,645
Payments to employees for services	-	(3,200,044)	(3,200,044)
Payments for fringe benefits	-	(1,107,051)	(1,107,051)
Payments to suppliers for goods and services	(25,000)	(8,899,924)	(8,924,924)
Net cash provided by operating activities	463,384	1,469,242	1,932,626
Cash flows from noncapital financing activities			
State subsidy	-	93,582	93,582
Transfers in	297,665	-	297,665
Net cash provided by noncapital financing activities	297,665	93,582	391,247
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	-	(2,699,158)	(2,699,158)
Sales of assets	-	3,655	3,655
Interest paid	(327,403)	(45,154)	(372,557)
Lease, bond and note payments	(325,000)	(354,736)	(679,736)
Net cash used in capital and related financing activities	(652,403)	(3,095,393)	(3,747,796)
Cash flows from investing activities			
Sale (purchase) of investments	(499)	274,032	273,533
Investment income	1,420	34,072	35,492
Net cash provided by investing activities	921	308,104	309,025
Net increase (decrease) in cash and cash equivalents	109,567	(1,224,465)	(1,114,898)
Cash and cash equivalents (including restricted cash) - beginning of year	2,159	8,605,472	8,607,631
Cash and cash equivalents (including restricted cash) - end of year	\$ 111,726	\$ 7,381,007	\$ 7,492,733

(continued)

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2017

	Harrisburg Senators Fund	Neighborhood Services Fund	Total Proprietary Funds
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (465,216)	\$ 2,222,831	\$ 1,757,615
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	928,600	390,951	1,319,551
Provision for uncollectible accounts	-	2,326,650	2,326,650
Changes in assets and liabilities			
Accounts receivable	-	(2,434,982)	(2,434,982)
Deferred outflows of resources for pension	-	(226,423)	(226,423)
Due from/to other funds	-	289,142	289,142
Net pension asset	-	(1,203,742)	(1,203,742)
Accounts payable and other accrued costs	-	73,680	73,680
Workers' compensation	-	(283,641)	(283,641)
Vested compensated absences	-	(51,170)	(51,170)
Deferred inflows of resources for pension	-	144,038	144,038
Other post-employment benefits	-	221,908	221,908
Net cash provided by operating activities	<u>\$ 463,384</u>	<u>\$ 1,469,242</u>	<u>\$ 1,932,626</u>
Noncash investing, capital, and financing activities			
Amortization of bond discount	<u>\$ 6,144</u>	<u>\$ -</u>	<u>\$ 6,144</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2017

	Police Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 922,796
Receivables		
Interest and dividends	5,248	-
Total receivables	5,248	-
Investments, at fair value		
Money market funds	716,979	-
Mutual funds		
Equity	60,307,789	-
Fixed income	20,424,110	-
Partnership	2,852,848	-
Total investments	84,301,726	-
Total assets	84,306,974	922,796
LIABILITIES		
Due to other governments	-	447,413
Escrow liabilities	-	475,383
Total liabilities	-	\$ 922,796
NET POSITION		
Restricted for police pension benefits	\$ 84,306,974	

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - POLICE PENSION TRUST FUND
YEAR ENDED DECEMBER 31, 2017

Additions	
Contributions	
Plan member	\$ 542,472
Employer	<u>3,319,118</u>
Total contributions	<u>3,861,590</u>
Investment income	
Interest and dividend income	2,128,367
Net appreciation in fair value of investments	<u>9,719,246</u>
Total investment income	11,847,613
Less investment expense	<u>(204,397)</u>
Net investment income	<u>11,643,216</u>
Total additions	<u>15,504,806</u>
Deductions	
Pension benefits	6,226,579
Administrative expenses	<u>50,943</u>
Total deductions	<u>6,277,522</u>
Change in net position	9,227,284
Net position - beginning of year	<u>75,079,690</u>
Net position - end of year	<u>\$ 84,306,974</u>

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

Harrisburg Parking Authority

On December 23, 2013, the Harrisburg Parking Authority Component Unit entered into an Asset Transfer Agreement for the City of Harrisburg Parking System for a majority of its parking facilities, meters, and lots. Subsequent to December 23, 2013, the Harrisburg Parking Authority maintains an operating interest in the City Island Garage and certain parking lots. Although the Harrisburg Parking Authority maintains an operating interest in the City Island Garage as of December 31, 2017, the Asset Transfer Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

Harrisburg Downtown Improvement District, Inc.

The Harrisburg Downtown Improvement District, Inc. Component Unit, a Pennsylvania non-profit corporation, was formed on April 22, 2004, under 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.

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority of the City of Harrisburg Component Unit 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.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION - COMPONENT UNITS
DECEMBER 31, 2017

	Harrisburg Parking Authority	Harrisburg Downtown Improvement District	Redevelopment Authority	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,337,073	\$ 404,394	\$ 846,496	\$ 2,587,963
Receivables, net of allowance for uncollectible accounts				
Accounts	20,116	4,409	114,344	138,869
Grants	-	-	11,338	11,338
Rent	895,609	-	-	895,609
Loans	-	-	24,483	24,483
Lease	-	-	577,136	577,136
Prepaid expenses and other assets	8,556	7,010	-	15,566
Total current assets	2,261,354	415,813	1,573,797	4,250,964
Restricted assets				
Investments, at fair value	-	-	1,232,859	1,232,859
Total restricted assets	-	-	1,232,859	1,232,859
Loans receivable	-	-	173,262	173,262
Lease receivable	-	-	5,615,500	5,615,500
Capital assets, not being depreciated	-	-	30,000	30,000
Capital assets, less accumulated depreciation	4,083,017	-	43,556,204	47,639,221
Project costs, less accumulated amortization	-	18,867	-	18,867
Total assets	6,344,371	434,680	52,181,622	58,960,673

(continued)

	Harrisburg Parking Authority	Harrisburg Downtown Improvement District	Redevelopment Authority	Total Component Units
LIABILITIES				
Current liabilities (payable from current assets)				
Accounts payable and accrued liabilities	95,527	29,909	121,185	246,621
Due to primary government	895,609	-	510,000	1,405,609
Accrued interest payable	-	-	104,187	104,187
Total current liabilities (payable from current assets)	<u>991,136</u>	<u>29,909</u>	<u>735,372</u>	<u>1,756,417</u>
Current liabilities (payable from restricted assets)				
Current portion of revenue bonds payable	-	-	1,910,000	1,910,000
Current portion of revenue notes payable	-	-	344,916	344,916
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>-</u>	<u>2,254,916</u>	<u>2,254,916</u>
Noncurrent liabilities				
Compensated absences	-	-	13,555	13,555
Revenue bonds payable, net of discount	-	-	19,896,429	19,896,429
Revenue notes payable, net of discount	-	-	578,628	578,628
Due to other governments	-	-	170,832	170,832
Total liabilities	<u>991,136</u>	<u>29,909</u>	<u>23,649,732</u>	<u>24,670,777</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred lease revenue	<u>-</u>	<u>-</u>	<u>56,490,862</u>	<u>56,490,862</u>
NET POSITION				
Net position				
Net investment in capital assets	4,083,017	-	(28,719,136)	(24,636,119)
Restricted				
Revolving loan program	-	-	172,855	172,855
Insurer agreement	320,621	-	-	320,621
Neighborhood mitigation	-	-	223,447	223,447
Unrestricted	<u>949,597</u>	<u>404,771</u>	<u>363,862</u>	<u>1,718,230</u>
Total net position	<u>\$ 5,353,235</u>	<u>\$ 404,771</u>	<u>\$ (27,958,972)</u>	<u>\$ (22,200,966)</u>

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

CITY OF HARRISBURG
STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2017

	Program Revenues			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Harrisburg Parking Authority	\$ 1,603,687	\$ 182,777	\$ -	\$ -
Harrisburg Downtown Improvement District	802,229	626,603	117,680	-
Redevelopment Authority	4,532,086	8,574,696	54,281	72,221
Total component units	\$ 6,938,002	\$ 9,384,076	\$ 171,961	\$ 72,221

General revenues
Miscellaneous income
Unrestricted investment earnings
Extraordinary item

Total general revenues and extraordinary item

Change in net position

Net position - January 1, 2017 - restated

Net position - December 31, 2017

Net (Expense) Revenue and
Changes in Net Position

Harrisburg Parking Authority	Harrisburg Downtown Improvement District	Redevelopment Authority	Total
\$ (1,420,910)	\$ -	\$ -	\$ (1,420,910)
-	(57,946)	-	(57,946)
-	-	4,169,112	4,169,112
<u>(1,420,910)</u>	<u>(57,946)</u>	<u>4,169,112</u>	<u>2,690,256</u>
-	-	37,514	37,514
1,202,000	1,545	8,203	1,211,748
613,506	-	-	613,506
<u>1,815,506</u>	<u>1,545</u>	<u>45,717</u>	<u>1,862,768</u>
394,596	(56,401)	4,214,829	4,553,024
<u>4,958,639</u>	<u>461,172</u>	<u>(32,173,801)</u>	<u>(26,753,990)</u>
<u>\$ 5,353,235</u>	<u>\$ 404,771</u>	<u>\$ (27,958,972)</u>	<u>\$ (22,200,966)</u>

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

1. Summary of Significant Accounting Policies

The City of Harrisburg, Pennsylvania (City) was founded by John Harris II in 1785, established as a borough in 1791 and incorporated as a City on March 19, 1860. The City operates as a Mayor-Council form of government and provides all municipal services to its residents.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies:

A. *Reporting Entity*

The City used guidance contained in governmental accounting standards to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, etc.) within its reporting entity. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organization's governing body and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City, as defined below:
 - **Impose its Will** – If the City can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - **Financial Benefit or Burden** – Exists if the City (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the City.

Based on the foregoing criteria, the reporting entity has been defined to include all the entities for which the City is financially accountable or for which there is another significant relationship. Specific information on the nature of the various potential component units and a description of how the aforementioned criteria have been considered in determining whether or not to include or exclude such units in the City's

financial statements are provided in the following paragraphs. Separately published audit reports of the component units and joint venture are available for public inspection in the City's Finance Office.

Blended Component Units

Some component units, despite being legally separate from the primary government (City), are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component unit reported in this way is the City of Harrisburg Leasing Authority.

City of Harrisburg Leasing Authority

The City of Harrisburg Leasing Authority was formed pursuant to the Municipality Authorities Act in 1986 for the purpose of acquiring and leasing facilities and equipment to the City. The five-member Board of Directors is appointed by the Mayor. The City of Harrisburg Leasing Authority's only financial transaction is the financing of City projects. There was no activity during the year ended December 31, 2017.

Discretely Presented Component Units

Component units which are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government. The component units presented in this way are the following:

- Harrisburg Parking Authority
- Harrisburg Downtown Improvement District, Inc.
- Redevelopment Authority of the City of Harrisburg

Harrisburg Parking Authority

The Harrisburg Parking Authority (Authority) was incorporated in 1972 under the Pennsylvania Parking Authority Law of 1947. The Authority is an agency of the Commonwealth of Pennsylvania, which owns and operates parking facilities in the City. The five-member Board of Directors is appointed by the Mayor and members can be removed from the Board at will.

On December 23, 2013, the Authority entered into an Asset Transfer Agreement for the City of Harrisburg Parking System (Agreement) dated December 1, 2013 with Pennsylvania Economic Development Financing Authority (PEDFA). Under the Agreement, the Authority agreed to lease, for a period of approximately 40 years,

certain parking facilities, meters, and lots for an upfront acquisition price of approximately \$267 million, plus four notes receivable, with a present value of approximately \$12 million. At closing on December 23, 2013, at request of the City, the Authority assigned the notes receivable to the City, Dauphin County (County), and the bond insurer. Any surplus revenues (as defined in the Agreement), are to be paid on the notes receivable, with 75% going to the bond insurer and the County and 25% going to the City, until such time as the bond insurer and the County are made whole and then all amounts going to the City.

Because the lease qualified as a capital lease, all associated capital assets were removed from the Authority's financial statements as of the closing date. At the end of 40 years, all associated capital assets are to be returned to the Authority (or the City if the Authority is not in existence) along with any capital reserve monies (funded by PEDFA through an extensive formula in the PEDFA indenture) for deferred maintenance. In accordance with an agreement with the bond insurer, any amounts received after the transfer of assets by the Authority in respect of its ownership of the parking assets transferred, in excess of reserves agreed upon by the Authority and the bond insurer, are to be promptly paid to the bond insurer. Within 30 days following June 30, 2015, any surplus amount held and received by the Authority after closing of the transfer of assets is to be promptly paid to the bond insurer. At December 31, 2017, such transfer has not taken place as the Authority and the bond insurer are currently in the settlement process.

Subsequent to the asset transfer date of December 23, 2013, the Authority maintained an operating interest in the City Island Garage and certain parking lots. Although the Authority maintains an operating interest in the City Island Garage as of December 31, 2017, the Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

Harrisburg Downtown Improvement District, Inc.

The Harrisburg Downtown Improvement District, Inc., a Pennsylvania non-profit corporation, (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. On September 14, 2004, City Council adopted an ordinance to establish a Neighborhood Improvement District (District) to replace the Harrisburg Downtown Improvement District Authority by providing the same business improvements and administrative services to a larger downtown business district. Effective September 30, 2004, the Harrisburg Downtown Improvement District Authority was terminated and all assets, liabilities, and contractual rights were assumed by the Corporation.

On September 14, 2010, the Corporation was re-authorized by City Council to administer services to the District for a five-year term beginning January 1, 2011 and ending December 31, 2015. On December 15, 2015, the Corporation was re-authorized by City Council for a two-year term beginning January 1, 2016 to administer services to the District. The authorization to administer the District shall automatically terminate on December 31, 2017, unless the governing body of the City legislatively authorizes its continuation. On September 12, 2017, the Corporation was re-authorized by City Council for a five-year term beginning January 1, 2018 to administer services to the District.

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority of the City of Harrisburg (Redevelopment Authority) was established in 1949 pursuant to the Urban Redevelopment Act of 1945 (Public Law – 991). The Redevelopment Authority is administered by a five-member Board of Directors, all of whom are appointed by the Mayor. The Redevelopment Authority provides a broad range of urban renewal and maintenance programs within the City. The Redevelopment Authority also coordinates efforts to improve the economic vitality, the housing stock, and overall living conditions within the City. The City guarantees certain debt of the Redevelopment Authority projects.

The Harrisburg Land Bank (Land Bank) is a blended component unit presented in the Redevelopment Authority's financial statements. The Land Bank is governed by seven board members, five of which serve as members of the Redevelopment Authority and two appointed by the Mayor. The Land Bank was created under the Pennsylvania Land Bank Act and its purpose is to deter blight and return vacant property to productive status, thereby enabling the transformation of vacant, blighted, abandoned, and tax-delinquent spaces into vibrant City places.

Potential Component Units Excluded

Capital Region Water

Capital Region Water (CRW) was incorporated in 1957 under the provisions of the Municipality Authorities Act. CRW is administered by a five-member Board of Directors, all of whom are appointed by the Mayor and confirmed by City Council. The purpose of CRW is, among other things, to engage in public works projects relating to the ownership and operation of the water system and wastewater treatment and conveyance systems. CRW also maintains responsibility for winding down certain administrative, contractual, and minor operating activities of the previously owned resource recovery facility. The City has no financial accountability over CRW's operations. CRW operates and reports on a calendar year.

City of Harrisburg Housing Authority

The City of Harrisburg Housing Authority (Housing Authority) was established in 1937 pursuant to the Housing Authorities Law to promote the availability of safe and sanitary dwelling accommodations at affordable rents to families of low income. The Housing Authority is administered by a five-member Board of Directors, all of whom are appointed by the Mayor.

The Housing Authority operates low-rent subsidized housing projects established within the City. The Housing Authority manages the acquisition of federal and state funds for the construction of and/or improvements to low income properties and reviews programs with the landlords to ensure compliance with various rules and regulations. The City has no financial accountability over the Housing Authority's operations.

The Housing Authority operates and reports on a calendar year.

Joint Venture

The City is a participant with other municipalities in a joint venture that provides services to the constituents of all the participants. The City has no financial or equity interest in the joint venture. The following is a summary of the significant facts and circumstances for the joint venture for the year ended June 30, 2017:

Name of Organization	Cumberland-Dauphin-Harrisburg Transit Authority	
Services Provided	Bus Service	
City Board representation	Two of seven members	
Fiscal Year	June 30	
Current Assets		\$ 3,753,210
Capital Assets, Net		\$ 19,393,725
Total Assets and Deferred Outflows of Resources		\$ 24,253,328
Net Position		\$ 15,518,518
Operating Revenue		\$ 6,639,022
Operating Loss		\$ (17,473,927)
Change in Net Position		\$ (658,998)
City Contribution to Operations		\$ 255,996

Related Organizations

The City Council and Mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include:

Broad Street Market Authority	Harrisburg Human Relations Commission
Planning Commission	License and Tax Appeals
Private Industry Council	Electrical Code Advisory and Licensing
Tri-County Regional Planning Commission	Building Code Board of Appeals
Emergency Planning Committee	Housing Code Board of Appeals
Board of Health	Civil Service Board
Historical and Architectural Review Board	Zoning Hearing Board
Plumbing Board	Revolving Loan Review Committee
Susquehanna Area Regional Airport Authority	

The amounts the City appropriated to these organizations during the year ended December 31, 2017 were immaterial to the basic financial statements.

The City owns the building occupied by the National Civil War Museum (Museum) and the related artifacts (collectively, the facilities). In April 2001, the City entered into a lease, license, and operating agreement with the Museum to lease the facilities for \$1 per year, to operate and manage the museum, and to license elements of the museum. The term of the agreement continues through January 1, 2031. After the first five years, the City can notify the Museum that it would like to renegotiate the rent payment based on the organization's ability to pay. In October 2009, the agreement was amended to extend the term for lease, license, and operations to January 31, 2039 and to provide the Museum with the right of first refusal option to purchase any or all of the artifacts.

In November 2017, the City and the Museum entered into a second amendment to the lease, license, and operating agreement. The second amendment grants the Museum the option to purchase the artifacts for \$5,250,000. The Museum may exercise this purchase option by written notice to the City on or before December 31, 2022 and the City agrees not to sell the artifacts prior to that date. Closing must be held within 90 days after exercise of the option. The City also agrees to create a \$1 million reserve fund from the proceeds of the sale of the artifacts which will be used to pay for capital improvements to the building. Any remaining proceeds in excess of the reserve balance will be used for improvements and maintenance of Reservoir Park. Should the Museum not exercise the purchase option by December 31, 2022, the Museum's right of first refusal and the City's limitation on sale of the artifacts remain in force provided that, during the five-year period beginning January 1, 2023, the City will have the right to sell up to 20% of the value of the artifacts. After the five-year period, the limitation applicable to each successive five-year period will be reduced to ten percent. In

addition, the second amendment to the lease, license, and operating agreement revised the rental agreement for the use of the building. Annual rental income would be as follows: 1) July 1, 2017 to June 30, 2020 - \$45,000; 2) July 1, 2020 to June 30, 2023 - \$60,000; 3) July 1, 2023 to June 30, 2026 - \$75,000; 4) July 1, 2026 to June 30, 2029 - \$85,000; and 5) July 1, 2029 to December 31, 2039 - \$100,000. During the first five years, the rent would offset approximately \$288,000 owed to the Museum by the City for reimbursement of capital improvements to the building. The Museum has the option to extend the term of the lease at a continued rate of \$100,000 per year for a term from January 1, 2040 to a date no later than the December 31 immediately preceding the 30th anniversary of the closing date on the purchase of the artifacts. Finally, at closing on the purchase of the artifacts, the Museum will make a payment on its outstanding debt obligation sufficient to reduce the unpaid balance to \$250,000 and notify CRW to release the \$250,000 certificate of deposit held as collateral by the bank for satisfaction of the debt.

B. *Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges to external parties for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and pension trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Benefits and refunds of the Combined Police Pension Plan are recognized when due and payable in accordance with the terms of the plan.

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 available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Real estate, earned income, local services, mercantile, franchise, and hotel taxes, intergovernmental revenue, departmental earnings, and investment income are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other governmental fund revenues are recorded as cash is received because they are generally not measurable until actually received. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as expenditures in the year when the items are purchased. Expenditures for claims, judgments, compensated absences, contingent liabilities, and employer pension and other post-employment benefit contributions are reported to the extent that they mature each period.

The City reports unavailable revenue on its governmental fund balance sheet. Unavailable revenues arise when a potential revenue does not meet the “measurable” and “available” criteria for recognition in the current period. Unearned revenues arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the deferred inflow of resources for

unavailable revenue and the liability for unearned revenue is removed from the governmental fund balance sheet and revenue is recognized.

The City reports the following major governmental funds:

General Fund – Accounts for all financial resources except those accounted for in another fund. The General Fund is the general operating fund of the City.

Grant Programs Fund - Accounts for the revenues and expenditures of federal, state, and other grant programs including the Community Development Block Grant Entitlement Program.

Debt Service Fund – Accounts for the accumulation of resources, which are principally transfers from other funds, for the payment of general long-term obligation principal, interest, and related costs.

The City reports the following major proprietary funds:

Harrisburg Senators Fund - Accounts for the revenues and expenses associated with the payment of debt on the financing of a new stadium of the Harrisburg Senators, a minor league franchise formerly owned by the City.

Neighborhood Services Fund – Created in 2016, this fund accounts for the revenues and expenses associated with the provision of refuse collection and disposal services to residential, commercial, and industrial establishments of the City, as well as Parks and Recreation maintenance services and road repair services, as those are related to the facilitation of refuse collection and disposal services, broadly defined.

In addition, the City reports the following fund types:

Pension Trust Fund – Accounts for the accumulation of resources for pension benefit payments and the withdrawals of qualified distributions of police personnel.

Agency Funds – Account for situations where the City's role is purely custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations and do not have a measurement focus. The City's agency funds include the school tax collection fund, which is used to account for the collection and payment to the school district of property taxes billed and collected on its behalf, and the payroll and other escrow liabilities fund, which is used to account for the collection and payment of miscellaneous escrow liabilities.

Component units are accounted for as follows:

The discretely presented component units are accounted for as enterprise funds. As such, they account for the activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Services from such activities are provided to outside parties.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City and its component units' practice to use restricted resources first, then unrestricted resources as they are needed.

D. *Cash and Cash Equivalents*

For the purpose of the statement of cash flows, highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

E. *Investments*

The City and its component units' investment in external investment pools are valued at amortized cost, which approximates fair value. All other City and component unit investments are stated at fair value. The City and its component units categorize fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

F. Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is based upon historical ratios established according to experience and other factors which, in the judgment of City officials, deserve recognition in estimating possible losses. Management believes that they have adequately provided for future probable losses.

G. Loans Receivable

The City has loans receivable issued from the City's Department of Building and Housing Development (DBHD) in the amount of \$964,431 and the Mayor's Office of Equal Economic Opportunity (MOEEO) in the amount of \$1,630,767, net of allowances for uncollectible accounts of \$669,387 and \$1,297,706, respectively. The balance of loans receivable that is reported in the General Fund, net of allowance for uncollectible accounts, is presented as restricted fund balance. The balance of the loans receivable that is reported in the Grant Programs Fund, net of allowance for uncollectible accounts, is presented as unearned revenue. Write-offs are determined based on events of loan default, bankruptcy, or negotiated settlement with the City.

The Redevelopment Authority's loans receivable consists of loans made to various entities for redevelopment projects within the City. The loans vary in term and require full payment of principal and interest at the end of the loan term. As of December 31, 2017, there was \$197,745 of loans receivable.

The Redevelopment Authority also 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, 2017.

H. Rent Receivable

Management has assessed the rent receivables referenced in Note 4 for collectability and deemed the amounts to be fully collectable. Rent receipts are applied to the oldest receivables first.

I. *Interfund Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due to/from other funds” on the balance sheet or statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

J. *Security Deposit*

At December 31, 2017, the Neighborhood Services Fund has presented a security deposit in the amount of \$1.35 million. This amount represents the amount set aside to secure the City’s obligations to the owner of the resource recovery facility under the Municipal Waste Disposal Agreement. The amount has been deposited pursuant to the Second Addendum to Assignment, Amendment, and Restatement of the Disposal Agreement.

K. *Capital Assets*

Primary Government

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, dams, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Assets acquired prior to 1982 have been valued by applying an inflation index to current replacement cost to determine estimated historical costs. The cost of such assets amounted to \$2,447,811 at December 31, 2017. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the City would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

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

Artifacts, totaling \$18,474,000, have been recorded at cost in the governmental activities column of the government-wide financial statements and are not being depreciated.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 to 100 years
Equipment and furniture	5 to 20 years
Infrastructure	50 to 150 years

Component Units

Harrisburg Parking Authority

The Authority's capital assets in service and construction in progress are stated on the basis of cost. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the Authority would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Capital assets are defined by the Authority as assets with an initial, individual cost of \$10,000 for land, buildings, and related improvements, or \$1,000 for furniture and equipment purposes, and an estimated useful life in excess of three years. Maintenance and repairs, which do not significantly extend the value or life of capital assets, are expensed as incurred.

The Authority's depreciation expense is computed using the straight-line method over the estimated useful asset life of thirty years. Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest costs incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Harrisburg Downtown Improvement District, Inc.

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the useful lives of the assets. Management has set a policy using a dollar amount to capitalize expenditures of \$5,000. Leasehold improvements pertain to the design and construction of certain improvements within the Harrisburg

Downtown Improvement District, Inc.'s leased space, which are stated at cost and depreciated over the lease term using the straight-line method of depreciation.

Redevelopment Authority of the City of Harrisburg

All capital assets are capitalized at historical cost at the acquisition date. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the Redevelopment Authority would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The Redevelopment 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:

Buildings and building improvements	30-40 years
Land improvements	20 years
Furniture and fixtures	10 years
Leasehold improvements	7-10 years
Vehicles	7-10 years
Equipment	5 years

L. *Vested Compensated Absences*

Primary Government

Vested compensated absences represent vested portions of accumulated unpaid vacation, sick pay, and other employee benefit amounts. It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation, sick pay, and other employee benefit amounts, which will be paid to employees upon separation from City service. All vested compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Component Unit

Redevelopment Authority of the City of Harrisburg

The Redevelopment 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.

M. *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts are amortized over the life of the related obligation using the effective interest method. Debt is reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the 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.

N. *Deferred Inflows and Outflows of Resources for Pensions*

In conjunction with pension accounting requirements, the differences in the City's expected and actual experience, changes of assumptions, the City's contributions subsequent to the measurement date, and the difference between projected and actual earnings on pension plan investments are recorded as deferred inflows or outflows of resources related to pension on the government-wide and proprietary fund financial statements. These amounts are determined based on the actuarial valuations performed for the pension plans.

O. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental and proprietary fund types. Encumbrances are recorded when purchase orders are issued, but are not considered expenditures until liabilities for payment are incurred. Encumbrances outstanding at year-end for unfilled obligations of the current year budget are reappropriated in the succeeding year. The City reports encumbrances in its governmental funds as assigned fund balance, if the individual fund's fund balance is not presented as restricted. The General Fund had encumbrances of \$822,360 relating to contract services, equipment, and operating materials and supplies. Encumbrance accounting is used in proprietary fund types as a tool for budgetary control, but is not reported on the statement of net position. There are no encumbrances for the proprietary funds at December 31, 2017.

P. Fund Equity and Net Position

In the government-wide financial statements and the proprietary and pension trust fund types in the fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, 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 reduces 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 the net position of the City, that is not restricted for any project or other purpose.

Sometimes the City and its component units will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's and its component units' policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures.

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.

Assigned – This category represents intentions of the City to use funds for specific purposes.

Unassigned – This category represents all other funds not otherwise defined.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any component of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, assigned fund balance is applied first. Unassigned fund balance is applied last.

Q. Pensions

All full-time employees of the City, with the exception of police officers, are covered by an agent-multiple employer public employee retirement system, the Pennsylvania Municipal Retirement System (PMRS). Police officers are covered by the Combined Police Pension Plan, a single-employer pension plan. Contributions to the plans are made in amounts sufficient to fund current service costs and to fund prior and past service costs over a forty-year period. Member employees contribute amounts to the plans based on a percentage of salary. The City funds its pension plans on the basis of normal cost plus the amortization of prior service cost over thirty years in accordance with Act 205 - 1984 of the Pennsylvania legislature. Pension expense is based upon normal cost plus the equivalent to interest on the unfunded prior service costs. As of January 1, 2017, the date of the most recent actuarial valuation, the actuarial accrued pension liability exceeded the actuarial value of assets in the Combined Police Pension Plan in the amount of \$14,011,211. However, the actuarial value of assets exceeded the actuarial accrued pension liability in the Non-uniformed Employees' and Combined Firefighters' Pension Plans in the amounts of \$15,696,592 and \$8,306,138, respectively.

R. Risk Management

Primary Government

The City 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. The City purchases commercial insurance for all risks of loss including workers' compensation excess coverage for those risks related to injuries of employees. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The City is self-insured for workers' compensation. As a self-insurer, the City is required to fund an already established trust fund, dollar for dollar, once the City has passed a total liability threshold as established by the Commonwealth of Pennsylvania. Accordingly, the City has established a trust fund for workers' compensation claims. The City provides coverage for up to a maximum of \$1,000,000 for any covered paid or volunteer firefighter, \$800,000 for any covered paid or volunteer police officer, and \$650,000 for each non-uniformed workers' compensation claim and has purchased commercial coverage for claims in excess of coverage.

In the government-wide financial statements and proprietary fund types in the fund financial statements, the liability for outstanding claims is reported in the applicable statement of net position. A liability for these amounts is reported in governmental funds only if they have matured. The accrued cost for unpaid claims was \$1,986,397 and \$900,898 in the governmental activities and business-type activities, respectively, at December 31, 2017. These claims liabilities are discounted to present value at a discount rate of 5% and are based on the requirements of governmental accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Change in the claims' liability amounts were as follows:

	Governmental Activities	Business-type Activities	2017	2016
Beginning - January 1	\$ 2,581,571	\$ 1,184,539	\$ 3,766,110	\$ 3,672,732
Current year claims and changes in estimates	94,002	(49,526)	44,476	684,148
Claim payments	(689,176)	(234,115)	(923,291)	(590,770)
Ending - December 31	<u>\$ 1,986,397</u>	<u>\$ 900,898</u>	<u>\$ 2,887,295</u>	<u>\$ 3,766,110</u>

Component Units

The City's discretely presented component units are 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. There were no significant reductions in insurance coverages in 2017. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

S. *Budgets and Budgetary Accounting*

Formal budgetary integration is employed as a management control device during the year for the General Fund (which includes the Neighborhood Mitigation Fund, Special Events Fund, Fire Protection Fund, Police Protection Fund, Parks and Recreation Fund, WHBG-TV Fund, and Events Fund), Debt Service Fund, State Liquid Fuels Tax Fund and Host Municipal Fees Fund (both non-major governmental funds), and Neighborhood Services Fund (a proprietary fund). Annual fund budgets are adopted by specific ordinance passed by City Council. The City has established the following procedures relating to the preparation and adoption of the annual budget.

1. During August, the Office of Budget and Analysis allows office/department heads and bureau chiefs, and/or their own budget staff, to enter their subsequent year requested operating and revenue budgets (requests) into the Pentamation (eFinance) Account System Budget Module (system), including notes.
2. During this process, the Office of Budget and Analysis works on all personnel projections for the subsequent year, and confirms these amounts with office/department heads.
3. After the office/department heads and bureau chiefs have entered their requests into the system, the Mayor shall, not later than the month of November, require all office/department heads and bureau chiefs to submit requests for appropriations for the ensuing budget year, and to appear before the Mayor or the Business Administrator or other officer at public hearings, which shall be held during that month, on the various requests.
4. After the public hearings, the budget staff reviews the office/department heads'/bureau chiefs' expenditure projects and submits a first draft to the Business Administrator. Subsequent to the Business Administrator's review, the draft and recommendations are forwarded to the Mayor.
5. Mayoral hearings are then held with each office/department/bureau to discuss their budgets as submitted and allow them to substantiate projected

expenditures. During this time, the Mayor will make cuts to the budget as deemed necessary.

6. A second draft is then given to the Mayor with the results of the meeting held between the Mayor, office/department heads/bureau chiefs, and budget staff. The Mayor reviews the budget, with budget staff, and makes additional cuts and revenue enhancements. This process is repeated until a balanced budget is achieved.
7. On the fourth Tuesday of November, the final Mayoral recommended budget is presented to City Council.
8. Council holds Budget and Finance Committee meetings with office/department heads and bureau chiefs present to substantiate the proposed budget and arrive at any amendments to the budget.
9. By December 31, the budget, as amended by Council, is legally enacted through the passage of an ordinance. During the month of January following a municipal election, however, City Council may amend the Budget with proper notice for public inspection of the proposed budget amendment. Any amended budget ordinance must be adopted by City Council before the 16th of February. Within 15 days after the adoption of the budget ordinance, a copy of same must be filed with the Commonwealth of Pennsylvania, Department of Community and Economic Development.

Appropriations are authorized by ordinance at the fund level with the exception of the General Fund, which is appropriated at the functional office or department level except for the Office of Administration, which has separate budgets for administration and general expenditures. Appropriations are further defined through the establishment of more detailed line-item budgets. These specifics represent the legal levels of budgetary control.

The Business Administrator may authorize transfers up to \$20,000 among line-items within a department or office. However, no transfers shall be permitted into or within any personnel line-items to augment any individual wage or salary allocation previously established by City Council for any position without City Council approval, except to accommodate payments to employees as required under applicable laws or collective bargaining agreements. City Council approval is required for transfers in excess of \$20,000 along budgetary line-items. In the absence of budgeted financing, City Council may approve a supplemental appropriation from unappropriated fund balances; or from a new, unanticipated, and unbudgeted revenue source(s) received during the course of the budget year. Therefore, the legal level of control is the line item budget. Supplemental appropriations (or reallocations) were enacted during 2017.

Budget to actual comparison by department for the City's General Fund is included in required supplementary information.

T. *Use of Estimates*

Management of the City and its discretely presented component units have made a number of estimates and assumptions relating to the reporting of amounts and disclosures to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

U. *Non-Recourse Debt Issue*

The Redevelopment Authority participates in various bond issues for which it has limited liability. Acting solely in an agency capacity, the Redevelopment Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although the Redevelopment Authority is a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the Redevelopment Authority in the case of default. As such, the corresponding debt is not reflected on the statement of net position of the Redevelopment Authority. As of December 31, 2017, non-recourse debt issues of the Redevelopment Authority totaled approximately \$7.6 million including approximately \$6.1 million on behalf of the City.

V. *Pending Changes in Accounting Principles*

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*" This Statement addressed reporting by governments that provide other post-employment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This Statement replaces the requirements of Statement No. 45. The provisions of GASB Statement No. 75 are effective for the City's December 31, 2018 financial statements.

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities.*" This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of GASB Statement No. 84 are effective for the City's December 31, 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, "*Omnibus 2017.*" This Statement addresses practice issues identified during implementation and application of certain GASB Statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and post-employment benefits. The

provisions of GASB Statement No. 85 are effective for the City's December 31, 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, "*Certain Debt Extinguishment Issues.*" This Statement improves consistency in accounting and financial reporting for certain debt extinguishments. The provisions of GASB Statement No. 86 are effective for the City's December 31, 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, "*Leases.*" This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the City's December 31, 2020 financial statements.

In March 2018, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.*" This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of GASB Statement No. 88 are effective for the City's December 31, 2019 financial statements.

In June 2018, the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred Before the end of a Construction Period.*" This Statement improves financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The provisions of GASB Statement No. 89 are effective for the City's December 31, 2020 financial statements.

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

2. Deposits and Investments

Primary Government

The deposit and investment policy of the City adheres to state statutes and prudent business practices. City deposits must be held in insured, federally regulated banks or financial institutions and must be fully collateralized in accordance with state statutes. Permissible investments include direct obligations of the U.S. Treasury and U.S. Governmental agencies; certificates of deposit issued by insured banks, bank and trust companies, and savings and loan associations; short-term commercial paper issued by a public corporation; banker's acceptance; repurchase agreements not to exceed 30 days,

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secured by U.S. Government obligations with collateral to be delivered to a third-party custodian; shares of registered investment companies whose portfolios consist solely of government securities; general obligation bonds of any state, Pennsylvania subdivisions, or any of its agencies or instrumentalities backed by the full faith and credit of the issuing entity and having the highest rating of a recognized bond rating agency; and pooled funds of public agencies of the Commonwealth of Pennsylvania. Any investment authorized by 20 Pa. C.S. Ch. 73 (relating to fiduciary investments) is an authorized investment for any pension or retirement fund. This policy is in accordance with applicable Pennsylvania statutes. There were no deposit or investment transactions that were in violation of either state statutes or the policy of the City at December 31, 2017, nor during the year then ended.

Proceeds from debt and other funds, which are held in bank trust accounts in the City's name and administered by trustees for payment of revenue bonds and the enterprise fund portion of general long-term debt, are classified as restricted assets since their use is limited by applicable bond indentures.

During the year ended December 31, 2013, the City received proceeds from the leasing of certain of the Authority's assets. Certain of the proceeds, held at December 31, 2017, are maintained in a segregated bank account restricted for the following purposes: \$3.7 million to fund a yet to be established other post-employment benefit trust fund; and \$4.6 million to fund a City growth fund.

Deposits

At December 31, 2017, the deposits of the City, including component units, were as follows:

Reconciliation to statement of net position:	
Governmental activities	
Unrestricted	\$ 24,401,514
Restricted	6,218,554
Business-type activities	
Unrestricted	7,085,225
Restricted	407,508
Fiduciary funds - agency fund	922,796
Total primary government	<u>\$ 39,035,597</u>
Component units	
Unrestricted	<u>\$ 2,587,963</u>

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 City has no policy, other than

as presented above, that further limits its custodial credit deposit risk. As of December 31, 2017, the City's book balance was \$39,035,597, and the bank balance was \$40,511,911. Of the bank balance, \$1,000,000 was covered by Federal Depository Insurance, \$39,484,644 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), 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. Of the remaining bank balance of \$27,267 was invested in an external investment pool with the Pennsylvania Local Government Investment Trust (PLGIT).

The City uses PLGIT to ensure safety and maximize efficiency, liquidity, and yield for City funds. PLGIT was created to meet the investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth of Pennsylvania. PLGIT's investment objective is to seek high current income, consistent with preservation of capital and maintenance of liquidity. PLGIT issues separately audited financial statements that are available to the public. Further information regarding PLGIT and its investment strategies can be found at www.plgit.com. The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool.

The City is invested in PLGIT-Class shares, which require no minimum balance, no minimum initial investment, and have a one-day minimum investment period. At December 31, 2017, PLGIT carried a AAA rating and had an average weighted maturity of less than one year.

Workers' Compensation

In accordance with the provisions of the Pennsylvania Workers' Compensation Act, the City has secured an exemption from the necessity of insuring its workers' compensation liability and has elected to maintain a separate bank account to provide a reserve for claimants entitled to benefits. Since inception, a total of \$600,000 has been deposited in a bank account through December 31, 2017. Interest of \$1,496,743 has been earned on the deposits and claims of \$700,000 have been paid from the bank account from inception through December 31, 2017. During 2006, the City withdrew \$1,300,000 to fund operating deficits of the General Fund. At December 31, 2006, the City had deposited \$1,050,000 back into the fund, giving the City total assets held as reserves of \$1,146,743 at December 31, 2017, of which \$144,214 is included in the General Fund, \$725,814 is included in the General Fund as due to CRW, and \$276,715 is included in the Neighborhood Services Fund at December 31, 2017.

Component Units

Harrisburg Parking Authority

The Parking Authority Law limits the Authority to the type of deposits it may make. Authorized types of investments include U.S. Treasury bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit.

The Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Authority funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program (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 for the external investment pool. The Authority is invested in INVEST - Daily Pool, which requires no minimum balance, no minimum initial investments, and has no required investment period.

Custodial Credit Risk. At December 31, 2017, the Authority's cash deposits have a book and bank balance of \$1,337,073 and \$1,340,166, respectively. Of the bank balance, \$11,533 was covered by federal depository insurance. The remaining \$1,328,633 was invested in INVEST. At December 31, 2017, INVEST carried a AAA rating and had an average weighted maturity of less than one year.

Harrisburg Downtown Improvement District, Inc.

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.

Redevelopment Authority of the City of Harrisburg

Custodial Credit Risk. The Redevelopment Authority does not have a deposit policy for custodial credit risk. As of December 31, 2017, the Redevelopment Authority's book balance was \$846,496 and the bank balance was \$883,501. Of the bank balance, \$590,020 was covered by federal depository insurance. The remaining balance of \$293,481 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), 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.

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Investments

At December 31, 2017, the investments of the City were as follows:

	Total	Fair Value Measurements	
		Level 1	Level 3
Primary Government			
Unrestricted investments			
External investment pool	\$ 10,707,144	\$ 10,707,144	\$ -
Total unrestricted investments	10,707,144	10,707,144	-
Restricted investments			
Money market funds	5,196,981	5,196,981	-
Total restricted investments	5,196,981	5,196,981	-
Fiduciary funds			
Money market funds	716,979	716,979	-
Mutual funds			
Equity	60,307,789	60,307,789	-
Fixed income	20,424,110	20,424,110	-
Partnership	2,852,848	-	2,852,848
Total fiduciary funds	84,301,726	81,448,878	2,852,848
Total primary government	\$ 100,205,851	\$ 97,353,003	\$ 2,852,848
Component Units			
Restricted investments			
Money market funds			\$ 1,232,001
External investment pool			858
Total restricted investments			1,232,859
Total component units			\$ 1,232,859

For financial statement purposes, the City's balance held in PLGIT, an external investment pool, is disclosed as a deposit.

Primary Government

Partnership (Equus Investment Partnership X, L.P.). At December 31, 2017, the City has \$2,852,848 invested in Equus Investment Partnership X, L.P (Partnership). The Partnership invests in and acquires, holds, operates, and disposes of operational real estate through equity interests. The valuation of the Partnership is determined in good faith from information provided by the General Partner of the limited partnership. The fair value of the Partnership is based on valuation methods including, but not limited to, the following: (1) forecast of future net cash flows based on the General Partner's analysis of future earnings from the investment plus anticipated net proceeds from the sale, deposition or resolution of the investment, discounted at a risk-adjusted rate; (2) prevailing market capitalization rates or earnings multiples applied to stabilized income or adjusted earnings from the investment; (3) recent sales of comparable investments;

(4) independent third-party appraisals; and (5) sale negotiations and bona fide purchase offers received from independent parties. The discounted cash flow technique is the primary method employed by the General Partner supplemented by one or more of the other valuation techniques described above, as applicable. Two significant unobservable inputs used in the discounted cash flow technique are discount rate and terminal capitalization rate. These unobservable inputs are inter-related. A significant increase in the discount or terminal capitalization rate in isolation would result in a significantly lower fair value measurement. The estimated fair values do not necessarily represent the prices at which the real estate investments would sell, since market prices can only be determined by negotiation between a willing buyer and a willing seller. This investment is classified within Level 3 of the valuation hierarchy.

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 City has no policy, other than as presented above, that further limits its custodial credit investment risk. Of the City's total investments of \$100,205,851, \$84,301,726 was held by the broker or dealer or by its trust department or agent, in the name of the City of Harrisburg Police Pension Plan, and \$15,904,125 was held by the counterparty's trust department or agent not in the City's name.

The City uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for the City's funds. These funds are invested in the Pennsylvania Treasurer's INVEST. The City's investment in INVEST is valued at amortized cost, which approximates fair value. At December 31, 2017, INVEST carried a AAA rating and had an average maturity of less than one year.

Concentration of Credit Risk. The City's Combined Police Pension Plan's investment policy places the following limits on the amount the Plan may invest in any one issuer: 1) Not more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation; 2) Not more than 40% of the total stock portfolio valued at market may be held in any one industry sector; 3) Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio; and 4) Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940. Other than as noted above, the City has no other limit on the amount the City may invest in any one issuer. At December 31, 2017, there were no investments that represent more than five percent of the City's total investments.

Credit Risk. The City's Combined Police Pension Plan's investment policy limits the overall rating of the fixed income investments, as calculated by the investment advisor, to investment grade, based on the rating of one nationally recognized statistical rating organization. Other than as noted above, the City does not have a formal policy relating

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to credit risk of investments. The City's investments had the following level of exposure to credit risk as of December 31, 2017:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 5,913,960	AAA
External investment pool	10,707,144	AAA
Mutual funds - fixed income	18,594,733	*A
Mutual funds - fixed income	1,829,377	*BB
Partnership	2,852,848	Unrated

* This is the weighted-average quality rating for a mutual fund made up of fixed income securities.

Interest Rate Risk. The City 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 City's money market, external investment pool, and fixed income investments and their related average maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>2018</u>	<u>2024-2028</u>
Money market funds	\$ 5,913,960	\$ 5,913,960	\$ -
External investment pool	10,707,144	10,707,144	-
Mutual funds - fixed income	20,424,110	-	20,424,110
Total	<u>\$ 37,045,214</u>	<u>\$ 16,621,104</u>	<u>\$ 20,424,110</u>

Component Unit

Redevelopment Authority of the City of Harrisburg

Restricted investments represent resources set aside for liquidation of specific obligations.

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The fair value of the investments of the Redevelopment Authority at December 31, 2017 were as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 1,232,001
External investment pool	<u>858</u>
Total investments	<u>\$ 1,232,859</u>

The money market funds are valued using quoted market prices (Level 1 inputs).

The Redevelopment Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for the Redevelopment Authority's funds. These funds are invested in the Pennsylvania Treasurer's INVEST.

Custodial Credit Risk. The Redevelopment Authority does not have an investment policy for custodial credit risk. At December 31, 2017, the Redevelopment Authority's money market funds were not exposed to custodial credit risk, because those investments are not evidenced by securities in book entry or paper form.

Concentration of Credit Risk. The Redevelopment Authority places no limit on the amount the Redevelopment Authority may invest in any one issuer. At December 31, 2017, there were no issuers who held more than 5% of the Redevelopment Authority's investments.

Credit Risk. The Redevelopment Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Redevelopment Authority's investments had the following level of exposure to credit risk as of December 31, 2017:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 1,232,001	AAA
External investment pool	858	AAA

Interest Rate Risk. The Redevelopment 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 Redevelopment Authority's money market funds and external investment pool have a related average maturity of less than one year as of December 31, 2017.

3. Taxes

Based upon assessed valuations provided by the County, the City bills and collects its own property taxes. Delinquent accounts are turned over to the County, which collects the taxes on behalf of the City. The schedule for property taxes levied for 2017 is as follows:

January 1, 2017	- lien date
January 31, 2017	- original levy date
January 31 – March 31, 2017	- 2% discount period
April 1 – May 31, 2017	- face payment period
June 1 – December 31, 2017	- 10% penalty period
January 1, 2018	- turned over to County for collection

The City is permitted by the Third-Class City Code to levy real estate taxes up to 25 mills on every dollar of assessed valuation for general City purposes. However, under an order of court dated December 20, 1982, the City was authorized to exceed the statutory general millage rate, up to a maximum of 30 mills.

The real property tax imposed by the City in 2017 was 5.16 mills on improvements and 30.97 mills on land. Both land and improvements are assessed at 100% of market value, with an effective combined equivalent single millage rate of 10.9098 mills.

Property taxes are recorded as of the date levied. Amounts not collected within sixty days after the end of the year are reported as unavailable in the governmental funds.

In addition, City taxes may be paid in four installments due on or before January 31, March 31, May 31, and July 31 of the tax year with no discount period allowed. Any delinquent installment is subject to a penalty of 10%.

4. Rent Receivable

Primary Government

In accordance with the Agreement, as disclosed in Note 1, the City receives monthly rent payments from PEDFA based upon the flow of funds. As a result of this, governmental activities investment earnings for the year ended December 31, 2017 include rent revenue in the amount of \$1,596,056, of which \$1,120,335 is recorded as rent receivable as of December 31, 2017. The receivable is offset with an unavailable revenue in the General Fund, as payments were not received in the City's availability period.

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Contingent upon the available funds in accordance with the Agreement, as disclosed in Note 1, the following amounts are to be received by the City in future years:

Period ending December 31,	Rent
2018	\$ 1,762,331
2019	2,241,682
2020	1,057,258
2021	1,071,587
2022	1,086,345
2023-2027	5,669,072
2028-2032	6,110,403
2033-2037	6,622,025
2038-2042	7,215,138
2043-2047	7,902,715
2048-2052	8,699,807
2053	1,846,448
Total	<u>\$ 51,284,811</u>

Component Unit

Harrisburg Parking Authority

In accordance with the Agreement, as disclosed in Note 1, the Authority receives monthly rent payments from PEDFA based upon the flow of funds. During the year ended December 31, 2013, the Authority entered into the 2013 Harrisburg Downtown Parking Cooperation Agreement with the City and HDC, of which the Authority directs these monthly rent payments received from PEDFA directly to the City. The Authority reports the rent revenue in the year provided for under the Agreement. As a result of this, rent revenue and corresponding transfer to the City for the year ended December 31, 2017 amounted to \$1,202,000, of which \$895,609 is recorded as rent receivable and due to the City as of December 31, 2017. The City has reported a receivable from the Authority. A portion of the receivable is offset with an unavailable revenue in the General Fund, as payments were not received in the City's availability period.

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Contingent upon the available funds in accordance with the Agreement, as disclosed in Note 1, the following amounts are to be received by the Authority and then disbursed to the City in future years:

Period ending December 31,	Rent
2018	\$ 1,238,060
2019	1,275,201
2020	1,313,458
2021	1,352,861
2022	1,393,447
2023-2027	7,619,940
2028-2032	8,833,598
2033-2037	10,240,562
2038-2042	11,871,618
2043-2047	13,762,459
2048-2052	15,954,462
2053	3,483,730
Total	<u>\$ 78,339,396</u>

In November 2016, the Authority’s Board approved to file suit against PEDFA for failure to pay rent and City payments and failure to deliver an annual budget. PEDFA has asserted that there are ambiguities in the Agreement as to whether accrued rent from prior years has to be paid, and as to the level of the waterfall at which accrued rent within the current year has to be paid. The Authority disputes that there is any ambiguity in the Agreement. The Authority contends that it is entitled to immediate release of the withheld rent and payment of accrued and unpaid rent for all years as funds become available in accordance with the waterfall, as defined in the Agreement.

5. Notes Receivable

On December 23, 2013, the Authority entered into an Agreement dated December 1, 2013 with PEDFA. Under the Agreement, the Authority agreed to lease, for a period of approximately forty years, certain parking facilities, meters, and lots for an upfront acquisition price of approximately \$267 million, plus four notes receivable, with a present value of approximately \$12 million. At closing on December 23, 2013, at the request of the City, the Authority assigned the notes receivable to the City, County, and Bond Insurer. Any surplus revenues (as defined in the Agreement), are to be paid on the notes receivable, with 75% going to the Bond Insurer and the County and 25% going to the City, until such time as the Bond Insurer and the County are made whole and then

all amounts going to the City. The present value of the City's notes, discounted at 5.833 percent over forty years, in the amount of approximately \$8.1 million, is presented as notes receivable on the Governmental Activities statement of net position and General Fund balance sheet. The General Fund balance sheet also presents this amount as unavailable revenue.

6. Interfund Balances and Transfers

The composition of interfund balances at December 31, 2017 is as follows:

<u>Primary Government</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 5,853,272	\$ 795,220
Grant Programs Fund	720,351	3,448,951
Debt Service Fund	-	35,385
Nonmajor governmental funds	<u>305,998</u>	<u>2,331,655</u>
Total governmental funds	<u>6,879,621</u>	<u>6,611,211</u>
Harrisburg Senators Fund	78,386	-
Neighborhood Services Fund	<u>614</u>	<u>347,410</u>
Total proprietary funds	<u>79,000</u>	<u>347,410</u>
Total primary government	<u><u>\$ 6,958,621</u></u>	<u><u>\$ 6,958,621</u></u>

These amounts represent short-term receivables and payables for unsettled transactions and short-term borrowings between funds for the purposes of cash flow.

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The composition of interfund transfers for the year ended December 31, 2017 is as follows:

<u>Primary Government</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 795,380	\$ 11,093,228
Grant Programs Fund	336,117	500,994
Debt Service Fund	9,949,834	34,744
Nonmajor governmental funds	500,000	250,030
Total governmental funds	<u>11,581,331</u>	<u>11,878,996</u>
Harrisburg Senators Fund	297,665	-
Total proprietary funds	<u>297,665</u>	<u>-</u>
Total primary government	<u>\$ 11,878,996</u>	<u>\$ 11,878,996</u>

Interfund transfers were made primarily to fund debt service, to move excess cash per budgeted transfers, to provide for capital project fund expenditures, and to reimburse for other funds for grant related expenditures.

7. Intergovernmental Revenue

The General Fund intergovernmental revenue for the year ended December 31, 2017 is as follows:

Commonwealth of Pennsylvania, Pension System Aid	\$ 2,639,729
Commonwealth of Pennsylvania, general appropriation	5,000,000
Commonwealth of Pennsylvania, Gaming Control Board grant	30,993
Commonwealth of Pennsylvania, Bus Stops Optimization grant	4,684
Utilities payments in lieu of taxes from other governments	42,611
Harrisburg Parking Authority	1,074,346
	<u>\$ 8,792,363</u>

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The City also participates in a number of state and federal grant programs. Revenues from these programs are as follows:

Grant Programs Fund	
Community Development Block Grant	\$ 1,987,423
Lead Based Paint Grant	1,093,765
HOME Program	520,067
Emergency Solutions Grant	183,507
Federal and Pennsylvania Emergency Management Agency	1,088,178
State capital projects	286,249
Public Safety Partnership and Community Policing grants	182,114
Highway Planning and Construction Grant	32,789
Other federal grants	29,566
	<u>\$ 5,403,658</u>

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8. Capital Assets

Capital asset activity for the year ended December 31, 2017 is as follows:

Primary Government

	Beginning of Year	Additions	Retirements and Dispositions	End of Year
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 7,144,863	\$ -	\$ -	\$ 7,144,863
Construction-in-progress	-	1,482,806		1,482,806
Artifacts	18,649,000	-	(175,000)	18,474,000
Total capital assets, not being depreciated	<u>25,793,863</u>	<u>1,482,806</u>	<u>(175,000)</u>	<u>27,101,669</u>
Capital assets, being depreciated				
Buildings	64,846,261	1,219,676	-	66,065,937
Improvements	24,917,648	-	-	24,917,648
Equipment and furniture	34,969,370	1,399,039	-	36,368,409
Infrastructure	102,358,095	1,576,346	-	103,934,441
Total capital assets, being depreciated	<u>227,091,374</u>	<u>4,195,061</u>	<u>-</u>	<u>231,286,435</u>
Less accumulated depreciation for				
Buildings	(39,885,168)	(1,705,013)	-	(41,590,181)
Improvements	(9,060,554)	(395,154)	-	(9,455,708)
Equipment and furniture	(33,044,796)	(668,883)	-	(33,713,679)
Infrastructure	(79,641,122)	(2,862,556)	-	(82,503,678)
Total accumulated depreciation	<u>(161,631,640)</u>	<u>(5,631,606)</u>	<u>-</u>	<u>(167,263,246)</u>
Total capital assets, being depreciated, net	<u>65,459,734</u>	<u>(1,436,545)</u>	<u>-</u>	<u>64,023,189</u>
Governmental activities, capital assets, net	<u>\$ 91,253,597</u>	<u>\$ 46,261</u>	<u>\$ (175,000)</u>	<u>\$ 91,124,858</u>

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	Beginning of Year	Additions	Retirements and Dispositions	End of Year
Business-type activities				
Capital assets, not being depreciated				
Land	\$ -	\$ 62,686	\$ -	\$ 62,686
Construction-in-progress	-	307,335	-	307,335
Total capital assets, not being depreciated	-	370,021	-	370,021
Capital assets, being depreciated				
Buildings	37,704,816	37,058	-	37,741,874
Equipment and furniture	5,068,791	2,671,306	-	7,740,097
Total capital assets, being depreciated	42,773,607	2,708,364	-	45,481,971
Less accumulated depreciation for				
Buildings	(6,797,311)	(929,214)	-	(7,726,525)
Equipment and furniture	(3,476,692)	(390,337)	-	(3,867,029)
Total accumulated depreciation	(10,274,003)	(1,319,551)	-	(11,593,554)
Total capital assets being depreciated, net	32,499,604	1,388,813	-	33,888,417
Business-type activities, capital assets, net	\$ 32,499,604	\$ 1,758,834	\$ -	\$ 34,258,438

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 1,661,323
Community and economic development	677,786
Public safety	729,049
Public works	2,563,448
Total depreciation expense - governmental activities	<u>\$ 5,631,606</u>
Business-type activities:	
Harrisburg Senators	\$ 928,600
Neighborhood Services	390,951
Total depreciation expense - business-type activities	<u>\$ 1,319,551</u>

Component Units

	Beginning of Year	Additions	Retirements	End of Year
Harrisburg Parking Authority				
Buildings and improvements	\$ 7,999,997	\$ -	\$ -	\$ 7,999,997
Less accumulated depreciation	(3,708,568)	(208,412)	-	(3,916,980)
Harrisburg Parking Authority, capital assets, net	\$ 4,291,429	\$ (208,412)	\$ -	\$ 4,083,017

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	Beginning of Year	Additions	Retirements	End of Year
Harrisburg Downtown Improvement District, Inc.				
Capital assets, being depreciated				
Leasehold improvements	\$ 30,000	\$ -	\$ -	\$ 30,000
Visitor information center equipment	6,897	-	-	6,897
Marketing and office equipment	57,335	-	-	57,335
Total capital assets, being depreciated	<u>94,232</u>	<u>-</u>	<u>-</u>	<u>94,232</u>
Less accumulated depreciated for				
Equipment and leasehold improvements	(94,106)	(126)	-	(94,232)
Total accumulated depreciation	<u>(94,106)</u>	<u>(126)</u>	<u>-</u>	<u>(94,232)</u>
Total capital assets, being depreciated, net	<u>126</u>	<u>(126)</u>	<u>-</u>	<u>-</u>
Project costs, being amortized				
Plaza improvement project costs	39,908	-	-	39,908
DID territory improvement project costs	44,687	-	-	44,687
Total project costs, being amortized	<u>84,595</u>	<u>-</u>	<u>-</u>	<u>84,595</u>
Less accumulated amortization for				
Project costs	(61,402)	(4,326)	-	(65,728)
Total accumulated amortization	<u>(61,402)</u>	<u>(4,326)</u>	<u>-</u>	<u>(65,728)</u>
Total project costs, being amortized, net	<u>23,193</u>	<u>(4,326)</u>	<u>-</u>	<u>18,867</u>
Harrisburg Downtown Improvement District, Inc. capital assets and project costs, net	<u>\$ 23,319</u>	<u>\$ (4,452)</u>	<u>\$ -</u>	<u>\$ 18,867</u>
	Beginning of Year	Additions	Retirements	End of Year
Redevelopment Authority of the City of Harrisburg				
Capital assets, not being depreciated				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Total capital assets, not being depreciated	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
Capital assets, being depreciated				
Buildings	2,093,040	-	-	2,093,040
Buildings - leased	38,847,761	-	-	38,847,761
Leasehold improvements	6,861,227	-	-	6,861,227
Total capital assets being depreciated	<u>47,802,028</u>	<u>-</u>	<u>-</u>	<u>47,802,028</u>
Less accumulated depreciation for				
Buildings	(392,445)	(52,326)	-	(444,771)
Buildings - leased	(1,079,104)	(1,294,925)	-	(2,374,029)
Leasehold improvements	(1,255,493)	(171,531)	-	(1,427,024)
Total accumulated depreciation	<u>(2,727,042)</u>	<u>(1,518,782)</u>	<u>-</u>	<u>(4,245,824)</u>
Total capital assets being depreciated, net	<u>45,074,986</u>	<u>(1,518,782)</u>	<u>-</u>	<u>43,556,204</u>
Redevelopment Authority of the City of Harrisburg, capital assets, net	<u>\$ 45,104,986</u>	<u>\$ (1,518,782)</u>	<u>\$ -</u>	<u>\$ 43,586,204</u>

CITY OF HARRISBURG, PENNSYLVANIA
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9. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017 is as follows:

Primary Government

	Beginning of Year	Additions	Accretion	Retirements/ Settlements	End of Year	Current Portion
Governmental activities:						
Workers' compensation claims	\$ 2,581,571	\$ 94,002	\$ -	\$ (689,176)	\$ 1,986,397	\$ 574,267
Bonds payable (Note 10)	15,895,938	-	825,104	(4,495,000)	12,226,042	4,328,144
Notes payable (Note 12)	31,262,954	-	1,485,332	(4,954,619)	27,793,667	4,830,583
Capital lease obligations (Note 14)	2,391,882	46,450	-	(401,893)	2,036,439	327,953
Vested compensated absences	5,100,316	3,649,478	-	(3,664,219)	5,085,575	364,745
Due to bond insurer (Note 13)	14,678,747	250,000	-	(16,608)	14,912,139	-
Settlement with suburban municipalities (Note 15)	2,225,000	-	-	(1,000,000)	1,225,000	1,000,000
Governmental activities Long-term liabilities	<u>\$ 74,136,408</u>	<u>\$ 4,039,930</u>	<u>\$ 2,310,436</u>	<u>\$ (15,221,515)</u>	<u>\$ 65,265,259</u>	<u>\$ 11,425,692</u>
Business-type activities:						
Workers' compensation claims	\$ 1,184,539	\$ -	\$ -	\$ (283,641)	\$ 900,898	\$ 260,450
Bonds payable (Note 10)	6,423,087	-	3,324	(325,000)	6,101,411	340,000
Capital lease obligations (Note 14)	1,691,710	-	-	(354,736)	1,336,974	278,721
Vested compensated absences	565,168	328,744	-	(379,914)	513,998	30,918
Business-type activities Long-term liabilities	<u>\$ 9,864,504</u>	<u>\$ 328,744</u>	<u>\$ 3,324</u>	<u>\$ (1,343,291)</u>	<u>\$ 8,853,281</u>	<u>\$ 910,089</u>

Workers' compensation claims and compensated absences typically have been liquidated by the General Fund and the enterprise funds.

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Component Unit

	Beginning of Year	Additions	Amortization	Retirements	End of Year	Current Portion
Redevelopment Authority of the City of Harrisburg:						
Bonds payable (Note 10)	\$ 40,750,000	\$ -	\$ -	\$ (1,880,000)	\$ 38,870,000	\$ 1,910,000
Notes payable (Note 12)	988,504	-	-	(64,960)	923,544	344,916
Due to other governments	170,832	-	-	-	170,832	-
Total long-term liabilities	41,909,336	-	-	(1,944,960)	39,964,376	2,254,916
Less:						
Unamortized discount	(18,695,434)	-	1,631,863	-	(17,063,571)	-
Redevelopment Authority of the City of Harrisburg						
Long-term liabilities	<u>\$ 23,213,902</u>	<u>\$ -</u>	<u>\$ 1,631,863</u>	<u>\$ (1,944,960)</u>	<u>\$ 22,900,805</u>	<u>\$ 2,254,916</u>

10. Bonds Payable

Bonds payable at December 31, 2017 are as follows:

	Primary Government		Total Primary Government
	Governmental Activities	Business-type Activities	
Bonds payable	\$ 12,226,042	\$ 6,125,000	\$ 18,351,042
Unamortized discount	-	(23,589)	(23,589)
Total bonds payable	<u>\$ 12,226,042</u>	<u>\$ 6,101,411</u>	<u>\$ 18,327,453</u>
	Component Unit		
	Redevelopment Authority		
Bonds payable	\$ 38,870,000		
Unamortized discount	(17,063,571)		
Total bonds payable	<u>\$ 21,806,429</u>		

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Bonds payable are accounted for in the following activities:

	Governmental Activities	Business-type Activities	Total Primary Government
	<u> </u>	<u> </u>	<u> </u>
General Obligation Bonds			
Series D of 1997	\$ 12,226,042	\$ -	\$ 12,226,042
Total general obligation bonds	<u>12,226,042</u>	<u>-</u>	<u>12,226,042</u>
Revenue Bonds			
Senators Revenue Bonds			
Series A-2 of 2005	-	6,125,000	6,125,000
Less: Unamortized discount	<u>-</u>	<u>(23,589)</u>	<u>(23,589)</u>
Total revenue bonds	<u>-</u>	<u>6,101,411</u>	<u>6,101,411</u>
Total bonds payable	<u>\$ 12,226,042</u>	<u>\$ 6,101,411</u>	<u>\$ 18,327,453</u>

Bonds payable are accounted for in the Redevelopment Authority:

Guaranteed Revenue Bonds, Series A of 1998	\$ 38,870,000
Less: Unamortized discount	<u>(17,063,571)</u>
Total bonds payable	<u>\$ 21,806,429</u>

A settlement agreement was entered into on January 30, 2015 between the City, Assured Guaranty Municipal Corporation (AGM), and the Redevelopment Authority related to certain portions of the Strawberry Square Site located in City (Verizon Building) and subject to the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

If sufficient revenues are not generated to pay the debt service on the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998, any shortfalls in funds will be paid for by the City. In accordance with the Reimbursement Agreement between the City and the Redevelopment Authority, the Redevelopment Authority is required to reimburse the City for amounts paid by the City under the guarantee. Interest will accrue on amounts owed by the Redevelopment Authority at a rate of 8% annually. In September 2017, \$500,000 was paid by the City to the Redevelopment Authority under the guarantee. As of December 31, 2017, interest of \$10,000 was accrued by the Redevelopment Authority on the \$500,000 paid by the City. The City considers the \$510,000 due from the Redevelopment Authority to be 100% uncollectible and, therefore, no receivable has been recorded. Based on anticipated deficits of future cash flows, the City has

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accrued the present value of future anticipated payments under the guarantee in the amount of approximately \$16.5 million at December 31, 2017.

In April 2018, an additional \$500,000 was paid by the City to the Redevelopment Authority to be used toward the May 2018 principal payment of the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

During the year ended December 31, 2017, the Redevelopment Authority filed two notices of material events with the Electronic Municipal Market Access System (EMMA) with respect to its inability to make required debt service payments, including draws on the debt service reserve fund and payments by the City under the guarantee agreement, with respect to the Redevelopment Authority's Federally Taxable Guaranteed Revenue Bonds, Series A of 1998. These draws were necessary for the Redevelopment Authority to make debt service payments under this bond issue.

Under the terms of its respective debt agreements, the City is required to maintain certain balances in restricted trust accounts, to make timely payments to the trustee or to a sinking fund for principal and interest, and to insure and maintain assets acquired with the proceeds of the debt. During the year ended December 31, 2017, the City was not in compliance with such covenants. See Note 22 for further information on the City's compliance.

The composition of bonds outstanding included in the primary government at December 31, 2017 is as follows:

General Obligation Bonds

5.50%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of \$1,261,929 to \$4,328,144 through September 15, 2022, to be serviced through general revenues of the City, issued to advance refund the City's General Obligation Bonds, Series B-1 of 1997, which was originally issued to fund certain capital projects of the City. \$ 12,226,042

Revenue Bonds

5.00%-5.29%, Senators Revenue Bonds, Series A-2 of 2005, dated January 2005 Series A-2 matures at various amounts from 2006 through 2030, issued to renovate the baseball stadium. 6,125,000

Total primary government bonds payable 18,351,042

Less: unamortized discount (23,589)

Net primary government bonds payable \$ 18,327,453

11. Defeasance of Debt

The City and its component units defeased general obligation and other bonds in prior years 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 City's financial statements. At December 31, 2017, the following bonds outstanding are considered defeased:

City of Harrisburg	
General Obligation Bonds, Series A of 1995	\$ 7,870,000
Harrisburg Parking Authority	
Parking Revenue Bonds, Series T of 2007	<u>13,490,000</u>
	<u>\$ 21,360,000</u>

12. Notes Payable

The City entered into various promissory notes under Section 108 of the Housing and Community Development Act of 1974 (Public Law 93-383), as amended. The proceeds from the notes were to administer acquisition, relocation, clearance, rehabilitation, and disposal of City properties. These notes do not have continuing compliance requirements.

As collateral, the City pledged all grants approved or for which the City may become eligible under Title I of the Housing and Community Development Act of 1974, as amended, and program income derived from disposition by sale or lease of any real property to the extent acquired or rehabilitated with the guaranteed loan funds, including any interest earned on such disposition proceeds.

Interest payments are required to be made to the Federal Financing Bank on the daily unpaid principal balances.

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The composition of promissory notes outstanding under Section 108 (included in governmental activities) at December 31, 2017 is as follows:

Variable based on 90-day LIBOR plus 20 basis points (1.89% at December 31, 2017), Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of \$315,000 to \$335,000, through August 1, 2019, to be serviced through general revenues of the City. \$ 650,000

Variable based on 90-day LIBOR plus 20 basis points (1.89% at December 31, 2017), Section 108 Note, dated September 14, 2006, interest payable quarterly and principal payable in annual installments of \$210,000 to \$225,000, through August 1, 2026, to be serviced through general revenues of the City. 1,905,000

2,555,000

The composition of notes payable included in the primary government at December 31, 2017 is as follows:

5.50%-5.52%, General Obligation Refunding Notes, Series F of 1997, dated December 31, 1997, principal payable in annual installments of \$3,792,948 to \$6,113,793 beginning September 15, 1999 through September 15, 2022, to be serviced through general revenues of the City, issued to currently refund the City's General Obligation Bonds, Series of 1995, which was originally issued to pay for certain capital projects of the City. 24,952,720

4.13%, Pennsylvania Infrastructure bank loan, principal payable through March 26, 2018, to be serviced through general revenues of the City, used to fund City street resurfacing projects. 285,947

25,238,667

Total primary government notes payable \$ 27,793,667

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The composition of notes payable of the Redevelopment Authority at December 31, 2017 is as follows:

3.75%, 2000 Infrastructure Bank Loan, for bridge financing of the Transportation Center improvements until grant money is received and is payable in annual installments through December 31, 2009. However, the final principal payment has not been paid as of December 31, 2017, as the Redevelopment Authority is seeking loan forgiveness.	\$ 271,427
2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is to be forgiven over a fifteen-year period, given that certain compliance requirements are met.	216,669
4.83% for the first three years and variable based on the prime rate thereafter (4.50% at December 31, 2017), 2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven, and is payable through December 10, 2026.	<u>435,448</u>
Total Redevelopment Authority of the City of Harrisburg	<u><u>\$ 923,544</u></u>

The annual requirements to amortize all notes payable outstanding as of December 31, 2017, using interest rates in effect at December 31, 2017 for variable rate issues, are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
Primary Government		
2018	\$ 4,830,583	\$ 202,538
2019	4,337,949	407,528
2020	6,323,793	1,092,148
2021	5,898,539	1,397,866
2022	5,547,803	1,679,064
2023-2026	855,000	42,037
	<u>\$ 27,793,667</u>	<u>\$ 4,821,181</u>
	Redevelopment Authority of the City of Harrisburg	
Year Ending December 31,	Principal	Interest
2018	\$ 344,916	\$ 125,677
2019	75,334	16,929
2020	77,263	14,999
2021	79,282	12,981
2022	81,392	10,870
2023-2026	265,357	20,365
	<u>\$ 923,544</u>	<u>\$ 201,821</u>

13. Due to Bond Insurer

At times during 2013, the City's bond insurer made payments to bondholders on behalf of the City. These amounts and the accrued interest were reported as due to the bond insurer in the City's General Fund, because they were due and payable. During the year ended December 31, 2013, the City and the bond insurer entered into an agreement to restructure the amounts due to the bond insurer. Under the agreement, the City's is obligated to reimburse the bond insurer for payments made pursuant to the insurance policy at an interest rate of 6.10% per annum compounded semi-annually. In return, the bond insurer has agreed to forebear from exercising its rights and remedies under the Bonds, the Ordinance, and other applicable law. During the year ended December 31, 2017, the bond insurer paid \$250,000 to bondholders on behalf of the City. The balance due to bond insurer at December 31, 2017 was \$14,912,139.

Under the agreement, repayment is based on a schedule that includes future drawdowns. As such, no repayment schedule is available for amounts due at December 31, 2017. However, principal payments are not scheduled to begin until 2023.

14. Leases

Capitalized Lease Obligations

Primary Government

The City leased certain equipment under long-term lease agreements which were classified as capital leases. Capital leases were issued during the years ended December 31, 2015, 2016, and 2017. As of December 31, 2017, the governmental activities and business-type activities included equipment and furniture under capital leases with a net book value of \$2,833,655 and \$1,706,084, respectively. Restricted assets of the Capital Projects Fund include approximately \$83,000, in capital lease proceeds held by the City pending disbursement.

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The future minimum payments under capital leases and the minimum lease payments at December 31, 2017 are as follows:

Lease year ending December 31,	Governmental Activities	Business-type Activities	Total
2018	\$ 395,970	\$ 315,877	\$ 711,847
2019	395,970	393,177	789,147
2020	395,970	360,610	756,580
2021	395,969	354,811	750,780
2022	386,139	-	386,139
2023	289,605	-	289,605
Total commitment under capital lease	2,259,623	1,424,475	3,684,098
Less amount representing interest	(223,184)	(87,501)	(310,685)
Present value of future minimum lease payments	\$ 2,036,439	\$ 1,336,974	\$ 3,373,413

Component Units

Transportation Center Lease Income

The Redevelopment Authority leases space and parking to a commercial rail company and other tenants with lease ending dates varying through 2022. Additionally, the Redevelopment Authority leases space to a non-profit corporation with a lease ending date of June 30, 2018. These leases are noncancellable operating leases.

Minimum rentals on noncancellable leases through 2022 are as follows:

Lease year ending December 31,	
2018	\$ 244,584
2019	90,585
2020	77,566
2021	78,651
2022	72,187
Total minimum lease payments	\$ 563,573

Strawberry Square Lease

The Redevelopment Authority received ownership of the Verizon Building after expiration of the lease with Verizon, which terminated on February 29, 2016. Upon expiration of the lease with Verizon, the Harristown Development Corporation (HDC) leased the Verizon Building from the Redevelopment Authority pursuant to a lease

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agreement entered into on January 30, 2015. HDC also entered into another agreement with the Department of General Services of the Commonwealth of Pennsylvania (DGS) to sublease the Verizon Building (DGS lease).

The term of the DGS lease, associated with the SO3 Tower of Strawberry Square, commenced March 1, 2016, the day after the expiration of the Verizon Lease, and expires by its terms on February 28, 2033. For the period from March 1, 2016 to March 31, 2025, monthly installments are due to the Redevelopment Authority in the amount of \$50,000 per month. For the period April 1, 2025 to February 28, 2033, monthly installments are due to the Redevelopment Authority in the amount of \$62,500 per month. These rentals obtained from the DGS lease and paid by HDC to the Redevelopment Authority are expected to pay a portion of the payments due on the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

The term of the DGS lease, associated with the SO1 and SO2 Towers of Strawberry Square, commenced March 1, 2016, the day after the expiration of the Verizon Lease, and expires by its terms on April 1, 2025. The rentals, obtained from the DGS lease and paid by HDC to the Redevelopment Authority, were expected to pay a portion of the payments due on the Federally Taxable Guaranteed Revenue Bonds, Series B of 1998. However, the lease rentals were paid up-front through the Commonwealth of Pennsylvania's issuance of the Certificates of Participation, Series 2016 on December 15, 2016.

The deferred lease revenue in the amount of \$56,490,862 at December 31, 2017 will be reduced annually by the amount of rental income revenue recognized over the term of the lease. During the year ended December 31, 2017, the Redevelopment Authority recognized \$7,458,849 of rental income.

The present value of the future minimum lease payments at December 31, 2017 is as follows:

Year Ending December 31,	Amount
2018	\$ 577,136
2019	540,800
2020	505,940
2021	473,260
2022	442,340
2023-2027	2,019,764
2028-2032	1,591,376
2033	42,020
Total	<u>\$ 6,192,636</u>

15. Settlement with Suburban Municipalities

The City had an agreement to transport and treat sewage for several suburban municipalities, from whom the City collected fees for such transportation and treatment. The suburban municipalities alleged that the City had overcharged for at least 10 years, evidenced by the alleged excessive transfer of "administrative fees" from the sewer fund into the City's General Fund. The municipalities claimed they were owed approximately \$15 million in reimbursement. The Receiver, with the cooperation and agreement of the suburban municipalities, through their counsel, negotiated a compromise of the claim and other amounts that might be owed to the suburban municipalities as a result of the overcharging of sewer rates. In settlement of these claims, in addition to the City's agreement to credit certain amounts as part of the suburban municipalities' prospective financial commitments to the comprehensive overhaul of the sewer system, the City will make payments to the suburban municipalities pursuant to the following payment schedule.

<u>Year Ending December 31,</u>	
2018	\$ 1,000,000
2019	<u>225,000</u>
	<u><u>\$ 1,225,000</u></u>

16. Pension Plans

Primary Government

Plan Description and Administration

The City has four defined benefit pension plans. Two of the plans, Non-uniformed Employees' Plans A and B, are controlled by provisions of Ordinance-Bill No. 49-1984, adopted pursuant to Act 15. On January 2, 2002, the assets of Plans A and B were combined, but the requirements for eligibility and benefits remain separate. The Combined Firefighters' Plan is controlled by provisions of Ordinance-Bill No. 44-2002. For these plans, the City contributes to the PMRS. The remaining plan, the Combined Police Pension Plan, was established January 1, 1999 under Ordinance-Ordinance No. 21 of 1998 and is controlled by the provisions of Ordinance No. 5 of 2001, as amended. This ordinance withdrew the Police Officers' Plan A and Police Officers' Plan B from PMRS, and established an amended and restated pension plan for police officers of the City. The Combined Police Pension Plan is a single-employer pension plan and is controlled by a separate independent board of trustees.

The plans have been established to cover substantially all full-time employees. Employees become eligible for participation in a plan immediately upon employment and become fully vested after 20 years of service for Non-uniformed Employees' A Plan, 10 years for Non-uniformed Employees' B and Combined Firefighters' Plans, and 20 years for the Combined Police Pension Plan. The plans have been established by City ordinance in accordance with the authority for municipal contributions required by Act 205-1984 (Act 205) of the Pennsylvania legislature, as amended by Act 189-1990. The plans require covered employees to contribute a percentage of total compensation.

PMRS issues a separate Comprehensive Annual Financial Report (CAFR), which may be obtained by writing to the Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

In addition, the City of Harrisburg Police Pension Board issues a separate publicly available financial report that includes financial statements and required supplementary information for the Combined Police Pension Fund. That report may be obtained by writing to the City of Harrisburg Police Pension Board, The Reverend Dr. Martin Luther King, Jr. City Government Center, 10 North Second Street, Harrisburg PA 17101 or by calling 717-255-6507.

The Combined Police Pension Plan is governed by the City of Harrisburg Police Pension Board, which consists of three persons appointed by the City, three persons appointed by the representatives of the Members' collective bargaining unit, and a neutral person appointed by a majority of the first six representatives. The City of Harrisburg Police Pension Board is responsible for the management of the Combined Police Pension Plan assets, appointment of the Combined Police Pension Plan trustee or custodian, and selection of investment advisors and managers.

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the Combined Police Pension Plan and funded through investment earnings.

Benefit Provisions

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act (Act 205), grants the authority to establish and amend the benefit terms of the Non-uniformed Employees' Plan A and B and Combined Firefighters' Plan to City Council. As outlined in Ordinance No. 21 of 1998, as amended by Ordinance No. 5 of 2001, the authority to establish and amend benefit provisions of the Combined Police Pension plan rests with the participants' collective bargaining unit and the City's administration. It then must be approved by the Board of the Combined Police Pension Plan and ratified and enacted by City Council.

The benefits provided by the plans differ by employment group and are based upon average compensation and length of service. Normal benefits are calculated at 2.5% per year of credited service multiplied by the final average annual salary for the Non-uniformed Employees' A and Combined Firefighters' plan. In no case may the benefit exceed 50% of the final average annual salary. The benefits provided by the Non-uniformed Employees' B plan are calculated at 2.0% per year of credited service multiplied by the final average annual salary. In no case may the benefit exceed 75% of the final average annual salary. For participants of the Combined Police Pension Plan, participants are eligible for normal retirement after attainment of age 50. For participants of the Combined Police Pension Plan hired after September 2013, participants are eligible for normal retirement after attainment of age 50 and completion of 20 years of service. The benefits provided by the Combined Police Pension Plan are calculated at 50% of the participant's average monthly compensation, plus an incremental pension equal to 2.5% of the average monthly compensation for each complete year of service in excess of 20 years, up to a maximum of 65% of average monthly compensation for participants who complete 26 years of service. An additional 5% of average monthly compensation is added to participants who complete 27 years of service, up to a maximum monthly pension of 70% of average monthly compensation. Effective September 2013, the benefit provisions of the Combined Police Pension Plan for new hires were changed to decrease the maximum monthly pension to 50% of average monthly compensation plus an incremental pension equal to 1/40th of the pension for each complete year of service in excess of 20 years and before age 65, up to a maximum of \$100 per additional month. The Combined Police Pension Plan defines average monthly compensation as the final annualized basic compensation rate, including longevity payments, or the average monthly compensation, including longevity payments, received during the last five years of employment, if higher.

The plans provide retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plans.

In addition, Non-uniformed Employees' Plan A is closed to new entrants.

Contributions

Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's bi-annual actuarial valuation.

Contributions by the City are determined under the entry age normal method. Unfunded past service liability is amortized over the average future service of active participants.

Employee contributions to the plan are based on a percentage of compensation. There are no active employees of the Non-uniformed plan A at December 31, 2017. Non-uniformed employees are required to contribute 5% of annual compensation for plan B, currently reduced to 4%. Fire and police employees contribute 5% of annual compensation plus \$1 per month. An interest rate of 5.25% is applied to the non-uniformed and fire employees' accounts. Employees' accumulated contributions plus interest (if applicable) will be returned upon termination or death if no other benefits are payable under the plan. As outlined in Ordinance No. 21 of 1998, as amended, the authority to make amendments to the contribution rate of the Combined Police Pension Plan participants rests with the participants' collective bargaining unit and the City's administration. It then must be approved by the Board of the Combined Police Pension Plan and ratified and enacted by City Council. The plans are also eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the City in accordance with Act 205.

The Commonwealth of Pennsylvania allocates foreign fire and casualty insurance premium collections to aid individual municipalities. The monies received must be contributed to the pension plans or used to pay debt service on unfunded pension liability bonds. Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the annually required contribution. During the year ended December 31, 2016, the City made a contribution of \$280,858 to the Combined Firefighters' Pension Plan. The MMO for the year ended December 31, 2016 was \$280,858. During the year ended December 31, 2017, the City made the minimum municipal obligation contribution of \$327,146 to the Combined Firefighters' Pension Plan. The 2017 contribution is reported as a deferred outflow of resources at December 31, 2017. The City made the minimum municipal obligation contribution of \$3,319,118 to the Combined Police Pension Plan for the year ended December 31, 2017.

Contributions are recognized when due as required by Act 205.

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Plan Membership

Membership related to the Non-uniform Employees' and Combined Firefighters' Plans at December 31, 2016 and membership related to the Combined Police Plan at December 31, 2017 consisted of the following:

	Non-Uniformed Employees'	Combined Firefighters'	Combined Police
Active members	180	72	132
Inactive members or beneficiaries currently receiving benefits	204	131	213
Inactive members entitled to but not yet receiving benefits	31	1	2
	<u>415</u>	<u>204</u>	<u>347</u>

Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of the City for the year ended December 31, 2017 were as follows:

Non-uniformed Employees' Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	\$60,419,220	\$69,788,087	\$ (9,368,867)
Changes for the year:			
Service cost	724,376	-	724,376
Interest	3,252,606	-	3,252,606
Changes of assumptions	1,595,806	-	1,595,806
Changes from experience	(828,876)	-	(828,876)
Contributions - employer	-	144	(144)
Contributions - member	-	332,840	(332,840)
Investment income	-	5,307,177	(5,307,177)
Benefit payments, including refunds	(4,065,011)	(4,065,011)	-
Administrative expenses	-	(205,486)	205,486
Net changes	<u>678,901</u>	<u>1,369,664</u>	<u>(690,763)</u>
Balances at December 31, 2017 (based on the measurement date of December 31, 2016)	<u>\$61,098,121</u>	<u>\$71,157,751</u>	<u>\$ (10,059,630)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>116.5%</u>

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The net pension asset of the Non-uniformed Employees' Pension Plan is allocated between the governmental activities and the business-type activities in the amounts of \$7,728,813 and \$2,330,817, respectively, at December 31, 2017.

Combined Firefighters' Pension Plan:

	Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	\$67,341,475	\$69,259,543	\$ (1,918,068)
Changes for the year:			
Service cost	1,093,507	-	1,093,507
Interest	3,660,185	-	3,660,185
Changes of assumptions	1,972,328	-	1,972,328
Changes for experience	(306,406)	-	(306,406)
Contributions - employer	-	280,858	(280,858)
Contributions - member	-	262,850	(262,850)
Investment income	-	6,428,418	(6,428,418)
Benefit payments, including refunds	(3,823,520)	(3,823,520)	-
Administrative expenses	-	(199,487)	199,487
Net changes	<u>2,596,094</u>	<u>2,949,119</u>	<u>(353,025)</u>
Balances at December 31, 2017 (based on the measurement date of December 31, 2016)	<u>\$69,937,569</u>	<u>\$72,208,662</u>	<u>\$ (2,271,093)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>103.2%</u>

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Combined Police Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	\$92,939,765	\$75,079,690	\$17,860,075
Changes for the year:			
Service cost	1,504,157	-	1,504,157
Interest	7,309,215	-	7,309,215
Changes for experience	(2,624,640)	-	(2,624,640)
Changes of assumptions	2,659,196	-	2,659,196
Contributions - employer	-	3,319,118	(3,319,118)
Contributions - member	-	542,472	(542,472)
Investment income	-	11,643,216	(11,643,216)
Benefit payments, including refunds	(6,226,579)	(6,226,579)	-
Administrative expenses	-	(50,943)	50,943
Net changes	<u>2,621,349</u>	<u>9,227,284</u>	<u>(6,605,935)</u>
Balances at December 31, 2017	<u>\$95,561,114</u>	<u>\$84,306,974</u>	<u>\$11,254,140</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>88.2%</u>

Actuarial Assumptions

The total pension liability for the Non-uniformed Employees' Pension Plan and the Combined Firefighters' Pension Plan was determined by an actuarial valuation performed on January 1, 2017, with liabilities measured at December 31, 2016, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	5.25%
Projected salary increases	2.8% - 7.05%*
* includes inflation rate of 2.8%	
Post-retirement cost-of-living adjustments	2.8%, subject to plan limitations

Actuarial assumptions based on PMRS Experience Study for the period January 1, 2009 to December 31, 2013

Pre-retirement mortality:

Males: RP 2000 Male Non-Annuitant table projected 15 years with Scale AA
Females: RP 2000 Female Non-Annuitant table projected 15 years with Scale AA and then set back 5 years

Post-retirement mortality:

Males: RP 2000 Male Annuitant table projected 5 years with Scale AA
Females: RP 2000 Female Annuitant table projected 10 years with Scale AA

For the Combined Police Pension Plan, the total pension liability was measured as of December 31, 2016 and was determined by the January 1, 2017 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year end.

The January 1, 2017 actuarial valuation for the Combined Police Pension Plan used the entry age normal actuarial cost method and IRS 2017 Static Combined Table for Small Plans mortality table. The actuarial assumptions include: a) 8.00% investment rate of return, b) a projected salary increase of 5.00%, c) 3.00% inflation rate, d) level dollar closed amortization method, and e) 11-year remaining amortization period.

Changes in Actuarial Assumptions – The actuarial assumptions for the Non-uniformed Employees' Pension Plan and the Combined Firefighters' Pension Plan noted above were used for the prior measurement date of December 31, 2015 except for investment return assumption for municipal assets decreased from 5.50% to 5.25%.

The actuarial assumptions for the Combined Police Pension Plan noted above were used for the prior measurement date of December 31, 2016, except that the mortality table

was updated from the RP-2000 Table for Males and Females to the IRS 2017 Static Combined Table for Small Plans.

Investment Policy - The Combined Police Pension Plan’s policy in regard to the allocation of invested assets is established and may be amended by the Board of the Combined Police Pension Plan. The Board of the Combined Police Pension Plan seeks to achieve long-term growth of the Combined Police Pension Plan’s assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the Combined Police Pension Plan’s current and long-term pension obligations.

Long-Term Expected Rate of Return – The PMRS System’s (System) long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to this method used by the System and an in-depth description of the process, including the anticipated rate of return by asset class, can be found at www.pMrs.state.pa.us. Based on the four-part analysis, the PMRS Board established the System’s long-term expected rate of return at 7.5%. The rationale for the difference between the System’s long-term expected rate of return and the discount rate can be found at www.pMrs.state.pa.us.

The long-term expected rate of return on the Combined Police Pension Plan’s investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the Combined Police Pension Plan as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	46.0%	5.5% - 7.5%
International equity	25.0%	4.5% - 6.5%
Fixed income	25.0%	1.0% - 3.0%
Limited partnerships	3.0%	5.5% - 7.5%
Cash	1.0%	0.0% - 1.0%
	<u>100.0%</u>	

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2017, the annual money-weighted rate of return on Combined Police Pension Plan investments, net of investment expense, was 16.01%.

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Discount Rate – The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities’ total pension liability as of December 31, 2016 was 5.25%. The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System’s long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

The discount rate used to measure the total pension liability as of December 31, 2017 was 8.00% for the Combined Police Pension Plan. The Combined Police Pension Plan’s fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset) Changes in the Discount Rate – The following presents the net pension liability (asset) of the Plans, calculated using the discount rate described above, as well as what the Plan’s net pension liability (asset) would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Non-uniformed Employees'	\$ (2,973,876)	\$ (10,059,630)	\$ (16,071,601)
Combined Firefighters'	\$ 6,564,131	\$ (2,271,093)	\$ (9,598,786)

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Combined Police	\$ 21,399,076	\$ 11,254,140	\$ 2,663,114

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

For the year ended December 31, 2017, the City recognized pension expense of \$8,757,631 in the governmental activities and (\$1,286,127) in the business-type activities.

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Deferred Outflows of Resources:</u>		
Differences between expected and actual experience	\$ 1,402,914	\$ 404,855
City contributions subsequent to measurement date	327,146	-
Changes of assumptions	6,458,058	316,180
Net difference between projected and actual earnings on pension plan investments	<u>522,193</u>	<u>395,701</u>
Total deferred outflows of resources	<u><u>\$ 8,710,311</u></u>	<u><u>\$ 1,116,736</u></u>
<u>Deferred Inflows of Resources:</u>		
Differences between expected and actual experience	\$ 3,108,595	\$ 144,038
Changes of assumptions	<u>30,328</u>	<u>-</u>
Total deferred inflows of resources	<u><u>\$ 3,138,923</u></u>	<u><u>\$ 144,038</u></u>

The differences in the City's expected and actual experience and changes of assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between the projected and actual earnings on the pension plan investments is recognized over five years. City contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2018	\$ 3,908,468	\$ 623,042
2019	2,505,557	218,186
2020	655,390	190,813
2021	(1,825,173)	(59,343)
	<u>\$ 5,244,242</u>	<u>\$ 972,698</u>

17. Other Post-Employment Benefits

Plan Descriptions

In addition to the pension benefits described in Note 16, the City provides certain post-employment healthcare benefits to its retirees through one single-employer, defined benefit OPEB plan. However, within this one plan, there are four groups of employees with different types of benefits. A separate financial statement is not issued for the plan.

Police

Section 9 of the Basic Labor Agreement between the City of Harrisburg and the Fraternal Order of Police, Capital City Lodge No. 12, effective January 1, 2004, establishes retiree's eligibility for post-retirement life insurance and medical benefits.

Retired prior to December 31, 1991:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The City would pay the cost of coverage for the retiree, including spouse and dependents, from retirement until the retiree's Medicare eligibility. Upon reaching Medicare age, retiree must pay the full premium to continue coverage. If retiree dies, coverage for spouse and dependents continues until the spouse reaches Medicare eligibility. Currently, two retirees have been "grandfathered" and the City continues to pay for coverage after Medicare age.

Retire between January 1, 1992 and September 18, 2013:

Eligibility: Any officer that is eligible for the Combined Police Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree, including spouse and dependents.

Retire after September 19, 2013 and hired prior to September 18, 2013:

Eligibility: Any officer that is eligible for the Combined Police Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. Retirees and their dependents shall not be eligible for post-retirement health care if the retiree or dependent has available health care coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree less a percentage of the retiree's pension ranging from 2% to 5% until the retiree reaches Medicare age. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$260 to \$350 for a Medicare Supplement Plan.

Hired after September 18, 2013: Not eligible for post-retirement health benefits.

All police officers hired prior to January 1, 1987, and retiring subsequent to January 1, 1987, who have completed twenty (20) years of actual service may continue to participate in the City's group health insurance (including family coverage) in effect at the time of retirement as noted above provided that the retired employee or his/her spouse does not have alternative health care coverage in the following six areas: (a) physician services, (b) hospital services, (c) major medical, (d) dental, (e) vision, (f) prescription. In those areas where alternative health care coverage is available, the City is not required to provide coverage in that area.

Firefighters

Article 14, Section 2a and 2b and Article 15 of the Collective Bargaining Agreement between Local Union No. 428 of the International Association of Firefighters (AFL-CIO), effective January 1, 2006, establishes retiree's eligible for post-retirement medical and life insurance benefits, respectively.

Retired prior to December 31, 1986:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The retiree would pay the cost of coverage for the retiree and his or her spouse. If the retiree dies, the spouse may continue coverage. In such case, the spouse would pay for the full cost of coverage.

Retired between January 1, 1987 and December 31, 1992:

Eligibility: Any firefighter that is eligible for the Combined Firefighters' Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The City would pay the cost of coverage for the retiree. The retiree must pay for any additional coverage for his or her spouse and dependents. Upon reaching age 65, the City will provide supplemental coverage, major medical, and prescription unless prescription is provided by another agency. This benefit is for the retired firefighter only. If the retiree dies, the spouse may continue coverage, in which case the spouse would pay for the full cost of coverage.

Retire between January 1, 1993 and April 22, 2014:

Eligibility: Any firefighter that is eligible for the Combined Firefighters' Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree, including spouse through Medicare eligibility. Once Medicare eligible, the City will reimburse the retiree for the Medicare Part B premium. If the retiree dies, the City continues full coverage for the spouse and eligible dependents. If the firefighter dies in the line of duty, the City continues full coverage for the spouse and eligible dependents.

Retire after April 23, 2014 and hired prior to April 22, 2014:

Eligibility: Any firefighter that is eligible for the Combined Firefighters' Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. Retirees and their dependents shall not be eligible for post-retirement health care if the retiree or dependent has available health care coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree less a percentage of the retiree's pension ranging from 2% to 5% until the retiree reaches Medicare age with certain exceptions. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$260 to \$350 for a Medicare Supplement Plan. If the retiree dies, the City continues full coverage for the spouse and eligible dependents. If the firefighter dies in the line of duty, the City continues full coverage for the spouse and eligible dependents. Currently, four retirees have been "grandfathered" and the City continues to pay for coverage.

Hired after April 23, 2014: Not eligible for post-retirement health benefits.

Non-uniformed management employees:

An inter-office memo, distributed by the Mayor to City management employees, establishes retirees' eligibility for post-employment medical benefits.

Retire prior to August 4, 2002:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The retiree would pay the full cost of coverage for the retiree and his or her spouse. If the retiree dies, the spouse may continue coverage. In such case, the spouse and any eligible dependents would pay for the full cost of coverage. Currently, one retiree has been "grandfathered" and the City continues to pay the cost of full coverage.

Retire after August 5, 2002 and hired prior to January 31, 2008:

Eligibility: Any non-uniformed management employee who is eligible for the Non-uniformed Employees' Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical and prescription drug for the retiree and spouse. The retiree would pay for any additional coverage for eligible dependents. Retiree would pay for dental and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the City would pay the full medical and prescription drug premium for the spouse and the spouse would pay for coverage for any eligible dependents. Currently, there are two retirees and one active employee that are covered under the Police contract.

Retire after August 5, 2002 and hired after February 1, 2008:

Eligibility: Any non-uniformed management employee who is eligible for the Non-uniformed Employees' Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical coverage for the retiree. The retiree would pay for any additional coverage for spouse and any eligible dependents. Retiree would pay for prescription drug, dental, and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay the full cost of coverage.

Non-uniformed union employees:

Articles X, XI, and XII of the Collective Bargaining Agreement between the City and the Local 521 American Federation of State, County and Municipal Employees District Council 90, effective January 1, 2007, establish retirees' eligibility for post-retirement life insurance and medical benefits.

Retire prior to December 31, 1996:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The retiree would pay the cost of coverage for the retiree and his or her spouse and eligible dependents. If the retiree dies, the spouse may continue coverage. In such case, the spouse and any eligible dependents would pay for the full cost of coverage.

Retire between January 1, 1997 and December 31, 2001:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay fifty percent of the medical premium for single coverage. The retiree would pay the remaining fifty percent of the premium for single coverage. For any coverage other than single coverage, the retiree would pay the difference. Retiree would pay full premiums for prescription drug, dental, and vision. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

Retired between January 1, 2002 and May 30 2007, except between January 1, 2004 and April 30, 2004:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay sixty percent of the medical premium for single coverage. The retiree would pay the remaining forty percent of the premium for single coverage. For any coverage other than single coverage, the retiree would pay the difference. Retiree would pay full premiums for prescription drug, dental, and vision. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

Retired between January 1, 2004 and April 30, 2004:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay the cost of the medical coverage for the retiree. Retiree would pay for additional premiums for coverage for his or her spouse and eligible dependents. The City would pay for seventy-five percent of the coverage for prescription drug for the retiree. Retiree would pay for the remaining twenty-five percent of the coverage for prescription drug and for any additional coverage for his or her spouse and any eligible dependents. Retiree must pay for full coverage for dental and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

Retire between June 1, 2007 and September 18, 2013:

Eligibility: Non-uniformed union employee must be eligible for the Non-uniformed Employees' Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up

life insurance in the amount of \$5,000 for the retiree only. If the retiree has attained age 60 and completed 20 years of service, the City pays 100% of medical premium for single coverage. The City would pay the full cost single coverage for medical or a percentage thereof based on the retiree's age and years of service. If retiree is disabled after completion of 20 years of service, attained age 55 and completed 20 years of service, or attained age 65 and completed 15 years of service, the City would pay 60% of premium for single coverage. Otherwise, retiree would pay for full cost of coverage. For any coverage other than single, the retiree would pay the difference in the premiums. Retirees would pay for prescription drug, dental, and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

Retire between September 19, 2013 and December 31, 2014:

Eligibility: Non-uniformed union employee must be eligible for the Non-uniformed Employees' Pension Plan benefits and satisfy the Rule of 85 Window requirements as of December 31, 2013.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. If the retiree has attained age 55 as of December 31, 2013, the City pays full medical premiums for single coverage until the retiree reaches Medicare age. If the retiree has not attained age 55 as of December 31, 2013, the City pays 60% of the medical premium for single coverage until the retiree reaches Medicare age. For any coverage other than single, the retiree must pay any difference between the premiums. The retiree must pay the full premium of prescription drug, dental, and vision coverage. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$260 to \$350 for a Medicare Supplement Plan.

Retire after September 19, 2013 and hired prior to September 18, 2013 (not under the Rule of 85 Window):

Eligibility: Non-uniformed union employee must be eligible for the Non-uniformed Employees' Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of

\$5,000 for the retiree only. If retiree has attained age 60 and completed 20 years of service, the retiree shall pay an amount equal to the amount which the employee would pay for individual coverage as of the date of retirement. The City pays 60% of the cost of health insurance for employees retiring on or after January 1, 2002 with 20 or more years of service or at least 15 years of service at age 65. Upon reaching Medicare eligibility, the retiree shall be eligible only for Medicare supplement reimbursement schedule. Otherwise, the retiree would pay 100% of the medical premium for single coverage. For any coverage other than single, the retiree must pay any difference between the premiums. Retirees must pay full premium for prescription drug, dental, and vision coverage. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$260 to \$350 for a Medicare Supplement Plan. Retirees and their dependents shall not be eligible for post-retirement health care if the retiree or dependent has available health care coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost.

Hired after September 18, 2013: Not eligible for post-retirement health benefits.

Effective for the period beginning January 1, 2017 and through December 31, 2018, any employee who would meet a Rule of 80 (combination of employee's age and years of service totaling 80) by no later than December 31, 2018 shall be eligible for normal retirement without applying an early retirement reduction. Those employees retiring under this early retirement window and the Rule of 80 will not receive post-retirement healthcare unless they qualify under the existing post-retirement healthcare provisions as found in the current collective bargaining agreement.

Funding Policy and Annual OPEB Costs

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2017, the City contributed \$6,380,080 to the OPEB Plan.

The City has opted to not fully fund the OPEB contributions and will continue to fund the annual OPEB costs on a pay-as-you-go basis.

The City pays the cost of coverage for the police, fire, non-uniform management, and non-uniform union retirees (including dependents) based on the various criteria described above.

The City's annual OPEB costs are calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize

any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2016
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5.0%
Amortization period	30 year open period
Healthcare cost trend rate	6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020, rates gradually decrease from 5.4% in 2021 to 3.8% in 2075

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Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB costs and net OPEB obligations to the Plan for the year ended December 31, 2017 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 11,046,914	\$ 683,609	\$ 11,730,523
Interest on net OPEB obligation	3,404,845	237,802	3,642,647
Adjustment to ARC	(4,645,077)	(324,422)	(4,969,499)
Annual OPEB cost	9,806,682	596,989	10,403,671
Contribution made	(6,004,999)	(375,081)	(6,380,080)
Change in Net OPEB Obligation	3,801,683	221,908	4,023,591
Net OPEB Obligation, beginning	76,535,905	4,606,425	81,142,330
Net OPEB Obligation, ending	<u>\$ 80,337,588</u>	<u>\$ 4,828,333</u>	<u>\$ 85,165,921</u>

During the year ended December 31, 2013, sewer operations were transferred to CRW and the sewer fund was eliminated. While the City still retains the OPEB liability for sewer retirees, through the shared services agreement, CRW has agreed to reimburse the City for these costs. Therefore, the OPEB liability for sewer retirees has been transferred to governmental activities, with a related amount due from CRW.

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2017	\$ 10,403,671	61.48%	\$ 85,165,921
2016	10,494,816	58.22%	81,142,330
2015	9,020,316	62.67%	76,757,716

Funded Status and Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2016	\$ -	\$ 155,120,287	\$ 155,120,287	0.00%	\$ 18,398,262	843.12%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about

whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

18. Accumulated Deficits

Component Unit

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority's net position (deficit) at December 31, 2017 is related to the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998 bond issuance and the deferred lease revenue. The deferred lease revenue will be reduced annually by the amount of rental income revenue recognized over the term of the lease. The City guarantees the payment of the bond issuance.

19. Restatement

Primary Government

Beginning fund balance of the General Fund has been increased by \$1,009,774 (and nonmajor governmental fund fund balance decreased by a like amount) from the fund balance originally stated of \$36,611,653 to fund balance restated of \$37,621,427. The restatement was made to include the fund balance of six funds that the City had previously treated as special revenue funds, but which no longer met the requirements to be reported as special revenue funds.

Component Unit

Redevelopment Authority of the City of Harrisburg

Beginning net position of the Redevelopment Authority has been decreased by \$25,000 from (\$32,148,801) to (\$32,173,801). Net position was restated to properly account for advance payments from the Pennsylvania National Fire Museum related to a purchase option contained in the lease agreement.

20. Financial Recovery Plan

For several years, the City had been exploring various options to close its structural budget gap and address its Resource Recovery Facility debt issue. In 2008, the City

applied for and was awarded a \$100,000 Pennsylvania Department of Community and Economic Development Act 47 Early Intervention Program Grant to develop a Management and Financial Audit and Five-Year Financial Plan. During 2009, the City hired a national management consulting firm to conduct a thorough review of the City's finances and operations and to develop the Plan. An Emergency Financial Plan and Five-Year Plan (Plan) was issued in March 2010 and implementation immediately began. Due to City Council's failure to adopt the Plan, the Administration filed a Petition for Determination of Municipal Financial Distress on October 1, 2010 under Pennsylvania's Municipalities Financial Recovery Act of 1987 (Act 47). The City was accepted into the Act 47 program on December 15, 2010. The Act 47 program allowed the City to obtain assistance from the Commonwealth of Pennsylvania in developing a new financial recovery plan. A Municipal Financial Recovery Act Recovery Plan (Recovery Plan) was submitted by the Act 47 coordinator to the City on June 13, 2011. City Council rejected the Recovery Plan in July 2011. Immediately thereafter, and pursuant to Act 47, the Mayor became the Act 47 coordinator. As such, she developed her own Plan and submitted it to City Council on August 2, 2011. City Council rejected this second Plan on August 31, 2011. The Mayor submitted an amended version of her Plan to City Council, but Council rejected this amended Plan on September 13, 2011.

Pennsylvania's governor signed legislation on October 20, 2011 authorizing the State to declare a fiscal emergency in Harrisburg. On November 18, 2011, a Receiver was appointed under this legislation to implement a preliminary Recovery Plan and take control of the City's finances. The Receiver unveiled his Recovery Plan for the City on February 6, 2012. The full Recovery Plan and subsequent status reports related thereto can be viewed at <http://dced.pa.gov/download/harrisburg-strong-plan-pdf/?wpdmdl=57498>. The Recovery Plan was approved by the Commonwealth Court on March 9, 2012.

In the Recovery Plan, the Receiver indicated that the City's financial distress is a very complicated problem. He further indicated that it cannot be solved easily or quickly. He identified three primary challenges to be addressed in connection with the fiscal recovery of the City: first, the extraordinary amount of debt related to CRW's Resource Recovery Facility (Incinerator) which the City guaranteed; second, the City's structural budget deficit (the amount by which the City's operating expenditures consistently exceed its revenues); and third, filling of the Business Administrator/Chief of Staff position (termed Chief Operating Officer in the Plan) which had been vacant since January 2011, to lead and manage the entire staff and oversee the implementation of the Receiver's Recovery Plan Initiatives.

To address the burden of the Incinerator debt, the Receiver called for the possible sale and/or long-term lease of the Incinerator and separate parking facilities owned and operated by the Authority. The Recovery Plan also assumed the potential for so called "stranded debt" (the amount of debt remaining after the proceeds of the sale or lease

of assets was applied to the Incinerator debt) and set forth contributions to be made by various stakeholders. Since the contributions required from stakeholders could not be determined until the value of the assets was known, CRW and the Authority were directed to participate in a Request for Qualifications and Proposals (RFQ&P) process to determine interested parties with respect to two sets of assets: the Incinerator and parking facilities. Unrelated to the Incinerator debt problem, CRW was also directed to undertake an RFQ&P process for management and operation of its water and wastewater assets.

With these processes, the Receiver, with the advice of the relevant entity, would then be in a position to negotiate with one or more offerors and, ultimately, with the various stakeholders regarding any stranded debt or other issues related to the asset transactions. Both entities have since undertaken these processes. The Receiver was authorized under Act 47 to proceed with all transactions related to the assets of the City and the entities, and to cause the sale, lease, conveyance, assignment or other use or disposition of those assets.

To address the City's structural budget deficit, an annual gap in excess of \$11 million as estimated by the Receiver, the Recovery Plan called for a combination of concessions from the labor unions, an increase in the resident Earned income Tax (EIT), service efficiencies, and additional revenues from fees and outside sources. During October 2012, City Council approved a 1% increase in the EIT effective January 1, 2013, and an Act 47 grant funded fee study was completed, with certain of the study's proposed fee increases being considered for approval by City Council in 2013.

Having achieved a comprehensive solution indicating consensual agreements with stakeholders, the Receiver filed a modified recovery plan with the Commonwealth Court on August 26, 2013 entitled the "Harrisburg Strong Plan." In the days leading to this filing, City Council took action on various issues related to the sale of the Incinerator, Parking System monetization, earned income tax rate extension through 2016, and Fraternal Order of Police (FOP) and American Federation of State, County and Municipal Employees (AFSCME) labor contracts concession amendments.

A hearing was held before the Court on September 19, 2013, at which counsel for the Mayor, City Council, Dauphin County, Assured Guaranty Municipal Assurance Corporation (AGM), and the suburban communities all stated support for the Harrisburg Strong Plan. On September 23, 2013, the Court issued an Order confirming the Harrisburg Strong Plan and directed its implementation in accordance with the terms of the Plan.

As of March 1, 2014, the City is no longer in receivership.

The City Council adopted a Modified Recovery Plan of the Act 47 Coordinator on April 27, 2016 that included an extension of both the increased Local Services Tax and the increased EIT through December 31, 2018, which had been set forth in the annual proposed budget revenue and expenditures projections by the Coordinator. The Modified Recovery Plan, including the increased tax rates, was approved by the Commonwealth Court of Pennsylvania on July 20, 2016.

An Exit Plan process was legislated by amendments to Act 47 approved in 2014. The Coordinator for the City filed the newly required Financial Condition Report on March 22, 2018 recommending the City receive a three-year extension of its “distressed municipality” status. This was to be done through an Exit Plan to be prepared by the Coordinator. The process for review and adoption of an Exit Plan for the City is underway.

21. Commitments and Contingencies

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services.

Primary Government

Federal and State

Under the terms of federal and state grants, periodic audits and compliance reviews are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits and compliance reviews could lead to reimbursement to the grantor agencies.

Construction Commitments

At December 31, 2017, the City has a contractual commitment for projects of approximately \$7 million.

Transfer and Transition Agreement and Shared Services Agreement

In November 2013, the City and CRW entered into a transfer agreement related to the Sewer Collection System (transfer agreement) and a transition agreement related to the Water, Wastewater, and Stormwater Systems (transition agreement). In conjunction with the transfer and transition agreements, the City and CRW entered into a shared services agreement whereby the City agreed to perform certain services with respect to

and for the benefit of the water system and combined sewer system and CRW agreed to perform certain services with respect to and for the benefit of the City's Neighborhood Services Fund, Green Infrastructure Projects, and other initiatives. The services performed by the City under the shared services agreement relate to payment processing services, information technology services, operations and revenue services, and public works services. The services performed by CRW under the shared services agreement include revenue billing and collection functions for the City's Neighborhood Services Fund including the implementation of a lockbox system. As of April 2015, CRW opened their own office for billing and collections and no longer used any of the City's information technology services or operations and revenue services. Each of these services, including the term of the services, is detailed in a shared services schedule incorporated into the shared services agreement.

The City and CRW, in advance of performing the services, are to prepare a budget for the total cost of the services and the total cost is to be agreed upon by both parties. Within 60 days after the end of the term of each shared service, the City and CRW are to reconcile the actual costs of providing the services to the budgeted costs. Payments due to either the City or CRW are payable within 30 days of the finalization of the reconciliation. During the year ended December 31, 2017, the City and CRW were billed based on pay-as-you-go expenditures incurred for OPEB costs related to water and sewer retirees and certain receivables and payables have been recorded based on these amounts. A reconciliation based on actual cost incurred from the date of transfer through December 31, 2017 is still being negotiated and any changes will be made prospectively.

Component Unit

Harrisburg Downtown Improvement District, Inc.

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.

Guarantees

The City is contingently liable under various agreements which guarantee debt of entities not included in the primary government's financial statements aggregating \$21,806,429 at December 31, 2017, all of which is for guarantees of component unit

debt, and maturing at various dates through 2033. Information regarding the component unit debt guarantees is discussed in Note 10.

22. Compliance

Primary Government

Management of the City believes that the City has complied, in all material respects, with all applicable finance related legal and contractual provisions including applicable covenants of bond indentures, except as noted below.

The City has issued multiple notices of material events with EMMA with respect to its inability to make required debt service payments with respect to the City's General Obligation Refunding Bonds and Notes, Series D and F of 1997 for the years ended December 31, 2012 through 2017.

23. Litigation

The City and its component units are involved in several lawsuits. Management of each entity believes that none of the litigation outstanding against the City or its component units will have a material adverse effect on the financial position of the City or its component units at December 31, 2017. The City has accrued for such cases that it believes are estimable and probable.

Primary Government

Several contractors that provided construction services to the developer of the Capital View Commerce Center (CVCC Project) have asserted claims against the City and a financial institution (Bank), both of which were involved in financing for the CVCC Project. Plaintiff contractors claim that they have not been paid by the developer of the CVCC Project and that, on a variety of legal theories, they are entitled to payment directly by the City and the Bank. The City has asserted preliminary objections to the contractors' claims, including that the Court lacks jurisdiction and that the claims asserted by the plaintiff contractors have no legal merit. The City's preliminary objections have been briefed and argued to the Court, which has not indicated when it will render its decision. At this point, the City is unable to state whether an outcome unfavorable to the City is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome. Legal Counsel for the contracting companies did issue a letter query in 2017 on reviving the matter for discussion of resolution. The City believes it has no likely exposure on these stale claims.

A paving contractor that performed a major street paving project for the City in 2008 is seeking damages in the form of a price escalation clause that they allege was incorporated into the contract. The City has taken the position that the contractor was bound to the prices included in their bid, and that there was no price escalation clause in the contract. The City has responded to the plaintiff's requests for discovery. The plaintiff filed a motion for summary judgment, to which the City filed a response. The Court ruled in the City's favor denying the plaintiff's motion for summary judgment by Order of Court dated May 19, 2011. Because of the bankruptcy filing of City Council in October 2011, and subsequently due to the confirmation of a Receiver, the contractor and the City agreed to a temporary stay in this case until September 2012. Since September 2012, the plaintiff has made no attempt to lift the stay. The City has and will continue to vigorously defend this lawsuit and believes it is reasonably possible that the City will prevail. This case amounts to approximately \$250,000. Legal Counsel for the contractor issued a letter notice in 2017 seeking to revive the claim. Should the stale matter be allowed to proceed, it will be likely decided on a contract interpretation or procedural issue. No additional judicial filings have been made in the matter.

The United States Environmental Protection Agency (EPA) had issued an order against the City under the Clean Water Act requiring the City to provide certain information in response to EPA inquiries into the issues involving what were the City's combined sewer overflows and its municipal separate storm water system program. The EPA considered the City to be in violation of the Clean Water Act and other regulatory mandates. The City, CRW, the EPA, and the Pennsylvania Department of Environmental Protection have entered into a Partial Settlement Agreement of those claims, which has been lodged in the U.S. District Court for the Middle District of Pennsylvania, wherein the City is not required to pay any federal or state fines or penalties. This matter remains an open Consent Decree. The City anticipates that it will be permitted to be released from the partial Consent Decree as all remaining related issues are within the control of CRW.

An extraordinary series of holes in the street and on the private property of homeowners suddenly appeared starting in February 2014. Issues of liability for a utility collapse/water main break versus other causes of these events have been the subject of engineering reviews and analysis. The cost of restoration of the street and abatement of the underlying fissures are projected to be more than \$4,000,000, while the overall cost of public acquisition and demolition of 53 homes impacted by the matter has been estimated to exceed \$6,000,000. The City has secured Federal and State disaster relief funding, as well as other public grant funds to underwrite the acquisition of the properties and the requisite relocation costs of property owners and tenants. Identification of additional funding sources to complete the required remediation and demolition of the area remains underway, which is anticipated to represent more than \$2,000,000 of the overall sinkhole project costs. Acquisition and demolition are expected to be completed in 2018. While the issues related to the sinkhole originally were considered to create a litigation risk, any such risk now appears de minimus.

The City is a party to a series of related legal actions arising from the collapse of a privately-owned wall onto a neighboring property. While the City does not view a likelihood of fiscal exposure in terms of liability, the nature of the matter presents numerous uncertainties that could create future fiscal risk to the City in litigation-related expenses. The City has accrued \$250,000 on the matter as a likely cost arising from the litigation.

The City is a party to an Ordinance challenge in a federal district court proceeding on First Amendment grounds for protests in front of women's health clinics. The likely costs and risks associate with such proceedings are not insubstantial, but are not yet estimable. Nonetheless, the City anticipates the case will require the use of litigation-related resources over several years, with expenses to date already exceeding \$150,000.

The City is defending ongoing claims by a property owner alleging that rates for the collection and disposal of solid waste and recycling are impermissible, which they now seek to convert to a class action with a demand for disgorgement of funds collected. The City will continue to defend the action. The matter is complex litigation that the City anticipates will require the use of litigation-related resources over several years.

The City received a notice of claim related to the claims of wrongful death arising from a boating accident at the Dock Street Dam in May 2018. A mother and child died after a motor boat smashed into the dam after dark. The operator has been criminally charged related to the deaths. The City was notified that additional signage and buoy requirements are necessary and a review of dam safety issues is underway.

The City received a notice of claim related to a claim for wrongful death of a motorcyclist arising from a 2018 intersection collision with a police vehicle. The matter remains under review.

24. Subsequent Events

Subsequent events with respect to material event notices with EMMA and debt related items are included in the respective notes.

In April 2018, the City entered into a \$2 million loan agreement with the Commonwealth of Pennsylvania Department of Transportation Infrastructure Bank for the purpose of restoring, repairing, and improving City streets. The loan requires annual payments of principal and interest for 10 years and bears interest at 2.125%.

In April 2018, the City entered into two lease agreements for the purchase of certain equipment totaling \$584,115 and \$955,716. The leases require quarterly principal and

interest payments of \$32,397 and \$52,854, respectively, for five years and bear interest at 4.066%.

25. Extraordinary Item – Harrisburg University (HU) Settlement

Component Unit

Harrisburg Parking Authority

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. During the year ended December 31, 2017, the Authority received as settlement in the amount of \$613,506 from HU. The settlement was payment on a 2013 note receivable entered into as a result of the Agreement referenced in Note 1. The note receivable was deemed uncollectible by the Authority's management during the year ended December 31, 2013. The amount received of \$613,506 represents the \$500,000 note receivable balance and accrued interest of \$113,506.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE
BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2017
REQUIRED SUPPLEMENTARY INFORMATION

	Budget		Variance of Original with Final Budget Positive (Negative)	Actual Amounts	Variance of Actual with Final Budget Positive (Negative)
	Original Amounts	Final Amounts			
Revenues					
Taxes	\$ 40,941,743	\$ 40,941,743	\$ -	\$ 44,715,226	\$ 3,773,483
Licenses and permits	644,244	644,244	-	709,247	65,003
Intergovernmental revenue	4,273,142	4,273,142	-	3,900,538	(372,604)
Departmental earnings	10,523,167	10,647,659	124,492	11,179,189	531,530
Fines and forfeits	733,000	733,000	-	865,222	132,222
Investment income	1,903,452	1,903,452	-	1,873,456	(29,996)
Miscellaneous	2,844,754	3,352,985	508,231	3,538,223	185,238
Total revenues	<u>61,863,502</u>	<u>62,496,225</u>	<u>632,723</u>	<u>66,781,101</u>	<u>4,284,876</u>
Expenditures					
General government					
Elected and appointed offices					
City Council	415,742	416,195	(453)	331,116	85,079
Mayor	242,363	242,363	-	215,802	26,561
City Controller	162,723	162,723	-	148,435	14,288
City Treasurer	426,081	426,081	-	342,794	83,287
City Solicitor	697,765	762,661	(64,896)	578,483	184,178
Total elected and appointed offices	<u>1,944,674</u>	<u>2,010,023</u>	<u>(65,349)</u>	<u>1,616,630</u>	<u>393,393</u>
Office of administration					
Administration	3,529,179	4,296,821	(767,642)	3,173,962	1,122,859
General expenditures	15,199,051	15,442,549	(243,498)	14,253,702	1,188,847
Total general government	<u>20,672,904</u>	<u>21,749,393</u>	<u>(1,076,489)</u>	<u>19,044,294</u>	<u>2,705,099</u>
Community and economic development	1,874,264	1,983,223	(108,959)	1,585,358	397,865
Public safety	27,721,523	28,214,196	(492,673)	25,475,591	2,738,605
Public works	7,195,036	8,713,100	(1,518,064)	5,301,235	3,411,865
Total expenditures	<u>57,463,727</u>	<u>60,659,912</u>	<u>(3,196,185)</u>	<u>51,406,478</u>	<u>9,253,434</u>
Excess of revenues over (under) expenditures before other financing sources (uses)	<u>4,399,775</u>	<u>1,836,313</u>	<u>(2,563,462)</u>	<u>15,374,623</u>	<u>13,538,310</u>
Other financing sources (uses)					
Sale of assets	-	-	-	27,412	27,412
Transfers in	202,458	2,918,207	2,715,749	330,623	(2,587,584)
Transfers out	(9,190,136)	(13,741,006)	(4,550,870)	(13,469,098)	271,908
Total other financing sources (uses)	<u>(8,987,678)</u>	<u>(10,822,799)</u>	<u>(1,835,121)</u>	<u>(13,111,063)</u>	<u>(2,288,264)</u>
Net change in fund balance	(4,587,903)	(8,986,486)	(4,398,583)	2,263,560	11,250,046
Fund balance - beginning of year, budgetary basis - restated	<u>4,645,988</u>	<u>11,721,818</u>	<u>7,075,830</u>	<u>32,474,534</u>	<u>20,752,716</u>
Fund balance - end of year, budgetary basis	<u>\$ 58,085</u>	<u>\$ 2,735,332</u>	<u>\$ 2,677,247</u>	<u>\$ 34,738,094</u>	<u>\$ 32,002,762</u>

CITY OF HARRISBURG, PENNSYLVANIA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2017**

REQUIRED SUPPLEMENTARY INFORMATION

1. Budgetary Data

Annual budgets are legally adopted for the General Fund (which includes the Neighborhood Mitigation Fund, Special Events Fund, Fire Protection Fund, Police Protection Fund, Parks and Recreation Fund, WHBG-TV Fund, and Events Fund), Debt Service Fund, Neighborhood Services Fund, and the following nonmajor governmental funds: State Liquid Fuels Tax Fund and Host Municipality Fees Fund. Budgets for governmental funds are prepared on a cash basis. Specific funds exempted from legally adopted budgetary requirements include:

- Grant Programs Fund
- Capital Projects Fund (nonmajor governmental fund)
- Parks and Property Improvement Fund (nonmajor governmental fund)
- Harrisburg Senators Fund

Several different grant programs, which are accounted for in the Grant Programs Fund, are administered under project budgets determined by contracts with state and federal grantor agencies. Effective expenditure control is achieved in the Capital Projects Fund through debt provisions and supplemental appropriations of City Council. Control over spending in the Parks and Property Improvement Fund is achieved through the use of internal spending limits.

The actual results of operations, presented in accordance with accounting principles generally accepted in the United States of America, differ from the budgetary basis used in preparation of the 2017 budget for governmental funds. The budget for the General Fund was prepared on a cash basis. For the purpose of preparing the Budgetary Comparison Schedule – Budgetary (Non-GAAP) Basis – General Fund, the actual results of operations have been presented on a budgetary basis consistent with the City's budgeted revenues and expenditures.

CITY OF HARRISBURG, PENNSYLVANIA**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2017****REQUIRED SUPPLEMENTARY INFORMATION**

A reconciliation of the differences between the budgetary basis and GAAP basis financial statements of the General Fund is as follows:

	Fund Balance, Beginning of Year	Revenues	Expenditures	Financing Sources (Uses) and Special Items	Fund Balance, End of Year
Budgetary basis	\$ 32,474,534	\$ 66,781,101	\$ (51,406,478)	\$ (13,111,063)	\$ 34,738,094
Taxes receivable	14,223,851	40,268	-	-	14,264,119
Other assets	13,741,420	132,859	913,916	2,165,543	16,953,738
Accounts payable	(2,206,062)	(69,594)	(297,971)	-	(2,573,627)
Accrued liabilities	(667,146)	-	(74,981)	-	(742,127)
Advances and amounts due to other funds	(797,550)	-	2,330	-	(795,220)
Unearned and unavailable revenue	(19,147,620)	(1,436,080)	-	-	(20,583,700)
Reclassifications	-	(834,491)	(137,043)	971,534	
GAAP basis	<u>\$ 37,621,427</u>	<u>\$ 64,614,063</u>	<u>\$ (51,000,227)</u>	<u>\$ (9,973,986)</u>	<u>\$ 41,261,277</u>

* Beginning of year fund balance – budgetary basis was restated by \$1,235,338 to include the fund balance of six funds that the City had previously treated as special revenue funds, but which no longer met the requirements to be reported as special revenue funds.

2. Compliance

Because the legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within this document, the City has prepared a separate budgetary report to demonstrate compliance at the line item level. However, there were thirteen instances where the City' exceeded the budgeted expenditure amount on a line item level.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND
RELATED RATIOS - NON-UNIFORMED EMPLOYEES' PENSION PLAN
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2017	2016	2015
Total Pension Liability			
Service cost	\$ 724,376	\$ 737,701	\$ 1,126,817
Interest	3,252,606	3,244,391	2,971,992
Changes of assumptions	1,595,806	335,514	-
Benefit payments, including refunds	(4,065,011)	(4,242,451)	(4,075,097)
Differences between expected and actual experience	(828,876)	-	6,989,303
Transfers	-	-	(3,135,289)
Net Changes in Total Pension Liability	678,901	75,155	3,877,726
Total Pension Liability - Beginning	60,419,220	60,344,065	56,466,339
Total Pension Liability - Ending (a)	<u>\$ 61,098,121</u>	<u>\$ 60,419,220</u>	<u>\$ 60,344,065</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 144	\$ -	\$ 14,004
Contributions - plan member	332,840	388,780	199,463
Investment income (loss)	5,307,177	(414,677)	3,833,485
Benefit payments, including refunds	(4,065,011)	(4,242,451)	(4,075,097)
Administrative expense	(205,486)	(176,532)	(155,705)
Transfers	-	-	(3,135,317)
Net Change in Plan Fiduciary Net Position	1,369,664	(4,444,880)	(3,319,167)
Plan Fiduciary Net Position - Beginning	69,788,087	74,232,967	77,552,134
Plan Fiduciary Net Position - Ending (b)	<u>\$ 71,157,751</u>	<u>\$ 69,788,087</u>	<u>\$ 74,232,967</u>
Net Pension Asset - Ending (a-b)	<u>\$ (10,059,630)</u>	<u>\$ (9,368,867)</u>	<u>\$ (13,888,902)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>116.46%</u>	<u>115.51%</u>	<u>123.02%</u>
Employee Covered Payroll	<u>\$ 8,413,551</u>	<u>\$ 7,259,478</u>	<u>\$ 6,497,415</u>
Net Pension Asset as a Percentage of Employee Covered Payroll	-119.56%	-129.06%	-213.76%

* The amounts presented for each fiscal year were determined as of the measurement date, which is December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND
RELATED RATIOS - COMBINED FIREFIGHTERS' PENSION PLAN
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2017	2016	2015
Total Pension Liability			
Service cost	\$ 1,093,507	\$ 1,253,437	\$ 1,325,049
Interest	3,660,185	3,611,615	3,536,047
Changes of assumptions	1,972,328	(60,658)	-
Benefit payments, including refunds	(3,823,520)	(3,700,881)	(3,614,868)
Differences between expected and actual experience	(306,406)	-	241,776
Net Changes in Total Pension Liability	2,596,094	1,103,513	1,488,004
Total Pension Liability - Beginning	67,341,475	66,237,962	64,749,958
Total Pension Liability - Ending (a)	<u>\$ 69,937,569</u>	<u>\$ 67,341,475</u>	<u>\$ 66,237,962</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 280,858	\$ 358,000	\$ 22,130
Contributions - plan member	262,850	250,526	226,360
Investment income (loss)	6,428,418	(595,792)	4,191,372
Benefit payments, including refunds	(3,823,520)	(3,700,881)	(3,614,868)
Administrative expense	(199,487)	(169,934)	(154,993)
Net Change in Plan Fiduciary Net Position	2,949,119	(3,858,081)	670,001
Plan Fiduciary Net Position - Beginning	69,259,543	73,117,624	72,447,623
Plan Fiduciary Net Position - Ending (b)	<u>\$ 72,208,662</u>	<u>\$ 69,259,543</u>	<u>\$ 73,117,624</u>
Net Pension Asset - Ending (a-b)	<u>\$ (2,271,093)</u>	<u>\$ (1,918,068)</u>	<u>\$ (6,879,662)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>103.25%</u>	<u>102.85%</u>	<u>110.39%</u>
Employee Covered Payroll	<u>\$ 4,716,216</u>	<u>\$ 4,886,967</u>	<u>\$ 5,001,992</u>
Net Pension Asset as a Percentage of Employee Covered Payroll	-48.15%	-39.25%	-137.54%

* The amounts presented for each fiscal year were determined as of the measurement date, which is December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND
RELATED RATIOS - COMBINED POLICE PENSION PLAN
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2017	2016	2015	2014
Total Pension Liability:				
Service cost	\$ 1,504,157	\$ 1,564,700	\$ 1,490,190	\$ 1,542,107
Interest	7,309,215	7,106,970	6,895,688	6,403,162
Changes of assumptions	2,659,196	-	4,507,561	-
Benefit payments, including refunds	(6,226,579)	(6,008,655)	(5,630,072)	(5,351,314)
Differences between expected and actual experience	(2,624,640)	-	(753,653)	-
Net Changes in Total Pension Liability	2,621,349	2,663,015	6,509,714	2,593,955
Total Pension Liability - Beginning	92,939,765	90,276,750	83,767,036	81,173,081
Total Pension Liability - Ending (a)	<u>\$95,561,114</u>	<u>\$92,939,765</u>	<u>\$90,276,750</u>	<u>\$83,767,036</u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 3,319,118	\$ 2,906,315	\$ 2,972,450	\$ 2,424,298
Contributions - plan member	542,472	479,598	462,539	478,549
Investment income	11,643,216	4,175,445	586,944	4,082,703
Benefit payments, including refunds	(6,226,579)	(6,008,655)	(5,630,072)	(5,351,314)
Administrative expense	(50,943)	(53,331)	(48,790)	(58,924)
Net Change in Plan Fiduciary Net Position	9,227,284	1,499,372	(1,656,929)	1,575,312
Plan Fiduciary Net Position - Beginning	75,079,690	73,580,318	75,237,247	73,661,935
Plan Fiduciary Net Position - Ending (b)	<u>\$84,306,974</u>	<u>\$75,079,690</u>	<u>\$73,580,318</u>	<u>\$75,237,247</u>
Net Pension Liability - Ending (a-b)	<u>\$11,254,140</u>	<u>\$17,860,075</u>	<u>\$16,696,432</u>	<u>\$8,529,789</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>88.22%</u>	<u>80.78%</u>	<u>81.51%</u>	<u>89.82%</u>
Employee Covered Payroll	<u>\$8,689,052</u>	<u>\$8,628,184</u>	<u>\$8,887,141</u>	<u>\$9,363,263</u>
Net Pension Liability as a Percentage of Employee Covered Payroll	129.52%	207.00%	187.87%	91.10%

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULES OF CITY CONTRIBUTIONS
NON-UNIFORMED EMPLOYEES' AND COMBINED FIREFIGHTERS' PENSION PLANS
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NON-UNIFORMED EMPLOYEES' PENSION PLAN:										
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	144	-	14,004	-	-	-	-	-	-	-
Contribution deficiency (excess)	(144)	\$ -	\$ (14,004)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	8,413,551	\$ 7,259,478	\$ 6,497,415							
Contributions as a percentage of employee covered payroll	0.00%	0.00%	0.22%							
COMBINED FIREFIGHTERS' PENSION PLAN:										
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 280,858	\$ 358,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 834	\$ -
Contributions in relation to the actuarially determined contributions	280,858	358,000	22,130	-	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ (22,130)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 834	\$ -
Covered employee payroll	\$ 4,716,216	\$ 4,886,967	\$ 5,001,992							
Contributions as a percentage of employee covered payroll	5.96%	7.33%	0.44%							

* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS
COMBINED POLICE PENSION PLAN
YEAR ENDED DECEMBER 31, 2017
REQUIRED SUPPLEMENTARY INFORMATION

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
COMBINED POLICE PENSION PLAN:										
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 3,319,118	\$ 2,906,315	\$ 2,972,450	\$ 2,034,070	\$ 2,146,827	\$ 1,517,751	\$ 1,551,579	\$ 314,094	\$ 275,869	\$ 285,274
Contributions in relation to the actuarially determined contributions	3,319,118	2,906,315	2,972,450	2,424,298	2,594,752	2,524,734	4,510,723	314,094	275,869	285,274
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ (390,228)	\$ (447,925)	\$ (1,006,983)	\$ (2,959,144)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 8,689,052	\$ 8,628,184	\$ 8,887,141	\$ 9,363,263	\$ 10,240,017	\$ 10,358,429	\$ 10,250,723	\$ 9,650,596	\$ 9,524,752	\$ 9,137,927
Contributions as a percentage of employee covered payroll	38.20%	33.68%	33.45%	25.89%	25.34%	24.37%	44.00%	3.25%	2.90%	3.12%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	16.01%	6.08%	1.01%	6.05%	15.30%					

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION INFORMATION

YEAR ENDED DECEMBER 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

1. Actuarial Methods and Assumptions

Methods and assumptions used to determine the contribution rates required under Act 205 for the year ended December 31, 2016 (presented as the subsequent year on the preceding schedules) are as follows:

	<u>Non-uniformed Employees' and Combined Firefighters'</u>
Actuarial valuation date	1/1/2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	3.0%
Post-retirement cost-of-living adjustment increase	3.0%, subject to plan limitations
Pre-retirement mortality:	
Males: RP 2000 with 1 year set back	
Females: RP 2000 with 5 year set back	
Post-retirement mortality:	
Males and females: Sex distinct RP 2000 Combined Healthy Mortality	

Change in Actuarial Assumptions

The December 31, 2015 assumptions were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 first effective.

The December 31, 2016 investment return assumption for municipal assets decreased from 5.50% to 5.25%.

CITY OF HARRISBURG, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION INFORMATION

YEAR ENDED DECEMBER 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Methods and assumptions used to determine contribution rates required under Act 205 for the year ended December 31, 2017 are as follows:

	<u>Combined Police</u>
Actuarial valuation date	1/1/2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Remaining amortization period	10 years
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Underlying inflation rate	3.0%
Post-retirement mortality table	RP2000 mortality table

Change in Actuarial Assumptions

In the January 1, 2017 actuarial valuation, the mortality table was updated from the RP-2000 Table for Males and Females to the IRS 2017 Static Combined Table for Small Plans.

In the January 1, 2015 actuarial valuation, the mortality table was updated from the UP 1984 Table to the RP-2000 Table for Males and Females

CITY OF HARRISBURG, PENNSYLVANIA
OTHER POST-EMPLOYMENT BENEFIT PLAN
YEAR ENDED DECEMBER 31, 2016
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress 01/01/12-01/01/16

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (FAAL) (b-a)	(d) Funded Ratio (a/b)	(e) Covered Payroll	UAAAL as a Percentage of Covered Payroll (c/e)
01/01/12	* \$ -	\$ 148,055,171	\$ 148,055,171	0.00 %	\$ 23,361,420	633.76 %
01/01/14	-	133,006,585	133,006,585	0.00	18,893,017	704.00
01/01/16	-	155,120,287	155,120,287	0.00	18,398,262	843.12

* - revised for removal of active sewer employees from the City's employee base and revision of policies during the year ended December 31, 2013

Schedule of Required Employer Contributions 2012-2017

Year Ended December 31	(f) Annual Required Contribution (ARC)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	Percentage Contribution (g/f)
2012	\$ 15,654,748	01/01/12	\$ 4,476,131	28.59%
2013	16,194,677	01/01/12	4,783,417	29.54%
2014	10,216,593	01/01/14	5,375,266	52.61%
2015	10,223,974	01/01/14	5,653,446	55.30%
2016	11,753,620	01/01/16	6,110,202	51.99%
2017	11,730,523	01/01/16	6,380,080	54.39%

**SUPPLEMENTARY INFORMATION
COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF HARRISBURG, PENNSYLVANIA

DESCRIPTION OF FUNDS

NONMAJOR GOVERNMENTAL FUNDS

State Liquid Fuels Tax Fund

The State Liquid Fuels Tax Fund is used to account for state aid revenue used primarily for building and improving City roads and bridges in accordance with policies and procedures of the County Liquid Fuels Tax Act of 1981 and Liquid Fuels Act 655.

Host Municipality Fees Fund

The Host Municipality Fees Fund is used to account for \$1 per ton of municipal waste processed inside the host municipality limits. The fee is restricted for environmental related purposes.

Parks and Property Improvement Fund

The Parks and Property Improvement Fund is used to account for contributions that have been restricted for improvements to specific parks and properties in the City.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or improvement of major capital facilities (other than those financed by proprietary funds).

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	Special Revenue				Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund	Capital Projects	
ASSETS					
Cash and cash equivalents	\$ 394	\$ 5,695	\$ -	\$ -	\$ 6,089
Investments, at fair value	1,611,703	554,507	172,699	3,673,232	6,012,141
Receivables, net of allowance for uncollectible accounts					
Taxes	-	-	-	42,271	42,271
Other	-	82,868	-	264,198	347,066
Due from other funds	-	-	-	305,998	305,998
Restricted assets					
Cash and cash equivalents	-	-	-	2,377,182	2,377,182
Total assets	\$ 1,612,097	\$ 643,070	\$ 172,699	\$ 6,662,881	\$ 9,090,747
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 7,188	\$ 117,995	\$ -	\$ 90,332	\$ 215,515
Accrued liabilities	-	1,661	-	-	1,661
Due to other funds	-	-	72,903	2,258,752	2,331,655
Total liabilities	<u>7,188</u>	<u>119,656</u>	<u>72,903</u>	<u>2,349,084</u>	<u>2,548,831</u>
Fund balance					
Restricted for					
Environment	-	523,414	-	-	523,414
Public works	1,604,909	-	-	-	1,604,909
Community and economic development	-	-	99,796	-	99,796
Tourism	-	-	-	2,058,525	2,058,525
Capital projects	-	-	-	1,755,272	1,755,272
Assigned for					
Capital projects	-	-	-	500,000	500,000
Total fund balance	<u>1,604,909</u>	<u>523,414</u>	<u>99,796</u>	<u>4,313,797</u>	<u>6,541,916</u>
Total liabilities and fund balance	\$ 1,612,097	\$ 643,070	\$ 172,699	\$ 6,662,881	\$ 9,090,747

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund		
Revenues					
Intergovernmental revenue	\$ 1,326,297	\$ 325,233	\$ -	\$ 264,198	\$ 1,915,728
Department earnings and program revenue	-	-	-	1,175,149	1,175,149
Investment income	17,790	1,870	-	13,734	33,394
Total revenues	1,344,087	327,103	-	1,453,081	3,124,271
Expenditures					
Current					
Public works	1,005,104	-	-	-	1,005,104
Environment	-	260,458	-	-	260,458
Capital outlay	-	-	-	124,950	124,950
Debt service					
Principal retirements	-	-	-	5,177	5,177
Total expenditures	1,005,104	260,458	-	130,127	1,395,689
Excess of revenues over expenditures	338,983	66,645	-	1,322,954	1,728,582
Other financing sources (uses)					
Transfers in	-	-	-	500,000	500,000
Transfers out	-	-	-	(250,030)	(250,030)
Total other financing sources (uses)	-	-	-	249,970	249,970
Net change in fund balances	338,983	66,645	-	1,572,924	1,978,552
Fund balances - beginning of year	1,265,926	456,769	99,796	2,740,873	4,563,364
Fund balances - end of year	\$ 1,604,909	\$ 523,414	\$ 99,796	\$ 4,313,797	\$ 6,541,916

CITY OF HARRISBURG, PENNSYLVANIA

DESCRIPTION OF FUNDS

AGENCY FUNDS

Agency Funds

The School Tax Collection Fund is used to account for the collection and payment to the school district of property taxes billed and collected on its behalf.

The Payroll and Other Escrow Liabilities Fund is used to account for the collection and payment of miscellaneous escrow liabilities.

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
DECEMBER 31, 2017

	<u>School Tax Collection</u>	<u>Payroll and Other Escrow Liabilities</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 447,413	\$ 475,383	\$ 922,796
Total assets	<u>447,413</u>	<u>475,383</u>	<u>922,796</u>
LIABILITIES			
Due to other governments	447,413	-	447,413
Escrow liabilities	-	475,383	475,383
Total liabilities	<u>\$ 447,413</u>	<u>\$ 475,383</u>	<u>\$ 922,796</u>

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2017

	Beginning of Year	Additions	Deductions	End of Year
School Tax Collection				
Assets				
Cash and cash equivalents	\$ 299,056	\$ 38,451,265	\$ 38,302,908	\$ 447,413
Liabilities				
Due to other governments	\$ 299,056	\$ 38,451,265	\$ 38,302,908	\$ 447,413
Payroll and Other Escrow Liabilities				
Assets				
Cash and cash equivalents	\$ 877,926	\$ 30,245,985	\$ 30,648,528	\$ 475,383
Liabilities				
Due to City's General Fund	\$ 201,759	\$ -	\$ 201,759	\$ -
Escrow liabilities	676,167	30,245,985	30,446,769	475,383
Total liabilities	\$ 877,926	\$ 30,245,985	\$ 30,648,528	\$ 475,383
Total Agency Funds				
Assets				
Cash and cash equivalents	\$ 1,176,982	\$ 68,697,250	\$ 68,951,436	\$ 922,796
Liabilities				
Due to other governments	\$ 299,056	\$ 38,451,265	\$ 38,302,908	\$ 447,413
Due to City's General Fund	201,759	-	201,759	-
Escrow liabilities	676,167	30,245,985	30,446,769	475,383
Total liabilities	\$ 1,176,982	\$ 68,697,250	\$ 68,951,436	\$ 922,796

City of Harrisburg, Pennsylvania

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended December 31, 2017

**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***

**The Honorable
Eric R. Papenfuse, Mayor
and Honorable Members
of City Council
City of Harrisburg,
Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania (City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated September 25, 2018. Our report includes a reference to another auditor who audited the financial statements of the Harrisburg Downtown Improvement District, Inc., as described in our report on the City’s financial statements. This report does not include the results of the other auditor’s testing of internal control over financial reporting or compliance and other matters that are reported on separately by the other auditor. The financial statements of the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., and the Redevelopment Authority of the City of Harrisburg.

Internal Control over Financial Reporting

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

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

The Honorable Eric R. Papenfuse, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Internal
Control over Financial Reporting

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and question costs as Findings 2017-001, 2017-003, 2017-004, and 2017-005, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2017-002 and 2017-005.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Maher Duessel

Harrisburg, Pennsylvania
September 25, 2018

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

The Honorable
Eric R. Papenfuse, Mayor
and Honorable Members
of City Council
City of Harrisburg,
Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the City of Harrisburg, Pennsylvania's (City) compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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 qualified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of the City's compliance.

The Honorable Eric R. Papenfuse, Mayor,
 and Honorable Members of City Council
 City of Harrisburg, Pennsylvania
 Independent Auditor’s Report on Compliance
 for Each Major Program

Basis for Qualified Opinion on Major Federal Programs

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2017-006	14.218	Community Development Block Grants/Entitlement Grants Cluster	Reporting
2017-006	14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	Reporting
2017-007	14.218	Community Development Block Grants/Entitlement Grants Cluster	Program Income
2017-008	14.218	Community Development Block Grants/Entitlement Grants Cluster	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

Qualified Opinion on Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Community Development Block Grants/Entitlement Grants Cluster and Lead-Based Paint Hazard Control in Privately-Owned Housing programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as follows:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2017-008	14.239	Home Investment Partnerships Program	Subrecipient Monitoring
2017-010	14.218	Community Development Block Grants/Entitlement Grants Cluster	Allowability

Our opinion on each major federal program is not modified with respect to these matters.

The Honorable Eric R. Papenfuse, Mayor,
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City of Harrisburg, Pennsylvania
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for Each Major Program

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2017-006, 2017-007, and 2017-008, that we consider to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We identified certain

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deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2017-009 and 2017-010, that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Maher Duessel

Harrisburg, Pennsylvania
September 25, 2018

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Pass-Through to Subrecipients
U.S. Department of Housing and Urban Development					
Community Development Block Grants/Entitlement					
Grants Cluster	D	14.218	N/A	\$ 1,382,386	\$ 447,965
Emergency Solutions Grant Program	D	14.231	N/A	183,507	160,722
Home Investment Partnerships Program	D	14.239	N/A	520,067	211,701
Passed through the Pennsylvania Emergency Management Agency:					
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants Cluster	I	14.269	PEMA-2017-018	518,057	24,708
Lead-Based Paint Hazard Control					
in Privately-Owned Housing	D	14.900	N/A	<u>1,093,765</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development				<u>3,697,782</u>	<u>845,096</u>
U.S. Department of Justice					
Public Safety Partnership and Community Policing Grants	D	16.710	N/A	<u>182,114</u>	<u>-</u>
U.S. Department of Transportation					
Passed through the Pennsylvania Department of Transportation:					
Passed through the Tri-County Regional Planning Commission:					
Highway Planning and Construction Cluster	I	20.205	521158	<u>32,789</u>	<u>-</u>
U.S. Department of Homeland Security - Federal Emergency Management Agency					
Assistance to Firefighters Grant	D	97.044	N/A	29,566	-
Passed through the Pennsylvania Emergency Management Agency:					
Pre-Disaster Mitigation Grant Program	I	97.047	PBMC-PL-03-PA- 2015-001	<u>570,121</u>	<u>-</u>
Total U.S. Department of Homeland Security - Federal Emergency Management Agency				<u>599,687</u>	<u>-</u>
Total Expenditures of Federal Awards				<u>\$ 4,512,372</u>	<u>\$ 845,096</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF HARRISBURG, PENNSYLVANIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the primary government of the City of Harrisburg (City), Pennsylvania for the year ended December 31, 2017. The City's reporting entity is defined in Note 1(a) to the City's basic financial statements. Federal awards expended directly from federal agencies as well as federal awards passed through other government agencies are included on the Schedule.

2. BASIS OF ACCOUNTING

Generally, expenditures are recognized in the Schedule on the modified accrual basis of accounting. Federal expenditures under loan programs consist of loans disbursed during the year ended December 31, 2017.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the City's basic financial statements.

Such expenditures are recognized following, as applicable, either the cost principles in the U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

4. SECTION 108 LOANS

The City entered into various promissory notes under Section 108 of the Housing and Community Development Act of 1974 (Public Law 93-383), as amended. The proceeds from the notes were to administer acquisition, relocation, clearance, rehabilitation, and disposition of City properties. These notes do not have continuing compliance requirements.

CITY OF HARRISBURG, PENNSYLVANIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

As collateral, the City pledged all grants approved or for which the City may become eligible under Title I of the Housing and Community Development Act of 1974, as amended, and program income derived from disposition by sale or lease of any real property to the extent acquired or rehabilitated with the guaranteed loan funds, including any interest earned on such disposition proceeds.

Interest payments are required to be made to the Federal Financing Bank on the daily unpaid principal balances.

The composition of promissory notes outstanding under Section 108 at December 31, 2017 is as follows:

<u>Date of Notice</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Required Interest Payment</u>	<u>Principal Balance December 31, 2017</u>	<u>2017 Principal Payments</u>
May 13, 2000	\$3,960,000	Variable *	Semi-annually, February and August 1st	\$ 650,000	\$ 300,000
September 14, 2006	\$3,795,000	Variable *	Semi-annually, February and August 1st	<u>1,905,000</u>	<u>210,000</u>
				<u>\$ 2,555,000</u>	<u>\$ 510,000</u>

* - Based on 90-day LIBOR plus 20 basis points (1.89% at December 31, 2017)

Section 108 loans changed during the year as follows:

<u>Beginning of Year</u>	<u>Additions</u>	<u>Payments</u>	<u>End of Year</u>
<u>\$ 3,065,000</u>	<u>\$ -</u>	<u>\$ 510,000</u>	<u>\$ 2,555,000</u>

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2017

Prior Year Findings

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

Control Deficiency: Material Weakness

Finding 2016-001: Financial Reporting

Condition: During the audit process, various material adjustments were proposed to the City of Harrisburg's (City) records by the auditors. These audit adjustments were necessary to correct transactions related to cash, the net present value of the notes receivable related to the Harrisburg Parking Authority lease proceeds, amounts due to/due from Capital Region Water (CRW) under the transition agreement, due to other funds and due to other governments, and transfer of the Bureau of City Services from the General Fund to the Neighborhood Services Fund.

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can eliminate the financial reporting deficiencies as noted above.

Current Status: See current year Finding 2017-001.

Finding 2016-002: Debt Compliance

Condition: The City did not pay amounts due on its General Obligation Refunding Bonds, Series D of 1997 and General Obligation Refunding Notes, Series F of 1997 during the year ended December 31, 2016. Payments on the debt were made by the bond insurer under the insurance agreement per the trust indenture and in accordance with the AMBAC settlement agreement.

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can meet the City's future debt obligations.

Current Status: See current year Finding 2017-002.

Finding 2016-003: Segregation of Duties

Condition: The City had segregation of duties issues noted in the Bureau of Information Technology (IT) where staff have control over multiple IT functions.

Recommendation: We recommend that the IT operations, librarian, systems analyst, programming, network, and administrative functions be performed by separate employees to ensure that no one person has control over multiple IT functions.

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2017

Current Status: See current year Finding 2017-003.

Finding 2016-004: Reconciling Bank Accounts and Properly Reporting and Remitting Amounts Due to Other Entities

Condition: The City's policy is that all bank account statements are to be reviewed and reconciled by the City Treasurer's office on a monthly basis and are to be reviewed by the Controller's office. In addition, the City collects certain amounts on behalf of other entities and governments. During the audit, we noted the following:

- Monthly reconciliations for the year ended December 31, 2016 were prepared timely, but were not provided to the Controller's office for review.
- Although the monthly reconciliations were prepared, certain reconciliations did not reflect any adjustments related to the 2009, 2010, 2011, 2012, 2013, 2014, or 2015 audits.
- The Central Depository account included certain amounts that were not appropriately reflected in the general ledger system including amounts collected for other entities, and transfers related to credit card and automated clearinghouse transactions that had not been transferred to the appropriate entities in the amount of \$299,056 for the year ended December 31, 2016.
- The Central Depository account also includes certain amounts related to credit card and automated clearinghouse transactions from February 2014 totaling \$135,901 that have not been transferred to the appropriate entity.

Recommendation: We recommend that the City follow its policies regarding review of bank reconciliations. In addition, we recommend that the Accounting Manager obtain the monthly bank reconciliations from Treasury to determine if any adjustments need to be recorded to properly reflect amounts due to other entities.

Current Status: See current year Finding 2017-004.

Finding 2016-005: Preparing the Schedule of Expenditures of Federal Awards (SEFA)

Condition: For the year ended December 31, 2016, the City provided a summary SEFA; however, the SEFA was not materially accurate. Material adjustments were made to the Community Development Block Grants/Entitlement Grants (CDBG) to accurately report expenditures of federal funds for the year ended December 31, 2016.

Recommendation: We recommend that the City implement procedures to ensure that all federal expenditures are included on the SEFA.

Current Status: See current year Finding 2017-005.

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2017

III – Findings and questioned costs for federal awards.

Control Deficiency: Material Weakness

Finding 2016-006: Reporting – Section 3 Summary Report

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants Cluster (CFDA #14.218)

Condition: The City did not complete Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* for the year ended December 31, 2016.

Recommendation: The City should implement procedures to ensure that all required reports are completed and filed by the applicable reporting deadline.

Current Status: See current year Finding 2017-006.

Finding 2016-007: Program Income

U.S. Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants (CFDA #14.218)

Condition: The City did not expend the program income for eligible activities prior to drawing down additional entitlement funds.

Recommendation: The City should implement procedures to ensure that all program income received is properly reported as program income in IDIS in the proper program year and the funds received are expended for eligible activities prior to drawing down additional funds.

Current Status: See current year Finding 2017-007.

Finding 2016-008: Subrecipient Monitoring

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants Cluster (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239)

Condition: During the audit, it was noted that the City does not have a process in place to notify subrecipients of the federal award identification number, federal award date, or CFDA number for the federal award as required under the Uniform Guidance.

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2017

Recommendations: We recommend that the City establish procedures to ensure that all required award information is communicated to the subrecipient at the time of the subaward in accordance with the Uniform Guidance.

Current Status: See current year Finding 2017-008.

Control Deficiency: Significant Deficiency

Finding 2016-009: Earmarking

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants Cluster (CFDA #14.218)

Condition: During the audit, it was noted that the City expended 16.63 percent of funds on public service activities, which exceeds the 15 percent regulatory cap. The City also expended 21.31 percent of its funds on planning and administration, which exceeds the 20 percent regulatory cap. HUD requires repayment of the amount expended in excess of the 15 percent public service regulatory cap and the 20 percent planning and administration regulatory cap from non-federal sources, unless the City can provide a revised CDBG Financial Summary Report (IDIS PR26 report) which reflects expenditures at or below the limit.

Recommendations: The City should establish controls to track the amounts expended for each grant award to ensure that no more than 15 percent of CDBG funds are expended on public services and no more than 20 percent of grant funds are expended on planning and administration.

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

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

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

yes no

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 2 CFR Section 200.516(a)? yes no

7. Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grants/Entitlement Grants Cluster
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

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

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

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

Finding 2017-001: Financial Reporting

Repeat Finding – See Finding 2016-001

Condition: During the audit process, various material adjustments were proposed to the City of Harrisburg's (City) records by the auditors. These audit adjustments were necessary to correct transactions related to the net present value of the notes receivable related to the Harrisburg Parking Authority lease proceeds, grant revenue and related receivables, worker's compensation liability, interfund transfers, and due to other funds.

Criteria: The City should have the ability to produce its financial statements in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities (GAAP).

Cause: The City does not have adequate staffing to produce GAAP financial statements.

Effect: If the entity relies upon its auditors to assist them in producing GAAP financial statements, the auditor is required to communicate a significant deficiency or material weakness related to financial reporting.

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

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can eliminate the financial reporting deficiencies as noted above.

Views of Responsible Officials: The City concurs as the Accounting Manager will continue to make the effort to further eliminate recurring audit adjustments by allowing for more available time in such areas via the delegation of more audit preparation work to the Staff Accountant/Financial Analyst. It is also noted that some audit adjustments may arise unanticipated from the audit fieldwork with management agreeing to the applicable understanding(s) achieved with the auditors, e.g., after such collective review and discussion, an additional workers' compensation liability adjustment occurred significantly reducing the calculated reserve for incurred losses as a result of determining reasonableness for elimination of applicable reserve amounts for years with no open claims.

Finding 2017-002: Debt Compliance

Repeat Finding – See Finding 2016-002

Condition: The City did not pay amounts due on its General Obligation Refunding Bonds, Series D of 1997 and General Obligation Refunding Notes, Series F of 1997 during the year ended December 31, 2017. Payments on the debt were made by the bond insurer under the insurance agreement per the trust indenture and in accordance with the AMBAC settlement agreement.

Criteria: The Series D of 1997 Bonds and F of 1997 Notes require principal and interest payments in accordance with the terms of the indenture.

Cause: Cash flow difficulties have prevented the City from making its required principal and interest payments.

Effect: Principal and interest payments have not been made in accordance with the terms of the indenture, causing the bond insurer to pay a portion of the amount due.

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

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can meet the City's future debt obligations.

Views of Responsible Officials: The City concurs and it is also noted that such compliance is being achieved in 2018 with the City making full payments on this General Obligation debt without any bond insurance advance assistance.

Finding 2017-003: Segregation of Duties

Repeat Finding – See Finding 2016-003

Condition: The City had segregation of duties issues noted in the Bureau of Information Technology (IT) where staff have control over multiple IT functions.

Criteria: In order to ensure that all transactions of the City are recorded and reported properly, the City needs to establish proper segregation of duties.

Cause: The City does not have adequate staffing involved in each of the processes for appropriate segregation of duties.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

Effect: Opportunities exist for undetected intentional or unintentional errors in the City's processes.

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

Recommendation: We recommend that the IT operations, librarian, systems analyst, programming, network, and administrative functions be performed by separate employees to ensure that no one person has control over multiple IT functions.

Views of Responsible Officials: The City understands the nature of the finding and the recommendation being suggested to rectify the finding. However, with limited financial and personnel resources, having complete segregation of duties among all the identified functions is not currently possible. The IT department is working to identify the functions and duties that are only known to one individual so that cross-training can take place among other staff members. In addition, functional documentation, which did not previously exist, is in the process of being created and updated as things change. This is helping to facilitate this learning as new resources are trained on the various job functions and responsibilities. As the City works to build a highly skilled and productive IT team, a continual review of all functions will be completed in order to ensure that critical duties are not overlooked, and that more than one individual will be able to perform every function. As technologies evolve and systems are replaced, different technical skills may be needed to provide a high level of support for the systems deployed throughout the City. When this happens, adjustments will need to be made to the roles and responsibilities of staff members.

Finding 2017-004: Reconciling Bank Accounts and Properly Reporting and Remitting Amounts Due to Other Entities

Repeat Finding – See Finding 2016-004

Condition: The City's policy is that all bank account statements are to be reviewed and reconciled by the City Treasurer's office on a monthly basis and are to be reviewed by the Controller's office. In addition, the City collects certain amounts on behalf of other entities and governments. During the audit, we noted the following:

- Monthly reconciliations for the year ended December 31, 2017 were prepared timely, but were not provided to the Controller's office for review.
- Although the monthly reconciliations were prepared, certain reconciliations did not reflect any adjustments related to the 2009, 2010, 2011, 2012, 2013, 2014, 2015, or 2016 audits.
- The Central Depository account included certain amounts that were not appropriately reflected in the general ledger system including amounts collected for other entities, and transfers related to credit card, automated clearinghouse transactions, and other collections that had not been transferred to the appropriate entities in the amount of \$447,413 for the year ended December 31, 2017.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

- The Central Depository account also includes certain amounts that were not appropriately reflected in the general ledger system, including amounts related to credit card and automated clearinghouse transactions from February 2014 totaling \$135,901 that have not been transferred to the appropriate entity.

Criteria: In order to ensure that the City's cash balances and amounts due to other governments and other entities are accurately reported, the City should prepare and review the bank reconciliations for each bank account and ensure that all amounts due to other governments and other entities are appropriately reflected in the general ledger system.

Cause: The City did not follow its policy for the review of the bank reconciliations recording of amounts in the general ledger system that were due to other governments and other entities.

Effect: The City bank reconciliations did not reflect all adjustments from previous years' audits and the bank reconciliations included reconciling items for transfers to other entities from 2017 and previous years that did not occur as of December 31, 2017. Finally, the bank reconciliations were not reviewed on a timely basis.

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

Recommendation: We recommend that the City follow its policies regarding review of bank reconciliations. In addition, we recommend that the Accounting Manager obtain the monthly bank reconciliations from Treasury to determine if any adjustments need to be recorded to properly reflect amounts due to other entities.

Views of Responsible Officials: Noted progress has been made with resolving many previously outstanding and offsetting reconciling items related to several City bank accounts with more material financial activity, but the Accounting Manager still plans to further resolve the remaining fewer accounts with similar reconciling amounts by the end of current year 2018. The Accounting Manager will also effectuate communication with the City Treasurer's office in requesting monthly bank reconciliations be provided to both the Accounting office and City Controller. Further, the Central Depository account reconciliation will be reviewed with Treasury for next year's audit to determine any need to record material year-end amounts due to other entities.

In relation, the City Treasurer's office notes that credit card and automated clearinghouse transactions for any current month are not allocated until the following month, which has remained consistent with applicable past and current procedures; e.g., for the December's activity, collection reports are run and reconciled in January resulting in corresponding disbursement to the applicable other entities. Also, for the daily revenue operations managed by Treasury, the deposit of such funds relates to these funds not becoming available until the following business day. Finally, as to the monthly bank account reconciliation process, Treasury does act timely to inform the Accounting office of any discovered discrepancy so as to prevent further extended reconciling items.

Finding 2017-005: Preparing the Schedule of Expenditures of Federal Awards (SEFA)

Repeat Finding – See Finding 2016-005

Condition: For the year ended December 31, 2017, the City provided a summary SEFA; however, the SEFA was not materially accurate. Material adjustments were made to the Community Development Block Grants/Entitlement Grants, Community Development Block Grant Disaster Recovery Grants, and Pre-Disaster Mitigation Grant Program to accurately report expenditures of federal funds for the year ended December 31, 2017.

Criteria: The Code of Federal Regulations (2 CFR 200.510(b)) requires that the auditee prepare a SEFA for the period covered by the auditee's financial statements. The SEFA 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; 3) the total federal awards expended for each individual federal program; and 4) total amount provided to subrecipients for each federal program.

Cause: The City does not have adequate procedures in place to ensure that the SEFA includes all federal money that was expended during the year.

Effect: The City did not accurately report all federal awards expended during the year on the SEFA.

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

Recommendation: We recommend that the City implement procedures to ensure that all federal expenditures are included on the SEFA.

Views of Responsible Officials: The City concurs and the Accounting Manager will be more mindful for SEFA preparation to further reconcile the reporting of all Federal expenditures and exclude the related debt service expenditures associated with the Section 108 Notes.

III – Findings and questioned costs for federal awards.

Control Deficiency: Material Weakness

Finding 2017-006: Reporting

Repeat Finding – See Finding 2016-006

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants Cluster (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA #14.900)

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

Condition: The City did not complete Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, for the CDBG program, by the December 30, 2017 deadline. The report was submitted to HUD on July 3, 2018.

The City did not complete Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, for the Lead-Based Paint Hazard Control in Privately-Owned Housing (LEAD) program, for the program year ended November 30, 2017.

The City did not submit the *Consolidated Annual Performance and Evaluation Report (CAPER)*, before the December 30, 2017 deadline. Submission of the CAPER occurred on January 9, 2018.

Criteria: Pursuant to 24 CFR section 135.3(a)(1), for CDBG, each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year, must submit Form HUD 60002, using the Section 3 Performance Evaluation and Registry System (SPEARS). In addition, pursuant to 24 CFR section 135.90, since the CDBG program requires submission of an annual performance report, the Section 3 report must be submitted with that annual performance report with 90 days after the program year end or December 30, 2017.

Pursuant to 24 CFR sections 135.3(a)(2)(1), for LEAD, Section 3 reporting applies to Housing and Community Development Assistance, specifically housing rehabilitation, which includes reduction and abatement of lead-based paint hazards. Each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year, must submit Form HUD 60002 using the Section 3 Performance Evaluation and Registry System (SPEARS). In addition, pursuant to 24 CFR section 135.90, since the LEAD program does not require submission of an annual performance report, the Section 3 report must be submitted by January 10th of each year.

Pursuant to 24 CFR 91.520(a), the Consolidated Annual Performance and Evaluation Report (CAPER) shall be submitted to HUD within 90 days after the close of the City's program year. The City's program year-end is September 30, 2017 and, therefore, the CAPER is due by December 30, 2017.

Cause: The City does not have controls in place to ensure that Form HUD 60002 is completed and submitted in accordance with federal reporting requirements or to ensure that the CAPER is submitted in accordance with the HUD reporting requirements.

Effect: The City did not file the Form HUD 60002, for the CDBG and LEAD programs, by the required deadlines. These reports are a required submission and omission of these reports could jeopardize future funding.

The City did not submit the CAPER for the program year-end September 30, 2017, by the required deadline. This report is a required submission and could jeopardize a future finding.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

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

Recommendation: The City should implement procedures to ensure that all required reports are completed and filed by the applicable reporting deadline.

Views of Responsible Officials (for Community Development Block Grant): The City concurs, although it is further noted a new program was implemented for the Homeless Management Information System (HMIS/SAGE) for the gathering of Emergency Solutions Granted (ESG) information. The City and the subrecipient needed further guidance from Technical Assistance (TA) in order to complete the reporting correctly, and the City was in continuous conversation with HUD Senior Community Planning Development to enable the correct submission of the CAPER.

Views of Responsible Officials (for Lead-Based Paint Hazard Control): The City's Department of Building and Housing (DBHD) has reviewed its records and confirmed with its HUD GTR (Grant Technical Representative) that the HUD Form 60002 was not submitted by the required due date of December 31, 2017, although HUD has indicated document is still allowed as a late submission. DBHD staff is gathering the required data and is committed to delivering and reporting this form by October 1, 2018. Also, applicable policies and procedures have been updated to reflect this requirement.

Finding 2017-007: Program Income

Repeat Finding – See Finding 2016-007

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants Cluster (CFDA #14.218)

Condition: The City did not expend the program income for eligible activities prior to drawing down additional entitlement funds.

Criteria: The Code of Federal Regulations (2 CFR Section 200.307(e)) requires program income to be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury. At the end of each program year, the aggregate amount of program income cash balances and any investment thereof that, as of the last day of the program year, exceeds one-twelfth of the most recent grant, shall be remitted to HUD as soon as practicable thereafter, to be placed in the City's line of credit.

Cause: The City does not have controls in place to ensure that program income is expended for eligible activities prior to drawing down additional entitlement funds.

Effect: The City drew down entitlement funding before completely exhausting all program income in Integrated Disbursement and Information System (IDIS).

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

The City is not in compliance with program income requirements. Failure to comply with grant award requirements could jeopardize future funding.

Questioned Costs: The amount of questioned costs, if any, is undeterminable.

Recommendation: The City should implement procedures to ensure that all program income received is properly reported as program income in IDIS in the proper program year and the funds received are expended for eligible activities prior to drawing down additional funds.

Views of Responsible Officials: The City concurs, and it is further noted the DBHD will continue in the processes of reporting all program income receipts to HUD's IDIS system and further utilizing such available program income for funding related payables prior to drawing additional entitlement funds.

Finding 2017-008: Subrecipient Monitoring

Repeat Finding – See Finding 2016-008

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants Cluster (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239)

Condition: During the audit, it was noted that the City does not have a process in place to notify subrecipients of the federal award identification number, federal award date, or CFDA number for the federal award as required under the Uniform Guidance.

Criteria: The Code of Federal Regulations (2 CFR 200.331(a)) requires certain award information to be communicated to the subrecipient sufficient for the subrecipient to comply with federal statutes, regulations, and the terms and conditions of the award.

Cause: The City does not have controls in place to ensure that certain award information is communicated to the subrecipient as required under the Uniform Guidance.

Effect: The City is not in compliance with subrecipient monitoring requirements. Failure to comply with grant award requirements could jeopardize future funding.

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

Recommendations: We recommend that the City establish procedures to ensure that all required award information is communicated to the subrecipient at the time of the subaward in accordance with the Uniform Guidance.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

Views of Responsible Officials: The City concurs and will make efforts to include complete and required award information within all future subrecipient award letters.

Control Deficiency: Significant Deficiency

Finding 2017-009: Allowability

U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA #14.900)

Condition: During the audit of the LEAD program, it was noted that the City does not have a process in place to determine that invoices were paid based on actual work performed and, therefore, allowable. Disbursements to a vendor were made based on monthly retainer fees rather than actual work performed.

Criteria: The Code of Federal Regulations (2 CFR 200.53(b)) states that an improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

Cause: The City does not have proper procedures in place to determine that invoices were paid based on actual work performed and, therefore, allowable.

Effect: The City is not in compliance with allowability requirements. Failure to comply with grant award requirements could jeopardize future funding.

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

Recommendations: We recommend that the City modify its procedures to ensure that all invoices are reviewed and that expenditures are deemed to be allowable before being paid.

Views of Responsible Officials: The DBHD has reviewed all invoices related to this vendor and acknowledges such vendor invoiced the City on a monthly retainer basis and, therefore, was not billed on a cost per activity basis. The work done during those months was received by City Staff. The DBHD has adjusted its applicable payables review and approval process to ensure all invoices from vendors are submitted on a cost per activity basis. Further, immediately after an applicable stop work order in October 2017, the City ceased paying the monthly retainer to this vendor. The DBHD has notified such vendor and, based on the Stop Work Order and the City's subsequent program audit, such vendor's ongoing technical services to this grant will be limited to the execution of the Environmental Reviews as required under this grant at a rate of \$200 per hour.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

The DBHD has reviewed U.S. Office of Management and Budget Guidance 2 CFR 200.53 and 200.62 and has accordingly modified its internal control policies. Specifically, all received invoices will be reviewed by the Program Manager to verify allowable costs and related draw-down requests will be compared to the approved budget prior to submission to HUD. Monthly meetings will be held relative to the ongoing review for allowable grant costs and all program vendors have received an invoice template to ensure goods and services are properly documented with supporting invoice detail comprised of service delivery and per hour time logs.

Finding 2017-010: Allowability

U.S. Department of Housing and Urban Development – Community Development Block Grant/Entitlement Grant Cluster (CFDA #14.218)

Condition: During the audit of the CDBG program, it was noted that the City does not have a process in place to determine that costs were allowable. In addition, when costs were determined to be unallowable, program income was used to return the entitlement funds.

Criteria: The Code of Federal Regulations (2 CFR 200.53(b)) states that an improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

Cause: The City does not have proper procedures in place to determine that costs were allowable.

Effect: The City is not in compliance with allowability requirements. Failure to comply with grant award requirements could jeopardize future funding.

Questioned Costs: Questioned costs in the amount of \$53,241 were identified.

Recommendations: We recommend that the City modify their procedures to ensure that costs are deemed to be allowable before being paid with entitlement funds or program income.

Views of Responsible Officials: The City will seek to further refine its understanding with HUD in viewing program income as being subject to the same guideline treatment as that for entitlement funds. The City does understand related program income falls under all applicable requirements governing the use of CDBG funds.