# City of Harrisburg, Pennsylvania

## Financial Statements and Required Supplementary Information and Supplementary Information

Year Ended December 31, 2018 with
Independent Auditor's Reports


MaherDuessel
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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, 2018, 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, 2018, 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.

### *Change in Accounting Principle*

As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board Statement No. 75, *“Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions,”* which requires the City to record its net other post-employment benefit liability and related items on the government-wide and proprietary fund financial statements. Our opinion is not modified with respect to that matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, budgetary comparison information, and historical pension plan and other post-employment benefit plan information on pages i through xiv, 103 through 105, and 106 through 114, 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual 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 27, 2019, 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 27, 2019

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 ended December 31, 2018. 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**

- As of December 31, 2018, the City's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $41,780,820, whereas at the end of 2017 liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $52,638,161 (restated). This government-wide increase in net position for 2018 amounts to $10,857,341, including $8,988,976 for governmental activities and $1,868,365 for business-type activities (see the below 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 $75,947,034 and $65,477,008 as of December 31, 2018 and 2017, 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 $39,358,544 and $25,955,979 as of December 31, 2018 and 2017, respectively.
    - Unrestricted net position, which is net position not restricted for any particular purpose, amounts to ($157,086,398) and ($144,071,148) (restated) as of December 31, 2018 and 2017, respectively.

- As noted above for governmental activities, net position increased $8,988,976 during the current year. The overall significant activities comprising this increase include $65,149,595 in total expenses, $17,985,877 in total program revenues, and $56,152,694 in general revenues and other changes in net position. Beginning net position for the current year has been reduced by $78,396,165 via restatement to reflect the implementation of GASB Statement No. 75 *"Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions,"* which requires the City to record its net other post-employment benefit (OPEB) liability and related items on the government-wide and proprietary fund financial statements.

- As noted above for business-type activities, net position increased $1,868,365 during the current year. The overall significant activities comprising this increase include $14,072,824 in total expenses, $15,347,886 in total program revenues, and $593,303 in general revenues and other changes in net position. Beginning net position for the current year has been reduced by

$5,562,849 via restatement to reflect the implementation of GASB Statement No. 75 related to the accounting and reporting for OPEB.

**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. **<u>Proprietary Funds</u>** The City's proprietary funds are all classified as enterprise funds; they are used to account for the operations 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 paid 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, presented 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 benefits and OPEB 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.

## Government-wide Financial Analysis

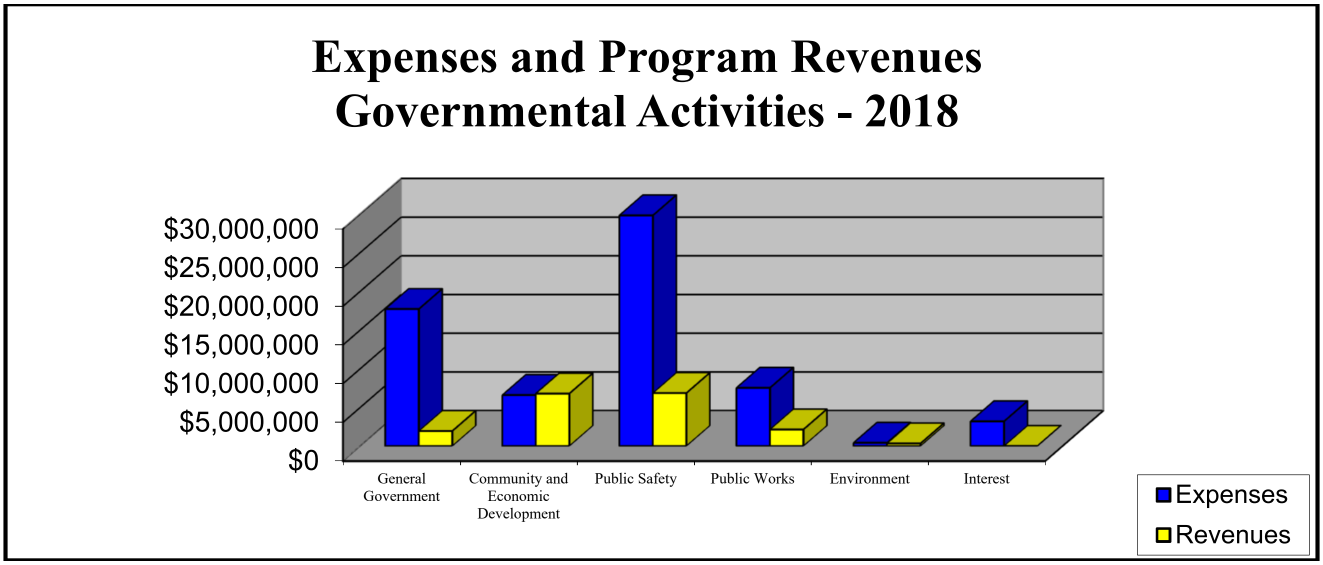
**CITY OF HARRISBURG**
CONDENSED STATEMENT OF NET POSITION
DECEMBER 31, 2018 AND 2017

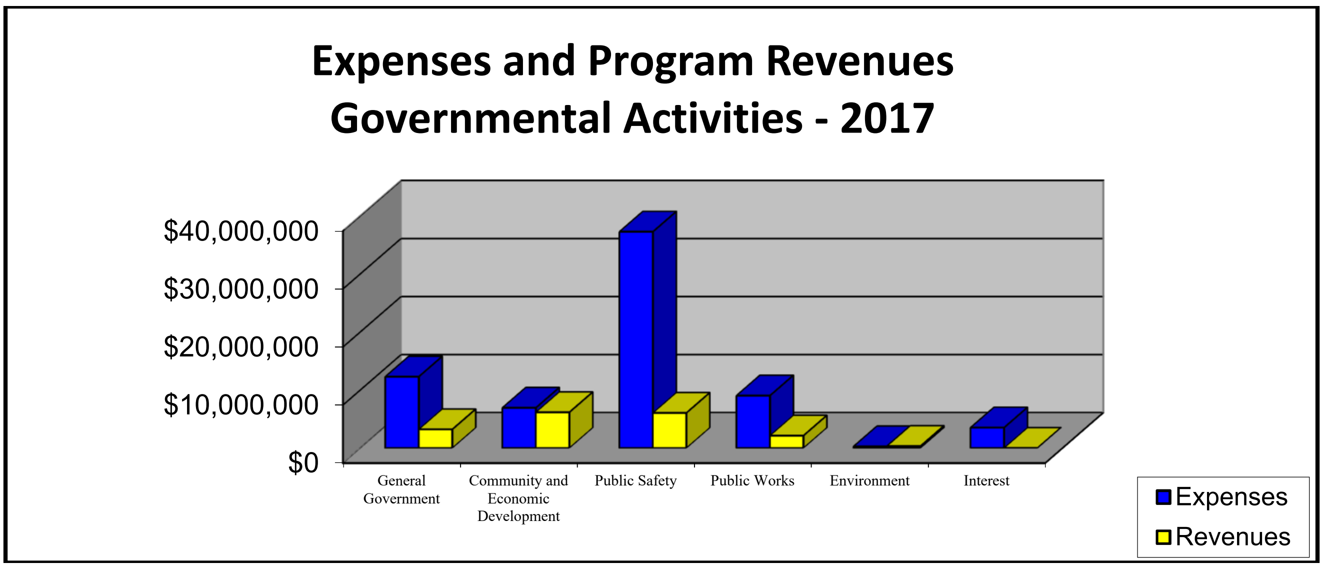
| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 (restated) | 2018 | 2017 (restated) | 2018 | 2017 (restated) |
| Current and other assets | $ 100,822,577 | $ 86,044,693 | $ 19,272,540 | $ 16,734,029 | $ 120,095,117 | $ 102,778,722 |
| Capital assets, net accum. deprec. | 94,201,157 | 91,124,858 | 34,897,763 | 34,258,438 | 129,098,920 | 125,383,296 |
| Total assets | 195,023,734 | 177,169,551 | 54,170,303 | 50,992,467 | 249,194,037 | 228,162,018 |
| Deferred outflows of resources | 28,030,303 | 14,731,380 | 664,774 | 1,491,967 | 28,695,077 | 16,223,347 |
| Current and other liabilities | 22,166,425 | 14,806,724 | 1,971,841 | 1,546,656 | 24,138,266 | 16,353,380 |
| Noncurrent liabilities | 220,459,343 | 257,767,491 | 17,867,432 | 19,619,694 | 238,326,775 | 277,387,185 |
| Total liabilities | 242,625,768 | 272,574,215 | 19,839,273 | 21,166,350 | 262,465,041 | 293,740,565 |
| Deferred inflows of resources | 55,251,500 | 3,138,923 | 1,953,393 | 144,038 | 57,204,893 | 3,282,961 |
| Net investment in capital assets | 48,253,700 | 38,466,843 | 27,693,334 | 27,010,165 | 75,947,034 | 65,477,008 |
| Restricted | 34,180,924 | 22,966,422 | 5,177,620 | 2,989,557 | 39,358,544 | 25,955,979 |
| Unrestricted | (157,257,855) | (145,245,472) | 171,457 | 1,174,324 | (157,086,398) | (144,071,148) |
| Total net position | $ (74,823,231) | $ (83,812,207) | $ 33,042,411 | $ 31,174,046 | $ (41,780,820) | $ (52,638,161) |

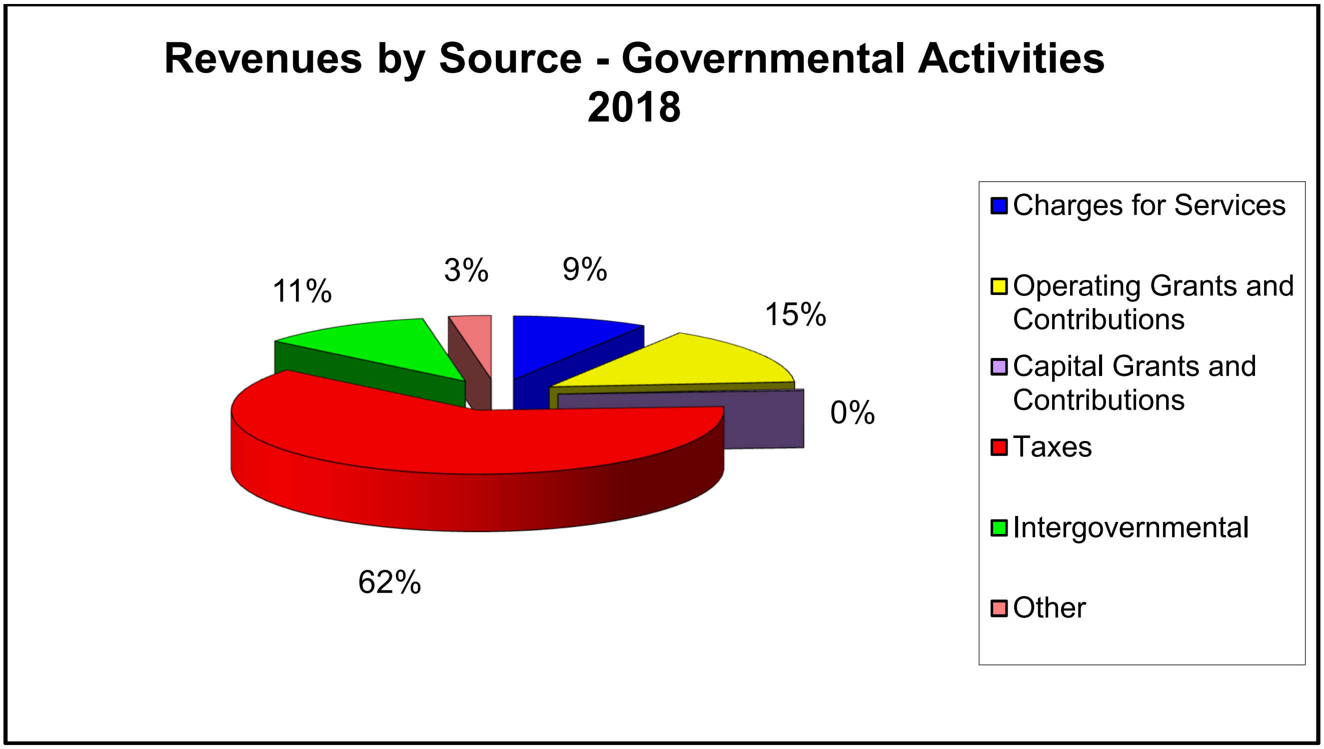
Net position and its change generally serve over time as a useful indicator of the government's financial position. For 2018, the changes in net position for governmental activities and business-type activities increased over 2017 by $3,764,066 and $101,793, respectively. The increase for governmental activities is comprised of $151,987 more in program revenues, $4,096,395 less in expenses, and $484,316 less in general revenues and other changes in net position. The increase for business-type activities is comprised of $312,234 more in program revenues, $466,590 more in expenses, and $256,149 more in general revenues and other changes in net position. Sections appear later in this discussion with more detailed explanations as to these increased changes in net position for governmental activities (page ix) and business-type activities (page x). As mentioned above under Financial Highlights, beginning government-wide net position for the current year has been restated as a result of the implementation of GASB Statement No. 75 relative to OPEB (see Note 1 to the basic financial statements). This restatement reduces net position for both governmental and business-type activities due to the related change in the actuarial valuation of the prior year-end net OPEB liability balance. 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 such 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 such debt obligations.

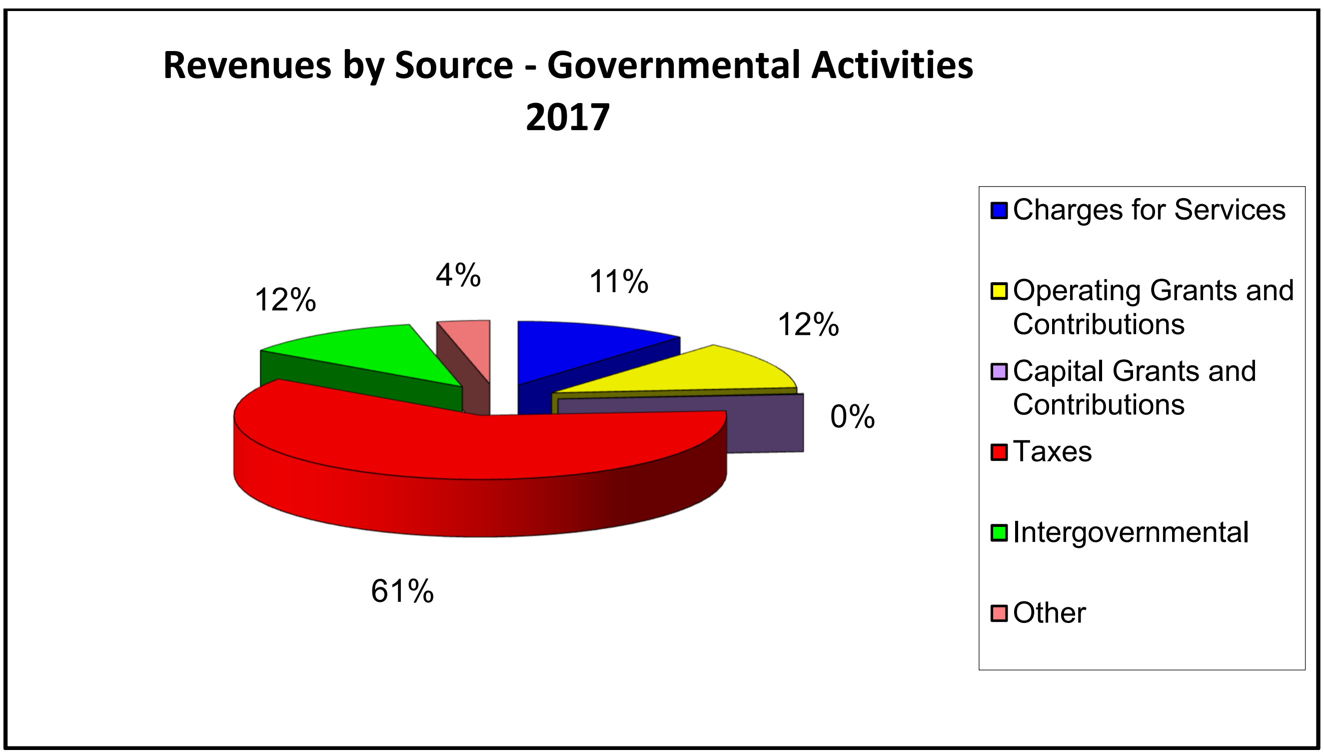
## CITY OF HARRISBURG
CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Revenues** | | (restated) | | (restated) | | (restated) |
| Program revenues: | | | | | | |
| Charges for services | $ 6,648,393 | $ 8,552,265 | $ 15,289,604 | $ 14,983,835 | $ 21,937,997 | $ 23,536,100 |
| Operating grants and contributions | 11,092,658 | 9,155,652 | 58,282 | 51,817 | 11,150,940 | 9,207,469 |
| Capital grants and contributions | 244,826 | 125,973 | - | - | 244,826 | 125,973 |
| General revenues: | | | | | | |
| Taxes | 46,133,626 | 45,481,025 | - | - | 46,133,626 | 45,481,025 |
| Grants and contributions not restricted to specific functions | 8,459,420 | 8,863,715 | - | - | 8,459,420 | 8,863,715 |
| Other | 2,079,030 | 2,589,935 | 73,921 | 39,489 | 2,152,951 | 2,629,424 |
| Total revenues | 74,657,953 | 74,768,565 | 15,421,807 | 15,075,141 | 90,079,760 | 89,843,706 |
| **Expenses** | | | | | | |
| General government | 17,686,320 | 12,283,431 | - | - | 17,686,320 | 12,283,431 |
| Community/Economic development | 6,575,855 | 6,921,061 | - | - | 6,575,855 | 6,921,061 |
| Public safety | 29,787,288 | 37,246,320 | - | - | 29,787,288 | 37,246,320 |
| Public works | 7,512,443 | 9,023,397 | - | - | 7,512,443 | 9,023,397 |
| Environment | 402,972 | 262,425 | - | - | 402,972 | 262,425 |
| Interest on long-term debt | 3,184,717 | 3,509,356 | - | - | 3,184,717 | 3,509,356 |
| Neighborhood services | - | - | 12,801,500 | 12,317,774 | 12,801,500 | 12,317,774 |
| Harrisburg Senators | - | - | 1,271,324 | 1,288,460 | 1,271,324 | 1,288,460 |
| Total expenses | 65,149,595 | 69,245,990 | 14,072,824 | 13,606,234 | 79,222,419 | 82,852,224 |
| Change in net position before transfers | 9,508,358 | 5,522,575 | 1,348,983 | 1,468,907 | 10,857,341 | 6,991,482 |
| Transfers | (519,382) | (297,665) | 519,382 | 297,665 | - | - |
| Change in net position | 8,988,976 | 5,224,910 | 1,868,365 | 1,766,572 | 10,857,341 | 6,991,482 |
| Net position, January 1 | (83,812,207) | (10,640,952) | 31,174,046 | 34,970,323 | (52,638,161) | 24,329,371 |
| Restatement effect - implementing GASB Stmt. No. 75 (see Note 1) | - | (78,396,165) | - | (5,562,849) | - | (83,959,014) |
| Net position, December 31 | $ (74,823,231) | $ (83,812,207) | $ 33,042,411 | $ 31,174,046 | $ (41,780,820) | $ (52,638,161) |

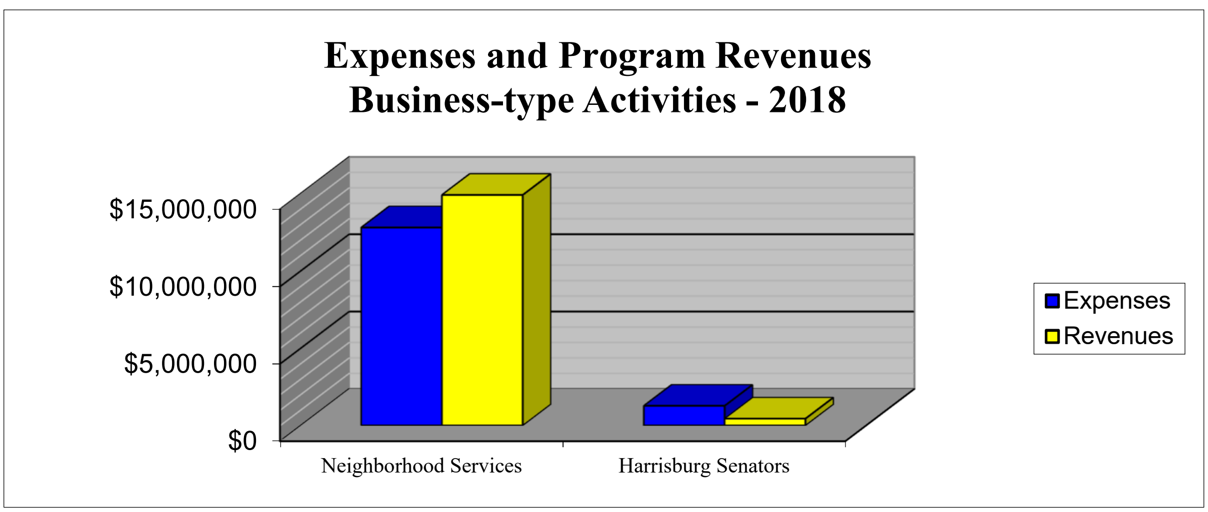

Expenses and Program Revenues
Governmental Activities - 2018
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
General Government
Community and Economic Development
Public Safety
Public Works
Environment
Interest
Expenses
Revenues

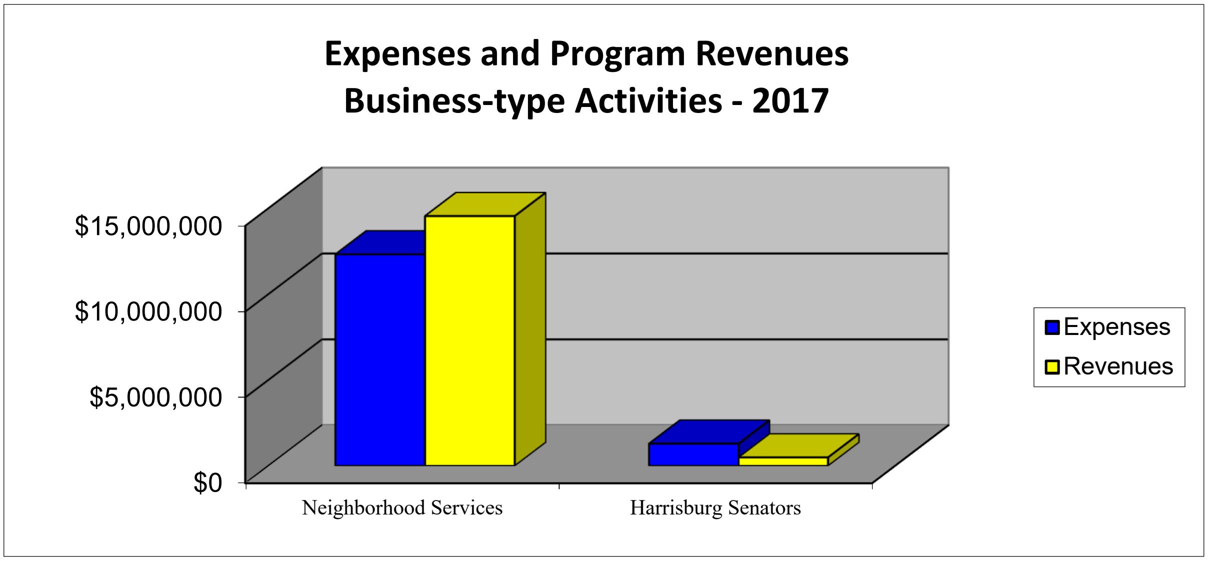

Expenses and Program Revenues
Governmental Activities - 2017
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
General Government
Community and Economic Development
Public Safety
Public Works
Environment
Interest
Expenses
Revenues


Revenues by Source - Governmental Activities
2018
11%
3%
9%
15%
0%
62%
Charges for Services
Operating Grants and Contributions
Capital Grants and Contributions
Taxes
Intergovernmental
Other


Revenues by Source - Governmental Activities
2017
12%
4%
11%
12%
0%
61%
Charges for Services
Operating Grants and Contributions
Capital Grants and Contributions
Taxes
Intergovernmental
Other

**Governmental Activities:** Change in net position in 2018 for governmental activities amounted to a positive $8,988,976 compared with a positive change in net position of $5,224,910 for 2017, resulting in an increase of $3,764,066 for these comparative changes in net position. This increase is mainly comprised of General Government expenses increasing by $5,402,889, Public Safety expenses decreasing by $7,459,032, Public Works expenses decreasing by $1,510,954, and a noted decrease of $167,525 in Community Development Block Grant program grant distributions to local subrecipients. The increase in General Government expenses includes $849,344 less in pension expense, $259,624 more in OPEB expense, $2,718,273 more in expense related to the significantly increased workers' compensation liability, $2,919,265 more in Harrisburg Strong Plan related settlement distributions, and, collectively, $264,047 more in personnel costs applicable to the Offices of the City Treasurer and City Solicitor and the Bureaus of Information Technology and Human Resources. The decrease in Public Safety expenses includes $119,709 more in Police and Fire pension expense, $8,415,816 less in OPEB expense, $157,076 more in Police extra duty costs, $208,577 more in calculated minimum municipal obligation related to the Fire pension plan, $149,961 more in Police regular salaries and wages, and $170,013 more in Fire regular salaries and wages. The decrease in Public Works expenses includes $2,043,724 less in pension expense, $91,700 more in OPEB expense, $696,768 more in other professional fees related to various traffic and engineering initiatives or studies, and $247,601 less in related expenses involving the City's Vehicle Maintenance Center.






**Business-Type Activities:** Change in net position in 2018 for business-type activities amounted to a positive $1,868,365 compared with a positive change in net position of $1,766,572 for 2017, resulting in a fairly immaterial increase of $101,793 for these comparative changes in net position. Program revenues increased by $312,234 and general revenues and other changes in net position increased by $256,149 with an offsetting increase in total expenses of $466,590.

**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, 2018, the City's governmental funds reported a combined ending fund balance of $48,268,255 representing a relatively immaterial increase of $479,336 during the current year.

The General Fund is the City's primary operating governmental fund and experienced a net decrease of $713,003 in fund balance during 2018 including total revenues of $65,482,652 affected by more taxes, more intergovernmental revenue, and less miscellaneous income (a combined net increase of $863,279 over the prior year); total expenditures of $56,747,381 affected by increases in both the general government and public safety functions (a combined increase of $5,534,966 over the prior year); and total net other financing uses of $9,448,274 affected by less in transfers out to other City Funds (a decrease of $527,632 from the prior year).

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 2018 by $1,190,904, and such change is comprised of several factors including $930,387 in hotel tax revenue within the Capital Projects Fund not transferred to the General Fund, $200,000 in transfers from the General Fund to the Capital Projects Fund for enabling additional financial resources for the City's ongoing street and road improvement projects, $527,784 in combined transfers to the General Fund from the Capital Projects Fund for generated street cut inspection revenue and remaining available Pennsylvania Infrastructure Bank loan proceeds, and $611,101 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 2018 resulted in a negative net change in fund balance of ($639,604), resulting in an overall net $12,383,604 favorable variance when compared to final budget amounts for the fiscal year; this favorable variance is summarized with the following related factors and amounts:

Noted specific revenue over budget variances totaling $3,300,587 include $302,935 in unanticipated tax sales from multiple properties, $426,603 in transfer taxes (involved significantly large property), $468,564 in earned income taxes (improved economic and employment opportunities), $686,476 in local services taxes (improved economic and employment opportunities), $374,029 in building permit fees (involved unusually large construction activity area), $265,833 in pension system state aid (increased general municipal allocation from the Commonwealth), $557,229 in parking system related revenue (related to settlement agreement), and $218,918 in interest income (improved money market account rate of return).

Noted specific expenditure under budget variances totaling $9,228,752 include $1,257,013 for Parks and Recreation (mostly personnel, consulting, and capital costs), $267,859 for Planning and Business Development (mostly personnel, consulting, and miscellaneous contracted services), $70,066 for Building and Housing Development (mostly personnel and capital costs), $2,402,023 for the Bureau of Police (mostly personnel, maintenance, liability insurance claims, software, and capital costs), $277,012 for Codes Enforcement (mostly personnel, various services, and supply costs), $1,357,354 for the Bureau of Fire (mostly personnel and capital costs), $2,832,442 for Traffic and Engineering (mostly personnel, consulting, other professional fees, and capital costs), and $764,984 for Vehicle Management (mostly personnel, repairs and maintenance, various vehicle supplies, and capital costs).

**Capital Asset and Debt Administration**

1. **<u>Capital assets</u>** The City's capital assets for its governmental activities and business-type activities as of December 31, 2018 amount to $94,201,157 and $34,897,763 (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 2018 included the following:

   - Governmental activities: Highlighted capital additions are comprised of $1.1 million for buildings including roof replacements for multiple fire stations and the City Government Center, improvements to various playground locations, and upgrades to City pools; $1.7 million for machinery and equipment including various public safety vehicles, upgraded Police portable/mobile radios, and a new server/storage area network applicable to the Bureau of Information Technology; and $3.9 million for various construction in progress projects including several streets and roads, the Public Safety Building roof, the 15th Street Police precinct substation, and the South 14th Street sinkhole.

   - Business-type activities: Highlighted capital additions are comprised of $2.2 million for machinery and equipment, including $1.0 million in various public works equipment and $1.2 million in continued upgrading of heavy-duty vehicles (front-end loaders and dump trucks) for the sanitation/public works department.

   Additional information on the City's capital assets can be found beginning on page 57 of this report.

2. **<u>Long-term debt</u>** During the year ended December 31, 2018, the City entered into capital leases to finance the purchase of equipment in the amount of $172,493 and $1,539,831 in the governmental and business-type activities, respectively. The only other 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 60 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 for fiscal year 2017 to increases of .5% (twice), 2%, and 1% for FOP, IAFF, and AFSCME, respectively; for fiscal year 2018 to increases of .5% (twice), 2%, and 1% again for FOP, IAFF, and AFSCME, respectively; and for fiscal year 2019 to increases of 1%, 2%, and 1% 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 2028.

**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, 2018

| | Primary Government | | | | |
|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Component Units | Total |
| Assets | | | | | |
| Cash and cash equivalents | $ 30,805,708 | $ 5,600,423 | $ 36,406,131 | $ 2,292,125 | $ 38,698,256 |
| Investments, at fair value | 10,020,439 | 5,170 | 10,025,609 | - | 10,025,609 |
| Receivables, net of allowance for uncollectible accounts | | | | | |
| Taxes | 14,152,672 | - | 14,152,672 | - | 14,152,672 |
| Accounts | - | 4,432,521 | 4,432,521 | 140,628 | 4,573,149 |
| Loans | 544,341 | - | 544,341 | 175,752 | 720,093 |
| Lease | - | - | - | 6,006,847 | 6,006,847 |
| Notes | 8,700,130 | - | 8,700,130 | - | 8,700,130 |
| Grants | 1,359,747 | - | 1,359,747 | 88,795 | 1,448,542 |
| Other | 3,836,660 | 1,311,912 | 5,148,572 | - | 5,148,572 |
| Internal balances | 3,189 | (3,189) | - | - | - |
| Other assets | 354,546 | 38,710 | 393,256 | 32,578 | 425,834 |
| Restricted assets | | | | | |
| Cash and cash equivalents | 3,935,244 | 1,359,373 | 5,294,617 | - | 5,294,617 |
| Investments, at fair value | 2,915,017 | 660,004 | 3,575,021 | 918,166 | 4,493,187 |
| Security deposit | - | 1,350,000 | 1,350,000 | - | 1,350,000 |
| Net pension asset | 24,194,884 | 4,517,616 | 28,712,500 | - | 28,712,500 |
| Capital assets, not being depreciated | 30,988,202 | 152,068 | 31,140,270 | 30,000 | 31,170,270 |
| Capital assets, less accumulated depreciation and amortization | 63,212,955 | 34,745,695 | 97,958,650 | 45,962,053 | 143,920,703 |
| Total assets | 195,023,734 | 54,170,303 | 249,194,037 | 55,646,944 | 304,840,981 |
| Deferred Outflows of Resources | | | | | |
| Deferred outflows of resources for other post-employment benefits | 16,068,514 | 449,620 | 16,518,134 | - | 16,518,134 |
| Deferred outflows of resources for pensions | 11,961,789 | 215,154 | 12,176,943 | - | 12,176,943 |
| Total deferred outflows of resources | 28,030,303 | 664,774 | 28,695,077 | - | 28,695,077 |

(continued)

| | Primary Government | | | | |
|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Component Units | Total |
| Liabilities | | | | | |
| Accounts payable and other current liabilities | 4,191,073 | 1,513,764 | 5,704,837 | 199,755 | 5,904,592 |
| Matured bond coupons | 20,097 | - | 20,097 | - | 20,097 |
| Accrued liabilities | 8,408,194 | 172,669 | 8,580,863 | 120,719 | 8,701,582 |
| Due to primary government | - | - | - | 1,076,667 | 1,076,667 |
| Unearned revenue | 5,040,187 | - | 5,040,187 | - | 5,040,187 |
| Current portion of total other post-employment benefits | 4,506,874 | 285,408 | 4,792,282 | - | 4,792,282 |
| Noncurrent liabilities: | | | | | |
| Due within one year | 11,144,697 | 1,276,433 | 12,421,130 | 2,283,051 | 14,704,181 |
| Due in more than one year | 47,799,238 | 8,336,422 | 56,135,660 | 20,145,062 | 76,280,722 |
| Net pension liability | 21,149,481 | - | 21,149,481 | - | 21,149,481 |
| Total other post-employment benefits | 123,797,197 | 8,254,577 | 132,051,774 | - | 132,051,774 |
| Liability under guarantee | 16,568,730 | - | 16,568,730 | - | 16,568,730 |
| Total liabilities | 242,625,768 | 19,839,273 | 262,465,041 | 23,825,254 | 286,290,295 |
| Deferred Inflows of Resources | | | | | |
| Deferred inflows of resources for other post-employment benefits | 42,298,381 | 488,209 | 42,786,590 | - | 42,786,590 |
| Deferred inflows of resources for pensions | 12,953,119 | 1,465,184 | 14,418,303 | - | 14,418,303 |
| Deferred lease revenue | - | - | - | 49,446,224 | 49,446,224 |
| Total deferred inflows of resources | 55,251,500 | 1,953,393 | 57,204,893 | 49,446,224 | 106,651,117 |
| Net position | | | | | |
| Net investment in capital assets | 48,253,700 | 27,693,334 | 75,947,034 | (19,878,994) | 56,068,040 |
| Restricted for: | | | | | |
| Revolving loan program | 247,246 | - | 247,246 | 148,373 | 395,619 |
| Environment | 503,891 | - | 503,891 | - | 503,891 |
| Public works | 2,216,010 | - | 2,216,010 | - | 2,216,010 |
| Community and economic development | 99,796 | - | 99,796 | - | 99,796 |
| Blight remediation | - | - | - | 220,909 | 220,909 |
| Tourism | 2,988,912 | - | 2,988,912 | - | 2,988,912 |
| Debt service | - | 660,004 | 660,004 | - | 660,004 |
| Growth funds | 3,783,902 | - | 3,783,902 | - | 3,783,902 |
| Net pension asset | 24,194,884 | 4,517,616 | 28,712,500 | - | 28,712,500 |
| Other | 146,283 | - | 146,283 | - | 146,283 |
| Insurer agreement | - | - | - | 308,411 | 308,411 |
| Unrestricted | (157,257,855) | 171,457 | (157,086,398) | 1,576,767 | (155,509,631) |
| Total net position | $ (74,823,231) | $ 33,042,411 | $ (41,780,820) | $ (17,624,534) | $ (59,405,354) |

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

**CITY OF HARRISBURG, PENNSYLVANIA**
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

| | | Program Revenues | | |
|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government | | | | |
| Governmental activities | | | | |
| General government | $ 17,686,320 | $ 1,884,241 | $ 45,000 | $ - |
| Community and economic development | 6,575,855 | 578,442 | 6,075,816 | 113,219 |
| Public safety | 29,787,288 | 3,438,940 | 3,331,175 | 64,832 |
| Public works | 7,512,443 | 423,853 | 1,640,667 | 66,775 |
| Environment | 402,972 | 322,917 | - | - |
| Interest on long-term debt | 3,184,717 | - | - | - |
| Total governmental activities | 65,149,595 | 6,648,393 | 11,092,658 | 244,826 |
| Business-type activities | | | | |
| Harrisburg Senators | 1,271,324 | 441,753 | - | - |
| Neighborhood services | 12,801,500 | 14,847,851 | 58,282 | - |
| Total business-type activities | 14,072,824 | 15,289,604 | 58,282 | - |
| Total primary government | $ 79,222,419 | $ 21,937,997 | $ 11,150,940 | $ 244,826 |
| Component units | | | | |
| Harrisburg Parking Authority | $ 1,669,537 | $ 198,393 | $ - | $ - |
| Harrisburg Downtown Improvement District | 759,886 | 628,969 | 97,118 | - |
| Redevelopment Authority | 4,713,760 | 9,028,642 | 295,479 | 45,476 |
| Total component units | $ 7,143,183 | $ 9,856,004 | $ 392,597 | $ 45,476 |

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

Total general revenues and transfers

Change in net position

Net position - January 1, 2018 - restated

Net position - December 31, 2018

| Net (Expense) Revenue and Changes in Net Position | | | | |
|---|---|---|---|---|
| Primary Government | | | | |
| Governmental Activities | Business-type Activities | Total | Component Units | Total |
| $ (15,757,079) | $ - | $ (15,757,079) | $ - | $ (15,757,079) |
| 191,622 | - | 191,622 | - | 191,622 |
| (22,952,341) | - | (22,952,341) | - | (22,952,341) |
| (5,381,148) | - | (5,381,148) | - | (5,381,148) |
| (80,055) | - | (80,055) | - | (80,055) |
| (3,184,717) | - | (3,184,717) | - | (3,184,717) |
| (47,163,718) | - | (47,163,718) | - | (47,163,718) |
| - | (829,571) | (829,571) | - | (829,571) |
| - | 2,104,633 | 2,104,633 | - | 2,104,633 |
| - | 1,275,062 | 1,275,062 | - | 1,275,062 |
| (47,163,718) | 1,275,062 | (45,888,656) | - | (45,888,656) |
| - | - | - | (1,471,144) | (1,471,144) |
| - | - | - | (33,799) | (33,799) |
| - | - | - | 4,655,837 | 4,655,837 |
| - | - | - | 3,150,894 | 3,150,894 |
| 17,359,738 | - | 17,359,738 | - | 17,359,738 |
| 1,087,443 | - | 1,087,443 | - | 1,087,443 |
| 6,775,962 | - | 6,775,962 | - | 6,775,962 |
| 12,063,687 | - | 12,063,687 | - | 12,063,687 |
| 7,430,806 | - | 7,430,806 | - | 7,430,806 |
| 559,868 | - | 559,868 | - | 559,868 |
| 46,660 | - | 46,660 | - | 46,660 |
| 809,462 | - | 809,462 | - | 809,462 |
| 8,459,420 | - | 8,459,420 | - | 8,459,420 |
| 20,068 | - | 20,068 | 128,115 | 148,183 |
| - | 11,128 | 11,128 | 33,645 | 44,773 |
| 2,058,962 | 62,793 | 2,121,755 | 1,263,778 | 3,385,533 |
| (519,382) | 519,382 | - | - | - |
| 56,152,694 | 593,303 | 56,745,997 | 1,425,538 | 58,171,535 |
| 8,988,976 | 1,868,365 | 10,857,341 | 4,576,432 | 15,433,773 |
| (83,812,207) | 31,174,046 | (52,638,161) | (22,200,966) | (74,839,127) |
| $ (74,823,231) | $ 33,042,411 | $ (41,780,820) | $ (17,624,534) | $ (59,405,354) |

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

**CITY OF HARRISBURG, PENNSYLVANIA**
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2018

| | General | Grant Programs | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | $ 26,572,991 | $ 3,086,583 | $ - | $ 1,146,134 | $ 30,805,708 |
| Investments, at fair value | 3,617,832 | 2,553,993 | 62,825 | 3,785,789 | 10,020,439 |
| Receivables, net of allowance for uncollectible accounts | | | | | |
| Taxes | 14,078,777 | - | - | 73,895 | 14,152,672 |
| Loans | 247,246 | 297,095 | - | - | 544,341 |
| Notes | 8,700,130 | - | - | - | 8,700,130 |
| Grants | - | 1,359,747 | - | - | 1,359,747 |
| Other | 2,845,881 | - | - | 990,779 | 3,836,660 |
| Due from other funds | 3,840,212 | 773,592 | - | 305,998 | 4,919,802 |
| Other assets | 115,603 | 238,943 | - | - | 354,546 |
| Restricted assets | | | | | |
| Cash and cash equivalents | 3,852,100 | - | - | 83,144 | 3,935,244 |
| Investments, at fair value | - | - | - | 2,915,017 | 2,915,017 |
| Total assets | $ 63,870,772 | $ 8,309,953 | $ 62,825 | $ 9,300,756 | $ 81,544,306 |

(continued)

| | General | Grant Programs | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE** | | | | | |
| Liabilities | | | | | |
| Accounts payable | $ 2,633,280 | $ 1,075,185 | $ - | $ 482,608 | $ 4,191,073 |
| Accrued liabilities | 822,729 | 10,754 | - | 1,912 | 835,395 |
| Compensated absences | 21,161 | - | - | - | 21,161 |
| Matured bond coupons payable | - | - | 20,097 | - | 20,097 |
| Due to other funds | 966,886 | 3,817,370 | 55,567 | 76,790 | 4,916,613 |
| Unearned revenue | 118,064 | 3,406,644 | - | 1,006,626 | 4,531,334 |
| Total liabilities | 4,562,120 | 8,309,953 | 75,664 | 1,567,936 | 14,515,673 |
| Deferred inflows of resources | | | | | |
| Unavailable revenue - taxes | 9,236,589 | - | - | - | 9,236,589 |
| Unavailable revenue - notes receivable | 8,700,130 | - | - | - | 8,700,130 |
| Unavailable revenue - other entities | 823,659 | - | - | - | 823,659 |
| Total deferred inflows of resources | 18,760,378 | - | - | - | 18,760,378 |
| Fund balance | | | | | |
| Nonspendable | 115,603 | - | - | - | 115,603 |
| Restricted for | | | | | |
| Revolving loan program | 247,246 | - | - | - | 247,246 |
| Environment | - | - | - | 503,891 | 503,891 |
| Public works | - | - | - | 2,216,010 | 2,216,010 |
| Community and economic development | - | - | - | 99,796 | 99,796 |
| Tourism | - | - | - | 2,988,912 | 2,988,912 |
| Other | 68,198 | - | - | - | 68,198 |
| Capital projects | - | - | - | 1,224,211 | 1,224,211 |
| Growth funds | 3,783,902 | - | - | - | 3,783,902 |
| Assigned for | | | | | |
| General government | 32,263 | - | - | - | 32,263 |
| Capital projects | - | - | - | 700,000 | 700,000 |
| Public works | 123,592 | - | - | - | 123,592 |
| Public safety | 926,404 | - | - | - | 926,404 |
| Community and economic development | 373,742 | - | - | - | 373,742 |
| 2019 budget | 6,758,855 | - | - | - | 6,758,855 |
| Encumbrances | | | | | |
| Public works | 1,396,722 | - | - | - | 1,396,722 |
| Public safety | 1,081,412 | - | - | - | 1,081,412 |
| Community and economic development | 210,893 | - | - | - | 210,893 |
| Unassigned | 25,429,442 | - | (12,839) | - | 25,416,603 |
| Total fund balance | 40,548,274 | - | (12,839) | 7,732,820 | 48,268,255 |
| Total liabilities, deferred inflows of resources, and fund balance | $ 63,870,772 | $ 8,309,953 | $ 62,825 | $ 9,300,756 | $ 81,544,306 |

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, 2018

| | | |
|---|---|---|
| Fund balance - total governmental funds | | $ 48,268,255 |
| 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 | $ 266,518,642 | |
| Less accumulated depreciation | (172,317,485) | 94,201,157 |
| Receivables that are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds. | | 18,760,378 |
| Net pension asset, net of related deferred inflows and outflows of resources | | 23,203,554 |
| 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. | | (508,853) |
| 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 | (4,109,496) | |
| Bonds payable | (8,338,777) | |
| Notes payable | (24,131,385) | |
| Capital leases payable | (1,835,345) | |
| Compensated absences | (5,407,771) | |
| Compensated absences due and payable at December 31, 2018 | 21,161 | |
| Claims and judgments | (675,000) | |
| Due to bond insurer | (14,896,161) | |
| Settlement with suburban municipalities | (225,000) | |
| Liability under guarantee | (16,568,730) | |
| Net pension liability | (21,149,481) | |
| Total other post-employment benefits liability, net of related deferred outflows and inflows of resources | (154,533,938) | |
| Accrued interest payable | (6,897,799) | (258,747,722) |
| Net position of governmental activities | | $ (74,823,231) |

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, 2018

| | General | Grant Programs | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Taxes | $ 45,626,743 | $ - | $ - | $ - | $ 45,626,743 |
| Licenses and permits | 673,308 | - | - | - | 673,308 |
| Intergovernmental revenue | 9,261,033 | 6,366,497 | - | 2,564,631 | 18,192,161 |
| Department earnings and program revenue | 5,154,965 | 116,880 | - | 1,230,602 | 6,502,447 |
| Fines and forfeits | 874,079 | - | - | - | 874,079 |
| Investment income | 2,351,226 | 8,241 | 1,434 | 116,059 | 2,476,960 |
| Miscellaneous | 1,541,298 | 176,904 | - | - | 1,718,202 |
| Total revenues | 65,482,652 | 6,668,522 | 1,434 | 3,911,292 | 76,063,900 |
| Expenditures | | | | | |
| Current | | | | | |
| General government | 12,951,958 | 10,408 | - | - | 12,962,366 |
| Community and economic development | 2,318,925 | 3,780,166 | - | - | 6,099,091 |
| Public safety | 34,757,270 | 1,803,758 | - | - | 36,561,028 |
| Public works | 5,658,719 | 66,775 | - | 821,662 | 6,547,156 |
| Environment | - | - | - | 351,712 | 351,712 |
| Capital outlay | - | - | - | 1,219,230 | 1,219,230 |
| Debt service | | | | | |
| Principal retirements | 1,054,402 | 525,000 | 9,781,110 | - | 11,360,512 |
| Interest and fiscal charges | 6,107 | 52,778 | 77,695 | - | 136,580 |
| Total expenditures | 56,747,381 | 6,238,885 | 9,858,805 | 2,392,604 | 75,237,675 |
| Excess of revenues over (under) expenditures | 8,735,271 | 429,637 | (9,857,371) | 1,518,688 | 826,225 |
| Other financing sources (uses) | | | | | |
| Capital lease | 172,493 | - | - | - | 172,493 |
| Transfers in | 944,829 | 197,408 | 9,858,806 | 200,000 | 11,201,043 |
| Transfers out | (10,565,596) | (627,045) | - | (527,784) | (11,720,425) |
| Total other financing sources (uses) | (9,448,274) | (429,637) | 9,858,806 | (327,784) | (346,889) |
| Net change in fund balances | (713,003) | - | 1,435 | 1,190,904 | 479,336 |
| Fund balances - beginning of year | 41,261,277 | - | (14,274) | 6,541,916 | 47,788,919 |
| Fund balances - end of year | $ 40,548,274 | $ - | $ (12,839) | $ 7,732,820 | $ 48,268,255 |

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, 2018

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

| | | |
|---|---|---|
| Net change in fund balance - total governmental funds | | $ 479,336 |
| 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. | | |
| Capital outlays | $ 8,259,066 | |
| Depreciation expense | (5,180,834) | 3,078,232 |
| When recognizing the sale of capital assets, the governmental funds report the proceeds from the sale. Only the gain or loss on the sale is reported in the governmental activities. | | (1,933) |
| 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. | | (2,263,081) |
| The total other post-employment benefits liability is recorded as a liability in the government-wide financial statements, but not in the fund financial statements. This amount represents the change in the total other post-employment benefits liability, net of deferred inflows and outflows of resources. | | 4,199,815 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (1,689,307) |
| 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. | | |
| Amortization | | 104,464 |
| 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. | | |
| Issuance | (172,493) | |
| Principal repayments | 10,360,512 | |
| Settlement with suburban municipalities | 1,000,000 | 11,188,019 |
| 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. | | |
| Workers' compensation | (2,123,099) | |
| Vested compensated absences | (359,872) | |
| Accrued interest | (1,126,738) | |
| Amortization of liability under guarantee | (575,460) | |
| Amortization of bond discounts | (1,921,400) | (6,106,569) |
| Change in net position of governmental activities | | $ 8,988,976 |

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

**CITY OF HARRISBURG, PENNSYLVANIA**
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2018

| | Harrisburg Senators Fund | Neighborhood Services Fund | Total Proprietary Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ - | $ 5,600,423 | $ 5,600,423 |
| Investments, at fair value | - | 5,170 | 5,170 |
| Receivables, net of allowance for uncollectible accounts | | | |
| Accounts | - | 4,432,521 | 4,432,521 |
| Other | - | 1,311,912 | 1,311,912 |
| Due from other funds | 78,386 | 369,039 | 447,425 |
| Prepaid expenses and other assets | 38,710 | - | 38,710 |
| Total current assets | 117,096 | 11,719,065 | 11,836,161 |
| Long-term assets | | | |
| Restricted assets | | | |
| Cash and cash equivalents | 123,591 | 1,235,782 | 1,359,373 |
| Investments, at fair value | 660,004 | - | 660,004 |
| Security deposit | - | 1,350,000 | 1,350,000 |
| Net pension asset | - | 4,517,616 | 4,517,616 |
| Capital assets, not being depreciated | - | 152,068 | 152,068 |
| Capital assets, less accumulated depreciation and amortization | 29,050,302 | 5,695,393 | 34,745,695 |
| Total long-term assets | 29,833,897 | 12,950,859 | 42,784,756 |
| Total assets | 29,950,993 | 24,669,924 | 54,620,917 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred outflows of resources for other post-employment benefits | - | 449,620 | 449,620 |
| Deferred outflows of resources for pension | - | 215,154 | 215,154 |
| Total deferred outflows of resources | - | 664,774 | 664,774 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable | - | 1,513,764 | 1,513,764 |
| Accrued liabilities | 37,795 | 134,874 | 172,669 |
| Due to other funds | - | 450,614 | 450,614 |
| Current portion of workers' compensation | - | 305,324 | 305,324 |
| Current portion of lease rental bonds payable | 360,000 | - | 360,000 |
| Current portion of capitalized lease obligations | - | 576,859 | 576,859 |
| Current portion of vested compensated absences | - | 34,250 | 34,250 |
| Current portion of other post-employment benefits | - | 285,408 | 285,408 |
| Total current liabilities | 397,795 | 3,301,093 | 3,698,888 |
| Long-term liabilities | | | |
| Workers' compensation | - | 645,546 | 645,546 |
| Lease rental bonds payable | 5,404,567 | - | 5,404,567 |
| Capitalized lease obligations | - | 1,725,202 | 1,725,202 |
| Vested compensated absences | - | 561,107 | 561,107 |
| Total other post-employment benefits | - | 8,254,577 | 8,254,577 |
| Total long-term liabilities | 5,404,567 | 11,186,432 | 16,590,999 |
| Total liabilities | 5,802,362 | 14,487,525 | 20,289,887 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred inflows of resources for other post-employment benefits | - | 488,209 | 488,209 |
| Deferred inflows of resources for pension | - | 1,465,184 | 1,465,184 |
| Total deferred inflows of resources | - | 1,953,393 | 1,953,393 |
| **NET POSITION** | | | |
| Net investment in capital assets | 23,487,712 | 4,205,622 | 27,693,334 |
| Restricted | | | |
| Debt service | 660,004 | - | 660,004 |
| Net pension asset | - | 4,517,616 | 4,517,616 |
| Unrestricted | 915 | 170,542 | 171,457 |
| Total net position | $ 24,148,631 | $ 8,893,780 | $ 33,042,411 |

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, 2018

| | Harrisburg Senators Fund | Neighborhood Services Fund | Total Proprietary Funds |
|---|---|---|---|
| Operating revenues | | | |
| Charges for service | $ 441,753 | $ 14,847,851 | $ 15,289,604 |
| Operating expenses | | | |
| Salaries and wages | - | 3,416,069 | 3,416,069 |
| Fringe benefits | - | (425,992) | (425,992) |
| Communications | - | 175,086 | 175,086 |
| Professional fees | - | 12,814 | 12,814 |
| Utilities | - | 247,612 | 247,612 |
| Insurance | - | 96,150 | 96,150 |
| Maintenance and repairs | 25,000 | 254,807 | 279,807 |
| Contracted services | - | 7,224,520 | 7,224,520 |
| Property taxes | - | 71,115 | 71,115 |
| Rent | - | 3,358 | 3,358 |
| Supplies | - | 895,732 | 895,732 |
| Depreciation | 928,600 | 754,228 | 1,682,828 |
| Total operating expenses | 953,600 | 12,725,499 | 13,679,099 |
| Operating income (loss) | (511,847) | 2,122,352 | 1,610,505 |
| Nonoperating revenues (expenses) | | | |
| State subsidy | - | 58,282 | 58,282 |
| Investment income | 8,162 | 54,631 | 62,793 |
| Miscellaneous income | - | 11,128 | 11,128 |
| Interest expense | (311,890) | (76,001) | (387,891) |
| Amortization of bond issue costs | (5,834) | - | (5,834) |
| Total nonoperating revenues (expenses) | (309,562) | 48,040 | (261,522) |
| Income (loss) before transfers | (821,409) | 2,170,392 | 1,348,983 |
| Transfers in | 239,681 | 279,701 | 519,382 |
| Change in net position | (581,728) | 2,450,093 | 1,868,365 |
| Net position - beginning of year - restated | 24,730,359 | 6,443,687 | 31,174,046 |
| Net position - end of year | $ 24,148,631 | $ 8,893,780 | $ 33,042,411 |

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, 2018

| | Harrisburg Senators Fund | Neighborhood Services Fund | Total Proprietary Funds |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Received from user charges | $ 441,753 | $ 13,960,739 | $ 14,402,492 |
| Payments to employees for services | - | (3,334,710) | (3,334,710) |
| Payments for fringe benefits | - | (1,350,687) | (1,350,687) |
| Payments to suppliers for goods and services | (25,000) | (9,095,729) | (9,120,729) |
| Net cash provided by operating activities | 416,753 | 179,613 | 596,366 |
| Cash flows from noncapital financing activities | | | |
| State subsidy | - | 58,282 | 58,282 |
| Miscellaneous income | - | 11,128 | 11,128 |
| Transfers in | 239,681 | 279,701 | 519,382 |
| Net cash provided by noncapital financing activities | 239,681 | 349,111 | 588,792 |
| Cash flows from capital and related financing activities | | | |
| Acquisition and construction of capital assets | - | (475,913) | (475,913) |
| Interest paid | (310,859) | (76,001) | (386,860) |
| Lease, bond and note payments | (340,000) | (574,744) | (914,744) |
| Net cash used in capital and related financing activities | (650,859) | (1,126,658) | (1,777,517) |
| Cash flows from investing activities | | | |
| Purchase of investments | (1,264) | (1,499) | (2,763) |
| Investment income | 7,554 | 54,631 | 62,185 |
| Net cash provided by investing activities | 6,290 | 53,132 | 59,422 |
| Net increase (decrease) in cash and cash equivalents | 11,865 | (544,802) | (532,937) |
| Cash and cash equivalents (including restricted cash) - beginning of year | 111,726 | 7,381,007 | 7,492,733 |
| Cash and cash equivalents (including restricted cash) - end of year | $ 123,591 | $ 6,836,205 | $ 6,959,796 |

(continued)

**CITY OF HARRISBURG, PENNSYLVANIA**
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2018

| | Harrisburg Senators Fund | Neighborhood Services Fund | Total Proprietary Funds |
|---|---|---|---|
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | |
| Operating income (loss) | $ (511,847) | $ 2,122,352 | $ 1,610,505 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | | |
| Depreciation | 928,600 | 754,228 | 1,682,828 |
| Amortization of deferred outflows and inflows of resources | - | 143,556 | 143,556 |
| Provision for uncollectible accounts | - | 1,533,054 | 1,533,054 |
| Changes in assets and liabilities | | | |
| Accounts receivable | - | (2,154,945) | (2,154,945) |
| Deferred outflows of resources for pension | - | (284,296) | (284,296) |
| Deferred outflows of resources for other post-employment benefits | - | (129,127) | (129,127) |
| Due from/to other funds | - | (265,221) | (265,221) |
| Net pension asset | - | (2,186,799) | (2,186,799) |
| Total other post-employment benefit liability | - | (2,226,428) | (2,226,428) |
| Accounts payable and other accrued costs | - | (164,507) | (164,507) |
| Workers' compensation | - | 49,972 | 49,972 |
| Vested compensated absences | - | 81,359 | 81,359 |
| Deferred inflows of resources for pension | - | 2,255,470 | 2,255,470 |
| Deferred inflows of resources for other post-employment benefits | - | 650,945 | 650,945 |
| Net cash provided by operating activities | $ 416,753 | $ 179,613 | $ 596,366 |
| Noncash investing, capital, and financing activities | | | |
| Issuance of capital lease | $ - | $ 1,539,831 | $ 1,539,831 |
| Amortization of bond discount | $ 5,834 | $ - | $ 5,834 |

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

**CITY OF HARRISBURG, PENNSYLVANIA**
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2018

| | Police Pension Trust Fund | Agency Funds |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ - | $ 1,149,729 |
| Receivables | | |
| Interest and dividends | 32,009 | - |
| Total receivables | 32,009 | - |
| Investments, at fair value | | |
| Money market funds | 568,726 | - |
| Mutual funds | | |
| Equity | 53,007,455 | - |
| Fixed income | 20,332,800 | - |
| Partnership | 3,113,089 | - |
| Total investments | 77,022,070 | - |
| Total assets | 77,054,079 | 1,149,729 |
| **LIABILITIES** | | |
| Due to other governments | - | 653,241 |
| Escrow liabilities | - | 496,488 |
| Total liabilities | - | $ 1,149,729 |
| **NET POSITION** | | |
| Restricted for police pension benefits | $ 77,054,079 | |

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, 2018

| | |
|---|---|
| Additions | |
| Contributions | |
| Plan member | $ 458,735 |
| Employer | 3,400,136 |
| Total contributions | 3,858,871 |
| Investment income (loss) | |
| Interest and dividend income | 2,398,424 |
| Net depreciation in fair value of investments | (6,801,030) |
| Total investment income (loss) | (4,402,606) |
| Less investment expense | (207,050) |
| Net investment income (loss) | (4,609,656) |
| Total additions | (750,785) |
| Deductions | |
| Pension benefits | 6,450,151 |
| Administrative expenses | 51,959 |
| Total deductions | 6,502,110 |
| Change in net position | (7,252,895) |
| Net position - beginning of year | 84,306,974 |
| Net position - end of year | $ 77,054,079 |

The accompanying notes are an integral
part of the 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, 2018, 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, 2018

| | Harrisburg Parking Authority | Harrisburg Downtown Improvement District | Redevelopment Authority | Total Component Units |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 1,313,504 | $ 353,009 | $ 625,612 | $ 2,292,125 |
| Receivables, net of allowance for uncollectible accounts | | | | |
| Accounts | 20,970 | 5,986 | 113,672 | 140,628 |
| Grants | - | - | 88,795 | 88,795 |
| Loans | - | - | 24,852 | 24,852 |
| Lease | - | - | 577,600 | 577,600 |
| Prepaid expenses and other assets | 8,419 | 24,159 | - | 32,578 |
| Total current assets | 1,342,893 | 383,154 | 1,430,531 | 3,156,578 |
| Restricted assets | | | | |
| Investments, at fair value | - | - | 918,166 | 918,166 |
| Total restricted assets | - | - | 918,166 | 918,166 |
| Loans receivable | - | - | 150,900 | 150,900 |
| Lease receivable | - | - | 5,429,247 | 5,429,247 |
| Capital assets, not being depreciated | - | - | 30,000 | 30,000 |
| Capital assets, less accumulated depreciation | 3,874,606 | - | 42,071,559 | 45,946,165 |
| Project costs, less accumulated amortization | - | 15,888 | - | 15,888 |
| Total assets | 5,217,499 | 399,042 | 50,030,403 | 55,646,944 |

(continued)

| LIABILITIES | Harrisburg Parking Authority | Harrisburg Downtown Improvement District | Redevelopment Authority | Total Component Units |
|---|---|---|---|---|
| Current liabilities (payable from current assets) | | | | |
| Accounts payable and accrued liabilities | 97,348 | 25,467 | 76,940 | 199,755 |
| Due to primary government | - | - | 1,076,667 | 1,076,667 |
| Accrued interest payable | - | - | 118,273 | 118,273 |
| Total current liabilities (payable from current assets) | 97,348 | 25,467 | 1,271,880 | 1,394,695 |
| Current liabilities (payable from restricted assets) | | | | |
| Current portion of revenue bonds payable | - | - | 1,930,000 | 1,930,000 |
| Current portion of revenue notes payable | - | - | 346,563 | 346,563 |
| Current portion of capitalized lease obligation | - | - | 6,488 | 6,488 |
| Total current liabilities (payable from restricted assets) | - | - | 2,283,051 | 2,283,051 |
| Noncurrent liabilities | | | | |
| Compensated absences | - | - | 2,446 | 2,446 |
| Revenue bonds payable, net of discount | - | - | 19,432,758 | 19,432,758 |
| Revenue notes payable, net of discount | - | - | 516,651 | 516,651 |
| Capitalized lease obligation | - | - | 24,821 | 24,821 |
| Due to other governments | - | - | 170,832 | 170,832 |
| Total liabilities | 97,348 | 25,467 | 23,702,439 | 23,825,254 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred lease revenue | - | - | 49,446,224 | 49,446,224 |
| **NET POSITION** | | | | |
| Net position | | | | |
| Net investment in capital assets | 3,874,606 | - | (23,753,600) | (19,878,994) |
| Restricted | | | | |
| Revolving loan program | - | - | 148,373 | 148,373 |
| Insurer agreement | 308,411 | - | - | 308,411 |
| Blight remediation | - | - | 220,909 | 220,909 |
| Unrestricted | 937,134 | 373,575 | 266,058 | 1,576,767 |
| Total net position | $ 5,120,151 | $ 373,575 | $ (23,118,260) | $ (17,624,534) |

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

**CITY OF HARRISBURG**
STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2018

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Contributions and Grants | Capital Contributions and Grants |
| Harrisburg Parking Authority | $ 1,669,537 | $ 198,393 | $ - | $ - |
| Harrisburg Downtown Improvement District | 759,886 | 628,969 | 97,118 | - |
| Redevelopment Authority | 4,713,760 | 9,028,642 | 295,479 | 45,476 |
| Total component units | $ 7,143,183 | $ 9,856,004 | $ 392,597 | $ 45,476 |

General revenues
Miscellaneous income
Unrestricted investment earnings
Gain on sale of assets

Total general revenues

Change in net position

Net position - January 1, 2018

Net position - December 31, 2018

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|---|---|---|
| Harrisburg Parking Authority | Harrisburg Downtown Improvement District | Redevelopment Authority | Total |
| $ (1,471,144) | $ - | $ - | $ (1,471,144) |
| - | (33,799) | - | (33,799) |
| - | - | 4,655,837 | 4,655,837 |
| (1,471,144) | (33,799) | 4,655,837 | 3,150,894 |
| | | | |
| - | - | 33,645 | 33,645 |
| 1,238,060 | 2,603 | 23,115 | 1,263,778 |
| - | - | 128,115 | 128,115 |
| 1,238,060 | 2,603 | 184,875 | 1,425,538 |
| (233,084) | (31,196) | 4,840,712 | 4,576,432 |
| 5,353,235 | 404,771 | (27,958,972) | (22,200,966) |
| $ 5,120,151 | $ 373,575 | $ (23,118,260) | $ (17,624,534) |

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, 2018.

*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 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 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 forty 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, 2018, 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, 2018, 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, the Council of the City of Harrisburg ratified the plan, established a Neighborhood Improvement District, and authorized the Corporation to administer just services to the District. The adoption of this ordinance allowed the Corporation, effective October 1, 2004, to replace the Harrisburg Downtown Improvement District Authority (District Authority) by providing the same business improvements and administrative services to a larger downtown business district. Upon the adoption various resolutions, the District Authority was terminated effective September 30, 2004, and all the District Authority's assets, liabilities, and contractual rights were assumed by the Corporation.

On September 12, 2017, the Corporation was re-authorized by the Council of the City of Harrisburg to administer services and expand the boundaries for a five-year term beginning January 1, 2018 and ending December 31, 2022.

***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. 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, 2018:

| | |
|---|---|
| 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 | $ 3,461,917 |
| Capital Assets, Net | $ 19,579,542 |
| Total Assets and Deferred Outflows of Resources | $ 25,628,780 |
| Net Position | $ 15,770,069 |
| Operating Revenue | $ 6,429,050 |
| Operating Loss | $ (18,813,939) |
| Change in Net Position | $ 251,551 |
| City Contribution to Operations | $ 307,406 |

***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, 2018 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*** – 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 $972,734 and the Mayor's Office of Equal Economic Opportunity (MOEEO) in the amount of $1,414,086, net of allowances for uncollectible accounts of $675,639 and $1,166,840, 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, 2018, there was $175,752 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, 2018.

### H. *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."

**I.** ***Security Deposit***

At December 31, 2018, 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.

**J.** ***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, 2018. 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 Corporation's leased space, which are stated at cost and depreciated over the lease term using the straight-line method of deprecation.

*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 |

**K.** ***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.

### L. *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.

### M. *Deferred Inflows and Outflows of Resources for Pensions and Other Post-Employment Benefits (OPEB)*

In conjunction with pension and OPEB accounting requirements, the effect of 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 and OPEB on the government-wide and proprietary fund financial statements. These amounts are determined based on the actuarial valuations performed for the pension and OPEB plans.

### N. *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the 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 $2,689,027 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, 2018.

**O.** ***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.

**P.** ***Minimum Fund Balance Policy***

In December 2018, the City established a fund balance policy which included the following:

1. The Bureau of Financial Management will measure the budgetary fund balance on a calendar year using the cash basis of accounting and report this amount to City Council by January 31st of the subsequent year.

2. The target size of budgetary fund balance will be set at a level equal to 5% of the General Fund adopted expenditure budget beginning as of January 1st of any fiscal year.

3. The Administration will attempt to maintain the budgetary fund balance by transferring each year's annual surplus into a segregated cash account on the City's ledger.

4. Should the budgetary fund balance drop below 5% of the same year's General Fund budget, notification will be given to the Budget and Finance Committee. While identified uses of the fund balance may be proposed that could continue the trend below 5%, such uses will be disclosed and approved by City Council. Draws for operational (recurring) purposes will be only to cover extraordinary circumstances.

5. Permanent draws would be for investment or capital purposes or to provide funding for capital-related debt service.

6. Some resources may be committed to cover pension fund shortfalls in annual funding that are determined on a calendar year accounting period.

**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 $4,109,496 and $950,870 in the governmental activities and business-type activities, respectively, at December 31, 2018. 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 | 2018 | 2017 |
|---|---|---|---|---|
| Beginning - January 1 | $ 1,986,397 | $ 900,898 | $ 2,887,295 | $ 3,766,110 |
| Current year claims and changes in estimates | 2,716,019 | 114,663 | 2,830,682 | 44,476 |
| Claim payments | (592,920) | (64,691) | (657,611) | (923,291) |
| Ending - December 31 | $ 4,109,496 | $ 950,870 | $ 5,060,366 | $ 2,887,295 |

*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 2018. 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 16$^{th}$ 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 administration 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 2018.

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, 2018, non-recourse debt issues of the Redevelopment Authority totaled approximately $5.8 million on behalf of the City.

**V.** ***Adoption of Governmental Accounting Standards Board (GASB) Statement and Restatement of Net Position***

GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,"* was adopted for the year ended December 31, 2018 by the City.

As a result of this implementation, net position was restated as follows:

| | Governmental Activities | Business-Type Activitities | Total | Neighborhood Services Fund |
|---|---|---|---|---|
| Net position at January 1, 2018 - as originally stated | $ (5,416,042) | $ 36,736,895 | $ 31,320,853 | $ 12,006,536 |
| Remove net OPEB liability at January 1, 2018 | 80,337,588 | 4,828,333 | 85,165,921 | 4,828,333 |
| Adjustment to net OPEB liability at January 1, 2018 attributable to sewer retirees | (982,488) | - | (982,488) | - |
| Record total OPEB liability at January 1, 2018 | (164,855,242) | (10,766,413) | (175,621,655) | (10,766,413) |
| Adjustment to total OPEB liability at January 1, 2018 attributable to sewer retirees | 1,082,908 | - | 1,082,908 | - |
| Contributions subsequent to the measurement date at January 1, 2018 | 6,121,489 | 375,231 | 6,496,720 | 375,231 |
| Adjustment to contributions subsequent to the measurement date attributable to sewer retirees at January 1, 2018 | (100,420) | - | (100,420) | - |
| Net position at January 1, 2018 - restated | $ (83,812,207) | $ 31,174,046 | $ (52,638,161) | $ 6,443,687 |

Net OPEB liabilities and other related components are described more fully in Note 17.

### W. *Pending Changes in Accounting Principles*

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 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.

In May of 2019, the GASB issued Statement No. 91, *"Conduit Debt Obligations."* This Statement improves financial reporting by providing users of financial statements with more relevant information about conduit debt obligations. The resulting information also will clarify the existing definition of a conduit debt obligation, establish that a conduit debt obligation is not a liability of the issuer, establish standards for accounting and financial reporting of additional commitments associated with the conduit debt obligation, and improve the note disclosures. The provisions of GASB Statement No. 91 are effective for the City's December 31, 2021 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, 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, 2018, 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, 2018, the City received approximately $1.5 million in proceeds related to capital leases. Unspent lease proceeds of $660,222 at December 31, 2018 are maintained in a segregated bank account and are classified as restricted assets since their use is limited by the provisions of the capital leases.

During the year ended December 31, 2013, the City received proceeds from the leasing of certain of the Authority's assets. Certain proceeds are maintained in a segregated bank account, classified as restricted assets, consisting of $3.7 million to fund a yet to be established other post-employment benefit trust fund.

***Deposits***

At December 31, 2018, the deposits of the City, including component units, were as follows:

| | |
|---|---|
| Reconciliation to statement of net position: | |
| Governmental activities | |
| Unrestricted | $ 30,805,708 |
| Restricted | 3,935,244 |
| Business-type activities | |
| Unrestricted | 5,600,423 |
| Restricted | 1,359,373 |
| Fiduciary funds - agency fund | 1,149,729 |
| Total primary government | $ 42,850,477 |
| Component units | |
| Unrestricted | $ 2,292,125 |

***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, 2018, the City's book balance was $42,850,477 and the bank balance was $45,675,567. Of the bank balance, $833,144 was covered by Federal Depository Insurance, $44,154,490 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, and $660,222 was uncollateralized. Of the remaining bank balance $27,711 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, 2018, 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, 2018. Interest of $1,507,163 has been earned on the deposits and claims of $700,000 have been paid from the bank account from inception through December 31, 2018. 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 $1,157,163 at December 31, 2018, of which $150,873 is included in the General Fund, $728,200 is included in the General Fund as due to CRW, and $278,090 is included in the Neighborhood Services Fund at December 31, 2018.

*Component Units*

*<u>Harrisburg Parking Authority</u>*

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, 2018, the Authority's deposits have a book and bank balance of $1,313,504 and $1,315,034 respectively. Of the bank balance, $4,317 was covered by federal depository insurance. The remaining $1,310,717 was invested in INVEST. At December 31, 2018, 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, 2018, the Corporation had $103,108 and $201,897 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, 2018, the Redevelopment Authority's book balance was $625,612 and the bank balance was $639,356. Of the bank balance, $523,567 was covered by federal depository insurance. The remaining balance of $115,789 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.

***Investments***

At December 31, 2018, the investments of the City were as follows:

| | | Fair Value Measurements | |
|---|---|---|---|
| | Total | Level 1 | Level 3 |
| Primary Government | | | |
| Unrestricted investments | | | |
| External investment pool | $ 10,025,609 | $ 10,025,609 | $ - |
| Total unrestricted investments | 10,025,609 | 10,025,609 | - |
| Restricted investments | | | |
| External investment pool | 2,915,017 | 2,915,017 | - |
| Money market funds | 660,004 | 660,004 | - |
| Total restricted investments | 3,575,021 | 3,575,021 | - |
| Fiduciary funds | | | |
| Money market funds | 568,726 | 568,726 | - |
| Mutual funds | | | |
| Equity - domestic | 34,315,291 | 34,315,291 | - |
| Equity - international | 18,692,164 | 18,692,164 | - |
| Fixed income | 20,332,800 | 20,332,800 | - |
| Partnership | 3,113,089 | - | 3,113,089 |
| Total fiduciary funds | 77,022,070 | 73,908,981 | 3,113,089 |
| Total primary government | $ 90,622,700 | $ 87,509,611 | $ 3,113,089 |

| | |
|---|---|
| Component Units | |
| Restricted investments | |
| Money market funds | $ 917,293 |
| External investment pool | 873 |
| Total restricted investments | 918,166 |
| Total component units | $ 918,166 |

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, 2018, the City has $3,113,089 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 $90,622,700, $77,022,070 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 $13,600,630 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, 2018, 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, 2018, 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 to credit risk of investments. The City's investments had the following level of exposure to credit risk as of December 31, 2018:

| | Fair Value | Rating |
|---|---|---|
| Money market funds | $ 1,228,730 | AAA |
| External investment pool | 12,940,626 | AAA |
| Mutual funds - fixed income | 18,948,376 | *A |
| Mutual funds - fixed income | 1,384,424 | *BB |
| Partnership | 3,113,089 | 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:

| | | Investment Maturities | |
|---|---|---|---|
| Investment Type | Fair Value | 2019 | 2024-2028 |
| Money market funds | $ 1,228,730 | $ 1,228,730 | $ - |
| External investment pool | 12,940,626 | 12,940,626 | - |
| Mutual funds - fixed income | 20,332,800 | - | 20,332,800 |
| Total | $ 34,502,156 | $ 14,169,356 | $ 20,332,800 |

*Component Unit*

*Redevelopment Authority of the City of Harrisburg*

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

The fair value of the investments of the Redevelopment Authority at December 31, 2018 were as follows:

| Investments | Fair Value |
|---|---|
| Money market funds | $ 917,293 |
| External investment pool | 873 |
| Total investments | $ 918,166 |

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, 2018, 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, 2018, 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, 2018:

| | Fair Value | Rating |
|---|---|---|
| Money market funds | $ 917,293 | AAA |
| External investment pool | 873 | 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, 2018.

## 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 2018 is as follows:

| | |
|---|---|
| January 1, 2018 | - lien date |
| January 31, 2018 | - original levy date |
| January 31 – March 31, 2018 | - 2% discount period |
| April 1 – May 31, 2018 | - face payment period |
| June 1 – December 31, 2018 | - 10% penalty period |
| January 1, 2019 | - 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 2018 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 10.9242 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, 2018 include rent revenue in the amount of $1,881,238.

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 |
|---|---|
| 2019 | $ 2,241,682 |
| 2020 | 1,057,258 |
| 2021 | 1,071,587 |
| 2022 | 1,086,345 |
| 2023 | 1,101,546 |
| 2024-2028 | 5,752,199 |
| 2029-2033 | 6,206,769 |
| 2034-2038 | 6,733,741 |
| 2039-2043 | 7,344,646 |
| 2044-2048 | 8,052,851 |
| 2049-2053 | 8,873,856 |
| Total | $ 49,522,480 |

As mentioned below, during the year ended December 31, 2018, PEDFA, Dauphin County, Assured Guaranty Municipal Corporation, the City, and the Authority signed the Settlement Agreement and Release, of which the City received a payment of $335,165, for 2014 through 2017 operating year rent receivables. In exchange for this payment, the City agreed to release all claims on the remaining $785,170 rent receivables for operating years 2014 through 2017 and withdraw the suit filed against PEDFA, as noted below.

*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 the Harristown Development Corporation (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, 2018 amounted to $1,238,060.

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:

| December 31, | Amount |
|---|---|
| 2019 | $ 1,275,201 |
| 2020 | 1,313,458 |
| 2021 | 1,352,861 |
| 2022 | 1,393,447 |
| 2023 | 1,435,251 |
| 2024-2028 | 7,848,538 |
| 2029-2033 | 9,098,606 |
| 2034-2038 | 10,547,779 |
| 2039-2043 | 12,227,766 |
| 2044-2048 | 14,175,333 |
| 2049-2053 | 16,433,096 |
| Total | $ 77,101,336 |

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 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 disputed that there is any ambiguity in the Agreement. The Authority contended that it was 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.

During the year ended December 31, 2018, PEDFA, Dauphin County, Assured Guaranty Municipal Corporation, the City, and the Authority signed the Settlement Agreement and Release, of which the Authority received a payment of $222,065, for 2014 through 2017 operating year rent receivables. In exchange for this payment, the Authority agreed to release all claims on the remaining $673,543 rent receivables for operating years 2014 through 2017 and withdraw the aforementioned suit filed against PEDFA. As a result of the Settlement Agreement and Release, the Authority reported bad debt expense and corresponding forgiveness of debt to the City in the amount of $673,543 for the year ended December 31, 2018.

In addition, the Settlement Agreement and Release states that any rent amounts unpaid at the end of an operating year are deemed cancellable and will not be payable on any future date.

## 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 $8.7 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, 2018 is as follows:

| Primary Government | Due from Other Funds | Due to Other Funds |
|---|---|---|
| General Fund | $ 3,840,212 | $ 966,886 |
| Grant Programs Fund | 773,592 | 3,817,370 |
| Debt Service Fund | - | 55,567 |
| Nonmajor governmental funds | 305,998 | 76,790 |
| Total governmental funds | 4,919,802 | 4,916,613 |
| Harrisburg Senators Fund | 78,386 | - |
| Neighborhood Services Fund | 369,039 | 450,614 |
| Total proprietary funds | 447,425 | 450,614 |
| Total primary government | $ 5,367,227 | $ 5,367,227 |

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

The composition of interfund transfers for the year ended December 31, 2018 is as follows:

| Primary Government | Transfers In | Transfers Out |
|---|---|---|
| General Fund | $ 944,829 | $ 10,565,596 |
| Grant Programs Fund | 197,408 | 627,045 |
| Debt Service Fund | 9,858,806 | - |
| Nonmajor governmental funds | 200,000 | 527,784 |
| Total governmental funds | 11,201,043 | 11,720,425 |
| Harrisburg Senators Fund | 239,681 | - |
| Neighborhood Services Fund | 279,701 | - |
| Total proprietary funds | 519,382 | - |
| Total primary government | $ 11,720,425 | $ 11,720,425 |

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, 2018 is as follows:

| | |
|---|---|
| Commonwealth of Pennsylvania, Pension System Aid | $ 2,894,903 |
| Commonwealth of Pennsylvania, general appropriation | 5,000,000 |
| Commonwealth of Pennsylvania, Gaming Control Board grant | 15,952 |
| Commonwealth of Pennsylvania, Bus Stop Optimization grant | (4,684) |
| Utilities payments in lieu of taxes from other governments | 46,660 |
| Harrisburg Parking Authority | 1,308,202 |
| | $ 9,261,033 |

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 | $ 1,626,365 |
| Lead Based Paint Grant | 1,434,484 |
| HOME Program | 313,798 |
| Emergency Solutions Grant | 167,462 |
| Federal and Pennsylvania Emergency Management Agency | 1,788,198 |
| State capital projects | 663,567 |
| Public Safety Partnership and Community Policing grants | 228,857 |
| Highway Planning and Construction Grant | 66,775 |
| Other federal grants | 76,991 |
| | $ 6,366,497 |

## 8. Capital Assets

Capital asset activity for the year ended December 31, 2018 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 | 3,886,533 | - | 5,369,339 |
| Artifacts | 18,474,000 | - | - | 18,474,000 |
| Total capital assets, not being depreciated | 27,101,669 | 3,886,533 | - | 30,988,202 |
| Capital assets, being depreciated | | | | |
| Buildings | 66,065,937 | 1,148,390 | - | 67,214,327 |
| Improvements | 24,917,648 | 695,615 | - | 25,613,263 |
| Equipment and furniture | 36,368,409 | 1,755,053 | (128,528) | 37,994,934 |
| Infrastructure | 103,934,441 | 773,475 | - | 104,707,916 |
| Total capital assets, being depreciated | 231,286,435 | 4,372,533 | (128,528) | 235,530,440 |
| Less accumulated depreciation for | | | | |
| Buildings | (41,590,181) | (1,720,919) | - | (43,311,100) |
| Improvements | (9,455,708) | (391,183) | - | (9,846,891) |
| Equipment and furniture | (33,713,679) | (643,175) | 126,595 | (34,230,259) |
| Infrastructure | (82,503,678) | (2,425,557) | - | (84,929,235) |
| Total accumulated depreciation | (167,263,246) | (5,180,834) | 126,595 | (172,317,485) |
| Total capital assets, being depreciated, net | 64,023,189 | (808,301) | (1,933) | 63,212,955 |
| Governmental activities, capital assets, net | $ 91,124,858 | $ 3,078,232 | $ (1,933) | $ 94,201,157 |

| | Beginning of Year | Additions | Retirements and Dispositions | End of Year |
|---|---|---|---|---|
| Business-type activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | $ 62,686 | $ 63,377 | $ - | $ 126,063 |
| Construction-in-progress | 307,335 | 8,420 | (289,750) | 26,005 |
| Total capital assets, not being depreciated | 370,021 | 71,797 | (289,750) | 152,068 |
| Capital assets, being depreciated | | | | |
| Buildings | 37,741,874 | 26,754 | - | 37,768,628 |
| Equipment and furniture | 7,740,097 | 2,513,352 | (531,521) | 9,721,928 |
| Total capital assets, being depreciated | 45,481,971 | 2,540,106 | (531,521) | 47,490,556 |
| Less accumulated depreciation for | | | | |
| Buildings | (7,726,525) | (931,802) | - | (8,658,327) |
| Equipment and furniture | (3,867,029) | (751,026) | 531,521 | (4,086,534) |
| Total accumulated depreciation | (11,593,554) | (1,682,828) | 531,521 | (12,744,861) |
| Total capital assets being depreciated, net | 33,888,417 | 857,278 | - | 34,745,695 |
| Business-type activities, capital assets, net | $ 34,258,438 | $ 929,075 | $ (289,750) | $ 34,897,763 |

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

| | |
|---|---|
| Governmental activities: | |
| General government | $ 1,633,748 |
| Community and economic development | 720,143 |
| Public safety | 689,520 |
| Public works | 2,137,423 |
| Total depreciation expense - governmental activities | $ 5,180,834 |
| Business-type activities: | |
| Harrisburg Senators | $ 928,600 |
| Neighborhood Services | 754,228 |
| Total depreciation expense - business-type activities | $ 1,682,828 |

*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 | (3,916,980) | (208,411) | - | (4,125,391) |
| Harrisburg Parking Authority, capital assets, net | $ 4,083,017 | $ (208,411) | $ - | $ 3,874,606 |

| | 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 | 94,232 | - | - | 94,232 |
| Less accumulated depreciated for | | | | |
| Equipment and leasehold improvements | (94,232) | - | - | (94,232) |
| Total accumulated depreciation | (94,232) | - | - | (94,232) |
| Total capital assets, being depreciated, net | - | - | - | - |
| 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 | 84,595 | - | - | 84,595 |
| Less accumulated amortization for | | | | |
| Project costs | (65,728) | (2,979) | - | (68,707) |
| Total accumulated amortization | (65,728) | (2,979) | - | (68,707) |
| Total project costs, being amortized, net | 18,867 | (2,979) | - | 15,888 |
| Harrisburg Downtown Improvement District, Inc. capital assets and project costs, net | $ 18,867 | $ (2,979) | $ - | $ 15,888 |

| | 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 | 30,000 | - | - | 30,000 |
| Capital assets, being depreciated | | | | |
| Buildings | 2,093,040 | - | - | 2,093,040 |
| Buildings - leased | 38,847,761 | - | - | 38,847,761 |
| Vehicles | - | 36,905 | - | 36,905 |
| Leasehold improvements | 6,861,227 | - | - | 6,861,227 |
| Total capital assets being depreciated | 47,802,028 | 36,905 | - | 47,838,933 |
| Less accumulated depreciation for | | | | |
| Buildings | (444,771) | (52,326) | - | (497,097) |
| Buildings - leased | (2,374,029) | (1,294,925) | - | (3,668,954) |
| Vehicles | - | (2,768) | - | (2,768) |
| Leasehold improvements | (1,427,024) | (171,531) | - | (1,598,555) |
| Total accumulated depreciation | (4,245,824) | (1,521,550) | - | (5,767,374) |
| Total capital assets being depreciated, net | 43,556,204 | (1,484,645) | - | 42,071,559 |
| Redevelopment Authority of the City of Harrisburg, capital assets, net | $ 43,586,204 | $ (1,484,645) | $ - | $ 42,101,559 |

## 9. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018 is as follows:

*Primary Government*

| | Beginning of Year | Additions | Accretion | Retirements/ Settlements | End of Year | Current Portion |
|---|---|---|---|---|---|---|
| Governmental activities: | | | | | | |
| Workers' compensation claims | $ 1,986,397 | $ 2,716,019 | $ - | $ (592,920) | $ 4,109,496 | $ 1,319,559 |
| Bonds payable (Note 10) | 12,226,042 | - | 602,735 | (4,490,000) | 8,338,777 | 4,321,688 |
| Notes payable (Note 12) | 27,793,667 | - | 1,318,665 | (4,980,947) | 24,131,385 | 4,549,428 |
| Capital lease obligations (Note 14) | 2,036,439 | 172,493 | - | (373,587) | 1,835,345 | 396,757 |
| Vested compensated absences | 5,085,575 | 3,680,418 | - | (3,358,222) | 5,407,771 | 332,265 |
| Due to bond insurer (Note 13) | 14,912,139 | - | - | (15,978) | 14,896,161 | - |
| Settlement with suburban municipalities (Note 15) | 1,225,000 | - | - | (1,000,000) | 225,000 | 225,000 |
| Governmental activities Long-term liabilities | $ 65,265,259 | $ 6,568,930 | $ 1,921,400 | $ (14,811,654) | $ 58,943,935 | $ 11,144,697 |

| | Beginning of Year | Additions | Amortization | Retirements/ Settlements | End of Year | Current Portion |
|---|---|---|---|---|---|---|
| Business-type activities: | | | | | | |
| Workers' compensation claims | $ 900,898 | $ 114,663 | $ - | $ (64,691) | $ 950,870 | $ 305,324 |
| Bonds payable (Note 10) | 6,101,411 | - | 3,156 | (340,000) | 5,764,567 | 360,000 |
| Capital lease obligations (Note 14) | 1,336,974 | 1,539,831 | - | (574,744) | 2,302,061 | 576,859 |
| Vested compensated absences | 513,998 | 443,598 | - | (362,239) | 595,357 | 34,250 |
| Business-type activities Long-term liabilities | $ 8,853,281 | $ 2,098,092 | $ 3,156 | $ (1,341,674) | $ 9,612,855 | $ 1,276,433 |

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

*Component Unit*

| | Beginning of Year | Additions | Amortization | Retirements | End of Year | Current Portion |
|---|---|---|---|---|---|---|
| Redevelopment Authority of the City of Harrisburg: | | | | | | |
| Bonds payable (Note 10) | $ 38,870,000 | $ - | $ - | $ (1,910,000) | $ 36,960,000 | $ 1,930,000 |
| Notes payable (Note 12) | 923,544 | - | - | (60,330) | 863,214 | 346,563 |
| Capital lease obligations (Note 14) | - | 35,405 | - | (4,096) | 31,309 | 6,488 |
| Due to other governments | 170,832 | - | - | - | 170,832 | - |
| Total long-term liabilities | 39,964,376 | 35,405 | - | (1,974,426) | 38,025,355 | 2,283,051 |
| Less: | | | | | | |
| Unamortized discount | (17,063,571) | - | 1,466,329 | - | (15,597,242) | - |
| Redevelopment Authority of the City of Harrisburg Long-term liabilities | $ 22,900,805 | $ 35,405 | $ 1,466,329 | $ (1,974,426) | $ 22,428,113 | $ 2,283,051 |

## 10. Bonds Payable

Bonds payable at December 31, 2018 are as follows:

| | Governmental Activities | Business-type Activities | Primary Government |
|---|---|---|---|
| Bonds payable | $ 8,338,777 | $ 5,785,000 | $ 14,123,777 |
| Unamortized discount | - | (20,433) | (20,433) |
| Total bonds payable | $ 8,338,777 | $ 5,764,567 | $ 14,103,344 |

| | Component Unit Redevelopment Authority |
|---|---|
| Bonds payable | $ 36,960,000 |
| Unamortized discount | (15,597,242) |
| Total bonds payable | $ 21,362,758 |

Bonds payable are accounted for in the following activities:

| | Governmental Activities | Business-type Activities | Total Primary Government |
|---|---|---|---|
| General Obligation Bonds | | | |
| Series D of 1997 | $ 8,338,777 | $ - | $ 8,338,777 |
| Total general obligation bonds | 8,338,777 | - | 8,338,777 |
| Revenue Bonds | | | |
| Senators Revenue Bonds Series A-2 of 2005 | - | 5,785,000 | 5,785,000 |
| Less: Unamortized discount | - | (20,433) | (20,433) |
| Total revenue bonds | - | 5,764,567 | 5,764,567 |
| Total bonds payable | $ 8,338,777 | $ 5,764,567 | $ 14,103,344 |

Bonds payable are accounted for in the Redevelopment Authority:

| | |
|---|---|
| Guaranteed Revenue Bonds, Series A of 1998 | $ 36,960,000 |
| Less: Unamortized discount | (15,597,242) |
| Total bonds payable | $ 21,362,758 |

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 the 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 and April 2018, $500,000 was paid by the City to the Redevelopment Authority under the guarantee. As of December 31, 2018, interest of $76,667 was accrued by the Redevelopment Authority on the $1,000,000 paid by the City. The City considers the $1,076,667 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 accrued the present value of future anticipated payments under the guarantee in the amount of approximately $16.6 million at December 31, 2018.

During the year ended December 31, 2018, 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.

In April 2019, an additional $700,000 was paid by the City to the Redevelopment Authority to be used toward the May 2019 principal payment of the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

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.

The composition of bonds outstanding included in the primary government at December 31, 2018 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 $1,332,292 to $2,394,161 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. | $ 8,338,777 |
| Revenue Bonds | |
| 5.04%-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. | 5,785,000 |
| Total primary government bonds payable | 14,123,777 |
| Less: unamortized discount | (20,433) |
| Net primary government bonds payable | $ 14,103,344 |

The composition of bonds outstanding of the Redevelopment Authority at December 31, 2018 is as follows:

| | |
|---|---|
| Revenue Bonds | |
| Guaranteed Revenue Bonds, Series A of 1998, dated December 19, 1998, consisting of term bonds maturing from 2019 to 2033 in annual installments of various amounts. | $ 36,960,000 |
| Less: unamortized discount | (15,597,242) |
| Net Redevelopment Authority of the City of Harrisburg | $ 21,362,758 |

## Debt Service Requirements

The annual requirements to amortize all bonds outstanding as of December 31, 2018 are as follows:

| | General Obligation | | Revenue | | Total | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| Primary Government | | | | | | |
| 2019 | $ 4,321,688 | $ 173,311 | $ 360,000 | $ 293,287 | $ 4,681,688 | $ 466,598 |
| 2020 | 1,332,291 | 152,709 | 375,000 | 274,690 | 1,707,291 | 427,399 |
| 2021 | 1,337,628 | 237,372 | 395,000 | 254,895 | 1,732,628 | 492,267 |
| 2022 | 1,347,170 | 327,831 | 420,000 | 233,705 | 1,767,170 | 561,536 |
| 2023 | - | - | 440,000 | 211,345 | 440,000 | 211,345 |
| 2024-2028 | - | - | 2,565,000 | 678,242 | 2,565,000 | 678,242 |
| 2029-2030 | - | - | 1,230,000 | 65,861 | 1,230,000 | 65,861 |
| | 8,338,777 | 891,223 | 5,785,000 | 2,012,025 | 14,123,777 | 2,903,248 |
| Less unamortized discount | - | - | (20,433) | - | (20,433) | - |
| Primary Government, net | $ 8,338,777 | $ 891,223 | $ 5,764,567 | $ 2,012,025 | $ 14,103,344 | $ 2,903,248 |

| | General Obligation | | Revenue | | Total | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| Redevelopment Authority of the City of Harrisburg | | | | | | |
| 2019 | $ - | $ - | $ 1,930,000 | $ - | $ 1,930,000 | $ - |
| 2020 | - | - | 1,960,000 | - | 1,960,000 | - |
| 2021 | - | - | 1,990,000 | - | 1,990,000 | - |
| 2022 | - | - | 2,010,000 | - | 2,010,000 | - |
| 2023 | - | - | 2,040,000 | - | 2,040,000 | - |
| 2024-2028 | - | - | 10,610,000 | - | 10,610,000 | - |
| 2029-2033 | - | - | 16,420,000 | - | 16,420,000 | - |
| | - | - | 36,960,000 | - | 36,960,000 | - |
| Less unamortized discount | - | - | (15,597,242) | - | (15,597,242) | - |
| Redevelopment Authority of the City of Harrisburg, net | $ - | $ - | $ 21,362,758 | $ - | $ 21,362,758 | $ - |
| Total | $ 8,338,777 | $ 891,223 | $ 27,127,325 | $ 2,012,025 | $ 35,466,102 | $ 2,903,248 |

## 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, 2018, the City's General Obligation Bonds, Series A of 1995 in the amount of $3,935,000 are considered defeased.

## 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.

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%. The proceeds from this loan were not received by the City during the year ended December 31, 2018.

The composition of promissory notes outstanding under Section 108 (included in governmental activities) at December 31, 2018 is as follows:

| | |
|---|---|
| Variable based on 90-day LIBOR plus 20 basis points (2.80% at December 31, 2018), 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. | $ 335,000 |
| Variable based on 90-day LIBOR plus 20 basis points (2.80% at December 31, 2018), 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. | 1,695,000 |
| | 2,030,000 |

The composition of notes payable included in the primary government at December 31, 2018 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. | 22,101,385 |
| Total primary government notes payable | $ 24,131,385 |

The composition of notes payable of the Redevelopment Authority at December 31, 2018 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, 2018, 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. | 183,336 |
| 4.83% for the first three years and variable based on the prime rate thereafter (5.50% at December 31, 2018), 2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven, and is payable through December 10, 2026. | 408,451 |
| Total Redevelopment Authority of the City of Harrisburg | $ 863,214 |

The annual requirements to amortize all notes payable outstanding as of December 31, 2018, using interest rates in effect at December 31, 2018 for variable rate issues, are as follows:

| | Governmental Activities | |
|---|---|---|
| Year Ending December 31, | Principal | Interest |
| Primary Government | | |
| 2019 | $ 4,549,428 | $ 216,097 |
| 2020 | 6,664,683 | 763,249 |
| 2021 | 6,216,874 | 1,089,764 |
| 2022 | 5,845,400 | 1,369,942 |
| 2023 | 210,000 | 24,051 |
| 2024-2026 | 645,000 | 34,278 |
| | $ 24,131,385 | $ 3,497,381 |

| | Redevelopment Authority of the City of Harrisburg | |
|---|---|---|
| Year Ending December 31, | Principal | Interest |
| 2019 | $ 346,563 | $ 139,694 |
| 2020 | 77,494 | 19,063 |
| 2021 | 79,986 | 16,572 |
| 2022 | 82,617 | 13,941 |
| 2023 | 85,397 | 11,161 |
| 2024-2026 | 191,157 | 15,190 |
| | $ 863,214 | $ 215,621 |

## 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. The balance due to bond insurer at December 31, 2018 was $14,896,161.

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, 2018. 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, 2017, and 2018. As of December 31, 2018, the governmental activities and business-type activities included equipment and furniture under capital leases with a net book value of $2,836,028 and $2,430,599, respectively. Restricted assets of the Capital Projects Fund and the Neighborhood Services Fund include approximately $83,000 and $660,000, respectively, in capital lease proceeds held by the City pending disbursement.

The future minimum payments under capital leases and the minimum lease payments at December 31, 2018 are as follows:

| Lease year ending December 31, | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| 2019 | $ 457,495 | $ 645,435 | $ 1,102,930 |
| 2020 | 457,494 | 701,613 | 1,159,107 |
| 2021 | 406,224 | 695,813 | 1,102,037 |
| 2022 | 386,139 | 341,003 | 727,142 |
| 2023 | 289,605 | 85,250 | 374,855 |
| Total commitment under capital lease | 1,996,957 | 2,469,114 | 4,466,071 |
| Less amount representing interest | (161,612) | (167,053) | (328,665) |
| Present value of future minimum lease payments | $ 1,835,345 | $ 2,302,061 | $ 4,137,406 |

*Component Units*

***Equipment Lease***

In 2018, the Redevelopment Authority leased a vehicle under a long-term lease agreement which is classified as a capital lease. As of December 31, 2018, the vehicle under capital lease had a net book value of $34,137.

Minimum rentals on noncancellable leases through 2023 are as follows:

| Lease year ending December 31, | |
|---|---|
| 2019 | $ 6,488 |
| 2020 | 6,925 |
| 2021 | 7,392 |
| 2022 | 7,890 |
| 2023 | 2,614 |
| Total minimum lease payments | $ 31,309 |

***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 2023. Additionally, the Redevelopment Authority leases space to a non-profit corporation with a lease ending date of June 30, 2021. These leases are noncancellable operating leases.

Minimum rentals on noncancellable leases through 2023 are as follows:

| Lease year ending December 31, | |
|---|---|
| 2019 | $ 291,235 |
| 2020 | 271,777 |
| 2021 | 171,098 |
| 2022 | 75,837 |
| 2023 | 2,863 |
| Total minimum lease payments | $ 812,810 |

***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 HDC leased the Verizon Building from the Redevelopment Authority pursuant to a lease 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 $49,446,224 at December 31, 2018 will be reduced annually by the amount of rental income revenue recognized over the term of the lease. During the year ended December 31, 2018, the Redevelopment Authority recognized $7,936,030 of rental income.

The present value of the future minimum lease payments at December 31, 2018 is as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2019 | $ 577,600 |
| 2020 | 540,520 |
| 2021 | 505,660 |
| 2022 | 472,800 |
| 2023 | 441,720 |
| 2024-2028 | 2,109,242 |
| 2029-2033 | 1,359,305 |
| Total | $ 6,006,847 |

## 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 is required to make payments to the suburban municipalities. At December 31, 2018, the outstanding balance due to the suburban municipalities under the agreement was $225,000. The outstanding balance is due to the suburban municipalities within one year.

## 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 $1/40^{th}$ 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, 2018. 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, 2017, the City made a contribution of $327,146 to the Combined Firefighters' Pension Plan. The MMO for the year ended December 31, 2017 was $327,146. During the year ended December

31, 2018, the City made the minimum municipal obligation contribution of $535,723 to the Combined Firefighters' Pension Plan. The 2018 contribution is reported as a deferred outflow of resources at December 31, 2018. The City made the minimum municipal obligation contribution of $3,400,136 to the Combined Police Pension Plan for the year ended December 31, 2018.

Contributions are recognized when due as required by Act 205.

***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, 2018 consisted of the following:

| | Non-Uniformed Employees' | Combined Firefighters' | Combined Police |
|---|---|---|---|
| Active members | 180 | 72 | 135 |
| Inactive members or beneficiaries currently receiving benefits | 204 | 131 | 214 |
| Inactive members entitled to but not yet receiving benefits | 31 | 1 | 2 |
| | 415 | 204 | 351 |

***Changes in the Net Pension Liability (Asset)***

The changes in the net pension liability (asset) of the City for the year ended December 31, 2018 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, 2017 (based on the measurement date of December 31, 2016) | $ 61,098,121 | $ 71,157,751 | $ (10,059,630) |
| Changes for the year: | | | |
| Service cost | 861,534 | - | 861,534 |
| Interest | 3,151,434 | - | 3,151,434 |
| Contributions - member | - | 502,387 | (502,387) |
| Investment income | - | 12,151,883 | (12,151,883) |
| Transfers | 101,807 | 101,807 | - |
| Benefit payments, including refunds | (4,016,561) | (4,016,561) | - |
| Administrative expenses | - | (186,115) | 186,115 |
| Net changes | 98,214 | 8,553,401 | (8,455,187) |
| Balances at December 31, 2018 (based on the measurement date of December 31, 2017) | $ 61,196,335 | $ 79,711,152 | $ (18,514,817) |
| Plan fiduciary net position as a percentage of the total pension liability | | | 130.3% |

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 $13,997,201 and $4,517,616, respectively, at December 31, 2018.

*Combined Firefighters' Pension Plan:*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
| Balances at December 31, 2017 (based on the measurement date of December 31, 2016) | $ 69,937,569 | $ 72,208,662 | $ (2,271,093) |
| Changes for the year: | | | |
| Service cost | 1,249,662 | - | 1,249,662 |
| Interest | 3,638,609 | - | 3,638,609 |
| Contributions - employer | - | 327,146 | (327,146) |
| Contributions - member | - | 252,162 | (252,162) |
| Investment income | - | 12,418,192 | (12,418,192) |
| Benefit payments, including refunds | (3,809,526) | (3,809,526) | - |
| Administrative expenses | - | (182,639) | 182,639 |
| Net changes | 1,078,745 | 9,005,335 | (7,926,590) |
| Balances at December 31, 2018 (based on the measurement date of December 31, 2017) | $ 71,016,314 | $ 81,213,997 | $ (10,197,683) |
| Plan fiduciary net position as a percentage of the total pension liability | | | 114.4% |

*Combined Police Pension Plan:*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balances at December 31, 2017 | $ 95,561,114 | $ 84,306,974 | $ 11,254,140 |
| Changes for the year: | | | |
| Service cost | 1,579,365 | - | 1,579,365 |
| Interest | 7,513,232 | - | 7,513,232 |
| Contributions - employer | - | 3,400,136 | (3,400,136) |
| Contributions - member | - | 458,735 | (458,735) |
| Investment loss | - | (4,609,656) | 4,609,656 |
| Benefit payments, including refunds | (6,450,151) | (6,450,151) | - |
| Administrative expenses | - | (51,959) | 51,959 |
| Net changes | 2,642,446 | (7,252,895) | 9,895,341 |
| Balances at December 31, 2018 | $ 98,203,560 | $ 77,054,079 | $ 21,149,481 |
| Plan fiduciary net position as a percentage of the total pension liability | | | 78.5% |

***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 rolled forward to December 31, 2017, 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, 2018 and was determined by rolling forward the liabilities from 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.

*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 7.3%. 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, 2018 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% |
| | 100.0% | |

*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, 2018, the annual money-weighted rate of return on Combined Police Pension Plan investments, net of investment expense, was -5.40%.

*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, 2017 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, 2018 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' | $ (11,417,673) | $ (18,514,817) | $ (24,536,453) |
| Combined Firefighters' | $ (1,226,181) | $ (10,197,683) | $ (17,638,401) |

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|---|---|---|---|
| Combined Police | $ 31,493,081 | $ 21,149,481 | $ 12,386,135 |

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

For the year ended December 31, 2018, the City recognized pension expense of $6,676,599 in the governmental activities and $35,929 in the business-type activities.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Deferred Outflows of Resources: | | |
| City contributions subsequent to measurement date | $ 535,723 | $ - |
| Changes of assumptions | 4,149,820 | 215,154 |
| Net difference between projected and actual earnings on pension plan investments | 7,276,246 | - |
| Total deferred outflows of resources | $ 11,961,789 | $ 215,154 |
| Deferred Inflows of Resources: | | |
| Differences between expected and actual experience | $ 2,192,030 | $ 101,123 |
| Net difference between projected and actual earnings on pension plan investments | 10,745,926 | 1,364,061 |
| Changes of assumptions | 15,163 | - |
| Total deferred inflows of resources | $ 12,953,119 | $ 1,465,184 |

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, 2019.

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

| Year ending December 31, | Governmental Activities | Business-Type Activities |
|---|---|---|
| 2019 | $ 1,782,908 | $ (174,793) |
| 2020 | (65,806) | (203,619) |
| 2021 | (2,533,087) | (467,055) |
| 2022 | (711,068) | (404,563) |
| | $ (1,527,053) | $ (1,250,030) |

## 17. Total Other Post-Employment Benefits Liability

***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.

*Retire 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 $270 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.

*Retire 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.

*Retire 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 $270 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.

*Retire 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.

*Retire 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 $270 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 $270 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, 2018, the City contributed $4,792,282 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.

***Plan Membership***

At January 1, 2018, the latest actuarial valuation, the OPEB plan membership was as follows:

| | |
|---|---|
| Active plan members | 283 |
| Inactive plan members or beneficiaries currently receiving benefits | 399 |
| Inactive plan members entitled to, but not yet receiving benefits | 43 |
| Total | 725 |

***Changes in Total OPEB Liability***

The changes in total OPEB liability of the City for the year ended December 31, 2018 were as follows:

| | Total OPEB Liability |
|---|---|
| Service cost | $ 2,546,831 |
| Interest | 6,486,188 |
| Differences between actual and expected experience | (57,048,787) |
| Changes of assumptions | 15,634,469 |
| Benefit payments, including refunds | (6,396,300) |
| Net changes | (38,777,599) |
| OPEB Liability at December 31, 2017 (based on the measurement date of December 31, 2016) | 175,621,655 |
| OPEB Liability at December 31, 2018 (based on the measurement date of December 31, 2017) | $ 136,844,056 |

The total OPEB liability is allocated between governmental and business-type activities in the amounts of $128,304,071 and $8,539,985, respectively, at December 31, 2018.

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.

### *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) 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.

The total OPEB liability was determined by an actuarial valuation performed on January 1, 2018 and measured at December 31, 2017, using the following actuarial assumptions, applied to all periods in the measurement:

| | |
|---|---|
| Actuarial cost method | Entry age normal |
| Actuarial assumptions | |
| Interest rate | 3.16% |
| Salary increases | 5.00% |
| Amortization period | 30 year open period |
| Healthcare cost trend rate | 6% in 2018<br>5.5% in 2019 through 2021,<br>rates gradually decrease from<br>5.4% in 2022 to 3.8% in 2075 |
| Mortality | IRS 2017 Static Combined<br>Mortality Table for Small Plans |
| Actuarial value of assets | Not applicable |

### *Changes in Actuarial Assumptions*

The interest rate changed from 4.50% in the January 1, 2016 actuarial valuation to 3.16% in the January 1, 2018 actuarial valuation. In addition, the healthcare cost trends and mortality tables were updated.

***Discount Rate***

The discount rate used to measure the total OPEB liability was 3.16%. The discount rate was based on the index rate for the 20-year tax-exempt general obligation municipal bonds with an average rating of AA or higher. Since the OPEB plan has insufficient assets to meet projected benefit payments, the municipal bond rate was applied to all periods of the projected benefit payments to determine the total OPEB liability. The projection of cash flows used to determine the single discount rate for each measurement period assumed that employer contributions will be made based on the current funding policy for future years.

***Sensitivity of the Total OPEB Liability Changes in the Discount Rate***

The following presents the total OPEB liability of the City calculated using the discount rate described above, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or higher than the current rate:

| | 1% Decrease (2.16%) | Current Discount Rate (3.16%) | 1% Increase (4.16%) |
|---|---|---|---|
| Total OPEB liability | $ 156,719,187 | $ 136,844,056 | $ 120,862,298 |

***Sensitivity of the Total OPEB Liability Changes in the Healthcare Cost Trend Rates***

The following presents the total OPEB liability of the City calculated using the healthcare cost trend rates as described above, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower or higher than the current rate:

| | 1% Decrease | Current Rates | 1% Increase |
|---|---|---|---|
| Total OPEB liability | $ 120,766,710 | $ 136,844,056 | $ 156,301,937 |

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

For the year ended December 31, 2018, the governmental activities and business-type activities recognized OPEB expense of $206,639 and ($1,527,200), respectively.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflow of resources related to the OPEB plan from the following sources:

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Deferred Outflows of Resources: | | |
| City contributions subsequent to measurement date | $ 4,506,874 | $ 285,408 |
| Changes of assumptions | 11,561,640 | 164,212 |
| Total deferred outflows of resources | $ 16,068,514 | $ 449,620 |
| Deferred Inflows of Resources: | | |
| Differences between expected and actual experience | $ 42,298,381 | $ 488,209 |
| Total deferred inflows of resources | $ 42,298,381 | $ 488,209 |

The differences in the City's expected and actual experience and changes of assumptions is recognized over the average expected remaining service lives of active and inactive members. Contributions subsequent to the measurement will be recorded as a reduction to the OPEB liability during the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ending December 31, | Governmental Activities | Business-Type Activities |
|---|---|---|
| 2019 | $ (10,245,580) | $ (107,999) |
| 2020 | (10,245,580) | (107,999) |
| 2021 | (10,245,581) | (107,999) |
| | $ (30,736,741) | $ (323,997) |

## 18. Accumulated Deficits

*Component Unit*

*Redevelopment Authority of the City of Harrisburg*

The Redevelopment Authority's net position (deficit) at December 31, 2018 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. 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.

In mid-2018, the Commonwealth Court stayed the Act 47 Exit Plan process upon a motion of the City. Act 124 of 2018 was, thereafter, enacted by the General Assembly, which provided for the creation of an Intergovernmental Cooperation Authority (ICA) appointed by the Commonwealth. Act 124 was effective October 2018 and the Harrisburg ICA formed in February 2019. Their cooperative work with the City to address long-term fiscal recovery is just commencing. The execution of a formal Intergovernmental Cooperation Agreement between the City and the Harrisburg ICA will trigger the City's exit from Act 47.

## 20. 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, 2018, the City has a contractual commitment for projects of approximately $12 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, 2018, 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, 2018 is still being negotiated and any changes will be made prospectively.

*Component Unit*

Harrisburg Downtown Improvement District, Inc.

A contract effective January 1, 2011 was entered into with ABM Janitorial Services to provide all services and labor necessary to commence and complete a cleaning program with the Corporation. 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 2018 to continue through December 2019 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 $21,362,758 at December 31, 2018, 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.

## 21. 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.

## 22. 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, 2018. 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 motorboat 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.

## 23. Subsequent Events

Subsequent events with respect to debt related items are included in the debt footnote.

In June 2019, the City entered into an Interim Operational Agreement with the Borough of Steelton (Borough) for residential municipal solid waste and recycling collection and disposal services. Pursuant to the Intergovernmental Cooperation Act, the City and the Borough will be required to enter into an Intergovernmental Cooperation Agreement to coordinate and manage the sharing of these municipal service responsibilities for any extended period of time.

In August 2019, the City filed a Declaration of Taking with the Court of Common Pleas of Dauphin County exercising its power of eminent domain of certain properties within the City for the future construction, erection, and extension of a permanent public works facility and for the continued maintenance and operation of public infrastructure, management of municipal solid waste collection, and ensuring a healthy, safe, and natural environment for the residents of the City. The City paid $2,243,000 to the property owners as a result of the Declaration of Taking.

# REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HARRISBURG, PENNSYLVANIA**
BUDGETARY COMPARISON SCHEDULE
BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2018
REQUIRED SUPPLEMENTARY INFORMATION

| | Budget | | Variance of Original with Final Budget | | Variance of Actual with Final Budget |
|---|---|---|---|---|---|
| | Original Amounts | Final Amounts | Positive (Negative) | Actual Amounts | Positive (Negative) |
| Revenues | | | | | |
| Taxes | $ 42,799,168 | $ 42,799,168 | $ - | $ 45,331,176 | $ 2,532,008 |
| Licenses and permits | 692,993 | 692,993 | - | 718,847 | 25,854 |
| Intergovernmental revenue | 9,123,712 | 9,123,712 | - | 9,401,688 | 277,976 |
| Departmental earnings | 5,581,444 | 5,685,441 | 103,997 | 6,052,753 | 367,312 |
| Fines and forfeits | 808,102 | 808,102 | - | 874,079 | 65,977 |
| Investment income | 1,861,092 | 1,861,092 | - | 2,638,166 | 777,074 |
| Miscellaneous | 2,602,089 | 2,635,793 | 33,704 | 2,260,034 | (375,759) |
| Total revenues | 63,468,600 | 63,606,301 | 137,701 | 67,276,743 | 3,670,442 |
| Expenditures | | | | | |
| General government | | | | | |
| Elected and appointed offices | | | | | |
| City Council | 410,968 | 410,968 | - | 338,797 | 72,171 |
| Mayor | 253,215 | 254,945 | (1,730) | 187,349 | 67,596 |
| City Controller | 171,302 | 171,302 | - | 151,885 | 19,417 |
| City Treasurer | 423,924 | 431,642 | (7,718) | 393,097 | 38,545 |
| City Solicitor | 730,107 | 764,036 | (33,929) | 576,196 | 187,840 |
| Total elected and appointed offices | 1,989,516 | 2,032,893 | (43,377) | 1,647,324 | 385,569 |
| Office of administration | | | | | |
| Administration | 4,103,523 | 4,222,005 | (118,482) | 3,352,244 | 869,761 |
| General expenditures | 15,406,516 | 15,505,479 | (98,963) | 16,956,777 | (1,451,298) |
| Total general government | 21,499,555 | 21,760,377 | (260,822) | 21,956,345 | (195,968) |
| Community and economic development | 3,460,959 | 3,573,817 | (112,858) | 1,978,879 | 1,594,938 |
| Public safety | 31,479,147 | 32,340,601 | (861,454) | 28,305,389 | 4,035,212 |
| Public works | 7,055,409 | 9,308,692 | (2,253,283) | 5,646,905 | 3,661,787 |
| Total expenditures | 63,495,070 | 66,983,487 | (3,488,417) | 57,887,518 | 9,095,969 |
| Excess of revenues over (under) expenditures before other financing sources (uses) | (26,470) | (3,377,186) | (3,350,716) | 9,389,225 | 12,766,411 |
| Other financing sources (uses) | | | | | |
| Proceeds from debt issuance | - | - | - | 172,493 | 172,493 |
| Transfers in | 794,046 | 1,049,224 | 255,178 | 485,534 | (563,690) |
| Transfers out | (10,378,201) | (10,695,246) | (317,045) | (10,686,856) | 8,390 |
| Total other financing sources (uses) | (9,584,155) | (9,646,022) | (61,867) | (10,028,829) | (382,807) |
| Net change in fund balance | (9,610,625) | (13,023,208) | (3,412,583) | (639,604) | 12,383,604 |
| Fund balance - beginning of year, budgetary basis | 9,633,775 | 13,047,535 | 3,413,760 | 34,738,094 | 21,690,559 |
| Fund balance - end of year, budgetary basis | $ 23,150 | $ 24,327 | $ 1,177 | $ 34,098,490 | $ 34,074,163 |

## 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, Harrisburg Senators 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)

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 2018 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.

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 | $ 34,738,094 | $ 67,276,743 | $ (57,887,518) | $ (10,028,829) | $ 34,098,490 |
| Taxes receivable | 14,264,119 | (185,342) | - | - | 14,078,777 |
| Other assets | 16,953,738 | (1,421,271) | (22,436) | 183,474 | 15,693,505 |
| Accounts payable | (2,573,627) | (15,625) | (44,028) | - | (2,633,280) |
| Accrued liabilities | (742,127) | - | (101,763) | - | (843,890) |
| Advances and amounts due to other funds | (795,220) | (118,425) | - | (53,241) | (966,886) |
| Unearned and unavailable revenue | (20,583,700) | 1,546,429 | 158,829 | - | (18,878,442) |
| Reclassifications | - | (1,599,857) | 1,149,535 | 450,322 | - |
| GAAP basis | $ 41,261,277 | $ 65,482,652 | $ (56,747,381) | $ (9,448,274) | $ 40,548,274 |

## 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 sixteen instances where the City’ exceeded the budgeted expenditure amount on a line item level. Funds sufficient to provide for the excess expenditures were made available from other line items.

**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

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service cost | $ 861,534 | $ 724,376 | $ 737,701 | $ 1,126,817 |
| Interest | 3,151,434 | 3,252,606 | 3,244,391 | 2,971,992 |
| Changes of assumptions | - | 1,595,806 | 335,514 | - |
| Benefit payments, including refunds | (4,016,561) | (4,065,011) | (4,242,451) | (4,075,097) |
| Differences between expected and actual experience | - | (828,876) | - | 6,989,303 |
| Transfers | 101,807 | - | - | (3,135,289) |
| **Net Changes in Total Pension Liability** | 98,214 | 678,901 | 75,155 | 3,877,726 |
| **Total Pension Liability - Beginning** | 61,098,121 | 60,419,220 | 60,344,065 | 56,466,339 |
| **Total Pension Liability - Ending (a)** | $ 61,196,335 | $ 61,098,121 | $ 60,419,220 | $ 60,344,065 |
| **Plan Fiduciary Net Position:** | | | | |
| Contributions - employer | $ - | $ 144 | $ - | $ 14,004 |
| Contributions - plan member | 502,387 | 332,840 | 388,780 | 199,463 |
| Investment income (loss) | 12,151,883 | 5,307,177 | (414,677) | 3,833,485 |
| Benefit payments, including refunds | (4,016,561) | (4,065,011) | (4,242,451) | (4,075,097) |
| Administrative expense | (186,115) | (205,486) | (176,532) | (155,705) |
| Transfers | 101,807 | - | - | (3,135,317) |
| **Net Change in Plan Fiduciary Net Position** | 8,553,401 | 1,369,664 | (4,444,880) | (3,319,167) |
| **Plan Fiduciary Net Position - Beginning** | 71,157,751 | 69,788,087 | 74,232,967 | 77,552,134 |
| **Plan Fiduciary Net Position - Ending (b)** | $ 79,711,152 | $ 71,157,751 | $ 69,788,087 | $ 74,232,967 |
| **Net Pension Asset - Ending (a-b)** | $ (18,514,817) | $ (10,059,630) | $ (9,368,867) | $ (13,888,902) |
| **Plan Fiduciary Net Position as a Percentage of the Total Pension Liability** | 130.25% | 116.46% | 115.51% | 123.02% |
| **Covered Payroll** | $ 9,141,659 | $ 8,413,551 | $ 7,259,478 | $ 6,497,415 |
| **Net Pension Asset as a Percentage of Covered Payroll** | -202.53% | -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

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service cost | $ 1,249,662 | $ 1,093,507 | $ 1,253,437 | $ 1,325,049 |
| Interest | 3,638,609 | 3,660,185 | 3,611,615 | 3,536,047 |
| Changes of assumptions | - | 1,972,328 | (60,658) | - |
| Benefit payments, including refunds | (3,809,526) | (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** | 1,078,745 | 2,596,094 | 1,103,513 | 1,488,004 |
| **Total Pension Liability - Beginning** | 69,937,569 | 67,341,475 | 66,237,962 | 64,749,958 |
| **Total Pension Liability - Ending (a)** | $ 71,016,314 | $ 69,937,569 | $ 67,341,475 | $ 66,237,962 |
| **Plan Fiduciary Net Position:** | | | | |
| Contributions - employer | $ 327,146 | $ 280,858 | $ 358,000 | $ 22,130 |
| Contributions - plan member | 252,162 | 262,850 | 250,526 | 226,360 |
| Investment income (loss) | 12,418,192 | 6,428,418 | (595,792) | 4,191,372 |
| Benefit payments, including refunds | (3,809,526) | (3,823,520) | (3,700,881) | (3,614,868) |
| Administrative expense | (182,639) | (199,487) | (169,934) | (154,993) |
| **Net Change in Plan Fiduciary Net Position** | 9,005,335 | 2,949,119 | (3,858,081) | 670,001 |
| **Plan Fiduciary Net Position - Beginning** | 72,208,662 | 69,259,543 | 73,117,624 | 72,447,623 |
| **Plan Fiduciary Net Position - Ending (b)** | $ 81,213,997 | $ 72,208,662 | $ 69,259,543 | $ 73,117,624 |
| **Net Pension Asset - Ending (a-b)** | $ (10,197,683) | $ (2,271,093) | $ (1,918,068) | $ (6,879,662) |
| **Plan Fiduciary Net Position as a Percentage of the Total Pension Liability** | 114.36% | 103.25% | 102.85% | 110.39% |
| **Covered Payroll** | $ 5,033,786 | $ 4,716,216 | $ 4,886,967 | $ 5,001,992 |
| **Net Pension Asset as a Percentage of Covered Payroll** | -202.58% | -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

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Total Pension Liability:** | | | | | |
| Service cost | $ 1,579,365 | $ 1,504,157 | $ 1,564,700 | $ 1,490,190 | $ 1,542,107 |
| Interest | 7,513,232 | 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 | (6,450,151) | (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** | 2,642,446 | 2,621,349 | 2,663,015 | 6,509,714 | 2,593,955 |
| **Total Pension Liability - Beginning** | 95,561,114 | 92,939,765 | 90,276,750 | 83,767,036 | 81,173,081 |
| **Total Pension Liability - Ending (a)** | $ 98,203,560 | $ 95,561,114 | $ 92,939,765 | $ 90,276,750 | $ 83,767,036 |
| **Plan Fiduciary Net Position:** | | | | | |
| Contributions - employer | $ 3,400,136 | $ 3,319,118 | $ 2,906,315 | $ 2,972,450 | $ 2,424,298 |
| Contributions - plan member | 458,735 | 542,472 | 479,598 | 462,539 | 478,549 |
| Investment income (loss) | (4,609,656) | 11,643,216 | 4,175,445 | 586,944 | 4,082,703 |
| Benefit payments, including refunds | (6,450,151) | (6,226,579) | (6,008,655) | (5,630,072) | (5,351,314) |
| Administrative expense | (51,959) | (50,943) | (53,331) | (48,790) | (58,924) |
| **Net Change in Plan Fiduciary Net Position** | (7,252,895) | 9,227,284 | 1,499,372 | (1,656,929) | 1,575,312 |
| **Plan Fiduciary Net Position - Beginning** | 84,306,974 | 75,079,690 | 73,580,318 | 75,237,247 | 73,661,935 |
| **Plan Fiduciary Net Position - Ending (b)** | $ 77,054,079 | $ 84,306,974 | $ 75,079,690 | $ 73,580,318 | $ 75,237,247 |
| **Net Pension Liability - Ending (a-b)** | $ 21,149,481 | $ 11,254,140 | $ 17,860,075 | $ 16,696,432 | $ 8,529,789 |
| **Plan Fiduciary Net Position as a Percentage of the Total Pension Liability** | 78.46% | 88.22% | 80.78% | 81.51% | 89.82% |
| **Covered Payroll** | $ 8,885,970 | $ 8,689,052 | $ 8,628,184 | $ 8,887,141 | $ 9,363,263 |
| **Net Pension Liability as a Percentage of Covered Payroll** | 238.01% | 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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| **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 payroll | 9,141,659 | 8,413,551 | $ 7,259,478 | $ 6,497,415 | | | | | | |
| Contributions as a percentage of covered payroll | 0.00% | 0.00% | 0.00% | 0.22% | | | | | | |
| **COMBINED FIREFIGHTERS' PENSION PLAN:** | | | | | | | | | | |
| **Schedule of City Contributions** | | | | | | | | | | |
| Actuarially determined contribution under Act 205 | $ 327,146 | $ 280,858 | $ 358,000 | $ - | $ - | $ - | $ - | $ - | $ - | $ 834 |
| Contributions in relation to the actuarially determined contributions | 327,146 | 280,858 | 358,000 | 22,130 | - | - | - | - | - | - |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ (22,130) | $ - | $ - | $ - | $ - | $ - | $ 834 |
| Covered payroll | $ 5,033,786 | $ 4,716,216 | $ 4,886,967 | $ 5,001,992 | | | | | | |
| Contributions as a percentage of covered payroll | 6.50% | 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, *
REQUIRED SUPPLEMENTARY INFORMATION

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| **COMBINED POLICE PENSION PLAN:** | | | | | | | | | | |
| **Schedule of City Contributions** | | | | | | | | | | |
| Actuarially determined contribution under Act 205 | $ 3,400,136 | $ 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 |
| Contributions in relation to the actuarially determined contributions | 3,400,136 | 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 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ (390,228) | $ (447,925) | $ (1,006,983) | $ (2,959,144) | $ - | $ - |
| Covered payroll | $ 8,885,970 | $ 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 |
| Contributions as a percentage of covered payroll | 38.26% | 38.20% | 33.68% | 33.45% | 25.89% | 25.34% | 24.37% | 44.00% | 3.25% | 2.90% |
| **Investment Returns** | | | | | | | | | | |
| Annual money-weighted rate of return, net of investment expense | -5.40% | 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.

## 1. Actuarial Methods and Assumptions

Methods and assumptions used to determine the contribution rates required under Act 205 for the year ended December 31, 2017 (presented as the subsequent year on the preceding schedules) are as follows:

| | Non-uniformed Employees' and Combined Firefighters' |
|---|---|
| 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%.

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, 2018 are as follows:

| | Combined Police |
|---|---|
| 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 and the remaining amortization period was updated from 10 years to 11 years.

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 and the remaining amortization period was updated from 11 years to 10 years.

| | 2018* |
|---|---|
| **Total OPEB Liability:** | |
| Service cost | $ 2,546,831 |
| Interest | 6,486,188 |
| Differences between expected and actual experience | (57,048,787) |
| Changes of assumptions | 15,634,469 |
| Benefit payments, including refunds | (6,396,300) |
| **Net Changes in Total OPEB Liability** | (38,777,599) |
| **Total OPEB Liability - Beginning** | 175,621,655 |
| **Total OPEB Liability - Ending** | $ 136,844,056 |

* 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 notes to required supplementary information - OPEB information.

## Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation, using the following actuarial assumptions, applied to all periods in the measurement:

| | |
|---|---|
| Valuation date | 1/1/2018 |
| Actuarial cost method | Entry age normal |
| Actuarial assumptions | |
| Interest rate | 3.16% |
| Salary increases | 5.00% |
| Healthcare cost trend rate | 6% in 2018<br>5.5% in 2019 through 2021,<br>rates gradually decrease from<br>5.4% in 2022 to 3.8% in 2075 |
| Mortality | IRS 2017 Static Combined<br>Mortality Table for Small Plans |

## Factors and Trends Used in the Actuarial Valuation for the Other Post-Employment Benefit Plan

The City has not accumulated assets for the OPEB plan. Benefits are paid on a pay-as-you-go basis.

## Benefit Changes

None.

## Changes in Actuarial Assumptions

The interest rate changed from 4.50% in the January 1, 2016 actuarial valuation to 3.16% in the January 1, 2018 actuarial valuation (based on S & P Municipal Bond 20-year High Grade Index). In addition, the healthcare cost trend rates and mortality tables were updated.

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

**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, 2018

| | Special Revenue | | | | |
|---|---|---|---|---|---|
| | State Liquid Fuels Tax Fund | Host Municipality Fees Fund | Parks and Property Improvement Fund | Capital Projects | Total Nonmajor Governmental Funds |
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 489 | $ 488 | $ - | $ 1,145,157 | $ 1,146,134 |
| Investments, at fair value | 2,231,466 | 430,842 | 176,586 | 946,895 | 3,785,789 |
| Receivables, net of allowance for uncollectible accounts | | | | | |
| Taxes | - | - | - | 73,895 | 73,895 |
| Other | - | 85,348 | - | 905,431 | 990,779 |
| Due from other funds | - | - | - | 305,998 | 305,998 |
| Restricted assets | | | | | |
| Cash and cash equivalents | - | - | - | 83,144 | 83,144 |
| Investments, at fair value | - | - | - | 2,915,017 | 2,915,017 |
| Total assets | $ 2,231,955 | $ 516,678 | $ 176,586 | $ 6,375,537 | $ 9,300,756 |
| **LIABILITIES AND FUND BALANCE** | | | | | |
| Liabilities | | | | | |
| Accounts payable | $ 15,945 | $ 10,875 | $ - | $ 455,788 | $ 482,608 |
| Accrued liabilities | - | 1,912 | - | - | 1,912 |
| Due to other funds | - | - | 76,790 | - | 76,790 |
| Unearned revenue | - | - | - | 1,006,626 | 1,006,626 |
| Total liabilities | 15,945 | 12,787 | 76,790 | 1,462,414 | 1,567,936 |
| Fund balance | | | | | |
| Restricted for | | | | | |
| Environment | - | 503,891 | - | - | 503,891 |
| Public works | 2,216,010 | - | - | - | 2,216,010 |
| Community and economic development | - | - | 99,796 | - | 99,796 |
| Tourism | - | - | - | 2,988,912 | 2,988,912 |
| Capital projects | - | - | - | 1,224,211 | 1,224,211 |
| Assigned for | | | | | |
| Capital projects | - | - | - | 700,000 | 700,000 |
| Total fund balance | 2,216,010 | 503,891 | 99,796 | 4,913,123 | 7,732,820 |
| Total liabilities and fund balance | $ 2,231,955 | $ 516,678 | $ 176,586 | $ 6,375,537 | $ 9,300,756 |

**CITY OF HARRISBURG, PENNSYLVANIA**
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

| | Special Revenue | | | | |
|---|---|---|---|---|---|
| | State Liquid Fuels Tax Fund | Host Municipality Fees Fund | Parks and Property Improvement Fund | Capital Projects | Total Nonmajor Governmental Funds |
| Revenues | | | | | |
| Intergovernmental revenue | $ 1,390,667 | $ 322,917 | $ - | $ 851,047 | $ 2,564,631 |
| Department earnings and program revenue | - | - | - | 1,230,602 | 1,230,602 |
| Investment income | 42,096 | 9,272 | - | 64,691 | 116,059 |
| Total revenues | 1,432,763 | 332,189 | - | 2,146,340 | 3,911,292 |
| Expenditures | | | | | |
| Current | | | | | |
| Public works | 821,662 | - | - | - | 821,662 |
| Environment | - | 351,712 | - | - | 351,712 |
| Capital outlay | - | - | - | 1,219,230 | 1,219,230 |
| Total expenditures | 821,662 | 351,712 | - | 1,219,230 | 2,392,604 |
| Excess of revenues over expenditures | 611,101 | (19,523) | - | 927,110 | 1,518,688 |
| Other financing sources (uses) | | | | | |
| Transfers in | - | - | - | 200,000 | 200,000 |
| Transfers out | - | - | - | (527,784) | (527,784) |
| Total other financing sources (uses) | - | - | - | (327,784) | (327,784) |
| Net change in fund balances | 611,101 | (19,523) | - | 599,326 | 1,190,904 |
| Fund balances - beginning of year | 1,604,909 | 523,414 | 99,796 | 4,313,797 | 6,541,916 |
| Fund balances - end of year | $ 2,216,010 | $ 503,891 | $ 99,796 | $ 4,913,123 | $ 7,732,820 |

## 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, 2018

| | School Tax Collection | Payroll and Other Escrow Liabilities | Total Agency Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 653,241 | $ 496,488 | $ 1,149,729 |
| Total assets | 653,241 | 496,488 | 1,149,729 |
| **LIABILITIES** | | | |
| Due to other governments | 653,241 | - | 653,241 |
| Escrow liabilities | - | 496,488 | 496,488 |
| Total liabilities | $ 653,241 | $ 496,488 | $ 1,149,729 |

**CITY OF HARRISBURG, PENNSYLVANIA**
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2018

| | Beginning of Year | Additions | Deductions | End of Year |
|---|---|---|---|---|
| **School Tax Collection** | | | | |
| Assets | | | | |
| Cash and cash equivalents | $ 447,413 | $ 41,420,856 | $ 41,215,028 | $ 653,241 |
| Liabilities | | | | |
| Due to other governments | $ 447,413 | $ 41,420,856 | $ 41,215,028 | $ 653,241 |
| **Payroll and Other Escrow Liabilities** | | | | |
| Assets | | | | |
| Cash and cash equivalents | $ 475,383 | $ 31,216,522 | $ 31,195,417 | $ 496,488 |
| Liabilities | | | | |
| Escrow liabilities | $ 475,383 | $ 31,216,522 | $ 31,195,417 | $ 496,488 |
| **Total Agency Funds** | | | | |
| Assets | | | | |
| Cash and cash equivalents | $ 922,796 | $ 72,637,378 | $ 72,410,445 | $ 1,149,729 |
| Liabilities | | | | |
| Due to other governments | $ 447,413 | $ 41,420,856 | $ 41,215,028 | $ 653,241 |
| Escrow liabilities | 475,383 | 31,216,522 | 31,195,417 | 496,488 |
| Total liabilities | $ 922,796 | $ 72,637,378 | $ 72,410,445 | $ 1,149,729 |

# City of Harrisburg, Pennsylvania

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended December 31, 2018

MaherDuessel

**<u>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*</u>**

**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, 2018, 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 27, 2019. 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. 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.

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 questioned costs as Findings 2018-001, 2018-002, 2018-003, and 2018-004, 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 2018-004 and 2018-005.

### 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 27, 2019

MaherDuessel

**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, 2018. 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.

### *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 |
|---|---|---|---|
| 2018-006 | 14.218 | Community Development Block Grants/ Entitlement Grants Cluster | Reporting |
| 2018-006 | 14.269 | Hurricane Sandy Community Development Block Grant Disaster Recovery Grants/CDBG Disaster Recovery Grants Cluster | Reporting |
| 2018-006 | 14.905 | Lead Hazard Reduction Demonstration Grant | Reporting |
| 2018-007 | 14.218 | Community Development Block Grants/ Entitlement Grants Cluster | Program Income |
| 2018-008 | 14.218 | Community Development Block Grants/ Entitlement Grants Cluster | Subrecipient Monitoring |
| 2018-009 | 14.218 | Community Development Block Grants/ Entitlement Grants Cluster | Equipment and Real Property Management |
| 2018-010 | 14.218 | Community Development Block Grants/ Entitlement Grants Cluster | Allowability |
| 2018-011 | 14.905 | Lead Hazard Reduction Demonstration Grant | Matching |

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, Hurricane Sandy Community Development Block Grant Disaster Recovery Grants/CDBG Disaster Recovery Grants Cluster, and Lead Hazard Reduction Demonstration Grant programs for the year ended December 31, 2018.

### *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 |
|---|---|---|---|
| 2018-008 | 14.239 | Home Investment Partnerships Program | Subrecipient Monitoring |
| 2018-012 | 14.218 | Community Development Block Grants/ Entitlement Grants Cluster | Procurement |
| 2018-012 | 14.905 | Lead Hazard Reduction Demonstration Grant | Procurement |

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

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 did identify 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 consider the deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2018-006, 2018-007, 2018-008, 2018-009, 2018-010, and 2018-011, 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 consider the deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2018-012, to be a significant deficiency.

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 27, 2019

**CITY OF HARRISBURG, PENNSYLVANIA**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

| 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 | $ 1,125,578 | $ 280,440 |
| Emergency Solutions Grant Program | D | 14.231 | N/A | 167,462 | 156,482 |
| Home Investment Partnerships Program | D | 14.239 | N/A | 313,798 | 42,394 |
| Passed through the Pennsylvania Emergency Management Agency: | | | | | |
| Hurricane Sandy Community Development Block Grant Disaster Recovery Grants/ CDBG Disaster Recovery Grants Cluster | I | 14.269 | PEMA-2017-018 | 1,382,795 | - |
| Lead Hazard Reduction Demonstration Grant Program | D | 14.905 | N/A | 1,434,484 | - |
| Total U.S. Department of Housing and Urban Development | | | | 4,424,117 | 479,316 |
| U.S. Department of Justice | | | | | |
| Bulletproof Vest Partnership Program | D | 16.607 | N/A | 562 | - |
| Alcohol, Tobacco, and Firearms - Training Assistance | D | 16.012 | N/A | 27,975 | - |
| Public Safety Partnership and Community Policing Grants | D | 16.710 | N/A | 200,320 | - |
| Total U.S. Department of Justice | | | | 228,857 | - |
| U.S. Department of Transportation | | | | | |
| Passed through the Pennsylvania Department of Transportation: | | | | | |
| Passed through the Tri-County Regional Planning Commission: | | | | | |
| Highway Planning and Construction Program/ Highway Planning and Construction Cluster | I | 20.205 | 521158 | 66,775 | - |
| U.S. Department of Homeland Security - Federal Emergency Management Agency | | | | | |
| Passed through the Pennsylvania Emergency Management Agency: | | | | | |
| Pre-Disaster Mitigation | I | 97.047 | PBMC-PL-03-PA-2015-001 | 405,403 | - |
| Total Expenditures of Federal Awards | | | | $ 5,125,152 | $ 479,316 |

See accompanying notes to Schedule of Expenditures of Federal Awards.

## 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, 2018. 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, 2018.

## 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.

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, 2018 is as follows:

| Date of Notice | Amount of Note | Interest Rate | Required Interest Payment | Principal Balance December 31, 2018 | 2018 Principal Payments |
|---|---|---|---|---|---|
| May 13, 2000 | $3,960,000 | Variable * | Semi-annually, February and August 1st | $ 335,000 | $ 315,000 |
| September 14, 2006 | $3,795,000 | Variable * | Semi-annually, February and August 1st | 1,695,000 | 210,000 |
| | | | | $ 2,030,000 | $ 525,000 |

* - Based on 90-day LIBOR plus 20 basis points (2.80% at December 31, 2018)

Section 108 loans changed during the year as follows:

| Beginning of Year | Additions | Payments | End of Year |
|---|---|---|---|
| $ 2,555,000 | $ - | $ 525,000 | $ 2,030,000 |

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:

| CFDA Numbers | Name of Federal Program |
|---|---|
| 14.218 | Community Development Block Grants/Entitlement Grants Cluster |
| 14.269 | Hurricane Sandy Community Development Block Grant Disaster Recovery Grants/ CDBG Disaster Recovery Grants Cluster |
| 14.905 | Lead Hazard Reduction Demonstration Grant |

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

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

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

**Finding 2018-001: Financial Reporting**

**Repeat Finding – See Finding 2017-001**

*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 the net present value of the notes receivable related to the Harrisburg Parking Authority lease proceeds, capital assets, due to and due from other funds, due to other governments, grant revenue and related receivables and unearned revenue, expenditures, and interfund transfers.

*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 and will strive to develop and implement a plan or process for more closely reviewing the additionally determined complex adjustments. This review will expand the involved working knowledge of understanding, in addition to the various complicated year-end adjustments the Bureau of Financial Management has previously achieved, for including such applicable adjusting entries within the City's audit preparation work.

**Finding 2018-002: Segregation of Duties**

**Repeat Finding – See Finding 2017-003**

*Condition:* The City had segregation of duties issues noted in the Bureau of Information Technology (IT) where staff have control over multiple IT functions. Also, in the Bureau of Neighborhood Services (Neighborhood Services), the Sanitation Billing and Enforcement Coordinator (Coordinator) is responsible for creating new customer accounts, maintaining documentation of the number of containers issued to each customer, updating customer accounts for any changes to the number of containers or the frequency of pick-up, and reviewing the monthly billings reports and there are no documented procedures in place for review of the tasks performed by the Coordinator.

*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 IT processes and does not have documented procedures for review of tasks performed by the Neighborhood Services Coordinator for appropriate segregation of duties.

*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 and that procedures be established for the review of tasks performed by the Coordinator to ensure that no one person has control over multiple IT or Neighborhood Services functions.

*Views of Responsible Officials:* Although the City is still working through a continuing environment of both limited financial and personnel resources, which does hamper the ability to achieve a good segregation of duties among all City functions, the IT Department continues to put forth efforts of identifying its functions and duties just known to one individual; subsequent related cross-training among other IT staff members can then continue to be performed for expanding the involved working knowledge and improving the applicable internal controls. Documentation of such expanded procedures and controls will continue to be created and/or updated so as to preserve the availability of the applicable understanding and processes. The City also concurs with the recommendation portion above related to the Neighborhood Services functions involving the Sanitation Coordinator; specifically, the involved tasks need to be further strengthened with a documenting of the applicable procedures related to the City's utility billing account system. In particular, this documentation should include the City's expanding of its involved process and applicable internal controls for reviewing related utility billing system account adjustments prior to the actual implementation of such adjustments.

**Finding 2018-003: Reconciling Bank Accounts and Properly Reporting and Remitting Amounts Due to Other Entities**

**Repeat Finding – See Finding 2017-004**

*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, 2018 were prepared timely and were provided to the Controller's office and Financial Management via a shared drive accessible by both departments. However, the monthly bank reconciliations were not reviewed by the Controller's office.
- Although the monthly reconciliations were prepared, certain reconciliations did not reflect any adjustments related to the 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, or 2017 audits.
- The Central Depository account reconciliation included reconciling items for transfers to other governments and other entities that did not occur as of December 31, 2018.
- The Central Depository account 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.

*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 review the bank reconciliations for each bank account on a timely basis and ensure that the reconciliations reflect only those transactions that have occurred as of December 31, 2018.

*Cause*: The City did not follow its policy for the review of the bank reconciliations and did not timely transfer credit card and automated clearinghouse transactions to the appropriate entities.

*Effect:* The bank reconciliations were not reviewed on a timely basis and the City's bank reconciliations did not reflect all adjustments from previous years' audits. Also, the bank reconciliations for the Central Depository account included reconciling items for transfers to other entities from 2018 and previous years that did not occur.

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

*Recommendation:* We recommend that the City follow its policies regarding review of bank reconciliations and timely transfer of amounts due to other governments and other entities.

*Views of Responsible Officials:* The Accounting Manager will continue to work with the City Treasurer's office to resolve and/or assist in eliminating the remaining reconciling items prior to the completion of the next audit preparation work for fiscal year 2019. As noted above, the Controller's office has access to the monthly reconciliation work for available review and development of its own related and appropriate procedures, being that it is an independent functioning oversight office apart from the Bureau of Financial Management. As to the Central Depository account, the City Treasurer's office continues, and will continue to, subject pending transfer amounts to related procedures for timely movement, usually occurring within the month subsequent to the month of receipt, of the received funds applicable to other entities. The older outstanding credit card and automated clearinghouse transaction amounts referenced in total from 2014 are applicable to a single entity, to which the City is aware, and plans to incorporate into a larger and agreeable reconciliation understanding process involving other amounts related to this same entity.

**Finding 2018-004: Preparing the Schedule of Expenditures of Federal Awards (SEFA)**

**Repeat Finding – See Finding 2017-005**

*Condition:* For the year ended December 31, 2018, 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 Cluster to accurately report expenditures of federal funds for the year ended December 31, 2018.

*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*: Subsequent to initial preparation of the 2018 SEFA for audit review, in further related discussions with the auditors, it was determined consideration needs to be given to those Federal expenditures achieved with the use of available program income. Even though such expenditures are properly accounted for within the same City Funds accommodating the receipt of such income and also the receipt and expenditure of drawn entitlement revenue, the conveyed understanding is now to be mindful of excluding from the SEFA applicable expenditures directly funded with related program income. The City will utilize this understanding moving forward with future preparations of the SEFA.

**Finding 2018-005: Requesting Appropriate Reimbursements from Grant Funding Sources**

*Condition:* The City is conducting a roadway project that involves two funding sources. During the year ended December 31, 2018, the City submitted certain requests for reimbursement of the same expenditures to two funding sources.

*Criteria:* In order to ensure that reimbursements are appropriately requested from various funding sources, the City should have procedures in place to ensure that expenditures are submitted to only one funding source for reimbursement.

*Cause:* The City does not have adequate procedures in place to ensure that the expenditures are submitted to only one funding source for reimbursement.

*Effect:* The City did not accurately report grant revenue and unearned revenue related to this project.

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

*Recommendation*: We recommend that the City implement procedures to ensure expenditures available for reimbursement are submitted to only one funding source.

*Views of Responsible Officials*: Although the maximum totals of the involved funding sources have not been and will not be exceeded, the City concurs with this recommendation as it has been aware of the applicable reconciliation work for performance at related project end so as to segregate out in propriety the individual reimbursement amounts. The City will, in the future, be mindful to not allow such a combining of same nature reimbursable expenditures among multiple funding sources.

III – Findings and questioned costs for federal awards.

*Control Deficiency: Material Weakness*

**Finding 2018-006: Reporting**

**Repeat Finding – See Finding 2017-006**

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 – Hurricane Sandy Community Development Block Grant Disaster Recovery Grants/ CDBG Disaster Recovery Grants Cluster (CFDA #14.269); U.S. Department of Housing and Urban Development – Lead Hazard Reduction Demonstration Grant (CFDA #14.905)

*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, for the year ended December 31, 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 Hazard Reduction Demonstration Grant (LEAD) program, for the program year ended November 30, 2018 by the required due date of January 10$^{th}$, 2019. The report was submitted to HUD on August 15$^{th}$, 2019.

The City did not submit Form HUD 27061, *Race and Ethnic Data Reporting Form*, by the required due date of January 10$^{th}$, 2019. The report was submitted to HUD on August 15$^{th}$, 2019.

The City did not submit the *Consolidated Annual Performance and Evaluation Report* (CAPER), by the required due date extension of May 14$^{th}$, 2019. Draft submission of the CAPER occurred on August 5$^{th}$, 2019.

Of the three-monthly advanced funding reports selected for testing, the City did not submit two out of three by the required due dates. The April 2018 report was submitted on May 23, 2018 and the June 2018 report was submitted on October 3, 2018. In addition, of the two quarterly reports selected for testing, the City did not submit one out of two by the required due date. The January – March 2018 quarterly report was not submitted until April 17, 2018. All of the report submission dates above were outside of the 10-working day requirement per the grant agreement.

The City did not submit a Citizen Participation Plan for 2018.

The City has received multiple extensions for the LEAD close-out grant reporting (April 15th, 2019 and August 15th, 2019). However, final close-out documents were not filed by the initial required due date.

*Criteria:* Pursuant to 24 CFR sections 135.3(a)(2)(I through III), for CDBG, Section 3 reporting applies to Housing and Community Development Assistance, specifically housing rehabilitation, housing construction, or other public construction. 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, which is due by December 30, 2018.

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 $200,000 in a program year, must submit Form HUD 60002 using the Section 3 Performance Evaluation and Registry System (SPEARS). In addition, pursuant to 24 CFP section 135.90 since the LEAD program does not require submission of an annual performance report, the Section 3 report must be submitted by January 10$^{th}$ of each year.

Pursuant to the LEAD grant agreement, the City is required to file Form HUD 27061, *Race and Ethnic Data Reporting Form*, by January 10$^{th}$, 2019.

Pursuant to the Community Development Block Grant – Disaster Grant agreement, the City is required to submit all advanced funding reports on a monthly basis until all advanced funds have been used. These reports are to be submitted to FEMA by the 10$^{th}$ working day of each month following completion. In addition, the City is required to submit quarterly process/performance reports. Such reports are also due to FEMA by the 10$^{th}$ working day following the completion of the quarter.

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, 2018 and, therefore, the CAPER is due by December 30, 2018. However, the City received an extension to submit the CAPER until May 14$^{th}$, 2019.

Pursuant to 24 CFR 91.105, the City is required to submit a Citizen Participation Plan to HUD, prior to submission of for its annual grant. This plan certifies to HUD that the City has met all of the citizen participation requirements.

Pursuant to the LEAD grant agreement, all final grant close-out documents are due to HUD by 90 days after the programs end. The program ended on November 30$^{th}$, 2018 and therefore the final grant documents would be due by February 28$^{th}$, 2019.

*Cause:* The City does not have controls in place to ensure that reports are 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, and Form HUD 27061, for the LEAD program, by the required deadlines.

The City did not submit required reports for the Community Development Block Grant Disaster Recovery Grants by the required deadlines.

The City did not submit the CAPER for the program year-end September 30, 2018, by the required deadline.

The City did not submit a Citizen Participation Plan for 2018.

The City did not submit the LEAD close-out grant reporting documents by the required initial due date.

Failure to submit reports and plans by the required deadlines could jeopardize future funding.

*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:* Related to the 2018 audit, the Department of Building and Housing (Department) submits the following responses:

- Regarding Form HUD 60002 for the CDBG program, the previous staff member responsible for this report is no longer with the City and the Department does not have available evidence of completion; however, the Department has contacted HUD
- and will complete if HUD has no record of receiving this required reporting. The Department is committed to ensuring the completion and submission of such reporting by December 2019 to prevent future recurring findings.
- Regarding Form HUD 60002 for the LEAD grant, the City has now completed the required submission to HUD.
- The Department relied heavily on its previous consultant for the completion of its 2017 CAPER and 2018 Action Plan. The Department was required to make extensive modifications to the 2018 Action Plan prior to the completion of the 2017 CAPER; in relation, the Department has submitted the 2017 CAPER, subsequent to this finding, and is on schedule to submit the 2018 CAPER by the required December 31, 2019 due date.

- The new and current Director has no available evidence for an annual Citizens Participation Plan submission occurring in the past year. The Department has developed a draft of such a plan and is finalizing it for public notification and submission to HUD.

Additionally, and most importantly, the Department is working with HUD and its new consultants to update and/or develop policies and procedures for clearly outlining required report due dates via a working reporting calendar including annual, quarterly, and monthly deadlines. As the Department moves forward, the Department with assigned staff shall work diligently to provide all required reports by the target due dates; applicable reports not yet submitted are currently being addressed and worked to completion. All outstanding required forms still relative to fiscal year 2018 are scheduled for submission by October 1, 2019.

**Finding 2018-007: Program Income**

**Repeat Finding – See Finding 2017-007**

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 received during 2018 for eligible activities prior to drawing down additional entitlement funds.

*Criteria:* The Code of Federal Regulations (2 CFR 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 all program income is expended for eligible activities prior to drawing down additional funds.

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

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 Asset Management team and the Department Director received IDIS training in June 2019 and, in relation subsequent to this training, the Department successfully implemented updated procedures specific to utilizing available program income as applicable for expenditures prior to requesting additional entitlement funds.

**Finding 2018-008: Subrecipient Monitoring**

**Repeat Finding – See Finding 2017-008**

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. In addition, the City does not have evidence maintained in the subrecipient files that a formal risk assessment was completed and that a review of the subrecipients programmatic or financial reports/audits was performed.

*Criteria:* The Code of Federal Regulations (2 CFR 200.331) requires: (1) that every subaward be clearly identified to the subrecipient; (2) to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward; and (3) to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for the authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals.

*Cause:* The City does not have proper procedures in place to ensure certain award information is communicated to the subrecipient as required under the Uniform Guidance or that formal assessments and review procedures over the subrecipients is being performed.

*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 and that formal risk assessments of the subrecipient (including review of programmatic and financial reports/audits) is being completed and maintained.

*Views of Responsible Officials:* The City recently lost its Program Manager responsible for the oversight of CDBG program subrecipients and, in response, the Department has developed related policies and procedures for this part of the program and plans to hire a new Program Manager for upcoming fiscal year 2019. Currently, the Department is engaging a consultant assisting with related determination of program documentation requirements, updates of file maintenance protocols, and development of quarterly monitoring reports documentation. Further, for future subrecipient communications occurring with the onset of fiscal year 2019, the Department shall be mindful to include the Federal award identification number, award date, and CFDA number within all subrecipient contracts.

**Finding 2018-009: Equipment and Real Property Management**

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 was not maintaining records or conducting an inventory of equipment and real property purchased with CDBG grants funds.

*Criteria:* The Code of Federal Regulations (2 CFR section 200.313(d)(1) and 200.313(d)(2)) requires equipment and real property records must be maintained that include a description of the property or equipment, a serial or identification number (if applicable), the source of funding, acquisition date, cost of the property or equipment, location, and condition. In addition, the Code of Federal Regulations requires that a physical inventory of equipment and real property must be taken, and the results reconciled with the records at least once every two years.

*Cause:* The City does not have controls in place to ensure that an inventory of equipment and real property purchased with grant funds is being conducted and maintained.

*Effect:* The City is not in compliance with the Equipment and Real Property federal 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 implement procedures to ensure that all federal equipment and real property requirements are followed, including maintaining a listing of equipment and real property purchased with grant funds and conducting an inventory on those items at least every two years.

*Views of Responsible Officials:* The Department acknowledges it has not maintained records for identifying and tracking real property and equipment. The City will update the applicable policies and procedures for fiscal year 2019, as required, so as to eliminate this finding.

**Finding 2018-010: Allowability**

**Repeat Finding – See Finding 2017-010**

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

*Condition:* During our testing of the CDBG program, it was noted that the City does not have a process in place to review expenditures for allowability before the invoices were paid.

Disbursements to The Ferguson Group were made based on a monthly retainer fee instead of 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*: Questioned costs in the amount of $64,605 were identified.

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

*Views of Responsible Officials:* The Department's current Director continues to update policies and procedures applicable to allowability and currently all payables are reviewed at multiple levels including the Program Director's review and internal controls relative to the City's Bureau of Financial Management. Additionally, all departmental staff are trained relative to maintaining knowledge of applicable CDBG eligibility regulations. The City discontinued paying The Ferguson Group (TFG) on a retainer basis in July 2017 for Lead Hazard Reduction Grant services and also subsequently discontinued all such payments for related or similar services; TFG was additionally released from its contract in 2018. All DBHD vendors have been notified that submitted invoices for payment processing must include supporting documentation comprised of details underlying the actual completed work and/or provided services.

**Finding 2018-011: Matching**

U.S. Department of Housing and Urban Development – Lead Hazard Reduction Demonstration Grant (CFDA #14.905)

*Condition:* During our testing of the LEAD program, it was noted that the City's calculated match did not meet the 25% requirement per the Notice of Funding Approval (NOFA). The City's calculated match was $152,000 short of the required minimum match as required by U.S. Department of Housing and Urban Development (HUD).

*Criteria:* Per the NOFA, issued by HUD, there is a 25% minimum matching requirement on the LEAD grant.

*Cause:* The City does not have controls in place to ensure that the LEAD grant matching is being calculated and accounted for accurately to comply with HUD grant requirements.

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

*Questioned Costs*: Questioned costs in the amount of $152,000 were identified.

*Recommendations:* We recommend that the City implement procedures to document and track grant matching requirements.

*Views of Responsible Officials:* The Department has submitted its finalized total match documentation as part of the related grant close-out package which has been accepted by HUD.

*Control Deficiency: Significant Deficiency*

**Finding 2018-012: Procurement**

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 Hazard Reduction Demonstration Grant (CFDA #14.905)

*Condition:* The City's procurement policy, which does have updated verbiage to comply with the Code of Federal Regulations 2 CFR section 200.316 through 200.326 of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), was effective on March 1, 2018, which is after the effective implementation date as set by the Uniform Guidance.

*Criteria:* In accordance with the Federal Compliance Supplement, non-federal entities other than States must establish written procedures which follow procurement standards as set out at 2 CFR sections 200.318 through 200.326, by January 1, 2018.

*Cause:* The City implemented the new procurement standards after the January 1, 2018 deadline.

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

*Effect:* Noncompliance with the Uniform Guidance could jeopardize future federal funding.

*Recommendation:* We recommend that the City ensure all federal policies required by the Uniform Guidance be updated by the required implementation date.

*Views of Responsible Officials*: As indicated above under "Condition" for this finding, although not occurring at the very beginning of the fiscal year, the City was able to achieve within 2018 the required compliance language addition to its current procurement policy. The City does concur with this recommendation in that it will strive to be more mindful of adhering to specified implementation timing dates applicable to Uniform Guidance regulations and requirements.

***Prior Year Findings***

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

**Finding 2017-001: 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 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.

*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:* Corrective action is not yet completed. See current year Finding 2018-001.

**Finding 2017-002: 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, 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.

*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:* This finding has been corrected in the current year.

**Finding 2017-003: 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.

*Current Status:* Corrective action is not yet completed. See current year Finding 2018-002.

**Finding 2017-004: 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, 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.
- 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.

*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:* Corrective action is not yet completed. See current year Finding 2018-003.

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

*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.

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

*Current Status:* Corrective action is not yet completed. See current year Finding 2018-004.

III – Findings and questioned costs for federal awards.

*Control Deficiency: Material Weakness*

**Finding 2017-006: Reporting**

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 Hazard Reduction Demonstration Grant (CFDA #14.905)

*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.

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

Current Status: Corrective action is not yet completed. See current year Finding 2018-006.

**Finding 2017-007: Program Income**

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.

*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:* Corrective action is not yet completed. See current year Finding 2018-007.

**Finding 2017-008: 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.

*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*: Corrective action is not yet completed. See current year Finding 2018-008.

*Control Deficiency: Significant Deficiency*

**Finding 2017-009: Allowability**

U.S. Department of Housing and Urban Development – Lead Hazard Reduction Demonstration Grant (CFDA #14.905)

*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.

*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.

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

**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.

*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.

*Current Status:* Corrective action is not yet completed. See current year Finding 2018-010.