HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.

Harrisburg, Pennsylvania

Financial Audit Report

For the Years Ended December 31, 2019 and 2018

HARRISBURG DOWNTOWN
IMPROVEMENT DISTRICT, INC.
Harrisburg, Pennsylvania

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANT'S

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Harrisburg Downtown Improvement District, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, and statements and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harrisburg Downtown Improvement District, Inc. as of December 31, 2019 and 2018, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Klacik & Associates PC

Shamokin, Pennsylvania
April 5, 2020

HARRISBURG DOWNTOWIN IMPROVEMENT DISTRICT, INC.
Harrisburg Pennsylvania
Statements of Financial Position
As of December 31, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 331,836	$ 353,009
Assessments Receivable, Net of Allowance for Doubtful Accounts of $1,000	4,038	2,596
Other Receivable	7,190	3,390
Prepaid Expenses	20,333	24,159
Total Current Assets	363,397	383,154
Property, Equipment, and Leasehold Improvements		
Leasehold Improvements	30,000	30,000
Furniture and Equipment	64,232	64,232
Total Property, Equipment, and Leasehold Improvements	94,232	94,232
Less: Accumulated Depreciation	(94,232)	(94,232)
Total Property, Equipment, and Leasehold Improvements (Net of Accumulated Depreciation)	-	-
Other Assets		
Project Costs	84,595	84,595
Less: Accumulated Amortization	(71,686)	(68,707)
Total Other Assets	12,909	15,888
Total Assets	$ 376,306	$ 399,042
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$ 18,502	$ 25,467
Total Liabilities	18,502	25,467
Net Assets		
Without Donor Restrictions	357,804	373,575
Total Net Assets	357,804	373,575
Total Liabilities and Net Assets	$ 376,306	$ 399,042

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

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.
Harrisburg, Pennsylvania
Statements of Activities
For the Years Ended December 31, 2019 and 2018

	2019	2018
	Without Donor Restrictions	Without Donor Restrictions
Operating Activities		
Operating Revenue		
Property Assessments, Net of Discounts, Interest, and Penalty	$ 646,455	$ 628,969
Tax-exempt Contributions	42,427	41,937
Project Income	11,210	11,025
Cleaning Fee Revenue	12,300	12,300
Special Events, net of expenses (Peripheral and Incidental)	24,762	31,856
Total Operating Revenues	737,154	726,087
Operating Expenses		
Program Services	633,492	636,851
Supporting Services	128,651	123,035
Total Operating Expenses	762,143	759,886
Changes in Net Assets from Operating Activities	(24,989)	(33,799)
Nonoperating Activities		
Grant Income	5,500	-
Interest Income	3,718	2,603
Changes in Net Assets from Nonoperating Activities	9,218	2,603
Change in Net Assets	(15,771)	(31,196)
Net Assets, Beginning of Year	373,575	404,771
Net Assets, End of Year	$ 357,804	$ 373,575

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

HARRISBURG DOWNTOWN IMPROVEMENT DISTRICT, INC.
Harrisburg, Pennsylvania
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Changes in Net Assets	$ (15,771)	$ (31,196)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Amortization	2,979	2,979
(Increase) Decrease in Assets:		
Assessments Receivable	(1,442)	(1,847)
Other Receivable	(3,800)	270
Prepaid Expenses	3,826	(17,151)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(6,965)	(4,440)
Net Cash Provided by (Used In) Operating Activities	(21,173)	(51,385)
Net Increase (Decrease) in Cash and Cash Equivalents	(21,173)	(51,385)
Cash and Cash Equivalents - Beginning	353,009	404,394
Cash and Cash Equivalents - Ending	$ 331,836	$ 353,009

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

Note 1 – Organization

The Harrisburg Downtown Improvement District, Inc., a Pennsylvania non-profit corporation, (the "Corporation") was formed on April 22, 2004, under the provisions of the Neighborhood Improvement District Act, as of December 20, 2000, to provide neighborhood improvement district management association services, overseeing a neighborhood improvement district located in the Downtown Business District of Harrisburg, Pennsylvania. Such services shall include services which improve the ability of commercial establishments to service its consumers, transportation, public relations programs, advertising, district maintenance, security services, and services which improve the ability of property owners to enjoy a safer and more attractive neighborhood. Upon the adoption of various resolutions, the Authority and all the Authority's assets, liabilities, and contractual rights were assumed by the Corporation.

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

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

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

Note 2 – Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Presentation

The financial statements of the Corporation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Corporation and changes therein are classified as follows:

Note 2 – Summary of Significant Accounting Policies-Continued

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. The Corporation's board may designate assets without restrictions for specific operational purposes from time to time.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Corporation has no Net Assets With Donor Restrictions.

Information for the year ended December 31, 2018, is not intended to be a complete presentation in accordance with accounting principles generally accepted in the United States of America and presented for comparative purposes only.

As of December 31, 2019, and 2018 the Corporation's net assets of $357,804 and $373,575 were without donor restrictions.

	2019	2018
Net Assets Without Donor Restrictions	$ 357,804	$ 373,575

Grants and contract funding which are restricted to the use of the Corporation's programs are reflected as unrestricted revenue when they are received and spent during the same year.

Cash and Cash Equivalents

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Marketing and Advertising Costs

The Corporation expensed advertising costs as incurred. Total marketing and advertising expense for the years ended December 31, 2019 and 2018 amounted to $30,220 and $31,732 respectively.

Note 2 – Summary of Significant Accounting Policies-Continued

Concentrations of Credit Risk

For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Credit risk is limited to assessments receivable, investments, and cash balances. As of December 31, 2019, the Corporation had $75,375 and $205,348 on deposit in each money market account.

Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Corporation's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

Assessments Receivable & Other Receivables

Assessments receivable are stated at outstanding balances, less an allowance for doubtful accounts. The allowance for doubtful accounts is established through provisions charged against income. Accounts deemed to be uncollectible are charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance for this account is $1,000. Management's periodic evaluation of the adequacy of the allowance is based on experience, aging of the receivables, adverse situations that may affect a property owner's ability to pay, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires estimates that may be susceptible to significant change. Unpaid balances remaining after the stated payment terms are considered past due.

Note 2 – Summary of Significant Accounting Policies-Continued

Property, Equipment and Leasehold Improvements

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

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

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

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

Assets	Years
Furniture and Equipment	5 to 10
Leasehold Improvements	10 to 20

Property Assessments

Revenue resulting from the assessments of real property located within the District is the Corporation's primary source of funding. Once enacted, the assessments are obligations of the property owners for the period representing the Corporation's existence. Property owners authorized an assessment of 1.75 mils for the years ending through December 31, 2019. Tax-exempt properties that have decided to pay a contribution in lieu of assessment is recorded only when such contributed assessments are received.

During the years ended December 31, 2019 and 2018, the Corporation received $42,427 and $41,937 respectively of such in lieu of assessments. The related income was recorded as tax-exempt contributions.

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

Note 2 – Summary of Significant Accounting Policies-Continued

Tax-Exempt Status

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

The Corporation follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) which requires an assessment of the Corporation's exposure to income taxes at the entity level due to uncertain tax positions taken in current and previously filed tax returns. Examples of tax positions taken at the entity level include continuing qualification as a tax-exempt organization and whether there are any taxable unrelated business income activities conducted. Any tax benefits associated with uncertain tax positions that exceed a realization threshold must be recorded as a liability for unrecognized tax benefits in the financial statements, along with any associated interest and penalties. Presently, management believes that it is more likely than not that its tax positions will be sustained upon examination, including any appeals and litigation, and therefore believes that the Corporation has no exposure to income taxes from uncertain tax positions.

The Corporation's Federal Exempt Organization Business Income Tax Returns for the years ended December 31, 2018, 2017 and 2016 remain subject to examination by the Internal Revenue Service.

New Accounting Standards Adopted

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The amendments in this Update are provided to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, e.g. Topic 606, and (2) determining whether a contribution is conditional. This did not have a material effect on the Corporation's financial statements.

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments in this Update require lessees to record nearly all leases on the balance sheet, among other items. The amendments in this Update are applicable for contributions received or made during annual periods beginning after December 15, 2020. (e.g. year-end December 31, 2020). Management is currently evaluating the effect that the amendments will have on the Corporation's financial statements.

Note 2 – Summary of Significant Accounting Policies-Continued

Functional Allocation of Expenses

The Corporation allocates its expenses on a functional basis among its various programs and support activities. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and Benefits	Time and Effort
Occupancy	Square Footage
Professional Services	Full Time Equivalent
Office	Full Time Equivalent
Information Technologies	Full Time Equivalent
Travel	Time and Effort
Depreciation	Square Footage
All Others	Time and Effort

Note 2 – Summary of Significant Accounting Policies-Continued

The following schedule shows the breakout of the program and supporting activities for the Corporation for the year ended December 31, 2019:

	Program Activities	Supporting Activities	2019 Total Expenses	2018 Total Expenses
Cleaning Services	$ 247,256	$ -	$ 247,256	$ 257,928
Public Safety	61,412	-	61,412	62,978
Beautification Programs	38,330	-	38,330	29,497
Community Events	86,189	-	86,189	70,144
Management Salaries	65,000	28,000	93,000	93,000
Other Salaries	25,050	58,450	83,500	79,942
IRA Expense	3,664	1,570	5,234	4,457
Other Employee Benefits	16,108	6,903	23,011	20,803
Payroll Taxes	9,896	4,241	14,137	14,053
Professional Fees	17,698	-	17,698	35,670
Advertising and Promotion	30,220	-	30,220	31,732
Rent Expense	32,361	-	32,361	31,892
Office Expenses	-	8,232	8,232	12,797
Information Technology	-	7,807	7,807	1,965
Conferences and Meetings	-	4,779	4,779	3,922
Amortization	-	2,979	2,979	2,979
Insurance	-	5,690	5,690	5,619
All Other Expenses	308	-	308	508
Total Program and Supporting Activities	$ 633,492	$ 128,651	$ 762,143	$ 759,886

Subsequent Events

The Corporation has evaluated subsequent events through April 5, 2020 which is the date the financial statements were available to be issued.

Reclassifications

Prior year amounts have been reclassified, where appropriate, to conform with the current year presentation.

Note 3 – Liquidity

The Corporation's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and Cash Equivalents	$	331,836
Accounts Receivable, Net		11,228
	$	343,064

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 4 - Cash and Deposits

Demand deposits in banks are financial instruments which are subject to risk due to the $250,000 maximum, Federal Deposit Insurance Corporation (FDIC)-insurance coverage.

As of December 31, 2019, there were no cash or cash equivalents for which there remain donor-imposed temporary or permanent restrictions. The total cash balance of $331,836 consists of the following:

Petty Cash	$	200
Checking Account		47,788
Cash - Visa Check Card		2,000
Health Reimbursement		1,126
Money Market		75,375
Money Market 2		205,348
Total	$	331,836

Note 5– Special Events

Special events generate revenue for the Corporation as well as raise awareness about the organization's mission. There are no annual events hosted by the Corporation and only events that are peripheral and incidental in nature. The net amount of $24,762 is included on the Statement of Activities.

Note 6 – Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following as of December 31, 2019 and 2018:

	2019	2018
Leasehold Improvements	$ 30,000	$ 30,000
Visitor Information Center Equipment	6,897	6,897
Marketing and Office Equipment	57,335	57,335
Subtotal	94,232	94,232
Accumulated Depreciation	(94,232)	(94,232)
Total	$ -	$ -

There were no depreciation expenses for the years ended December 31, 2019 and 2018.

Project costs consist of the following as of December 31, 2019 and 2018:

	2019	2018
Plaza Improvement Project Costs	$ 39,908	$ 39,908
DID Territory Improvement Project Costs	44,687	44,687
Subtotal	84,595	84,595
Accumulated Amortization	(71,686)	(68,707)
Total	$ 12,909	$ 15,888

Amortization expense for the years ended December 31, 2019 and 2018 amounted to $2,979 for both years.

Note 7 – Transactions with Related Parties

The Corporation executed a lease agreement, with a corporation for which a board member is also an employee of such corporation. The leased space, which is in the Corporation's District, consists of three offices and an area currently being used as a Visitors Information Center, for a total useable area of 1,876 square feet, and three parking spaces located in the corporation's parking garage.

Note 7 – Transactions with Related Parties-Continued

An amendment to the lease agreement was executed on October 21, 2015 for one (1) five (5) year period starting January 1, 2016 and ending December 31, 2020. The base rent shall increase .25 per square foot annually and will be $17.50 with a base rent of $32,830 for the year ended December 31, 2020.

Rent expense for the years ended December 31, 2019 and 2018 amounted to $32,361 and $31,892 respectively. Additionally, the Corporation increased its commitment by assuming the lease for three unreserved parking spaces in the Corporation's parking garage. The Corporation's arrangement for parking was coterminous with the original lease agreement. Effective January 1, 2016, and throughout the term of the Lease the parking rent will be $135.00 per space per month.

No amount of rent payable was outstanding as of December 31, 2019 and 2018. The Corporation paid approximately $405 monthly to rent the three parking spaces. In addition, the parking rate for the four spaces designed for the parking of cleaning equipment is $280 per month.

Future minimum lease payments relating to the HDID's offices are $37,690 for the year ending December 31, 2020.

The Corporation executed a Property Protection Services Agreement Agreement) with Harrisburg Property Services, Inc. (HPS) to provide safety patrols to the District Monday through Friday during lunchtime for a fixed fee. The Police provide safety patrols Thursday through Saturday from 6PM-10PM. This was paid monthly based on billings computed using hours worked times rates.

Note 8 – Commitments & Contingencies

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 s have been agreed upon. A 12-month extension was agreed upon in December 2019 to continue through December 2020 with subsequent 12-month extensions.

There are no pending claims or lawsuits for the Corporation as of December 31, 2019. Management is of the opinion that there are no matters relating to litigation that will not have a material adverse effect on the Corporation's financial position as of December 31, 2019.

Note 9– Retirement Plans

The Corporation has adopted a Simple IRA plan for all employees receiving at least $500 in compensation in the current year. Under this plan, the Corporation will match 100% of each participant's elective deferral up to 3% of that participant's annual compensation.

Employees are immediately vested in 100% of the employee and employer contributions to the plan. Total employer matching expense during the years ended December 31, 2019 and 2018 amounted to $5,235 and $4,457 respectively.