

**Redevelopment Authority
of the City of Harrisburg
(A Component Unit of the
City of Harrisburg)**

Financial Statements

Year Ended December 31, 2021
with Independent Auditor's Report

MaherDuessel

A horizontal bar is positioned below the company name. The left portion of the bar is black, and the right portion is blue, matching the color of the 'D' in the company name.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

YEAR ENDED DECEMBER 31, 2021

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Independent Auditor's Report

**Board of Directors
Redevelopment Authority of the City of Harrisburg**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Authority of the City of Harrisburg (Authority), a component unit of the City of Harrisburg, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of December 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements,

is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Maheer Duessel

Harrisburg, Pennsylvania
July 22, 2022

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

STATEMENT OF NET POSITION

DECEMBER 31, 2021

| Assets | Governmental Activities |
|---|------------------------------------|
| Current assets: | |
| Cash | \$ 269,810 |
| Accounts receivable | 131,003 |
| Grants receivable | 66,930 |
| Loans receivable | 25,996 |
| Lease receivable | 885,197 |
| Total current assets | 1,378,936 |
| Non-current assets: | |
| Restricted investments | 857,423 |
| Loans receivable | 83,129 |
| Lease receivable | 5,597,575 |
| Capital assets, not being depreciated | 30,000 |
| Capital assets, being depreciated, net | 37,504,140 |
| Total non-current assets | 44,072,267 |
| Total Assets | 45,451,203 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 110,884 |
| Due to primary government | 4,420,030 |
| Unearned grant revenue | 12,954 |
| Security deposits | 2,000 |
| Current portion of long-term debt | 2,091,024 |
| Current portion of compensated absences | 14,251 |
| Total current liabilities | 6,651,143 |
| Non-current liabilities: | |
| Long-term debt | 18,177,714 |
| Compensated absences | 11,859 |
| Total non-current liabilities | 18,189,573 |
| Total Liabilities | 24,840,716 |
| Deferred Inflows of Resources | |
| Deferred lease revenue | 29,345,602 |
| Net Position | |
| Net investment in capital assets | (8,991,203) |
| Restricted: | |
| Revolving loan | 72,686 |
| Blight remediation | 20,774 |
| Unrestricted | 162,628 |
| Total Net Position | \$ (8,735,115) |

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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

| Functions/Programs: | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|--|---------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| Community development | \$ 4,739,622 | \$ 9,048,179 | \$ 269,268 | \$ 33,334 | \$ 4,611,159 |
| Blight remediation | 3,094 | - | - | - | (3,094) |
| Total Governmental Activities | \$ 4,742,716 | \$ 9,048,179 | \$ 269,268 | \$ 33,334 | 4,608,065 |
| | | | | | |
| General revenues: | | | | | |
| Miscellaneous income | | | | | 46,183 |
| Investment income | | | | | 3,273 |
| Total general revenues | | | | | 49,456 |
| Change in Net Position | | | | | 4,657,521 |
| | | | | | |
| Net Position: | | | | | |
| Beginning of year | | | | | (13,392,636) |
| End of year | | | | | \$ (8,735,115) |

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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2021

| | General | Transportation Center | CSM | Land Bank | Total |
|---|---------------------|--------------------------|---------------------|------------------|---------------------|
| Assets | | | | | |
| Cash | \$ 18,429 | \$ 3,966 | \$ 226,641 | \$ 20,774 | \$ 269,810 |
| Due from other funds | 986,667 | 904 | 544,776 | - | 1,532,347 |
| Accounts receivable | 74,239 | 25,093 | 31,671 | - | 131,003 |
| Restricted investments | 857,423 | - | - | - | 857,423 |
| Grants receivable | - | - | 66,930 | - | 66,930 |
| Loans receivable | - | - | 109,125 | - | 109,125 |
| Lease receivable | 5,371,821 | 317,808 | 793,143 | - | 6,482,772 |
| Total Assets | \$ 7,308,579 | \$ 347,771 | \$ 1,772,286 | \$ 20,774 | \$ 9,449,410 |
| Liabilities, Deferred Inflows of Resources, and Fund Balance | | | | | |
| Liabilities: | | | | | |
| Due to other funds | \$ 545,680 | \$ 986,667 | \$ - | \$ - | \$ 1,532,347 |
| Accounts payable | 590 | 30,357 | 79,937 | - | 110,884 |
| Due to primary government | 4,420,030 | - | - | - | 4,420,030 |
| Unearned grant revenue | - | - | 12,954 | - | 12,954 |
| Security deposits | - | - | 2,000 | - | 2,000 |
| Total Liabilities | 4,966,300 | 1,017,024 | 94,891 | - | 6,078,215 |
| Deferred Inflows of Resources: | | | | | |
| Deferred lease revenue | 28,234,651 | 317,808 | 793,143 | - | 29,345,602 |
| Fund Balance: | | | | | |
| Nonspendable: | | | | | |
| Loans receivable | - | - | 36,439 | - | 36,439 |
| Restricted: | | | | | |
| Repayment of the 1998 Guaranteed Revenue Bonds | 857,423 | - | - | - | 857,423 |
| Revolving loan program | - | - | 72,686 | - | 72,686 |
| Blight remediation | - | - | - | 20,774 | 20,774 |
| Committed: | | | | | |
| Real estate development | - | - | 775,127 | - | 775,127 |
| Unassigned | (26,749,795) | (987,061) | - | - | (27,736,856) |
| Total Fund Balance | (25,892,372) | (987,061) | 884,252 | 20,774 | (25,974,407) |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | \$ 7,308,579 | \$ 347,771 | \$ 1,772,286 | \$ 20,774 | \$ 9,449,410 |

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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2021

Total Fund Balance - Governmental Funds \$(25,974,407)

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.

37,534,140

Long-term liabilities are not due and payable in the current period and are not reported as fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.

Long-term debt

\$(20,268,738)

Compensated absences

(26,110)

(20,294,848)

Total Net Position - Governmental Activities

\$ (8,735,115)

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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2021

| | General | Transportation Center | CSM | Land Bank | Total |
|---------------------------------------|------------------------|--------------------------|-------------------|------------------|------------------------|
| Revenues: | | | | | |
| Service revenue | \$ 213,689 | \$ - | \$ 150,671 | \$ - | \$ 364,360 |
| Intergovernmental revenue | - | - | 139,629 | - | 139,629 |
| Investment income (loss) | (1,600) | 3 | 4,641 | 229 | 3,273 |
| Other rental income | - | 39,532 | - | - | 39,532 |
| Miscellaneous income | 26,223 | 24,274 | 7,945 | 5,463 | 63,905 |
| Space rental income | 7,923,044 | 656,906 | 176,254 | - | 8,756,204 |
| Total revenues | <u>8,161,356</u> | <u>720,715</u> | <u>479,140</u> | <u>5,692</u> | <u>9,366,903</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Program expenditures | 286,519 | 898,210 | 374,335 | 3,094 | 1,562,158 |
| Debt service: | | | | | |
| Principal | 1,990,000 | 7,392 | 36,764 | - | 2,034,156 |
| Interest | 274,684 | 951 | 10,781 | - | 286,416 |
| Total expenditures | <u>2,551,203</u> | <u>906,553</u> | <u>421,880</u> | <u>3,094</u> | <u>3,882,730</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | - | - | 200,000 | - | 200,000 |
| Transfers out | - | - | - | (200,000) | (200,000) |
| Total other financing sources (uses) | - | - | 200,000 | (200,000) | - |
| Net Change in Fund Balance | <u>5,610,153</u> | <u>(185,838)</u> | <u>257,260</u> | <u>(197,402)</u> | <u>5,484,173</u> |
| Fund Balance: | | | | | |
| Beginning of year | <u>(31,502,525)</u> | <u>(801,223)</u> | <u>626,992</u> | <u>218,176</u> | <u>(31,458,580)</u> |
| End of year | <u>\$ (25,892,372)</u> | <u>\$ (987,061)</u> | <u>\$ 884,252</u> | <u>\$ 20,774</u> | <u>\$ (25,974,407)</u> |

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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

Net Change in Fund Balance - Governmental Funds \$ 5,484,173

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

| | | |
|----------------------|--|-------------|
| Depreciation expense | | (1,522,473) |
|----------------------|--|-------------|

Debt proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of principal on debt is an expenditure in the governmental funds, but reduces the liability in the statement of net position.

| | | |
|---------------------------------|---------------|-----------|
| Payment of long-term debt | \$ 2,034,156 | |
| Amortization on forgivable loan | <u>33,334</u> | 2,067,490 |

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures until paid in the governmental funds.

| | | |
|--------------------------------|----------------|--------------------|
| Accretion of interest | (1,369,100) | |
| Change in compensated absences | <u>(2,569)</u> | <u>(1,371,669)</u> |

Change in Net Position - Governmental Activities \$ 4,657,521

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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

1. Summary of Significant Accounting Policies

The Redevelopment Authority of the City of Harrisburg (Authority) is incorporated under the provisions of the Commonwealth of Pennsylvania Urban Development Act Number 385 of May 24, 1945, as amended, for the purpose of providing redevelopment and other related activities within the City of Harrisburg (City). The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB).

A summary of the Authority's significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Reporting Entity

The Authority is considered a component unit of the City and the Authority's financial activities are included in the City's financial statements.

As required by GASB, the Authority has evaluated all related entities for possible inclusion in the financial reporting entity.

The following component unit has been included in the financial reporting entity as a blended component unit:

Harrisburg Land Bank

The Harrisburg Land Bank's (Land Bank) 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. The Land Bank was created under the Pennsylvania Land Bank Act. The Land Bank is governed by seven board members, five of which serve as members of the Authority and two appointed by the Mayor of the City. Operations are financed through contributions. The Land Bank does not issue separate audited financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

Measurement Focus and Basis of Accounting

The basic financial statements of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

1. Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, liabilities, and deferred inflows of resources resulting from nonexchange transactions are recognized in accordance with the requirements of applicable GASB pronouncements.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Capital assets are recorded in the government-wide financial statements and depreciated over their useful lives, rather than being expensed at the time of acquisition or construction.

Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liability, rather than as an expenditure.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The Authority chooses to eliminate the indirect costs between governmental activities to avoid a "doubling up" effect.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

2. Fund Financial Statements

The underlying accounting system of the Authority is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Service revenue, investment, and space rental income associated with the current fiscal period are all considered to be susceptible to accrual and thus have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

Non-current portions of long-term receivables due to governmental funds are reported on the balance sheets in spite of the spending measurement focus.

Purchases and construction of capital assets are recognized as expenditures and the asset value is not capitalized in the governmental funds.

Because of the spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since noncurrent liabilities do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities unless due and payable.

The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when due and payable.

Basis of Presentation

The determination of major funds is based on minimum criteria as set forth in GASB pronouncements. The following are the Authority's major funds:

General Fund

The General Fund is used to account for all financial resources except those reported in another fund. Revenues of this fund are primarily derived from state and federal grants, and fees for services. Many of the basic activities of the Authority are accounted for in this fund.

Transportation Center Fund

The Transportation Center Fund is used to account for the proceeds of revenues and expenditures related to the operation of the train station.

Contract Service & Maintenance (CSM) Fund

The CSM Fund is used to account for various redevelopment projects, including the related revenues and expenditures of projects within the City.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

Land Bank Fund

The Land Bank Fund is used to account for costs 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.

Cash

For the purpose of financial reporting, the Authority considers all unrestricted demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less to be cash.

Accounts Receivable

Accounts receivable consists of administrative fees for the General Fund, tenant parking and tenant rent for the Transportation Center Fund, and other miscellaneous receivables in each fund. The Authority uses the specific write-off method in recording uncollectible accounts.

Grants Receivable

Grants receivable include amounts of funding due from Impact Harrisburg. The amounts are determined based on reimbursable expenditures incurred during the year ended December 31, 2021.

Loans Receivable

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, 2021, there was \$109,125 of loans receivable in the CSM Fund.

The Authority also received two Up-Front Grants in the General Fund 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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

likelihood that these loans will be collected is remote and, as a result, the loans recorded are completely offset with an allowance for doubtful accounts at December 31, 2021.

Leases

As discussed further in Note 5, the Authority is a lessor for noncancellable leases. The Authority recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow or resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow or resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Authority determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

Interfund Transactions

The Authority records a variety of transactions between the funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2021, appropriate interfund receivables or payables have been established.

Accrued Compensated Absences

The Authority's employees are granted vacation benefits in varying amounts depending on the number of years of service. Employees may accumulate up to 37.5 hours of vacation leave, which may be carried over to subsequent years. Sick leave benefits accrue up to a maximum of 675 hours, but can only be used as sick time and not taken in pay. Sick leave accumulated in excess of 675 hours may be converted, at the discretion of the Executive Director, to vacation time. The conversion of sick leave to vacation leave will occur on the ratio of three (3) hours excess sick leave to one (1) hour vacation leave. The vacation leave accrued in this manner may be carried over to the new calendar year in addition to the maximum vacation leave carryover otherwise permitted. The liability related to compensated absences is reported on the statement of net position.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restricted Investments

Restricted investments represent resources set aside for liquidation of specific obligations, as detailed in Note 3.

The Authority's investments are valued at fair value. The Authority categorizes its 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.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

Capital Assets

Capital assets of the Authority result from expenditures in the governmental funds. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at historical cost at the acquisition date. Donated 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. The Authority maintains a capitalization threshold of \$5,000 for vehicles, equipment, and furniture and fixtures. Leasehold improvements, land improvements, buildings, and building improvements have a capitalization threshold of \$25,000. All capital assets are depreciated, except for land, land improvements (excavation, fill, grading, landscaping), construction in progress, easements, and rights of way.

Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|-------------------------------------|------------------------|
| 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 |

Net Position/Fund Balances

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

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, and intangible assets, into one component of net position. Restricted investments and the lease receivable increase the balance in this category. Accumulated depreciation, deferred lease revenue, and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

- *Restricted Net Position* – This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions of enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the Authority not restricted for any project or other purpose.

Sometimes the Authority 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 government-wide financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the Authority's 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 constraint placed upon the funds. These levels are as follows:

- *Nonspendable* – This category represents funds that are not in spendable form.
- *Restricted* – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- *Committed* - This category represents funds that are limited in use due to the constraints on purpose and circumstances of spending imposed by the Board of Directors (Board). Such commitment is made via a Board resolution and must be made prior to the end of the calendar year. Removal of the commitment requires a Board resolution.
- *Unassigned* – This category represents all other funds not otherwise defined.

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, 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 Authority'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

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be used for the same purpose, committed fund balance is applied first. Unassigned fund balance is applied last.

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverages in 2021. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Pending Changes in Accounting Principles

The Governmental Accounting Standards Board (GASB) has issued the following Statement that will become effective in a future year as shown below. Management has not yet determined the impact of this Statement on the Authority's 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 Authority's December 31, 2022 financial statements.

2. Deposits and Investments

The deposit and investment policy of the Authority adheres to state statutes, prudent business practices, and applicable trust indentures. The Authority deposits cash in local financial institutions.

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk.

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As of December 31, 2021, the Authority's book balance was \$269,810 and the bank balance was \$294,261. The bank balance of \$294,261 was covered by federal depository insurance.

Investments

The fair value of the investments of the Authority at December 31, 2021 was as follows:

| <u>Investments</u> | <u>Fair Value</u> |
|--------------------|-------------------|
| Money market funds | \$ 857,423 |
| Total investments | <u>\$ 857,423</u> |

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

Custodial Credit Risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have an investment policy for custodial credit risk. The money market funds of the Authority 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 Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2021, the Authority did not have investments in any one issuer that were more than 5% of the Authority's total investments.

Credit Risk – The Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Authority's investments had the following level of exposure to credit risk as of December 31, 2021:

| | <u>Fair Value</u> | <u>Rating</u> |
|--------------------|-------------------|---------------|
| Money market funds | \$ 857,423 | AAA |

Interest Rate Risk – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's money market funds have a related average maturity of less than one year as of December 31, 2021.

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NOTES TO FINANCIAL STATEMENTS

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3. Restricted Investments

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

| | |
|---|-------------------|
| Governmental Funds: | |
| General Fund: | |
| Restricted for repayment of the 1998 Guaranteed Revenue Bonds | \$ 857,423 |
| Total restricted investments | <u>\$ 857,423</u> |

4. Interfund Receivables/Payables/Transfers

The Authority records interfund activity for amounts that one fund loans to another fund or for the value of expenditures that one fund pays on behalf of another fund. A summary of the Authority's interfund receivables, payables, and transfers at December 31, 2021 is as follows:

| | Due from | Due to | Transfers in | Transfers out |
|----------------------------|---------------------|---------------------|-------------------|-------------------|
| General Fund | \$ 986,667 | \$ 545,680 | \$ - | \$ - |
| Transportation Center Fund | 904 | 986,667 | - | - |
| CSM Fund | 544,776 | - | 200,000 | - |
| Land Bank Fund | - | - | - | 200,000 |
| | <u>\$ 1,532,347</u> | <u>\$ 1,532,347</u> | <u>\$ 200,000</u> | <u>\$ 200,000</u> |

The interfund receivables and payables are not expected to be collected and repaid, respectively, within one year. The interfund transfers are used for cash flow purposes and to reimburse for work performed by one fund on behalf of another fund at no charge.

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5. Lease Receivable, Deferred Lease Revenue, and Rental Income

General Fund

The Authority received ownership of the Verizon Building after expiration of the lease with Verizon, which terminated on February 29, 2016. Upon expiration of the lease with Verizon, the Harristown Development Corporation (HDC) leased the Verizon Building from the 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 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 Authority in the amount of \$62,500 per month. These rentals, obtained from the DGS lease and paid by HDC to the 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 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, as further discussed in Note 7. The lease rentals paid up-front are recorded as deferred lease revenue as of December 31, 2021.

The deferred lease revenue in the amount of \$28,234,651 at December 31, 2021 is reduced annually by the amount of rental income recognized over the term of the lease using the straight-line approach. During the year ended December 31, 2021, the Authority recognized \$7,923,044 of rental income.

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The present value of the future minimum lease payments at December 31, 2021 are as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|-------------------------------------|----------------------------|
| 2022 | \$ 577,260 |
| 2023 | 539,840 |
| 2024 | 504,410 |
| 2025 | 539,813 |
| 2026 | 549,700 |
| 2027-2031 | 2,243,226 |
| 2032-2033 | 417,572 |
| Total | <u><u>\$ 5,371,821</u></u> |

Transportation Center Fund

The Authority leases space and parking to a commercial rail company and other tenants with lease ending dates varying through 2025. Of the space and parking that is leased, only certain space leases are considered to be noncancellable leases.

The Authority has receivables and deferred inflows of resources associated with these noncancellable leases that will be recognized as revenue over the lease terms. As of December 31, 2021, the Authority's receivables and deferred inflows of resources for lease payments was \$317,808. The Authority recognized \$108,069 in lease revenue during the year ended December 31, 2021 relating to these noncancellable leases.

Minimum rentals on noncancellable leases are as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|-------------------------------------|--------------------------|
| 2022 | \$ 131,683 |
| 2023 | 86,627 |
| 2024 | 75,450 |
| 2025 | 24,048 |
| Total | <u><u>\$ 317,808</u></u> |

The Authority recognized \$548,837 in lease revenue during the year ended December 31, 2021 relating to cancellable leases.

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Minimum rentals on cancellable leases are as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|-------------------------------------|------------------|
| 2022 | \$ 29,835 |
| 2023 | 17,145 |
| 2024 | 13,185 |
| 2025 | 2,790 |
| Total | <u>\$ 62,955</u> |

CSM Fund

Additionally, the Authority, through the CSM Fund, leases space to a non-profit corporation with a lease ending date of June 30, 2026. This lease is considered to be a noncancellable lease.

The Authority has receivables and deferred inflows of resources associated with this noncancellable lease that will be recognized as revenue over the lease term. As of December 31, 2021, the Authority's receivables and deferred inflows of resources for lease payments was \$793,143. The Authority recognized \$176,254 in lease revenue during the year ended December 31, 2021 relating to this noncancellable lease.

Minimum rentals on the noncancellable lease is as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|-------------------------------------|-------------------|
| 2022 | \$ 176,254 |
| 2023 | 176,254 |
| 2024 | 176,254 |
| 2025 | 176,254 |
| 2026 | 88,127 |
| Total | <u>\$ 793,143</u> |

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6. Capital Assets

The changes in the Authority's capital assets for the year ended December 31, 2021 were as follows:

| | January 1, 2021 | Additions | Retirements | December 31, 2021 |
|---|----------------------|-----------------------|-------------------|----------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 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 | <u>47,838,933</u> | <u>-</u> | <u>-</u> | <u>47,838,933</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 601,749 | 52,326 | - | 654,075 |
| Buildings - leased | 6,258,804 | 1,294,925 | - | 7,553,729 |
| Vehicles | 10,150 | 3,691 | - | 13,841 |
| Leasehold improvements | 1,941,617 | 171,531 | - | 2,113,148 |
| Total accumulated depreciation | <u>8,812,320</u> | <u>1,522,473</u> | <u>-</u> | <u>10,334,793</u> |
| Total capital assets being depreciated, net | <u>39,026,613</u> | <u>(1,522,473)</u> | <u>-</u> | <u>37,504,140</u> |
| Total capital assets, net | <u>\$ 39,056,613</u> | <u>\$ (1,522,473)</u> | <u>\$ -</u> | <u>\$ 37,534,140</u> |

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7. Long-term Debt

Long-term debt activity for the year ended December 31, 2021 was as follows:

| | January 1, 2021 | Additions/ Accretion | Retirements/ Amortization | December 31, 2021 | Current Portion |
|--|----------------------|-------------------------|------------------------------|----------------------|---------------------|
| Direct Borrowings: | | | | | |
| Note payable - FHLB/Citizens | \$ 116,670 | \$ - | \$ (33,334) | \$ 83,336 | \$ 33,334 |
| Note payable - First National Bank | 344,213 | - | (36,764) | 307,449 | 39,800 |
| Capital lease - Ally Financial | 17,896 | - | (7,392) | 10,504 | 7,890 |
| Due to other government | 170,832 | - | - | 170,832 | - |
| Direct Placement: | | | | | |
| 1998 Series A Guaranteed Revenue Bonds | 20,317,517 | 1,369,100 | (1,990,000) | 19,696,617 | 2,010,000 |
| | <u>\$ 20,967,128</u> | <u>\$ 1,369,100</u> | <u>\$ (2,067,490)</u> | <u>\$ 20,268,738</u> | <u>\$ 2,091,024</u> |

The following is an analysis of debt service requirements to maturity on the long-term debt using the interest rates in effect at December 31, 2021:

| Years Ending December 31, | Principal | Interest | Total |
|---|---------------------|------------------|---------------------|
| 2022 | \$ 2,091,024 | \$ 9,856 | \$ 2,100,880 |
| 2023 | 2,117,061 | 8,258 | 2,125,319 |
| 2024 | 2,129,138 | 6,734 | 2,135,872 |
| 2025 | 2,133,871 | 5,332 | 2,139,203 |
| 2026 | 2,165,318 | 3,885 | 2,169,203 |
| 2027-2031 | 11,174,877 | 4,451 | 11,179,328 |
| 2032-2033 | 9,840,832 | - | 9,840,832 |
| | <u>31,652,121</u> | <u>\$ 38,516</u> | <u>\$31,690,637</u> |
| Unamortized discount on capital appreciation bonds | <u>(11,383,383)</u> | | |
| | <u>\$20,268,738</u> | | |

On November 10, 2008, the Authority entered into a loan agreement with Citizens Bank in the amount of \$500,000. The proceeds of the loan were used to finance the construction of Susquehanna Harbor Safe Haven (SHSH). The loan was facilitated through a Direct Subsidy

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agreement. Under this agreement, the loan balance is to be forgiven over a fifteen-year period, given that certain compliance requirements are met.

On November 10, 2008, the Authority entered into a loan agreement with First National Bank, formerly Metro Bank of Harrisburg, in the amount of \$650,000. The proceeds from the loan were used for construction of the SHSH project. The loan bears interest of 4.83% for the first three years and followed by prime thereafter until maturity in 2026. The interest rate at December 31, 2021 was 3.25%. In the event of default by the Authority, the interest rate shall automatically increase by 4.00% per annum.

On April 4, 2018, the Authority entered into a capital lease with Ally Financial in the amount of \$35,405. The proceeds of the lease were used to finance the purchase of a vehicle. The loan matures in April 2023 and bears interest at 6.54%. In the event of default by the Authority, Ally Financial has a security interest in the vehicle.

Included in the Authority's long-term debt is \$170,832 due to another government. This amount relates to the closeout of a Weatherization project funded by the Commonwealth of Pennsylvania. At the time of closeout, it was determined that this balance was owed to the grantor; however, no request has been made for payment by the grantor. Additionally, the Authority has requested that the grantor waive the remaining obligation.

On December 19, 1998, the Authority issued Federally Taxable Guaranteed Revenue Bonds, Series A of 1998, in the face amount of \$41,680,000 and Series B of 1998 in the face amount of \$51,910,000 with interest rates of 6.7% and 5.1%, respectively. The Series A and Series B of 1998 are capital appreciation bonds. As such, the proceeds at the time of issuance were \$6,920,525 and \$16,716,758, respectively. The related proceeds of both issues were used to finance the acquisition of the Authority's right, title, and interest in and to certain portions of the Strawberry Square Site located in the City; to fund a debt service reserve fund for the 1998 bonds; and to pay costs of issuance. The Authority received ownership of the buildings in 2016. The Federally Taxable Guaranteed Revenue Bonds, Series A of 1998 mature through 2033. The City guaranteed the repayment of this bond issue. The Federally Taxable Guaranteed Revenue Bonds, Series B of 1998 were refunded by the Commonwealth of Pennsylvania through issuance of the Certificates of Participation, Series 2016 on December 15, 2016.

A settlement agreement was entered into on January 30, 2015 between the City, Assured Guaranty Municipal Corporation (AGM), and the Authority related to certain portions of the

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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 Authority, the Authority is required to reimburse the City for amounts paid by the City under the guarantee. Interest will accrue on amounts owed by the Authority at a rate of 8% annually. In September 2017 and 2018, \$500,000 was paid by the City to the Authority under the guarantee. In 2019, \$860,253 was paid by the City to the Authority under the guarantee. In 2020, \$940,000 was paid by the City to the Authority under the guarantee. In 2021, \$950,000 was paid by the City to the Authority under the guarantee. As of December 31, 2021, interest of \$669,777 was accrued on the amounts paid by the City. The total amount due to the City at December 31, 2021 is \$4,420,030 and is reported as due to primary government.

8. Conduit Debt Issues

In 2005, the Authority issued conduit debt in the form of Federally Taxable Guaranteed Revenue Bonds (Series A-2 of 2005). The debt was issued in the amount of \$9 million. The related proceeds were issued on behalf of Harrisburg Civic Baseball Club, Inc. (HCBC). A loan agreement was entered between the Authority and HCBC. The proceeds were to be utilized by HCBC for the renovation and upgrade of First National Bank Park, formerly Metro Bank Park. HCBC pledged existing and projected revenues from the stadium to pay the loan. In addition, the City has guaranteed repayment of the bonds through a Guaranty agreement. The Authority is not obligated for repayment of the bonds. In May 2021, City Council approved the Third Amendment and Restated Settlement Agreement between the City and Ambac which included the defeasance of the Series A-2 of 2005 bonds.

9. Litigation

From time to time, the Authority is involved in various lawsuits arising in the ordinary course of its activities. The Authority's management believes that the resolution of these actions is not expected to have a material adverse effect on the financial statements of the Authority.

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10. Pension Plan

The Authority participates in a defined contribution pension plan (Plan) for their employees. The Plan was established on January 1, 1998. The Authority contributes 4.5% of each covered employee's gross compensation to the Plan. Each participant is also required to contribute 4.5% of gross compensation in the Plan. The Plan is administered and its assets are held in trust by MissionSquare Retirement. The Authority contributed \$20,636 to the Plan, which is approximately 4.5% of covered payroll in the amount of \$471,465. Each permanent (full-time or part-time) employee is eligible to participate. Plan members contributed \$19,781 for the year ended December 31, 2021.

Participants in the Plan vest according to the following schedule:

| <u>Completed Years of Services</u> | <u>% Vested</u> |
|------------------------------------|-----------------|
| 1 | 20 |
| 2 | 40 |
| 3 | 60 |
| 4 | 80 |
| 5 | 100 |

11. Fund Balance/Net Position Deficits

The following is a schedule of fund balance/net position deficits at December 31, 2021:

| | <u>Deficit Amount</u> |
|----------------------------|-----------------------|
| Governmental Activities | \$ 8,735,115 |
| General Fund | 25,892,372 |
| Transportation Center Fund | 987,061 |

The Governmental activities deficit is related to the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998 and the deferred lease revenue. The General Fund deficit is related to the deferred lease revenue. The deferred lease revenue will be reduced annually by the amount of rental income recognized over the term of the lease. The City guarantees the payment of the bonds.

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Funds sufficient to provide for the Transportation Center deficits are to be made from future activities, according to management. Additionally, as discussed in Note 7, management is attempting to have a grantor waive the payment of the related debt principal and interest payments.

12. Commitments and Contingencies

Grants

The Authority obtains grant revenue from federal and state sources. Should the funding source determine that the Authority has expended grant funds for purchases that are un-allowed under the grant contract, the Authority may have to pay back the funds. However, ultimate disallowance of any costs claimed is ultimately the responsibility of the granting agency. Accordingly, no adjustment has been made to the financial statements for any questioned costs pending final resolution by the granting agency.

13. Related Party

The Authority has various contracts with the City, a related party, for property management and acquisition services. These activities are reflected in the CSM Fund of the Authority in the amount of \$11,612 for the year ended December 31, 2021.