

**Redevelopment Authority of the
City of Harrisburg**

Financial Statements

Year Ended December 31, 2009 with
Independent Auditor's Report

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

YEAR ENDED DECEMBER 31, 2009

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Independent Auditor's Report

Board of Directors
Redevelopment Authority of
the City of Harrisburg

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) as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2009, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Maher Duessel

Harrisburg, Pennsylvania
August 11, 2010

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

STATEMENT OF NET ASSETS

DECEMBER 31, 2009

Assets	Governmental Activities
Current assets:	
Cash	\$ 787,066
Investments	126,245
Restricted investments	2,596,893
Accounts receivable	36,855
Grants receivable	699,139
Due from other governments	72,964
Loans receivable	330,750
Total current assets	4,649,912
Non-current assets:	
Capital assets, not being depreciated	152,574
Capital assets, being depreciated, net	6,007,428
Total non-current assets	6,160,002
Total Assets	10,809,914
Liabilities	
Current liabilities:	
Accounts payable	412,208
Accrued interest	8,679
Current portion of bonds and notes payable	321,207
Line of credit	72,964
Unearned revenue	233,539
Security deposits	1,000
Current portion of compensated absences	6,278
Total current liabilities	1,055,875
Non-current liabilities:	
Bonds and notes payable	45,006,715
Environmental remediation liability	375,241
Compensated absences	33,862
Total non-current liabilities	45,415,818
Total Liabilities	46,471,693
Net Assets	
Invested in capital assets, net of related debt	4,837,860
Restricted	2,596,050
Unrestricted	(43,095,689)
Total Net Assets	\$ (35,661,779)

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, 2009

Functions/Programs:	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
Community development	\$ 6,248,903	\$ 814,796	\$ 2,922,763	\$ 760,250	\$ (1,751,094)
Total Governmental Activities	<u>\$ 6,248,903</u>	<u>\$ 814,796</u>	<u>\$ 2,922,763</u>	<u>\$ 760,250</u>	<u>(1,751,094)</u>
General revenues:					
Rental income					816,239
Miscellaneous income					15,440
Interest income					<u>135,666</u>
Total general revenues					<u>967,345</u>
Change in Net Assets					<u>(783,749)</u>
Net Assets:					
Beginning of year, restated					<u>(34,878,030)</u>
End of year					<u>\$ (35,661,779)</u>

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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2009

Assets	General	Transportation Center	CSM	Total
Cash	\$ 301,463	\$ 357,034	\$ 128,569	\$ 787,066
Investments	126,245	-	-	126,245
Restricted investments	2,596,050	843	-	2,596,893
Due from other funds	458,072	-	24,577	482,649
Accounts receivable	22,600	14,255	-	36,855
Grants receivable	-	22,829	676,310	699,139
Due from other governments	72,964	-	-	72,964
Loans receivable	-	-	330,750	330,750
Total Assets	\$ 3,577,394	\$ 394,961	\$ 1,160,206	\$ 5,132,561
Liabilities and Fund Balance				
Liabilities:				
Due to other funds	\$ 30,744	\$ 204,945	\$ 246,960	\$ 482,649
Accounts payable	9,940	25,743	376,525	412,208
Line of credit	72,964	-	-	72,964
Deferred revenue	-	233,539	-	233,539
Security deposits	-	-	1,000	1,000
Total Liabilities	113,648	464,227	624,485	1,202,360
Fund Balance:				
Unreserved	797,587	(70,109)	204,971	932,449
Reserved	2,666,159	843	330,750	2,997,752
Total Fund Balance	3,463,746	(69,266)	535,721	3,930,201
Total Liabilities and Fund Balance	\$ 3,577,394	\$ 394,961	\$ 1,160,206	\$ 5,132,561

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 ASSETS**

DECEMBER 31, 2009

Total Fund Balance - Governmental Funds \$ 3,930,201

Amounts reported for governmental activities in the statements of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 6,160,002

Long-term liabilities, including bonds and notes payable, compensated absences, and environmental remediation liabilities applicable to the Authority's governmental activities, are not due and payable in the current period and, accordingly, 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 assets.

Bonds and notes payable	(45,327,922)	
Accrued interest	(8,679)	
Compensated absences	(40,140)	
Environmental remediation liability	(375,241)	(45,751,982)

Total Net Assets - Governmental Activities \$ (35,661,779)

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, 2009

	General	Transportation Center	CSM	Total
Revenues:				
Service revenue	\$ 214,029	\$ -	\$ 596,302	\$ 810,331
Intergovernmental	2,119,317	140,483	1,400,046	3,659,846
Interest income	133,730	692	1,244	135,666
Other rental income	-	63,870	-	63,870
Miscellaneous income	257	19,314	6,834	26,405
Space rental income	-	669,301	83,068	752,369
Total revenues	2,467,333	893,660	2,087,494	5,448,487
Expenditures:				
Current:				
Program expenditures	2,423,346	800,284	984,266	4,207,896
Capital outlay	-	122,574	1,855,363	1,977,937
Debt service:				
Principal	-	228,573	5,898	234,471
Interest	-	20,306	11,369	31,675
Total expenditures	2,423,346	1,171,737	2,856,896	6,451,979
Excess (Deficiency) of Revenues Over Expenditures	43,987	(278,077)	(769,402)	(1,003,492)
Other Financing Sources (Uses):				
Proceeds from the issuance of debt	-	-	1,017,049	1,017,049
Total other financing sources (uses)	-	-	1,017,049	1,017,049
Net Change in Fund Balance	43,987	(278,077)	247,647	13,557
Fund Balance:				
Beginning of year, restated	3,419,759	208,811	288,074	3,916,644
End of year	\$ 3,463,746	\$ (69,266)	\$ 535,721	\$ 3,930,201

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, 2009

Net Change in Fund Balance - Governmental Funds **\$ 13,557**

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	(129,862)	
Capital outlay	<u>1,979,453</u>	1,849,591

Bond and note proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, 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 assets.

Payment of long-term liabilities	234,471	
Amortization on forgivable loan	16,667	
Issuance of notes payable	<u>(1,017,049)</u>	(765,911)

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	(2,402,968)	
Change in environmental remediation liability	534,009	
Change in accrued interest on notes	(8,679)	
Change in compensated absences payable	<u>(3,348)</u>	<u>(1,880,986)</u>

Change in Net Assets - Governmental Activities **\$ (783,749)**

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, 2009

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.

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, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities 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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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 expense.

Environmental remediation liabilities are recorded as liabilities in the government-wide financial statements when their existence is estimable. Amounts paid to reduce the environmental remediation liability are reported as a reduction of the related liability, rather than as an expense.

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.

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, fund equity, revenues and expenditures or expenses, as appropriate. 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 and nonmajor fund in the aggregate.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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. Expenditures generally are recorded when a liability is incurred. Service revenue, intergovernmental revenue, interest, 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.

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 funds 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.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their 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 their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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 and environmental remediation, are recorded only when payment is made.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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 required to be accounted for 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 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 accounts for various redevelopment projects, including the related revenues and expenditures of projects, within the City.

Accounts Receivable

Accounts receivable consists of tenant parking and tenant rent for the Transportation Center Fund and other miscellaneous receivables in the General Fund. The Authority uses the specific write-off method in recording uncollectible accounts. As of December 31, 2009, the allowance for bad debts was \$21,124.

Loans Receivable

Loans receivable consist of loans made to various entities for redevelopment projects within the City. At December 31, 2009, the Authority considers these loans to be fully collectible.

The Authority 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 a developer 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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

remote and, as a result, the loans are completely offset with an allowance for doubtful accounts at December 31, 2009.

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In accordance with GASB pronouncements, the Authority has adopted the following policy for current refundings and advance refundings resulting in defeasance of debt. The difference between the reacquisition price and the net carrying amount of the old debt, as well as the related bond issuance costs, will be deferred and amortized in a systematic and rational manner over the remaining life of the old debt or life of the new debt, whichever is shorter. On the statement of net assets, the deferred amount is reported as a deduction from or addition to the new debt liability.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as bond issuance costs in the governmental funds.

Interfund Transactions

The Authority affects 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, 2009, 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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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 assets.

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.

Capital Assets

Capital assets purchased with a cost in excess of \$5,000 are recorded on the government-wide financial statements. Capital assets are depreciated over their estimated useful lives using the straight-line method.

Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – 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.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

- *Unrestricted Net Assets* – This category represents net assets of the Authority not restricted for any project or other purpose.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board of Directors and management and can be increased, reduced, or eliminated by similar actions.

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 2009. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Pending Changes in Accounting Principles

In June 2007, GASB issued Statement No. 51, “*Accounting and Financial Reporting for Intangible Assets*,” which is required to be adopted by the Authority in its 2010 financial statements.

In March 2009, GASB issued Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” which is required to be adopted by the Authority in its 2011 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. As of December 31, 2009, the Authority’s book balance was \$787,066 and the bank balance was \$843,694. Of the bank balance, \$839,421 was covered by

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

federal depository insurance. The remaining balance of \$4,273 was uncollateralized by the Authority's financial institution.

Investments

The fair value of the investments of the Authority at December 31, 2009 was as follows:

Investments	Fair/ Contract Value
Money market funds	\$ 159,710
External investment pool	843
Guaranteed investment contracts	2,562,585
Total investments	\$ 2,723,138
<div style="text-align: center; border-bottom: 1px solid black;">Investments</div>	
Governmental activities:	
Unrestricted	\$ 126,245
Restricted	2,596,893
Total investments	\$ 2,723,138

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

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. At December 31, 2009, the Authority was not exposed to custodial credit risk, because the investments held by the Authority are not evidenced by securities in book entry or paper form.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Concentration of Credit Risk – The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2009, more than 5 percent of the Authority’s investments were held with the following issuer:

Issuer	Contract Value	Percentage
Guaranteed investment contracts		
Bank of America - 5.30%	\$ 2,562,585	94.10%

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, 2009:

	Fair/ Contract Value	Rating
Money market funds	\$ 159,710	AAA
External investment pool	843	AAA
Guaranteed investment contracts	2,562,585	Unrated

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 following is a list of the Authority’s investments and their related average maturities as of December 31, 2009:

	Fair/ Contract Value	Investment Maturities			
		2010	2011-2015	2016-2020	Subsequent to 2020
Money market funds	\$ 159,710	\$ 159,710	\$ -	\$ -	\$ -
External investment pool	843	843	-	-	-
Guaranteed investment contracts	2,562,585	-	-	1,144,511	1,418,074
Total	\$ 2,723,138	\$ 160,553	\$ -	\$ 1,144,511	\$ 1,418,074

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

3. RESTRICTED INVESTMENTS

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

Governmental Funds:	
General Fund:	
Restricted for repayment of the 1998 Guaranteed Revenue Bonds	\$ 2,596,050
Transportation Center Fund:	
Restricted for repayment of the Transportation Center Note	<u>843</u>
Total restricted investments	<u><u>\$ 2,596,893</u></u>

4. INTERFUND RECEIVABLES/PAYABLES AND 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 and payables at December 31, 2009 is as follows:

	Due from	Due to
General Fund	\$ 458,072	\$ 30,744
Transportation Center Fund	-	204,945
CSM Fund	<u>24,577</u>	<u>246,960</u>
	<u><u>\$ 482,649</u></u>	<u><u>\$ 482,649</u></u>

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

5. CAPITAL ASSETS

The changes in the Authority's capital assets for the year ended December 31, 2009 are as follows:

	January 1, 2009 (Restated)	Additions/ Transfers In	Retirements/ Transfers Out	December 31, 2009
Capital assets, not being depreciated:				
Construction in progress	\$ 236,161	\$ 122,574	\$ (236,161)	\$ 122,574
Land	30,000	-	-	30,000
Total capital assets, not being depreciated	<u>266,161</u>	<u>122,574</u>	<u>(236,161)</u>	<u>152,574</u>
Capital assets, being depreciated:				
Buildings	-	2,093,040	-	2,093,040
Leasehold improvements	4,147,949	-	-	4,147,949
Total capital assets, being depreciated	<u>4,147,949</u>	<u>2,093,040</u>	<u>-</u>	<u>6,240,989</u>
Less: accumulated depreciation for:				
Buildings	-	26,163	-	26,163
Leasehold improvements	103,699	103,699	-	207,398
Total accumulated depreciation	<u>103,699</u>	<u>129,862</u>	<u>-</u>	<u>233,561</u>
Total capital assets being depreciated, net	<u>4,044,250</u>	<u>1,963,178</u>	<u>-</u>	<u>6,007,428</u>
Total capital assets, net	<u>\$ 4,310,411</u>	<u>\$ 2,085,752</u>	<u>\$ (236,161)</u>	<u>\$ 6,160,002</u>

6. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2009 was as follows:

	January 1, 2009 (Restated)	Additions/ Accretion	Retirements/ Amortization	December 31, 2009	Current Portion
Note payable - Transportation Center	\$ 500,000	\$ -	\$ (228,573)	\$ 271,427	\$ 271,427
Note payable - FHLB/Citizens	57,074	442,926	(16,667)	483,333	33,333
Note payable - Metro Bank	-	574,123	(5,898)	568,225	16,447
Due to other government	170,832	-	-	170,832	-
1998 Series A Guaranteed Revenue Bonds	13,531,881	937,431	-	14,469,312	-
1998 Series B Guaranteed Revenue Bonds	27,899,256	1,465,537	-	29,364,793	-
	<u>\$ 42,159,043</u>	<u>\$ 3,420,017</u>	<u>\$ (251,138)</u>	<u>\$ 45,327,922</u>	<u>\$ 321,207</u>

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The following is an analysis of debt service requirements to maturity on the long-term debt:

Years Ending December 31,	Principal	Interest	Total
2010	\$ 321,207	\$ 35,792	\$ 356,999
2011	50,592	26,301	76,893
2012	51,444	25,448	76,892
2013	52,338	24,554	76,892
2014	53,277	23,615	76,892
2015-2019	26,182,168	102,294	26,284,462
2020-2024	37,866,986	70,814	37,937,800
2025-2029	16,097,042	30,756	16,127,798
2030-2033	14,408,763	519	14,409,282
	<u>95,083,817</u>	<u>\$ 340,093</u>	<u>\$ 95,423,910</u>
Unamortized discount on capital appreciated bonds	<u>(49,755,895)</u>		
	<u>\$ 45,327,922</u>		

During 2000, the Authority entered into an agreement with the Commonwealth of Pennsylvania Department of Transportation for an Infrastructure Bank Loan in a maximum amount of \$1,400,000 to rehabilitate the Harrisburg Transportation Center. The proceeds from this issuance were used for transportation center improvements. The note bears interest at 3.75% and is payable through December 31, 2009.

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 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 Metro Bank, formerly Commerce Bank of Harrisburg, in the amount of \$650,000. The proceeds from the loan were used for construction of the SHSH project. The loan is payable through August 10, 2029. The loan bears interest of 4.83% for the first three years. Thereafter, the variable interest rate is based on the prime rate. At December 31, 2009, only \$574,123 of the principal balance was drawn down.

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

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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. 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 is not entitled to any ownership of the buildings until 2016. Therefore, the Authority has not recorded an asset on its financial statement related to this transaction. The City guaranteed the repayment of these bond issuances.

Defeased Debt

The Authority defeased their First Mortgage Office Building Revenue Bonds, Series of 2002, 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 Authority's financial statements. At December 31, 2009, the outstanding balance of the First Mortgage Office Building Revenue Bonds, Series of 2002, was \$4,420,000.

7. CONDUIT DEBT ISSUES

On February 3, 1994, the Authority issued Taxable Guaranteed Revenue Bonds Series A in the amount of \$10 million. The related proceeds were issued on behalf of the Capital City Economic Development Corporation to construct a hotel in the City. The loan agreement between the Authority and the Capital City Economic Development Corporation stipulates that the Capital City Economic Development Corporation is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment as a result of the loan agreement. At December 31, 2009, the balance outstanding was \$5,980,000.

On April 13, 1995, the Authority issued Federally Taxable Tax Increment Financing Bonds, Series A of 1995, in the amount of \$10.5 million. The related proceeds were issued on behalf of the Pennsylvania National Mutual Casualty Insurance Company to construct an office complex in the City. The loan agreement between the Authority and the Pennsylvania National Mutual Casualty Insurance Company stipulates that the Pennsylvania National Mutual Casualty Insurance Company is responsible for principal and interest payments on

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the bonds. The Authority is not obligated for repayment as a result of the loan agreement. At December 31, 2009, the balance outstanding was \$4,652,560.

On July 16, 1996, the Authority issued a nonrecourse Revenue Note to Allfirst Bank in an amount not to exceed \$5,000,000. The related proceeds were loaned to the Homeland Center, a Pennsylvania nonprofit corporation for the acquisition, construction, and equipping certain capital additions, improvements, and renovations to the corporation's long-term care facility for the elderly located in the City. The loan agreement between the Authority and the Homeland Center has been assigned to Allfirst Bank as repayment of the Revenue Note. The Authority is not obligated under the note agreement as a result of this assignment. The entire principal balance, along with any accrued interest, is due at maturity in April 2017.

On December 27, 2001, the Authority issued Federally Taxable Guaranteed Revenue Bonds, Series of 2001, in the principal amount of \$20,170,000. The related proceeds were issued on behalf of the Harristown Development Corporation. The proceeds were to be used to refund the Federally Taxable Guaranteed Revenue Bonds, Series A and B of 1993. The loan agreement between the Authority and the Harristown Development Corporation stipulates that the Harristown Development Corporation is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment of the bonds as a result of the loan agreement. At December 31, 2009, the balance outstanding was \$17,540,000.

On April 5, 2004, the Authority issued conduit debt in the form of Taxable Guaranteed Revenue Bonds, Series of 2004, in the principal amount of \$2,115,000. The related proceeds were issued on behalf of the Harristown Development Corporation. The proceeds were to be issued to fund certain capital improvements and working capital at the hotel (the "Hilton Hotel") owned by the Harristown Development Corporation. The loan agreement between the Authority and Harristown Development Corporation stipulates that the Harristown Development Corporation is responsible for principal and interest payment on the bonds. The Authority is not obligated for repayment of the bonds as a result of the loan agreement. At December 31, 2009, the balance outstanding was \$1,815,000.

In 2005, the Authority issued conduit debt in the form of Federally Taxable Guaranteed Revenue Bonds (Series A-2 of 2004). The debt was issued in the amount of \$9 million. The related proceeds were issued on behalf of Harrisburg City Baseball Club, Inc. (HCBC). A loan agreement was entered between the Authority and HCBC. The proceeds will be utilized by HCBC for the renovation and upgrade of Commerce 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 as a result of the loan agreement with HCBC and the City's guarantee. At December 31, 2009, the aggregate outstanding balance was \$8,345,000.

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In December 2006, the Authority authorized the execution of a Federally Taxable Guaranteed Revenue Note in an amount not to exceed \$7.2 million. The note was to finance the leasing of the McCormick Public Service Center from the City and then subleasing of the building back to the City. The funds from the issuance of the note were turned over to the City. The City's lease payments will pay the debt service on the note. The Authority is not obligated for repayment of this note. At December 31, 2009, the balance outstanding was \$4,621,146.

In May 2007, the Authority authorized the execution of a Federally Taxable Guaranteed Revenue Note in an amount not to exceed \$9 million. The note was to finance the leasing of the Steele Elementary School from the Harrisburg School District (School District) and then subleasing of the building back to the School District. The funds from the issuance of the note were turned over to the School District. The School District's lease payments will pay the debt service on the note. The Authority is not obligated for repayment of this note. At December 31, 2009, the balance outstanding was \$4,000,000.

The Authority has entered into an agreement to purchase real estate tax liens from the School District for tax years 2006 through 2010. The Authority entered into a line of credit agreement in the amount of \$7.5 million to fund the purchase of the tax liens. Under the terms of the agreement, the Authority is not obligated for repayment of the line of credit as a result of the security agreement with the bank. At December 31, 2009, the balance on the line of credit was \$3,768,677

8. LITIGATION

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

9. 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 by and its assets are held in trust by ICMA Retirement Corporation. The Authority contributed \$14,492 to the Plan, or 4.5% of covered payroll in the amount of \$322,044. Each permanent (full-

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time or part-time) employee is eligible to participate. Plan members contributed \$14,492 for the year ended December 31, 2009.

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

10. LEASE REVENUE

The Authority, through the Transportation Center Fund, leases space to a commercial rail company and other tenants with lease ending dates varying through 2014. Additionally, the Authority, through the CSM Fund, leases space to a non-profit corporation with a lease ending date of 2012. These leases are noncancellable operating leases.

Minimum rentals on noncancellable leases through 2014 are as follows:

Year Ended December 31,	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Amount	<u>\$ 877,225</u>	<u>\$ 809,731</u>	<u>\$ 701,490</u>	<u>\$ 359,349</u>	<u>\$ 43,027</u>	<u>\$ 2,790,822</u>

11. LEASE COMMITMENTS

Operating Lease

The Authority leases space from the National Railroad Passenger Corporation (Amtrak) through 2013. The minimum lease payments for the term of the lease are as follows:

Year Ended December 31	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Amount	<u>\$ 127,447</u>	<u>\$ 127,447</u>	<u>\$ 127,447</u>	<u>\$ 127,447</u>	<u>\$ 509,788</u>

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The lease is adjusted annually on January 1 for the National Consumer Price Index. The above amounts do not reflect the annual CPI increase. Management does not anticipate a significant increase in the above amounts.

In addition, the Authority has an informal lease with the City for office space in the City Government Center. The Authority is currently not being charged a lease fee by the City.

Total rental expenditures for the year ended December 31, 2009 approximated \$127,447.

12. FUND BALANCE/NET ASSET DEFICITS

The following is a schedule of unreserved/unrestricted deficits by fund at December 31, 2009:

<u>Fund</u>	<u>Deficit Amount</u>
Government Activities	\$ 43,095,689
Transportation Center	70,109

The Governmental activities deficit is related to the 1998 Series A and B bond issuances. Since no asset is recorded related to these debt issuances, the total debt outstanding reduces unrestricted net assets. The outstanding debt on these issuances is \$43,834,105. These debt issuances reduced the governmental activities net assets from a positive \$738,416 to the deficit balance of \$43,095,689. The City guarantees the payment of those bond issuances. In addition, the Authority will gain title to certain buildings in the year 2016 in relation to the issuance of these bonds.

Funds sufficient to provide for the Transportation Center deficits are to be made from future activities according to management. In addition, a reservation of fund balance has been made in the General Fund in the amount noted above.

The reservation in the amount of \$843 in the Transportation Center Fund is assets held from a debt issuance to be used for construction expenses or repay the debt. The reservation in the amount of \$330,750 in the CSM Fund is related to long-term loans receivable. While representing a financial resource, the loan receivable does not constitute a current financial resource, because receipt is not expected in the near future.

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In addition to the General Fund reservation of \$70,109 noted above, investments held in the Authority's debt service reserve funds are reported as reserved. The debt service reserve funds were established by the 1998 Series A and B bond indentures. At December 31, 2009, the balances held in these accounts totaled \$2,596,050. The balance in these accounts is reported as a component of restricted net assets in the statement of net assets.

13. RESTATEMENT

Government-Wide Financial Statements

Beginning net assets of governmental activities of the Authority have been increased by \$1,372,613 from (\$36,250,643) to (\$34,878,030). A summary of the restatement is as follows:

Net assets at December 31, 2008, as originally stated	\$ (36,250,643)
Decrease to properly record 2008 loan draws	(57,074)
Decrease to properly record accretion on bonds	(392,431)
Decrease to properly record environmental remediation liability	(909,250)
Increase to properly record land and construction costs incurred during 2008	266,161
Decrease to properly record construction costs payable at December 31, 2008	(69,548)
Increase to properly recognize grant revenue earned during 2008 and 2007	69,262
Increase to properly record investments related to the 1998 Series A and B bond issuance	<u>2,465,493</u>
Net assets at December 31, 2008, restated	<u>\$ (34,878,030)</u>

If the above adjustments were recorded in the proper period, the change in net assets for the year ended December 31, 2008 would have decreased by \$1,008,098, restating the decrease in net assets originally reported in the amount of (\$1,982,548) to (\$2,990,646).

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Fund Financial Statements

General Fund

Beginning net assets of the Authority have been increased by \$2,502,285 from \$917,474 to \$3,419,759. A summary of the restatement is as follows:

Net assets at December 31, 2008	\$ 917,474
Increase to properly remove compensated absences	36,792
Increase to properly record investments related to the 1998 Series A and B bond issuance	<u>2,465,493</u>
Net assets at December 31, 2008, restated	<u>\$ 3,419,759</u>

If the above adjustments were reported properly, the change in net assets for the year ended December 31, 2008 would have increased by \$130,265, restating the decrease in fund balance originally reported in the amount of (\$249,451) to (\$119,186).

Contract Services Management Fund

Beginning net assets of the Authority have been decreased by \$286 from \$288,360 to \$288,074. A summary of the restatement is as follows:

Net assets at December 31, 2008	\$ 288,360
Decrease to properly record construction costs as accounts payable at December 31, 2008	(69,548)
Increase to properly record grant reimbursement related to 2008 and 2007 expenses	<u>69,262</u>
Net assets at December 31, 2008, restated	<u>\$ 288,074</u>

If the above adjustments had been properly recorded, the change in net assets for the year ended December 31, 2008 would have decreased by \$286, restating the increase in fund balance originally reported in the amount of \$218,620 to \$218,334.

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14. ENVIRONMENTAL REMEDIATION LIABILITY

During the year ended December 31, 2008, GASB Statement No. 49 (GASB 49), "*Accounting and Financial Reporting for Pollution Remediation Obligations*" became effective. A prior period adjustment, as described in Note 13, was recorded to reflect the Authority's environmental remediation liability, prospectively.

The Authority assumed and acquired title to a property, formerly the site of a dry cleaning company, which required environmental remediation. This property was acquired for redevelopment. After the project is complete, the property will be acquired by a local educational institution.

The Authority is required to remediate the property. The Authority estimates that total project costs will be \$961,000. The estimate is based on projected remediation costs. The estimate was included in a grant proposal, which was approved by the Department of Environmental Protection.

The \$375,241 ending balance of the contamination liability is based on the total estimated project cost, less costs incurred to date. The Authority does not expect to receive insurance recoveries that have the potential to reduce the recorded liability. The estimated liability may potentially change, due to factors such as price increases or changes in technology. The Authority has made significant progress on the project to date and continues work subsequent to year-end.

15. COMMITMENTS AND CONTINGENCIES

Economic Dependence

The Authority receives grants from the Federal Transit Administration. These revenues are material to the financial statements and would impact the Authority significantly if the funding was reduced or terminated. Should grant funding not be available, the Authority could be funded by the City via bond issues, or the Authority could cease to provide services supported by the grant funding.

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 payback the funds. However,

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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.

Construction Commitments

The Authority is committed for capital projects disbursements in the approximate amount of \$302,730 as of December 31, 2009.

16. 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 Contract Services Fund of the Authority.

17. LINE OF CREDIT

The Authority is assisting the City and Senators Baseball Club in applying for grants and financing for use on the rehabilitation of the city island baseball stadium. During the construction phase, there may be gaps where funding is not received timely enough to pay construction-related invoices. To help alleviate the cash flow issues, the Authority entered into a \$4 million line of credit agreement to be used for construction costs related to the project. The Authority's line of credit will be paid down as grant funding is received. The line of credit is set to expire August 31, 2010. As of December 31, 2009, the Authority balance on the line of credit was \$72,964.

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Line of credit	\$ -	\$ 72,964	\$ -	\$ 72,964

18. SUBSEQUENT EVENT

Subsequent to year-end, the Authority amended the terms of the construction loan agreement for the Susquehanna Harbor Safe Haven project. Under the amended terms, the Authority received an additional loan draw in the amount of \$75,877.
