

# **Redevelopment Authority of the City of Harrisburg**

**(A Component Unit of the City of Harrisburg)**  
Financial Statements

Year Ended December 31, 2016 with  
Independent Auditor's Report

**MaherDuessel**

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

YEAR ENDED DECEMBER 31, 2016

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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), Pennsylvania, a component unit of the City of Harrisburg, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We 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 from material misstatement.

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

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

## **Opinions**

In our opinion, 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, 2016, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As described in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 87, "*Leases.*" Our opinion is not modified with respect to this matter.

## **Other Matter**

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 opinion on the basic financial statements is not affected by this missing information.

*Maher Duessel*

Harrisburg, Pennsylvania  
August 29, 2017

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## STATEMENT OF NET POSITION

DECEMBER 31, 2016

<b>Assets</b>	<b>Governmental Activities</b>
Current assets:	
Cash	\$ 967,589
Accounts receivable	105,001
Grants receivable	317,368
Loans receivable	22,122
Lease receivable	477,770
Total current assets	1,889,850
Non-current assets:	
Restricted investments	2,009,789
Loans receivable	197,478
Lease receivable	5,849,985
Capital assets, not being depreciated	30,000
Capital assets, being depreciated, net	45,074,986
Total non-current assets	53,162,238
<b>Total Assets</b>	55,052,088
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	57,790
Grants payable	317,368
Accrued interest	90,611
Current portion of bonds and notes payable	2,221,549
Security deposits	2,000
Current portion of compensated absences	14,928
Total current liabilities	2,704,246
Non-current liabilities:	
Bonds and notes payable	20,992,353
Compensated absences	19,460
Total non-current liabilities	21,011,813
<b>Total Liabilities</b>	23,716,059
<b>Deferred Inflows of Resources</b>	
Deferred lease revenue	63,484,830
<b>Net Position</b>	
Net investment in capital assets	(35,095,159)
Restricted:	
Revolving loan	196,973
Debt service	2,009,789
Blight remediation	237,459
Unrestricted	502,137
<b>Total Net Position</b>	\$ (32,148,801)

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, 2016

<b>Functions/Programs:</b>	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	\$ 7,336,151	\$ 1,592,109	\$ 3,085,836	\$ 84,533	\$ (2,573,673)
Blight remediation	12,229	-	-	-	(12,229)
<b>Total Governmental Activities</b>	<b>\$ 7,348,380</b>	<b>\$ 1,592,109</b>	<b>\$ 3,085,836</b>	<b>\$ 84,533</b>	<b>(2,585,902)</b>
General revenues:					
Miscellaneous income					114,676
Investment income					118,422
Total general revenues					233,098
<b>Change in Net Position</b>					<b>(2,352,804)</b>
<b>Net Position:</b>					
Beginning of year					(29,795,997)
End of year					<b>\$ (32,148,801)</b>

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

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	General	Transportation Center	CSM	Land Bank	Total
<b>Assets</b>					
Cash	\$ 190,924	\$ 20,205	\$ 518,884	\$ 237,576	\$ 967,589
Due from other funds	561,274	-	-	-	561,274
Accounts receivable	57,092	45,174	2,735	-	105,001
Restricted investments	2,008,939	850	-	-	2,009,789
Grants receivable	-	317,368	-	-	317,368
Loans receivable	-	-	219,600	-	219,600
Lease receivable	6,327,755	-	-	-	6,327,755
<b>Total Assets</b>	<b>\$ 9,145,984</b>	<b>\$ 383,597</b>	<b>\$ 741,219</b>	<b>\$ 237,576</b>	<b>\$ 10,508,376</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>					
<b>Liabilities:</b>					
Due to other funds	\$ -	\$ 335,748	\$ 225,526	\$ -	\$ 561,274
Accounts payable	397	42,039	15,237	117	57,790
Grants payable	-	317,368	-	-	317,368
Security deposits	-	-	2,000	-	2,000
Accrued interest	-	90,611	-	-	90,611
Notes due and payable	-	271,427	-	-	271,427
<b>Total Liabilities</b>	<b>397</b>	<b>1,057,193</b>	<b>242,763</b>	<b>117</b>	<b>1,300,470</b>
<b>Deferred Inflows of Resources:</b>					
Deferred lease revenue	63,484,830	-	-	-	63,484,830
<b>Fund Balance:</b>					
<b>Nonspendable:</b>					
Loans receivable	-	-	22,627	-	22,627
<b>Restricted:</b>					
Repayment of the 1998 Guaranteed Revenue Bonds	2,008,939	-	-	-	2,008,939
Repayment of the Transportation Center Note	-	850	-	-	850
Revolving loan program	-	-	196,973	-	196,973
Blight remediation	-	-	-	237,459	237,459
<b>Committed:</b>					
Real estate development	-	-	278,856	-	278,856
Unassigned	(56,348,182)	(674,446)	-	-	(57,022,628)
<b>Total Fund Balance</b>	<b>(54,339,243)</b>	<b>(673,596)</b>	<b>498,456</b>	<b>237,459</b>	<b>(54,276,924)</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 9,145,984</b>	<b>\$ 383,597</b>	<b>\$ 741,219</b>	<b>\$ 237,576</b>	<b>\$ 10,508,376</b>

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, 2016

**Total Fund Balance - Governmental Funds** \$(54,276,924)

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.

45,104,986

Long-term liabilities, including bonds and notes payable and compensated absences applicable to the Authority's governmental activities, 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.

Bonds and notes payable	\$(23,213,902)	
Note payable due and payable at December 31, 2016	271,427	
Compensated absences	(34,388)	(22,976,863)
	<u>                    </u>	<u>                    </u>

**Total Net Position - Governmental Activities** \$(32,148,801)

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, 2016

	General	Transportation Center	CSM	Land Bank	Total
<b>Revenues:</b>					
Service revenue	\$ 174,495	\$ -	\$ 41,742	\$ -	\$ 216,237
Intergovernmental revenue	2,752,000	328,835	-	-	3,080,835
Investment income	112,910	7	5,483	22	118,422
Other rental income	-	56,342	-	-	56,342
Miscellaneous income	91,596	26,317	7,301	-	125,214
Space rental income	500,000	642,773	171,220	-	1,313,993
<b>Total revenues</b>	<b>3,631,001</b>	<b>1,054,274</b>	<b>225,746</b>	<b>22</b>	<b>4,911,043</b>
<b>Expenditures:</b>					
Current:					
Program expenditures	261,321	1,151,317	247,889	12,229	1,672,756
Capital outlay	18,478,350	-	-	-	18,478,350
Debt service:					
Principal	44,018,922	-	27,965	-	44,046,887
Interest	-	13,086	17,521	-	30,607
<b>Total expenditures</b>	<b>62,758,593</b>	<b>1,164,403</b>	<b>293,375</b>	<b>12,229</b>	<b>64,228,600</b>
<b>Deficiency of Revenue Under Expenditures</b>	<b>(59,127,592)</b>	<b>(110,129)</b>	<b>(67,629)</b>	<b>(12,207)</b>	<b>(59,317,557)</b>
<b>Other Financing Sources:</b>					
Sale of capital assets	51,200	-	-	-	51,200
<b>Total other financing sources</b>	<b>51,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,200</b>
<b>Net Change in Fund Balance</b>	<b>(59,076,392)</b>	<b>(110,129)</b>	<b>(67,629)</b>	<b>(12,207)</b>	<b>(59,266,357)</b>
<b>Fund Balance:</b>					
Beginning of year, restated	4,737,149	(563,467)	566,085	249,666	4,989,433
End of year	\$(54,339,243)	\$ (673,596)	\$ 498,456	\$ 237,459	\$(54,276,924)

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, 2016

**Net Change in Fund Balance - Governmental Funds** \$(59,266,357)

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	\$ (1,302,961)	
Capital outlay	<u>18,478,350</u>	17,175,389

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 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 liabilities	44,046,887	
Amortization on forgivable loan	<u>33,333</u>	44,080,220

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	(4,348,243)	
Change in compensated absences payable	<u>6,187</u>	<u>(4,342,056)</u>

**Change in Net Position - Governmental Activities** \$ (2,352,804)

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, 2016

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### 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.

#### Measurement Focus and Basis of Accounting

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

- Government-wide financial statements

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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- 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.

### 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

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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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.

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 unless due and payable.

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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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.

#### **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.

### Accounts Receivable

Accounts receivable consists of 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. As of December 31, 2016, there was an allowance in the amount of \$22,600 recorded on the General Fund.

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### Grants Receivable

Grants receivable include amounts of federal funding due directly from the Federal Transit Administration. The amounts are determined based on reimbursable expenditures incurred in 2016.

### 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, 2016, there was \$219,600 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 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, 2016.

### 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.

### 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, 2016, appropriate interfund receivables or payables have been established.

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### 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.

### 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

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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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. The lease receivable increases 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.
  - *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.
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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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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 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

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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no significant reductions in insurance coverages in 2016. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

### Adoption of GASB Statements

The Authority has adopted GASB Statement No. 72, "*Fair Value Measurement and Application*," and GASB Statement No. 87, "*Leases*." These Statements address accounting and financial reporting issues related to fair value measurements and leases. As a result of implementing these Statements, the deposits and investments disclosure at Note 2 has been enhanced and the lease receivable and deferred lease revenue disclosure at Note 5 has been added.

### Pending Changes in Accounting Principles

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

The effect of implementation of this Statement has not yet been determined.

## **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, 2016, the Authority's book balance was \$967,589 and the bank balance was \$973,860. Of the bank balance, \$614,830 was covered by federal depository insurance. The remaining balance of \$359,030 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### Investments

The fair value of the investments of the Authority at December 31, 2016 was as follows:

<u>Investments</u>	<u>Fair Value</u>
Money market funds	\$ 542,342
External investment pool	850
	<u>543,192</u>
Certificates of deposit	1,466,597
Total investments	<u>\$ 2,009,789</u>

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

At December 31, 2016, the Authority has \$850 invested in the Commonwealth of Pennsylvania Treasury Department's INVEST Program (INVEST). The Authority uses INVEST, an external investment pool, to ensure safety and maximize efficiency, liquidity, and yield for the Authority's funds. INVEST was created to meet the investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth of Pennsylvania. INVEST's investment objective is to seek current income while maintaining liquidity and a stable net asset value per share of \$1. Further information regarding INVEST and its investment strategies can be found at [www.painvest.gov](http://www.painvest.gov). The fair value of the Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool.

*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, 2016, the Authority's certificates of deposit were insured by the Federal Deposit Insurance Corporation. The remaining investments 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, 2016, there were no issuers who held more than 5% of the Authority's investments.

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

*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, 2016:

	Fair Value	Rating
Money market funds	\$ 542,342	AAA
External investment pool	850	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 and external investment pool have a related average maturity of less than one year as of December 31, 2016.

### 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	\$ 2,008,939
Transportation Center Fund:	
Restricted for repayment of the Transportation Center Note	850
Total restricted investments	\$ 2,009,789

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### 4. INTERFUND RECEIVABLES/PAYABLES

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, 2016 is as follows:

	Due from	Due to
General Fund	\$ 561,274	\$ -
Transportation Center Fund	-	335,748
CSM Fund	-	225,526
	<u>\$ 561,274</u>	<u>\$ 561,274</u>

These amounts are not expected to be repaid within one year.

### 5. LEASE RECEIVABLE AND DEFERRED LEASE REVENUE

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

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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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 deferred lease revenue in the amount of \$63,484,830 at December 31, 2016 is reduced annually by the amount of rental income recognized over the term of the lease.

During the year ended December 31, 2016, the Authority received \$500,000 of rental income.

The present value of the future minimum lease payments at December 31, 2016 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 477,770
2018	541,100
2019	506,430
2020	473,550
2021	442,860
2022-2026	1,950,662
2027-2031	1,639,450
2032-2033	295,933
Total	<u>\$ 6,327,755</u>

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

### 6. CAPITAL ASSETS

The changes in the Authority's capital assets for the year ended December 31, 2016 were as follows:

	January 1, 2016	Additions	Retirements	December 31, 2016
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
Leasehold improvements	6,861,227	-	-	6,861,227
Total capital assets, being depreciated	<u>8,954,267</u>	<u>38,847,761</u>	<u>-</u>	<u>47,802,028</u>
Less accumulated depreciation for:				
Buildings	340,119	52,326	-	392,445
Buildings - leased	-	1,079,104	-	1,079,104
Leasehold improvements	1,083,962	171,531	-	1,255,493
Total accumulated depreciation	<u>1,424,081</u>	<u>1,302,961</u>	<u>-</u>	<u>2,727,042</u>
Total capital assets being depreciated, net	<u>7,530,186</u>	<u>37,544,800</u>	<u>-</u>	<u>45,074,986</u>
Total capital assets, net	<u>\$ 7,560,186</u>	<u>\$ 37,544,800</u>	<u>\$ -</u>	<u>\$ 45,104,986</u>

### 7. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2016 was as follows:

	January 1, 2016	Additions/ Accretion	Retirements/ Amortization	December 31, 2016	Current Portion
Note payable - Transportation Center	\$ 271,427	\$ -	\$ -	\$ 271,427	\$ 271,427
Note payable - FHLB/Citizens	283,335	-	(33,333)	250,002	33,333
Note payable - First National Bank	495,040	-	(27,965)	467,075	36,789
Due to other government	170,832	-	-	170,832	-
1998 Series A Guaranteed Revenue Bonds	21,796,774	1,187,792	(930,000)	22,054,566	1,880,000
1998 Series B Guaranteed Revenue Bonds	39,928,471	3,160,451	(43,088,922)	-	-
	<u>\$ 62,945,879</u>	<u>\$ 4,348,243</u>	<u>\$ (44,080,220)</u>	<u>\$ 23,213,902</u>	<u>\$ 2,221,549</u>

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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, 2016:

Years Ending December 31,	Principal	Interest	Total
2017	\$ 2,221,549	\$ 106,405	\$ 2,327,954
2018	1,981,526	14,391	1,995,917
2019	2,002,983	12,934	2,015,917
2020	2,034,495	11,421	2,045,916
2021	2,066,066	9,850	2,075,916
2022-2026	10,681,885	23,517	10,705,402
2027-2031	11,080,000	-	11,080,000
2032-2033	9,840,832	-	9,840,832
	41,909,336	\$ 178,518	\$ 42,087,854
Unamortized discount on capital appreciation bonds	(18,695,434)		
	\$ 23,213,902		

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 was payable through December 31, 2009. The final principal payment of \$271,427, as well as \$90,611 of accrued interest, has not been paid as of December 31, 2016, as the Authority is seeking loan forgiveness for the outstanding principal balance and related interest. Because the principal and interest payments are due and payable at December 31, 2016, the liability has been accrued in the governmental fund financial statements.

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 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, 2016 was 3.75%.

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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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 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. As of December 31, 2016, no amounts were paid by the City to the Authority under the guarantee. Amounts were paid by the City in 2017, as further disclosed in Note 16.

### **8. 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

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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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, 2016, the balance outstanding was \$1,950,000.

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.

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 City 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. At December 31, 2016, the aggregate outstanding balance was \$6,450,000.

The Authority has entered into an agreement to purchase real estate tax liens from the Harrisburg School District for tax years 2006 through 2010. This transaction has been treated as a collateralized borrowing. 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. On February 25, 2011, the Authority amended the terms of its conduit debt agreement to purchase real estate tax liens from the Harrisburg School District for tax years 2011 through 2013. In January 2011, the line of credit was increased from \$7.5 million to a maximum of \$8 million. On October 15, 2013, the Authority amended the terms of its conduit debt agreement to purchase real estate tax liens from the Harrisburg School District for tax years 2014 through 2018. In February 2013, the line of credit was increased from \$8 million to a maximum of \$9.1 million. In 2014, the line of credit was increased from \$9.1 million to \$9.7 million. At December 31, 2016, the balance on the line of credit was \$881,100.

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### 9. 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.

### 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 ICMA Retirement Corporation. The Authority contributed \$17,776 to the Plan, which is approximately 4.5% of covered payroll in the amount of \$404,453. Each permanent (full-time or part-time) employee is eligible to participate. Plan members contributed \$17,776 for the year ended December 31, 2016.

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. LEASE REVENUE

The Authority, through the Transportation Center Fund, leases space and parking to a commercial rail company and other tenants with lease ending dates varying through 2019. Additionally, the Authority, through the CSM Fund, leases space to a non-profit corporation with a lease ending date of June 30, 2018. These leases are noncancellable operating leases.

# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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Minimum rentals on noncancellable leases through 2019 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 327,869
2018	180,031
2019	<u>12,112</u>
Total	<u>\$ 520,012</u>

### 12. FUND BALANCE/NET POSITION DEFICITS

The following is a schedule of fund balance/net position deficits at December 31, 2016:

	<u>Deficit Amount</u>
Governmental Activities	\$ 32,148,801
General Fund	54,339,243
Transportation Center	673,596

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 bond issuance.

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.

### 13. RESTATEMENT

Beginning fund balance of the General Fund has been increased by \$47,260 from \$4,689,889 to \$4,737,149. Beginning fund balance of the CSM Fund has been decreased by \$47,260 from \$613,345 to \$566,085. Fund balance was restated in these funds to properly account for an interfund loan made in a prior year for costs of constructing the SHSH.

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# REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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### **14. 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.

### **15. 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 \$17,175 for the year ended December 31, 2016.

### **16. SUBSEQUENT EVENT**

In accordance with the Reimbursement Agreement between the City and the Authority disclosed in Note 7, the City paid \$500,000 to the Authority in April 2017 to be used toward the May 2017 principal payment of the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.