Redevelopment Authority of the City of Harrisburg

Financial Statements and
Supplementary Information

Year Ended December 31, 2010 with
Independent Auditor's Reports

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

(CONTINUED)

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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, 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Harrisburg, Pennsylvania
October 14, 2011

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

STATEMENT OF NET ASSETS

DECEMBER 31, 2010

Assets	Governmental Activities
Current assets:	
Cash	$ 2,176,956
Investments	122,508
Restricted investments	2,734,453
Accounts receivable	131,248
Grants receivable	173,577
Loans receivable	332,575
Total current assets	5,671,317
Non-current assets:	
Right to building	20,369,411
Capital assets, not being depreciated	1,476,005
Capital assets, being depreciated, net	5,851,403
Total non-current assets	27,696,819
Total Assets	33,368,136
Liabilities	
Current liabilities:	
Accounts payable	418,109
Accrued interest	18,858
Current portion of bonds and notes payable	326,174
Security deposits	1,000
Due to other governments	1,235,977
Current portion of compensated absences	17,446
Total current liabilities	2,017,564
Non-current liabilities:	
Bonds and notes payable	47,570,619
Environmental remediation liability	111,023
Compensated absences	27,769
Total non-current liabilities	47,709,411
Total Liabilities	49,726,975
Net Assets	
Invested in capital assets, net of related debt	5,982,952
Restricted	2,733,608
Unrestricted	(25,075,399)
Total Net Assets	$ (16,358,839)

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, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Community development	$ 4,560,416	$ 240,028	$ 801,841	$ 1,364,269	$ (2,154,278)
Total Governmental Activities	$ 4,560,416	$ 240,028	$ 801,841	$ 1,364,269	(2,154,278)

General revenues:	
Rental income	895,078
Miscellaneous income	48,431
Interest income	144,298
Total general revenues	1,087,807
Change in Net Assets	(1,066,471)
Net Assets:	
Beginning of year, restated	(15,292,368)
End of year	$ (16,358,839)

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

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

BALANCE SHEET
GOVERNMENTAL FUNDS

DECEMBER 31, 2010

	General	Transportation Center	CSM	Total
Assets				
Cash	$ 1,484,712	$ 96,551	$ 595,693	$ 2,176,956
Investments	122,508	-	-	122,508
Restricted investments	2,733,608	845	-	2,734,453
Due from other funds	458,765	33,775	-	492,540
Accounts receivable	78,317	13,402	39,529	131,248
Grants receivable	-	93,151	80,426	173,577
Loans receivable	-	-	332,575	332,575
Total Assets	$ 4,877,910	$ 237,724	$ 1,048,223	$ 6,163,857
Liabilities and Fund Balance				
Liabilities:				
Due to other funds	$ 33,775	$ 219,630	$ 239,135	$ 492,540
Accounts payable	9,494	161,739	246,876	418,109
Security deposits	-	-	1,000	1,000
Due to other governments	1,235,977	-	-	1,235,977
Accrued interest	-	18,858	-	18,858
Current portion of bonds notes payable	-	271,427	-	271,427
Total Liabilities	1,279,246	671,654	487,011	2,437,911
Fund Balance:				
Unreserved	430,281	(434,775)	228,637	224,143
Reserved	3,168,383	845	332,575	3,501,803
Total Fund Balance	3,598,664	(433,930)	561,212	3,725,946
Total Liabilities and Fund Balance	$ 4,877,910	$ 237,724	$ 1,048,223	$ 6,163,857

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, 2010

Total Fund Balance - Governmental Funds		$ 3,725,946
Amounts reported for governmental activities in the statements of net assets are different because:		
The right to building used in governmental activities is not a financial resource and, therefore, is not reported in the governmental funds.		20,369,411
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		7,327,408
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 that 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	(47,896,793)	
Note payable due and payable at December 31, 2010	271,427	
Compensated absences	(45,215)	
Environmental remediation liability	(111,023)	(47,781,604)
Total Net Assets - Governmental Activities		$(16,358,839)

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, 2010

	General	Transportation Center	CSM	Total
Revenues:				
Service revenue	$ 175,653	$ -	$ 101,754	$ 277,407
Intergovernmental	500,000	1,330,936	246,266	2,077,202
Interest income	138,464	270	5,564	144,298
Other rental income	-	51,697	-	51,697
Miscellaneous income	13,146	36,386	17,095	66,627
Space rental income	-	676,968	166,413	843,381
Total revenues	827,263	2,096,257	537,092	3,460,612
Expenditures:				
Current:				
Program expenditures	713,701	847,205	516,179	2,077,085
Capital outlay	-	1,323,431	-	1,323,431
Debt service:				
Principal	-	271,427	20,228	291,655
Interest	-	18,858	29,715	48,573
Total expenditures	713,701	2,460,921	566,122	3,740,744
Excess (Deficiency) of Revenues Over Expenditures	113,562	(364,664)	(29,030)	(280,132)
Other Financing Sources (Uses):				
Proceeds from the issuance of debt	-	-	75,877	75,877
Transfers in (out)	21,356	-	(21,356)	-
Total other financing sources (uses)	21,356	-	54,521	75,877
Net Change in Fund Balance	134,918	(364,664)	25,491	(204,255)
Fund Balance:				
Beginning of year	3,463,746	(69,266)	535,721	3,930,201
End of year	$ 3,598,664	$ (433,930)	$ 561,212	$ 3,725,946

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, 2010

Net Change in Fund Balance - Governmental Funds		$ (204,255)
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	(156,025)	
Capital outlay	1,323,431	1,167,406
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	20,228	
Note payable due and payable at December 31, 2010	271,427	
Amortization on forgivable loan	33,333	
Issuance of notes payable	(75,877)	249,111
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	(2,546,555)	
Change in environmental remediation liability	264,218	
Change in accrued interest on notes	8,679	
Change in compensated absences payable	(5,075)	(2,278,733)
Change in Net Assets - Governmental Activities		$ (1,066,471)

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

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 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.

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.

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 each fund. The Authority uses the specific write-off method in recording uncollectible accounts. As of December 31, 2010, the allowance for bad debts was $31,054.

Loans Receivable

Loans receivable consist of loans made to various entities for redevelopment projects within the City. At December 31, 2010, 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 remote and, as a result, the loans are completely offset with an allowance for doubtful accounts at December 31, 2010.

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 changes 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, 2010, appropriate interfund receivables or payables have been established.

Accrued Compensated Absences

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

Right to Building

As further discussed in Note 6, in 1998, the Authority purchased the right, title, and interest in and to certain portions of the Strawberry Squire Site located in the City. The Authority is not entitled to any ownership of the buildings until 2016. The future right to the building is valued on the statement of activities at amortized cost. No amortization was required to be recorded through December 31, 2010.

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 assets but are not reported in the fund financial statements.

All capital assets are capitalized at historical cost at the acquisition date. Donated fixed assets are reported at their fair market value as of the date received. 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:

Description	Governmental activities estimated lives
Buildings and building improvements	40 years
Land improvements	20 years
Furniture and fixtures	10 years
Leasehold improvements	7-10 years
Vehicles	7-10 years
Equipment	5 years

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.

- *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 2010. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Pending Changes in Accounting Principles

In February of 2009, the GASB issued Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions."* Statement No. 54 establishes fund balance classifications and governmental fund type definitions to help the consistency of financial reporting. The Authority is required to adopt Statement No. 54 for its calendar year 2011.

In June of 2011, the GASB issued Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources, which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this statement are effective for the Authority's December 31, 2012 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, 2010, the Authority's book balance was $2,176,956 and the bank balance was $2,307,167. Of the bank balance, $1,338,507 was covered by federal depository insurance. The remaining balance of $968,660 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.

Investments

The fair values of the investments of the Authority at December 31, 2010 were as follows:

Investments	Fair (Contract) Value
Money market funds	$ 155,977
External investment pool	845
Guaranteed investment contracts	2,700,139
Total investments	$ 2,856,961

Investments	
Governmental activities:	
Unrestricted	$ 122,508
Restricted	2,734,453
Total investments	$ 2,856,961

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, 2010, 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.

Concentration of Credit Risk – The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2010, 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 - 5.3%	$ 2,700,139	94.51%

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, 2010:

	Fair (Contract) Value	Rating
Money market funds	$ 155,977	AAA
External investment pool	845	AAA
Guaranteed investment contracts	2,700,139	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, 2010:

		Investment Maturities			
	Fair (Contract) Value	2011	2012 -2016	2017-2021	Subsequent to 2021
Money market funds	$ 155,977	$ 155,977	$ -	$ -	$ -
External investment pool	845	845	-	-	-
Guaranteed investment contracts	2,700,139	-	1,205,762	-	1,494,377
Total	$ 2,856,961	$ 156,822	$ 1,205,762	$ -	$ 1,494,377

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	$ 2,733,608
Transportation Center Fund:	
Restricted for repayment of the Transportation Center Note	845
Total restricted investments	$ 2,734,453

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, 2010 is as follows:

	Due from	Due to
General Fund	$ 458,765	$ 33,775
Transportation Center Fund	33,775	219,630
CSM Fund	-	239,135
	$ 492,540	$ 492,540

A reconciliation of the interfund transfers for the year ended December 31, 2010 is as follows:

	Transfers in	Transfers out
General Fund	$ 21,356	$ -
CSM Fund	-	21,356
	$ 21,356	$ 21,356

The transfer was made to write off an interfund receivable/payable that was not going to be repaid.

5. Capital Assets

The changes in the Authority's capital assets for the year ended December 31, 2010 were as follows:

	January 1, 2010	Additions	Retirements	December 31, 2010
Capital assets, not being depreciated:				
Construction in progress	$ 122,574	$ 1,323,431	$ -	$ 1,446,005
Land	30,000	-	-	30,000
Total capital assets, not being depreciated	152,574	1,323,431	-	1,476,005
Capital assets, being depreciated:				
Buildings	2,093,040	-	-	2,093,040
Leasehold improvements	4,147,949	-	-	4,147,949
Total capital assets, being depreciated	6,240,989	-	-	6,240,989
Less: accumulated depreciation for:				
Buildings	26,163	52,326	-	78,489
Leasehold improvements	207,398	103,699	-	311,097
Total accumulated depreciation	233,561	156,025	-	389,586
Total capital assets being depreciated, net	6,007,428	(156,025)	-	5,851,403
Total capital assets, net	$ 6,160,002	$ 1,167,406	$ -	$ 7,327,408

6. Long-term Debt

Long-term debt activity for the year ended December 31, 2010 was as follows:

	January 1, 2010	Additions/ Accretion	Retirements/ Amortization	December 31, 2010	Current Portion
Note payable - Transportation Center	$ 271,427	$ -	$ -	$ 271,427	$ 271,427
Note payable - FHLB/Citizens	483,333	-	(33,333)	450,000	33,333
Note payable - Metro Bank	568,225	75,877	(20,228)	623,874	21,414
Due to other government	170,832	-	-	170,832	-
1998 Series A Guaranteed Revenue Bonds	14,469,312	1,003,210	-	15,472,522	-
1998 Series B Guaranteed Revenue Bonds	29,364,793	1,543,345	-	30,908,138	-
	$ 45,327,922	$ 2,622,432	$ (53,561)	$ 47,896,793	$ 326,174

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

	Years Ending December 31,	Principal	Interest	Total
	2011	$ 325,888	$ 48,535	$ 374,423
	2012	55,804	28,620	84,424
	2013	56,914	27,510	84,424
	2014	.58,079	26,345	84,424
	2015	59,301	25,123	84,424
	2016-2020	33,677,053	105,066	33,782,119
	2021-2025	37,668,045	64,079	37,732,124
	2026-2030	11,064,217	14,601	11,078,818
	2031-2033	12,140,832	-	12,140,832
		95,106,133	$ 339,879	$ 95,446,012
Unamortized discount on capital appreciation bonds		(47,209,340)		
		$ 47,896,793		

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. The final principal payment of $271,427, as well as $18,858 of accrued interest, has not been paid as of December 31, 2010, 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, 2010, 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 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. As of December 31, 2010, the entire principal balance had been 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 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. 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, 2010, the outstanding balance of the First Mortgage Office Building Revenue Bonds, Series of 2002, was $4,270,000.

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, 2010, the balance outstanding was $5,595,000.

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 the bonds. The Authority is not obligated for repayment as a result of the loan agreement. At December 31, 2010, the balance outstanding was $3,507,973.

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, 2010, the balance outstanding was $16,865,000.

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 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, 2010, the balance outstanding was $1,745,000.

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 will be utilized by HCBC for the renovation and upgrade of Metro Bank Park, formerly 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. At December 31, 2010, the aggregate outstanding balance was $8,110,000.

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 the 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, 2010, the balance outstanding was $3,946,146.

The Authority has entered into an agreement to purchase real estate tax liens from the 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. At December 31, 2010, the balance on the line of credit was $6,153,274.

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 and its assets are held in trust by ICMA Retirement Corporation. The Authority contributed $15,398 to the Plan, or 4.5% of covered payroll in the amount of $342,178. Each permanent (full-time or part-time) employee is eligible to participate. Plan members contributed $15,398 for the year ended December 31, 2010.

Participants in the Plan vest according to the following schedule:

Completed Years of Services	% Vested
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 2016. 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 2016 are as follows:

Year Ended December 31,	Amount
2011	$ 771,672
2012	677,549
2013	493,913
2014	97,618
2015	55,227
2016	18,589
Total	$ 2,114,568

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,	Amount
2011	$ 127,447
2012	127,447
2013	127,447
Total	$ 382,341

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, 2010 approximated $127,458.

12. FUND BALANCE/NET ASSET DEFICITS

The following is a schedule of unreserved/unrestricted deficits by fund at December 31, 2010:

Fund	Deficit Amount
Governmental Activities	$ 25,075,399
Transportation Center	434,775

The Governmental activities deficit is related to the 1998 Series A and B bond issuances. Since the right to building is recorded at amortized cost and the debt includes appreciation, the total debt outstanding, less the asset's amortized cost, reduces unrestricted net assets.

The outstanding debt on these issuances is $46,380,660 and the amortized cost of the right to building is $20,369,411. These balances reduced the governmental activities net assets from a positive $935,850 to the deficit balance of $25,075,399. 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. Additionally, as discussed in Note 6, management is attempting to have a grantor waive the payment of principal and interest payments. Finally, a reservation of fund balance has been made in the General Fund in the amount of the deficit of the Transportation Center Fund.

The reservation in the amount of $845 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 $332,575 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.

In addition to the General Fund reservation of the deficit of the Transportation Center Fund 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, 2010, the balances held in these accounts totaled $2,733,608. The balance in these accounts is reported as a component of restricted net assets in the statement of net assets.

13. ENVIRONMENTAL REMEDIATION LIABILITY

The Authority assumed and acquired title to several properties which required environmental remediation. These properties were acquired for redevelopment. After the projects are complete, the property will be acquired by a local educational institution and/or a nonprofit healthcare organization.

The Authority is required to remediate these properties. The Authority has estimated that total project costs will amount to $961,000 and $120,500. These estimates are based on projected remediation costs. The estimates are included in grant proposals, which were approved by the Department of Environmental Protection.

The $111,023 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 projects to date and continues work subsequent to year-end.

14. 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 were reduced or terminated. Should grant funding not be available, 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 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.

Construction Commitments

The Authority is committed for capital projects disbursements in the approximate amount of $174,991 as of December 31, 2010.

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 Contract Services Fund of the Authority in the amount of $54,100 as of December 31, 2010.

16. Line of Credit

The Authority was 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 were gaps where funding was 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 was paid down as grant funding was received. The line of credit expired August 31, 2010.

	Beginning Balance	Issued	Redeemed	Ending Balance
Line of credit	$ 72,964	$ 4,028,711	$ 4,101,675	$ -

17. Subsequent Event

Subsequent to year-end, the Authority amended the terms of the conduit debt agreement to purchase real estate tax liens from the Harrisburg School District. The line of credit was increased from $7.5 million to a maximum of $8 million. In addition, the total additional indebtedness incurred under the note was $5,189,362. 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.

In June 2011, the Authority was awarded a $2.5 million Redevelopment Assistance Capital grant from the Commonwealth of Pennsylvania. The grant is to be used for the Furlow Building redevelopment, a project with projected costs of approximately $5 million. The grant terminates on January 31, 2016.

18. Net Asset Restatement

The Authority implemented GASB Statement No. 51, *"Accounting and Financial Reporting for Intangible Assets."* The right to building is specifically excluded from this Statement. Therefore, the Authority applied GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools,"* to this transaction. The requirements of GASB Statement No. 31 provide for the right to building to be accounted for at amortized cost. The Authority has restated governmental activities net assets by $20,369,411, the cost paid for the right in 1998. No amortization was required to be recorded through December 31, 2010. This restatement increased the net assets reported at December 31, 2009 from ($35,661,779) to ($15,292,368).

Supplementary Information

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2010

Federal Grantor Project Title	Source Code	Federal CFDA Number	Grant/ Pass-Through Grantor's Number	Period Beginning/ Ending Date	Program or Award Amount	Cash Received	Expenditures
U.S. Department of Transportation:							
Highway Planning and Construction (Federal-Aid Highway Program)	D	20.205	PA-15-X002-00	10/01/08-09/30/11	$ 1,200,000	$ 32,200	$ 10,459
Federal Transit Grants Cluster:							
Federal Transit - Capital Investment Grants	D	20.500	PA-03-0390-00	08/01/06-09/30/10	971,779	909,875	905,936
Passed through the PA Department of Transportation:							
Federal Transit Formula Grants (Urbanized Area Formula Formula Program) (Recovery Act Funded)	I	20.507	EG00000851	12/16/10-9/30/11	150,000	-	74,651
Subtotal Federal Transit Grants Cluster:						909,875	980,587
Passed through the PA Department of Transportation:							
Formula Grants for Other Than Urbanized Areas (Nonurbanized Area Formula Program)	I	20.509	EG00000851	12/16/10-9/30/11	115,500	-	18,500
Total U.S. Department of Transportation						942,075	1,009,546
U.S. Environmental Protection Agency:							
Passed through the PA Department of Environmental Protection:							
State and Tribal Response Program Grants	I	66.817	4100046142	04/01/08-09/30/09	200,000	200,000	53,560
Total Expenditures of Federal Awards						$ 1,142,075	$ 1,063,106

Legend:

D - Direct Funding
I - Indirect Funding
CFDA - Catalog of Federal Domestic Assistance

See accompanying notes to schedule of expenditures of federal awards.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2010

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards for the year ended December 31, 2010 includes the federal grant activity of the Redevelopment Authority of the City of Harrisburg (Authority) and is presented on the modified accrual basis of accounting.

2. Relationship to Basic Financial Statements

The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the Authority's basic financial statements.

Redevelopment Authority of the City of Harrisburg

Independent Auditor's Reports in Accordance with OMB Circular A-133

Year Ended December 31, 2010

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Redevelopment Authority of
the City of Harrisburg

We have audited the financial statements of the Redevelopment Authority of the City of Harrisburg (Authority) as of and for the year ended December 31, 2010, and have issued our report thereon dated October 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet importation enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2010-01, 2010-02, 2010-03, 2010-04, and 2010-05 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated October 14, 2011.

* * * * * * * * * * *

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maher Duessel

Harrisburg, Pennsylvania
October 14, 2011

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Certified Public Accountants

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Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on its Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
Redevelopment Authority of
the City of Harrisburg

Compliance

We have audited the compliance of the Redevelopment Authority of the City of Harrisburg (Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in Finding 2010-06 in the accompanying schedule of findings and questioned costs, the Authority did not comply with certain A-133 reporting requirements that are applicable to its Federal Transit – Capital Investments Grant program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the compliance requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-06 to be a material weakness.

* * * * * * * * * *

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Board of Directors, others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maher Duessel

Harrisburg, Pennsylvania
October 14, 2011

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2010

I. Summary of Audit Results

1. Type of auditor's report issued: Unqualified

2. Internal control over financial reporting:

   Material weakness(es) identified? ☒ yes ☐ no
   Significant deficiencies identified that are not considered to be material weakness(es)?
   ☐ yes ☒ none reported

3. Noncompliance material to financial statements noted? ☐ yes ☒ no

4. Internal control over major programs:

   Material weakness(es) identified? ☒ yes ☐ no
   Significant deficiencies identified that are not considered to be material weakness(es)?
   ☐ yes ☒ none reported

5. Type of auditor's report issued on compliance for major programs: Qualified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ yes ☐ no

7. Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Federal Transit Cluster:
20.500	Capital Investment Grants Program
20.507	ARRA - Federal Transit Formula Grants

8. Dollar threshold used to distinguish between type A and type B programs: $300,000

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

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

Finding 2010-01 – Accounting Records

Condition: The Authority did not properly record additional receivables/revenues, reverse receivables/revenues, record additional liabilities/expenses, and reverse liabilities/expenses. The Authority also did not properly record activity for the 1998 Series A and B Bonds.

Criteria: The accounts of the Authority should include all significant transactions in the period of benefit.

Cause: Transactions were not recorded and/or improperly recorded in the period of benefit.

Effect: The financial records did not reflect the correct financial activity of the period which would have resulted in a material misstatement of the financial statements.

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

Recommendation: The Authority should ensure that internal control procedures over financial reporting are sufficient to identify and record all material adjustments.

Management's Response: The Authority agrees that financial transactions must be recognized within the period of benefit. Because the Authority records financial transactions on a "cash basis", it has instructed the fiscal staff to prepare year-end statements of pending transactions incurred during the prior fiscal year, which remain unrecorded until the cash equivalent has been received.

Finding 2010-02 – Recording Line of Credit Activity

Condition: The Authority has a line of credit agreement to be used for construction costs related to the rehabilitation of the city island baseball stadium. The Authority did not have bank statements to support activity on the line of credit, including payments that were made and drawdowns that occurred on the line of credit.

Criteria: The Authority should maintain bank statements to support activity on the line of credit, as well as documentation to support payments that were made and drawdowns that occurred on the line of credit.

Cause: There are no procedures in place to ensure that bank statements supporting the activity on the line of credit were reviewed and that the activity on the line of credit was properly recorded.

Effect: Bank statements detailing the activity on the line of credit were not provided for the audit, as well as documentation to support payments that were made and drawdowns that occurred on the line of credit.

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

Recommendation: The Authority should establish procedures to ensure that bank statements for the line of credit are reviewed and that all activity on the line of credit is accurately reported in the accounting records.

Management's Response: The Authority agrees and will request bank statements and confirm all activity is being recorded properly on the Authority's cash basis.

Finding 2010-03 – Recording Grant Activity

Condition: The Authority improperly recorded activity of pass-through grants.

Criteria: Pass-through grants are received by a recipient government, the Authority, to transfer to or spend on behalf of a secondary recipient. Revenues and expenditures of pass-through grants should be recorded in the financial statements of the secondary recipient.

Cause: There are no procedures in place to ensure that grant contracts were reviewed in order to determine appropriate accounting treatment of pass-through grants.

Effect: Revenues and expenditures were improperly recorded in the Authority's financial statements from activity of pass-through grants.

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

Recommendation: The Authority should review all grant contracts and ensure that grants that are pass-through in nature are not recorded in their financial statements.

Management's Response: The Authority agrees that it must improve the fiscal records when conveying pass-through grants, especially in projects with complex financing plans and multiple grant sources. The Authority has instructed fiscal and management staff to produce and maintain a specific schedule of pass-through grant activities, and an annual summary at the end of each fiscal year for the purpose of audit.

Finding 2010-04 – Improving Controls over Cash Receipts

Condition: The Administrative Project Manager opens and organizes all mail received by the Authority. The Administrative Project Manager also logs the receipts in a ledger book, records the entries in the accounting software, and makes the deposits.

Criteria: The Authority should have procedures in place for someone other than the Administrative Project Manager to review and create a log of the cash receipts before they are deposited.

Cause: There are no procedures in place to ensure that cash receipts are being properly maintained, deposited, and recorded in the financial statements.

Effect: Cash receipts are not being reviewed by someone other than the Administrative Project Manager before being deposited.

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

Recommendation: The Authority should enhance controls over cash receipts by implementing procedures for an employee, other than the Administrative Project Manager or the Controller, to open the mail, the create a log of cash receipts, and provide a copy of each receipt to the Controller. The Controller should reconcile the copies of cash receipts against the actual deposit per the bank statement and against the general ledger system.

Management's Response: The Authority agrees that it can enhance its controls over cash receipts, and has assigned someone other than the Administrative Project Manager to review cash receipts before they are deposited.

Finding 2010-05 – External Financial Statement Preparation

Condition: As part of the audit process, the auditors prepare the financial statements of the Authority based on information that is provided by the Authority. The financial statements are subsequently reviewed by management.

Criteria: The Authority should have procedures in place and resources available to adequately prepare their own external financial statements.

Cause: Due to the complexity of changing accounting and reporting requirements, it is unlikely that the Authority would have the resources available to prepare their own external financial statements.

Effect: Complete and accurate financial statements were not prepared by the Authority for the audit.

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

Recommendation: The Authority should implement controls over financial reporting and adopt policies and procedures in order to prepare their own external financial statements.

Management's Response: The Authority finds that the costs of instituting additional procedures and resources to prepare its own external financial statements outweigh the benefits and will not be expanding staff or contracting outside sources for the preparation of its own external financial statements. The Authority continues to conduct its financial recordkeeping in accordance with accounting standards generally accepted in the United States, and continues to implement improvements to its procedures in accordance with recommendations of its Independent Auditor.

III. Findings and questioned costs for federal awards.

The following are findings for federal awards, which would include audit findings as defined in OMB Circular A-133 §.510(a).

Finding 2010-06 - Schedule of Expenditures of Federal Awards

Federal Transit Grants Cluster – Capital Investment Grants (CFDA#20.500)

Condition: The Authority was unable to provide a complete summary of federal expenditures for the year ended December 31, 2010.

Criteria: The Authority should have in place, an internal control system relative to federal awards that is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations. In addition, an internal controls system pertaining to the compliance requirements for federal programs should provide reasonable assurance that transactions are properly recorded and accounted for to: 1) permit the preparation of reliable financial statements and federal reports; 2) maintain accountability over assets; and 3) demonstrate compliance with laws, regulations, and other compliance requirements. OMB Circular A-133, Section .310 states that the auditee shall prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. The schedule is required to include, at a minimum: 1) individual federal programs by federal agency; 2) the name of the pass-through entity and the identifying number assigned by the pass-through entity; and 3) the total federal awards expended for each individual federal program.

Cause: There are no procedures in place to ensure that all federal expenditures are being captured for reporting on the schedule of expenditures of federal awards.

Effect: A complete and accurate schedule of expenditures of federal awards was not provided for the audit.

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

Recommendation: The Authority should establish procedures to ensure that the individual designated with the responsibility of oversight of all federal grants captures all federal expenditures for reporting on and preparing the schedule of expenditures of federal awards. Other personnel within the Authority should be cross-trained to perform duties associated with the grants, should this individual become unable to perform the duties.

Management's Response: The Authority agrees with this finding. An improved and reliable internal control system relative to federal awards is necessary to achieve effectiveness of operations, reliability in reporting, compliance with applicable regulations, preparation of reliable financial statements, and accountability over assets. A recent review with its fiscal staff was conducted to reinforce accounting practices with respect to tracking, reviewing, and reporting grant revenues. The Authority's Controller will consolidate and prepare the grant reconciliation schedule (used to prepare the schedule of expenditures and federal awards).