

**DAUPHIN COUNTY ECONOMIC  
DEVELOPMENT CORPORATION  
(COMPONENT UNIT OF DAUPHIN COUNTY)  
HARRISBURG, PENNSYLVANIA**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2020**

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
(COMPONENT UNIT OF DAUPHIN COUNTY)

YEAR ENDED DECEMBER 31, 2020

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# *Zelenkofske Axlerod LLC*

CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Dauphin County Economic Development Corporation  
Harrisburg, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Dauphin County Economic Development Corporation (the "Corporation"), a non-profit organization and component unit of Dauphin County, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of December 31, 2020, and the changes in its net position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



# *Zelenkofske Axlerod LLC*

CERTIFIED PUBLIC ACCOUNTANTS

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## **Adoption of Governmental Accounting Standards Board (GASB) Pronouncements**

As discussed in Note 1 to the financial statements, in 2020 the Corporation adopted the provisions of GASB Statement No. 97, *“Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32”*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Omission of the Management’s Discussion and Analysis*

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.

*Zelenkofske Axlerod LLC*

ZELENKOFKSKE AXELROD, LLC

Harrisburg, Pennsylvania  
July 23, 2021

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
STATEMENT OF NET POSITION  
DECEMBER 31, 2020

ASSETS

Current Assets

Cash	\$ 198,722
Restricted Cash	2,550,007
Due From Primary Government	302,992
Due From Related Party	30,500
Restricted Due From Related Party	1,061,724
Grants Receivable	<u>198,448</u>

Total Current Assets 4,342,393

Noncurrent Assets

Investment in Direct Financing Lease	1,643,500
Capital Assets	
Furniture and equipment	19,927
Works of art	8,011
Buildings	2,068,611
Less: Accumulated depreciation	<u>(830,183)</u>
Capital Assets, net	<u>1,266,366</u>

Total Noncurrent Assets 2,909,866

Total Assets 7,252,259

LIABILITIES

Current Liabilities

Accounts payable	489,572
Due to Primary Government	12,123
Due to Other Governments	17,231
Due to Related Party	217,181
Accrued Interest	16,165
Unearned Revenue	88,297
Current portion of long-term debt	<u>172,000</u>

Total Current Liabilities 1,012,569

Long-term Liabilities

Long-term debt	<u>3,998,500</u>
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Total Long-term Liabilities 3,998,500

Total Liabilities 5,011,069

NET POSITION

Net Investment in Capital Assets	(228,634)
Restricted	3,549,752
Unrestricted	<u>(1,079,928)</u>

Total Net Position \$ 2,241,190

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

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 FOR THE YEAR ENDED DECEMBER 31, 2020

OPERATING REVENUES		
Federal Grants		\$ 19,781,541
Local		
Dauphin County - Hotel Tax Revenue	1,350,523	
Charges for Services	72,609	
Corporate sponsorships	42,467	
Miscellaneous	198,140	
		<u>21,445,280</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENSES		
Economic Development:		
Tourism and Regional Promotion (1% Hotel Tax)	1,829,439	
Tourism Promotion (2% Hotel Tax)	147,519	
CARES Program	17,356,545	
Community Development Block Grant	1,761,177	
HOME Program	491,818	
		<u>21,586,498</u>
Sponsorships	23,675	
State of the County	21,067	
Seminars, Meetings and Special Events	8,294	
Business Calling Program	16,000	
Market Square Plaza Project	95,422	
Office Supplies	68	
Advertising / Promotional	13,521	
Professional Services	7,877	
Miscellaneous	196,516	
Depreciation	53,041	
		<u>22,021,979</u>
TOTAL OPERATING EXPENSES		
OPERATING LOSS		<u>(576,699)</u>
NON-OPERATING REVENUE/(EXPENSES)		
Transfer from Related Party	70,000	
Interest Income	19,343	
Interest Expense	(80,306)	
		<u>9,037</u>
TOTAL NON-OPERATING EXPENSES		
Change in Net Position		<u>(567,662)</u>
Net Position - Beginning of year		<u>2,808,852</u>
Net Position - End of year		<u>\$ 2,241,190</u>

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

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2020

Cash flows from operating activities:	
Receipts from Dauphin County Hotel Tax	\$ 1,242,995
Receipts from County, DCED and HUD	19,872,133
Other cash receipts	311,576
Payments to suppliers and grant recipients	<u>(21,772,357)</u>
Net cash used in operating activities	<u>(345,653)</u>
Cash flows from investing activities:	
Interest Income	<u>19,343</u>
Net cash provided by investing activities	<u>19,343</u>
Cash flows from non-capital financing activities:	
Subsidy from (to) related parties	<u>61,947</u>
Net cash provided by non-capital financing activities	<u>61,947</u>
Cash flows from capital financing activities:	
Proceeds from Issuance of Revenue Note	3,138,500
Principal Payments on Revenue Bonds	(3,260,500)
Interest Payments on Debt	<u>(82,055)</u>
Net cash used in financing activities	<u>(204,055)</u>
Net decrease in cash and cash equivalents	(468,418)
Cash - Beginning of Year	<u>3,217,147</u>
Cash - End of Year	<u>\$ 2,748,729</u>
<u>Cash Per Financial Statements</u>	
Cash	\$ 198,722
Restricted Cash	<u>2,550,007</u>
Total Cash	<u>\$ 2,748,729</u>
Cash flows from operating activities:	
Operating Loss	\$ (576,699)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	53,041
(Increase) decrease in:	
Due From Primary Government	(107,528)
Grant Receivable	79,060
Accounts Payable	196,581
Deferred Revenue	11,532
Due To Other Governments	<u>(1,640)</u>
Net cash used in operating activities	<u>\$ (345,653)</u>

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

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dauphin County Economic Development Corporation (DCEDC) is a nonprofit organization which operates in compliance with Section 7502 of the Nonprofit Corporation Law of 1972 and Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. DCEDC was established by the County of Dauphin, Pennsylvania to partner in real estate development projects and to channel grant funding to communities and organizations in need of community and economic development assistance.

DCEDC has been designated by the Board of Commissioners of the County of Dauphin (the Commissioners) as the County's Tourism Promotion Agency (TPA) pursuant to the Commonwealth of Pennsylvania's Tourism Promotion Law. The Tourism Promotion Law permits counties meeting certain criteria to impose a hotel tax not to exceed five percent, and provides for the distribution of revenues from the hotel tax for the purposes of tourism and regional promotion. As the County's TPA, DCEDC receives distributions of hotel tax revenues to be used at the direction of the Commissioners solely for the purposes of tourism and regional promotion.

A summary of the DCEDC's significant accounting policies is as follows:

A. Reporting Entity

Due to the nature and significance of DCEDC's relationship with the County, it has been classified as a Component Unit of the County of Dauphin's reporting entity. In accordance with GASB Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34", DCEDC has evaluated all related entities for the possible inclusion in the financial reporting entity. It does not affect its legal status as a separate not-for-profit corporation.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The DCEDC's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recorded when they are earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. The DCEDC applies Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the DCEDC are accounted for within one proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.



DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 (CONTINUED)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(Continued)

The accounting and financial reporting treatment applied to the DCEDC is determined by its measurement focus. The transactions of the DCEDC are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Net Position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) is segregated into "net investment in capital assets"; "restricted"; and "unrestricted" components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activities of the DCEDC. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. When both restricted and unrestricted resources are available for use, it is the DCEDC's policy to use restricted resources, and then unrestricted resources as they are needed for their intended purposes.

C. Assets, Liabilities, and Net Position

1) Cash

DCEDC considers all highly-liquid debt instruments purchased with maturity of three months or less when purchased to be cash equivalents.

2) Restricted Assets

Restricted assets represent cash balances from hotel tax and grant program distributions received from Dauphin County. These distributions are restricted for the purpose of promoting tourism and regional development and for the CDBG, and HOME programs. A portion of the asset has been transferred to a related party to invest funds at higher interest rates. At December 31, 2020 the restricted cash balance was \$2,550,007 and the restricted due from related party was \$1,061,724.

3) Capital Assets

Capital assets are recorded at their original cost and are depreciated on a straight-line basis over their estimated useful lives. Donated capital assets are recorded at estimated fair value at the date of donation. Assets with an initial, individual cost that equal or exceed \$5,000 and estimated useful lives of over one year are recorded as capital assets and depreciated. Estimated useful lives are as follows:

Furnishings and Equipment	3-7 years
Buildings	39 years
Works of Art	7 years

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

C. Assets, Liabilities, and Net Position (Continued)

4) Long-Term Liabilities

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

5) Net Position

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

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the DCEDC's policy to use restricted resources first.

6) Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The DCEDC did not have any items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The DCEDC did not have any items that qualify for reporting in this category.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

C. Assets, Liabilities, and Net Position (Continued)

7) Accounting Estimates

The preparation of the 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 in the financial statements. Accordingly, actual results could differ from those amounts.

8) Income Taxes

DCEDC is tax exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and files Form 990, Return of Organization Exempt from Income Tax with the Internal Revenue Service. Certain revenue deemed to be unrelated to a nonprofit corporation's tax-exempt purpose could be subject to federal income taxes, however management believes that there is no tax liability as of December 31, 2020.

D. Adoption of Governmental Accounting Standards Board (GASB) Statements

The DCED adopted the provisions of GASB Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*". The adoption of this statement did not result in modification of previously reported amounts.

E. Pending Governmental Accounting Standards Board (GASB) Statements

In June 2017, the GASB issued Statement No. 87, "*Leases*". The DCEDC is required to adopt statement No. 87 for its calendar year 2022 financial statements.

In June 2018, the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*". The DCEDC is required to adopt Statement No. 89 for its calendar year 2021 financial statements.

In May 2019, the GASB issued Statement No. 91, "*Conduit Debt*". The DCEDC is required to adopt Statement No. 91 for its calendar year 2022 financial statements.

In January 2020, the GASB issued Statement No. 92, "*Omnibus 2020*". The DCEDC is required to adopt Statement No. 92 for its calendar year 2022 financial statements.

In March 2020, the GASB issued Statement No. 93, "*Replacement of Interbank Offered Rates*". The DCEDC is required to adopt statement No. 93 for its calendar year 2022 financial statements.

In March 2020, the GASB issued Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*". The DCEDC is required to adopt statement No. 94 for its calendar year 2023 financial statements.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

E. Pending Governmental Accounting Standards Board (GASB) Statements (Continued)

In May 2020, the GASB issued Statement No. 96, "*Subscription-Based Information Technology Arrangements*". The DCEDC is required to adopt statement No. 96 for its calendar year 2023 financial statements.

The DCEDC has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2: DESCRIPTION OF ACTIVITIES

DCEDC is administered by the County of Dauphin (the County) through the Dauphin County Department of Economic Development. The County provides management and support staff, and other indirect support free of charge to DCEDC.

DCEDC's primary source of revenue is hotel tax distributions. Other sources of revenue include grants, parking rent, project fees and program service income for DCEDC's economic development activities.

DCEDC's tourism and regional promotion activities include advertising, marketing, establishment of regional visitor centers, and direct grant awards to municipalities and educational, cultural, civic and community nonprofit organizations. Economic development activities include advertising, marketing and cooperative efforts such as the Team Pennsylvania program, a statewide initiative designed to retain and grow existing businesses as well as to attract new businesses through an internet based business resource network and a business calling program.

The DCEDC administers the Community Development Block Grant (CDBG) program which is used to account for the proceeds of specific revenue sources related to the provision of Community Development services that are restricted to expenses for those specified purposes.

The DCEDC administers the HOME Fund which is used to account for the proceeds of specific revenue sources related to the provision of low income housing development services that are restricted to expenses for those specified purposes.

The DCEDC administers the Community Development Block Grant - Section 108 Loan Guarantee program which provides communities with a source of financing for economic development, housing rehabilitation, public facilities and large scale physical development projects. Expenses for this program are restricted for those specific purposes.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2020

## NOTE 3: CASH

The DCEDC's deposit policy adheres to State Statutes and prudent business practice.

Deposits

*Custodial Credit Risk.* For deposits, custodial credit risk is the risk that in the event of failure of the counterparty, the DCEDC will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. As of December 31, 2020, the DCEDC's cash balance was \$2,748,729, and its bank balance was \$3,696,007. At December 31, 2020, \$2,472,378 of the DCEDC's deposits were subject to custodial credit risk and were collateralized under Act 72 of the 1971 session of the Pennsylvania General Assembly for the protection of public depositors. The DCEDC does not have a formal policy to limit its exposure to custodial credit risk.

## NOTE 4: DUE TO/FROM PRIMARY GOVERNMENT

At December 31, 2020, due from primary government was comprised of the following pass-through items:

Dauphin County:	
2% Hotel Tax Distribution	\$ 9,083
1% Hotel Tax Distribution	45,562
HOME	9,795
CDBG	238,552
	<u>\$ 302,992</u>

The amounts reported above are considered by management to be collectible and, accordingly, no allowance for uncollectible receivable was considered necessary.

At December 31, 2020, due to primary government was comprised of the following items:

Due to Dauphin County for:	
HOME Loan Payoffs	<u>\$ 12,123</u>
	<u>\$ 12,123</u>

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2020

## NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for business-type activities for the year ended December 31, 2020:

	Balance January 1, 2020	Additions	Deletions	Balance December 31, 2020
Capital assets, being depreciated:				
Furniture and Equipment	\$ 19,927	\$ -	\$ -	\$ 19,927
Works of Art	8,011	-	-	8,011
Buildings	2,068,611	-	-	2,068,611
Total capital assets, being depreciated	2,096,549	-	-	2,096,549
Less accumulated depreciation for:				
Furniture and Equipment	(19,927)	-	-	(19,927)
Works of Art	(8,011)	-	-	(8,011)
Buildings	(749,204)	(53,041)	-	(802,245)
Total accumulated depreciation	(777,142)	(53,041)	-	(830,183)
Total capital assets, being depreciated, net	1,319,407	(53,041)	-	1,266,366
Total capital assets, net	\$ 1,319,407	\$ (53,041)	\$ -	\$ 1,266,366

Depreciation expense was \$53,041 for the year ended December 31, 2020.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2020

## NOTE 6: LONG-TERM DEBT

The following is a summary of long-term debt for the year ended December 31, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2018A Guaranteed Note	\$ 1,618,500	\$ -	\$ (1,618,500)	\$ -	\$ -
2018B Guaranteed Parking Revenue Note	1,470,000	-	(1,470,000)	-	-
Modified 2018A Guaranteed Note	-	1,643,500	-	1,643,500	-
Modified 2018B Guaranteed Parking Revenue Note	-	1,495,000	-	1,495,000	-
2019A Guaranteed Note	<u>1,204,000</u>	<u>-</u>	<u>(172,000)</u>	<u>1,032,000</u>	<u>172,000</u>
	<u>\$ 4,292,500</u>	<u>\$ 3,138,500</u>	<u>\$ (3,260,500)</u>	<u>\$ 4,170,500</u>	<u>\$ 172,000</u>

Long-term debt at December 31, 2020, consisted of the following:

Guaranteed Note, Series A of 2019, in the amount of \$1,376,000 issued for the purpose of refinancing the Section 108 Note Payable at an interest rate of from 2.89% to 5.00% and final payment due	\$ 1,032,000
Modified Guaranteed Note, Series A of 2018, in the amount of \$1,643,500 issued for the purpose of refinancing the Guaranteed Note, Series A of 2018 at an interest rate of 3.7% and final payment	1,643,500
Modified Guaranteed Parking Revenue Note, Series B of 2018, in the amount of \$1,495,000 issued for the purpose of refinancing Guaranteed Parking Revenue Note, Series B of 2018 at an interest rate of 3.7% and final payment due November 2022.	<u>1,495,000</u>
	4,170,500
Less: Current portion	(172,000)
Long-term portion	<u>\$ 3,998,500</u>

Maturities of long-term debt are as follows:

Maturity Date	Principal	Interest	Total
2021	\$ 172,000	\$ 143,646	\$ 315,646
2022	3,310,500	129,682	3,440,182
2023	172,000	18,720	190,720
2024	172,000	14,218	186,218
2025	172,000	9,628	181,628
2026	172,000	4,920	176,920
	<u>\$ 4,170,500</u>	<u>\$ 320,814</u>	<u>\$ 4,491,314</u>

In September 2020, the DCEDC issued a Modified Guaranteed Note, Series A of 2018 and Modified Guaranteed Parking Revenue Note, Series B of 2018 in the principal amounts of \$1,643,500 and \$1,495,000. The proceeds were used to refinance the Guaranteed Note, Series A of 2018 and Guaranteed Parking Revenue Note, Series B of 2018.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 7: INVESTMENT IN DIRECT FINANCING LEASE

On October 30, 2018, the DCEDC leased a building (the "Veterans Building") owned by the Dauphin County Industrial Development Authority (the "Authority"). The term of the lease is October 30, 2018 through November 15, 2020. The lease required the DCEDC to issue debt and remit the debt proceeds, less issuance costs, to the Authority to permit the Authority to retire the debt obligations on the Veterans Building.

On October 30, 2018, the DCEDC issued a Guaranteed Note, Series A of 2018, to Members 1<sup>st</sup> Federal Credit Union (the "Credit Union") in the amount of \$1,618,500, the proceeds of which, less issuance costs, were paid to the Authority under the lease in satisfaction of all lease rental payments due on the lease between the DCEDC and the Authority. The Note bears interest at 3.7% and requires interest only payments for 24 months at which time the entire Note principal of \$1,618,500 was due and payable on November 1, 2020.

The Guaranteed Note between the DCEDC and the Credit Union was secured by a first-priority leasehold mortgage lien and assignment of rents on the real property located at 112 Market Street, Harrisburg, PA (the Veterans Building). The Note is further secured by a guarantee agreement, dated October 30, 2018, between the County of Dauphin, and the Credit Union. Under the guarantee agreement, the County guarantees the full and prompt payment of the principal and interest on the Note between the DCEDC and the Credit Union.

The lease between the DCEDC and the Authority also required the DCEDC to sublease the Veterans Building back to the Authority. On October 30, 2018, the DCEDC entered a sublease agreement with the Authority, whereby the Authority would pay sublease rentals adequate to allow the DCEDC to meet the debt service payments on the Note issued by the DCEDC. The sublease was also assigned by the DCEDC to the Credit Union as security under the Note.

On September 1, 2020, the DCEDC refinanced the Guaranteed Note, Series A of 2018, to Members 1<sup>st</sup> Federal Credit Union (the "Credit Union") in the amount of \$1,643,500. The Note bears interest at 3.7% and requires interest only payments for 24 months at which time the entire Note principal of \$1,643,500 is due and payable on November 1, 2022. With the refinancing of the Guaranteed Note, the County guarantee as well as the lease and sublease between the DCEDC and the Authority (as described above) were extended through the Notes maturity date of November 1, 2022.

Following is a schedule of minimum lease payments for the direct financing lease:

<u>Years Ending</u> <u>December 31,</u>	
2021	\$ 60,809
2022	<u>1,699,311</u>
	<u>\$ 1,760,120</u>



DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 7: INVESTMENT IN DIRECT FINANCING LEASE (CONTINUED)

The net investment in direct financing lease consists of the following at December 31, 2020:

Total Minimum Lease Payments to be Received	\$ 1,760,120
Less: Unearned Interest Income	<u>(116,620)</u>
Current Portion	<u>\$ 1,643,500</u>

NOTE 8: LOANS RECEIVABLE

The Section 108 Note Payable proceeds, which were refinanced with the Guaranteed Note, Series A, of 2019, in Note 6 were loaned to a developer to fund the revitalization of an office building complex. DCEDC entered into a mortgage agreement with the developer for repayment of the loan. As of December 31, 2020, the amount owed to the DCEDC is \$2,315,056. As a result of the developer filing for bankruptcy, the balance has been determined to be uncollectible and has been fully reserved in the financial statements.

NOTE 9: RESTRICTED NET POSITION

The restrictions of net position included in the financial statements represent portions of net position that are restricted for various purposes and are not available for the payment of other subsequent expenses. The following restrictions are included in the financial statements.

Tourism and Regional Promotion	\$ 3,548,408
HOME Program	<u>1,344</u>
	<u>\$ 3,549,752</u>

NOTE 10: RELATED PARTIES

County of Dauphin

DCEDC is administered by the County of Dauphin (the County) through the Dauphin County Department of Community and Economic Development. DCEDC is not owned in part or in total by the County. However, the Board of Commissioners of the County of Dauphin (the Commissioners) has the sole power to appoint members of DCEDC's Board of Directors.

The County pays for all significant management and administrative costs required to operate DCEDC on a day-to-day basis. DCEDC's management and support staff are employees of the County.

The County also provides significant operating revenue, primarily through Hotel Tax distributions passed-through to DCEDC. Revenue from the County was \$1,350,523 in 2020, representing approximately 6% of total revenue.

The County guarantees DCEDC's long-term debt.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2020

## NOTE 10: RELATED PARTIES (CONTINUED)

Dauphin County Industrial Development Authority

DCEDC shares management, support staff and office space with the Dauphin County Department of Community and Economic Development (DCEDC) and another organization, the Dauphin County Industrial Development Authority (DCIDA). DCEDC is not owned in part or in total by DCIDA, has no ownership interest therein, and receives no revenue from DCIDA. However, DCIDA and DCEDC are governed by the same Board of Directors, which is appointed by the Dauphin County Commissioners.

DCIDA acts as property management for the Market Square Plaza Parking owned by DCEDC. In this capacity, DCIDA collects parking rent fees and remits such fees to DCEDC on a periodic basis. Parking fees for the year ended December 31, 2020 were \$70,000.

Due To / From Related Parties

Amounts due from related parties as of December 31, 2020 consist of the following:

Corporation	
Amount due from DCIDA - Restricted Tourism Funds invested in DCIDA Charles Schwab Account.	\$ 1,061,724
Amount due from DCIDA - Operating costs for Solar Farm expenses.	30,500
Total Amount Due from Related Parties	<u>\$ 1,092,224</u>

Amounts due to related parties as of December 31, 2020 consist of the following:

Corporation	
Amount due to DCIDA - Market Square Garage debt service payment.	\$ 107,181
Amount due to DCIDA - Market Square Garage operating expenses.	110,000
Total Amount Due to Related Parties	<u>\$ 217,181</u>

## NOTE 11: HOTEL TAX DISTRIBUTIONS AND RELATED EXPENSES

The Hotel Tax distributions are derived from a hotel room excise tax imposed by the County. Ordinance No. 3-1999 enacted by the Commissioners imposed a two-percent hotel room excise tax effective January 1, 2001. Ordinance No. 3-2002, which repealed and replaced Ordinance No. 3-1999, imposed a three-percent hotel room excise tax effective April 1, 2002. Ordinance No. 1-2008, which repealed and replaced Ordinance No. 3-2002, imposed a five-percent hotel room excise tax effective March 1, 2008.

The ordinances were enacted pursuant to 16 P.S. Section 1770.5, an act of the General Assembly of the Commonwealth of Pennsylvania, which permits the imposition of a five-percent hotel tax, but requires that distribution of revenue from the first two-percent of the tax be kept separate from distribution of revenue from the remaining three-percent, and restricts the use of such revenue to promotion of tourism and regional development.

The County disburses three percent of the hotel taxes collected to the DCEDC to be used as follows:

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 11: HOTEL TAX DISTRIBUTIONS AND RELATED EXPENSES (CONTINUED)

1% Hotel Tax Revenue

After the costs of collecting the tax have been deducted, the remaining revenue may be distributed at the discretion of the Commissioners, to be used solely for tourism and regional promotion purposes. DCEDC is the County's sole recipient and administrator of the 1% Hotel Tax revenue. These funds are required to be kept in an account separate from other funds received by DCEDC. DCEDC had revenues from Dauphin County of \$1,125,678 for the year ended December 31, 2020.

2% Hotel Tax Revenue

After the costs of collecting the tax have been deducted, the County distributes 20% of this revenue to the City of Harrisburg, 70% to the Derry Township Industrial Commercial Development Authority and 10% to DCEDC to be remitted, in full, to the Hershey Harrisburg Region Vacations Bureau to be used solely for tourism and regional promotion. DCEDC had revenues from Dauphin County of \$224,845 for the year ended December 31, 2020.

NOTE 12: OPERATING LEASES

The DCEDC leases office space from the Dauphin County Industrial Development Authority under a year-to-year operating lease. Rental expense totaled \$32,692 for the year ended December 31, 2020 which is included in CDBG and HOME expenses on the Statement Revenues, Expenses and Changes in Net Position.

NOTE 13: COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Corporation is subject to potential lawsuits and complaints. At December 31, 2020, there were no claims that management feels would have a material effect on the Corporation's financial position.

In the normal course of operations, the Corporation receives grant funds from the federal government, state agencies and the county. The grant programs are subject to audit by the funding agency, for the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material. At the present time, there are no potential claims against the Corporation with reasonable possibilities of unfavorable outcomes.

Economic Dependency

Formal commitment for future funding by the Department of Housing and Urban Development is made on an annual basis. The DCEDC also receives a significant amount of operating revenue from Dauphin County, primarily through Hotel Tax distributions. Reduction of, or loss of, these funding sources could have a significant effect on the Corporation's programs and activities.

Risks and Uncertainties

As effects of the Coronavirus pandemic continue to evolve and are dependent upon future developments, the impact of the Coronavirus on DCEDC's operations and financial results are uncertain at this time.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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NOTE 14: MANAGEMENT'S PLAN

The DCEDC has a deficit unrestricted net position balance in the amount of \$1,079,928 at December 31, 2020. The DCEDC experienced the deficit due to the Section 108 HUD loan described in Note 6 to the financial statements in the amount of \$1,032,000. This loan is being repaid in accordance with the loan amortization schedule using CDBG funds. The payments will continue through the loans maturity in 2026 and subsequently relieve the net position deficit.

NOTE 15: CARES ACT AND RELATED EXPENSES

During 2020, DCED received grant funding from the County of Dauphin under the Coronavirus Relief Fund in the amount of \$17,356,545. These funds were used to administer a grant program for local municipalities, small businesses, and non-profits.

NOTE 16: SUBSEQUENT EVENT

On March 30, 2021 the Dauphin County Industrial Development Authority finalized the sale of the Veterans Building for the price of \$1,925,000. Proceeds from the sale were used to pay the costs of the direct financing lease between DCED and the Authority.