

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

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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

YEAR ENDED DECEMBER 31, 2021

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Independent Auditor's Report

Board of Directors
Dauphin County Economic Development Corporation
Harrisburg, Pennsylvania

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Dauphin County Economic Development Corporation (the "Corporation"), a non-profit organization and component unit of Dauphin County, which comprise the statement of financial position as of December 31, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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



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individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Adoption of Governmental Accounting Standards Board (GASB) Pronouncements

As discussed in Note 1 to the financial statements, in 2021 the Corporation adopted the provisions of GASB Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*", GASB Statement No. 98, "*The Annual Comprehensive Financial Report*", and certain provisions of GASB Statement No. 99, "*Omnibus 2022*". Our opinion is not modified with respect to these matters.

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
June 8, 2022

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET POSITION
DECEMBER 31, 2021

ASSETS

Current Assets

Cash	\$ 154,454
Restricted Cash	5,593,110
Due From Primary Government	165,158
Due From Related Party	30,500
Restricted Due From Related Party	1,058,689
Grants Receivable	<u>209,355</u>

Total Current Assets 7,211,266

Noncurrent Assets

Capital Assets

Buildings	2,068,611
Less: Accumulated depreciation	<u>(855,286)</u>
Capital Assets, net	<u>1,213,325</u>

Total Noncurrent Assets 1,213,325

Total Assets 8,424,591

LIABILITIES

Current Liabilities

Accounts payable	493,926
Due to Primary Government	12,122
Due to Other Governments	50,888
Accrued Interest	6,737
Unearned Revenue	1,634,308
Current portion of long-term debt	<u>1,667,000</u>

Total Current Liabilities 3,864,981

Long-term Liabilities

Long-term debt	<u>7,000</u>
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Total Long-term Liabilities 7,000

Total Liabilities 3,871,981

NET POSITION

Net Investment in Capital Assets	(281,675)
Restricted	4,821,173
Unrestricted	<u>13,112</u>

Total Net Position \$ 4,552,610

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, 2021

OPERATING REVENUES

Federal Grants	\$ 3,932,395
Pass-through State Grants	3,517,116
Local	
Dauphin County - Hotel Tax Revenue	2,283,476
Charges for Services	86,215
Corporate sponsorships	22,550
Miscellaneous	242,904
	<u>10,084,656</u>
TOTAL OPERATING REVENUES	<u>10,084,656</u>

OPERATING EXPENSES

Economic Development:		
Tourism and Regional Promotion (1% Hotel Tax)	1,029,031	
Tourism Promotion (2% Hotel Tax)	-	
American Rescue Plan Act	191,968	
Community Development Block Grant	2,546,408	
HOME Program	341,019	
	<u>4,108,426</u>	
Sponsorships		28,510
State of the County		726
Seminars, Meetings and Special Events		99,575
Business Calling Program		18,000
Market Square Plaza Project		101,521
Office Supplies		274
Advertising / Promotional		99,030
Professional Services		55,193
Pass-through State Grants		3,513,466
Miscellaneous		5,000
Depreciation		53,041
		<u>8,082,762</u>
TOTAL OPERATING EXPENSES		<u>8,082,762</u>

OPERATING INCOME

2,001,894

NON-OPERATING REVENUE/(EXPENSES)

Transfer from Related Party	357,181
Interest Income	7,920
Interest Expense	(55,575)
	<u>309,526</u>
TOTAL NON-OPERATING EXPENSES	<u>309,526</u>

Change in Net Position	<u>2,311,420</u>
Net Position - Beginning of year	<u>2,241,190</u>
Net Position - End of year	<u>\$ 4,552,610</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, 2021

Cash flows from operating activities:	
Receipts from Dauphin County Hotel Tax	\$ 2,425,673
Receipts from County, DCED and HUD	8,984,615
Other cash receipts	367,548
Payments to suppliers and grant recipients	<u>(8,011,953)</u>
Net cash provided by operating activities	<u>3,765,883</u>
Cash flows from investing activities:	
Interest Income	<u>7,920</u>
Net cash provided by investing activities	<u>7,920</u>
Cash flows from non-capital financing activities:	
Subsidy from (to) related parties	<u>1,786,535</u>
Net cash provided by non-capital financing activities	<u>1,786,535</u>
Cash flows from capital financing activities:	
Principal Payments on Revenue Bonds	(2,496,500)
Interest Payments on Debt	<u>(65,003)</u>
Net cash used in financing activities	<u>(2,561,503)</u>
Net decrease in cash and cash equivalents	2,998,835
Cash - Beginning of Year	<u>2,748,729</u>
Cash - End of Year	<u>\$ 5,747,564</u>
 <u>Cash Per Financial Statements</u>	
Cash	\$ 154,454
Restricted Cash	5,593,110
Total Cash	<u>\$ 5,747,564</u>

Cash flows from operating activities:	
Operating Income	\$ 2,001,894
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	53,041
(Increase) decrease in:	
Due From Primary Government	137,834
Grant Receivable	(10,907)
Accounts Payable	4,354
Deferred Revenue	1,546,011
Due To Other Governments	<u>33,656</u>
Net cash provided by operating activities	<u>\$ 3,765,883</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, 2021

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, 2021

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, 2021 the restricted cash balance was \$5,593,110 and the restricted due from related party was \$1,058,689.

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:

Buildings

39 years

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021

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, 2021.

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

The DCEDC adopted the provisions of GASB Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*". The adoption of this statement did not result in modification of previously reported amounts.

The DCEDC adopted the provisions of GASB Statement No. 98, "*The Annual Comprehensive Financial Report*". The adoption of this statement did not result in modification of previously reported amounts.

The DCEDC adopted the provisions of GASB Statement No. 99, "*Omnibus 2022*" related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63. 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 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, except for the requirements of paragraphs 11b, 13, and 14, which are effective for DCEDC's calendar year financial statements.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2021

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

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

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.

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.

In April 2022, the GASB issued Statement No. 99 "Omnibus 2022". The provisions are effective as follows:

- The requirement related to leases, PPPs, and SBITAs are effective for calendar year 2023 financial statements.
- The requirements related to financial guarantees and classification and reporting of derivative instruments within the scope of Statement 53 are effective for calendar year 2024 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, 2021

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, 2021, the DCEDC's cash balance was \$5,747,564, and its bank balance was \$6,119,376. At December 31, 2021, \$4,897,991 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, 2021, due from primary government was comprised of the following pass-through items:

Dauphin County:	
2% Hotel Tax Distribution	\$ 27,512
1% Hotel Tax Distribution	137,646
	<u>\$ 165,158</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, 2021, due to primary government was comprised of the following items:

Due to Dauphin County for:	
HOME Loan Payoffs	<u>\$ 12,122</u>
	<u>\$ 12,122</u>

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for business-type activities for the year ended December 31, 2021:

	Balance January 1, 2021	Additions	Deletions	Balance December 31, 2021
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	-	(27,938)	2,068,611
Less accumulated depreciation for:				
Furniture and Equipment	(19,927)	-	19,927	-
Works of Art	(8,011)	-	8,011	-
Buildings	(802,245)	(53,041)	-	(855,286)
Total accumulated depreciation	(830,183)	(53,041)	27,938	(855,286)
Total capital assets, being depreciated, net	1,266,366	(53,041)	-	1,213,325
Total capital assets, net	<u>\$ 1,266,366</u>	<u>\$ (53,041)</u>	<u>\$ -</u>	<u>\$ 1,213,325</u>

Depreciation expense was \$53,041 for the year ended December 31, 2021.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 6: LONG-TERM DEBT

The following is a summary of long-term debt for the year ended December 31, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Modified 2018A Guaranteed Note	\$ 1,643,500	\$ -	\$ (1,643,500)	\$ -	\$ -
Modified 2018B Guaranteed Parking Revenue Note	1,495,000	-	-	1,495,000	1,495,000
2019A Guaranteed Note	<u>1,032,000</u>	<u>-</u>	<u>(853,000)</u>	<u>179,000</u>	<u>172,000</u>
	<u>\$ 4,170,500</u>	<u>\$ -</u>	<u>\$ (2,496,500)</u>	<u>\$ 1,674,000</u>	<u>\$ 1,667,000</u>

Long-term debt at December 31, 2021, 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 August 2026.	\$ 179,000
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>
	1,674,000
Less: Current portion	<u>(1,667,000)</u>
Long-term portion	<u>\$ 7,000</u>

Maturities of long-term debt are as follows:

<u>Maturity Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 1,667,000	\$ 55,663	\$ 1,722,663
2023	<u>7,000</u>	<u>192</u>	<u>7,192</u>
	<u>\$ 1,674,000</u>	<u>\$ 55,855</u>	<u>\$ 1,729,855</u>

See Note 7 for details regarding the extinguishment of the Modified 2018A Guaranteed Note.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021

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 1st 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 was 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 guaranteed 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 1st 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.

On March 31, 2021, the Authority sold the Veterans Building for a contract price of \$1,925,000. The proceeds from the sale of the building were used to extinguish the Guaranteed Note, Series A of 2018 and therefore also the related Direct Financing Lease between the Authority and the DCEDC. The remaining proceeds were used for settlement expenses, accrued interest, rent expense, and a net cash disbursement to the Authority in the amount of \$112,748.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021, 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	\$	4,819,829
HOME Program		1,344
	\$	4,821,173

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 \$2,283,476 in 2021, representing approximately 22% 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, 2021

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, 2021 were \$130,000. In addition to the parking fees collected, the DCIDA also forgave related party debt in the amount of \$217,181.

Due To / From Related Parties

Amounts due from related parties as of December 31, 2021 consist of the following:

Corporation

Amount due from DCIDA - Restricted Tourism Funds invested in DCIDA Charles Schwab Account.	\$ 1,058,689
Amount due from DCIDA - Operating costs for Solar Farm expenses.	30,500
Total Amount Due from Related Parties	<u>\$ 1,089,189</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:

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 \$1,903,134 for the year ended December 31, 2021.

DAUPHIN COUNTY ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021

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

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 \$380,342 for the year ended December 31, 2021.

NOTE 12: OPERATING LEASES

The DCEDC leases office space from Visit Harrisburg & Hershey under a year-to-year operating lease. Rental expense totaled \$28,000 for the year ended December 31, 2021 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, 2021, 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.

NOTE 14: AMERICAN RESCUE PLAN ACT AND RELATED EXPENSES

During 2021, DCED received grant funding from the County of Dauphin under the American Rescue Plan Act in the amount of \$191,968. These funds were used to fund tourism grants, broadband studies, and administrative activities.