

Impact Harrisburg

Financial Statements

Year Ended June 30, 2016
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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IMPACT HARRISBURG

YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

| | |
|---------------------------------|---|
| Statement of Financial Position | 1 |
| Statement of Activities | 2 |
| Statement of Cash Flows | 3 |
| Notes to Financial Statements | 4 |

Independent Auditor's Report

Board of Directors
Impact Harrisburg

We have audited the accompanying financial statements of Impact Harrisburg (Organization) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 Organization as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Maher Duessel

Harrisburg, Pennsylvania
April 18, 2017

IMPACT HARRISBURG
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

| <u>Assets</u> | |
|---------------------------|------------------------------------|
| Cash and cash equivalents | \$ 6,191,965 |
| Investments | <u>5,987,525</u> |
| Total Assets | <u><u>\$ 12,179,490</u></u> |
| <u>Net Assets</u> | |
| Temporarily restricted | <u>\$ 12,179,490</u> |
| Total Net Assets | <u><u>\$ 12,179,490</u></u> |

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

IMPACT HARRISBURG

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|----------------------|
| Revenues, Gains, and Other Support: | | | |
| Grants | \$ - | \$ 12,360,545 | \$ 12,360,545 |
| Investment loss | - | (7,910) | (7,910) |
| Net assets released from restrictions | 173,145 | (173,145) | - |
| Total revenue, gains, and other support | <u>173,145</u> | <u>12,179,490</u> | <u>12,352,635</u> |
| Expenses: | | | |
| Professional fees | 94,881 | - | 94,881 |
| Grants | 75,000 | - | 75,000 |
| Insurance | 2,616 | - | 2,616 |
| Office supplies | 500 | - | 500 |
| Bank fees | 125 | - | 125 |
| Telephone | 23 | - | 23 |
| Total expenses | <u>173,145</u> | <u>-</u> | <u>173,145</u> |
| Change in Net Assets | - | 12,179,490 | 12,179,490 |
| Net Assets: | | | |
| Beginning of year | <u>-</u> | <u>-</u> | <u>-</u> |
| End of year | <u>\$ -</u> | <u>\$ 12,179,490</u> | <u>\$ 12,179,490</u> |

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

IMPACT HARRISBURG

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

Reconciliation of Change in Net Assets to Net

Cash and Cash Equivalents Provided by

Operating Activities:

| | |
|--|-------------------|
| Change in net assets | \$ 12,179,490 |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities: | |
| Unrealized loss on investments | <u>35,229</u> |
| Net cash and cash equivalents provided by operating activities | <u>12,214,719</u> |

Cash Flows From Investing Activities:

| | |
|--|--------------------|
| Purchase of investments | (11,322,065) |
| Proceeds from sale of investments | <u>5,299,311</u> |
| Net cash and cash equivalents used in investing activities | <u>(6,022,754)</u> |

Net Increase in Cash and Cash Equivalents

6,191,965

Cash and Cash Equivalents:

| | |
|-------------------|----------------------------|
| Beginning of year | <u>-</u> |
| End of year | <u><u>\$ 6,191,965</u></u> |

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

IMPACT HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Impact Harrisburg (Organization) was founded in the Commonwealth of Pennsylvania (Commonwealth) in March 2015, as a nonprofit organization. The Organization was created by the Task Force for Infrastructure and Economic Development (Task Force) through the development of a Governance Proposal and Action Plan pursuant to the Municipal Financial Recovery Act – Harrisburg Strong Plan (Strong Plan). The Task Force was charged with creating a structure for the administration of the \$12.3 million that was set aside as part of the monetization of the City of Harrisburg’s (City) parking system. These funds were to be used to address infrastructure needs of the City and to incentivize economic development opportunities to aid the City in strengthening its tax base and addressing critical infrastructure needs, thus, enhancing the quality of life for City residents. Although the Strong Plan envisioned separate non-profit entities to administer each activity, the Task Force deemed it more efficient to create a single non-profit to administer both funding streams. The Governance Proposal and Action Plan, filed in Commonwealth Court in October 2014 and approved in November 2014, approved the creation and operation of a single nonprofit.

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Basis of Presentation

Financial statement presentation follows the *Not-for-Profit Entities* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

IMPACT HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Investments

The Organization's investments are comprised of a variety of financial instruments and are managed by an investment advisor. The fair values reported in the statement of financial position are subject to various risks including changes in the fixed income markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities, and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near-term.

Fair Value Measurements

The Organization records its investments based on fair value. The use of observable inputs is maximized and the use of unobservable inputs is minimized by using observable inputs when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available, but traded less frequently, and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 — Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair

IMPACT HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

Valuation of Investments

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds. The Organization’s Level 2 investments are valued using the market approach based on current exchange prices. For securities that don’t trade on exchanges, the dealer utilizes a modeling system based on current market data including benchmark yields, reported trades and broker-dealer quotes. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

All of the Organizations investments, which consist solely of corporate bonds, are considered Level 2 investments.

Adjustments to reflect increases or decreases in fair value, referred to as unrealized gains and losses, are reported in the statement of activities.

All realized and unrealized gains and losses arising from the sale or appreciation (depreciation) in fair value of investments, and all ordinary income from investments, are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations, or by law.

Restricted and Unrestricted Support

Support that is restricted by the donor is reported as an increase in temporarily restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

IMPACT HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Use of 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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and files a Form 990 – Return of Organization Exempt from Income Tax, on an annual basis.

Pending Standards Update

Accounting Standards Update (ASU) 2014-09, “*Revenue from Contracts with Customers*,” is effective for the Organization’s financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures. Early application of the amendments in the ASU is not allowed.

ASU 2016-02, “*Leases (Topic 842)*,” is effective for the Organization’s financial statements for the year ending June 30, 2021. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Early application of the amendments in the ASU is allowed.

ASU 2016-14, “*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*,” is effective for the Organization’s financial statements for the year ending June 30, 2019. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, how underwater donor-restricted endowment funds are treated, will increase the information available about liquidity and the availability of resources, requires financial statements for not-for-profits to provide expenses both by nature and function, as well as an analysis of those expenses by both nature and function, along with disclosure of the methods used to allocate those costs among the various functions, and standardizes how organizations present investment returns and what expenses should be netted against those returns. There

IMPACT HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

are qualitative and quantitative requirements in a number of areas, including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. Early application of the amendments in the ASU is allowed.

Management has not yet determined the impact of these amendments on the Organization's financial statements.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

2. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2016 consist of \$12,179,490, of which \$6,089,745 is restricted for economic development and \$6,089,745 is restricted for infrastructure needs in the City. Temporarily restricted net assets are subject to purpose restrictions as dictated by the Strong Plan.

In accordance with the Governance Proposal and Action Plan, up to \$100,000 of the initial \$12.3 million was to be used to fund the costs associated with the formation of the Organization. However, the anticipated start-up costs were not expected to exceed \$25,000 and it was determined that the remaining \$75,000 was to be granted to the City for purposes of updating its Comprehensive Plan.

In addition, per the Governance Proposal and Action Plan, over the life of the Organization, \$1.2 million, or 10% of the initial funding, may be used for the Organization's administrative costs. Annual funding for administrative costs may not exceed \$200,000.

Temporarily restricted net assets released from restrictions during the year ended June 30, 2016 consist of \$173,145 released for purpose restrictions met during the year; \$100,000 for start-up costs incurred during the first year of operations and a grant to the City, and \$73,145 for additional administrative costs incurred during the year ended June 30, 2016.

IMPACT HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

3. INVESTMENT LOSS

Investment loss consists of the following for the year ended June 30, 2016:

| | | |
|--------------------------------|----|-----------------------|
| Interest and dividends | \$ | 27,319 |
| Unrealized loss on investments | | <u>(35,229)</u> |
| Total investment loss | \$ | <u><u>(7,910)</u></u> |

4. CONCENTRATIONS

Cash and cash equivalents with a book value and bank balance of \$6,191,965 and \$6,195,588, respectively, at June 30, 2016 consist of \$94,554 of deposits that are insured by the Federal Deposit Insurance Corporation (FDIC), \$500,000 of money market funds that are insured by the Securities Investors Protection Corporation (SIPC), and \$5,601,034 of money market funds that are uninsured. The money market funds are classified as cash and cash equivalents on the statement of financial position.

5. FUNCTIONAL EXPENSES

| | Program Expenses | Management and General | Total |
|-------------------|---------------------|---------------------------|-------------------|
| Professional fees | \$ 66,417 | \$ 28,464 | \$ 94,881 |
| Grants | 75,000 | - | 75,000 |
| Insurance | 1,831 | 785 | 2,616 |
| Office supplies | 350 | 150 | 500 |
| Bank fees | 87 | 38 | 125 |
| Telephone | 16 | 7 | 23 |
| Total expenses | <u>\$ 143,701</u> | <u>\$ 29,444</u> | <u>\$ 173,145</u> |

During the year ended June 30, 2016, the Organization did not conduct any fundraising events.

6. SUBSEQUENT EVENTS

The Organization entered into a one-year lease agreement for its office space commencing October 2016 and ending June 2017, with an option to extend upon written consent from both parties. The lease requires monthly payments of \$375.

IMPACT HARRISBURG

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

In July 2016, the Organization awarded two infrastructure grants totaling \$5,487,291.

In October 2016, the Organization awarded eight economic development grants totaling \$2,931,369. Additionally, the Organization awarded five community building project grants totaling \$1,293,351.