

**REDEVELOPMENT AUTHORITY
OF THE CITY OF HARRISBURG**

BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG

YEAR ENDED DECEMBER 31, 2006

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

Board of Directors
Redevelopment Authority of the City of Harrisburg
Harrisburg, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG (the "Authority") as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board's Statement No. 46, "*Net Assets Restricted by Enabling Legislation*" in 2006.

In accordance with Government Auditing Standards, we have also issued a report dated May 21, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

<u>Harrisburg</u>	<u>Lehigh Valley</u>	<u>Philadelphia</u>
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Zelenkofske Axelrod LLC

Board of Directors
Redevelopment Authority of the City of Harrisburg

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
May 21, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

This section of the financial statements for the Harrisburg Redevelopment Authority ("HRA") presents a narrative overview and analysis of the HRA's financial performance for the fiscal year ended December 31, 2006. We recommend that it be read in conjunction with the accompanying basic financial statements and notes to financial statements in order to obtain a thorough understanding of the HRA's financial condition at December 31, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of the following parts:

- Management's discussion and analysis (this section)
- Basic financial statements (including notes)

Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the HRA government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements.

The basic financial statements present two different views of the HRA.

- *Government-wide financial statements*, the first two statements, provide information about the HRA's overall financial status.
- *Fund financial statements*, the remaining statements, focus on individual parts of HRA government. They provide more detail on operations than the government-wide statements.
 - *Governmental funds statements* show how general government services were financed in the short term, as well as what remains for future spending

Table A-1 shows how the various parts of this annual report are arranged and related to one another.

Table A-1: Organization of the HRA's annual financial report

REQUIRED COMPONENTS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

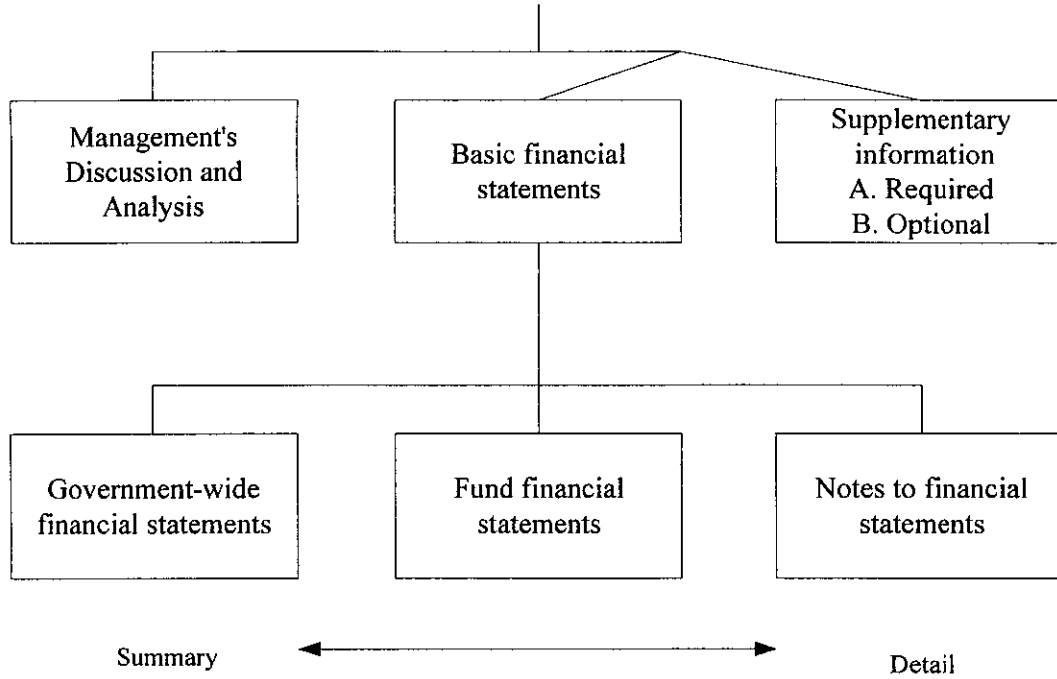


Table A-2 summarizes the major features of the HRA's financial statements, including the area of the HRA's activities they cover and the types of information they contain.

Table A-2: Major features of the government-wide and fund financial statements

	Government-wide statements	Fund financial statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire entity and component units (except fiduciary funds)	The day-to-day operating activities of the HRA, such as public safety and courts	The activities of the HRA, such as office buildings	Instances in which the HRA administers resources on behalf of others, such as Developer's Escrow Accounts.
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

The remainder of this overview explains the structure and contents of the government-wide and fund financial statements.

Government-wide financial statements

Government-wide financial statements report information about HRA as a whole using accounting methods similar to those used by private-sector companies.

- The statement of net assets includes all of the HRA's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The statement of activities focuses on how the HRA's net assets changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on local taxes for funding.

All changes to net assets are reported using the accrual method of accounting, which requires that revenues be reported when they are earned and expenses be reported when the goods and/or services are received, regardless of when cash is received or paid.

Net assets are one way to measure the HRA's financial position. Over time, increases or decreases in the HRA's net assets are one indicator of whether the HRA's financial position is improving or deteriorating. However, other non-financial factors such as changes in the general economic conditions must be considered to assess the overall position of the HRA.

Governmental activities include the HRA's basic services. State and federal grants and charges for services finance most of these activities.

Net assets of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. The financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Finally, long-term debt does not affect fund balances.

Government wide statements are reported using an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the statement of net assets:

- Capitalize long term assets and depreciate over their useful lives
- Report long-term debt as a liability
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate net asset balances as follows:
 - Net assets invested in capital assets, net of related debt
 - Restricted net assets are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation
 - Unrestricted net assets are net assets that do not meet any of the above restrictions.

Fund financial statements

Fund financial statements provide more detailed information on the HRA's most significant funds, *not the HRA as a whole*. Funds are accounting devices, i.e., a group of related accounts, the HRA uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Fund financial statements are reported using current financial resources and modified accrual accounting established by the Government Accounting Standards Board (GASB) for governments.

The HRA has *Governmental funds* which include most of the HRA's basic services and focus on: (1) the flow in and out of cash and other financial assets that can readily be converted into cash, and; (2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting basis, and a current financial resources measurement focus. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the HRA's programs.

The relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation that is included in the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Net assets

HRA's total assets were \$5.9 million at December 31, 2006. This balance consists mostly of cash and restricted cash, which represents 34.8% of total assets and capital assets, which represent 48.2% of total assets.

Table A-3: Condensed statement of net assets

	December 31, <u>2006</u>	December 31, <u>2005</u>	<u>Change</u>
Current and other assets	\$ 3,074,269	\$ 2,300,138	\$ 774,131
Capital Assets	2,864,469	-	2,864,469
Total assets	<u>\$ 5,938,738</u>	<u>\$ 2,300,138</u>	<u>\$ 3,638,600</u>
Current and other liabilities	1,455,776	125,817	1,329,959
Long-term liabilities	37,337,548	35,333,201	(2,004,347)
Total liabilities	<u>\$ 38,793,324</u>	<u>\$ 35,459,018</u>	<u>\$ (3,334,306)</u>
Total Net assets:	<u>\$ (32,854,586)</u>	<u>\$ (33,158,880)</u>	<u>\$ 304,294</u>

Changes in net assets

The Statement of Activities represents changes in net assets for the year ended December 31, 2006. It shows revenues by source and expenses by function for governmental activities, business-type activities and the government as a whole.

Table A-4: Condensed Statement of Activities

	December 31, <u>2006</u>	December 31, <u>2005</u>	<u>Change</u>
Program Revenues:			
Charges for Services	\$ 422,332	\$ 1,061,585	\$ (639,253)
Operating Grants and Contributions	1,003,228	4,813,302	(3,810,074)
Capital Grants and Contributions	2,864,469	-	2,864,469
General Revenues:			
Space Rental Income	809,143	1,302,769	(493,626)
Miscellaneous Income	-	38,800	(38,800)
Interest Income	45,936	32,114	13,822
Total Revenues	\$ 5,145,108	\$ 7,248,570	\$ (2,103,462)
Expenses:			
Community Development	\$ 4,840,814	\$ 9,133,409	\$ 4,292,595
Total Expenses	\$ 4,840,814	\$ 9,133,409	\$ 4,292,595
Change in Net Assets	\$ 304,294	\$ (1,884,839)	\$ 2,189,133
Net Assets – January 1, 2006	(33,158,880)	(31,274,041)	(1,884,839)
Net Assets – December 31, 2006	\$ (32,854,586)	\$ (33,158,880)	\$ 304,294

Net program expenses

Net program expenses indicate the amount of support required from other general revenues for a program of the government. In 2006, general revenues represented \$855 thousand in income for the Governmental Activities column. The majority of the change in net assets is related to the accretion of interest on the Authority's 1998 A and 1998 B Series Capital Appreciation Bonds offset by the capitalization of Construction-In-Progress Capital Assets funded by Capital Grants. The amount of the interest charged through accretion in 2006 was approximately \$2 million. In 2006, Construction-In-Progress in the amount of \$2,864,469 was capitalized by the Authority.

Table A-5: Net cost of governmental activities

Program:	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Community Development	\$ 4,840,814	\$ (550,785)
Total Expenses	<u>\$ 4,840,814</u>	<u>\$ (550,785)</u>

Other general revenues covered general government spending. Grants and fees for specific services also provided additional income to the HRA. Community and economic development includes the HRA's community and economic development projects which were funded primarily by grant revenues.

Debt Administration

Table A-6: Statement of Long Term Debt

At December 31, 2006, the HRA had \$37,337,548 of debt outstanding. Debt increased by \$2,004,347 from the previous year. The following is a summary of changes in long term debt for the 2006 year:

Beginning balance, January 1, 2006	\$35,333,201
Accretion on Capital Appreciation Bonds	<u>2,004,347</u>
Balance outstanding at December 31, 2006	<u>\$37,337,548</u>

Detailed information about the HRA's Long-term Debt can be found in the Notes to the Financial Statements.

GOVERNMENTAL FUNDS

HRA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the HRA's financing requirements. In particular, unreserved/undesignated fund balance may serve as a useful measure of the HRA's net resources available for spending at the end of the year. Governmental funds are presented before incorporating accounting changes required by GASB No. 34. Therefore some figures will be different in the fund statements than the government-wide statements.

The HRA's governmental funds include the general fund, and special revenue funds. The general fund is the chief operating fund for the HRA. Special revenue funds are restricted to specific legislated use. The major funds are shown on the statement of revenues, expenditures and changes in fund balances in the financial statements.

Governmental fund assets, liabilities and fund balances

Governmental fund assets totaled \$3.37 million, liabilities totaled \$1.7 million and fund balances totaled \$1.6 million at December 31, 2006.

	December 31, <u>2006</u>	December 31, <u>2005</u>	<u>Change</u>
Assets:			
Cash and Restricted Cash	\$ 2,067,564	\$ 2,060,544	\$ 7,020
Due From Other Funds	292,299	314,594	(22,245)
Accounts and Grants Receivable	1,006,705	239,594	767,111
	<hr/>		
Total Assets	\$ 3,366,568	\$ 2,614,732	\$ 751,836
<hr/>			
Liabilities:			
Total Liabilities	\$ 1,748,075	\$ 440,411	\$ (1,307,664)
<hr/>			
Fund Balance – December 31	\$ 1,618,493	\$ 2,174,321	\$ (555,828)
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The majority of the decrease in the Governmental Fund's Fund Balance is the result of spending debt proceeds in construction expenses. The Authority's unreserved fund balance for its governmental funds actually decreased by \$356 thousand in 2006. The debt issuance proceeds are reserved to be spent on the project or to pay off the debt. \$1.3 million of the total governmental fund balance is in the General Fund. The General Fund has an unreserved fund balance of \$1.2 million and a reserved fund balance of \$103 thousand. The reservation covers a deficit unreserved fund in the Authority's Transportation Center Fund. The unreserved balance is available to pay the current obligations and expenses of the Authority. The net unreserved fund balances in the Authority's other governmental funds total \$22 thousand. These funds usually are utilized for specific projects with specific revenue sources. The Transportation Center Fund has a reserved fund balance of \$351 thousand related to the debt proceeds to be utilized for the rehabilitation project at the Harrisburg Transportation Center. The amount will be used on this project or used to repay the Infrastructure Bank Loan discussed in the footnote related to the long term debt of the Authority.

Governmental fund revenues and expenditures

Governmental fund revenues totaled \$5.15 million and governmental fund expenditures totaled \$5.7 million for the year ended December 31, 2006.

	December 31, <u>2006</u>	December 31, <u>2005</u>	<u>Change</u>
Revenues:			
Service Revenue	\$ 422,332	\$ 1,061,585	\$ (639,253)
Intergovernmental Revenue	3,867,697	4,813,302	(945,605)
Interest Income	45,936	32,114	13,822
Rental Income	759,793	1,302,769	(542,976)
Miscellaneous Income	49,350	38,800	10,550
Proceeds from Debt Issuance	-	398,099	(398,099)
Total Revenues	\$ 5,145,108	\$ 7,646,669	\$ (2,501,561)
Expenses:			
Community Development	\$ 5,700,936	\$ 7,239,535	\$ 1,538,599
Total Expenses	\$ 5,700,936	\$ 7,239,535	\$ 1,538,599
Change in Fund Balance	\$ (555,828)	\$ 407,134	\$ (962,962)
Fund Balance – January 1	2,174,321	1,767,187	407,134
Fund Balance – December 31	\$ 1,618,493	\$ 2,174,321	\$ (555,828)

During 2006, the Authority entered the construction phase in its rehabilitation of the Harrisburg Transportation Center. The rehabilitation is being funded through federal, state and local sources. In addition, the Authority's Up Front Grant through U.S. Housing and Urban Development declined dramatically in 2006.

Governmental fund balances

HRA's governmental funds reported a combined fund balance of \$1.6 million at December 31, 2006.

The general fund is the chief operating fund of the HRA. At December 31, 2006, the total general fund balance was \$ 1.34 million, down \$100 thousand from the fund balance at the end of 2005. This decrease resulted primarily from a transfer from the General Fund to the Authority's CSM Fund in the amount of \$26,812. This transfer was the result of the Authority's Board deciding to use the proceeds from the sale of the 7th Street Office Building to assist the City of Harrisburg in rehabilitating specific properties within the limits of the City.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic conditions

HRA provides economic development opportunities within the confines of the City of Harrisburg, Pennsylvania. HRA relies on the receipt of grant funds from the federal government, Commonwealth of Pennsylvania and City of Harrisburg in order to undertake the economic development projects.

HRA has buildings within which it provides rental space. The leases on these rental spaces are long term in nature and HRA expects the tenants to continue to lease the space.

Market impact on investment income

Lower returns on its investments due to market conditions have impacted the HRA. The Commonwealth restricts HRA investments to government secured funds and certificates of deposit. The HRA has been responsive to the changing financial environment, and currently has most of its funds placed in accounts which are yielding a higher interest rate. Management monitors the changing rate environment to maximize the investment earnings of HRA's funds. The interest income generated for 2006 by the Authority was higher than prior years since the Authority had increased assets during certain stages of 2006.

Government funding

The HRA relies on federal and state funding primarily for its operations.

CONTACTING HRA'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the HRA's finances and to demonstrate the HRA's accountability. Questions concerning this financial information or requests for additional information should be directed to:

Harrisburg Redevelopment Authority
Acting Executive Director
10 North Second Street
Harrisburg PA 17101

Phone: 717-238-9601
Fax: 717-238-5342

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

<u>Assets</u>	<u>Governmental Activities</u>	<u>Total</u>
Cash	\$ 1,715,956	\$ 1,715,956
Restricted Cash	351,608	351,608
Accounts Receivable	111,999	111,999
Grants Receivable	894,706	894,706
Capital Assets	2,864,469	2,864,469
	<hr/>	<hr/>
Total Assets	5,938,738	5,938,738
	<hr/>	<hr/>
<u>Liabilities</u>		
Accounts Payable	942,970	942,970
Deferred Revenue	479,911	479,911
Payable From Restricted Cash	4,562	4,562
Accrued Compensated Absences	28,333	28,333
Long term obligations:		
Due within one year	275,646	275,646
Due in more than one year	37,061,902	37,061,902
	<hr/>	<hr/>
Total Liabilities	38,793,324	38,793,324
	<hr/>	<hr/>
<u>Net Assets</u>		
Invested in Capital Assets, net of related debt	2,864,469	2,864,469
Unrestricted	(35,719,055)	(35,719,055)
	<hr/>	<hr/>
Total Net Assets	\$ (32,854,586)	\$ (32,854,586)
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The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2006

<u>ASSETS</u>	<u>MAJOR FUNDS</u>			
	GENERAL FUND	TRANSPORTATION CENTER	OTHER FUNDS	TOTAL
Cash	\$ 1,043,291	\$ 174,592	\$ 498,073	\$ 1,715,956
Restricted Cash	-	351,608	-	351,608
Due From other Funds	261,943	-	30,356	292,299
Accounts Receivable	100,000	11,999	-	111,999
Grants Receivable	-	889,956	4,750	894,706
Total Assets	\$ 1,405,234	\$ 1,428,155	\$ 533,179	\$ 3,366,568
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Due to Other Funds	\$ 21,356	\$ 270,943	\$ -	\$ 292,299
Accounts Payable	7,818	908,515	26,637	942,970
Escrow Payables	-	562	4,000	4,562
Deferred Revenue	-	-	479,911	479,911
Accrued Compensated Absences	28,333	-	-	28,333
Total Liabilities	57,507	1,180,020	510,548	1,748,075
Fund Balances				
Unreserved, reported in:				
General Fund	1,244,254	-	-	1,244,254
Special Revenue Funds	-	(103,473)	22,631	(80,842)
Reserved Fund Balance	103,473	351,608	-	455,081
Total Fund Balances	1,347,727	248,135	22,631	1,618,493
Total Liabilities and Fund Balances	\$ 1,405,234	\$ 1,428,155	\$ 533,179	\$ 3,366,568

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

Total fund balances for governmental funds	\$ 1,618,493
Total net assets reported for governmental activities in the statement of net assets is different because:	
Capital Assets of the Authority are not deemed current assets and therefore are not recorded in the governmental fund assets. All assets, both current and long term are reported in the statement of net assets.	2,864,469.00
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets.	(37,337,548)
Total net assets of governmental activities	<u>\$ (32,854,586)</u>

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2006

	MAJOR FUNDS			Total
	General	Transportation Center	Other Funds	
Revenues				
Service Revenue	\$ 359,679	\$ -	\$ 62,653	\$ 422,332
Intergovernmental	1,024,793	2,833,064	9,840	3,867,697
Interest Income	20,771	25,165	-	45,936
Other Rental Income	-	49,350	-	49,350
Misc. Income	-	-	-	-
Space Rental Income	-	759,793	-	759,793
Total Revenues	1,405,243	3,667,372	72,493	5,145,108
Expenditures				
Program Expenditures	1,471,241	804,863	464,971	2,741,075
Construction Expenditures	-	2,945,812	-	2,945,812
Interest Expenses	-	14,049	-	14,049
Total Expenditures	1,471,241	3,764,724	464,971	5,700,936
Excess of Revenues Over (Under) Expenditures	(65,998)	(97,352)	(392,478)	(555,828)
Other Financing Sources (Uses)				
Transfers In/(Out)	(26,812)	-	26,812	-
Proceeds from Debt Issuance	-	-	-	-
Total Other Financing Sources (Uses)	(26,812)	-	26,812	-
Net Change in Fund Balances	(92,810)	(97,352)	(365,666)	(555,828)
Fund Balances - Beginning of Year	1,440,537	345,487	388,297	2,174,321
Fund Balances - End of Year	\$ 1,347,727	\$ 248,135	\$ 22,631	\$ 1,618,493

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 DECEMBER 31, 2006

Net change in fund balances - total governmental funds	\$ (555,828)
The change in net assets reported for governmental activities in the statement of activities is different because:	
Under the modified accrual basis of accounting used in the governmental funds, the acquisition or construction of capital assets are recorded as an expenditure on the governmental funds. On the Statement of Activities, the expenditure is not recorded as the assets are capitalized on the Statement of Net Assets.	2,864,469
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The accretion of interest on Authority's Capital Appreciaiton Bonds is recorded as an expense in the Statement of Activities.	(2,004,347)
Change in net assets of governmental activities	\$ 304,294

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

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

The Redevelopment Authority of the City of Harrisburg (the "Authority") is incorporated under the provisions of the Commonwealth of Pennsylvania Urban Development Act Number 385 of May 24, 1945, as Amended for the purpose of providing redevelopment and other related activities within the City of Harrisburg. The accompanying financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") applicable to governmental units, as prescribed by the Governmental Accounting Standards Board ("GASB").

A summary of the Authority's significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

A. Reporting Entity

The Authority is considered a component unit of the City of Harrisburg and the Authority's financial activities are included in the City's financial statements.

B) Measurement Focus and Basis of Accounting

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

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

1. Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33 – *Accounting and Financial Reporting for Nonexchange Transactions*.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Capital Assets are recorded in the government-wide financial statements and depreciated over their useful lives, rather than being expensed at the time of acquisition or construction.

Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The Authority chooses to eliminate the indirect costs between governmental activities to avoid "doubling up" effect.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

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

B) Measurement Focus and Basis of Accounting (Continued)

2. Fund Financial Statements

The underlying accounting system of the Authority is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues, to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Licenses, operating and capital grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and thus have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Authority.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus.

Purchases and construction of capital assets are recognized as expenditures and the asset value is not capitalized in the governmental funds.

Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

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

B) Measurement Focus and Basis of Accounting (Continued)

Governmental Funds (Continued)

The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

C) Basis of Presentation

The determination of major funds is based on minimum criteria as set forth in GASB Statement Number 34. The non-major funds are combined in a column in the fund financial statements. The following are the Authority's major funds:

1. Governmental Fund Types

a. General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Revenues of this fund are primarily derived from State and Federal grants, and fees for services. Many of the basic activities of the Authority are accounted for in this fund.

b. Transportation Center Fund

The Transportation Center Fund used to account for the proceeds of revenues and expenditures related to the operation of the train station.

D) Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, the Authority has adopted the following policy for current refundings and advance refundings resulting in defeasance of debt. The difference between the reacquisition price and the net carrying amount of the old debt, as well as the related bond issuance costs, will be deferred and amortized in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the deferred amount and bond issuance costs are reported as a deduction from or an addition to the new debt liability.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

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

D) Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as bond issuance costs in the governmental funds.

E) Interfund Transactions

The Authority affects a variety of transactions between the funds to finance operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2006, appropriate interfund receivables or payables have been established.

F) Accrued Compensated Absences

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

G) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H) Restricted Assets

Restricted assets represent resources set aside for liquidation of specific obligations, as detailed in Note 3.

I) Capital Assets

Capital assets purchased with a cost in excess of \$5,000 are recorded on the government-wide financial statements and depreciated accordingly. The Authority has no infrastructure assets.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2006

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

J) Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the Authority not restricted for any project or other purpose.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

K) Adoption of GASB pronouncements

The Authority adopted the provisions of GASB Statement No. 46 "*Net Assets Restricted by Enabling Legislation*". The adoption of this statement had no effect on previously reported amounts.

NOTE 2: DEPOSIT AND INVESTMENT RISK

Custodial Credit Risk – For the Authority's deposits, custodial credit risk is the risk that the event of the failure of the counterparty, the Authority will be able to recover the value of its deposits that are in the possession of an outside party.

As of December 31, 2006, the Authority's cash and restricted cash balances were \$2,067,564 and its bank balances were \$2,117,657. Of those bank balances, \$1,817,216 was collateralized with securities held by pledging financial institutions, or by their trust departments or agents, but not in the Authority's name.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3: RESTRICTED CASH

Cash whose use is limited to a specific purpose has been classified as restricted in the balance sheet. Restricted cash is composed of the following:

Governmental Funds	
Transportation Center Funds	
Restricted for Transportation Center Improvements or Repayment of Note	<u>\$ 351,608</u>
Total Restricted Cash	<u>\$ 351,608</u>

NOTE 4: DEFERRED COMPENSATION PLAN

The employees of the Authority participate in a deferred compensation plan under Internal Revenue Code Section 457. Each employee can contribute up to 25% or \$7,500, whichever is less, of annual compensation into the plan. The Authority's Board of Directors amended the plan to comply with provisions of the Small Business Jobs Protection Act, placing the assets of the plan in trust for the exclusive benefit of the participants. The Authority has implemented the provisions of GASB Statement No. 32 for reporting of the Deferred Compensation Plan. The assets of the plan are held by International City Manager's Association and the Copeland Company, the administrators of the plan. Contributions are made by employee payroll deductions.

NOTE 5: INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The authority records interfund activity for amounts that one fund loans to another fund or for the value of expenditures that one fund pays on behalf of another fund. A summary of the Authority's interfund receivables and payables at December 31, 2006, is as follows:

	Due From Other Funds	Due to Other Funds
<u>General Fund</u>		
Transportation Center Operation	\$261,943	\$ -
Contract Services & Maintenance	-	21,356
Total General Fund	<u>261,943</u>	<u>21,356</u>
<u>Special Revenue – Transportation Center Fund</u>		
General Fund	-	261,943
Contract Services & Maintenance	-	9,000
<u>Special Revenue – Contract Services & Maintenance</u>		
General Fund	21,356	-
Transportation Center Operations	9,000	-
Total Special Revenue Funds	<u>30,356</u>	<u>270,943</u>
Total All Funds	<u>\$292,299</u>	<u>\$292,299</u>

During 2006, the General Fund transferred the sum of \$26,812 to the Contract Services & Maintenance Fund. This amount represents funds the Authority set aside from the sale of the 7th Street Building in 2004 to be used for specific redevelopment projects in the City of Harrisburg. The funds will be utilized to assist the City to purchase property and resell the property for development.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2006

NOTE 6: CAPITAL ASSETS

The Authority is in the process of rehabilitating the Harrisburg Transportation Center and began construction in 2006. The changes in the Authority's Capital Assets for the year ended December 31, 2006 are as follows:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Balance December 31, 2006</u>
Construction-In-Progress	<u>\$-0-</u>	<u>\$2,864,469</u>	<u>\$2,864,469</u>
Total Assets, Not Being Depreciated	<u>\$-0-</u>	<u>\$2,864,469</u>	<u>\$2,864,469</u>

NOTE 7: LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Governmental Activities</u>
Outstanding at January 1, 2006	\$35,333,201
Accretion on Capital Appreciation Bonds	<u>2,004,347</u>
Outstanding at December 31, 2006	<u>\$37,337,548</u>

Long-term obligations outstanding at December 31, 2006, consisted of the following:

	<u>Governmental Activities</u>
Notes Payable	\$ 500,000
Due to Other Government	170,832
1998 Series A Guaranteed Revenue Bonds	11,700,025
1998 Series B Guaranteed Revenue Bonds	<u>24,966,691</u>
	<u>\$37,337,548</u>

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 7: LONG-TERM DEBT (CONTINUED)

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

<u>Years Ending December 31,</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
2007	275,646	37,556	313,202
2008	284,354	18,750	303,104
2009	30,000	9,538	39,538
2010	30,000	-	30,000
2011	30,000	-	30,000
2012-2016	3,700,832	-	3,700,832
2017-2021	37,170,000	-	37,170,000
2022-2026	31,990,000	-	31,990,000
2027-2031	11,080,000	-	11,080,000
2032-2033	9,670,000	-	9,670,000
	<u>94,260,832</u>	<u>65,844</u>	<u>94,326,676</u>
Unamortized Discount on Capital Appreciated Bonds	<u>56,923,284</u>		
	<u>37,337,548</u>		

On December 19, 1998, the Authority issued Federally Taxable Guaranteed Revenue Bonds, Series A of 1998 in the principal amount of \$6,920,525 and Series B of 1998 in the principal amount of \$16,716,758. The related proceeds of both issues are being used to finance the acquisition of the City of Harrisburg's right, title and interest in and to certain portions of the Strawberry Square Site located in the City of Harrisburg; to fund a debt service reserve fund for the 1998 bonds; and to pay costs of issuance. The Authority is not entitled to any ownership of the buildings until 2016. Therefore, the Authority has not recorded an asset on its financial statement related to this transaction. The City of Harrisburg guaranteed the repayment of these bond issuances.

During 2000, the Authority entered into an agreement with the Commonwealth of Pennsylvania Department of Transportation for an Infrastructure Bank Loan in a maximum amount of \$1,400,000 to rehabilitate the Harrisburg Transportation Center. Prior to 2006, the Authority had drawn down \$500,000 of the loan.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 7: LONG-TERM DEBT (CONTINUED)

Pertinent information regarding long term debt outstanding is presented below:

<u>Date of Issue</u>	<u>Amount of Original Issue</u>		<u>Balance Outstanding at December 31, 2006</u>	<u>Amount Due Within One Year</u>
1995	\$ 208,333	Long-term payable due to other government for the repayment of advances under grant programs. The Authority has requested that the other government waive further repayment of this obligation.	\$ 170,832	\$ 30,000
1998	\$ 6,920,525	Series A Bonds issued to purchase certain ground lease rights on buildings in the City of Harrisburg. Bonds are guaranteed by the City of Harrisburg.	11,700,025	-
1998	\$16,716,758	Series B Bonds issued to purchase certain grounds lease rights on buildings in the City of Harrisburg. Bonds are guaranteed by the City of Harrisburg.	24,966,691	-
2000	\$ 1,400,000	Note payable for bridge financing of the Transportation Center improvements until grant money is received. The note payable bears interest at 3.75% and is payable in annual installments through and on December 31, 2009.	<u>500,000</u>	245,646
			<u>\$ 37,337,548</u>	

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8: CONDUIT DEBT ISSUES

On March 15, 1991, the Authority issued Capital Improvement Revenue Bonds, Taxable Series A in the amount of \$25 million. The related proceeds were issued on behalf of the City of Harrisburg to fund numerous capital acquisitions and facilities construction. The loan agreement between the Authority and the City of Harrisburg stipulates that the City of Harrisburg is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment as a result of the loan agreement.

On January 1, 1993, the Authority issued Taxable Guaranteed Revenue Bonds Series A in the amount of \$14,325,000 and Series B in the amount of \$1,937,000. The related proceeds were issued on behalf of the Harristown Development Corporation to construct a hotel in the City of Harrisburg (the "Hilton Hotel"). The loan agreement between the Authority and the Harristown Development Corporation stipulates that the Harristown Development Corporation is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment as a result of the loan agreement. The bonds were defeased by the 2001 Series A and B.

On February 3, 1994, the Authority issued Taxable Guaranteed Revenue Bonds Series A in the amount of \$10 million. The related proceeds were issued on behalf of the Capital City Economic Development Corporation to construct a hotel in the City of Harrisburg. The loan agreement between the Authority and the Capital City Economic Development Corporation stipulates that the Capital City Economic Development Corporation is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment as a result of the loan agreement.

On May 3, 1994, the Authority issued Federally Taxable Tax Increment Financing Bonds Series A in the amount of \$7.4 million and Series B in the amount of \$3.1 million. The related proceeds were issued on behalf of the Pennsylvania National Mutual Casualty Insurance Company to construct an office complex in the City of Harrisburg. The loan agreement between the Authority and the Pennsylvania National Mutual Casualty Insurance Company stipulates that the Pennsylvania National Mutual Casualty Insurance Company is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment as a result of the loan agreement.

On July 16, 1996, the Authority issued a nonrecourse Revenue Note to Allfirst Bank in an amount not to exceed \$5,000,000. The related proceeds are to be loaned to the Homeland Center, a Pennsylvania nonprofit corporation for the acquisition, construction and equipping of certain capital additions, improvements and renovations to the corporation's long-term care facility for the elderly located in the City of Harrisburg. The loan agreement between the Authority and the Homeland Center has been assigned to Allfirst Bank as repayment of the Revenue Note. The Authority is not obligated under the note agreement as a result of this assignment.

On October 17, 2000, the Authority issued a Note on behalf of the City of Harrisburg to the Federal National Mortgage Association ("Fannie Mae") in the amount of \$592,000 for participation in the Fannie Mae Downpayment Assistance Program. The program is initially reserved for the Capitol Heights development but the City's goal is to expand it City-wide. The program provides financing for low to moderate income individuals in order to purchase properties in the redevelopment area. The Authority is not obligated for repayment as a result of the note agreement.

On December 27, 2001, the Authority issued Federally Taxable Guaranteed Revenue Bonds, Series of 2001, in the principal amount of \$20,170,000. The related proceeds were issued on behalf of the Harristown Development Corporation. The proceeds will be used to refund the Federally Taxable Guaranteed Revenue Bonds Series A and B of 1993. The loan agreement between the Authority and the Harristown Development Corporation stipulates that the Harristown Development Corporation is responsible for principal and interest payments on the bonds. The Authority is not obligated for repayment as a result of the loan agreement.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8: CONDUIT DEBT ISSUES (CONTINUED)

On April 5, 2004 the Authority issued conduit debt in the form of Taxable Guaranteed Revenue Bond, Series of 2004, in the principal amount of \$2,115,000. The related proceeds were issued on behalf of the Harristown Development Corporation. The proceeds will be used to fund certain capital improvements and working capital at the hotel (the "Hilton Hotel") owned by the Corporation. The loan agreement between the Authority and Harristown Development Corporation stipulates that the Harristown Development Corporation is responsible for principal and interest payment on the bonds. The Authority is not obligated for repayment of the bonds as a result of the loan agreement.

In February 2005, the Authority entered into an agreement to purchase the real estate tax liens from the City of Harrisburg School District and the City of Harrisburg for approximately \$4.6 million. The Authority entered into a line of credit agreement with Commerce Bank, N.A. to fund the purchase of the tax liens. Under the terms of the agreement the Authority is not obligated for the repayment of the line of credit as result of the security agreement with Commerce Bank, N.A.

In 2005, the Authority issued conduit debt in the form of Federally Taxable Guaranteed Variable Rate Revenue Bonds (Series A-1 of 2004) and Federally Taxable Guaranteed Revenue Bonds (Series A-2 of 2004). Each series was in the amount of \$9 million for an aggregate issuance of \$18 million. The related proceeds were issued on behalf of Harrisburg City Baseball Club, Inc. ("HCBC"). A loan agreement was entered between the Authority and HCBC. The proceeds will be utilized by HCBC for the renovation and upgrade of Commerce Bank Park. HCBC pledged existing and projected revenues from the stadium to pay the loan. In addition, the City of Harrisburg has guaranteed repayment of the Bonds through a Guaranty agreement. Authority is not obligated for repayment of the bonds as a result of the loan agreement with HCBC and the City's guarantee.

In 2006, the Authority authorized the financing of the \$30 million Hall of Fame project. This is a 25 year bond with the debt service to be paid from the revenues of the project. The City of Harrisburg is guarantor on the bonds. The Authority is not obligated for repayment of these bonds.

In December 2006, the Authority authorized the execution of a Federally Taxable Guaranteed Revenue Note in an amount not to exceed \$7.2 million. The Note was to finance the leasing of the McCormick Public Service Center from the City and then subleasing of the building back to the City. The funds from the issuance of the Note were turned over to the City. The City's lease payments will pay the debt service on the note. The Authority is not obligated for repayment of this note.

In February 2006, the Authority entered in to an agreement to purchase the real estate tax liens from the City of Harrisburg School District for approximately \$4.7 million. The Authority entered into a line of credit agreement with Commerce Bank, N.A. to fund the purchase of the tax liens. Under the terms of the agreement, the Authority is not obligated for the repayment of the line of credit as a result of the security agreement.

NOTE 9: LITIGATION

From time to time, the Authority is involved in various lawsuits arising in the ordinary course of its activities. The Authority's Solicitor and the Authority's management believe that the resolution of these actions is not expected to have a material adverse effect on the financial statements of the Authority.

The Harrisburg Redevelopment Authority filed suit against a tenant of the Transportation Center for non-payment of rent. The tenant filed a counterclaim for damages due to the Authority taking possession of a portion of the Transportation Center from the lessee. The outcome of this claim and counterclaim can not presently be determined therefore no liability, if any, as a result of the outcome of this claim has been reflected in the financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 12: LEASE COMMITMENTS (CONTINUED)

The lease is adjusted annually on January 1 for the National Consumer Price Index. The above amounts do not reflect the annual CPI increase. Management does not anticipate a significant increase in the above amounts.

In addition, the Authority has an informal lease with the City of Harrisburg for office space in the City Government Center. The Authority is currently not being charged a lease fee by the City.

Total rental expenditures for the year ended December 31, 2006, approximated \$134,838.

NOTE 13: FUND BALANCE/NET ASSET DEFICITS

The following is a schedule of unreserved unrestricted deficits by fund at December 31, 2006:

<u>Fund</u>	<u>Deficit Amount</u>
Governmental Activities	\$32,854,586
Transportation Center	103,473

The Governmental Activities deficit is related to the 1998 Series A and B bond issuances. Since no asset is recorded related to these debt issuances, the total debt outstanding reduces Unrestricted Net Assets. The outstanding debt on these issuances is \$36,666,716. These debt issuances reduced the Governmental Activities net assets from a positive \$3,812,130 to the deficit balance of \$32,854,586. The City of Harrisburg guarantees the payment of those bond issuances. In addition, the Authority will gain title to certain buildings in the year 2016 in relation to the issuance of these bonds.

Funds sufficient to provide for the Transportation Center deficits are to be made from future activities according to management. In addition, a reservation of fund balance has been made in the General Fund in the amount noted above.

The reservation in the amount of \$351,608 in the Transportation Center Fund is assets held from a debt issuance to be used for construction expenses or repay the debt.

NOTE 14: CONTINGENCIES

Economic Dependence

The Authority receives grants from HUD and the Pennsylvania Department of Transportation. These revenues are material to the financial statements and would impact the Authority significantly if the funding was reduced or terminated. Should grant funding not be available, the Authority could be funded by the City of Harrisburg via bond issues, or the Authority could cease to provide services supported by the grant funding.

Grants

The Authority obtains grant revenue from federal and state sources. Should the funding source determine that the Authority has expended grant funds for purchases unallowed under the grant contract, the Authority may have to payback the funds. However, ultimate disallowance of any costs claimed is ultimately the responsibility of the granting agency. Accordingly, no adjustment has been made to the financial statements for any questioned costs pending final resolution by the granting agency.

REDEVELOPMENT AUTHORITY OF THE CITY OF HARRISBURG
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 15: RELATED PARTY

The Authority has various contracts with the City of Harrisburg, a related party, for property management and acquisition services. These activities are reflected in the Contract Services fund of the Authority.

NOTE 16: SUBSEQUENT EVENTS

In February 2007, the Authority authorized the purchase of the 2007 real estate tax liens from the City of Harrisburg School District in an amount not to exceed \$6.7 million.