THE HARRISBURG AUTHORITY

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2006
WITH
INDEPENDENT AUDITOR'S REPORT

MAHER DUESSEL
CERTIFIED PUBLIC ACCOUNTANTS

THE HARRISBURG AUTHORITY

YEAR ENDED DECEMBER 31, 2006

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Independent Auditor's Report

Members of the Board
The Harrisburg Authority

We have audited the accompanying basic financial statements of The Harrisburg Authority (Authority) (a component unit of the City of Harrisburg, Pennsylvania) as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The waste incinerator, operated as a component of the Resource Recovery Facility of The Harrisburg Authority, as required by the Environmental Protection Agency, was temporarily closed so that the Authority could undertake a modernization program. A significant financing was completed in December 2003 to fund the costs of the project. Additionally, the Resource Recovery Fund has experienced significant operating losses, has an accumulated deficit of $85,968,914 at December 31, 2006, and is in violation of certain covenants under the trust indentures. Additionally, as discussed further in Note 11 to the financial statements, the Authority has issued a notice of material event with respect to certain of the Resource Recovery Facility bonds.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the Authority's financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maher Duessel

Harrisburg, Pennsylvania
June 29, 2007

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THE HARRISBURG AUTHORITY

BALANCE SHEET

DECEMBER 31, 2006

Assets	
Current assets:	
Cash and cash equivalents	$ 3,739,639
Accounts receivable, net of allowance for uncollectible accounts of $1,401,996	5,454,224
Accrued interest receivable	90,967
Other receivables	110,000
Current portion of direct financing lease	1,724,537
Current portion of advances to the City of Harrisburg	149,635
Total current assets	11,269,002
Restricted assets:	
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	3,708,551
Investments - restricted under trust indentures	75,474,827
Total restricted assets	79,183,378
Noncurrent assets:	
Direct financing leases, net of unearned income of $1,777,867	5,784,319
Advances to the City of Harrisburg	2,119,783
Capital assets, not being depreciated	3,619,055
Capital assets, net of accumulated depreciation of $38,089,200	177,786,100
Deferred financing costs, net of accumulated amortization of $5,196,147	16,877,182
Total noncurrent assets	206,186,439
Total Assets	$296,638,819

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

Liabilities and Net Assets

Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	$ 207,522
Current portion of amount due to the City of Harrisburg	6,486,860
Total current liabilities	6,694,382
Liabilities payable from restricted assets:	
Accounts payable	468,479
Accrued interest payable	5,313,240
Current portion of notes payable	819,635
Current portion of bonds payable	4,370,000
Total liabilities payable from restricted assets	10,971,354
Noncurrent liabilities:	
Due to the City of Harrisburg	482,766
Notes payable, net of premium of $911,836	72,727,908
Bonds outstanding, net of discount and deferred losses on refunding of $23,372,434	301,797,566
Deferred revenue	4,908,286
Accrued landfill closure and post closure liability	40,268
Liability for obligations to construct assets under direct financing leases	161,966
Total noncurrent liabilities	380,118,760
Total Liabilities	397,784,496
Net Assets:	
Invested in capital assets, net of related debt	(114,483,718)
Restricted:	
Debt service	22,235,801
Construction	774,189
Landfill closure	749,378
Guarantee agreement	274,512
Special projects	12,329
Water operations	3,193,523
Unrestricted	(13,901,691)
Total Net Assets	(101,145,677)
Total Liabilities and Net Assets	$296,638,819

THE HARRISBURG AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

YEAR ENDED DECEMBER 31, 2006

Operating Revenues:	
User charges	$ 27,091,557
Administrative fees	607,000
Total operating revenues	27,698,557
Operating Expenses:	
Operating	21,721,854
Administrative	1,398,744
Depreciation	4,555,488
Landfill closure and postclosure care expense	75,245
Total operating expenses	27,751,331
Operating Loss	(52,774)
Non-Operating Revenues (Expenses):	
Grant income	354,585
Investment income	4,092,087
Lease rental income	754,603
Miscellaneous expense	(482,354)
Interest expense	(20,936,048)
Amortization of deferred financing costs	(1,354,040)
Total nonoperating revenues (expenses)	(17,571,167)
Change in net assets before capital contribution and special item	(17,623,941)
Capital contribution	3,815,635
Special item	4,027,000
Change in Net Assets	(9,781,306)
Net Assets:	
Beginning of year	(91,364,371)
End of year	$(101,145,677)

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

THE HARRISBURG AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2006

Cash Flows From Operating Activities:	
Receipts from customers and users	$ 24,805,563
Payments to suppliers	(880,769)
Payments to management agent	(18,134,373)
Net cash provided by operating activities	5,790,421
Cash Flows From Investing Activities:	
Purchases of investments, net	17,155,371
Investment income received	7,904,898
Payments received on direct financing leases	1,954,343
Net cash provided by investing activities	27,014,612
Cash Flows From Non-Capital Financing Activities:	
Proceeds from operating grants	354,585
Net cash provided by non-capital financing activities	354,585
Cash Flows From Capital and Related Financing Activities:	
Decrease in obligation to construct assets under direct financing lease	(432,600)
Decrease in advances to the City of Harrisburg	143,835
Acquisition and construction of capital assets	(8,613,814)
Interest paid	(18,146,503)
Principal paid on capital lease	(221,180)
Principal paid on long-term debt	(5,134,531)
Net cash used in capital and related financing activities	(32,404,793)
Net Increase in Cash and Cash Equivalents	754,825
Cash and Cash Equivalents:	
Beginning of year	6,693,365
End of year	$ 7,448,190

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating income (loss)	$ (52,774)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	4,555,488
Miscellaneous nonoperating income (expense)	(601,104)
Increase in accounts receivable	(2,516,593)
Increase in other receivables	(86,338)
Decrease in accounts payable	(197,122)
Increase in due to City of Harrisburg	4,648,596
Increase in accrued landfill closure and post closure liability	40,268
Net cash provided by operating activities	$ 5,790,421

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Harrisburg Sewerage Authority (Sewerage Authority) was incorporated June 3, 1957, under the provisions of the Municipality Authorities Act of 1945. On December 1, 1987, the Sewerage Authority's Articles of Incorporation were amended to change its name to the Harrisburg Water and Sewer Authority (Water Authority). On January 30, 1990, the Water Authority filed Articles of Amendment with the Pennsylvania Department of State to change its name to The Harrisburg Authority (Authority), also broadening its purpose and extending the term of its existence. The purpose of the Authority is, among other things, to engage in public works projects relating to the ownership and operation of the water system and resource recovery facility and the leasing of the wastewater treatment and conveyance systems. The Authority also issues nonrecourse tax-exempt debt for other entities for the purpose of financing capital improvement projects.

The Authority is a component unit of the City of Harrisburg (City) reporting entity. Criteria considered in making this determination include appointment of the Authority's Board, financial interdependence, and the Authority's potential to provide specific financial benefits to, or impose specific financial burdens on the City.

Basis of Presentation

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for activities similar to those found in the private sector where the determination of net income is necessary for sound financial administration. Costs of construction, debt reduction, and Authority administration are financed or recovered through lease rentals received from the City, user charges, administration charges, and income on investments held by the Authority.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges for water and incinerator services and administrative fees for conduit debt issuance. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of Accounting

The Authority's financial statements are presented using the accrual method of accounting, under which revenues are recorded in the period that they are earned and expenses are recorded when the liability is incurred. The Authority follows the accounting and financial reporting standards issued by the Government Accounting Standards Board (GASB). The Authority follows only those Financial Accounting Standards Board standards issued on or before November 30, 1989, as allowed under GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*"

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority 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 balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "Invested in capital assets, net of related debt"; "Restricted for" various purposes; and "Unrestricted" components.

Non-recourse Debt Issues

The Authority participates in various bond issues for which it has limited liability. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although the Authority is a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the Authority in the case of default. As such, the corresponding debt is not reported in the Authority's balance sheet, but is disclosed in Note 8.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Investments

Investments consist of U.S. government obligations, including principal-only Resolution Funding Corporation and U.S. Treasury STRIPS (separately trading registered interest and principal securities), and state, municipal, and corporate bonds.

The Authority accounts for investments at fair value. The fair value of the Authority's investments is based upon values provided by external investment managers and quoted market prices.

Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable trust indentures or other agreements.

Capital Assets

Capital assets in service and construction in progress are carried at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value. Costs of studies that directly result in specific projects are capitalized. Capital assets are defined by the government as assets with an initial, individual cost of more than $50 and an estimated useful life in excess of one year.

Maintenance and repairs, which do not significantly extend the value or life of property, plant, and equipment, are expensed as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the asset constructed.

Depreciation expense for the Water Fund assets acquired prior to 1992 and for Resource Recovery Fund assets acquired prior to 1997 are calculated using a 2% annual rate. For acquisitions subsequent to these dates, capital assets are depreciated using the straight-line method, over the estimated useful lives, as follows:

Land improvements	25 years
Water mains and related accessories	75 years
Buildings (including Resource Recovery Facility)	50 years
Office equipment	5-15 years
Office furnishings	15 years
Operating equipment	10-50 years

Advances to the City of Harrisburg

Advances to the City of Harrisburg represent construction in progress for sewer system improvements.

Deferred Costs

Financing costs and discounts are deferred and are being amortized over the respective life of each bond issue using the effective interest rate method. Losses on debt refundings are deferred and are being amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the unamortized financing costs are reported as a deferred charge (asset) and the unamortized discounts and deferred losses on refundings are reported as a deduction from the outstanding bonds.

Deferred Revenue

Deferred revenue, consisting of monies received from debt service forward delivery agreements, is being amortized to interest income over the respective life of each of the agreements using a method that approximates the interest rate method. The balance of deferred revenue relates to management and operating rights as discussed in Note 5.

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: Invested in capital assets, net of related debt; restricted for various purposes; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for various purposes consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Contribution

The contractor of the Resource Recovery Facility terminated performance under various contracts with the Authority. Amounts held for retainage will not be paid and are treated as a capital contribution on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Special Item

As further discussed in Note 6, the Authority terminated a portion of a swap agreement. As a result of the partial termination, the Authority received $4,027,000, which has been treated as a special item on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Use of Estimates

Management of the Authority has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments

Deposits

Pennsylvania Act 72 provides for investment of public funds in certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of public funds for investment purposes.

The deposit and investment policy of the Authority adheres to state statutes, prudent business practices, and the applicable trust indentures, which are more restrictive than existing state statutes. Deposits are maintained in demand deposits and certificates of deposit.

The deposits of the Authority at December 31, 2006, were as follows:

Cash and cash equivalents	
Unrestricted	$ 3,739,639
Restricted under trust indentures and guarantee agreements	3,708,551
	$ 7,448,190

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2006 the Authority's book balance was $7,448,190 and the bank balance was $7,424,543. Of the bank balance, $208,129 was covered by federal depository insurance and $7,216,414 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits.

Investments

The restricted investments of the Authority at December 31, 2006, were as follows:

Money market funds	$ 40,352,624
Commercial paper	5,175,000
U.S. Government agency obligations	16,534,831
U.S. Government obligations	2,550,664
Municipal bonds	10,861,708
Total	$ 75,474,827

Custodial Credit Risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have a formal investment policy for custodial credit risk. All of the Authority's investments are held by the counterparty's trust department or agent not in the Authority's name.

The Authority's U.S. government agency obligations and U.S. government obligations include Resolution Funding Corporation and U.S. Treasury principal-only STRIPS. These STRIPS are to be used, when they mature, to pay a portion of the principal and interest on the Sewer Revenue Bonds, Series of 1984. There also are STRIPS in an investment account for which the Authority has not yet made the final determination of use. However, monies on deposit in the investment account may be applied by the Authority for any purpose permitted by the respective Sewer Revenue Indentures. These particular STRIPS have little credit and legal risk while the market risk is significant as principal-only STRIPS are more sensitive to fluctuations in interest rates than other traditional investments. The carrying amount of these STRIPS at December 31, 2006 was $10,452,105 and is reported as part of restricted investments on the balance sheet.

Concentration of Credit Risk The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5 percent of the Authority's investments are held as follows:

	Fair Value	% of Total
Federated Treasury Obligations Money Market Fund - Institutional Shares	11,422,870	15.13%
Federated Government Obligations Money Market Fund	8,946,846	11.85%
Federated Money Market Obligations Trust	7,248,508	9.60%
JP Morgan U.S. Government Money Market Fund	6,113,432	8.10%
Toyota Credit Corporation - Commercial Paper	4,496,000	5.96%
Resolution Funding Corporation - STRIPS	8,733,138	11.57%
Federal National Mortgage Association	6,375,556	8.45%
General Obligation Pension Bonds - Illinois State	6,037,920	8.00%

Credit Risk –The Authority's fixed income investments had the following level of exposure to credit risk as of December 31, 2006:

	Fair Value	Rating
Money market funds	$ 40,352,624	AAA
Commercial paper	5,175,000	A1+
U.S. Government agency obligations - STRIPS	8,733,138	AAA
U.S. Government agency obligations	7,801,693	AAA
Municipal bonds	10,861,708	AAA

Interest Rate Risk – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the Authority's money market and fixed income investments and their related average maturities:

		Investment Maturity (in Years)			
	Fair Value	Less than 1	1-5	6-10	Greater than 10
Money market funds	$ 40,352,624	$ 40,352,624	$ -	$ -	$ -
Commercial paper	5,175,000	5,175,000	-	-	-
U.S. government agency obligations	16,534,831	4,082,276	7,073,999	-	5,378,556
Municipal bonds	10,861,708	-	-	2,006,783	8,854,925
Total	$ 72,924,163	$ 49,609,900	$ 7,073,999	$ 2,006,783	$ 14,233,481

3. Capital Assets

Capital assets for the year ended December 31, 2006 are as follows:

	Balance at January 1, 2006	Additions/ Transfers In	Retirements/ Transfers Out	Balance at December 31, 2006
Capital assets, not being depreciated:				
Archives	$ 209,477	$ 145,313	$ -	$ 354,790
Construction in progress	86,567,959	2,798,065	(86,101,759)	3,264,265
Total capital assets, not being depreciated	86,777,436	2,943,378	(86,101,759)	3,619,055
Capital assets, being depreciated:				
Land improvements	1,223,614	-	-	1,223,614
Buildings and improvements	33,803,274	82,366,269	-	116,169,543
Furniture and fixtures	236,751	89,101	-	325,852
Machinery and equipment	87,317,376	10,881,539	(42,624)	98,156,291
Total capital assets, being depreciated	122,581,015	93,336,909	(42,624)	215,875,300
Less: accumulated depreciation	(33,533,712)	(4,555,488)	-	(38,089,200)
Total capital assets being depreciated, net	89,047,303	88,781,421	(42,624)	177,786,100
Total capital assets, net	$ 175,824,739	$ 91,724,799	$(86,144,383)	$ 181,405,155

4. Leases

At December 31, 2006, the Authority, through its Sewer Fund, is the lessor or sublessor in two separate direct financing leases with the City. The leases relate to the wastewater treatment, conveyance, and collection system. Generally, the leases provide for rentals to be 110% of debt service requirements with additional rentals to fund Authority administrative expenses.

The following table shows the future minimum rentals to be received under direct financing leases at December 31, 2006:

	Basic Lease Rental	Authority Administrative Fee	Total
2007	$ 1,854,341	$ 100,000	$ 1,954,341
2008	1,857,422	60,000	1,917,422
2009	1,858,081	60,000	1,918,081
2010	1,861,382	60,000	1,921,382
2011	1,855,497	60,000	1,915,497
	9,286,723	$ 340,000	$ 9,626,723
Less unearned income:	(1,777,867)		
Present value of net minimum lease payments	$ 7,508,856		

During the year ended December 31, 2006, the Authority received basic lease rentals of $1,855,222 from the City. These receipts represent interest income of $655,482, and a reduction of the lease rental receivable of $1,199,740. The Authority also received $100,000 in administrative fees from the City during the year ended December 31, 2006.

5. Deferred Revenue

Development and Service Agreement

During October 2000, the Authority was designated as the developer of certain parking facilities located at the National Civil War Museum. In order to fulfill the requirements as designated developer, the Authority entered into an agreement with the Harrisburg Parking Authority. Under this agreement, the Harrisburg Parking Authority is to act as the sole and exclusive manager and operator of such parking facilities, including management and oversight of the day-to-day operations of the parking facility through October 2024. In consideration for its appointment and designation as manager and operator of the parking facilities, the Harrisburg Parking Authority agreed to pay $2,850,000 to the Authority. Revenue from this agreement is being recognized by the Authority ratably over the life of the agreement. Deferred revenue was $2,107,812 as of December 31, 2006.

Debt Service Forward Delivery and Swap Agreements

The Authority has entered into seven debt service forward delivery agreements, with a financial intermediary that result in a forward swap of interest earned on amounts placed in the debt service sinking fund, and swap agreements. In exchange for cash payments to the Authority at the inception of the agreements totaling approximately $4,038,198 at December 31, 2006, the financial intermediary has the right, under the debt service forward delivery agreement to invest the funds on hand in the sinking fund and retain the investment earnings. The amounts received were recorded as deferred revenue in the Authority's financial statements because the substance of these agreements effectively is to pay the Authority currently for interest that normally would be earned in later years. The deferred revenue resulting from these transactions of $2,800,474 at December 31, 2006, is being amortized over the respective life of each agreement under a method that approximates the interest method.

Development and service agreement	$ 2,107,812
Debt service forward delivery and swap agreements	2,800,474
Total deferred revenue	$ 4,908,286

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6. LONG-TERM DEBT

The Authority has issued various revenue serial and term bonds to finance various projects and refundings. A schedule of the Authority's bonds and notes outstanding at December 31, 2006 follows:

	Issue Amount	Maturity/ Mandatory Redemption	Interest Rates	Purpose	Guaranteed by the City of Harrisburg
2004 Water Revenue Bonds	$ 37,455,000	2005 - 2023	1.5% - 5.0%	Currently refund the Authority's outstanding Water Revenue Refunding Bonds, Series A-1, A-2, and A-3 of 1994 and payment of 2004 swap termination payment	No
2003 Water Revenue Bonds:					
Series A	56,535,000	2005 - 2029	variable	Currently refund the Authority's outstanding Water Revenue Refunding Bonds, Series B of 1993	No
2003 Guaranteed Resource Recovery Revenue Bonds:					
Series A	22,555,000	2018 - 2034	5.50% - 6.25%	Advance refund or otherwise retire all of the outstanding 1998D Bonds and all of the outstanding 2000 Notes; and to fund working capital to assist in paying costs of compliance with the Derating Agreements and of maintaining the site of the Waste Management Facility	Yes
Series D1 and D2	96,480,000	2017 - 2033	variable	Financing the costs of the Retrofit	Yes
Series E	14,500,000	2009 - 2017	4.45% - 5.05%	Paying transition costs of operating the Transfer Station and maintaining the Facility during the shutdown of the Resource Recovery Facility and the construction period for the Retrofit	Yes
Series F	14,020,000	2009 - 2017	4.50% - 5.10%	Providing working capital to the Authority to pay estimated interest on outstanding 1998A Bonds, 2002 Notes and 2003 Notes during the construction period for the Retrofit	Yes

	Issue Amount	Maturity/ Mandatory Redemption	Interest Rates	Purpose	Guaranteed by the City of Harrisburg
2003 Guaranteed Resource Recovery Revenue Notes:					
Series B	29,085,000	2025 - 2031	3.70% - 4.10%	Advance refund or otherwise retire a portion of the 1998A Bonds and a portion of the outstanding 2000A Notes	Yes
Series C	24,285,000	2031 - 2034	5.00%	Advance refund or otherwise retire a portion of the 1998A Bonds, all of the outstanding 1998B Bonds and 1998C Bonds, a portion of the 2000A Notes and all of the outstanding 2000B Notes	Yes
2002 Water Revenue Bonds:					
Series A	15,340,000	2023, 2024, 2029	5.00%	Advance refund 1999 Series A Water Revenue Bonds, purchase 1999 Series B Water Revenue Refunding Bonds, current refund debt service on the 1994 Bonds due and payable in 2002	No
Series B	23,035,000	2011 - 2017	variable	Purchase 1999 Series C Water Revenue Refunding Bonds	No
Series C	7,700,000	2029	variable	Fund the 2002 Debt Service Reserve Fund Account	No
Series D	2,750,000	2010 - 2011	5.60% to 5.65%	Refund the debt service on the outstanding 1994 Bonds due and payable in 2003	No
2002 Guaranteed Resource Recovery Notes:					
Series A	17,000,000	2007 - 2022	5.72%	Fund acquisition of equipment, engineering studies, and working capital	Yes
2001 Water Revenue Bonds:					
Series A	7,400,000	2002 - 2015	3.40% - 5.75%	Capital additions to the water system; completion of the water meter project	No
1998 Resource Recovery Revenue Bonds:					
Series A	33,110,000	2006 - 2021	4.45% - 5.00%	Advance refund remaining 1993 Series A Resource Recovery Revenue Bonds	Yes

	Issue Amount	Maturity/ Mandatory Redemption	Interest Rates	Purpose	Guaranteed by the City of Harrisburg
1998 Guaranteed Sewer Revenue Notes:					
Series A	1,893,000	1999 - 2018	variable	Finance projects related to the sewage collection system	Yes
Series B	1,864,000	1999 - 2017	1.536% - 3.071%	Finance projects related to the sewage collection system	Yes
1992 Sewer Revenue Bonds	25,310,000	thru 2012	6.00% - 6.80%	Funds for future refunding of a portion of the 1988 Series A & B Sewer Revenue Bonds	No
1989 Sewer Revenue Bonds:					
Series 2 & 3	25,375,000	thru 2012	6.80% - 7.15%	To refund a portion of the 1988 Series A & B Sewer Revenue Bonds	No
1984 Sewer Revenue Bonds:					
Compound interest bonds	5,700,000	2008	9.75% - 10.50%	Fund improvements to conveyance and treatment system; refund remaining 1978 Sewer Revenue Bonds	No

Variable Rate Issues and Interest Rate Swaps

In connection with its incurrence of long-term indebtedness, the Authority from time to time has issued several series of variable rate bonds and notes and entered into related interest rate swap and cap agreements with respect to certain of these variable rate issues. A description of the variable rate issues and, where applicable, the related interest rate swap or swaps, and cap follows.

2003 Water Revenue Bonds, Series A

Objective of the interest rate swaps – In October 1999, the Authority entered into a contract with Societe Generale, New York Branch (Societe Generale) obligating the Authority to issue on June 11, 2003, its fixed rate, Water Revenue Refunding Bonds, Series A of 2003 in the principal amount of $49,725,000 (2003 Series A Fixed Rate Bonds). Proceeds of the 2003 Series A Fixed Rate Bonds were to be applied to redeem in July 2003 the Authority's 1993 Water Revenue Bonds, Series B, then outstanding. To reduce the amount of debt service to be paid on the 2003 Series A Fixed Rate Bonds, the Authority by agreement reached with Societe Generale on April 12, 2002, terminated its obligation to issue the 2003 Series A Fixed Rate Bonds and agreed to pay Societe Generale a termination payment of $6,175,000. To fund the termination payment and the current refunding of the 1993 Water Revenue Bonds, Series B, the Authority on April 12, 2002 entered into a forward bond purchase agreement to issue its Variable Rate Water Revenue Refunding Bonds, Series A of 2003 (2003 Water Revenue Bonds, Series A) on or about July 10, 2003.

On April 12, 2002, the Authority, in order to lock in fixed borrowing costs for its 2003 Water Revenue Bonds, Series A, also entered into a forward interest swap agreement with Societe Generale; on that date, Societe Generale paid the Authority an upfront payment of $1,415,000. Under the swap agreement, Societe Generale agreed to pay to the Authority (i) amounts calculated at a floating rate per annum based on 67 percent of one-month LIBOR, on a notional amount equal to a specified portion of the scheduled principal amount of the 2003 Water Revenue Bonds, Series A, and (ii) amounts calculated at a floating rate per annum determined under the Bond Market Association Municipal Swap Index (BMA Index) on a notional amount equal to another specified portion of the scheduled principal amount of the 2003 Water Revenue Bonds, Series A. The Authority is obligated to pay Societe Generale amounts calculated at respective agreed upon fixed rates based upon the separate notional amounts described above, and which fixed rates were determined in April 2002 and were calculated to take into account the upfront payment of $1,415,000 paid by Societe Generale to the Authority. The forward interest rate swap agreement was scheduled to become effective on or about July 10, 2003, the anticipated issue date of the 2003 Water Revenue Bonds, Series A. The purpose of entering into the forward interest rate swap was to hedge against the risk of interest rate changes with respect to the 2003 Water Revenue Bonds, Series A, and to fix its effective borrowing costs with respect to the 2003 Water Revenue Bonds, Series A hedged by the forward interest rate swap agreement. The forward interest rate swap agreement became effective on July 11, 2003, the date on which the Authority issued the 2003 Water Revenue Bonds, Series A, in the principal amount of $56,535,000.

Terms – As described above, the interest rate swap agreement which the Authority entered into with respect to its 2003 Water Revenue Bonds, Series A consists of two separate components, a LIBOR-based swap with $25,275,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (LIBOR Swap) and a BMA-based swap with $25,605,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (BMA Swap). Under the LIBOR Swap, the Authority pays Societe Generale interest on the corresponding notional amount at a fixed rate of 4.710% per annum, and receives from Societe Generale interest on such notional amount at a floating rate equal to 67% of one-month LIBOR. Under the BMA Swap, the Authority pays Societe Generale interest on the corresponding notional amount at a fixed rate of 5.105% per annum, and receives in return interest at a floating rate equal to the BMA Index. Under the LIBOR Swap and the BMA Swap, the Authority has effectively hedged $50,880,000 principal amount of its 2003 Water Revenue Bonds, Series A, while $5,655,000 principal amount of such Bonds remains unhedged. The fixed rates payable by the Authority under the LIBOR Swap and the BMA Swap were determined in April 2002 when the Authority entered into the forward interest rate swap agreement with Societe Generale and take into account Societe Generale's upfront payment of $1,415,000 paid to the Authority in April 2002. The notional amount of each of the LIBOR Swap and the BMA Swap decreases as the outstanding principal amount of the corresponding 2003 Water Revenue Bonds, Series A decreases through mandatory sinking fund redemption.

Fair value – The fixed rates payable by the Authority under the LIBOR Swap and the BMA Swap have been calculated to reflect the Authority's receipt in April 2002 of the $1,415,000 upfront payment made by Societe Generale. As of December 31, 2006, it would cost the Authority $8,724,417 to terminate the LIBOR Swap and the BMA Swap with Societe Generale. Such amount represents the present value difference between the fixed rates which the Authority pays under the LIBOR Swap and the BMA Swap and fixed swap rates as of December 31, 2006.

Credit risk - As of December 31, 2006, the Authority was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the swap agreement's fair value. Societe Generale was rated AA by Standard & Poor's and Aa2 by Moody's Investors Service as of December 31, 2006. To mitigate the potential for credit risk, if Societe Generale's credit rating falls below A1/A+, the parties agree to negotiate in good faith a credit support annex to the swap agreement, which would require Societe Generale to collateralize its obligations with a combination of cash, Treasury Securities and Agency Notes.

Basis risk - The LIBOR Swap exposes the Authority to basis risk because the Authority is receiving payments based on 67% of one-month LIBOR, a taxable rate which may be different from the Authority's weekly tax-exempt rate payable on its 2003 Water Revenue Bonds, Series A. The effect of the difference or mismatch between the two rates has been to increase the Authority's intended synthetic rate (4.71 percent) under the LIBOR Swap. As of December 31, 2006, the interest rate on the 2003 Water Revenue Bonds, Series A was 3.96 percent, whereas 67 percent of one-month LIBOR was 3.584 percent.

Termination risk - The Authority or Societe Generale may terminate the swap agreement if the other party defaults under the swap agreement. The swap may be terminated by the Authority if Societe Generale's credit quality rating falls below "BBB" as reported by Standard & Poor's or "Baa2" as reported by Moody's Investors Service. If the swap is terminated, the 2003 Water Revenue Bonds, Series A would no longer be hedged, and the Authority would be obligated to pay the variable rate on such Bonds and be subject to the increased risk of interest rate changes. Also, if at the time of termination the swap has negative fair value, the Authority would be liable to Societe Generale for a payment equal to the swap's fair value.

Swap payments and associated debt - Using rates as of December 31, 2006, debt service requirements of the 2003 Water Revenue Bonds, Series A, and net swap payments, assuming current interest rates and floating rates under the swap agreement remain the same for their term, were as follows. As these rates vary, interest payments on the 2003 Water Revenue Bonds, Series A and net payments under the swap agreement will vary.

	2003 Water Revenue Bonds, Series A			
Fiscal Year Ending December 31,	Principal	Interest	Swap Agreement Payments, Net	Total
2007	$ 150,000	$ 2,227,896	$ 587,164	$ 2,965,060
2008	160,000	2,221,956	585,371	2,967,327
2009	165,000	2,215,620	583,459	2,964,079
2010	175,000	2,209,086	581,487	2,965,573
2011	185,000	2,202,156	579,396	2,966,552
2012-2016	1,085,000	10,892,772	2,861,369	14,839,141
2017-2021	1,415,000	10,652,994	2,789,013	14,857,007
2022-2026	18,965,000	9,992,268	2,589,626	31,546,894
2027-2029	33,960,000	2,883,672	630,755	37,474,427
	$ 56,260,000	$ 45,498,420	$ 11,787,640	$ 113,546,060

Objective of the interest rate swaps – In August 2006, the Authority entered into two Constant Maturity Swaps with Deutsche Bank AG, New York Branch (Deutsche Bank) to enhance the 2003A interest rate swap agreements with the objective to increase the expected cash flows and effectively lower the over all cost of borrowing of the 2003 Water Revenue Bonds, Series A by converting the tenor of the interest rate on the Societe Generale payment leg of each of the underlying swaps from receiving a short-term rate to a long-term rate. The Constant Maturity Swaps become effective on July 15, 2007.

Terms – The Constant Maturity Swaps which the Authority entered into with respect to its 2003 Water Revenue Bonds, Series A, consist of two separate components, a LIBOR-based Constant Maturity Swap with $25,275,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (LIBOR CMS) and a BMA-based Constant Maturity Swap with $25,180,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount

(BMA CMS). Under the LIBOR CMS, the Authority receives interest on the corresponding notional amount at a floating rate of 60.15% of the ten-year USD-ISDA-Swap Rate (ten-year LIBOR swap rate) and pays Deutsche Bank a floating rate based on 67% of one-month LIBOR. Under the BMA CMS, the Authority receives interest on the corresponding notional amount at a floating rate of 85.44% of USSMQ10 (ten-year BMA swap rate) and pays Deutsche Bank a floating rate based on the BMA Index. The notional amount of each of the LIBOR CMS and BMA CMS decreases as the outstanding principal amount of the corresponding 2003 Water Revenue Bonds, Series A decreases through mandatory sinking fund redemption.

Fair value – As of December 31, 2006, it would cost the Authority $404,306 to terminate the LIBOR CMS and $477,170 to terminate the MBA CMS with Deutsche Bank. Such amount represents the present value difference between the floating rate receipt and floating rate payment as of December 31, 2006.

Credit risk – As of December 31, 2006, the Authority was not exposed to credit risk, because the Constant Maturity Swaps had a negative fair value. However, should interest rates change and the fair value of either of the Constant Maturity Swaps become positive, the Authority would be exposed to credit risk in the amount of the respective swap agreement's fair value. Deutsche Bank was rated AA- by Standard & Poor's and Aa3 by Moody's Investors Service as of December 31, 2006. To mitigate the potential for credit risk, if Deutsche Bank's credit rating falls below A/A2, the parties agree to negotiate in good faith a credit support annex to the Constant Maturity Swap Agreement, which would require Deutsche Bank to collateralize its obligations with a combination of cash, Treasury Securities and Agency Notes.

Termination risk – The Authority or Deutsche Bank may terminate the Constant Maturity Swap Agreement if the other party defaults under the terms of the agreement. If at the time of termination, the Constant Maturity Swaps have negative fair values, the Authority would be liable to Deutsche Bank for a payment equal to the swap's fair value.

Yield Curve Risk – The Constant Maturity Swaps expose the Authority to yield curve risk should the following occur: (i) 67% of one-month LIBOR minus 60.15% of the ten-year USD-ISDA-Swap rate become positive and/or (ii) the BMA Index minus 85.44% of the ten-year BMA Swap Rate (USSMQ10) become positive. The negative effects of the yield curve risk are caused by an inversion of the associated yield curve resulting in the Authority paying a higher overall cost of borrowing. As a way to mitigate yield curve risk over the short-term, the Authority executed the transaction based on a forward effective date of July 15, 2007.

Series of 2004, Water Revenue Refunding Bonds

Objective of the interest rate swaps – In August 2004, the Authority issued Series of 2004, Water Revenue Refunding Bonds, in the principal amount of $37,455,000 (2004 Water Revenue Bonds). The Series of 2004 Bonds bear interest at a fixed rates ranging from 1.5% to 5%. In an effort to lower the Authority's net interest cost on the 2004 Water Revenue Bonds, the Authority entered into the 2005 Basis Swap, on the then outstanding bonds, in the notional amount of $37,360,000.

In August 2006, the Authority amended the 2005 Basis Swap with Merrill Lynch with the objective to enhance the 2005 Basis Swap by increasing the expected cash flows on the Basis Swap and effectively lowering the over all cost of borrowing of the 2004 Water Revenue Refunding Bonds. The amendment coverts the tenor of the interest rate on Merrill Lynch's payment leg of the Basis Swap from a short-term rate to a long-term rate.

Terms – Under the 2005 Basis Swap, the Authority periodically pays an amount to Merrill Lynch equal to interest on an amount corresponding to the then outstanding aggregate principal amount of the 2004 Water Revenue Bonds computed on the basis of the then applicable BMA Municipal Swap Index (BMA Index) and Merrill Lynch periodically pays an amount to the Authority equal to interest on the Notional Amount computed on the basis of 50 basis points plus 67% of the monthly LIBOR Index. The notional amount of the 2005 Basis Swap decreases as the outstanding principal amount of the corresponding 2004 Water Revenue Bonds decreases through maturing principal.

The 2006 amendment coverts the Authority's receipt rate from 67% of one-month LIBOR plus a spread of 50 basis points to 69% of the five-year USD-ISDA-Swap Rate (five-year LIBOR Swap Rate). The amendment becomes effective on July 15, 2007.

Fair value – As of December 31, 2006, it would cost the Authority $98,191 to terminate the 2005 Basis Swap, as amended, with Merrill Lynch. Such amount represents the present value difference between the floating rate receipt and floating rate payment as of December 31, 2006.

Credit risk – As of December 31, 2006, the Authority was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the swap agreement's fair value. Merrill Lynch was rated AA- by Standard & Poor's and Aa3 by Moody's Investors Service as of December 31, 2006. To mitigate the potential for credit risk, if Merrill Lynch's credit rating falls below A2/A, the parties agree to negotiate in good faith a credit support annex to the swap agreement, which would require Merrill Lynch to collateralize its obligations with a combination of cash, Treasury Securities and Agency Notes.

Basis risk – The amended 2005 Basis Swap exposes the Authority to basis risk because the Authority is receiving payments based on 50 basis points plus 67% of one-month LIBOR up to July 15, 2007 and 69% of the five-year LIBOR Swap Rate from July 15, 2007 to the Termination Date of July 15, 2023 while making payments to Merrill Lynch based on the BMA index. The Authority is receiving payments based on a taxable rate which may be different from the amount the Authority pays to Merrill Lynch, which is based on the BMA Index, a tax-exempt rate. As of December 31, 2006, the interest rate the Authority was paying under the 2005 Basis Swap was 3.91 percent, where as the interest the Authority was receiving at 50 basis points plus 67 percent of one-month LIBOR was 4.06566 percent.

Termination risk – The Authority or Merrill Lynch may terminate the swap agreement if the other party defaults under the swap agreement. The swap may be terminated by the Authority if Merrill Lynch's credit quality rating falls below "A-" as reported by Standard & Poor's or "A3" as reported by Moody's Investors Service. If at the time of termination the swap has negative fair value, the Authority would be liable to Merrill Lunch for a payment equal to the swap's fair value.

Swap payments and associated debt – Using rates as of December 31, 2006, debt service requirements of the 2004 Water Revenue Bonds and net swap payments, assuming current interest rates and floating rates under the swap agreement remain the same for their term, were as follows. As these rates vary, net payments under the 2005 Basis Swap agreement on the 2004 Water Revenue Bonds will vary.

Fiscal Year Ending December 31,	2004 Water Revenue Bonds Principal	2004 Water Revenue Bonds Interest	Swap Agreement Payments, Net	Total
2007	$ 105,000	$ 1,838,828	$ 104,961	$ 2,048,789
2008	110,000	1,836,412	104,666	2,051,078
2009	125,000	1,833,498	104,356	2,062,854
2010	125,000	1,829,748	104,004	2,058,752
2011	125,000	1,825,060	103,652	2,053,712
2012-2016	745,000	9,052,052	512,511	10,309,563
2017-2021	24,510,000	7,193,150	405,479	32,108,629
2022-2023	11,415,000	785,000	44,227	12,244,227
	$ 37,260,000	$ 26,193,748	$ 1,483,856	$ 64,937,604

2003 Guaranteed Resource Recovery Revenue Bonds, Series D1 and D2

Objective of the interest rate swaps – The Authority's asset/liability strategy is to have a combination of fixed and variable-rate debt. On December 30, 2003, the Authority issued its $96,480,000 Guaranteed Resource Recovery Facility Revenue Bonds, Series D of 2003 (2003 Resource Recovery Bonds, Series D) consisting of $31,480,000 Subseries D-1 (2003 D-1 Bonds) and $65,000,000 Subseries D-2 (2003 D-2 Bonds). The 2003 D-1 Bonds initially bear interest at a fixed rate of 4.00% to December 1, 2008, and the 2003 D-2 Bonds at a 5.00% fixed rate to December 1, 2013. After the expiration of these respective initial rate periods, the 2003 D-1 and D-2 Bonds are subject to conversion to different interest rates for different interest rate periods. To convert the interest rate on the 2003 D-1 and 2003 D-2 Bonds to a synthetic variable rate, the Authority entered into fixed-to-floating interest rate swaps, thereby achieving a variable rate while eliminating the need for a liquidity facility and annual remarketing services, and avoiding basis risk associated with the weekly remarketing of its variable rate debt, had it issued the 2003 D-1 Bonds and 2003 D-2 Bonds as weekly floating rate bonds.

Terms – With respect to its 2003 Resource Recovery Bonds, Series D, the Authority entered into an interest rate swap agreement with Royal Bank of Canada (RBC), which swap agreement consists of two components: (i) a swap with the outstanding principal amount of the 2003 D-1 Bonds to December 1, 2008 as the notional amount (D-1 Swap) and (ii) a swap with the outstanding principal amount of the 2003 D-2 Bonds to December 1, 2013 as the notional amount (D-2 Swap). Under the D-1 Swap, scheduled to terminate on December 1, 2008, the Authority pays RBC floating amounts calculated by applying a floating rate per annum determined by reference to the BMA Index, and the Authority receives fixed amounts calculated by applying a fixed rate of 2.66% per annum on the notional amount under the D-1 Swap. Under the D-2 Swap, scheduled to terminate on December 1, 2013, the Authority pays interest on the notional amount under the D-2 Swap at a floating rate determined by reference to the BMA Index, and receives interest on such notional amount at a rate of 3.37% per annum.

The D-1 Swap contains an embedded interest rate cap, providing that the floating rate to be paid by the Authority shall not exceed 12% to June 1, 2006, and shall not exceed 6% from June 1, 2006 to the D-1 Swap termination date of December 1, 2008. The D-2 Swap contains a similar embedded cap, capping at 12% the floating rate to be paid by the Authority to June 1, 2006, and providing a 6% cap from June 1, 2006 to December 1, 2013, the termination date of the D-2 Swap. The Authority also entered into an interest rate cap agreement (D-1/D-2 Cap) with RBC, which was to become effective on December 1, 2008. The D-1/D-2 Cap provided that RBC would pay the excess, if any, between the BMA Index and 6% on a notional amount equal to the scheduled principal amount of the D-1 Bonds and the D-2 Bonds outstanding after December 1, 2008 and December 1, 2013, respectively. In May 2004, the Authority and RBC amended the D-1/D-2 Cap to provide for RBC to pay the excess between 68% of LIBOR and 6%, rather than the excess between BMA and 6%. The Authority received $1,106,000 as a result of this amendment.

On August 31, 2005, the Authority elected to supplement the D-1 and D-2 Swaps in order to effectively fix the interest rate on its obligations through the final maturity date of the 2003D Bonds scheduled to be outstanding from time to time (initially $96,480,000). The new agreement (2005 Swap), which the Authority entered into with RBC, with a notional amount equal to the principal amount of the 2003D Bonds, $96,480,000, consists of a variable to fixed interest rate swap. The 2005 Swap provides, effective June 1, 2006 and continuing until December 1, 2033, the Authority pay a fixed rate not exceeding 3.35% and (i) receive from June 1, 2006 to May 31, 2008 the same BMA-based variable rate and (ii) receive from June 1, 2008 to December 1, 2033 a LIBOR-based variable rate equal to 68% of one month LIBOR.

On April 28, 2006, the Authority terminated the portion of the 2005 Swap from June 1, 2011 through December 21, 2033. Under the revised agreement, effective June 1, 2006, the Authority pays a fixed rate not exceeding 3.35% through June 1, 2011 and (i) receives BMA-based variable rate through June 1, 2008 and (ii) receives 68% of one-month LIBOR from June 1, 2008 to June 1, 2011. As a result of the partial termination, the Authority received $4,027,000.

Fair value – As of December 31, 2006, it would cost the Authority $1,408,432 to terminate the D-1 and D-2 Swaps. The fixed rates payable under the D-1 and D-2 Swaps were compared with the current fixed rates that could be achieved in the marketplace should the D-1 and D-2 Swaps be terminated. The fixed-rate bond component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value, because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the established market value of the fixed component from the established market value of the variable component (the par value of the bond).

As of December 31, 2006, it would cost the Authority $5,620,487 to terminate the D-1 and D-2 embedded interest rate caps (Embedded D-1/D-2 Caps) and the D-1/D-2 Cap. The Authority is obligated to make semi-annual payments of $284,616 beginning December 1, 2006 to and including December 1, 2033 for a total obligation of $11,707,282 as payment for the D-1/D-2 Cap.

As of December 31, 2006, it would cost the Counterparty (RBC) $288,266 to terminate the 2005 Swap.

Credit risk – As of December 31, 2006, the Authority was not exposed to credit risk on the D-1 and D-2 Swaps, the Embedded D-1/D-2 Caps, or the D-1/D-2 Cap, because they had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Authority would be exposed to credit risk in the amount of the swap agreement's fair value. The Authority is exposed to credit risk on the 2005 Swap in the amount of the swap agreement's fair value. As of December 31, 2006, RBC was rated Aa2 by Moody's Investors Service and AA- by Standard & Poor's. To mitigate credit risk, if RBC's rating falls below A3 by Moody's Investors Service or A- by Standard & Poor's, the D-1 and D-2 Swaps and the 2005 Swap will terminate.

Interest rate risk – The Authority has interest rate risk after June 1, 2011 because the 2005 Swap has been terminated from that date to the final maturity of the 2003 Resource Recovery Bonds, Series D. The Authority has no interest rate risk with regard to the 2003 Resource Recovery Bonds, Series D prior to June 1, 2011.

Termination risk – The Authority or RBC may terminate the D-1 and D-2 Swaps if the other party defaults under the D-1 and D-2 Swaps. In addition, the Authority may terminate the D-1 and D-2 Swaps agreement without cause at any time on 20 days notice, at fair market value. If at the time of termination the D-1 and D-2 Swaps have a negative fair value, the Authority would be liable to RBC for that payment.

Swap payments and associated debt – Using interest rates as of December 31, 2006, principal and interest requirements of the 2003 D-1 Bonds and 2003 D-2 Bonds fixed-rate debt and net swap payments through the swap termination dates were as follows. As rates set forth in the D-1 and D-2 Swaps agreement vary, net swap payments will vary.

Fiscal Year Ending December 31,	D-1 Bonds Principal	D-1 Bonds Interest	Interest Rate Swaps, Net	Total
2007	$ -	$ 1,259,200	$ 393,500 *	$ 1,652,700
2008	-	1,259,200	393,500	1,652,700
	$ -	$ 2,518,400	$ 787,000	$ 3,305,400

*Computed: (3.91%-2.66%) x $31,480,000

Fiscal Year Ending December 31,	D-2 Bonds Principal	D-2 Bonds Interest	Interest Rate Swaps, Net	Total
2007	$ -	$ 3,250,000	$ 351,000 *	$ 3,601,000
2008	-	3,250,000	351,000	3,601,000
2009	-	3,250,000	351,000	3,601,000
2010	-	3,250,000	351,000	3,601,000
2011	-	3,250,000	351,000	3,601,000
2012-2013	-	6,500,000	702,000	7,202,000
	$ -	$ 22,750,000	$ 2,457,000	$ 25,207,000

*Computed: (3.91%-3.37%) x $65,000,000

2003 Guaranteed Resource Recovery Revenue Notes, Series B

These Notes bear interest at a fixed rate of 3.70 percent through June 15, 2010. Thereafter, it is expected that the Notes will bear interest at a tax-exempt weekly rate equal to the BMA index plus 75 basis points on each date of determination. The debt service schedule on the following pages uses a rate of 5.5 percent for debt service requirements subsequent to June 15, 2010.

2002 Water Revenue Bonds, Series B

These Bonds bear interest at a tax-exempt weekly rate, 3.96 percent at December 31, 2006.

2002 Water Revenue Bonds, Series C

These Bonds bear interest at a taxable weekly rate, 5.42 percent at December 31, 2006.

2002 Guaranteed Resource Recovery Revenue Notes, Series A

These Notes bore interest at an initially fixed term rate of 2.95 percent through October 31, 2004. For the period November 1, 2004 through October 31, 2006, the Notes bore interest at a fixed term rate of 3.09 percent. Thereafter, they bore interest at a fixed rate of 5.72 percent for the life of the issue.

1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 6.1875 percent at December 31, 2006.

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The following table presents annual principal and interest payments for long-term debt outstanding at December 31, 2006:

	2007	2008	2009	2010
Bonds outstanding:				
Water Revenue Bonds				
Series of 2004 (A)	$ 2,048,789	$ 2,051,078	$ 2,062,854	$ 2,058,752
Series A of 2003 (A)	2,965,060	2,967,327	2,964,079	2,965,573
Series A of 2002	767,000	767,000	767,000	767,000
Series B of 2002 (B)	912,186	912,186	912,186	912,186
Series C of 2002 (B)	417,340	417,340	417,340	417,340
Series D of 2002	154,255	154,255	154,255	2,394,255
Series A of 2001	732,283	734,038	739,275	734,775
Resource Recovery Revenue Bonds				
Series A of 2003	1,294,525	1,294,525	1,294,525	1,294,525
Series D of 2003 (A)	5,253,700	5,253,700	4,624,100	4,624,100
Series E of 2003	706,060	706,060	2,096,060	2,099,205
Series F of 2003	689,790	689,790	2,029,790	2,029,490
Series A of 1998	594,560	593,195	596,815	600,170
Sewer Revenue Bonds				
Series of 1992 1st	1,165,000	1,165,000	1,165,000	1,170,000
Series of 1992 2nd	560,000	565,000	565,000	565,000
Series of 1989 2nd	1,165,000	1,165,000	1,165,000	1,170,000
Series of 1989 3rd	560,000	565,000	565,000	565,000
Series of 1984	190,000	1,695,000	-	-
Total principal and interest, bonds	$ 20,175,548	$ 21,695,494	$ 22,118,279	$ 24,367,371
Less:				
Interest				
Unamortized premium				
Unamortized deferred losses on refunding				
Total bonds outstanding, net of premium and deferred losses on refunding				
Notes payable:				
Guaranteed Resource Recovery Revenue Notes				
Series B of 2003	$ 1,076,145	$ 1,076,145	$ 1,076,145	$ 1,076,145
Series C of 2003	1,214,250	1,214,250	1,214,250	1,214,250
Series A of 2002	1,655,906	1,659,644	1,655,873	1,652,377
Guaranteed Sewer Revenue Notes				
Series A, B and C of 1998 (B)	259,645	259,479	259,972	260,094
Total principal and interest, notes	$ 4,205,946	$ 4,209,518	$ 4,206,240	$ 4,202,866
Less:				
Interest				
Unamortized premium				
Total notes payable, net of premium				

(A) - Uses net payments under swap agreements as disclosed earlier in Note 6.

(B) - Uses variable rate in effect at December 31, 2006 as disclosed on page 30.

2011	2012 to 2016	2017 to 2021	2022 to 2026	2027 to 2031	2032 to 2034	Total
$ 2,053,712	$ 10,309,563	$ 32,108,629	$ 12,244,227	$ -	$ -	$ 64,937,604
2,966,552	14,839,141	14,857,007	31,546,894	37,474,427	-	113,546,060
767,000	3,835,000	3,835,000	15,954,750	1,736,500	-	29,196,250
2,782,186	19,523,506	4,886,120	-	-	-	30,840,556
417,340	2,086,700	2,086,700	2,086,700	8,952,020		17,298,820
538,815	-	-	-	-	-	3,395,835
739,275	3,726,312	-	-	-	-	7,405,958
1,294,525	6,472,625	10,350,175	15,148,650	2,250,000	8,550,000	49,244,075
4,624,100	18,655,000	35,490,212	37,477,935	38,962,823	16,114,492	171,080,162
2,099,458	10,477,254	1,444,436	-	-	-	19,628,533
2,031,490	10,147,235	1,418,850	-	-	-	19,036,435
558,250	4,435,250	11,048,500	-	-	-	18,426,740
1,165,000	1,165,000	-	-	-	-	6,995,000
565,000	565,000	-	-	-	-	3,385,000
1,165,000	1,165,000	-	-	-	-	6,995,000
565,000	565,000	-	-	-	-	3,385,000
-	-	-	-	-	-	1,885,000
$ 24,332,703	$107,967,586	$117,525,629	$114,459,156	$ 89,375,770	$ 24,664,492	566,682,028
						237,142,028
						(4,819,238)
						28,191,672
						$306,167,566

$ 1,192,485	$ 5,962,425	$ 5,962,425	$ 13,554,220	$ 23,655,955	$ -	$ 54,632,090
1,214,250	6,071,250	6,071,250	6,071,250	11,316,250	20,975,000	56,576,250
1,656,562	8,305,354	8,313,771	1,666,341	-	-	26,565,828
259,845	1,298,094	407,511	-	-	-	3,004,640
$ 4,323,142	$ 21,637,123	$ 20,754,957	$ 21,291,811	$ 34,972,205	$ 20,975,000	140,778,808
						68,143,101
						(911,836)
						$ 73,547,543

Long-term liability activity for the year ended December 31, 2006 was as follows:

	Beginning Balance at January 1, 2006	Additions	Accretion/ Amortization	Reductions	Ending Balance at December 31, 2006	Amounts Due Within One Year
Notes payable	$ 72,780,238	$ -	$ -	$ (144,531)	$ 72,635,707	$ 819,635
Bonds payable	334,530,000	-	-	(4,990,000)	329,540,000	4,370,000
Total notes and bonds payable	407,310,238	-	-	(5,134,531)	402,175,707	5,189,635
Less:				-		
Unamortized premium	4,795,617	-	935,454	-	5,731,071	-
Deferred loss on refunding	(31,515,916)	-	3,324,247	-	(28,191,669)	-
	$ 380,589,939	$ -	$ 4,259,701	$ (5,134,531)	$ 379,715,109	$ 5,189,635

Defeased Debt

The Authority has, from time to time, defeased certain debt by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. The trust account assets and the liability of the defeased debt are not included in the Authority's financial statements. At December 31, 2006, the following defeased debt was outstanding:

Guaranteed Sewer Revenue Bonds, Series of 1978	$ 3,500,000
Water Revenue Bonds, Series A of 1999	4,510,000
Seventh Street Office & Parking Revenue Bonds, Series A of 1998	14,155,000
Seventh Street Office & Parking Revenue Bonds, Series B of 1998	6,185,000
Resource Recovery Bonds, Series A of 1998	20,385,000
Resource Recovery Bonds, Series B of 1998	8,210,000
Resource Recovery Bonds, Series C of 1998	3,660,000
Resource Recovery Bonds, Series A of 2000	4,195,000
Resource Recovery Bonds, Series B of 2000	3,435,000
Total outstanding defeased debt	$ 68,235,000

7. SEGMENT INFORMATION

The Authority supports three separate segments. The Water Fund accounts for the provision of basic water service to customers of the Harrisburg Water System. The Sewer Fund accounts for the leasing of the wastewater conveyance and treatment system to the City under a direct financing lease. The Resource Recovery Fund accounts for the activities at the Harrisburg Resource Recovery and Steam Generating Facility (Resource Recovery Facility), which converts waste into energy. Selected segment information as of and for the year ended December 31, 2006, is as follows:

THE HARRISBURG AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

CONDENSED STATEMENT OF NET ASSETS	Water Segment	Sewer Segment	Resource Recovery Segment
Assets			
Current assets:			
Other current assets	$ 4,360,623	$ 1,785,503	$ 2,883,089
Due to other funds	588,782	-	(1,206,606)
Due to the City of Harrisburg	-	149,635	-
Total current assets	4,949,405	1,935,138	1,676,483
Restricted assets	30,068,544	23,009,990	25,818,003
Capital assets	72,848,567	-	108,201,798
Advances to the City of Harrisburg	-	2,119,783	-
Other noncurrent assets	6,353,239	5,910,169	10,398,093
Total assets	$ 114,219,755	$ 32,975,080	$ 146,094,377
Liabilities			
Current liabilities:			
Other current liabilities	$ 1,982,752	$ -	$ 951,444
Due to the City of Harrisburg	346,294	-	6,140,566
Total current liabilities	2,329,046	-	7,092,010
Liabilities payable from restricted assets	3,911,633	3,896,861	3,162,860
Noncurrent liabilities	136,177,642	16,857,096	221,652,702
Due to the City of Harrisburg	367,315	-	115,451
Total liabilities	142,785,636	20,753,957	232,023,023
Net assets:			
Invested in capital assets, net of related debt	(34,012,448)	-	(80,826,060)
Restricted	3,193,523	23,009,990	749,378
Unrestricted	2,253,044	(10,788,867)	(5,892,232)
Total net assets	(28,565,881)	12,221,123	(85,968,914)
Total liabilities and net assets	$ 114,219,755	$ 32,975,080	$ 146,054,109

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS	Water Segment	Sewer Segment	Resource Recovery Segment
Operating revenues	$ 16,959,998	$ 100,000	$ 9,838,746
Operating expenses:			
Operating	8,404,962	-	13,392,137
Administration	200,000	100,000	207,000
Depreciation	2,171,436	-	2,384,052
Total operating expenses	10,776,398	100,000	15,983,189
Operating income (loss)	6,183,600	-	(6,144,443)
Nonoperating revenues (expenses):			
Investment income	1,030,271	958,124	2,006,006
Lease rental income	-	754,603	-
Miscellaneous expense	(173,987)	(9,278)	(427,776)
Interest expense	(8,840,093)	(1,633,776)	(10,462,179)
Amortization of bond issuance costs	(491,008)	(42,493)	(820,539)
Total nonoperating revenues (expenses)	(8,474,817)	27,180	(9,704,488)
Change in net assets before capital contributions	(2,291,217)	27,180	(15,848,931)
Capital contribution	-	-	3,815,635
Special item	-	-	4,027,000
Change in net assets	(2,291,217)	27,180	(8,006,296)
Net assets - January 1, 2006	(26,274,664)	12,193,943	(77,962,618)
Net assets - December 31, 2006	$ (28,565,881)	$ 12,221,123	$ (85,968,914)

CONDENSED STATEMENT OF CASH FLOWS	Water Segment	Sewer Segment	Resource Recovery Segment
Net cash provided by (used in) operating activities	$ 6,960,328	$ 54,379	$ (846,229)
Net cash provided by investing activities	1,655,425	4,263,044	21,030,949
Net cash used in capital and related financing activities	(7,728,007)	(4,196,592)	(20,334,881)
Net increase (decrease) in cash and cash equivalents	887,746	120,831	(150,161)
Cash and cash equivalents, January 1, 2006	3,576,232	107,357	529,230
Cash and cash equivalents, December 31, 2006	$ 4,463,978	$ 228,188	$ 379,069

segments, primarily due to the Authority not charging enough to cover depreciation expense incurred since acquisition of the Water System and Resource Recovery Facility and not funding amortization of bond discounts, deferred bond issuance costs, and deferred losses on refundings. Management anticipates that the deficits will be reduced in the Water segment through future profitability improvements. Notes 11 and 13 discuss the deficit in the Resource Recovery segment.

8. NON-RECOURSE DEBT ISSUES

As discussed in Note 1, the following non-recourse debt issues were outstanding at December 31, 2006:

City of Harrisburg, Series I of 1997	$ 4,655,000
City of Harrisburg/Harrisburg Parking Authority, Series II of 1997 (defeased)	49,520,000
Haverford Township, Series of 2002	4,555,000
Cumberland Valley School District, Series of 2002	19,905,000
Harrisburg School District, Series A of 2002	34,195,000
Township of Uwchlan, Series of 2002	2,520,000
Township of West Brandywine, Series of 2002	4,640,000
Harrisburg School District, Series of 2003	75,210,000
Coatesville School District	1,157,360
Cornell School District	1,035,035
Darby Borough	226,533
Old Forge School District	426,388
Scranton School District	4,086,509
	$ 202,131,825

The Harrisburg Authority entered into transactions with various governmental entities to purchase their Real Estate Tax Liens. Under the terms of the agreement, the Authority purchases all outstanding Real Estate Tax Liens from the governmental entity as of the date of the closing of the purchase. The Authority establishes a revolving line of credit with a financial institution secured by the liens along with all proceeds received from redemptions or subsequent transactions. The servicing of the liens remains with the appropriate county Tax Claims Bureau. As the liens are redeemed, the proceeds are applied to the note. The governmental entity has an option to reacquire the liens once the revolving line of credit is satisfied. The governmental entities have an obligation to reacquire the unredeemed liens after specified periods in an amount to satisfy any balance on the note, with those proceeds being applied to the note to satisfy the lending institution.

The Authority has no recourse on the notes. The notes are completely secured by the Real Estate Tax Liens along with any proceeds from the re-purchase obligation.

9. Management Agreements With the City of Harrisburg and Component Units

The Authority has entered into management agreements with the City to operate the Authority's Water System and Resource Recovery Facility. The Sewer System of the City of Harrisburg is directly operated by the City. The Authority finances and leases or subleases Sewer System assets to the City under direct financing leases. The Water System's management agreement expires in 2020 (subject to annual renewal thereafter) and the Resource Recovery Facility's management agreement renewed annually. The management agreements require that the Mayor prepare an operating expenses budget for adoption by the City Council, with final approval by the Authority and the inclusion of such budgeted operating expenses in the Authority's annual budget. The Authority incurred $22,128,854 in expenses under the Water System and Resource Recovery Facility management agreements in 2006. The Resource Recovery Facility's management agreement with the City of Harrisburg was terminated effective January 2, 2007 and the Authority entered into an agreement with a new management agent, Covanta Harrisburg, Inc. (Covanta), as further discussed in Note 11.

At December 31, 2006, $713,609 and $6,256,017 is included in the amount due to the City of Harrisburg for the Water segment and for the Resource Recovery segment. Additionally, the Authority has annually agreed to adopt Water and Resource Recovery rates sufficient to pay the operating expense budgets as approved as well as administrative and debt service expenses.

On behalf of the Authority, the City entered into a capital lease for an energy resource management project and turbine equipment at the water treatment plant as well as various equipment purchases for the water treatment plant and the resource recovery facility. For financial reporting purposes, minimum lease payments have been capitalized. The leased property under capital lease as of December 31, 2006 has a cost and a net book value of $886,890 and $524,572. The leases expire from March 2011 through December 2012. Amortization on the leased equipment is included in depreciation expense.

The future minimum lease payments under the capital lease are included in the amount due to the City of Harrisburg. The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments at December 31, 2006 are as follows:

2007	$ 156,561
2008	131,256
2009	126,229
2010	168,245
2011	87,128
2012	3,638
Total minimum lease payments	673,057
Amount representing interest	(48,213)
Present value of net minimum lease payments	$ 624,844

The following represents the amounts due to the City of Harrisburg at December 31, 2006:

Resource Recovery segment operating expenses	$ 6,119,838
Water segment operating expenses	224,944
Capital lease	
Current portion	142,294
Long-term portion	482,550
Due to the City of Harrisburg	$ 6,969,626

10. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the Authority to properly close and place a final impermeable cover on its Ash Residue Disposal Landfills when they no longer accept waste and to perform certain ongoing maintenance and monitoring activities at the site for up to thirty years after closure. The estimated total cost of closure and postclosure care costs is $1,670,206, based on an agreement with the Commonwealth of Pennsylvania pursuant to state regulations and is subject to change with inflation, deflation, technology, or applicable laws and regulations. Of this amount, the Authority has accrued $1,511,746 for landfill closure and postclosure care costs as of December 31, 2006, which represents the use of 91% of the estimated capacity of the disposal area. Through the year ended December 31, 2006, the Authority incurred $1,491,565 in engineering fees related to the landfill closure. Based on the annual usage at December 31, 2006, the estimated remaining life of the landfill is approximately 2 years.

The Authority also is required by state regulations and its permit to make quarterly payments of $30,014 to the Consolidated Closure Trust for ten years. The Authority is in compliance with those requirements and, as of December 31, 2006, cash and investments of $789,646 are held for closure and postclosure care expenses. Those funds are reported as restricted assets on the balance sheet.

11. Commitments and Contingencies

Resource Recovery Fund

The rate covenant calculation required under applicable trust indentures pertaining to the Resource Recovery Facility financing has not been met for the year ended December 31, 2006. If the facility fails to generate sufficient revenues to pay debt service on the Resource Recovery Facility Revenue Bonds, Series A, D, E, and F of 2003, the Resource Recovery Facility Revenue Notes, Series B and C of 2003, the Resource Recovery Facility Subordinate Variable Rate Revenue Notes, Series A of 2002 or the Resource Recovery Facility Revenue Bonds, Series A of 1998, or ceases revenue generating operations, or if other monies set aside for such purposes are insufficient, the City of Harrisburg will be required to pay principal and interest on such bonds and notes when due pursuant to respective Guaranty Agreements among the City, the Authority, and the respective trustees for the bonds and notes. The County of Dauphin has provided a secondary guarantee of the Resource Recovery

Facility Revenue Bonds, Series D and E of 2003 collectively in the maximum aggregate principal amount not to exceed $113,000,000 by entering into a County Bond Guaranty Agreement with the Authority and the trustee for such bonds. The Resource Recovery segment has incurred substantial accumulated losses, which have caused the segment to experience cash flow difficulties.

On May 25, 2007, the Authority issued a notice of material event with respect to the Authority's Series D-1, D-2, E, and F Bonds of 2003. The Resource Recovery Facility Retrofit Debt Service Account did not have sufficient funds to pay the scheduled interest payment due on the Series D-1, D-2, E, and F Bonds on June 1, 2007, because the Authority had not made the required monthly deposits into its Retrofit Debt Service Account. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified the Authority and the City of such deficiency in the Retrofit Debt Service Account. Accordingly, the City transferred approximately $1.438 million to the Authority for the Authority to make the appropriate deposit to the Trustee to address the deficiency. Additionally, the City transferred approximately $230,000 to pay swap and cap fees related to the aforementioned debt issues due on June 1, 2007. Pursuant the Reimbursement Agreement, the Authority is required to repay the amounts paid by the City under the guarantee.

Under the trust indentures, the Authority is required to maintain certain minimum balances in the Resource Recovery operating reserve fund. At December 31, 2006, the Authority's balance in the Resource Recovery operating reserve fund was $211 and the reserve requirement was $2,155,356. The trust indenture states that if the balance in the Resource Recovery operating reserve fund becomes deficient, the Authority is to restore the balance with twelve substantially equal installments. There has been no replenishment of the Resource Recovery operating reserve fund through the date of this report.

The Resource Recovery Facility's 2007 budget was approved by the Board of Directors in January 2007. As required under the trust indenture, the budget is required to be approved 30 days prior to the end of the calendar year. Additionally, the 2007 consulting engineers report, which is due, per the trust indenture, 90 days prior to the end of the calendar year, has not been received by the Authority. The trust indenture requires that all construction be performed in an efficient and economical manner. Management has represented that this was not done throughout the term of the Resource Recovery Facility project, as noted in the balance of this footnote. Finally, management has not instituted a system to calculate the rate covenant requirement noted earlier.

At the time of the issuance of the Resource Recovery Facility Revenue Bonds, Series D, E, and F of 2003, the Authority entered into a Professional Services Agreement in order to provide a plan for improving the Resource Recovery Facility to comply with the Federal emission requirements. The agreement required a deferred payment of $910,730, which had been paid by the Authority on December 31, 2003. Additionally, the agreement requires $9,767,559 for development fees, legal fees, design expenses and consulting fees during the final development phase, the final design phase, the construction phase and the start-up testing phase.

In October 2004 and December 2004, the Professional Services Agreement was amended to modify the scope of work to be performed by separate contractors. Amendment No. 2 to the Professional Services Agreement dated December 22, 2004, changes the aggregated cost of work performed by the separate contractor to an amount not to exceed $11,941,992.

At the time of the issuance of the Resource Recovery Facility Revenue Bonds, Series D, E, and F of 2003, the Authority entered into an Agreement for Sale and Installation of Equipment for the Retrofit Project in the amount of $45,777,957. The Agreement was amended in October 2004 and again in December 2004 for changes to the contract price.

Thereafter, the Authority and original contractor entered into multiple amendments to the Agreement and other related contract documents to permit the original contractor to raise sufficient funds to complete the Project and fulfill its contractual obligations to the Authority.

The agreements provided for completion of the units by specified target dates. The original contractor did not meet its obligations to complete the units. Effective December 31, 2006, the original contractor terminated performance under the Professional Services Agreement and the Agreement for Sale and Installation of Equipment. The Authority entered into an Administrative Services and Interim Operation and Management Agreement (Interim Agreement) with a Covanta for operation and management of the Resource Recovery Facility effective January 2, 2007 through March 31, 2007. Covanta was to provide all day-to-day administrative services, provide a Construction Plan and coordination of all construction, start-up performance testing, operation and maintenance services for the Facility. The Authority deposited $100,000 with Covanta, to be used to pay for the first arising reimbursable expenses under the Agreement. On the 15th and 30th day of each month, the Authority is to pay Covanta 1/24th of the annual amount set forth in the estimated operating budget. Each month, the Covanta is to reconcile the actual reimburseable expenses to the payments made by the Authority. For all reimburseable expenses incurred during the month in excess of such payments, Covanta is to submit an invoice for such excess by the 10th day of the following month, which is to be paid by the Authority within 30 days. Reimbursable expenses are defined in the agreement. The Authority also pays an administrative service charge to Covanta in the amount of 11% of reimbursable expenses. The Interim Agreement was extended, on a month to month basis, through July 31, 2007.

The Authority is considering entering into a Management and Professional Services Agreement with Covanta to provide construction and operations management services for a period of ten years and the Retrofit Completion work. The terms and conditions of this agreement are the substantially the same as the Interim Agreement, except that the management fee is $875,000 per month, escalated annually each calendar year. As of June 2007, the Authority owes Covanta approximately $3.8 million for reimbursable expenses and management fees.

On December 31, 2003, the Authority entered into the Non Exclusive Technology Sub-Licensing Agreement and Technology Purchase Agreement with the original contractor. The original contractor granted the Authority a license to utilize the Combustion Technology at the Facility. The Sub-License Agreement is to continue in effect until the date on which the Combustion Technology is no longer used at the Facility.

To raise the funds necessary to complete the project, the original contractor sold its Technology License to CIT - Newcourt Capital for $25 million. In turn, the Authority and original contractor entered into a First Amended and Restated Nonexclusive Technology Sublicensing Agreement and Technology Purchase Agreement (Amended Purchase Agreement) granting continued right to the Authority to make full use of the Combustion Technology for all intended purposes under the Equipment Agreement, and for no other purpose; provided, that the Authority may expand or increase the number of units at the Facility without the consent of the Licensor and without payment of any additional fees. This Amended Purchase Agreement has since been assigned to CIT in consideration for providing the $25 million necessary to complete the project.

Under the sublicense, the Authority will pay to CIT the following fees:

Base Fee - For each calendar quarter ending prior to January 1, 2026, the Authority will pay to Licensor/Seller, on or prior to the first business day of the immediately following calendar quarter (base fee) an amount equal to:

- For calendar quarters ending March 31, 2006 and June 30, 2006, $500,000;
- For each calendar quarter thereafter prior to the calendar quarter during which the $25 million is repaid, $750,000; and
- For each calendar quarter following the calendar quarter during which the $25 million has been repaid occurs and prior to the calendar quarter in which the Purchase Date occurs, $.50 per ton of waste processed through each Combustion Unit during the applicable calendar quarter.

Supplemental Fee - For each calendar year ending on or after December 31, 2006 and prior to the repayment of the $25 million, the Authority will pay to CIT, an amount equal to 95% of the excess revenues (defined as funds available after the payment of facility expenses defined as actual expenses incurred by the Authority in the operation, maintenance and ownership of the Facility: such expenses to include all operating and debt service expenses and mandated governmental fees and costs, and payments required to be made from the revenue fund into the following trust funds: the debt service fund, the debt service reserve fund, the operating reserve fund, the renewal and replacement fund and any other specified funds into which mandatory deposits or transfers are required under the terms of the existing authority indenture documents, but excluding the surplus fund and the redemption fund and disregarding amounts paid into and disbursed out of the purchase and remarketing fund).

During the year ended December 31, 2006, the Authority paid the base fee of $2.5 million to CIT under the Amended Purchase Agreement. There were no supplemental fees due for the year ended December 31, 2006. Payments under the Amended Purchase Agreement have been deferred under a forbearance agreement, but could result in substantial claims.

There are various claims of subcontractors or material supplies of the original contractor against the Authority for non payment. The exact number of unpaid contractors of the original contactor is not known nor is the total amount of money allegedly owed, but it is believe that there are over a dozen subcontractors and/or material suppliers and the amount asserted if owed would be in excess of five million dollars.

When the Authority purchased the Resource Recovery Facility from the City in 1993, the Authority paid the City approximately $30 million in consideration. The Agreement of Sale allows for a maximum purchase price of $55 million, with the final purchase price to be based on the financial capability of the Resource Recovery Facility. The balance of the purchase price is to be paid only after the Authority completes financing of the improvements to the Facility described above, in such amount as is set forth in a report of the Authority's consulting engineer certifying that facility revenues upon completion of such improvements is sufficient to pay all operating expenses, debt service and any other facility funding requirements. There were no additional payments required during the year ended December 31, 2006.

Water Fund

Under the trust indenture, the Authority is required to maintain certain minimum balances in the Water operating reserve fund. At December 31, 2006, the Authority's balance in the Water operating reserve fund was $651,281 and the reserve requirement was $672,980. The trust indenture states that if the balance in the Water operating reserve fund becomes deficient, the Authority is to restore the balance with 12 equal installments. There has been no replenishment of the Water operating reserve fund through the date of this report.

The Water Facility's 2007 budget was approved by the Board of Directors in January 2007. As required under the trust indenture, the budget is required to be approved 30 days prior to the end of the calendar year. Finally, management has not instituted a system to calculate the rate covenant requirement.

Other

The Authority is involved in a claim which alleges that the Authority is responsible for the allocation of certain costs attributable to relocation of the Authority's water lines. The plaintiff's case is based upon a 1941 contract with the City of Harrisburg. A claim was filed before the Court of Common Pleas of Dauphin County seeking to enforce the 1941 contract. A motion for summary judgment was filed on behalf of the Authority, but was not successful, and all appeals on this issue have been exhausted. Absent settlement, the case will return to the Court of Common Pleas of Dauphin County. The amount at issue is approximately $460,000.

There is a pending lawsuit wherein the Mayor of the City of Harrisburg and a Member of the Board of Directors of the Authority sued the Harrisburg City Council and individual members of the Harrisburg City Council as well as individuals name by Harrisburg City Council as appointees to the Authority Board of Directors with regard to the authority to sit on the Board of the Authority. The case has been appealed, in various parts, to the Superior Court and the Pennsylvania Supreme Court. The case deals with the authority to serve on the Board of the Authority. An injunction issued by a Dauphin County Court Judge authorized the continued governance of the existing Board. If the Mayor of the City of Harrisburg Authority is unsuccessful in the lawsuit, new appointees will, most likely, serve on the Board at the appointment of City Council.

The Authority is involved in several lawsuits in the normal course of business. It is the opinion of management that any liabilities resulting from these proceedings would not materially affect the financial position of the Authority at December 31, 2006.

The Authority has guaranteed a line-of-credit on behalf of the National Civil War Museum. The maximum amount available under the line-of-credit is $500,000. As required by the agreement, the Authority has placed $250,000 in a separate account and this amount is included on the balance sheet as restricted cash and cash equivalents.

12. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance and requires the City of Harrisburg to carry commercial insurance as part of the management agreements therewith. During the last three years, insurance settlements did not exceed insurance coverage.

13. Liquidity

The waste incinerator, operated as a component of the Resource Recovery Facility of Authority, as required by the Environmental Protection Agency, was temporarily closed so that the Authority could undertake a modernization program. A significant financing was completed in December 2003 to fund the costs of the project. Additionally, the Resource Recovery Fund has experienced significant operating losses, has an accumulated deficit of $85,968,914 at December 31, 2006, and is in violation of certain covenants under the trust indentures. The Authority has issued a notice of material event with respect to certain of the Resource Recovery Facility bonds. Many of the above items are due to delays and incompletion of the facility as originally anticipate.

The Authority has developed a recovery plan for the Resource Recovery Facility which requires completion of construction of the facilities to bring the three burners on line and up to operating efficiently. The Authority has engaged Covanta Harrisburg, Inc. (Covanta) to manage and operate the Facility and provide professional services. Included in Covanta's Agreement with the Authority is a construction management agreement to oversee the completion of construction. In addition, the plan includes increased disposal fees and tipping fees and infusion of capital for construction and working capital.

The project will be funded by a loan from Covanta to pay for the construction and a working capital loan from others to cover costs and debt service during the construction phase. Repayment of the loans will be from revenue generated from the facility when all three burners are operating or from City guarantees to cover any revenue short falls. The funding plan is subject to City of Harrisburg and Dauphin County guarantees. The Authority has presented the plan to the City and County for approval.

Due to delays in completing construction in early 2006 that resulted in a revenue shortfall, the project has not met debt covenant coverage requirements. The covenant requirements will be closely monitored during the construction phase and following completion of construction.

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SUPPLEMENTARY INFORMATION

THE HARRISBURG AUTHORITY

COMBINING BALANCE SHEET

DECEMBER 31, 2006

Assets	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Current assets:					
Cash and cash equivalents	$ 1,270,456	$ -	$ 379,069	$ 2,090,114	$ 3,739,639
Accounts receivable, net of allowance for uncollectible accounts of $834,345, zero, $567,651, and zero	3,050,166	-	2,404,020	38	5,454,224
Accrued interest receivable	40,001	50,966	-	-	90,967
Other receivables	-	10,000	100,000	-	110,000
Due from (to) other funds	588,782	-	(1,206,606)	617,824	-
Current portion of direct financing lease	-	1,724,537	-	-	1,724,537
Current portion of advances to the City of Harrisburg	-	149,635	-	-	149,635
Total current assets	4,949,405	1,935,138	1,676,483	2,707,976	11,269,002
Restricted assets:					
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	3,193,522	228,188	-	286,841	3,708,551
Investments-restricted under trust indentures	26,875,022	22,781,802	25,818,003	-	75,474,827
Total restricted assets	30,068,544	23,009,990	25,818,003	286,841	79,183,378
Noncurrent assets:					
Direct financing leases, net of unearned income of zero, $1,777,867, zero, and zero	-	5,784,319	-	-	5,784,319
Advances to the City of Harrisburg	-	2,119,783	-	-	2,119,783
Capital assets, not being depreciated	-	-	3,264,265	354,790	3,619,055
Capital assets, being depreciated, net of accumulated depreciation of $30,514,976, zero, $7,574,224, and zero	72,848,567	-	104,937,533	-	177,786,100
Deferred financing costs, net of accumulated amortization of $1,743,986, $877,384, $2,574,777, and zero	6,353,239	125,850	10,398,093	-	16,877,182
Total noncurrent assets	79,201,806	8,029,952	118,599,891	354,790	206,186,439
Total Assets	$ 114,219,755	$ 32,975,080	$ 146,094,377	$ 3,349,607	$ 296,638,819

THE HARRISBURG AUTHORITY

COMBINING BALANCE SHEET (Cont'd)

DECEMBER 31, 2006

Liabilities and Net Assets	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	$ 179,683	$ -	$ -	$ 27,839	$ 207,522
Current portion of amount due to the City of Harrisburg	346,294	-	6,140,566	-	6,486,860
Total current liabilities	525,977	-	6,140,566	27,839	6,694,382
Liabilities payable from restricted assets:					
Accounts payable	-	107,226	361,253	-	468,479
Accrued interest payable	3,211,633	-	2,101,607	-	5,313,240
Current portion of notes payable	-	149,635	670,000	-	819,635
Current portion of bonds payable	700,000	3,640,000	30,000	-	4,370,000
Total liabilities payable from restricted assets	3,911,633	3,896,861	3,162,860	-	10,971,354
Noncurrent liabilities:					
Due to the City of Harrisburg	367,315	-	115,451	-	482,766
Notes payable, net of premium of zero, zero, $911,836, and zero	-	2,116,072	70,611,836	-	72,727,908
Bonds outstanding, net of discount and deferred losses on refunding of $11,162,358, $4,425,942, $7,784,134, and zero	136,177,642	14,579,058	151,040,866	-	301,797,566
Deferred revenue	1,803,069	-	951,444	2,153,773	4,908,286
Accrued landfill closure and post closure care liability	-	-	40,268	-	40,268
Liability for obligations to construct assets under direct financing leases	-	161,966	-	-	161,966
Total noncurrent liabilities	138,348,026	16,857,096	222,759,865	2,153,773	380,118,760
Total Liabilities	142,785,636	20,753,957	232,063,291	2,181,612	397,784,496
Net Assets:					
Invested in capital assets, net of related debt	(34,012,448)	-	(80,826,060)	354,790	(114,483,718)
Restricted					
Debt service	-	22,235,801	-	-	22,235,801
Construction	-	774,189	-	-	774,189
Landfill closure	-	-	749,378	-	749,378
Guarantee agreement	-	-	-	274,512	274,512
Special projects	-	-	-	12,329	12,329
Unrestricted					
Water operations	3,193,523	-	-	-	3,193,523
Other	2,253,044	(10,788,867)	(5,892,232)	526,364	(13,901,691)
Total Net Assets	(28,565,881)	12,221,123	(85,968,914)	1,167,995	(101,145,677)
Total Liabilities and Net Assets	$ 114,219,755	$ 32,975,080	$ 146,094,377	$ 3,349,607	$ 296,638,819

THE HARRISBURG AUTHORITY

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

YEAR ENDED DECEMBER 31, 2006

	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Operating Revenues:					
User charges	$ 16,959,998	$ -	$ 9,838,746	$ 292,813	$ 27,091,557
Administrative fees	-	100,000	-	507,000	607,000
Total operating revenues	16,959,998	100,000	9,838,746	799,813	27,698,557
Operating Expenses:					
Operating	8,404,962	-	13,316,892	-	21,721,854
Administrative	200,000	100,000	207,000	891,744	1,398,744
Depreciation	2,171,436	-	2,384,052	-	4,555,488
Landfill closure and postclosure care expense	-	-	75,245	-	75,245
Total operating expenses	10,776,398	100,000	15,983,189	891,744	27,751,331
Operating Income (Loss)	6,183,600	-	(6,144,443)	(91,931)	(52,774)
Non-Operating Revenues (Expenses):					
Grant income	-	-	-	354,585	354,585
Investment income	1,030,271	958,124	2,006,006	97,686	4,092,087
Lease rental income	-	754,603	-	-	754,603
Miscellaneous revenues (expense)	(173,987)	(9,278)	(427,776)	128,687	(482,354)
Interest expense	(8,840,093)	(1,633,776)	(10,462,179)	-	(20,936,048)
Amortization of deferred financing costs	(491,008)	(42,493)	(820,539)	-	(1,354,040)
Total nonoperating revenues (expenses)	(8,474,817)	27,180	(9,704,488)	580,958	(17,571,167)
Change in net assets before capital contribution and special item	(2,291,217)	27,180	(15,848,931)	489,027	(17,623,941)
Capital contribution	-	-	3,815,635	-	3,815,635
Special item	-	-	4,027,000	-	4,027,000
Change in Net Assets	(2,291,217)	27,180	(8,006,296)	489,027	(9,781,306)
Net Assets:					
Beginning of year	(26,274,664)	12,193,943	(77,962,618)	678,968	(91,364,371)
End of year	$ (28,565,881)	$ 12,221,123	$ (85,968,914)	$ 1,167,995	$ (101,145,677)

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THE HARRISBURG AUTHORITY

COMBINING SCHEDULE OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2006

	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Cash Flows From Operating Activities:					
Receipts from customers and users	$ 16,356,844	$ 113,662	$ 7,825,345	$ 509,712	$ 24,805,563
Receipts for interfund services	-	-	-	300,000	300,000
Payments to suppliers	-	-	-	(880,769)	(880,769)
Payments to management agent	(9,196,516)	40,717	(8,671,574)	(307,000)	(18,134,373)
Payments for interfund services	(200,000)	(100,000)	-	-	(300,000)
Net cash provided by (used in) operating activities	6,960,328	54,379	(846,229)	(378,057)	5,790,421
Cash Flows From Investing Activities:					
(Purchases) sales of investments, net	734,167	1,366,160	15,055,044	-	17,155,371
Investment income received	921,258	942,541	5,975,905	65,194	7,904,898
Payments received on direct financing leases	-	1,954,343	-	-	1,954,343
Net cash provided by investing activities	1,655,425	4,263,044	21,030,949	65,194	27,014,612
Cash Flows from Non-Capital Financing Activities:					
Proceeds from operating grants	-	-	-	354,585	354,585
Net cash flows provided by non-capital financing activities	-	-	-	354,585	354,585
Cash Flows from Capital and Related Financing Activities:					
Decrease in obligation to construct assets under direct financing leases	-	(432,600)	-	-	(432,600)
Decrease in advances to the City of Harrisburg	-	143,835	-	-	143,835
Acquisition and construction of capital assets	-	-	(8,468,501)	(145,313)	(8,613,814)
Interest paid	(6,836,827)	(113,296)	(11,196,380)	-	(18,146,503)
Principal paid on capital lease	(221,180)	-	-	-	(221,180)
Principal paid on long-term debt	(670,000)	(3,794,531)	(670,000)	-	(5,134,531)
Net cash flows used in capital and related financing activities	(7,728,007)	(4,196,592)	(20,334,881)	(145,313)	(32,404,793)
Increase (Decrease) in Cash and Cash Equivalents	887,746	120,831	(150,161)	(103,591)	754,825
Cash and Cash Equivalents:					
Beginning of year	3,576,232	107,357	529,230	2,480,546	6,693,365
End of year	$ 4,463,978	$ 228,188	$ 379,069	$ 2,376,955	$ 7,448,190

THE HARRISBURG AUTHORITY

COMBINING SCHEDULE OF CASH FLOWS (Cont'd)

YEAR ENDED DECEMBER 31, 2006

	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	$ 6,183,600	$ -	$ (6,144,443)	$ (91,931)	$ (52,774)
Adjustments to reconcile operating income (loss) to cash provided by (used in) operating activities					
Depreciation	2,171,436	-	2,384,052	-	4,555,488
Miscellaneous nonoperating income (expense)	(173,987)	(9,278)	(427,776)	9,937	(601,104)
Decrease (increase) in accounts receivable	(603,154)	-	(1,913,401)	(38)	(2,516,593)
(Increase) decrease in due from (to) accounts receivable	(544,144)	-	851,144	(307,000)	-
(Increase) decrease in due from City of Harrisburg	35,804	-	-	-	35,804
(Increase) in other receivables	-	13,662	(100,000)	-	(86,338)
Increase (decrease) in accounts payable	(109,227)	49,995	(148,865)	10,975	(197,122)
Increase (decrease) in due to City of Harrisburg	-	-	4,612,792	-	4,612,792
Increase (decrease) in accrued landfill closure and post closure care liability	-	-	40,268	-	40,268
Net cash provided by (used in) operating activities	$ 6,960,328	$ 54,379	$ (846,229)	$ (378,057)	$ 5,790,421