THE HARRISBURG AUTHORITY

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2007
WITH
INDEPENDENT AUDITOR'S REPORT

MAHER DUESSEL
CERTIFIED PUBLIC ACCOUNTANTS

THE HARRISBURG AUTHORITY

YEAR ENDED DECEMBER 31, 2007

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MAHER DUESSEL

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2007, 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, 2007, 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. Significant financings were completed in December 2003 and, again, in December 2007, to fund the costs of the project. Additionally, the Resource Recovery Fund has experienced significant operating losses, has an accumulated deficit of $106,599,175 at December 31, 2007, and is in violation of certain covenants under the trust indentures. Additionally, as discussed further in Note 12 to the financial statements, the Authority has issued multiple notices of material events 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
December 26, 2008

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THE HARRISBURG AUTHORITY

BALANCE SHEET

DECEMBER 31, 2007

Assets	
Current assets:	
Cash and cash equivalents	$ 4,855,519
Accounts receivable, net of allowance for uncollectible accounts of $1,528,041	4,259,003
Accrued interest receivable	217,347
Other receivables	10,000
Prepaid expenses	133,330
Due from the City of Harrisburg	260,374
Current portion of direct financing lease	1,727,402
Current portion of advances to the City of Harrisburg	156,773
Total current assets	11,619,748
Restricted assets:	
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	2,689,858
Investments - restricted under trust indentures	85,478,436
Total restricted assets	88,168,294
Noncurrent assets:	
Direct financing leases, net of unearned income of $1,212,687	4,492,292
Advances to the City of Harrisburg	1,963,009
Capital assets, not being depreciated	3,616,130
Capital assets, net of accumulated depreciation of $44,513,471	173,476,477
Deferred financing costs, net of accumulated amortization of $6,536,142	16,759,857
Total noncurrent assets	200,307,765
Total Assets	$300,095,807

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

Liabilities and Net Assets

Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	$ 152,072
Current portion of amount due to the City of Harrisburg	906,655
Total current liabilities	1,058,727
Liabilities payable from restricted assets:	
Accounts payable	1,498,746
Accrued interest payable	5,243,381
Current portion of notes payable	866,773
Current portion of bonds payable	5,920,000
Total liabilities payable from restricted assets	13,528,900
Noncurrent liabilities:	
Due to the City of Harrisburg	799,966
Notes payable, net of premium of $3,806,366	101,827,933
Bonds outstanding, net of discount and deferred losses on refunding of $19,429,642	299,820,358
Deferred revenue	4,592,209
Accrued landfill closure and post closure liability	2,322,996
Total noncurrent liabilities	409,363,462
Total Liabilities	423,951,089
Net Assets:	
Invested in capital assets, net of related debt	(138,008,981)
Restricted:	
Debt service	19,326,788
Construction	1,285,103
Guarantee agreement	284,801
Water operations	7,270,269
Resource recovery operations	1,812,533
Unrestricted	(15,825,795)
Total Net Assets	(123,855,282)
Total Liabilities and Net Assets	$300,095,807

THE HARRISBURG AUTHORITY

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

YEAR ENDED DECEMBER 31, 2007

Operating Revenues:	
User charges	$ 31,252,810
Administrative fees	607,000
Total operating revenues	31,859,810
Operating Expenses:	
Operating	24,107,808
Administrative	1,181,346
Depreciation	6,424,271
Landfill closure and postclosure care expense	2,282,728
Total operating expenses	33,996,153
Operating Loss	(2,136,343)
Non-Operating Revenues (Expenses):	
Investment income	4,434,938
Lease rental income	675,288
Miscellaneous expense	(297,823)
Transfers to City's sewer operating fund	(1,524,015)
Interest expense	(22,521,655)
Amortization of deferred financing costs	(1,339,995)
Total nonoperating revenues (expenses)	(20,573,262)
Change in Net Assets	(22,709,605)
Net Assets:	
Beginning of year	(101,145,677)
End of year	$(123,855,282)

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

THE HARRISBURG AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2007

Cash Flows From Operating Activities:	
Receipts from customers and users	$ 32,886,746
Payments to suppliers	(19,818,424)
Payments to management agent	(10,432,785)
Net cash provided by operating activities	2,635,537
Cash Flows From Investing Activities:	
Purchases of investments, net	(10,003,608)
Investment income received	4,111,228
Payments received on direct financing leases	1,964,450
Net cash used in investing activities	(3,927,930)
Cash Flows From Capital and Related Financing Activities:	
Decrease in obligation to construct assets under direct financing lease	(161,966)
Decrease in advances to the City of Harrisburg	149,635
Proceeds from issuance of notes payable	29,994,810
Payment for deferred financing costs	(1,222,670)
Acquisition and construction of capital assets	(2,347,453)
Interest paid	(18,611,264)
Principal paid on capital lease	367,606
Principal paid on long-term debt	(5,255,105)
Transfers to City's sewer operating fund	(1,524,015)
Net cash provided by capital and related financing activities	1,389,578
Net Increase in Cash and Cash Equivalents	97,185
Cash and Cash Equivalents:	
Beginning of year	7,448,192
End of year	$ 7,545,377
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating loss	$ (2,136,343)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	6,424,271
Miscellaneous nonoperating income (expense)	(413,647)
Decrease in accounts receivable	1,195,220
Decrease in other receivables	100,000
Increase in prepaid assets	(133,330)
Decrease in accounts payable	1,207,623
Increase in due to City of Harrisburg	(5,890,985)
Increase in accrued landfill closure and post closure liability	2,282,728
Net cash provided by operating activities	$ 2,635,537

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 9.

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

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 $5,000 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.

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, 2007, were as follows:

Cash and cash equivalents	
Unrestricted	$ 4,855,519
Restricted under trust indentures	
and guarantee agreements	2,689,858
	$ 7,545,377

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, 2007, the Authority's book balance was $7,545,377 and the bank balance was $7,766,253. Of the bank balance, $208,129 was covered by federal depository insurance and $7,558,124 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, 2007, were as follows:

Money market funds	$ 58,051,697
U.S. Government agency obligations	15,565,552
U.S. Government obligations	871,673
Municipal bonds	10,989,514
Total	$ 85,478,436

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.

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

	Fair Value	% of Total
Resolution Funding Corporation - STRIPS	$ 7,609,321	8.90%
Federal National Mortgage Association	7,292,232	8.53%
General Obligation Pension Bonds - Illinois State	6,119,127	7.16%

Credit Risk –The Authority's money market funds and fixed income investments had the following level of exposure to credit risk as of December 31, 2007:

	Fair Value	Rating
Money market funds	$ 58,051,697	AAA
U.S. Government agency obligations - STRIPS	7,609,321	AAA
U.S. Government agency obligations	7,956,231	AAA
Municipal bonds	10,989,514	AA

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	$ 58,051,697	$ 58,051,697	$ -	$ -	$ -
U.S. government agency obligations	15,565,552	4,091,147	5,921,394	-	5,553,011
U.S. government obligations	871,673	871,673	-	-	-
Municipal bonds	10,989,514	-	-	2,033,465	8,956,049
Total	$ 85,478,436	$ 63,014,517	$ 5,921,394	$ 2,033,465	$ 14,509,060

3. Capital Assets

Capital assets for the year ended December 31, 2007 are as follows:

	Balance at January 1, 2007	Additions/ Transfers In	Retirements/ Transfers Out	Balance at December 31, 2007
Capital assets, not being depreciated:				
Artifacts	$ 354,790	$ -	$ (2,925)	$ 351,865
Construction in progress	3,264,265	-	-	3,264,265
Total capital assets, not being depreciated	3,619,055	-	(2,925)	3,616,130
Capital assets, being depreciated:				
Land improvements	1,223,614	-	-	1,223,614
Buildings and improvements	116,169,543	587,869	-	116,757,412
Furniture and fixtures	325,852	2,223	-	328,075
Machinery and equipment	98,156,291	1,524,556	-	99,680,847
Total capital assets, being depreciated	215,875,300	2,114,648	-	217,989,948
Less: accumulated depreciation	(38,089,200)	(6,424,271)	-	(44,513,471)
Total capital assets being depreciated, net	177,786,100	(4,309,623)	-	173,476,477
Total capital assets, net	$ 181,405,155	$ (4,309,623)	$ (2,925)	$ 177,092,607

4. Leases

At December 31, 2007, 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, 2007:

	Basic Lease Rental	Authority Administrative Fee	Total
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	1,855,496	60,000	1,915,496
	7,432,381	$ 240,000	$ 7,672,381
Less unearned income:	(1,212,687)		
Present value of net minimum lease payments	$ 6,219,694		

During the year ended December 31, 2007, the Authority received basic lease rentals of $1,854,342 from the City. These receipts represent interest income of $565,179 and a reduction of the lease rental receivable of $1,289,163. The Authority also received $100,000 in administrative fees from the City during the year ended December 31, 2007.

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 $1,989,062 as of December 31, 2007.

Debt Service Forward Delivery and Swap Agreements

The Authority has entered into seven derivative product agreements, which consist of 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, 2007, 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 $2,603,147 at December 31, 2007, is being amortized over the respective life of each agreement under a method that approximates the interest method.

Development and service agreement	$ 1,989,062
Debt service forward delivery and swap agreements	2,603,147
Total deferred revenue	$ 4,592,209

The Authority is still a party to several debt service forward delivery agreements with Lehman Brothers Special Financing, Inc. (Lehman special Financing) in connection with certain bonds or notes relating to the Authority's Water System and the Authority's Resource Recovery Facility. In the fall of 2008, Lehman Special Financing filed for bankruptcy protection under the U. S. Bankruptcy Code. As of the date hereof, neither the Authority not Lehman Special Financing has terminated the outstanding debt service forward delivery agreements.

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, 2007 follows:

	Issue Amount	Maturity/ Mandatory Redemption	Interest Rates	Purpose	Guaranteed by the City of Harrisburg
2007 Guaranteed Resourcc Recovery, Limited Obligation Notes:					
Series C	$ 23,920,000	2010	4.50%	Fund the Working Capital Component of the Retrofit Completion Project	Yes
Series D	10,765,000	2010	6.00%	Fund the Reimbursement Project	Yes
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 Rcvenue 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
Serics D1 and D2	96,480,000	2017 - 2033	variable	Financing the costs of the Retrofit	Yes

	Issue Amount	Maturity/ Mandatory Redemption	Interest Rates	Purpose	Guaranteed by the City of Harrisburg
2003 Guaranteed Resource Recovery Revenue Bonds:					
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
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

THE HARRISBURG AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

	Issue Amount	Maturity/ Mandatory Redemption	Interest Rates	Purpose	Guaranteed by the City of Harrisburg
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
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 Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA 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 SIFMA-based swap with $25,605,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (SIFMA 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 SIFMA 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 SIFMA Index. Under the LIBOR Swap and the SIFMA 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 SIFMA 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 SIFMA 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 SIFMA 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, 2007, it would cost the Authority $8,987,734 to terminate the LIBOR Swap and the SIFMA Swap with Societe Generale. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method.

This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

Credit risk - As of December 31, 2007, 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, 2007. 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, 2007, the interest rate on the 2003 Water Revenue Bonds, Series A was 3.57 percent, whereas 67 percent of one-month LIBOR was 3.08 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, 2007, 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.

Fiscal Year Ending December 31,	2003 Water Revenue Bonds, Series A Principal	2003 Water Revenue Bonds, Series A Interest	Swap Agreement Payments, Net	Total
2008	$ 160,000	$ 2,003,127	$ 835,760	$ 2,998,887
2009	165,000	1,997,415	833,064	2,995,479
2010	175,000	1,991,525	830,284	2,996,809
2011	185,000	1,985,277	827,336	2,997,613
2012	195,000	1,978,673	824,218	2,997,891
2013-2017	1,145,000	9,781,265	4,068,182	14,994,447
2018-2022	1,490,000	9,553,321	3,960,598	15,003,919
2023-2027	28,160,000	8,331,128	3,383,742	39,874,870
2028-2029	24,435,000	1,387,302	448,496	26,270,798
	$ 56,110,000	$ 39,009,033	$ 16,011,680	$ 111,130,713

Subsequent Event - Both the LIBOR Swap and the SIFMA Swap were terminated with the issuance of the Authority's Water Revenue Refunding Bonds, Series of 2008, issued on August 22, 2008.

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 became 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 SIFMA-based Constant Maturity Swap with $25,180,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (SIFMA 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 SIFMA CMS, the Authority receives interest on the corresponding notional amount at a floating rate of 85.44% of USSMQ10 (ten-year SIFMA swap rate) and pays Deutsche Bank a floating rate based on the SIMFA Index. The notional amount of each of the LIBOR CMS and SIFMA 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, 2007, it would cost the Counterparty $192,903 to terminate the LIBOR CMS and $20,000 to terminate the SIFMA CMS with Deutsche Bank. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps. Where applicable, future payments are adjusted taking into account volatilities, time, and other variables.

Credit risk – As of December 31, 2007, the Authority was 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 Aa1 by Moody's Investors Service as of December 31, 2007. 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 SIFMA Index minus 85.44% of the ten-year SIFMA 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.

Swap payments and associated debt - Using rates as of December 31, 2007, 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 swap agreement will vary.

Fiscal Year Ending December 31,	Swap Agreement Payments, Net
2008	$ 201,696
2009	200,848
2010	199,974
2011	199,046
2012	198,066
2013-2017	973,686
2018-2022	939,845
2023-2027	758,398
2028-2029	74,395
	$ 3,745,954

Subsequent Event - Both the LIBOR CMS and the SIFMA CMS were transferred to the Authority's Water Revenue Refunding Bonds, Series of 2008, issued on August 22, 2008. As of December 15, 2008, it would cost the Authority $136,622 to terminate the LIBOR CMS and it would cost the Counterparty $302,124 to terminate the SIFMA CMS with Deutsche Bank. Effective November 17, 2008, both the LIBOR CMS and SIFMA CMS were suspended until January 15, 2011. For executing these suspensions, the Authority received a total of $1.25 million from Deutsche Bank.

Deutsche Bank was rated AA- by Standard & Poor's and Aa1 by Moody's Investors Service as of December 15, 2008.

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 overall 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 SIFMA Municipal Swap Index (SIFMA 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 became effective on July 15, 2007.

Fair value – As of December 31, 2007, it would cost the Counterparty $616,620 to terminate the 2005 Basis Swap, as amended, with Merrill Lynch. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

Credit risk – As of December 31, 2007, the Authority was exposed to credit risk in the amount of the swap agreement's fair value. Merrill Lynch was rated A+ by Standard & Poor's and A1 by Moody's Investors Service as of December 31, 2007. 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 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 SIFMA 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 SIFMA Index, a tax-exempt rate. As of December 31, 2007, the interest rate the Authority was paying under the 2005 Basis Swap was 3.42 percent, where as the interest the Authority was receiving at 69% of the five-year LIBOR Swap Rate was 2.90 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, 2007, 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
2008	$ 110,000	$ 1,836,412	$ 193,206	$ 2,139,618
2009	125,000	1,833,498	192,634	2,151,132
2010	125,000	1,829,748	191,984	2,146,732
2011	125,000	1,825,060	191,334	2,141,394
2012	135,000	1,820,872	190,684	2,146,556
2013-2017	995,000	9,023,580	942,188	10,960,768
2018-2022	31,255,000	5,971,500	621,036	37,847,536
2023	4,285,000	214,250	22,282	4,521,532
	$ 37,155,000	$ 24,354,920	$ 2,545,348	$ 64,055,268

Subsequent Event - As of December 15, 2008, it would cost the Authority $1,405,037 to terminate the 2005 Basis Swap, as amended, with Merrill Lynch.

Merrill Lynch was rated A by Standard & Poor's and A2 by Moody's Investors Service as of December 15, 2008.

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 SIFMA 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 SIFMA 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 SIFMA 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 SIFMA 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 SIFMA-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 SIFMA-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, 2007, it would cost the Authority $111,431 to terminate the D-1 Swap and the embedded D-1 Cap and it would cost the Counterparty $215,746 to terminate the D-2 Swap and the embedded D-2 Cap. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

As of December 31, 2007, it would cost the Authority $5,576,740 to terminate 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, 2007, it would cost the Authority $2,018,246 to terminate the 2005 Swap.

Credit risk – As of December 31, 2007, the Authority was not exposed to credit risk on the D-1 Swap, the Embedded D-1 Cap, the D-1/D-2 Cap, or the 2005 Swap, 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 D-2 Swap and the embedded D-2 Cap in the amount of the swap agreement's fair value. As of December 31, 2007, RBC was rated Aaa 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, 2007, 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.

Basis Risk – After June 30, 2008, the Authority is subject to basis risk, because the interest on the variable rate arm of the 2005 Swap is based on one month LIBOR and the variable rate interest rate on the D-2 Swap is based on SIFMA. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the Authority's calculated payment, and as a result, cost savings or synthetic interest rates may not be realized.

Fiscal Year Ending December 31,	D-1 Bonds Principal	D-1 Bonds Interest	D-1 Swap *	2005 Swap **	Total
2008	$ -	$ 1,259,200	$ 239,248	$ 23,925	$ 1,522,373
2009	-	1,023,100	-	69,886	1,092,986
2010	-	1,023,100	-	69,886	1,092,986
2011	-	1,023,100	-	34,943	1,058,043
	$ -	$ 4,328,500	$ 239,248	$ 198,640	$ 4,766,388

*Computed: (3.42%-2.66%) x $31,480,000

**Computed: (3.35%-3.42%) x $31,480,000 through June 1, 2008 and (4.60%-3.128%) x $31,480,000 through June 1, 2011

Fiscal Year Ending December 31,	D-2 Bonds Principal	D-2 Bonds Interest	D-2 Swap *	2005 Swap **	Total
2008	$ -	$ 3,250,000	$ 32,500	$ 49,400	$ 3,331,900
2009	-	3,250,000	32,500	144,300	3,426,800
2010	-	3,250,000	32,500	144,300	3,426,800
2011	-	3,250,000	32,500	72,150	3,354,650
2012	-	3,250,000	32,500	-	3,282,500
2013	-	3,250,000	32,500	-	3,282,500
	$ -	$ 19,500,000	$ 195,000	$ 410,150	$ 20,105,150

*Computed: (3.42%-3.37%) x $65,000,000

**Computed: (3.35%-3.42%) x $65,000,000 through June 1, 2008 and (4.60%-3.128%) x $65,000,000 through June 1, 2011

Subsequent Event - As of December 15, 2008, it would cost the Counterparty $4,433,889 to terminate the D-2 Swap and the embedded D-2 Cap. As of December 15, 2008, it would cost the Authority $6,173,352 to terminate the D-1/D-2 Cap. As of December 15, 2008, it would cost the Authority $5,127,054 to terminate the 2005 Swap.

As of December 15, 2008, RBC was rated Aaa by Moody's Investors Service and AA- by Standard & Poor's.

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 SIFMA index plus 75 basis points on each date of determination. The debt service schedule on the following pages uses a rate of 4.1 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, 3.47 percent at December 31, 2007.

2002 Water Revenue Bonds, Series C

These Bonds bear interest at a taxable weekly rate, 5.11 percent at December 31, 2007.

1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 5.4375 percent at December 31, 2007.

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The following table presents annual principal and interest payments for long-term debt outstanding at December 31, 2007:

	2008	2009	2010	2011
Bonds outstanding:				
Water Revenue Bonds				
Series of 2004 (A)	$ 2,139,618	$ 2,151,132	$ 2,146,732	$ 2,141,394
Series A of 2003 (A)	3,200,583	3,196,327	3,196,783	3,196,659
Series A of 2002	767,000	767,000	767,000	767,000
Series B of 2002 (B)	799,314	799,314	799,314	2,669,314
Series C of 2002 (B)	393,470	393,470	393,470	393,470
Series D of 2002	154,255	154,255	2,394,255	538,815
Series A of 2001	734,038	739,275	734,775	739,275
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)	4,854,273	4,519,786	4,519,786	4,412,693
Series E of 2003	706,060	2,096,060	2,099,205	2,099,458
Series F of 2003	689,790	2,029,790	2,029,490	2,031,490
Series A of 1998	593,195	596,815	600,170	558,250
Sewer Revenue Bonds				
Series of 1992 1st	1,165,000	1,165,000	1,170,000	1,165,000
Series of 1992 2nd	565,000	565,000	565,000	565,000
Series of 1989 2nd	1,165,000	1,165,000	1,170,000	1,165,000
Series of 1989 3rd	565,000	565,000	565,000	565,000
Series of 1984	1,695,000	-	-	-
Total principal and interest, bonds	$ 21,481,121	$ 22,197,749	$ 24,445,505	$ 24,302,343
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 C of 2007	$ -	$ -	$ 23,920,000	$ -
Series D of 2007	-	-	10,765,000	-
Series B of 2003	1,076,145	1,076,145	1,076,145	1,192,485
Series C of 2003	1,214,250	1,214,250	1,214,250	1,214,250
Series A of 2002	1,659,644	1,655,873	1,652,377	1,656,562
Guaranteed Sewer Revenue Notes				
Series A, B and C of 1998 (B)	249,915	251,076	251,910	252,418
Total principal and interest, notes	$ 4,199,954	$ 4,197,344	$ 38,879,682	$ 4,315,715
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, 2007 as disclosed on page 31.

	2012	2013 to 2017	2018 to 2022	2023 to 2027	2028 to 2032	2033 to 2034	Total
	$ 2,146,556	$ 10,960,768	$ 37,847,536	$ 4,521,532	$ -	$ -	$ 64,055,268
	3,195,957	15,968,133	15,943,764	40,633,268	26,345,193	-	114,876,667
	767,000	3,835,000	3,835,000	15,263,250	1,661,000	-	28,429,250
	3,324,426	20,683,720	-	-	-	-	29,075,402
	393,470	1,967,350	1,967,350	1,967,350	8,486,940		16,356,340
	-	-	-	-	-	-	3,241,580
	743,225	2,983,087	-	-	-	-	6,673,675
	1,294,525	6,472,625	12,425,125	12,229,175	2,250,000	8,100,000	47,949,550
	4,305,600	20,118,000	36,475,276	37,748,690	39,305,615	8,110,280	164,369,999
	2,096,818	9,824,872	-	-	-	-	18,922,473
	2,030,565	9,535,520	-	-	-	-	18,346,645
	558,250	5,957,750	8,967,750	-	-	-	17,832,180
	1,165,000	-	-	-	-	-	5,830,000
	565,000	-	-	-	-	-	2,825,000
	1,165,000	-	-	-	-	-	5,830,000
	565,000	-	-	-	-	-	2,825,000
	-	-	-	-	-	-	1,695,000
	$ 24,316,392	$108,306,825	$117,461,801	$112,363,265	$ 78,048,748	$ 16,210,280	549,134,029
							223,964,029
							(5,540,153)
							24,969,795
							$305,740,358

	$ -	$ -	$ -	$ -	$ -	$ -	$ 23,920,000
	-	-	-	-	-	-	10,765,000
	1,192,485	5,962,425	5,962,425	18,142,905	17,874,785	-	53,555,945
	1,214,250	6,071,250	6,071,250	6,071,250	17,094,000	13,983,000	55,362,000
	1,659,950	8,307,698	8,317,818	-	-	-	24,909,922
	252,600	1,262,278	164,351	-	-	-	2,684,548
	$ 4,319,285	$ 21,603,651	$ 20,515,844	$ 24,214,155	$ 34,968,785	$ 13,983,000	171,197,415
							64,696,343
							3,806,366
							$102,694,706

Long-term liability activity for the year ended December 31, 2007 was as follows:

	Beginning Balance at January 1, 2007	Additions	Accretion/ Amortization	Reductions	Ending Balance at December 31, 2007	Amounts Due Within One Year
Notes payable	$ 72,635,707	$ 34,685,000	$ -	$ (819,635)	$ 106,501,072	$ 866,773
Bonds payable	329,540,000	-	-	(4,370,000)	325,170,000	5,920,000
Total notes and bonds payable	402,175,707	34,685,000	-	(5,189,635)	431,671,072	6,786,773
Less:						
Unamortized premium	5,731,071	(4,690,192)	692,908	-	1,733,787	-
Deferred loss on refunding	(28,191,669)	-	3,221,874	-	(24,969,795)	-
	$ 379,715,109	$ 29,994,808	$ 3,914,782	$ (5,189,635)	$ 408,435,064	$ 6,786,773

On December 15, 2007, the Authority issued Guaranteed Resource Recovery Facility Limited Obligation Notes, Series C and D of 2007 (collectively, Series of 2007 Notes) with a maturity value of $23,920,000 and $10,765,000, respectively. These Series of 2007 Notes do not bear current interest, but accrete interest as capital appreciation notes. The proceeds of the Series C Notes are to be used to finance (i) certain working capital needs of the Resource Recovery Facility pending the completion of the Retrofit Completion Project, including refinancing of the Series A of 2007 Note issued to Covanta; (ii) the payment of debt service due in 2008 on certain outstanding tax-exempt debt of the Authority relating to the Facility and (iii) the payment of costs of financing the Series C Notes. The proceeds of the Series D Notes are to be used to reimburse moneys advanced and to provide for debt service due in 2008 on certain outstanding taxable debt of the Authority relating to the Facility, including debt service on the 2003E Bonds and the payment of costs of financing the Series D Notes. The City has guaranteed payment of the maturity value of the Series of 2007 Notes and for such purpose the City has pledged its full faith, credit and taxing power. Additionally, the County of Dauphin has guaranteed payment of the maturity value of the Series of 2007 Notes in the event of the failure of the City to make payment under the City Guaranty Agreement and for such purpose the County has pledged its full faith, credit and taxing power.

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, 2007, 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	13,400,000
Seventh Street Office & Parking Revenue Bonds, Series B of 1998	6,185,000
Resource Recovery Bonds, Series A of 1998	18,930,000
Resource Recovery Bonds, Series B of 1998	7,825,000
Resource Recovery Bonds, Series C of 1998	3,485,000
Resource Recovery Bonds, Series A of 2000	4,195,000
Resource Recovery Bonds, Series B of 2000	3,250,000
Total outstanding defeased debt	$ 65,280,000

7. SHORT-TERM DEBT

Until such time as the Guaranteed Resource Recovery Facility Limited Obligation Notes, Series C and D of 2007, were issued, the Authority borrowed, on a short-term basis, from the City of Harrisburg and the County of Dauphin. The amounts borrowed were used to pay June, November, and December 2007 debt service payments, swap and cap fees, and advance moneys to Covanta, the operator of the Resource Recovery Facility. The borrowings were repaid from the proceeds of the Guaranteed Resource Recovery Facility Limited Obligation Notes, Series C and D of 2007, as follows:

	Beginning Balance at January 1, 2007	Additions	Reductions	Ending Balance at December 31, 2007
City of Harrisburg	$ -	$ 4,306,098	$ (4,306,098)	$ -
County of Dauphin	-	5,350,000	(5,350,000)	-
	$ -	$ 9,656,098	$ (9,656,098)	$ -

8. 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, 2007, is as follows:

THE HARRISBURG AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

CONDENSED STATEMENT OF NET ASSETS	Water Segment	Sewer Segment	Resource Recovery Segment
Assets			
Current assets:			
Other current assets	$ 6,101,652	$ 1,738,685	$ 2,377,494
Due to other funds	1,230,996	-	(1,955,820)
Due to the City of Harrisburg	260,374	156,773	-
Total current assets	7,593,022	1,895,458	421,674
Restricted assets	31,123,619	20,611,890	36,147,984
Capital assets	70,677,978	-	106,062,764
Advances to the City of Harrisburg	-	1,963,009	-
Other noncurrent assets	5,870,578	4,579,566	10,802,005
Total assets	$ 115,265,197	$ 29,049,923	$ 153,434,427
Liabilities			
Current liabilities:			
Other current liabilities	$ 1,842,681	$ -	$ 886,169
Due to the City of Harrisburg	163,675	-	742,980
Total current liabilities	2,006,356	-	1,629,149
Liabilities payable from restricted assets	3,945,315	5,317,883	4,265,702
Noncurrent liabilities	137,257,366	12,661,812	254,052,109
Due to the City of Harrisburg	713,324	-	86,642
Total liabilities	143,922,361	17,979,695	260,033,602
Net assets:			
Invested in capital assets, net of related debt	(35,927,433)	-	(102,433,413)
Restricted	2,396,928	20,611,891	1,812,533
Unrestricted	4,873,341	(9,541,663)	(5,978,295)
Total net assets	(28,657,164)	11,070,228	(106,599,175)
Total liabilities and net assets	$ 115,265,197	$ 29,049,923	$ 153,434,427

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS	Water Segment	Sewer Segment	Resource Recovery Segment
Operating revenues	$ 18,374,190	$ 100,000	$ 12,788,862
Operating expenses:			
Operating	8,835,264	-	17,555,272
Administration	200,000	100,000	207,000
Depreciation	2,170,589	-	4,253,682
Total operating expenses	11,205,853	100,000	22,015,954
Operating income (loss)	7,168,337	-	(9,227,092)
Nonoperating revenues (expenses):			
Investment income	2,020,830	1,127,676	1,193,550
Lease rental income	-	675,288	-
Miscellaneous expense	(220,239)	(2,703)	(222,421)
Transfers to City's sewer operating fund	-	(1,524,015)	-
Interest expense	(8,577,550)	(1,388,565)	(12,555,540)
Amortization of bond issuance costs	(482,661)	(38,576)	(818,758)
Total nonoperating revenues (expenses)	(7,259,620)	(1,150,895)	(12,403,169)
Income (loss) before transfers	(91,283)	(1,150,895)	(21,630,261)
Transfers in	-	-	1,000,000
Change in net assets	(91,283)	(1,150,895)	(20,630,261)
Net assets - January 1, 2007	(28,565,881)	12,221,123	(85,968,914)
Net assets - December 31, 2007	$ (28,657,164)	$ 11,070,228	$ (106,599,175)

CONDENSED STATEMENT OF CASH FLOWS	Water Segment	Sewer Segment	Resource Recovery Segment
Net cash provided by (used in) operating activities	$ 8,115,768	$ (103,818)	$ (5,170,300)
Net cash provided by investing activities	(108,042)	5,319,850	(9,201,706)
Net cash used in capital and related financing activities	(7,075,810)	(5,436,091)	14,901,479
Net increase (decrease) in cash and cash equivalents	931,916	(220,059)	529,473
Cash and cash equivalents, January 1, 2007	4,463,980	228,188	379,069
Cash and cash equivalents, December 31, 2007	$ 5,395,896	$ 8,129	$ 908,542

At December 31, 2007, the Authority has net asset deficits in the Water and Resource Recovery 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 12 and 14 discuss the deficit in the Resource Recovery segment.

9. NON-RECOURSE DEBT ISSUES

As discussed in Note 1, the following non-recourse debt issues were outstanding at December 31, 2007:

City of Harrisburg, Series I of 1997	$ 2,880,000
Haverford Township, Series of 2002	4,550,000
Cumberland Valley School District, Series of 2002	19,730,000
Harrisburg School District, Series A of 2002	32,925,000
Township of Uwchlan, Series of 2002	2,380,000
Township of West Brandywine, Series of 2002	4,490,000
Harrisburg School District, Series of 2003	74,330,000
Coatesville School District	3,215,820
Old Forge School District	402,778
Scranton School District	3,638,337
	$ 148,541,935

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.

10. Management Agreements With the City of Harrisburg

The Authority has entered into management agreement with the City to operate the Authority's Water System. The Water System's management agreement expires in 2020 (subject to annual renewal thereafter). The management agreement requires 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 $9,035,264 in expenses under the Water System management agreements in 2007.

At December 31, 2007, $260,374 is included in the amount due from the City of Harrisburg for the Water segment and $714,171 is included in the amount due to the City of Harrisburg 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, 2007 has a cost and a net book value of $886,890 and $432,268. 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, 2007 are as follows:

2008	$ 224,862
2009	219,834
2010	261,851
2011	180,734
2012	97,245
2013	45,020
2014	45,018
2015	7,761
2016	7,762
2017	7,761
Total minimum lease payments	1,097,848
Amount representing interest	(105,398)
Present value of net minimum lease payments	$ 992,450

The following represents the amounts due to the City of Harrisburg at December 31, 2007:

Resource Recovery segment operating expenses	$ 714,171
Water segment operating expenses	(260,374)
Water capital lease	
Current portion	163,675
Long-term portion	713,324
Resource recovery capital lease	
Current portion	28,809
Long-term portion	86,642
Due to the City of Harrisburg	$ 1,446,247

11. 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 original estimated total cost of closure and postclosure care costs was $1,670,206, based on an agreement with the Commonwealth of Pennsylvania pursuant to state regulations and was subject to change with inflation, deflation, technology, or applicable laws and regulations. During 2007, under the original closure and post closure agreement, the Authority was required by state regulations and its permit to make quarterly payments of $30,014 to the Consolidated Closure Trust. The Authority was in compliance with those requirements as of December 31, 2007.

On December 31, 2007, the original consolidated trust was terminated and a new account was established. At that time, the Authority estimated the closure and postclosure costs to be $1,442,617. A variable rate promissory note (Line of Credit) was entered into with a financial institution for $1,442,617. The line of credit supports the Letter of Credit #1805 issued to the Pennsylvania Department of Environmental Protection. On May 5, 2008, this promissory note was amended to $2,355,713 based on a revised closure and postclosure cost estimate.

The Authority has accrued $2,322,996 for landfill closure and postclosure care costs as of December 31, 2007, which represents the use of 98.6% of the estimated capacity of the disposal area. Based on the annual usage at December 31, 2007, the estimated remaining life of the landfill is approximately nine months. Under the new closure and post closure agreement, the Authority is required by state regulations and its permit to make quarterly payments of $170,000 to the Consolidated Closure Trust. The Authority is in compliance with those requirements.

In an effort to extend the life of the landfill, in April 2008, the Authority began mining the ash to recover ferrous and nonferrous metals contained in the ash residue. Beginning in August 2008, the ash from the processed metal was removed from the landfill and taken offsite. This resulted in reduced ash volume thereby further extending the life of the landfill area. To maintain continued ash disposal operations, a plan was prepared to extend the site life of the landfill until an expansion can be permitted and constructed. It is expected to take four years to complete the permitting and initial construction process. During that four year period, mining and off-site disposal of processed ash will continue as well as off-site transportation of ash generated by the facility.

As of December 31, 2007, cash and investments of $943,289 are held for closure and postclosure care expenses. Those funds are reported as restricted assets on the balance sheet.

12. 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, 2007. 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 June 7, 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. 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.

On September 11, 2007, the Authority issued a notice of material event with respect to the Authority's Series A of 1998 and Series A, B, and C of 2003. The Resource Recovery Facility Debt Service Accounts did not have sufficient funds to pay the scheduled principal and interest payments due on the Series A of 1998 and Series A, B, and C of 2003 Bonds on September 1, 2007. 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 $1.787 million to the Authority for the Authority to make the appropriate deposit to the Trustee to address the deficiency.

On February 22, 2008, the Authority issued a notice of material event with respect to the Authority's Series A of 2002. The Resource Recovery Facility Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments due on the Series A of 2002 Notes on November 1, 2007. 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 $600,000 to the Authority for the Authority to make the appropriate deposit to the Trustee to address the deficiency.

Additionally, during May 2007, the City transferred approximately $230,000 to the Authority to pay swap and cap fees related Series D-1 and D-2 Bonds due on June 1, 2007. Pursuant the Reimbursement Agreement, the Authority paid the City for amounts advanced under the guarantee.

Additionally, under the continuing disclosure undertaking, the Authority has covenanted to file its secondary market disclosures within 270 days of the end of their fiscal year. Additionally, the various trust indentures require the Authority to submit its audited financial statements to the trustee within 180 days. The financial statements were not completed by either date.

Under the trust indentures, the Authority is required to maintain certain minimum balances in the Resource Recovery operating reserve fund. At December 31, 2007, the Authority's balance in the Resource Recovery operating reserve fund was $218 and the reserve requirement was $2,271,333. 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 and 2008 budgets were approved by the Board of Directors in January 2007 and December 2008, respectively. As required under the trust indentures, the budgets are required to be approved 30 days prior to the end of the calendar year. Additionally, the 2007 adopted budget did not include administrative expenses of the Waste Management Facility Manager as required under the trust indentures. Additionally, the 2007 and 2008 consulting engineers reports, which are due, per the trust indenture, 90 days prior to the end of the calendar year, have not been received by the Authority. Finally, management has not instituted a system to calculate the rate covenant requirement noted earlier.

The Authority entered into an Administrative Services and Interim Operation and Maintenance Agreement (Interim Agreement) with a Covanta for operation and management of the Resource Recovery Facility effective January 2, 2007 through March 31, 2007. During the interim agreement period, Covanta provided all day-to-day administrative services, provided a Construction Plan and coordinated all construction, start-up performance testing, operation and maintenance services for the Facility. The Authority deposited $100,000 with Covanta, which was used to pay for the first arising reimbursable expenses under the Agreement. On the 15th and 30th day of each month, the Authority paid Covanta 1/24th of the annual amount set forth in the estimated operating budget. Each month, Covanta reconciled 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 submitted an invoice for such excess by the 10th day of the following month, which was to be paid by the Authority within 30 days. Reimbursable expenses are defined in the agreement. The Authority also paid 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 January 31, 2008.

The Authority entered 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 substantially the same as the Interim Agreement, except that the management fee is $875,000 per month, escalated annually each calendar year. As of December 2008, Covanta has asserted a claim against the Authority for approximately $1.3 million for reimbursable expenses and management fees, a substantial portion of which was incurred during the year ended December 31, 2008.

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. There were no payments made under this agreement in 2007.

CIT is asserting that, pursuant to one of the many agreements signed on or about January 11, 2006, the Authority is required to repay this obligation because of the ensuing bankruptcy of Barlow. CIT has given notice of default and intention to institute suit in November, whereupon the Authority filed a complaint with the Dauphin County Court for declaratory judgment alleging, among other things, that the agreements upon which CIT was asserting its claims constituted ultra vires acts of the Authority, based upon its lack of power to guaranty a debt of its contractor, as well as the fact that it had already paid for the full cost of construction, including the license fee for Barlow's technology. Additionally, there were several other defenses presented, including a lack of consideration for the agreements.

The declaratory judgment action was filed in January of 2008, in the Court of Common Pleas of Dauphin County. CIT and Aireal filed an Answer with Counterclaim, as well as a Motion to Transfer the case to the U.S. District Court for the Middle District of Pennsylvania. The case is presently in federal court in an extended discovery phase where there are literally hundreds of thousands of documents that need to be examined prior to depositions commencing.

The management of the Authority has responded to the litigation by authorizing counsel to contest the counterclaim vigorously, and also to pursue vigorously the declaratory judgment that would void and invalidate the agreements upon which CIT relies.

The Authority believe it has a reasonable and valid basis upon which to defend against the claims of CIT and Aireal, as well as reasonable and valid basis, in the event of an adverse verdict in favor of CIT, to successfully pursue a claim for reimbursement or indemnification from the professionals who negligently advised it on the transactions.

There are two claims of subcontractors or material suppliers of the original contractor against the Authority for non-payment. The amount asserted, if owed, would be approximately $650,000 dollars.

The Authority authorized a $25,500,000 loan with Covanta to pay for the Retrofit Project, used to fix design flaws. At December 31, 2007, no funds have been drawn down under this loan by the Authority. This loan is guaranteed by the City of Harrisburg.

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, 2007.

Water Fund

Under the trust indenture, the Authority is required to maintain certain minimum balances in the Water operating reserve fund. At December 31, 2007, the Authority's balance in the Water operating reserve fund was $696,074 and the reserve requirement was $835,548. 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. In March, 2008, $400,000 was deposited into the Water operating reserve fund to replenish the balance.

The Water Facility's 2007 and 2008 budgets were approved by the Board of Directors in January 2007 and March 2008, respectively. 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 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, 2007.

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.

13. 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. The Authority also requires the City of Harrisburg to carry commercial insurance as part of the management agreement for the Water System. During the last three years, insurance settlements did not exceed insurance coverage.

14. Liquidity

The incinerator, operated as a component of the Resource Recovery Facility of the 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 $106,599,175 at December 31, 2007, and is in violation of certain covenants under the trust indentures. The Authority has issued multiple notices of material events with respect to certain bonds of the Resource

Recovery Facility. Many of the above items were due to delays and incompletion of the facility as originally anticipated.

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 to provide professional services. Included in Covanta's Agreement with the Authority is a construction management agreement to oversee the completion of construction. 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's plan was presented and approved by the City and County in November 2007.

Due to delays in completing construction in 2007 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.

15. SUBSEQUENT EVENT

On August 22, 2008, the Authority issued Water Revenue Refunding Bonds, Series of 2008 (2008 Bonds) in the amount of $69,420,000. The proceeds of the 2008 Bonds, together with available monies, will be applied to: (i) currently refund the outstanding balance of the Authority's Variable Rate Water Revenue Refunding Bonds, Series A of 2003, (ii) fund a swap termination payment payable to Societe Generale pursuant to an outstanding interest rate swap agreement on the 2003 Water Revenue Bonds, Series A (previously referred to as the LIBOR Swap and the SIFMA Swap), (iii) fund a deposit to the 2008 Debt Service Reserve Fund Account, and (iv) pay the costs and expenses associated with the issuance of the 2008 bonds.

On December 1, 2008, the Authority remarketed and converted $31,280,000 Guaranteed Resource Recovery Facility Revenue Bonds, Subseries D-1 of 2003, to a long-term rate period of December 1, 2008 to December 1, 2010 with a coupon rate of 6.75% with a yield rate of 5.5% and a price of 102.337%.

The 2002 Water Revenue Bonds, Series B and C, are insured by FSA and have liquidity through Dexia Credit Local. The credit ratings of both FSA and Dexia have been downgraded, resulting in some owners of the 2002 Water Revenue Bonds, Series B and C, putting the bonds to the Trustee. RBC as the remarketing agent for such bonds, has not been able to remarket all of the put bonds to new purchasers. Such unremarketed bonds have been tendered to Dexia Credit Local and are being held as bank bonds. The bank bonds as of December 17, 2008 amount to $16,985,000 of the Series B and $125,000 of the Series C, bearing interest at prime plus 1%.

Because a portion of the Authority's debt service is at a variable rate and because of the spread between the SIFMA and LIBOR index is greater than at December 31, 2007, the Authority has incurred greater interest costs during 2008, than originally anticipated.

The Authority invests in various types of financial instruments. This diversification of invesetments serves to assist in mitigating the various types of risks associated with different types of financial instruments. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near term and that such a change could materially affect the amount reported on the balance sheet.

Subsequent to year-end, the Authority experienced a significant decline in market value due to changing market conditions. Through November 30, 2008, the market value of the Authority's investments decreased by approximately $1.6 million. The Authority is aware of these declines, and will continue to closely monitor these changes in market value.

SUPPLEMENTARY INFORMATION

THE HARRISBURG AUTHORITY

COMBINING BALANCE SHEET

DECEMBER 31, 2007

Assets	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Current assets:					
Cash and cash equivalents	$ 2,998,968	$ -	$ 908,542	$ 948,009	$ 4,855,519
Accounts receivable, net of allowance for uncollectible accounts of $835,838, zero, $692,203, and zero	2,886,620	-	1,335,622	36,761	4,259,003
Accrued interest receivable	216,064	1,283	-	-	217,347
Other receivables	-	10,000	-	-	10,000
Prepaid expenses	-	-	133,330	-	133,330
Due from (to) other funds	1,230,996	-	(1,955,820)	724,824	-
Due from the City of Harrisburg	260,374	-	-	-	260,374
Current portion of direct financing lease	-	1,727,402	-	-	1,727,402
Current portion of advances to the City of Harrisburg	-	156,773	-	-	156,773
Total current assets	7,593,022	1,895,458	421,674	1,709,594	11,619,748
Restricted assets:					
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	2,396,928	8,129	-	284,801	2,689,858
Investments-restricted under trust indentures	28,726,691	20,603,761	36,147,984	-	85,478,436
Total restricted assets	31,123,619	20,611,890	36,147,984	284,801	88,168,294
Noncurrent assets:					
Direct financing leases, net of unearned income of zero, $1,212,687, zero, and zero	-	4,492,292	-	-	4,492,292
Advances to the City of Harrisburg	-	1,963,009	-	-	1,963,009
Capital assets, not being depreciated	-	-	3,264,265	351,865	3,616,130
Capital assets, being depreciated, net of accumulated depreciation of $32,685,565, zero, $11,827,906, and zero	70,677,978	-	102,798,499	-	173,476,477
Deferred financing costs, net of accumulated amortization of $2,226,647, $915,960, $3,393,535, and zero	5,870,578	87,274	10,802,005	-	16,759,857
Total noncurrent assets	76,548,556	6,542,575	116,864,769	351,865	200,307,765
Total Assets	$ 115,265,197	$ 29,049,923	$ 153,434,427	$ 2,346,260	$ 300,095,807

THE HARRISBURG AUTHORITY

COMBINING BALANCE SHEET (Cont'd)

DECEMBER 31, 2007

Liabilities and Net Assets	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	$ 140,752	$ -	$ -	$ 11,320	$ 152,072
Current portion of amount due to the City of Harrisburg	163,675	-	742,980	-	906,655
Total current liabilities	304,427	-	742,980	11,320	1,058,727
Liabilities payable from restricted assets:					
Accounts payable	-	6,110	1,492,636	-	1,498,746
Accrued interest payable	3,210,315	-	2,033,066	-	5,243,381
Current portion of notes payable	-	156,773	710,000	-	866,773
Current portion of bonds payable	735,000	5,155,000	30,000	-	5,920,000
Total liabilities payable from restricted assets	3,945,315	5,317,883	4,265,702	-	13,528,900
Noncurrent liabilities:					
Due to the City of Harrisburg	713,324	-	86,642	-	799,966
Notes payable, net of discount of zero, zero, $3,806,366, and zero	-	1,959,299	99,868,634	-	101,827,933
Bonds outstanding, net of discount and deferred losses on refunding of $9,347,634, $3,147,487, $6,934,521, and zero	137,257,366	10,702,513	151,860,479	-	299,820,358
Deferred revenue	1,701,929	-	886,169	2,004,111	4,592,209
Accrued landfill closure and post closure care liability	-	-	2,322,996	-	2,322,996
Total noncurrent liabilities	139,672,619	12,661,812	255,024,920	2,004,111	409,363,462
Total Liabilities	143,922,361	17,979,695	260,033,602	2,015,431	423,951,089
Net Assets:					
Invested in capital assets, net of related debt	(35,927,433)	-	(102,433,413)	351,865	(138,008,981)
Restricted					
Debt service	-	19,326,788	-	-	19,326,788
Construction	-	1,285,103	-	-	1,285,103
Guarantee agreement	-	-	-	284,801	284,801
Unrestricted					
Water operations	2,396,928	-	-	-	2,396,928
Resource recovery operations	-	-	1,812,533	-	1,812,533
Other	4,873,341	(9,541,663)	(5,978,295)	(305,837)	(10,952,454)
Total Net Assets	(28,657,164)	11,070,228	(106,599,175)	330,829	(123,855,282)
Total Liabilities and Net Assets	$ 115,265,197	$ 29,049,923	$ 153,434,427	$ 2,346,260	$ 300,095,807

(Concluded)

THE HARRISBURG AUTHORITY

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

YEAR ENDED DECEMBER 31, 2007

	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Operating Revenues:					
User charges	$ 18,374,190	$ -	$ 12,788,862	$ 89,758	$ 31,252,810
Administrative fees	-	100,000	-	507,000	607,000
Total operating revenues	18,374,190	100,000	12,788,862	596,758	31,859,810
Operating Expenses:					
Operating	8,835,264	-	15,272,544	-	24,107,808
Administrative	200,000	100,000	207,000	674,346	1,181,346
Depreciation	2,170,589	-	4,253,682	-	6,424,271
Landfill closure and postclosure care expense	-	-	2,282,728	-	2,282,728
Total operating expenses	11,205,853	100,000	22,015,954	674,346	33,996,153
Operating Income (Loss)	7,168,337	-	(9,227,092)	(77,588)	(2,136,343)
Non-Operating Revenues (Expenses):					
Grant income	-	-	-	-	-
Investment income	2,020,830	1,127,676	1,193,550	92,882	4,434,938
Lease rental income	-	675,288	-	-	675,288
Miscellaneous revenues (expense)	(220,239)	(2,703)	(222,421)	147,540	(297,823)
Transfers to City's sewer operating fund	-	(1,524,015)	-	-	(1,524,015)
Interest expense	(8,577,550)	(1,388,565)	(12,555,540)	-	(22,521,655)
Amortization of deferred financing costs	(482,661)	(38,576)	(818,758)	-	(1,339,995)
Total nonoperating revenues (expenses)	(7,259,620)	(1,150,895)	(12,403,169)	240,422	(20,573,262)
Income (Loss) before transfers	(91,283)	(1,150,895)	(21,630,261)	162,834	(22,709,605)
Transfers in	-	-	1,000,000	-	1,000,000
Transfers out	-	-	-	(1,000,000)	(1,000,000)
Change in Net Assets	(91,283)	(1,150,895)	(20,630,261)	(837,166)	(22,709,605)
Net Assets:					
Beginning of year	(28,565,881)	12,221,123	(85,968,914)	1,167,995	(101,145,677)
End of year	$ (28,657,164)	$ 11,070,228	$ (106,599,175)	$ 330,829	$ (123,855,282)

THE HARRISBURG AUTHORITY

COMBINING SCHEDULE OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2007

	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Cash Flows From Operating Activities:					
Receipts from customers and users	$ 18,537,735	$ 100,000	$ 13,957,260	$ 291,751	$ 32,886,746
Receipts for interfund services	-	-	-	300,000	300,000
Payments to suppliers	-	-	(19,127,560)	(690,864)	(19,818,424)
Payments to management agent	(10,221,967)	(103,818)	-	(107,000)	(10,432,785)
Payments for interfund services	(200,000)	(100,000)	-	-	(300,000)
Net cash provided by (used in) operating activities	8,115,768	(103,818)	(5,170,300)	(206,113)	2,635,537
Cash Flows From Investing Activities:					
(Purchases) sales of investments, net	(1,851,669)	2,178,042	(10,329,981)	-	(10,003,608)
Investment income received	1,743,627	1,177,358	1,128,275	61,968	4,111,228
Payments received on direct financing leases	-	1,964,450	-	-	1,964,450
Net cash provided by (used in) investing activities	(108,042)	5,319,850	(9,201,706)	61,968	(3,927,930)
Cash Flows from Capital and Related Financing Activities:					
Decrease in obligation to construct assets under direct financing leases	-	(161,966)	-	-	(161,966)
Decrease in advances to the City of Harrisburg	-	149,635	-	-	149,635
Proceeds from issuance of notes payable	-	-	29,994,810	-	29,994,810
Payment for deferred financing costs	-	-	(1,222,670)	-	(1,222,670)
Acquisition and construction of capital assets	-	-	(2,347,453)	-	(2,347,453)
Interest paid	(6,698,674)	(110,110)	(11,802,480)	-	(18,611,264)
Principal paid on capital lease	388,334	-	(20,728)	-	367,606
Principal paid on long-term debt	(765,470)	(3,789,635)	(700,000)	-	(5,255,105)
Internal transfers	-	-	1,000,000	(1,000,000)	-
Transfers to City's sewer operating fund	-	(1,524,015)	-	-	(1,524,015)
Net cash flows provided by (used in) capital and related financing activities	(7,075,810)	(5,436,091)	14,901,479	(1,000,000)	1,389,578
Increase (Decrease) in Cash and Cash Equivalents	931,916	(220,059)	529,473	(1,144,145)	97,185
Cash and Cash Equivalents:					
Beginning of year	4,463,980	228,188	379,069	2,376,955	7,448,192
End of year	$ 5,395,896	$ 8,129	$ 908,542	$ 1,232,810	$ 7,545,377

THE HARRISBURG AUTHORITY

COMBINING SCHEDULE OF CASH FLOWS (Cont'd)

YEAR ENDED DECEMBER 31, 2007

	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)	$ 7,168,337	$ -	$ (9,227,092)	$ (77,588)	$ (2,136,343)
Adjustments to reconcile operating income (loss) to cash provided by (used in) operating activities					
Depreciation	2,170,589	-	4,253,682	-	6,424,271
Miscellaneous nonoperating income (expense)	(220,239)	(2,703)	(222,421)	31,716	(413,647)
Decrease (increase) in accounts receivable	163,545	-	1,068,398	(36,723)	1,195,220
(Increase) decrease in due from (to) other funds	(642,214)	-	749,214	(107,000)	-
(Increase) decrease in due from City of Harrisburg	(485,318)	-	-	-	(485,318)
(Increase) decrease in other receivables	-	-	100,000	-	100,000
(Increase) decrease in prepaid assets	-	-	(133,330)	-	(133,330)
Increase (decrease) in accounts payable	(38,932)	(101,115)	1,364,188	(16,518)	1,207,623
Increase (decrease) in due to City of Harrisburg	-	-	(5,405,667)	-	(5,405,667)
Increase (decrease) in accrued landfill closure and post closure care liability	-	-	2,282,728	-	2,282,728
Net cash provided by (used in) operating activities	$ 8,115,768	$ (103,818)	$ (5,170,300)	$ (206,113)	$ 2,635,537