MaherDuessel
Certified Public Accountants

The Harrisburg Authority

Financial Statements and Supplementary Information

Year Ended December 31, 2008 with Independent Auditor's Report

THE HARRISBURG AUTHORITY

YEAR ENDED DECEMBER 31, 2008

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MaherDuessel
Certified Public Accountants

Pittsburgh
Three Gateway Center
Six West
Pittsburgh, PA 15222
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

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, 2008, 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, 2008, 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 Authority incurred significant financings in December 2003 and, again, in December 2007, to fund the costs of the modernization project related to the Authority's Resource Recovery Facility. Additionally, the Resource Recovery Fund has experienced significant operating losses, has an accumulated deficit of $120,514,477 at December 31, 2008, and is in violation of certain covenants under the trust indentures. Additionally, as discussed further in Note 15 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 3, 2009

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THE HARRISBURG AUTHORITY

BALANCE SHEET

DECEMBER 31, 2008

Assets	
Current assets:	
Cash and cash equivalents	$ 4,999,230
Accounts receivable, net of allowance for uncollectible accounts of $1,778,089	5,303,140
Accrued interest receivable	21,509
Other receivables	21,800
Due from the City of Harrisburg	42,459
Current portion of direct financing lease	1,728,016
Current portion of advances to the City of Harrisburg	164,977
Total current assets	12,281,131
Restricted assets:	
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	3,940,646
Investments - restricted under trust indentures	72,530,540
Litigation settlement receivable	5,415,000
Total restricted assets	81,886,186
Noncurrent assets:	
Direct financing leases, net of unearned income of $744,543	3,102,400
Advances to the City of Harrisburg	1,798,032
Capital assets, not being depreciated	11,944,856
Capital assets, net of accumulated depreciation of $51,007,402	171,285,466
Deferred financing costs, net of accumulated amortization of $7,826,976	15,501,229
Total noncurrent assets	203,631,983
Total Assets	$297,799,300

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

Liabilities and Net Assets

Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	$ 651,287
Current portion of amount due to the City of Harrisburg	325,438
Total current liabilities	976,725
Liabilities payable from restricted assets:	
Accounts payable	7,334,460
Litigation costs payable	1,834,091
Accrued interest payable	5,469,872
Current portion of loan payable	1,275,000
Current portion of notes payable	914,977
Current portion of bonds payable	6,840,000
Total liabilities payable from restricted assets	23,668,400
Noncurrent liabilities:	
Due to the City of Harrisburg	607,636
Loan payable	6,958,000
Notes payable, net of premium of $1,626,001	103,093,321
Bonds outstanding, net of discount and deferred losses on refunding of $28,424,195	297,455,805
Deferred revenue	5,465,640
Accrued landfill closure and post-closure liability	2,270,163
Total noncurrent liabilities	415,850,565
Total Liabilities	440,495,690
Net Assets:	
Invested in capital assets, net of related debt	(154,022,947)
Restricted:	
Debt service	16,579,776
Construction	3,895,146
Guarantee agreement	295,358
Water operations	4,091,374
Unrestricted	(13,535,097)
Total Net Assets	(142,696,390)
Total Liabilities and Net Assets	**$297,799,300**

THE HARRISBURG AUTHORITY

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

YEAR ENDED DECEMBER 31, 2008

Operating Revenues:	
User charges	$ 39,948,756
Administrative fees	632,175
Total operating revenues	40,580,931
Operating Expenses:	
Operating	29,696,928
Administrative	1,423,274
Depreciation	6,509,237
Landfill closure and post-closure care expense	(82,847)
Total operating expenses	37,546,592
Operating Income	3,034,339
Non-Operating Revenues (Expenses):	
Investment income	2,335,284
Lease rental income	546,397
Miscellaneous expense	(463,283)
Transfers to City's sewer operating fund	(1,025,582)
Interest expense	(25,180,011)
Amortization of deferred financing costs	(1,669,161)
Total nonoperating revenues (expenses)	(25,456,356)
Change in Net Assets Before Extraordinary Item	(22,422,017)
Extraordinary Item:	
Litigation settlement	3,580,909
Change in Net Assets	(18,841,108)
Net Assets:	
Beginning of year	(123,855,282)
End of year	$ (142,696,390)

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

THE HARRISBURG AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008

Cash Flows From Operating Activities:	
Receipts from customers and users	$ 38,964,910
Payments to suppliers	(16,853,552)
Payments to management agent	(8,142,211)
Net cash provided by operating activities	13,969,147
Cash Flows From Investing Activities:	
Sales of investments, net	12,003,909
Investment income received	2,273,303
Payments received on direct financing leases	1,935,675
Net cash provided by investing activities	16,212,887
Cash Flows From Capital and Related Financing Activities:	
Increase in advances to the City of Harrisburg	156,773
Proceeds from issuance of notes payable	8,968,688
Proceeds from the issuance of bonds payable	68,301,918
Payment for deferred financing costs	(1,798,894)
Acquisition and construction of capital assets	(12,658,432)
Interest paid	(20,331,421)
Principal paid on capital lease	(192,267)
Principal paid on long-term debt	(6,550,305)
Payment to bond escrow agent	(56,110,000)
Payment for swap termination	(9,742,000)
Proceeds from swap suspension	1,250,000
Transfers to City's sewer operating fund	(1,025,582)
Net cash used in capital and related financing activities	(29,731,522)
Net Increase in Cash and Cash Equivalents	450,512
Cash and Cash Equivalents:	
Beginning of year	8,489,364
End of year	$ 8,939,876
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$ 3,034,339
Loss on disposal of capital assets	11,480
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,509,237
Miscellaneous nonoperating income (expense)	(582,033)
Increase in accounts receivable	(1,044,137)
Increase in other receivables	(11,800)
Decrease in prepaid assets	133,330
Increase in accounts payable	6,334,929
Decrease in due to City of Harrisburg	(363,365)
Decrease in accrued landfill closure and post-closure liability	(52,833)
Net cash provided by operating activities	$ 13,969,147

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 Governmental Accounting Standards Board (GASB). The

Authority follows only those Financial Accounting Standards Board standards issued on or before November 30, 1989, as allowed under GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*"

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "Invested in capital assets, net of related debt"; "Restricted for" various purposes; and "Unrestricted" components.

Non-recourse Debt Issues

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

Cash and Cash Equivalents

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

Investments

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
Water meter equipment	25 years
Buildings (including Resource Recovery Facility)	50 years
Office equipment	5-15 years
Office furnishings	15 years
Operating equipment	10-50 years
Vehicles	7 years

Advances to the City of Harrisburg

Advances to the City 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.

Extraordinary Item

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

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, 2008 were as follows:

Cash and cash equivalents	
Unrestricted	$ 4,999,230
Restricted under trust indentures and guarantee agreements	3,940,646
	$ 8,939,876

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, 2008, the Authority's book balance was $8,939,876 and the bank balance was $9,296,904. Of the bank balance, $508,076 was covered by federal depository insurance and $8,788,828 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, 2008, were as follows:

Money market funds	$ 43,535,048
U.S. Government agency obligations	15,096,712
U.S. Government obligations	215,633
Municipal bonds	9,738,348
Corporate bonds	3,944,799
Total	$ 72,530,540

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

The Authority's U.S. Government agency obligations and U.S. Government obligations include U.S. Treasury principal-only STRIPS and Resolution Funding Corporation principal-only STRIPS. These particular STRIPS have little credit and legal risk while the market risk is significant, as principal-only STRIPS are more sensitive to fluctuations in interest rates than other traditional investments. The carrying amount of these STRIPS as of December 31, 2008 was $6,431,434, and is reported as part of restricted investments on the balance sheet.

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

	Fair Value	% of Total
Federal National Mortgage Association	$ 8,286,911	11.43%
Resolution Funding Corporation - STRIPS	6,215,801	8.57%
General Obligation Pension Bonds - Illinois State	5,534,172	7.63%
American General Finance	3,944,799	5.44%

Credit Risk –The Authority does not have a formal policy that would limit its investment choices with regard to 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, 2008:

	Fair Value	Rating
Money market funds	$ 43,535,048	AAA
U.S. Government agency obligations - STRIPS	6,215,801	AAA
U.S. Government agency obligations	8,880,911	AAA
Municipal bonds	6,653,979	AA
Municipal bonds	812,080	A
Municipal bonds	2,272,289	Unavailable
Corporate bonds	3,944,799	Unavailable

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	$ 43,535,048	$ 43,535,048	$ -	$ -	$ -
U.S. Government agency obligations	15,096,712	8,637,419	-	-	6,459,293
U.S. Government obligations	215,633	215,633	-	-	-
Municipal bonds	9,738,348	-	-	1,931,887	7,806,461
Corporate bonds	3,944,799	3,944,799	-	-	-
Total	$ 72,530,540	$ 56,332,899	$ -	$ 1,931,887	$ 14,265,754

3. Capital Assets

Capital assets for the year ended December 31, 2008 are as follows:

	Balance at January 1, 2008	Additions/ Transfers In	Retirements/ Transfers Out	Balance at December 31, 2008
Capital assets, not being depreciated:				
Artifacts	$ 351,865	$ -	$ -	$ 351,865
Construction in progress	3,264,265	11,592,990	(3,264,264)	11,592,991
Total capital assets, not being depreciated	3,616,130	11,592,990	(3,264,264)	11,944,856
Capital assets, being depreciated:				
Land improvements	1,223,614	-	-	1,223,614
Buildings and improvements	116,757,412	3,264,264	-	120,021,676
Furniture and fixtures	328,075	44,477	-	372,552
Machinery and equipment	99,680,847	1,020,965	(26,786)	100,675,026
Total capital assets, being depreciated	217,989,948	4,329,706	(26,786)	222,292,868
Less: accumulated depreciation	(44,513,471)	(6,509,237)	15,306	(51,007,402)
Total capital assets being depreciated, net	173,476,477	(2,179,531)	(11,480)	171,285,466
Total capital assets, net	$ 177,092,607	$ 9,413,459	$ (3,275,744)	$ 183,230,322

4. Leases

At December 31, 2008, 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 systems. 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, 2008:

	Basic Lease Rental	Authority Administrative Fee	Total
2009	$ 1,858,081	$ 160,000	$ 2,018,081
2010	1,861,382	250,000	2,111,382
2011	1,855,496	250,000	2,105,496
	5,574,959	$ 660,000	$ 6,234,959
Less unearned income:	(744,543)		
Present value of net minimum lease payments	$ 4,830,416		

During the year ended December 31, 2008, the Authority received basic lease rentals of $1,857,422 from the City. These receipts represent interest income of $468,144 and a reduction of the lease rental receivable of $1,389,278. The Authority also received $55,000 in administrative fees from the City during the year ended December 31, 2008. Administrative fees in the amount of $5,000 are due from the City at December 31, 2008.

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 $1,870,312 as of December 31, 2008.

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 $5,188,198 at December 31, 2008, 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 $3,595,328 at December 31, 2008, is being amortized over the respective life of each agreement under a method that approximates the interest method.

Development and service agreement	$ 1,870,312
Debt service forward delivery and swap agreements	3,595,328
Total deferred revenue	$ 5,465,640

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 nor 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, 2008 follows:

	Issue Amount	Maturity/ Mandatory Redemption	Interest Rates	Purpose	Guaranteed by the City of Harrisburg
2008 Covanta Construction Loan	$ 25,500,000	2009 - 2018	4.00% - 8.00%	To perform the Retrofit completion work	Yes
2008 Water Revenue Bonds	69,420,000	2025 - 2031	4.88% - 5.25%	Currently refund the outstanding balance of the Authority's Variable Rate Water Revenue Refunding Bonds, Series A of 2003 and fund a swap termination payment	No
2007 Guaranteed Resource 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 Guaranteed Resource Recovery Revenue Bonds:					
Series A	22,555,000	2018 - 2034	5.50% - 6.25%	Advance refund or otherwise retire all of the outstanding 1998D Bonds and all of the outstanding 2000 Notes; and to fund working capital to assist in paying costs of compliance with the Derating Agreements and of maintaining the site of the Waste Management Facility	Yes
Series D1 and D2	96,480,000	2017 - 2033	variable	Financing the costs of the Retrofit	Yes

	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

	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 consisted 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 paid Societe Generale interest on the corresponding notional amount at a fixed rate of 4.710% per annum, and received 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 paid Societe Generale interest on the corresponding notional amount at a fixed rate of 5.105% per annum, and received in return interest at a floating rate equal to the SIFMA Index. Under the LIBOR Swap and the SIFMA Swap, the Authority had 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 decreased as the outstanding principal amount of the corresponding 2003 Water Revenue Bonds, Series A decreases through mandatory sinking fund redemption.

Termination 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 (2008 Water Revenue Bonds), issued on August 22, 2008. A portion of the 2008 Water Revenue Bonds were used to pay a $9,742,000 termination fee.

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 and have been transferred to the 2008 Water Revenue Bonds.

Terms – The Constant Maturity Swaps, which the Authority entered into with respect to its 2008 Water Revenue Bonds, consist of two separate components, a LIBOR-based Constant

Maturity Swap with $25,275,000 of outstanding principal amount of 2008 Water Revenue Bonds as the notional amount (LIBOR CMS) and a SIFMA-based Constant Maturity Swap with $25,020,000 of outstanding principal amount of 2008 Water Revenue Bonds 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 2008 Water Revenue Bonds decreases through mandatory sinking fund redemption. 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.

Fair value – As of December 31, 2008, it would cost the Authority $163,447 to terminate the LIBOR CMS and it would cost the Counterparty $54,042 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, 2008, the Authority was not exposed to credit risk, with respect to the LIBOR CMS, because the swap had a negative fair value. However, should interest rates change and the fair value of the LIBOR CMS become positive, the Authority would be exposed to credit risk in the amount of the respective LIBOR CMS agreement's fair value. As of December 31, 2008, the Authority was exposed to credit risk in the amount of the SIFMA CMS agreement's fair value. Deutsche Bank was rated A+ by Standard & Poor's and Aa1 by Moody's Investors Service as of December 31, 2008. 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 - Effective November 19, 2008, both the LIBOR CMS and SIFMA CMS were suspended until January 15, 2011, for a payment to the Authority in the amount of $1,250,000.

Subsequent Event – As of November 20, 2009, it would cost the Counterparty $996,751 and $750,769 to terminate the LIBOR CMS and SIFMA CMS with Authority, respectively.

Deutsche Bank was rated A+ by Standard & Poor's and Aa1 by Moody's Investor Service as of November 20, 2009.

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 Bank of America (formerly 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 Bank of America'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 Bank of America 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 Bank of America 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, 2008, it would cost the Authority $1,553,847 to terminate the 2005 Basis Swap, as amended, with Bank of America. 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, 2008, 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 become positive, the Authority would be xposed to credit risk in the amount of the swap agreement's fair value. Bank of America was rated A by Standard & Poor's and A2 by Moody's Investors Service as of December 31, 2008. To mitigate the potential for credit risk, if Bank of America'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 Bank of America 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 Bank of America 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 Bank of America, which is based on the SIFMA Index, a tax-exempt rate. As of December 31, 2008, the interest rate the Authority was paying under the 2005 Basis Swap was .9 percent, where as the interest the Authority was receiving at 69% of the five-year LIBOR Swap Rate was 1.48 percent.

Termination risk – The Authority or Bank of America may terminate the swap agreement if the other party defaults under the swap agreement. The swap may be terminated by the Authority if Bank of America'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 Bank of America for a payment equal to the swap's fair value.

Swap payments and associated debt – Using rates as of December 31, 2008, 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.

	2004 Water Revenue Bonds			
Fiscal Year Ending December 31,	Principal	Interest	Swap Agreement Payments, Net	Total
2009	$ 125,000	$ 1,833,498	$ (214,861)	$ 1,743,637
2010	125,000	1,829,748	(214,136)	1,740,612
2011	125,000	1,825,060	(213,411)	1,736,649
2012	135,000	1,820,872	(212,686)	1,743,186
2013	140,000	1,816,080	(211,903)	1,744,177
2014-2018	6,170,000	8,984,500	(1,045,131)	14,109,369
2019-2023	30,225,000	4,408,750	(511,415)	34,122,335
	$ 37,045,000	$ 22,518,508	$ (2,623,543)	$ 56,939,965

Subsequent Event – As of November 20, 2009, it would cost the Counterparty $1,255,967 to terminate the 2005 Basis Swap, as amended, with Bank of America.

Bank of America was rated A by Standard & Poor's and A2 by Moody's Investor Service as of November 20, 2009.

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, which terminated 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.

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%.

Fair value – As of December 31, 2008, it would cost the Counterparty $4,558,958 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, 2008, it would cost the Authority $6,403,158 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, 2008, it would cost the Authority $5,624,156 to terminate the 2005 Swap.

Credit risk – As of December 31, 2008, the Authority was not exposed to credit risk on 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, 2008, 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-2 Swap 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-2 Swap if the other party defaults under the D-2 Swap. In addition, the Authority may terminate the 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-2 Swap has 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, 2008, 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 –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	D-1 Bonds		2005	
December 31,	Principal	Interest	Swap *	Total
2009	$ -	$ 2,124,900	$ 961,210	$ 3,086,110
2010	-	2,124,900	961,210	3,086,110
2011	-	1,023,100	480,605	1,503,705
	$ -	$ 5,272,900	$ 2,403,025	$ 7,675,925

*Computed: (3.35%-.2967%) x $31,480,000 through June 1, 2011

Fiscal Year Ending	D-2 Bonds			2005	
December 31,	Principal	Interest	D-2 Swap *	Swap **	Total
2009	$ -	$ 3,250,000	$ (1,605,500)	$ 1,984,710	$ 3,629,210
2010	-	3,250,000	(1,605,500)	1,984,710	3,629,210
2011	-	3,250,000	(1,605,500)	992,355	2,636,855
2012	-	3,250,000	(1,605,500)	-	1,644,500
2013	-	3,250,000	(1,605,500)	-	1,644,500
	$ -	$ 16,250,000	$ (8,027,500)	$ 4,961,775	$ 13,184,275

*Computed: (.9%-3.37%) x $65,000,000

**Computed: (3.35%-.2967%) x $65,000,000 through June 1, 2011

Subsequent Event – As of November 20, 2009, it would cost the Counterparty $5,438,379 to terminate the D-2 Swap and the embedded D-2 Cap. As of November 20, 2009, it would cost the Authority $4,719,654 to terminate the D-1/D-2 Cap. As of November 20, 2009, it would cost the Authority $5,669,373 to terminate the 2005 Swap.

RBC was rated AA- by Standard & Poor's and Aaa by Moody's Investor Service as of November 20, 2009.

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, 4.5 percent at December 31, 2008.

2002 Water Revenue Bonds, Series C

These Bonds bear interest at a taxable weekly rate, 6 percent at December 31, 2008.

1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 2.4375 percent at December 31, 2008.

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The following table presents annual principal and interest payments for long-term debt outstanding at December 31, 2008:

	2009	2010	2011	2012
Bonds outstanding:				
Water Revenue Bonds				
Series of 2008	$ 3,259,025	$ 3,555,300	$ 3,555,300	$ 3,555,300
Series of 2004 (A)	1,743,637	1,740,612	1,736,649	1,743,186
Series A of 2002	767,000	767,000	767,000	767,000
Series B of 2002 (B)	1,036,575	1,036,575	2,906,575	3,542,425
Series C of 2002 (B)	462,000	462,000	462,000	462,000
Series D of 2002	154,255	2,394,255	538,815	-
Series A of 2001	739,275	734,775	739,275	743,225
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)	6,715,320	6,715,320	4,140,560	2,667,600
Series E of 2003	2,096,060	2,099,205	2,099,458	2,096,818
Series F of 2003	2,029,790	2,029,490	2,031,490	2,030,565
Series A of 1998	596,815	600,170	558,250	558,250
Sewer Revenue Bonds				
Series of 1992 1st	1,165,000	1,170,000	1,165,000	1,165,000
Series of 1992 2nd	565,000	565,000	565,000	565,000
Series of 1989 2nd	1,165,000	1,170,000	1,165,000	1,165,000
Series of 1989 3rd	565,000	565,000	565,000	565,000
Total principal and interest, bonds	$ 24,354,277	$ 26,899,227	$ 24,289,897	$ 22,920,894
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	1,192,485	1,192,485
Series C of 2003	1,214,250	1,214,250	1,214,250	1,214,250
Series A of 2002	1,655,873	1,652,377	1,656,562	1,659,950
Guaranteed Sewer Revenue Notes				
Series A and B of 1998 (B)	215,493	219,180	222,718	226,110
Total principal and interest, notes	$ 4,161,761	$ 38,846,952	$ 4,286,015	$ 4,292,795
Less:				
Interest				
Unamortized premium				
Total notes payable, net of premium				
Loans payable				
Resource Recovery construction loan	$ 1,275,000	$ 1,912,500	$ 1,415,000	$ 560,000
Less:				
Interest				
Total loans payable, net				

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

(B) - Uses variable rate in effect at December 31, 2008 as disclosed on page 27.

2013	2014 to 2018	2019 to 2023	2024 to 2028	2029 to 2033	2034	Total
$ 3,555,300	$ 17,776,500	$ 17,776,500	$ 51,289,950	$ 37,191,000	$ -	$141,514,175
1,744,177	14,109,369	34,122,335	-	-	-	56,939,965
767,000	3,835,000	10,380,000	8,026,750	1,585,500	-	27,662,250
3,685,875	17,623,775	-	-	-	-	29,831,800
462,000	2,310,000	2,310,000	2,310,000	8,162,000		17,402,000
-	-	-	-	-	-	3,087,325
740,162	2,242,925	-	-	-	-	5,939,637
1,294,525	6,537,625	16,104,125	7,640,650	2,250,000	7,650,000	46,655,025
2,667,600	23,016,725	36,711,064	38,032,228	39,692,247	-	160,358,664
2,096,775	7,728,097	-	-	-	-	18,216,413
2,027,535	7,507,985	-	-	-	-	17,656,855
558,250	7,485,000	6,882,250	-	-	-	17,238,985
-	-	-	-	-	-	4,665,000
-	-	-	-	-	-	2,260,000
-	-	-	-	-	-	4,665,000
-	-	-	-	-	-	2,260,000
$ 19,599,199	$110,173,001	$124,286,274	$107,299,578	$ 88,880,747	$ 7,650,000	556,353,094
						223,633,094
						(4,866,520)
						33,290,715
						$304,295,805
$ -	$ -	$ -	$ -	$ -	$ -	$ 23,920,000
-	-	-	-	-	-	10,765,000
1,192,485	5,962,425	5,962,425	22,730,485	12,094,720	-	52,479,800
1,214,250	6,071,250	6,071,250	6,071,250	22,869,750	6,993,000	54,147,750
1,656,231	8,315,038	6,654,247	-	-	-	23,250,278
230,344	1,117,240	-	-	-	-	2,231,085
$ 4,293,310	$ 21,465,953	$ 18,687,922	$ 28,801,735	$ 34,964,470	$ 6,993,000	166,793,913
						61,159,614
						1,626,001
						$104,008,298
$ 560,000	$ 2,800,000	$ 1,409,136	$ -	$ -	$ -	$ 9,931,636
						1,698,636
						$ 8,233,000

Long-term liability activity for the year ended December 31, 2008 was as follows:

	Beginning Balance at January 1, 2008	Additions	Accretion/ Amortization	Reductions	Ending Balance at December 31, 2008	Amounts Due Within One Year
Loans payable	$ -	$ 8,233,000	$ -	$ -	$ 8,233,000	$ 1,275,000
Notes payable	106,501,072	-	-	(866,773)	105,634,299	914,977
Bonds payable	325,170,000	69,420,000	-	(61,870,000)	332,720,000	6,840,000
Total loans, notes, and bonds payable	431,671,072	77,653,000	-	(62,736,773)	446,587,299	9,029,977
Less:						
Unamortized premium (discount)	1,733,787	(1,118,081)	1,889,125	735,688	3,240,519	-
Deferred loss on refunding	(24,969,795)	(14,341,493)	2,732,973	3,287,600	(33,290,715)	-
	$ 408,435,064	$ 62,193,426	$ 4,622,098	$ (58,713,485)	$ 416,537,103	$ 9,029,977

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, were applied to: (i) currently refund the outstanding balance of the Authority's Variable Rate Water Revenue Refunding Bonds, Series A of 2003 (2003A Bonds), (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. The Authority's current refunding increased its total debt service payments through the year 2031 by $30.7 million and created an economic loss (difference between the present values of the old and new debt service payments) of $10.3 million. This comparison of the 2008 Bonds (used to refund the 2003A bonds and terminate the related fixed payor swaps) to the variable rate 2003A Bonds (for purposes of this calculation assuming a 3.50% variable bond rate) plus the estimated swap cash flows (which assumed a 3.5% swap receipt).

During 2007, the Authority entered into a First Amendment and Management and Professional Services Agreement with a waste management facility operator (operator). As part of that agreement, the operator agreed to advance the costs incurred in the retrofit completion up to $25,500,000. At December 31, 2008, the Authority had drawn down $8,233,000. This loan constitutes subordinate debt of the Authority pursuant to the provisions of the Authority's various debt indentures. No interest accrues until July 1, 2010, at which time simple interest begins to accrue at the rate of 4% per annum until July 1, 2011 and at a rate of 8% per annum thereafter. Interest is payable beginning August 1, 2010 and continuing thereafter in quarterly installments due and payable on the first day of each calendar quarter. Principal is to be paid beginning on July 1, 2009 in quarterly installments due and payable on the first day of each calendar quarter based on a 10-year, mortgage-style amortization schedule. This loan is guaranteed by the City

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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, 2008, the following defeased debt was outstanding:

Water Revenue Bonds, Series A of 1999	$ 4,510,000
Seventh Street Office & Parking Revenue Bonds, Series A of 1998	12,605,000
Seventh Street Office & Parking Revenue Bonds, Series B of 1998	6,185,000
Resource Recovery Bonds, Series A of 1998	17,400,000
Resource Recovery Bonds, Series B of 1998	7,415,000
Resource Recovery Bonds, Series C of 1998	3,315,000
Resource Recovery Bonds, Series A of 2000	4,195,000
Resource Recovery Bonds, Series B of 2000	3,050,000
Total outstanding defeased debt	$ 58,675,000

7. SEGMENT INFORMATION

The Authority supports three separate segments. The Water Fund accounts for the provision of basic water service to customers of the Harrisburg Water System. The Sewer Fund accounts for the leasing of the wastewater conveyance and treatment system to the City under a direct financing lease. The Resource Recovery Fund accounts for the activities at the Harrisburg Resource Recovery and Steam Generating Facility (Resource Recovery Facility), which converts waste into energy. Selected segment information as of and for the year ended December 31, 2008 is as follows:

CONDENSED STATEMENT OF NET ASSETS	Water Segment	Sewer Segment	Resource Recovery Segment
Assets			
Current assets:			
Other current assets	$ 5,755,005	$ 1,751,100	$ 3,400,438
Due to other funds	236,105	-	(621,929)
Due to the City of Harrisburg	42,459	164,977	-
Total current assets	6,033,569	1,916,077	2,778,509
Restricted assets	35,037,620	16,894,013	29,659,195
Capital assets	68,513,184	-	114,365,273
Advances to the City of Harrisburg	-	1,798,032	-
Other noncurrent assets	5,309,991	3,158,426	10,135,212
Total assets	$ 114,894,364	$ 23,766,548	$ 156,938,189
Liabilities			
Current liabilities:			
Other current liabilities	$ 3,354,769	$ -	$ 820,892
Due to the City of Harrisburg	162,339	-	163,099
Total current liabilities	3,517,108	-	983,991
Liabilities payable from restricted assets	3,989,487	3,699,759	15,979,154
Noncurrent liabilities	139,305,279	10,038,923	260,433,087
Due to the City of Harrisburg	551,202	-	56,434
Total liabilities	147,363,076	13,738,682	277,452,666
Net assets:			
Invested in capital assets, net of related debt	(36,560,086)	-	(117,814,726)
Restricted	2,126,115	16,894,013	3,580,909
Unrestricted	1,965,259	(6,866,147)	(6,280,660)
Total net assets	(32,468,712)	10,027,866	(120,514,477)
Total liabilities and net assets	$ 114,894,364	$ 23,766,548	$ 156,938,189

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS	Water Segment	Sewer Segment	Resource Recovery Segment
Operating revenues	$ 17,713,499	$ 60,000	$ 22,198,705
Operating expenses:			
Operating	9,121,374	-	20,492,707
Administration	300,000	60,000	212,175
Depreciation	2,160,812	-	4,348,425
Total operating expenses	11,582,186	60,000	25,053,307
Operating income (loss)	6,131,313	-	(2,854,602)
Nonoperating revenues (expenses):			
Investment income	965,645	552,762	777,242
Lease rental income	-	546,397	-
Miscellaneous expense	(674,025)	(4,351)	84,252
Transfers to City's sewer operating fund	-	(1,025,582)	-
Interest expense	(9,798,083)	(1,080,340)	(14,301,588)
Amortization of bond issuance costs	(436,398)	(31,248)	(1,201,515)
Total nonoperating revenues (expenses)	(9,942,861)	(1,042,362)	(14,641,609)
Change in net assets before extraordinary item	(3,811,548)	(1,042,362)	(17,496,211)
Extraordinary item	-	-	3,580,909
Change in net assets	(3,811,548)	(1,042,362)	(13,915,302)
Net assets - January 1, 2008	(28,657,164)	11,070,228	(106,599,175)
Net assets - December 31, 2008	$ (32,468,712)	$ 10,027,866	$ (120,514,477)

CONDENSED STATEMENT OF CASH FLOWS	Water Segment	Sewer Segment	Resource Recovery Segment
Net cash provided by (used in) operating activities	$ 9,007,354	$ 52,521	$ 4,720,845
Net cash provided by investing activities	(3,200,823)	6,206,260	13,182,864
Net cash used in capital and related financing activities	(6,502,765)	(6,258,834)	(16,969,923)
Net increase (decrease) in cash and cash equivalents	(696,234)	(53)	933,786
Cash and cash equivalents, January 1, 2008	5,395,896	8,129	1,852,529
Cash and cash equivalents, December 31, 2008	$ 4,699,662	$ 8,076	$ 2,786,315

At December 31, 2008, 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 11, 14 and 15 discuss the deficit in the Resource Recovery segment.

8. NON-RECOURSE DEBT ISSUES

As discussed in Note 1, the following non-recourse debt issues were outstanding at December 31, 2008:

City of Harrisburg, Series I of 1997	$ 1,180,000
Haverford Township, Series of 2002	4,545,000
Cumberland Valley School District, Series of 2002	19,530,000
Harrisburg School District, Series A of 2002	28,390,000
Township of Uwchlan, Series of 2002	2,240,000
Township of West Brandywine, Series of 2002	4,340,000
Harrisburg School District, Series of 2003	73,415,000
	$ 133,640,000

9. MANAGEMENT AGREEMENTS WITH THE CITY OF HARRISBURG

The Authority has entered into a 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 $9,421,374 in expenses under the Water System management agreements in 2008.

At December 31, 2008, $42,459 is included in the amount due from the City of Harrisburg for the Water segment and $132,891 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, 2008 has a cost and a net book value of $886,890 and $339,964. The leases expire from March 2011 through December 2017. 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. The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments at December 31, 2008 are as follows:

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		872,986
Amount representing interest		(72,803)
Present value of net minimum lease payments	$	800,183

The following represents the amounts due to the City at December 31, 2008:

Resource Recovery segment operating expenses	$	132,891
Water segment operating expenses		(42,459)
Water capital lease		
Current portion		162,339
Long-term portion		551,202
Resource Recovery capital lease		
Current portion		30,208
Long-term portion		56,434
Due to the City of Harrisburg	$	890,615

10. LANDFILL CLOSURE AND POST-CLOSURE 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 post-closure 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.

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 post-closure 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 post-closure cost estimate.

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.

The Authority has accrued $2,270,163 for landfill closure and post-closure care costs as of December 31, 2008, which represents the use of 96.4% of the estimated capacity of the disposal area. Based on the annual usage at December 31, 2008, the estimated remaining life of the landfill is approximately six 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 at December 31, 2008.

As of December 31, 2008, cash and investments of $1,511,097 are held for closure and post-closure care expenses. Those funds are reported as restricted assets on the balance sheet.

During 2009, the Authority received a landfill permit extension for another four years. The capacity will last that long, if the Authority continues to remove ash from the landfill for disposal/beneficial use at another landfill, as fast as it is generated at the Harrisburg landfill.

11. Commitments and Contingencies

Resource Recovery Fund

The rate covenant calculation required under applicable trust indentures pertaining to the Resource Recovery Facility financing has not been met for the year ended December 31, 2008. 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 will be required to pay principal of 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 (County) 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.

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, 2008, the Authority's balance in the Resource Recovery operating reserve fund was $219 and the reserve requirement was $3,763,974. 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 2008 and 2009 budgets were approved by the Board of Directors in December 2007 and June 2009, 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 2008 and 2009 consulting engineers' reports, which are due, per the trust indenture, 90 days prior to the end of the calendar year, were not received by the Authority until 2009. 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 Covanta Energy, Inc. (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 and is included in accounts payable at 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.
Under the sublicense, the Authority will pay to CIT the following fees:

<u>Base Fee</u> - 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 or 2008.

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, the original designer and contractor of the Resource Recovery Facility's retrofit project. 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. Thousands of documents have been reviewed and over 15 depositions have been taken in the case. The case does not have a trial date at this point, as discovery issues are being resolved by the Court. It is expected that following resolution of discovery disputes, all parties will file dispositive motions, and, barring resolution through motions, will proceed to trial.

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 believes 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 pending cases before the Dauphin County Court of Common Pleas in which subcontractors of Barlow, unable to collect from Barlow for work performed at the Resource Recovery Facility, have sued the Authority, basically for proceeding without payment bonds or other adequate security for payment and based on unjust enrichment. Only one of the two subcontractors is actively pursuing the claim as of October 2009 and this claim, which dates from May 2006, is in the amount of $529,550 plus interest, costs, etc.

The Authority is involved in litigation involving malfunction of the steam turbine at the Resource Recovery Facility. The claims stem from the Authority's purchase of a steam-turbine generator. Two incidents occurred involving a power outage which, after subsequent failures of the back-up lubrication system, resulted in severe damage to moving parts within the turbine generator and other property, including the rotor. Additionally, an inspection of the turbine blades conducted during the repairs revealed a defect in the eighth stage blade, which occurred during the manufacturing process of the steam turbine generator. The Authority is involved in the assertion of a claim against the manufacturer, which was filed in April 2009. In November 2009, the manufacturer filed an amended counter-claim versus the Authority for breach of contract. The manufacturer asserts that the Authority has not paid approximately $450,000 in repair bills that were submitted to the Authority. The Authority's management is currently investigating the facts underlying the counterclaim.

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 are 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, 2008.

Water Fund

The Water Facility's 2008 and 2009 budgets were approved by the Board of Directors in March 2008 and June 2009, respectively. As required under the trust indenture, the budget is required to be approved 30 days prior to the end of the calendar year and provided to the bond insurer within 120 days of year-end. Additionally, the 2008 consulting engineers' report, which is due, per the trust indenture, 90 days prior to the end of the calendar year, was not been received by the Authority until July 2009. 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, 2008.

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.

During the year ended December 31, 2008, the Authority entered into various construction contracts related to the construction of the Resource Recovery Facility. The original amount of the contracts, including change orders, was $8,700,560. At December 31, 2008, the balance remaining under these contracts was $4,333,460, with $3,204,997 recorded in accounts payable.

12. Extraordinary Item

The Authority has pursued standard civil litigation against the original designer and contractor of the Resource Recovery Facility's retrofit project. On October 28, 2009, a settlement was entered into by all parties. Pursuant to the settlement, the Authority is to receive approximately $5.4 million in settlement payments, with $1.8 million due to the attorneys representing the Authority in this matter.

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 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 Authority's Resource Recovery Facility, 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 $124,571,520 at December 31, 2008, 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 retrofit as originally anticipated.

In the fall of 2007, the Authority developed a recovery plan for the Resource Recovery Facility that requires completion of construction of the facilities to bring the three burners on line and up to operating efficiently. The Authority engaged 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 recovery plan also included increased disposal fees and tipping fees and infusion of capital for construction and working capital. The Authority's recovery plan was presented and approved by the City and County in November 2007.

The completion of the retrofit project and correction of design flaws caused by the original contractor are funded by a loan from Covanta to pay for such work. Payment of the debt service on the Covanta loan will be from revenue generated from the facility when all three burners are operating (although the Covanta loan is subordinate in payment to the Authority's prior debt relating to the Resource Recovery Facility) and from the City's guaranty to pay debt service in the event of insufficient revenues being generated from the facility to pay principal of and interest on the Covanta loan.

The Authority also obtained funding for a working capital loan to cover costs and debt service during the expected time period for completion of the retrofit project by the issuance of capital appreciation notes. Such notes for the working capital loan were issued in December of 2007 and will mature on December of 2010. Revenues from the Resource Recovery Facility were not pledged as security for the working capital loan. The working capital loan was guaranteed by the City and the County on the assumption that the working capital loan would be refinanced into long term debt prior to or, at the latest, by December 2010. At the time of closing on the working capital loan, it was anticipated that the City and the County would guarantee any long term debt issued to take out the working capital loan.

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

15. Subsequent Events

In the fall of 2008, the Authority suggested a rate increase for the City and County. The City's rate increase went into effect on January 1, 2009. The County rejected the Authority's request and became the subject of arbitration proceedings in January 2009. The arbitrator's decision resulted in the Authority's inability to comply with the bond indenture's rate covenants and loss of projected 2009 revenue in the amount of $13.1 million.

On March 20, 2009, the Authority issued a notice of material event with respect to the Authority's Series A Bonds of 1998. The 1998 Series A, B and C Debt Service Account did not have sufficient funds to pay the scheduled interest payment of $280,908 due on the 1998 Series A Bonds on March 1, 2009. The amount of $86,662 was on deposit with the Trustee with respect to the 1998 Series A Bonds resulting in a deficiency of $195,346. 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 1998 Series A, B and C Debt Service Account. Accordingly, the City transferred monies to the Trustee to address the deficiency. Although a material event notice has not been filed, the Authority was unable to make the September 1, 2009 debt service payment with respect to the 1998 Series A Bonds in the amount of $315,908. The City transferred monies to the Trustee to address the deficiency in the amount of $213,863.

On June 22, 2009, the Authority issued a notice of material event with respect to the Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled interest payment of $446,732 due on the 2002 Series A Notes on May 1, 2009. The amount of $5,749 was on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of $440,983. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified the Authority and the City of such deficiency in the 2002 Debt Service Account. Accordingly, the City transferred monies to the Trustee to address the deficiency. The City has also funded a portion of the November 1, 2009 payment due on the Series A Notes of 2002 in the amount of $395,732. The balance of the November 1, 2009 payment, in the amount of $801,000, was paid from the Authority's Debt Service Reserve Fund.

On March 20, 2009, the Authority issued a notice of material event with respect to the Authority's Series A, B, and C Bonds of 2003. The Series of 2003 Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments in the amount of

$647,262, $538,073, and $607,125 due on the Series A, B, and C of 2003 Bonds, respectively, on March 1, 2009. The amount of $16,612, $16,581, and $16,596 was on deposit with the Trustee with respect to the Series A, B, and C of 2003 Bonds, respectively, resulting in a deficiency of $630,650, $521,492, and $590,529. 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 Series of 2003 Debt Service Accounts. Accordingly, the City transferred monies to the Trustee to address the deficiency. Although a material event notice has not been filed, the Authority was unable to make the September 1, 2009 debt service payment with respect to the Series A, B, and C Bonds of 2003 in the amount of $1,792,460. The City transferred monies to the Trustee to address the deficiency.

On July 16 and July 22, 2009, 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 Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments in the amount of $1,062,450, $1,625,000, $353,030, and $344,895 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on June 1, 2009. The amount of $200,982, $34, $3, and $72,636 was on deposit with the Trustee with respect to the Series D-1, D-2, E, and F Bonds of 2003, respectively, resulting in a deficiency of $861,468, $1,624,966, $353,027, and $272,259. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of the Authority's Resource Recovery Facility to pay debt service on the Series D-1, D-2, E, and F Bonds, then the Trustee is to draw upon the City Bond Guaranty as such term is defined in the City Bond Guaranty Agreement for the monies for debt service. 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 Series of 2003 D-1, D-2, E, and F Retrofit Debt Service Accounts. However, the City notified the Trustee that the City was not able to transfer funds for the debt service payment due on the Series D-1, D-2, E, and F Bonds on June 1, 2009. Upon the failure of the City to advance monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew $861,468, $1,624,966, $353,027, and $272,259, respectively, from the 2003D, E and F Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund on May 26, 2009 in accordance with the trust indenture and transferred such amount to the Retrofit Debt Service Account to address the deficiency in such account for the payment of interest on the Series D-1, D-2, E, and F Bonds on June 1, 2009. The City has also funded a portion of the December 1, 2009 payment due on the Series D-1, D-2, E, and F Bonds in the amount of $832,850. The balance of the December 1, 2009 payment, in the amount of $5,282,525, was paid from the Authority's Debt Service Reserve Fund.

Deficiencies in the Debt Service Reserve Accounts are to be repaid in not more than 12 substantially equal monthly payments on the first day of the month after the occurrence of such deficiency. As of November 2009, the Authority has not made any payments to replenish the Debt Service Reserve Accounts, whose total deficiency is approximate $11 million.

Additionally, the County made payments in the amount of $284,195 and $491,458 on June 1, 2009 under the County Guaranty with respect to the Series D-1 and D-2 Cap agreement and the Series D-1 and D-2 Swap agreement, respectively. The County has also funded the December 1, 2009 payments in the amount of approximately $1.8 million. The City made payments in the amount of $637,500 during July 2009 and again in October 2009 under the guaranty with respect to construction loan from Covanta. It is anticipated that the January 2010 payment will need to be funded by the City.

In July 2009, the County initiated a suit against the Authority, the City and the individual officials, City Council members and the Mayor of Harrisburg. The County is seeking reimbursement of its payment made on June 1, 2009, in the amount of $775,653, pursuant to its guaranty obligations under the County Swap Guaranty agreement. The County further seeks to compel the Authority to pay the amount of $2,795,386 to replenish a Debt Service Reserve Fund pursuant to a Retrofit Indenture and the Reimbursement Agreement. In addition, the County seeks an equitable accounting by the Authority, disclosure of information, and an order compelling the Authority to make all future swap payments and payments under the Retrofit Indenture in a complete and timely manner.

The Authority has indicated that it will contest the County's lawsuit. The relevant documents in this case require that the Authority reimburse the County and City for payments each makes under the relevant guaranty agreements. But these agreements place the County in a subordinate position of priority where they are paid after all debt service is paid and are only paid with revenues generated by the Resource Recovery Facility. The Authority will vigorously contest any effort by the County to ignore the documents and the priority they dictate. Additionally, the Authority has been strained in meetings its obligations under the Swap Agreement, and its ability to replenish a debt service reserve fund, due to the County's refusal to negotiate or agree to an increased tipping fee. The Authority asserts that the County has frustrated the Authority's ability to comply with its contractual undertakings.

During 2009, the Authority has entered into various construction contracts in the amount of approximately $4.4 million.

16. Pending Changes in Accounting Standards

In June 2008, the GASB issued Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments"*. The Statement addresses how the Authority should account for and report its derivatives. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals. The requirements of this Statement are effective for the Authority's December 31, 2010 financial statements.

MaherDuessel
Certified Public Accountants

Supplementary Information

THE HARRISBURG AUTHORITY

COMBINING BALANCE SHEET

DECEMBER 31, 2008

Assets	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Current assets:					
Cash and cash equivalents	$ 2,573,547	$ -	$ 1,275,218	$ 1,150,465	$ 4,999,230
Accounts receivable, net of allowance for uncollectible accounts of $1,341,471, zero, $436,618, and zero	3,161,233	-	2,125,220	16,687	5,303,140
Accrued interest receivable	20,225	1,284	-	-	21,509
Other receivables	-	21,800	-	-	21,800
Due from the City of Harrisburg	42,459	-	-	-	42,459
Due from (to) other funds	236,105	-	(621,929)	385,824	-
Current portion of direct financing lease	-	1,728,016	-	-	1,728,016
Current portion of advances to the City of Harrisburg	-	164,977	-	-	164,977
Total current assets	6,033,569	1,916,077	2,778,509	1,552,976	12,281,131
Restricted assets:					
Cash and cash equivalents - restricted under trust indentures and guarantee agreement	2,126,115	8,076	1,511,097	295,358	3,940,646
Investments - restricted under trust indentures	32,911,505	16,885,937	22,733,098	-	72,530,540
Litigation settlement receivable	-	-	5,415,000	-	5,415,000
Total restricted assets	35,037,620	16,894,013	29,659,195	295,358	81,886,186
Noncurrent assets:					
Direct financing leases, net of unearned income of zero, $744,543, zero, and zero	-	3,102,400	-	-	3,102,400
Advances to the City of Harrisburg	-	1,798,032	-	-	1,798,032
Capital assets, not being depreciated	-	-	11,592,991	351,865	11,944,856
Capital assets, being depreciated, net of accumulated depreciation of $34,831,071, zero, $16,176,331, and zero	68,513,184	-	102,772,282	-	171,285,466
Deferred financing costs, net of accumulated amortization of $2,284,716, $947,208, $4,595,052, and zero	5,309,991	56,026	10,135,212	-	15,501,229
Total noncurrent assets	73,823,175	4,956,458	124,500,485	351,865	203,631,983
Total Assets	$ 114,894,364	$ 23,766,548	$ 156,938,189	$ 2,200,199	$ 297,799,300

(Continued)

THE HARRISBURG AUTHORITY

COMBINING BALANCE SHEET

DECEMBER 31, 2008
(Continued)

Liabilities and Net Assets	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	$ 580,333	$ -	$ -	$ 70,954	$ 651,287
Current portion of amount due to the City of Harrisburg	162,339	-	163,099	-	325,438
Total current liabilities	742,672	-	163,099	70,954	976,725
Liabilities payable from restricted assets:					
Accounts payable	-	74,782	7,259,678	-	7,334,460
Litigation costs payable	-	-	1,834,091	-	1,834,091
Accrued interest payable	3,374,487	-	2,095,385	-	5,469,872
Current portion of loan payable	-	-	1,275,000	-	1,275,000
Current portion of notes payable	-	164,977	750,000	-	914,977
Current portion of bonds payable	615,000	3,460,000	2,765,000	-	6,840,000
Total liabilities payable from restricted assets	3,989,487	3,699,759	15,979,154	-	23,668,400
Noncurrent liabilities:					
Due to the City of Harrisburg	551,202	-	56,434	-	607,636
Loan payable	-	-	6,958,000	-	6,958,000
Notes payable, net of discount of zero, zero, $1,626,001, and zero	-	1,794,322	101,298,999	-	103,093,321
Bonds outstanding, net of discount and deferred losses on refunding of $20,154,721, $2,145,399, $6,124,075, and zero	139,305,279	8,244,601	149,905,925	-	297,455,805
Deferred revenue	2,774,436	-	820,892	1,870,312	5,465,640
Accrued landfill closure and post-closure care liability	-	-	2,270,163	-	2,270,163
Total noncurrent liabilities	142,630,917	10,038,923	261,310,413	1,870,312	415,850,565
Total Liabilities	147,363,076	13,738,682	277,452,666	1,941,266	440,495,690
Net Assets:					
Invested in capital assets, net of related debt	(36,560,086)	-	(117,814,726)	351,865	(154,022,947)
Restricted					
Debt service	-	16,579,776	-	-	16,579,776
Construction	-	314,237	3,580,909	-	3,895,146
Guarantee agreement	-	-	-	295,358	295,358
Unrestricted					
Water operations	2,126,115	-	-	-	2,126,115
Other	1,965,259	(6,866,147)	(6,280,660)	(388,290)	(11,569,838)
Total Net Assets	(32,468,712)	10,027,866	(120,514,477)	258,933	(142,696,390)
Total Liabilities and Net Assets	$ 114,894,364	$ 23,766,548	$ 156,938,189	$ 2,200,199	$ 297,799,300

(Concluded)

THE HARRISBURG AUTHORITY

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

YEAR ENDED DECEMBER 31, 2008

	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Operating Revenues:					
User charges	$ 17,713,499	$ -	$ 22,198,705	$ 36,552	$ 39,948,756
Administrative fees	-	60,000	-	572,175	632,175
Total operating revenues	17,713,499	60,000	22,198,705	608,727	40,580,931
Operating Expenses:					
Operating	9,121,374	-	20,575,554	-	29,696,928
Administrative	300,000	60,000	212,175	851,099	1,423,274
Depreciation	2,160,812	-	4,348,425	-	6,509,237
Landfill closure and post-closure care expense	-	-	(82,847)	-	(82,847)
Total operating expenses	11,582,186	60,000	25,053,307	851,099	37,546,592
Operating Income (Loss)	6,131,313	-	(2,854,602)	(242,372)	3,034,339
Non-Operating Revenues (Expenses):					
Investment income	965,645	552,762	777,242	39,635	2,335,284
Lease rental income	-	546,397	-	-	546,397
Miscellaneous revenues (expense)	(674,025)	(4,351)	84,252	130,841	(463,283)
Transfers to City's sewer operating fund	-	(1,025,582)	-	-	(1,025,582)
Interest expense	(9,798,083)	(1,080,340)	(14,301,588)	-	(25,180,011)
Amortization of deferred financing costs	(436,398)	(31,248)	(1,201,515)	-	(1,669,161)
Total nonoperating revenues (expenses)	(9,942,861)	(1,042,362)	(14,641,609)	170,476	(25,456,356)
Change in Net Assets Before Extraordinary Items	(3,811,548)	(1,042,362)	(17,496,211)	(71,896)	(22,422,017)
Extraordinary Item:					
Litigation settlement	-	-	3,580,909	-	3,580,909
Change in Net Assets	(3,811,548)	(1,042,362)	(13,915,302)	(71,896)	(18,841,108)
Net Assets:					
Beginning of year	(28,657,164)	11,070,228	(106,599,175)	330,829	(123,855,282)
End of year	$ (32,468,712)	$ 10,027,866	$ (120,514,477)	$ 258,933	$ (142,696,390)

THE HARRISBURG AUTHORITY

COMBINING SCHEDULE OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008
(Continued)

	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Cash Flows From Operating Activities:					
Receipts from customers and users	$ 17,438,886	$ 48,200	$ 21,409,107	$ 68,717	$ 38,964,910
Receipts for interfund services	-	-	-	911,175	911,175
Payments to suppliers	-	-	(16,062,087)	(791,465)	(16,853,552)
Payments to management agent	(8,206,532)	64,321	-	-	(8,142,211)
Payments for interfund services	(225,000)	(60,000)	(626,175)	-	(911,175)
Net cash provided by operating activities	9,007,354	52,521	4,720,845	188,427	13,969,147
Cash Flows From Investing Activities:					
(Purchases) sales of investments, net	(4,184,814)	3,717,824	12,470,899	-	12,003,909
Investment income received	983,991	552,761	711,965	24,586	2,273,303
Payments received on direct financing leases	-	1,935,675	-	-	1,935,675
Net cash provided by (used in) investing activities	(3,200,823)	6,206,260	13,182,864	24,586	16,212,887
Cash Flows from Capital and Related Financing Activities:					
Increase in advances to the City of Harrisburg	-	156,773	-	-	156,773
Proceeds from issuance of notes payable	-	-	8,968,688	-	8,968,688
Proceeds from issuance of bonds payable	68,301,918	-	-	-	68,301,918
Payment for deferred financing costs	(1,264,172)	-	(534,722)	-	(1,798,894)
Acquisition and construction of capital assets	(7,498)	-	(12,650,934)	-	(12,658,432)
Interest paid	(8,269,023)	(78,252)	(11,984,146)	-	(20,331,421)
Principal paid on capital lease	(163,458)	-	(28,809)	-	(192,267)
Principal paid on long-term debt	(498,532)	(5,311,773)	(740,000)	-	(6,550,305)
Payments to bond escrow agent	(56,110,000)	-	-	-	(56,110,000)
Payment for swap termination	(9,742,000)	-	-	-	(9,742,000)
Proceeds from swap suspension	1,250,000	-	-	-	1,250,000
Transfers to City's sewer operating fund	-	(1,025,582)	-	-	(1,025,582)
Net cash flows used in capital and related financing activities	(6,502,765)	(6,258,834)	(16,969,923)	-	(29,731,522)
Increase (Decrease) in Cash and Cash Equivalents	(696,234)	(53)	933,786	213,013	450,512
Cash and Cash Equivalents:					
Beginning of year	5,395,896	8,129	1,852,529	1,232,810	8,489,364
End of year	$ 4,699,662	$ 8,076	$ 2,786,315	$ 1,445,823	$ 8,939,876

(Concluded)

THE HARRISBURG AUTHORITY

COMBINING SCHEDULE OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008
(Continued)

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	Water Fund	Sewer Fund	Resource Recovery Fund	Working Capital Fund	Total
Operating income (loss)	$ 6,131,313	$ -	$ (2,854,602)	$ (242,372)	$ 3,034,339
Loss on disposal of capital assets	11,480	-	-	-	11,480
Adjustments to reconcile operating income (loss) to cash provided by operating activities					
Depreciation	2,160,812	-	4,348,425	-	6,509,237
Miscellaneous nonoperating income (expense)	(674,025)	(4,351)	84,252	12,091	(582,033)
Decrease (increase) in accounts receivable	(274,613)	-	(789,598)	20,074	(1,044,137)
(Increase) decrease in due from (to) other funds	994,891	-	(1,333,891)	339,000	-
(Increase) decrease in due from City of Harrisburg	217,915	-	-	-	217,915
(Increase) decrease in other receivables	-	(11,800)	-	-	(11,800)
(Increase) decrease in prepaid assets	-	-	133,330	-	133,330
Increase (decrease) in accounts payable	439,581	68,672	5,767,042	59,634	6,334,929
Increase (decrease) in due to City of Harrisburg	-	-	(581,280)	-	(581,280)
Increase (decrease) in accrued landfill closure and post-closure care liability	-	-	(52,833)	-	(52,833)
Net cash provided by operating activities	$ 9,007,354	$ 52,521	$ 4,720,845	$ 188,427	$ 13,969,147

(Concluded)