

City of Harrisburg, Pennsylvania

Financial Statements and Supplementary Information

**Year Ended December 31, 2009 with
Independent Auditor's Reports**

CITY OF HARRISBURG

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INDEPENDENT AUDITOR'S REPORT

The Honorable Linda D. Thompson, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania (City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of The Harrisburg Authority, the Harrisburg Parking Authority, the Coordinated Parking Fund, and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Notes 22 and 23 to the financial statements, the City has suffered ongoing structural deficits, has been unable to fulfill its debt obligations and its obligations as guarantor of component unit debt, and has a net asset deficiency that raises substantial doubt about its ability to continue as a going concern. During the year ended December 31, 2010, the City applied for and was granted status as "fiscally distressed" under the Commonwealth of Pennsylvania's Municipalities Financial Recovery Act of 1987 (Act 47). The City's Act 47 petition states that defaults by the City on future bond and note guaranty obligations are imminent and inevitable. During the year ended December 31, 2011, as a result of the City's fiscal circumstances, the Governor of the Commonwealth of Pennsylvania declared a fiscal emergency and, through the Commonwealth of Pennsylvania's Department of Community and Economic Development and the Commonwealth Court, appointed a receiver to develop and submit a fiscal recovery plan. Management's plans in regard to these matters are described in Note 20. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed further in Note 22, the City has not made the March 2012 debt service payment required on its General Obligation Refunding Bonds, Series D and F of 1997, nor has it been able to meet its obligations under certain component unit guarantee agreements.

The Harrisburg Authority, a discretely presented component unit of the City, incurred significant financings in December 2003 and, again, in December 2007, to fund the costs of the modernization project related to The Harrisburg Authority's Resource Recovery Facility. Additionally, The Harrisburg Authority's Resource Recovery Segment has experienced significant operating losses, has an accumulated deficit of approximately \$138 million at December 31, 2009, and is in violation of certain covenants under its trust indentures. Additionally, as discussed further in Note 22 to the financial statements, The Harrisburg Authority has issued multiple notices of material events, including, but not limited to non-payment of require debt service, with respect to certain of the Resource Recovery Facility bonds, which are guaranteed by the City.

The Harrisburg Authority's Water Segment has an accumulated deficit of approximately \$35 million at December 31, 2009, and is in violation of certain covenants under its trust indentures. Additionally, as discussed further in Note 22 to the financial statements, the Authority has issued multiple notices of material events with respect to certain of the Water System bonds.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison information, and pension plan information on pages 3 through 13 and 142 through 148 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and 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
July 18, 2012

This section of the City of Harrisburg's (City) Comprehensive Annual Financial Report (CAFR) presents Management's Discussion and Analysis of the City's financial performance during the year ending December 31, 2009. Readers are encouraged to consider the information within the context of the financial statements. The discussion also focuses on the primary government and unless otherwise noted, component units are not included.

Financial Highlights

- The City's liabilities for the year ending December 31, 2009 exceeded assets by \$227,092,975. However in 2008, assets exceeded its liabilities by \$46,178,883.
 - Invested in capital assets, net of related debt, in the amount of \$74,779,080 and \$65,272,704 for the years ending December 31, 2009 and 2008, respectively, includes all capital assets including infrastructure.
 - Restricted net assets with external restrictions imposed by creditors or laws or regulations of other governments amounted to \$1,728,087 and \$8,174,963 for the years ending December 31, 2009 and 2008, respectively.
 - Unrestricted net assets, which are assets not restricted for any particular purpose, were (\$303,600,142) and (\$27,268,784) for the years ending December 31, 2009 and 2008, respectively.
 - The City's total net assets decreased by \$273,271,858. This is due to the City recording the contingent liability for the remaining Harrisburg Authority Resource Recovery Facility debt Guarantee Payments of approximately \$264 million. This is shown as an Extraordinary Item in the 2009 Financial Statements. In addition, the City continued to accrue approximately \$12.6 million in expenses related to other post-employment benefits (OPEB).
- At December 31, 2009 and 2008, the fund balance of the City's governmental funds was \$5,715,743 and \$16,234,181, respectively.
- The fund balance of the governmental funds decreased by \$10,518,438 for the year ended December 31, 2009, primarily due to capital expenditures, paid from the proceeds of a capital lease which was recognized in the 2008 financial statements, \$4.8 million of Resource Recovery Facility Guarantee Payments that City paid as guarantor of The Harrisburg Authority debt, and the accrual of a liability to the secondary guarantor (\$2.3 million) and bond insurer (\$630,000) of The Harrisburg Authority Resource Recovery Facility debt.

Overview of the Financial Statements

The financial section of the CAFR consists of five parts in the following order: the independent auditor's report on the financial statement audit, Management's Discussion and Analysis (MD&A), the basic financial statements, required supplementary information (RSI), and other supplementary information. The basic financial statements can be further classified into the following three types: government-wide financial statements, fund financial statements, and notes to the financial statements.

1. **Government-Wide Financial Statements** The government-wide financial statements provide a summary of the City's financial condition in a similar fashion to the private business sector. The focus of these statements is the economic resources measurement and full accrual basis of accounting.

All of the City's net assets are reported as the difference between the assets and liabilities. Increases and decreases in net assets serve as a good indicator of the financial condition improving or deteriorating.

The Statement of Activities presents information on how net assets changed during the year. All changes are recorded as soon as the change occurs even though cash may not be received yet; cash flow may even occur in a later fiscal year, such as uncollected taxes and vacation leave earned, but not used. The Statement of Net Assets and the Statement of Activities distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The City's governmental activities are general government, building and housing development, public safety (police and fire), public works, parks and recreation, tourism, and incinerator. The business-type activities of the City include Sewer, Sanitation, Harrisburg Senators, and Incinerator Funds.

2. **Fund Financial Statements** A fund is a grouping of related accounts used to control resources that are separated by activity. Fund accounting is used by the City of Harrisburg to monitor and show compliance with budgetary requirements. Funds are either governmental, proprietary, or fiduciary funds.

a. **Governmental Funds** Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Since the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented by the two in order to better understand the long-term impact of near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City reports three major governmental funds: (1) the General Fund, which accounts for all financial resources of the general government except those accounted for in another fund; (2) the Grants Programs Fund, which accounts for the revenues and expenditures of federal, state, and other grant programs including the Community Development Block Grant Entitlement Program; and (3) the Debt Service Fund, which accounts for the accumulation of resources, which are principally transfers from other funds, for the payment of general long-term obligation principal, interest, and related costs; Data from all the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in supplementary information.

b. **Proprietary Funds** The City's proprietary funds are all classified as enterprise funds. They are used to account for the operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the expenses of providing goods

and services to the general public on a continuing basis be financed or recovered primarily through user charges or when the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and/or other purposes.

The City reports four major enterprise funds: (1) the Sewer Fund, which accounts for the revenues and expense associated with the provision of sewage service to the residents and commercial and industrial establishments of the City as well as six municipalities surrounding the City; (2) the Sanitation Fund, which accounts for the revenues and expenses associated with the provision of refuse collection and disposal services to the residents and commercial and industrial establishments of the City; (3) the Harrisburg Senators Fund, which accounts for the revenues and expenses associated with the payment of debt on the purchase of a new stadium of the Harrisburg Senators, formerly owned by the City; and (4) the Incinerator Fund, which accounts for the collection and remittance of incinerator/resource recovery disposal fees billed by the City and remitted to The Harrisburg Authority for their provision of solid waste incineration services to the residents and commercial and industrial establishments of the City. The City does not present any non-major enterprise funds.

- c. **Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City's fiduciary funds are all classified as trust and agency funds. Fiduciary fund financial statements report similarly to proprietary funds.
3. **Notes to the Financial Statements** The Notes give additional information that is necessary to understand fully the data provided in the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.
4. **Other Information** The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund, in required supplementary information. Because the legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within this document, the City has prepared a separate budgetary report to demonstrate compliance at the line item level. In addition, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. The combining statements referred to earlier in connection with non-major governmental funds and agency funds are presented immediately following the required supplementary information.

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009

Government-wide Financial Analysis

CITY OF HARRISBURG
CONDENSED STATEMENT OF NET ASSETS
DECEMBER 31, 2009 AND 2008

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 27,031,114	\$ 35,832,553	\$ 12,296,117	\$ 21,195,485	\$ 39,327,231	\$ 57,028,038
Capital assets	114,278,454	113,914,484	57,254,631	46,507,174	171,533,085	160,421,658
Total assets	141,309,568	149,747,037	69,550,748	67,702,659	210,860,316	217,449,696
Current and other liabilities	20,013,916	19,859,998	2,780,690	2,529,782	22,794,606	22,389,780
Noncurrent liabilities	400,696,815	131,761,713	14,461,870	17,119,320	415,158,685	148,881,033
Total liabilities	420,710,731	151,621,711	17,242,560	19,649,102	437,953,291	171,270,813
Net assets:						
Invested in capital assets, net of related debt	29,652,340	30,518,850	45,126,740	34,753,854	74,779,080	65,272,704
Restricted	1,069,700	1,130,021	658,387	7,044,942	1,728,087	8,174,963
Unrestricted	(310,123,203)	(33,523,545)	6,523,061	6,254,761	(303,600,142)	(27,268,784)
Total net assets	\$ (279,401,163)	\$ (1,874,674)	\$ 52,308,188	\$ 48,053,557	\$ (227,092,975)	\$ 46,178,883

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. For the year ending December 31, 2009, the City's liabilities exceeded assets by \$227,092,975. However in 2008 and 2007, assets exceeded its liabilities by \$46,178,883 and \$53,319,004, respectively.

The largest portion of the City's net assets (-33% for 2009 and 141% for 2008) is the City's investment in capital assets (i.e., land, archives, building, land and building improvements, equipment and furniture, infrastructure); less any related outstanding debt used to acquire those assets. These capital assets are used by the City to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must come from other sources, since the assets cannot be used to liquidate these liabilities.

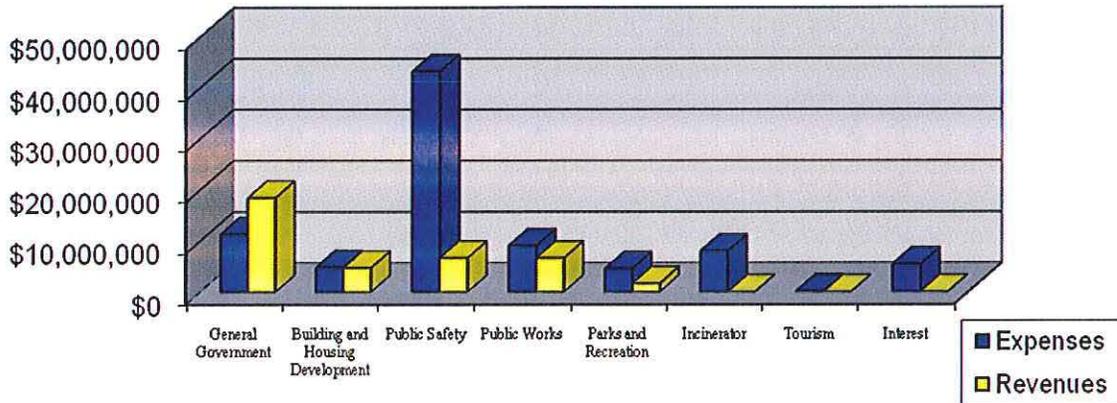
The City's unrestricted net asset balances were \$(303,600,142) and (\$27,268,784), respectively, for the years ending December 31, 2009 and 2008. In 2009, this is a result from the recording of the remaining Resource Recovery Facility Guarantee Payments that the City is contingently liable for.

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009

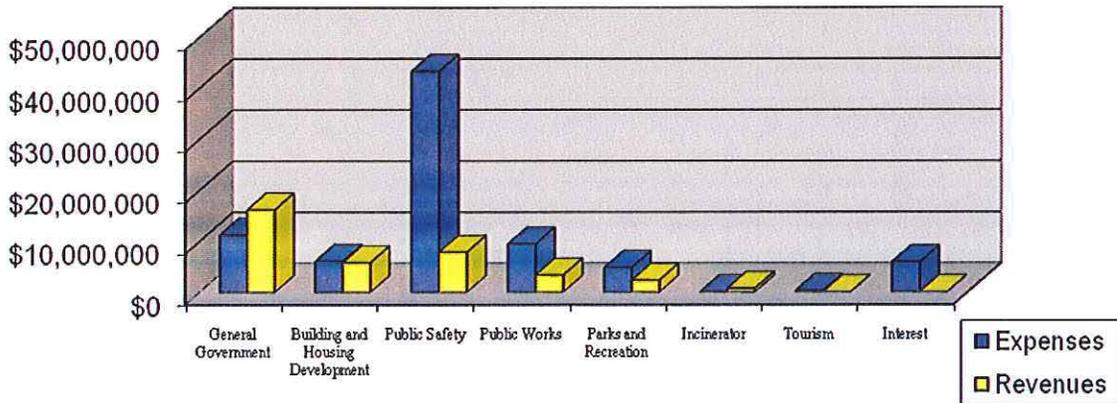
CITY OF HARRISBURG
CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Changes for services	\$ 25,606,049	\$ 24,574,751	\$ 26,044,575	\$ 19,974,303	\$ 51,650,624	\$ 44,549,054
Operating grants and contributions	8,540,464	9,387,069	3,214,952	137,294	11,755,416	9,524,363
Capital grants and contributions	3,903,498	2,163,278	3,633,962	1,025,582	7,537,460	3,188,860
General revenues:						
Taxes	27,572,411	27,641,947	-	-	27,572,411	27,641,947
Grants and contributions not restricted to specific functions	6,561,795	7,340,486	-	-	6,561,795	7,340,486
Other	813,094	477,404	32,241	215,292	845,335	692,696
Total revenues	72,997,311	71,584,935	32,925,730	21,352,471	105,923,041	92,937,406
Expenses						
General government	11,284,960	11,227,267	-	-	11,284,960	11,227,267
Building and housing development	4,830,380	6,074,003	-	-	4,830,380	6,074,003
Public safety	43,145,655	43,249,161	-	-	43,145,655	43,249,161
Public works	9,053,138	9,439,071	-	-	9,053,138	9,439,071
Parks and recreation	4,569,158	4,797,981	-	-	4,569,158	4,797,981
Incinerator	8,006,987	-	-	-	8,006,987	-
Tourism	139,027	280,072	-	-	139,027	280,072
Interest on long-term debt	5,413,550	5,859,272	-	-	5,413,550	5,859,272
Sewer	-	-	18,523,561	15,093,480	18,523,561	15,093,480
Sanitation	-	-	3,026,609	3,380,182	3,026,609	3,380,182
Harrisburg Senators	-	-	623,263	677,038	623,263	677,038
Incinerator	-	-	6,306,580	-	6,306,580	-
Total expenses	86,442,855	80,926,827	28,480,013	19,150,700	114,922,868	100,077,527
Change in net assets before transfers and extraordinary item	(13,445,544)	(9,341,892)	4,445,717	2,201,771	(8,999,827)	(7,140,121)
Transfers	191,086	(349,699)	(191,086)	349,699	-	-
Extraordinary item	(264,272,031)	-	-	-	(264,272,031)	-
Change in net assets	(277,526,489)	(9,691,591)	4,254,631	2,551,470	(273,271,858)	(7,140,121)
Net assets January 1,	(1,874,674)	7,816,917	48,053,557	45,502,087	46,178,883	53,319,004
Net assets, December 31	\$ (279,401,163)	\$ (1,874,674)	\$ 52,308,188	\$ 48,053,557	\$ (227,092,975)	\$ 46,178,883

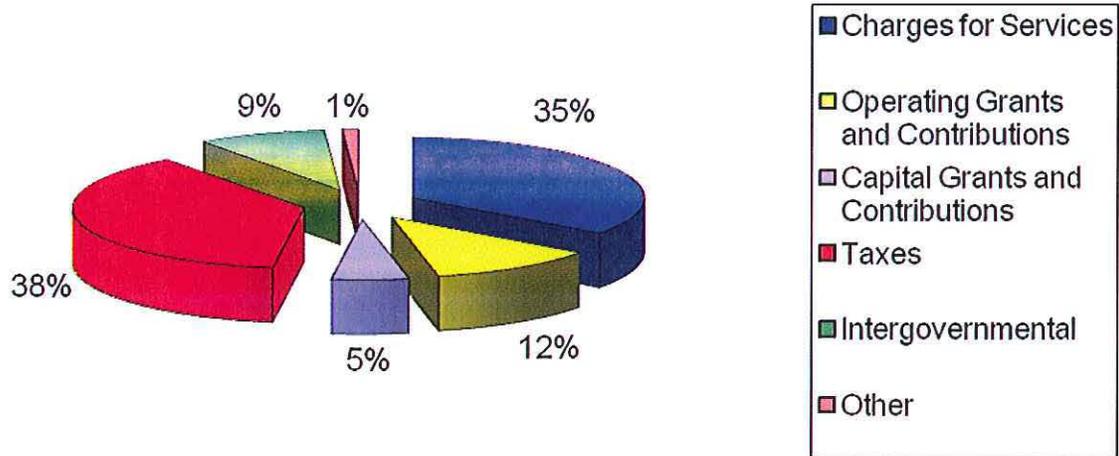
Expenses and Program Revenues - Governmental Activities - 2009



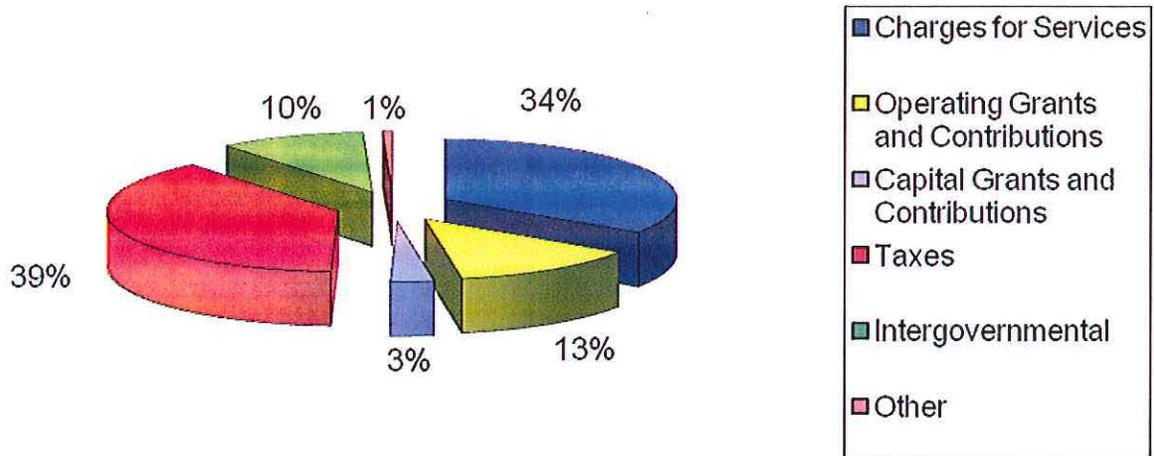
Expenses and Program Revenues - Governmental Activities - 2008



Revenues by Source - Governmental Activities - 2009

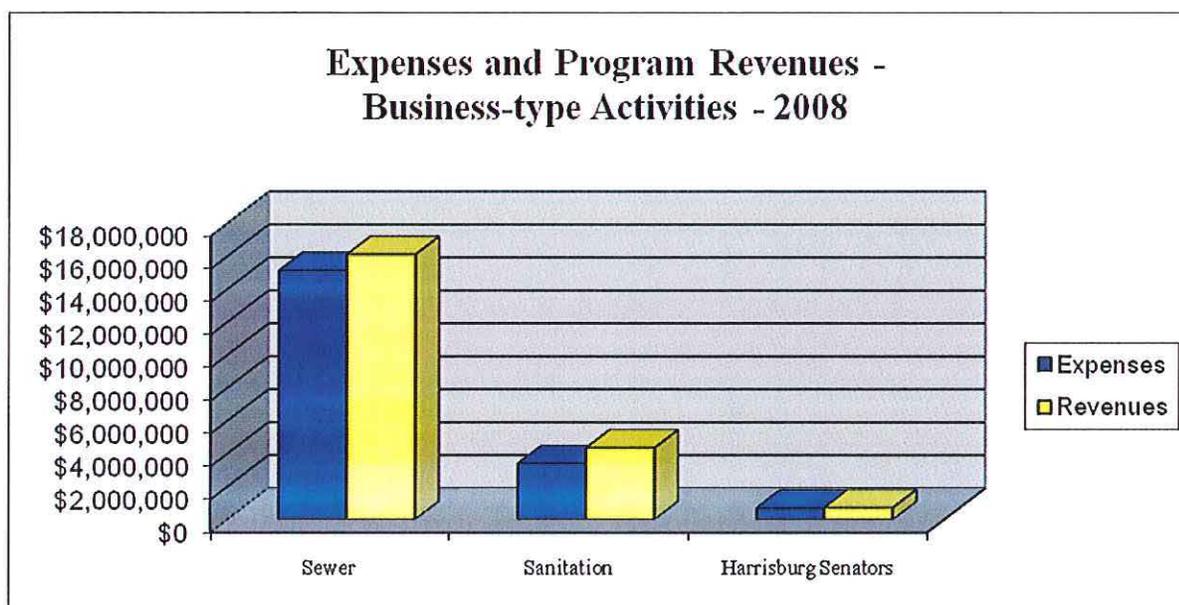
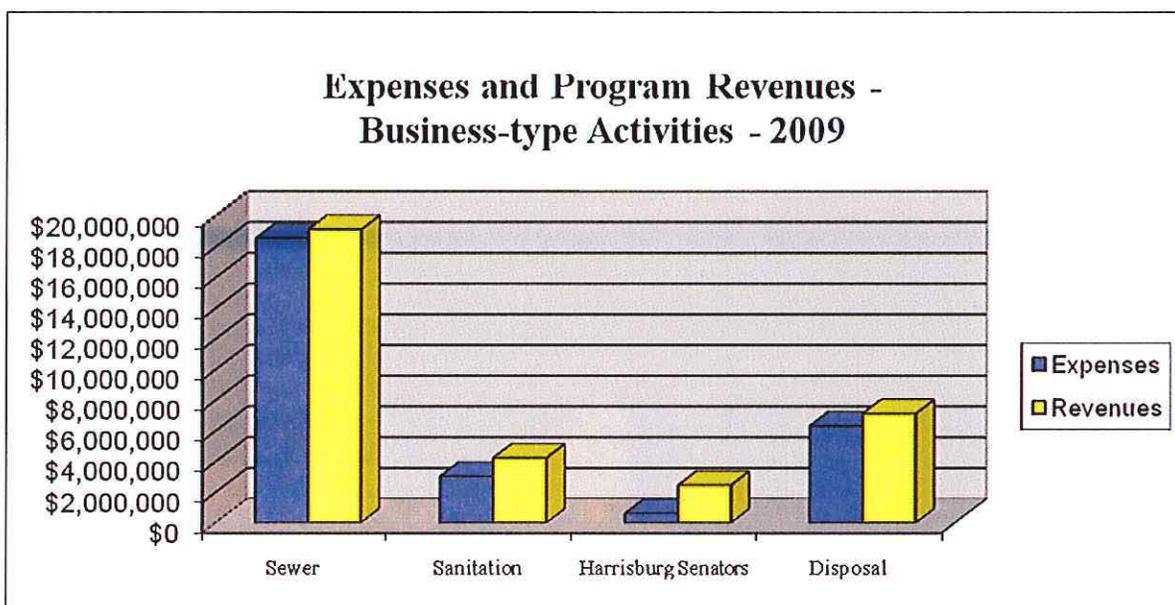


Revenues by Source - Governmental Activities - 2008



Governmental Activities Net assets for governmental activities decreased by \$277,526,489 for the year ending December 31, 2009. The basic factor for the change in net assets was the City recorded the contingent liability for the guarantees related to The Harrisburg Authority's Resource Recovery Facility debt of approximately \$264 million. In addition, the City continues to annually accrue approximately \$12 million in OPEB.

Net assets for governmental activities decreased by \$9,691,591 for the year ending December 31, 2008. The basic factors for the change in net assets was the current year implementation of Governmental Accounting Standards Board Statement Number 45, which required the City to record OPEB in the amount of \$12.7 million, Local Services Tax decreased by approximately \$900,000 due to changes in state collection laws and income limits, and approximately \$180,000 in valuation adjustments related to certain City artifacts.



Business-Type Activities Net assets for business-type activities increased by \$4,254,631 and \$2,551,470 for the years ending December 31, 2009 and 2008, respectively. The basic factor for the change in net assets during the year ending December 31, 2009, was primarily due to receiving a state grant for the improvements and upgrades to the Harrisburg Senators baseball stadium, which is offset by a \$600,000 annual accrual related to OPEB. The basic factor for the change in net assets during the year ending December 31, 2008, was primarily due to the current year implementation of Governmental Accounting Standards Board Statement Number 45, which required the City to record OPEB in the amount of \$900,000.

Financial Analysis of the City's Funds

1. **Governmental Funds** The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,715,743, an decrease of \$10,518,438 in comparison with the prior year.

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The Fund Balance of the General Fund decreased by \$9,580,170 for the year ending December 31, 2009, or 70.5% lower, from the prior year. The basic factor for the change in the net assets is the expenditure of capital lease proceeds, \$4.8 million of Resource Recovery Facility Guarantee Payments that City paid as guarantor of The Harrisburg Authority debt, and the accrual of a liability to the secondary guarantor (\$2.3 million) and bond insurer (\$630,000) of The Harrisburg Authority Resource Recovery Facility debt.

The Grant Programs Fund does not report a fund balance because revenue equals expenditures. In this fund, revenue is recognized only when allowable expenditures are incurred and the legal and contractual requirements of the individual programs are met. The Fund Balance of the Debt Service Fund decreased by \$170,567 for the year ending December 31, 2009, or 110.7% lower, from the prior year. This is primarily due to a transfer to show the expenses related to the Harrisburg Senators in the corresponding fund. The Fund Balance of the Other Governmental Funds, decreased by \$767,701 for the year ending December 31, 2009, or 30.88% lower, from the prior year. This was due primarily to the City reimbursing the General Fund for prior year and partial current year Street Cut/Degradation Fees in the amount of \$400,000.

The Fund Balance of the General Fund decreased by \$678,070 for the year ending December 31, 2008, or 4.75% lower, from the prior year. The basic factor for the change in the net assets is the expenditure of capital lease proceeds in the amount of \$4.5 million, and payment of Senators debt that was funded through sale proceeds in 2007.

The Fund Balance of the Debt Service Fund decreased by \$1,822,143 for the year ending December 31, 2008, or -92.2%, from the prior year. This is primarily due to the use of prior year sale proceeds of the Harrisburg Senators minor league baseball franchise for 2008 debt service. The Fund Balance of the Capital Projects Fund increased by \$676,676 for the year ending December 31, 2008, or 45.38%, from the prior year. This was due primarily to contributions by local entities towards street paving and firefighting equipment.

General Fund Budgetary Highlights On a budgetary basis, the General Fund's actual revenues were \$1,951,383 less than the final budgeted amounts. This was primarily attributed to the City's Police Bureau not receiving approximately \$1.1 million of anticipated grants that were budgeted for. The General Fund's actual expenditures were \$4,517,605 less than the final budgeted amounts. This was primarily due to the Departments of General Government, Public Safety, and Public Works each under spending by over \$1.2 million.

2. Capital Asset and Debt Administration

Capital assets The City's investment in capital assets for its governmental activities and business-type activities as of December 31, 2009 amounts to \$114,278,454 and \$57,254,631 (net of accumulated depreciation), respectively. This investment in capital assets includes land, archives, buildings, land and building improvements, equipment and furniture, and infrastructure.

Major capital asset events during the current year for governmental activities included the following:

- Equipment and Furniture increased by approximately \$3.1 million mostly due to the 2007 Capital Lease additions, consisting primarily of vehicles for all Departments City-wide.
- Infrastructure increased by approximately \$3.1 million for City-wide street repaving/widening.

Major capital asset events during the current year for business-type activities included the following:

- Construction-in-progress increased by approximately \$11 million for Stadium Renovations in the Harrisburg Senators Fund.

Additional information on the City's capital assets can be found beginning on page 62 of this report.

Long-term debt Other than the required principal and interest payments, the only debt activity in the City's governmental or business-type activities was the issuance of a Capital Lease in the Office of City Treasurer. This Lease made it possible to buy two pieces of equipment to help process incoming mail and post payments to the Treasury System.

Additional information on the City's long-term debt can be found beginning on page 65 of this report.

Economic Factors

Arguably, the two most significant factors affecting the City are the extent of unfunded federal and state mandates and the extent of tax-exempt real estate. The City's best estimate is that in the entire City budget, approximately 42% of the expense is related to unfunded costs mandated on the City by the United States Government and Commonwealth of Pennsylvania.

Moreover, the most significant unfunded mandate affecting the City is the liberal allowance for tax-exemption that exists in Pennsylvania. What was already a broadly-accommodating state law was further loosened several years ago by additional state legislative action. Today, approximately 49% of all real estate in the City is exempt from paying any type of taxes under state law. The number of properties achieving tax-exemption increases by the year. Some of the tax exempt-properties are amongst the greatest generators of demand for

City services, for which they do not pay a dime. This is a continuing inequitable and unfair burden on Harrisburg and one that places a higher tax rate on those who pay taxes on their real estate.

Some of the factors that affect our costs are matters over which a local government has little control. Others are only marginally controllable. The following are a number of circumstances that will impact future costs:

- (a) Health care costs have been on the rise and each year the City projects increased costs; however due to turnover and vacant positions, these costs been the same or lower in recent years. If the City is back at full staffing, there will be a significant increase shown.
- (b) 2010 salaries for the City's Police, Firefighter, and Non-Uniformed unions were negotiated to increase 4.0%, 4.0%, and 3.0%, respectively.
- (c) The Harrisburg Authority (THA), a component unit of the City, has various debt issues outstanding that the City guarantees. There is a high degree of uncertainty regarding THA's ability to operate at a capacity in order to sustain THA's debt service obligations. The City has had to honor those guarantees at various times during 2009 and 2010 and was unable to do so since that time, due to severe budgetary and cash flow constraints.

Requests for Information

This financial report is designed for those who have an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Office of the Business Administrator, Rev. Dr. Martin Luther King Jr., City Government Center, 10 North Second Street, Suite 301, Harrisburg, PA 17101. You may also find more information regarding the City of Harrisburg at our website www.harrisburgpa.gov.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Assets					
Cash and cash equivalents	\$ 7,273,740	\$ 5,395,925	\$ 12,669,665	\$ 14,759,297	\$ 27,428,962
Investments, at fair value	1,156,929	1,187,950	2,344,879	126,245	2,471,124
Receivables, net of allowance for uncollectible accounts					
Taxes	7,612,212	-	7,612,212	-	7,612,212
Accounts	156,809	3,994,932	4,151,741	5,951,227	10,102,968
Loans	6,128,232	-	6,128,232	330,750	6,458,982
Grants	-	-	-	946,788	946,788
Other	450,000	-	450,000	1,284	451,284
Internal balances	80,726	(80,726)	-	-	-
Due from City's agency fund	117,796	-	117,796	-	117,796
Due from component unit	1,459,178	301,289	1,760,467	-	1,760,467
Due from primary government	-	-	-	2,313,708	2,313,708
Assets held for sale	1,727,384	-	1,727,384	-	1,727,384
Other assets	107,043	814,279	921,322	9,096	930,418
Restricted assets					
Cash and cash equivalents	538,009	2,159	540,168	-	540,168
Cash with fiscal agents	-	-	-	3,659,675	3,659,675
Investments, at fair value	223,056	680,309	903,365	71,370,753	72,274,118
Litigation settlement receivable	-	-	-	88,000	88,000
Future lease rentals receivable from primary government	-	-	-	3,335,910	3,335,910
Equitable ownership interest	-	-	-	14,000,500	14,000,500
Deferred charges, net of accumulated amortization	-	-	-	19,138,936	19,138,936
Capital assets, not being depreciated	26,059,351	21,104,993	47,164,344	10,851,902	58,016,246
Capital assets, less accumulated depreciation and amortization	88,219,103	36,149,638	124,368,741	243,601,100	367,969,841
Total assets	141,309,568	69,550,748	210,860,316	390,485,171	601,345,487

(continued)

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Liabilities					
Cash overdraft	-	-	-	660,123	660,123
Accounts payable and other current liabilities	2,130,393	529,966	2,660,359	2,250,155	4,910,514
Matured bond coupons	20,097	-	20,097	-	20,097
Accrued liabilities	3,382,786	152,606	3,535,392	-	3,535,392
Due to primary government	-	-	-	9,625,332	9,625,332
Due to bond insurer	630,474	-	630,474	-	630,474
Due to County of Dauphin	2,329,367	-	2,329,367	-	2,329,367
Due to component unit	357,712	2,098,118	2,455,830	-	2,455,830
Unearned revenue	11,163,087	-	11,163,087	584,434	11,747,521
Liabilities payable from restricted assets	-	-	-	10,344,853	10,344,853
Noncurrent liabilities:					
Due within one year	13,171,076	2,341,528	15,512,604	50,831,957	66,344,561
Due in more than one year	98,493,823	10,936,961	109,430,784	523,599,529	633,030,313
Other post-employment benefits	24,759,885	1,183,381	25,943,266	183,164	26,126,430
Contingent liability for component unit debt	264,272,031	-	264,272,031	-	264,272,031
Unearned revenue	-	-	-	4,810,171	4,810,171
Environmental remediation liability	-	-	-	375,241	375,241
Accrued landfill closure and post-closure liability	-	-	-	2,242,262	2,242,262
Total liabilities	420,710,731	17,242,560	437,953,291	605,507,221	1,043,460,512
Net assets					
Invested in capital assets, net of related debt	29,652,340	45,126,740	74,779,080	(181,827,125)	(107,048,045)
Restricted for:					
Highways and streets	244,503	-	244,503	-	244,503
Culture and recreation	309,107	-	309,107	-	309,107
Debt service	450,000	658,387	1,108,387	12,586,308	13,694,695
Capital projects	-	-	-	388,557	388,557
Guarantee agreement	-	-	-	304,374	304,374
Water operations	-	-	-	3,182,272	3,182,272
Other	66,090	-	66,090	-	66,090
Unrestricted	(310,123,203)	6,523,061	(303,600,142)	(49,656,436)	(353,256,578)
Total net assets	<u>\$ (279,401,163)</u>	<u>\$ 52,308,188</u>	<u>\$ (227,092,975)</u>	<u>\$ (215,022,050)</u>	<u>\$ (442,115,025)</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 11,284,960	\$ 18,120,575	\$ 231,649	\$ 64,739
Building and housing development	4,830,380	1,616,505	3,101,215	-
Public safety	43,145,655	3,758,960	2,746,916	137,767
Public works	9,053,138	1,991,260	929,148	3,700,992
Parks and recreation	4,569,158	118,749	1,531,536	-
Incinerator	8,006,987	-	-	-
Tourism	139,027	-	-	-
Interest on long-term debt	5,413,550	-	-	-
Total governmental activities	<u>86,442,855</u>	<u>25,606,049</u>	<u>8,540,464</u>	<u>3,903,498</u>
Business-type activities				
Sewer	18,523,561	14,272,553	3,200,000	1,633,962
Sanitation	3,026,609	4,205,746	14,952	-
Harrisburg Senators	623,263	450,386	-	2,000,000
Incinerator	6,306,580	7,115,890	-	-
Total business-type activities	<u>28,480,013</u>	<u>26,044,575</u>	<u>3,214,952</u>	<u>3,633,962</u>
Total primary government	<u>\$ 114,922,868</u>	<u>\$ 51,650,624</u>	<u>\$ 11,755,416</u>	<u>\$ 7,537,460</u>
Component units				
The Harrisburg Authority	\$ 70,291,009	\$ 43,555,489	\$ -	\$ -
Harrisburg Parking Authority	15,522,810	13,964,205	-	-
Coordinated Parking Fund	7,347,458	6,997,703	-	-
Redevelopment Authority	6,248,903	814,796	2,922,763	760,250
Total component units	<u>\$ 99,410,180</u>	<u>\$ 65,332,193</u>	<u>\$ 2,922,763</u>	<u>\$ 760,250</u>

General revenues
Property taxes
Real estate transfer taxes
Local services taxes
Occupational privilege taxes
Earned income taxes
Business privilege taxes
Franchise taxes
Public utility realty taxes
Payments in lieu of taxes
Grants and contributions not restricted to specific functions
Litigation settlement
Other income
Unrestricted investment earnings
Transfers - internal activities
Extraordinary item:
 Contingent liability for component unit debt
Total general revenues, transfers, and extraordinary item
Change in net assets
Net assets - January 1, 2009, restated
Net assets - December 31, 2009

Net (Expense) Revenue and Changes in Net Assets				
Governmental Activities	Primary Government		Component Units	Total
	Business-type Activities	Total		
\$ 7,132,003	\$ -	\$ 7,132,003	\$ -	\$ 7,132,003
(112,660)	-	(112,660)	-	(112,660)
(36,502,012)	-	(36,502,012)	-	(36,502,012)
(2,431,738)	-	(2,431,738)	-	(2,431,738)
(2,918,873)	-	(2,918,873)	-	(2,918,873)
(8,006,987)	-	(8,006,987)	-	(8,006,987)
(139,027)	-	(139,027)	-	(139,027)
(5,413,550)	-	(5,413,550)	-	(5,413,550)
(48,392,844)	-	(48,392,844)	-	(48,392,844)
-	582,954	582,954	-	582,954
-	1,194,089	1,194,089	-	1,194,089
-	1,827,123	1,827,123	-	1,827,123
-	809,310	809,310	-	809,310
-	4,413,476	4,413,476	-	4,413,476
(48,392,844)	4,413,476	(43,979,368)	-	(43,979,368)
-	-	-	(26,735,520)	(26,735,520)
-	-	-	(1,558,605)	(1,558,605)
-	-	-	(349,755)	(349,755)
-	-	-	(1,751,094)	(1,751,094)
-	-	-	(30,394,974)	(30,394,974)
16,378,324	-	16,378,324	-	16,378,324
404,348	-	404,348	-	404,348
2,353,229	-	2,353,229	-	2,353,229
469	-	469	-	469
3,831,531	-	3,831,531	-	3,831,531
3,594,777	-	3,594,777	-	3,594,777
551,253	-	551,253	-	551,253
37,641	-	37,641	-	37,641
420,839	-	420,839	-	420,839
6,561,795	-	6,561,795	-	6,561,795
450,000	-	450,000	-	450,000
-	-	-	883,125	883,125
363,094	32,241	395,335	1,168,318	1,563,653
191,086	(191,086)	-	-	-
(264,272,031)	-	(264,272,031)	-	(264,272,031)
(229,133,645)	(158,845)	(229,292,490)	2,051,443	(227,241,047)
(277,526,489)	4,254,631	(273,271,858)	(28,343,531)	(301,615,389)
(1,874,674)	48,053,557	46,178,883	(186,678,519)	(140,499,636)
\$ (279,401,163)	\$ 52,308,188	\$ (227,092,975)	\$ (215,022,050)	\$ (442,115,025)

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

CITY OF HARRISBURG, PENNSYLVANIA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets					
Cash and cash equivalents	\$ 4,029,995	\$ 2,953,348	\$ 3,242	\$ 287,155	\$ 7,273,740
Investments, at fair value	282,786	785	359	872,999	1,156,929
Receivables, net of allowance for uncollectible accounts					
Taxes	7,565,523	-	-	46,689	7,612,212
Accounts receivable	156,809	-	-	-	156,809
Loans receivable	3,008,255	3,086,377	-	33,600	6,128,232
Other receivable	-	-	450,000	-	450,000
Due from other funds	1,376,572	747,195	-	185,998	2,309,765
Advances and amounts due from component units	851,543	-	-	607,635	1,459,178
Other assets	53,306	-	-	5,068	58,374
Restricted assets					
Cash and cash equivalents	66,090	-	-	471,919	538,009
Investments, at fair value	223,056	-	-	-	223,056
Total assets	<u>\$ 17,613,935</u>	<u>\$ 6,787,705</u>	<u>\$ 453,601</u>	<u>\$ 2,511,063</u>	<u>\$ 27,366,304</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 1,144,531	\$ 895,333	\$ -	\$ 90,529	\$ 2,130,393
Accrued liabilities	1,882,844	17,432	-	-	1,900,276
Due to bond insurer	630,474	-	-	-	630,474
Due to County of Dauphin	2,329,367	-	-	-	2,329,367
Matured bond coupons payable	-	-	20,097	-	20,097
Due to other funds	1,166,450	242,681	-	702,112	2,111,243
Advances and amounts due to component units	357,712	-	-	-	357,712
Deferred revenue	6,088,740	5,632,259	450,000	-	12,170,999
Total liabilities	<u>13,600,118</u>	<u>6,787,705</u>	<u>470,097</u>	<u>792,641</u>	<u>21,650,561</u>
Fund balances					
Reserved					
Encumbrances	361,595	-	-	165,825	527,420
Capital projects	223,056	-	-	-	223,056
Workers' compensation	150,847	-	-	-	150,847
Revolving loan program	2,972,869	-	-	-	2,972,869
Unreserved, reported in					
General fund	305,450	-	-	-	305,450
Debt service fund	-	-	(16,496)	-	(16,496)
Capital projects fund	-	-	-	1,193,122	1,193,122
Special revenue funds	-	-	-	359,475	359,475
Total fund balances	<u>4,013,817</u>	<u>-</u>	<u>(16,496)</u>	<u>1,718,422</u>	<u>5,715,743</u>
Total liabilities and fund balances	<u>\$ 17,613,935</u>	<u>\$ 6,787,705</u>	<u>\$ 453,601</u>	<u>\$ 2,511,063</u>	<u>\$ 27,366,304</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2009

Fund balances - total governmental funds		\$	5,715,743
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			
Governmental capital assets	236,683,324		
Less accumulated depreciation	<u>(122,404,870)</u>		114,278,454
Artifacts held for sale by the City are not financial resources and, therefore, are not reported in the governmental funds.			
			1,727,384
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
			6,503,353
Guarantee and swap fees and bond issuance costs are deferred and amortized over the life of the guarantee, swap or bond period, but are available to pay current-period expenditures and, therefore, are not reported in the funds.			
			(5,446,772)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.			
Workers' compensation	(3,321,640)		
Bonds payable	(43,253,528)		
Notes payable	(49,892,925)		
Capital leases payable	(6,896,367)		
Compensated absences	(8,300,439)		
Other post-employment benefits	(24,759,885)		
Contingent liability for component unit debt	(264,272,031)		
Accrued interest payable	<u>(1,482,510)</u>		<u>(402,179,325)</u>
Net assets of governmental activities		\$	<u>(279,401,163)</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2009

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 26,230,929	\$ -	\$ -	\$ -	\$ 26,230,929
Licenses and permits	583,353	-	-	-	583,353
Intergovernmental revenue	7,599,436	9,562,480	-	929,148	18,091,064
Department earnings and program revenue	21,174,896	440,877	-	707,403	22,323,176
Fines and forfeits	1,743,629	-	-	-	1,743,629
Investment income	298,932	63,709	855	15,813	379,309
Miscellaneous	1,719,915	217,658	1	23,510	1,961,084
Total revenues	59,351,090	10,284,724	856	1,675,874	71,312,544
Expenditures					
Current					
General government	9,285,380	4,482,878	-	-	13,768,258
Building and housing development	1,139,596	3,254,015	-	16,800	4,410,411
Public safety	29,847,767	1,630,318	-	-	31,478,085
Public works	5,070,511	124,131	-	821,958	6,016,600
Parks and recreation	3,449,372	9,310	-	-	3,458,682
Tourism	-	-	-	139,027	139,027
Incinerator	8,006,987	-	-	-	8,006,987
Capital outlay					
Infrastructure	-	-	-	232,383	232,383
Other	-	-	-	2,687,884	2,687,884
Debt service					
Principal retirements	809,756	405,002	9,437,804	309,091	10,961,653
Interest and fiscal charges	47,331	379,070	586,782	-	1,013,183
Total expenditures	57,656,700	10,284,724	10,024,586	4,207,143	82,173,153
Excess of revenues over (under) expenditures	1,694,390	-	(10,023,730)	(2,531,269)	(10,860,609)
Other financing sources (uses)					
Issuance of debt	151,085	-	-	-	151,085
Transfers in	2,659,476	-	11,406,553	2,746,250	16,812,279
Transfers out	(14,085,121)	-	(1,553,390)	(982,682)	(16,621,193)
Total other financing sources (uses)	(11,274,560)	-	9,853,163	1,763,568	342,171
Net change in fund balances	(9,580,170)	-	(170,567)	(767,701)	(10,518,438)
Fund balances - beginning of year	13,593,987	-	154,071	2,486,123	16,234,181
Fund balances - end of year	\$ 4,013,817	\$ -	\$ (16,496)	\$ 1,718,422	\$ 5,715,743

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

CITY OF HARRISBURG, PENNSYLVANIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds		\$ (10,518,438)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlays	6,922,876	
Depreciation expense	<u>(6,558,906)</u>	363,970
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		1,064,360
<p>Governmental funds report guarantee fees and swap fees as revenues. However in the statement of activities, the fees are amortized over the guarantee or swap period and reported as investment income.</p>		
Amortization	<u>620,407</u>	620,407
<p>The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.</p>		
Debt issued or incurred	(151,085)	
Principal repayments	<u>10,961,653</u>	10,810,568
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Workers' compensation	277,764	
Compensated absences	586,100	
Post-employment benefits	(12,062,187)	
Contingent liability for component unit debt	(264,272,031)	
Accrued interest	85,649	
Amortization of bond issuance costs	(17,998)	
Amortization of bond discounts	<u>(4,464,653)</u>	<u>(279,867,356)</u>
Change in net assets of governmental activities		<u>\$ (277,526,489)</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2009

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Incinerator Fund	Total Proprietary Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 4,974,371	\$ 421,554	\$ -	\$ -	\$ 5,395,925
Investments, at fair value	734,580	453,370	-	-	1,187,950
Receivables, net of allowance for uncollectible accounts					
Accounts receivable	2,538,772	482,871	-	973,289	3,994,932
Due from other funds	515,000	-	78,386	-	593,386
Due from component unit	301,289	-	-	-	301,289
Prepaid expenses and other assets	568,937	-	245,342	-	814,279
Total current assets	<u>9,632,949</u>	<u>1,357,795</u>	<u>323,728</u>	<u>973,289</u>	<u>12,287,761</u>
Long-term assets					
Restricted assets					
Cash and cash equivalents	-	-	2,159	-	2,159
Investments, at fair value	-	-	680,309	-	680,309
Capital assets, not being depreciated	3,502,650	-	17,602,343	-	21,104,993
Capital assets, less accumulated depreciation and amortization	<u>35,309,401</u>	<u>690,690</u>	<u>149,547</u>	<u>-</u>	<u>36,149,638</u>
Total long-term assets	<u>38,812,051</u>	<u>690,690</u>	<u>18,434,358</u>	<u>-</u>	<u>57,937,099</u>
Total assets	<u>48,445,000</u>	<u>2,048,485</u>	<u>18,758,086</u>	<u>973,289</u>	<u>70,224,860</u>
LIABILITIES					
Current liabilities					
Accounts payable	337,843	28,454	-	163,669	529,966
Accrued expenses	65,215	34,481	52,910	-	152,606
Due to other funds	70,842	603,270	-	-	674,112
Amounts due to component units	1,893,032	132,122	72,964	-	2,098,118
Current portion of future lease rentals payable to component unit	1,731,084	-	-	-	1,731,084
Current portion of workers' compensation	23,017	140,700	-	-	163,717
Current portion of general obligation bonds payable	47,559	-	-	-	47,559
Current portion of lease rental bonds payable	-	-	235,000	-	235,000
Current portion of capitalized lease obligations	-	147,800	-	-	147,800
Current portion of vested compensated absences	11,397	4,971	-	-	16,368
Total current liabilities	<u>4,179,989</u>	<u>1,091,798</u>	<u>360,874</u>	<u>163,669</u>	<u>5,796,330</u>
Long-term liabilities					
Workers' compensation	76,152	465,506	-	-	541,658
Lease rental bonds payable	-	-	8,055,865	-	8,055,865
Capitalized lease obligations	-	356,516	-	-	356,516
Vested compensated absences	263,256	114,840	-	-	378,096
Other post-employment benefits	681,948	501,433	-	-	1,183,381
Future lease rentals payable to component unit	1,604,826	-	-	-	1,604,826
Total long-term liabilities	<u>2,626,182</u>	<u>1,438,295</u>	<u>8,055,865</u>	<u>-</u>	<u>12,120,342</u>
Total liabilities	<u>6,806,171</u>	<u>2,530,093</u>	<u>8,416,739</u>	<u>163,669</u>	<u>17,916,672</u>
NET ASSETS					
Invested in capital assets, net of related debt	35,476,141	(79,849)	9,730,448	-	45,126,740
Restricted					
Debt service	-	-	658,387	-	658,387
Unrestricted	<u>6,162,688</u>	<u>(401,759)</u>	<u>(47,488)</u>	<u>809,620</u>	<u>6,523,061</u>
Total net assets	<u>\$ 41,638,829</u>	<u>\$ (481,608)</u>	<u>\$ 10,341,347</u>	<u>\$ 809,620</u>	<u>\$ 52,308,188</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2009

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Incinerator Fund	Total Proprietary Funds
Operating revenues					
Charges for service	\$ 14,272,553	\$ 4,205,746	\$ 450,386	\$ 7,115,890	\$ 26,044,575
Operating expenses					
Salaries and wages	1,801,675	860,802	-	-	2,662,477
Fringe benefits	927,123	585,763	-	-	1,512,886
Communications	21,556	1,495	-	-	23,051
Professional fees	266,485	4,927	-	-	271,412
Utilities	1,666,861	1,101	-	-	1,667,962
Insurance	291,968	68,626	-	-	360,594
Maintenance and repairs	228,938	129,574	-	-	358,512
Contracted services	10,158,447	984,034	-	6,298,237	17,440,718
Supplies	805,390	164,835	-	8,343	978,568
Depreciation	1,795,696	200,971	37,387	-	2,034,054
Total operating expenses	17,964,139	3,002,128	37,387	6,306,580	27,310,234
Operating income (loss)	(3,691,586)	1,203,618	412,999	809,310	(1,265,659)
Nonoperating revenues (expenses)					
State subsidy	247,649	14,952	2,000,000	-	2,262,601
Contribution from component unit	3,200,000	-	-	-	3,200,000
Investment income	28,571	2,764	596	310	32,241
Interest expense	(559,422)	(24,481)	(566,135)	-	(1,150,038)
Amortization of bond issue costs	-	-	(19,741)	-	(19,741)
Total nonoperating revenues (expenses)	2,916,798	(6,765)	1,414,720	310	4,325,063
Income (loss) before contributions and transfers	(774,788)	1,196,853	1,827,719	809,620	3,059,404
Capital contribution	1,386,313	-	-	-	1,386,313
Transfers in	-	-	1,553,390	-	1,553,390
Transfers out	-	(1,744,476)	-	-	(1,744,476)
Change in net assets	611,525	(547,623)	3,381,109	809,620	4,254,631
Net assets - beginning of year	41,027,304	66,015	6,960,238	-	48,053,557
Net assets - end of year	\$ 41,638,829	\$ (481,608)	\$ 10,341,347	\$ 809,620	\$ 52,308,188

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2009

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Incinerator Fund	Total Proprietary Funds
Cash flows from operating activities					
Received from user charges	\$14,331,846	\$ 4,251,253	\$ 450,386	\$ 6,142,601	\$25,176,086
Payments to employees for services	(1,809,703)	(873,548)	-	-	(2,683,251)
Payments for fringe benefits	(594,091)	(340,886)	-	-	(934,977)
Payments to suppliers for goods and services	(13,016,642)	(1,494,046)	-	(6,142,911)	(20,653,599)
Net cash provided by (used in) operating activities	(1,088,590)	1,542,773	450,386	(310)	904,259
Cash flows from noncapital financing activities					
Transfers in	-	-	1,553,390	-	1,553,390
Transfers out	-	(1,744,476)	-	-	(1,744,476)
Contribution from component unit	3,200,000	-	-	-	3,200,000
State subsidy	-	14,952	-	-	14,952
Proceeds from (repayment of) amounts due to other funds	54,682	581,652	(78,386)	-	557,948
Net cash provided by (used in) noncapital financing activities	3,254,682	(1,147,872)	1,475,004	-	3,581,814
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(5,500)	(739,523)	(11,059,972)	-	(11,804,995)
State subsidy	-	-	2,000,000	-	2,000,000
Interest paid	-	(24,481)	(520,610)	-	(545,091)
Lease, bond and note payments	(1,703,864)	(162,584)	(1,405,000)	-	(3,271,448)
Net cash used in capital and related financing activities	(1,709,364)	(926,588)	(10,985,582)	-	(13,621,534)
Cash flows from investing activities					
Sales of investments	356,504	472,405	9,059,596	-	9,888,505
Investment income received	28,571	2,764	596	310	32,241
Net cash provided by investing activities	385,075	475,169	9,060,192	310	9,920,746
Net increase (decrease) in cash and cash equivalents	841,803	(56,518)	-	-	785,285
Cash and cash equivalents (including restricted cash) - beginning of year	4,132,568	478,072	2,159	-	4,612,799
Cash and cash equivalents (including restricted assets) - end of year	<u>\$ 4,974,371</u>	<u>\$ 421,554</u>	<u>\$ 2,159</u>	<u>\$ -</u>	<u>\$ 5,398,084</u>

(continued)

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2009

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Incinerator Fund	Total Proprietary Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ (3,691,586)	\$ 1,203,618	\$ 412,999	\$ 809,310	\$ (1,265,659)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation and amortization	1,795,696	200,971	37,387	-	2,034,054
Provision for uncollectible accounts	1,767,279	7,155	-	-	1,774,434
Changes in assets and liabilities					
Accounts receivable	(1,707,986)	38,352	-	(973,289)	(2,642,923)
Other assets	86,948	-	-	-	86,948
Direct financing lease	192,927	-	-	-	192,927
Vested compensated absences	(8,028)	(12,746)	-	-	(20,774)
Other post-employment benefits	333,032	244,877	-	-	577,909
Workers' compensation	36,220	(148,591)	-	-	(112,371)
Accounts payable and other accrued costs	106,908	9,137	-	163,669	279,714
Net cash provided by (used in) operating activities	<u>\$ (1,088,590)</u>	<u>\$ 1,542,773</u>	<u>\$ 450,386</u>	<u>\$ (310)</u>	<u>\$ 904,259</u>
Noncash investing, capital, and financing activities					
Amortization of deferred bond issuance costs and bond discount	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,096</u>	<u>\$ -</u>	<u>\$ 24,096</u>
Capital assets purchased by The Harrisburg Authority on behalf of the Sewer Fund	<u>\$ 976,515</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 976,515</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2009

	Police Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 1,602,241
Receivables		
Interest and dividends	87,827	-
Total receivables	87,827	-
Investments, at fair value		
Money market funds	553,031	-
Fixed income funds	9,916,972	-
U.S. Government obligations	2,346,434	-
U.S. Government agency obligations	3,794,578	-
Corporate bonds	3,353,847	-
Equity funds	27,061,144	-
Common stocks	8,717,082	-
U.S. Government agency obligations - STRIPS	-	935,386
Total investments	55,743,088	935,386
Total assets	55,830,915	2,537,627
LIABILITIES		
Due to other governments	-	550,754
Due to City's general fund	-	117,796
Escrow liabilities	-	1,869,077
Total liabilities	-	\$ 2,537,627
NET ASSETS		
Net assets held in trust for police pension benefits	\$ 55,830,915	

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - POLICE PENSION TRUST FUND
YEAR ENDED DECEMBER 31, 2009

Additions	
Contributions	
Employee	\$ 752,905
Employer	<u>275,869</u>
Total contributions	<u>1,028,774</u>
Investment income	
Interest and dividend income	1,703,257
Net appreciation in fair value of investments	<u>7,532,015</u>
Total investment earnings	9,235,272
Less investment expense	<u>(166,376)</u>
Net investment income	<u>9,068,896</u>
Total additions	<u>10,097,670</u>
Deductions	
Pension benefits	3,405,574
Administrative expenses	<u>60,706</u>
Total deductions	<u>3,466,280</u>
Change in net assets	6,631,390
Net assets held in trust for pension benefits - January 1	<u>49,199,525</u>
Net assets held in trust for pension benefits - December 31	<u><u>\$ 55,830,915</u></u>

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



CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF COMPONENT UNITS
DECEMBER 31, 2009

The Harrisburg Authority

The Harrisburg Authority Component Unit is used to account for the revenues and expenses associated with providing water service to residents and commercial and industrial establishments of the City of Harrisburg (City) and several surrounding municipalities; providing municipal solid waste disposal, subsequent sale of incinerator generated steam to local utility, and the production of electricity for in-house use and sale to a public utility.

Harrisburg Parking Authority

The Harrisburg Parking Authority Component Unit is used to account for the revenues and expenses associated with the ownership and operation of ten parking garages containing approximately 7,813 spaces in the central business district of the City, in addition to funds it receives from on-street parking meter charges and four open lots.

Coordinated Parking Fund

The Coordinated Parking Fund Component Unit is used to account for the net operating revenues from the components of the coordinated parking system. The components of the coordinated parking system include ten parking garages owned by the Harrisburg Parking Authority, two of the City's surface lots, and the City's parking meters. The Fund is pledged as security for the debt service payments of the Harrisburg Parking Authority Series N Bonds and is currently used to make the debt service payments for such Bonds.

Redevelopment Authority of the City of Harrisburg (Redevelopment Authority)

The Redevelopment Authority of the City of Harrisburg Component Unit is incorporated under the provisions of the Commonwealth of Pennsylvania Urban Development Act Number 385 of May 24, 1945, as amended for the purpose of providing redevelopment and other related activities within the City.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET ASSETS - COMPONENT UNITS
DECEMBER 31, 2009

	The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total Component Units
ASSETS					
Current assets					
Cash and cash equivalents	\$10,140,464	\$ -	\$3,831,767	\$ 787,066	\$14,759,297
Investments	-	-	-	126,245	126,245
Accounts receivable, net of allowance for uncollectible	5,490,960	423,412	-	36,855	5,951,227
Loans receivable	-	-	-	330,750	330,750
Grants receivable	247,649	-	-	699,139	946,788
Other receivables	1,284	-	-	-	1,284
Advances and amounts due from primary government	268,250	-	347,712	72,964	688,926
Prepaid expenses and other assets	-	9,096	-	-	9,096
Current portion of direct financing lease	1,731,084	-	-	-	1,731,084
Total current assets	17,879,691	432,508	4,179,479	2,053,019	24,544,697
Restricted assets					
Cash with fiscal agents	3,659,564	111	-	-	3,659,675
Investments	56,923,224	11,850,636	-	2,596,893	71,370,753
Litigation settlement receivable	88,000	-	-	-	88,000
Total restricted assets	60,670,788	11,850,747	-	2,596,893	75,118,428
Advances to primary government	1,624,782	-	-	-	1,624,782
Future lease rentals receivable from primary government	1,604,826	-	-	-	1,604,826
Equitable ownership interest	-	14,000,500	-	-	14,000,500
Deferred charges, net of accumulated amortization	13,558,254	5,580,682	-	-	19,138,936
Capital assets, not being depreciated	2,473,281	8,226,047	-	152,574	10,851,902
Capital assets, less accumulated depreciation	184,058,521	53,535,151	-	6,007,428	243,601,100
Total assets	281,870,143	93,625,635	4,179,479	10,809,914	390,485,171

(continued)

	The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total Component Units
LIABILITIES					
Current liabilities (payable from current assets)					
Cash overdraft	-	660,123	-	-	660,123
Accounts payable and accrued liabilities	616,979	1,095,230	2,955	534,991	2,250,155
Advances and amounts due to primary government	9,269,144	(10,000)	-	-	9,259,144
Advances and amounts due to component unit	-	(3,737,474)	3,737,474	-	-
Unearned revenue	-	584,434	-	-	584,434
Current portion of bonds payable	-	3,710,000	-	-	3,710,000
Total current liabilities (payable from current assets)	9,886,123	2,302,313	3,740,429	534,991	16,463,856
Current liabilities (payable from restricted assets)					
Accounts payable	3,632,440	-	-	-	3,632,440
Accrued bond interest payable	5,302,652	1,176,222	-	-	6,478,874
Unearned revenue	-	-	-	233,539	233,539
Current portion of loan payable	1,912,500	-	-	-	1,912,500
Current portion of revenue bonds payable	9,240,000	-	-	-	9,240,000
Current portion of revenue notes payable	35,648,250	-	-	321,207	35,969,457
Total current liabilities (payable from restricted assets)	55,735,842	1,176,222	-	554,746	57,466,810
Noncurrent liabilities					
Loans payable	17,511,500	-	-	-	17,511,500
Revenue bonds payable, net of discount	292,012,782	100,828,271	-	43,834,105	436,675,158
Revenue notes payable, net of discount	68,240,261	-	-	1,001,778	69,242,039
Due to other governments	-	-	-	170,832	170,832
Due to primary government	366,188	-	-	-	366,188
Unearned revenue	4,560,138	250,033	-	-	4,810,171
Net other post-employment liability	-	183,164	-	-	183,164
Environmental remediation liability	-	-	-	375,241	375,241
Accrued landfill closure and post-closure care liability	2,242,262	-	-	-	2,242,262
Total liabilities	450,555,096	104,740,003	3,740,429	46,471,693	605,507,221
NET ASSETS					
Net assets					
Invested in capital asset, net of related debt	(172,391,956)	(14,273,029)	-	4,837,860	(181,827,125)
Restricted:					
Debt service	9,990,258	-	-	2,596,050	12,586,308
Construction	388,557	-	-	-	388,557
Guarantee agreement	304,374	-	-	-	304,374
Water operations	3,182,272	-	-	-	3,182,272
Unrestricted	(10,158,458)	3,158,661	439,050	(43,095,689)	(49,656,436)
Total net assets	<u>\$(168,684,953)</u>	<u>\$(11,114,368)</u>	<u>\$ 439,050</u>	<u>\$(35,661,779)</u>	<u>\$(215,022,050)</u>

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

CITY OF HARRISBURG
STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2009

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
The Harrisburg Authority	\$ 70,291,009	\$ 43,555,489	\$ -	\$ -
Harrisburg Parking Authority	15,522,810	13,964,205	-	-
Coordinated Parking Fund	7,347,458	6,997,703	-	-
Redevelopment Authority	6,248,903	814,796	2,922,763	760,250
Total component units	\$ 99,410,180	\$ 65,332,193	\$ 2,922,763	\$ 760,250

General revenues
 Space rental income
 Miscellaneous income
 Unrestricted investment earnings

Total general revenues

Change in net assets

Net assets - January 1, 2009, restated

Net assets - December 31, 2009

Net (Expense) Revenue and
Changes in Net Assets

The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total
\$ (26,735,520)	\$ -	\$ -	\$ -	\$ (26,735,520)
-	(1,558,605)	-	-	(1,558,605)
-	-	(349,755)	-	(349,755)
-	-	-	(1,751,094)	(1,751,094)
<u>(26,735,520)</u>	<u>(1,558,605)</u>	<u>(349,755)</u>	<u>(1,751,094)</u>	<u>(30,394,974)</u>
-	-	-	816,239	816,239
51,446	-	-	15,440	66,886
<u>695,511</u>	<u>329,953</u>	<u>7,188</u>	<u>135,666</u>	<u>1,168,318</u>
<u>746,957</u>	<u>329,953</u>	<u>7,188</u>	<u>967,345</u>	<u>2,051,443</u>
(25,988,563)	(1,228,652)	(342,567)	(783,749)	(28,343,531)
<u>(142,696,390)</u>	<u>(9,885,716)</u>	<u>781,617</u>	<u>(34,878,030)</u>	<u>(186,678,519)</u>
<u>\$ (168,684,953)</u>	<u>\$ (11,114,368)</u>	<u>\$ 439,050</u>	<u>\$ (35,661,779)</u>	<u>\$ (215,022,050)</u>

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harrisburg, Pennsylvania (City) was founded by John Harris II in 1785, established as a borough in 1791 and incorporated as a City on March 19, 1860. The City operates as a Mayor-Council form of government and provides all municipal services to its residents.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies:

A. *Reporting Entity*

The City used guidance contained in Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, *The Financial Reporting Entity*, to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, etc.) within its reporting entity. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organization's governing body and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City, as defined below:
 - **Impose its Will** – If the City can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - **Financial Benefit or Burden** – Exists if the City (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the City.

Based on the foregoing criteria, the reporting entity has been defined to include all the entities for which the City is financially accountable or for which there is another significant relationship. Specific information on the nature of the various potential component units and a description of how the aforementioned criteria have been considered in determining whether or not to include or exclude such units in the City's financial statements are provided in the following paragraphs. Separately published audit reports of the component units and joint venture are available for public inspection in the City's Finance Office.

Blended Component Units

Some component units, despite being legally separate from the primary government (City), are so intertwined with the primary government that they are, in substance, the same as the primary

government and are reported as part of the primary government. The component unit reported in this way is the City of Harrisburg Leasing Authority.

City of Harrisburg Leasing Authority

The City of Harrisburg Leasing Authority was formed pursuant to the Municipal Authority Act in 1986 for the purpose of acquiring and leasing facilities and equipment to the City. The five-member Board of Directors is appointed by the Mayor. The City of Harrisburg Leasing Authority's only financial transaction is the financing of City projects. There was no activity during the year ended December 31, 2009.

Discretely Presented Component Units

Component units which are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government. The component units presented in this way are the following:

- The Harrisburg Authority
- Harrisburg Parking Authority
- Coordinated Parking Fund
- Redevelopment Authority of the City of Harrisburg

The Harrisburg Authority

The Harrisburg Authority was incorporated in 1957 under the provisions of the Municipal Authority Act. The entire five-member Board of Directors is appointed by City Council. The Harrisburg Authority has purchased the water system and incinerator facility from the City and contracts with the City to manage the water system. The contract requires that the Mayor prepare an operating expenses budget for adoption by the City Council, with final approval by The Harrisburg Authority with the inclusion of such operating expenses in The Harrisburg Authority's annual budget. The Harrisburg Authority incurred \$9,205,327 in expenses under this agreement in 2009. Additionally, The Harrisburg Authority has agreed to adopt rates sufficient to pay the operating expenses budget, as approved, plus administrative and debt service expenses. The Harrisburg Authority has contracted with an outside vendor to manage the incinerator facility. The Harrisburg Authority has financed the sewer system for the City with a lease revenue bond transaction for which the City pledged all sewer system revenues to secure The Harrisburg Authority's bonds.

Harrisburg Parking Authority

The Harrisburg Parking Authority (Authority) was incorporated in 1972 under the Pennsylvania Parking Authority Law of 1947. The five-member Board of Directors is appointed by the Mayor and members can be removed from the Board at will. The Authority owns and operates ten parking garages containing approximately 7,813 spaces in the central business district of the City.

In addition to parking charges, the Authority receives funds from on-street parking meter charges and four open lots. The City receives the benefit of excess parking revenues through a Cooperation Agreement with the Authority and the City has guaranteed a majority of the Authority's outstanding debt.

Coordinated Parking Fund

The Coordinated Parking Fund (Fund) was established in 1984 through a Cooperation Agreement for the Downtown Coordinated Parking System entered into by the City of Harrisburg, the Redevelopment Authority of the City of Harrisburg, Harristown Development Corporation, the Authority, The Mayor of Harrisburg, and the Harrisburg City Council. The Authority Board, which is appointed by the Mayor and whose members can be removed from the Board at will, administers the Fund on behalf of the City. The Fund is pledged as security for the debt service payments of the Authority Series N Bonds and is currently used to make the debt service payments for such Bonds.

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority of the City of Harrisburg (Redevelopment Authority) was established in 1949 pursuant to the Urban Redevelopment Act of 1945 (Public Law – 991). The Redevelopment Authority is administered by a five-member Board of Directors, all of whom are appointed by the Mayor. The Redevelopment Authority provides a broad range of urban renewal and maintenance programs within the City. The Redevelopment Authority also coordinates efforts to improve the economic vitality, the housing stock, and overall living conditions within the City. The City guarantees some debt of the Redevelopment Authority projects.

Potential Component Units Excluded

City of Harrisburg Housing Authority

The City of Harrisburg Housing Authority (Housing Authority) was established in 1937 pursuant to the Housing Authorities Law to promote the availability of safe and sanitary dwelling accommodations at affordable rents to families of low income. The Housing Authority is administered by a five-member Board of Directors, all of whom are appointed by the Mayor.

The Housing Authority operates low rent subsidized housing projects established within the City. The Housing Authority manages the acquisition of federal and state funds for the construction of and/or improvements to low income properties and reviews programs with the landlords to ensure compliance with various rules and regulations. The City has no financial accountability over the Housing Authority's operations.

The Housing Authority operates and reports on a calendar year.

Harristown Development Corporation

The Harristown Development Corporation (HDC) was incorporated under the Nonprofit Corporation Law of Pennsylvania in 1974, and owns and operates several facilities within the City. HDC is governed by a 17-member Board of Directors (Board) selected by a nominating committee of the Board. City officials do not serve on the Board or nominating committee. The City does guarantee the debt of an HDC project, but there is no indication of financial accountability.

The HDC operates and reports on a calendar year.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

Harrisburg School District

In May 2000, the General Assembly of the Commonwealth passed Act 16 of 2000, entitled the Education Empowerment Act (Act 16), which was signed by the Governor. Soon after passage of Act 16, the Harrisburg School District (School District) filed a legal challenge to Act 16 as it relates to the Mayor's control of the Harrisburg schools and requested immediate injunctive relief from the Commonwealth Court of Pennsylvania. While Act 16 legal proceedings were pending, in November 2000, the General Assembly of the Commonwealth passed Act 91 of 2000, amending the Education Empowerment Act (Act 91), which was signed by the Governor. Soon after passage of Act 91, the School District filed a legal challenge as it relates to the Mayor's control of the Harrisburg schools and requested immediate injunctive relief. On December 15, 2000, the Commonwealth Court of Pennsylvania denied the injunction, thus permitting the implementation of Act 91. Act 91 directed the Mayor of the City to assume control of the School District, which was identified by the General Assembly as one of the most distressed and underachieving in the Commonwealth as of July 2000. Act 91 directs the Mayor to appoint a five-member Board of Directors and an eleven-member Advisory Board to assist him. Act 91 imposes no financial responsibilities on the City with respect to the School District. By an order dated July 22, 2003, the Pennsylvania Supreme Court upheld the amendments to the Pennsylvania Educational Empowerment Act which granted control of the School District to the Mayor, as confirmed. The School District remains under the budgetary control of an elected school board. The Education Empowerment Act (24 P.S. sections 17-1701-B – 17-1716-B) expired effective June 30, 2010, pursuant to the sunset provision of the Act. Therefore, as of June 30, 2010, the City relinquished all control functions it previously possessed and the School District reverted to full control by the elected school board.

The Harrisburg School District operates and reports on a fiscal year ending June 30.

Joint Venture

The City is a participant with other municipalities in a joint venture that provides services to the constituents of all the participants. The City has no financial or equity interest in the joint venture. The following is a summary of the significant facts and circumstances for the joint venture for the year ended June 30, 2009:

Name of Organization	Cumberland-Dauphin-Harrisburg Transit Authority
Services Provided	Bus Service
City Board representation	Two of seven members
Fiscal Year	June 30
Current Assets	\$ 4,707,499
Capital Assets, Net	\$ 25,680,206
Total Assets	\$ 30,057,997
Net Assets	\$ 25,443,062
Operating Revenue	\$ 6,610,787
Operating Loss	\$ (13,639,580)
Change in Net Assets	\$ (442,271)
City Contribution to Operations	\$ 268,363

Related Organizations

The City Council and Mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include:

Broad Street Market Authority	Harrisburg Human Relations Commission
Planning Commission	Harrisburg Mayor's Commission on Literacy
Private Industry Council	License and Tax Appeals
Tri-County Regional Planning Commission	Electrical Code Advisory and Licensing
Emergency Planning Committee	Building Code Board of Appeals
Board of Health	Housing Code Board of Appeals
Historical and Architectural Review Board	Civil Service Board
Plumbing Board	Zoning Hearing Board
Harrisburg Economic Development Corporation	Revolving Loan Review Committee
Downtown Improvement District, Inc.	Harris Com, Inc.
Harrisburg Civic Baseball Club	Harrisburg SusqueCentennial Commission
Susquehanna Area Regional Airport Authority	

The amounts the City appropriated to these organizations during the year ended December 31, 2009 were immaterial to the basic financial statements.

The City owns the National Civil War Museum and the related artifacts (collectively, the facilities). During 2001, the City entered into an agreement to lease the facilities to a not-for-profit organization (organization) for \$1 per year. After five years, the City can notify the organization that it would like to renegotiate the rent payment based on the organization's ability to pay. As of December 31, 2009, there has been no further negotiation and the organization continues to pay rent of \$1 per year. The Mayor was one of twenty-five potential board members of the organization. Effective January 2009, the Mayor no longer serves as a board member for the organization.

B. *Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges to external parties for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and pension trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Real estate, mercantile, franchise and hotel taxes, intergovernmental revenue, departmental earnings, and investment income are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other governmental fund revenues are recorded as cash is received because they are generally not measurable until actually received. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as expenditures in the year when the items are purchased. Expenditures for claims, judgments, compensated absences, contingent liabilities, and employer pension contributions are reported to the extent that they mature each period.

The City reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the governmental fund balance sheet and revenue is recognized.

The City reports the following major governmental funds:

General Fund - Accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the general operating fund of the City.

Grant Programs Fund - Accounts for the revenues and expenditures of federal, state, and other grant programs including the Community Development Block Grant Entitlement Program.

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Debt Service Fund – Accounts for the accumulation of resources, which are principally transfers from other funds, for the payment of general long-term obligation principal, interest, and related costs.

The City reports the following major proprietary funds:

Sewer Fund - Accounts for the revenues and expenses associated with the provision of sewerage service to the residents and commercial and industrial establishments of the City as well as six municipalities surrounding the City.

Sanitation Fund - Accounts for the revenues and expenses associated with the provision of refuse collection and disposal services to the residents and commercial and industrial establishments of the City.

Harrisburg Senators Fund - Accounts for the revenues and expenses associated with the payment of debt on the financing of a new stadium of the Harrisburg Senators, formerly owned by the City.

Incinerator Fund - Accounts for the collection and remittance of incinerator/resource recovery disposal fees billed by the City and remitted to The Harrisburg Authority for their provision of solid waste incineration services to the residents and commercial and industrial establishments of the City.

In addition, the City reports the following fund types:

Pension Trust Fund – Accounts for the accumulation of resources for pension benefit payments and the withdrawals of qualified distributions of police personnel.

Agency Funds – Account for situations where the City's role is purely custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations and do not have a measurement focus. The City's agency funds include the school tax collection fund, which is used to account for the collection and payment to the school district of property taxes billed and collected on its behalf, the payroll and other escrow liabilities fund, which is used to account for the collection and payment of miscellaneous escrow liabilities, and the pass-through grant fund, which is used to account for the temporary collection and disbursement of pass-through grants.

Component units are accounted for as follows:

The discretely presented component units are accounted for as enterprise funds. As such, they account for the activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Services from such activities are provided to outside parties.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City and its discretely presented component units have elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless the GASB specifically adopts the FASB Statement or Interpretation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds 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.

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

D. *Cash and Cash Equivalents*

For the purpose of the statement of cash flows, highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

E. *Investments*

The City carries its investments at fair value. The fair value of the City's investments is based upon values provided by external investment managers and quoted market price.

F. *Allowance for Uncollectible Accounts*

The allowance for uncollectible accounts is based upon historical ratios established according to experience and other factors which in the judgment of City officials deserve recognition in estimating possible losses. Management believes that they have adequately provided for future probable losses.

G. *Loans Receivable*

The City has loans receivable issued from the City's Department of Building and Housing Development in the amount of \$10,218,090 and the Mayor's Office of Economic Development (MOED) in the amount of \$3,771,896, net of allowances for uncollectible accounts of \$7,260,859 and \$602,922, respectively. The balance of loans receivable that is reported in the General Fund, net of allowance for uncollectible accounts, is presented as reserved fund balance. The balance of the loans receivable that is reported in the Grant Programs Fund, net of allowance for uncollectible accounts, is presented as deferred revenue, because this fund does not report fund balance. Amounts written off during the year ended December 31, 2009 amounted to \$843,984 of loans issued by MOED. Write offs are determined based on events of loan default and bankruptcy.

The Redevelopment Authority received two Up-Front Grants in the amount of \$10.6 million from the United States Department of Housing and Urban Development for a redevelopment project within the City. The grant funds were loaned to a developer for use in connection with a low-income housing project. The loans vary in term and require full payment of principal and interest at the end of the loan term. By their nature, the likelihood that these loans will be collected is remote and, as a result, the loans are completely offset with an allowance for doubtful accounts at December 31, 2009.

H. *Interfund Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due to/from other funds” on the balance sheet or statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

I. *Advances to Primary Government*

Advances to the primary government from The Harrisburg Authority represent construction in progress for sewer system improvements.

J. *Assets Held for Sale*

Assets held for sale consist of certain historical artifacts which City Council has authorized to be sold. The City carries its assets held for sale at estimated fair value. The fair value of the City’s assets held for sale is valued at extrapolated appraisal cost, actual sales values, and estimated realizable values.

K. *Capital Assets*

Primary Government

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, dams, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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 two years. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Assets acquired prior to 1982 have been valued by applying an inflation index to current replacement cost to determine estimated historical costs. The cost of such assets amounted to \$2,534,451 at December 31, 2009. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend lives are not capitalized.

Artifacts, totaling \$18,649,000, have been recorded at cost in the governmental activities column of the government-wide financial statements and are not being depreciated.

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

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Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	5 to 100 years
Equipment and furniture	5 to 20 years
Infrastructure	50 to 150 years

Component units

The Harrisburg Authority

The Harrisburg Authority’s 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 Segment assets acquired prior to 1992 and for Resource Recovery Segment 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

Harrisburg Parking Authority

The Authority’s capital assets in service and construction in progress are stated on the basis of cost. Capital assets are defined by the Authority as assets with an initial, individual cost of \$10,000 for land, buildings, and related improvements, or \$1,000 for furniture and equipment purposes, and an estimated

useful life in excess of three years. Maintenance and repairs, which do not significantly extend the value or life of capital assets, are expensed as incurred.

The Authority's depreciation expense is computed using the straight-line method over the estimated useful asset lives ranging from three to thirty years. Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest costs incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Redevelopment Authority of the City of Harrisburg

Capital assets purchased by the Redevelopment Authority with a cost in excess of \$5,000 are recorded on the government-wide financial statements. Capital assets are depreciated over their estimated useful lives using the straight-line method.

L. *Amount Due to Primary Government/Bond Insurer/County of Dauphin*

As further discussed in Note 22, during the year ended December 31, 2009, the City, bond insurer, and County of Dauphin (County) were required to make certain debt service payments on behalf of The Harrisburg Authority under various guarantee/insurance agreements. These amounts are presented as due to the various entities on the balance sheet at December 31, 2009. In addition, the amounts due to the City and the County include accrued interest, per the guarantee agreements, at a rate of eight percent per annum or the prime rate, whichever is greater.

M. *Unearned Revenue*

The Harrisburg Authority's unearned 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.

N. *Vested Compensated Absences*

Primary Government

Vested compensated absences represent vested portions of accumulated unpaid vacation, sick pay and other employee benefit amounts. It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation, sick pay and other employee benefit amounts, which will be paid to employees upon separation from City service. All vested compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Component unit

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority's employees are granted vacation benefits in varying amounts depending on the number of years of service. Employees may accumulate up to 37.5 hours of vacation leave, which may be carried over to subsequent years. Sick leave benefits accrue up to a maximum of

675 hours, but can only be used as sick time and not taken in pay. Sick leave accumulated in excess of 675 hours may be converted, at the discretion of the Executive Director, to vacation time. The conversion of sick leave to vacation leave will occur on the ratio of three (3) hours excess sick leave to one (1) hour vacation leave. The vacation leave accrued in this manner may be carried over to the new calendar year in addition to the maximum vacation leave carryover otherwise permitted. The liability related to compensated absences is reported in the statement of net assets.

O. *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the related obligation using the effective interest method. Debt is reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related obligation.

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

The Harrisburg Authority and the Authority follow accounting standards that require the difference between the reacquisition price and the net carrying amount of the defeased debt be deferred and 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 amount of the unamortized deferred costs of refunding is reported as a deduction from the new liability. As of December 31, 2009, the unamortized deferred costs of refunding recorded by The Harrisburg Authority and the Authority were \$30,206,203 and \$3,836,946, respectively.

P. *Interest Rate Swaps*

The City's component units have entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements. Advance payments to enter into the swap agreements are deferred and amortized over the life of the issue on the government-wide statements.

Q. *Fund Equity and Net Assets*

In the government-wide financial statements and the proprietary fund types in the fund financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category represents the net assets of the City, which are not restricted for any project or other purpose.

In the fund financial statements, fund balances of governmental funds are classified in two separate categories. The two categories and their general meanings are as follows:

Reserved Fund Balance – This category represents that portion of fund equity which has been legally segregated for specific purposes.

Unreserved Fund Balance – This category represents that portion of fund equity which is available for appropriation and expenditure in future periods.

The City records two general types of reserves. One type is used to indicate that a portion of fund equity is legally segregated for a specific future use. The second type of reserve is used to indicate that a portion of the fund equity is not appropriate for expenditures. Reserves used by the City are as follows:

Governmental Funds

Reserved for encumbrances – An account used to segregate a portion of fund balance for expenditure upon vendor performance.

Reserved for capital projects – An account used to segregate a portion of fund balance for assets restricted under terms of bond indentures, terms of grant agreements, or City Council appropriation for the acquisition of capital assets.

Reserved for workers' compensation – An account used to segregate a portion of fund balance for assets restricted for payment of benefits to claimants in accordance with the provisions of the Pennsylvania Workers' Compensation Act.

Reserved for revolving loan program – An account used to segregate a portion of fund balance for assets restricted for use by the revolving loan program.

R. *Pensions*

All full-time employees of the City, with the exception of police officers, are covered by an agent-multiple employer public employee retirement system, the Pennsylvania Municipal Retirement System (PMRS). Police officers are covered by the Combined Police Pension Plan, a single-employer pension plan. Contributions to the plans are made in amounts sufficient to fund current service costs and to fund prior and past service costs over a forty-year period. Member employees contribute amounts to the plans based on a percentage of salary. The City funds its pension plans on the basis of normal cost plus the amortization of prior service cost over thirty years in accordance with Act 205 - 1984 of the Pennsylvania legislature. Pension expense is based upon normal cost plus the equivalent to interest on the unfunded prior service costs. As of January 1, 2011, the date of the most recent actuarial valuation,

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the actuarial accrued pension liability exceeded the actuarial value of assets in the Combined Police Pension Plan in the amount of \$8,543,570.

S. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for all risks of loss except those related to injuries to employees. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The City is self-insured for workers' compensation. As a self-insurer, the City is required to fund an already established trust fund, dollar for dollar, once the City has passed a total outstanding liability threshold of \$3,594,887, as established by the Commonwealth of Pennsylvania. Accordingly, the City has established a trust fund for workers' compensation claims. The City provides coverage for up to a maximum of \$500,000 and \$400,000 for each workers' compensation claim for uniform and non-uniform employees, respectively, and has purchased commercial coverage for claims in excess of coverage.

In the government-wide financial statements and proprietary fund types in the fund financial statements, the liability for outstanding claims is reported in the applicable statement of net assets. A liability for these amounts is reported in governmental funds only if they have matured. The City has reserved its General Fund balance for the amount of the trust fund. The accrued cost for unpaid claims was \$3,321,640 and \$705,375 in the governmental activities and business-type activities, respectively, at December 31, 2009. These claims liabilities are discounted to present value at a discount rate of 5% and are based on the requirements of governmental accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Change in the claims' liability amounts were as follows:

	Governmental Activities	Business-type Activities	2009	2008
Beginning - January 1	\$ 3,599,404	\$ 817,746	\$ 4,417,150	\$ 3,575,923
Current year claims and changes in estimates	812,556	87,790	900,346	2,122,560
Claim payments	<u>(1,090,320)</u>	<u>(200,161)</u>	<u>(1,290,481)</u>	<u>(1,281,333)</u>
Ending - December 31	<u>\$ 3,321,640</u>	<u>\$ 705,375</u>	<u>\$ 4,027,015</u>	<u>\$ 4,417,150</u>

T. Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year for the General Fund, Debt Service Fund, State Liquid Fuels Tax Fund (nonmajor governmental fund), Sewer, and Sanitation Funds. Annual budgets are adopted by ordinances passed by City Council. The City has established the following procedures relating to the preparation and adoption of the annual budget.

1. During August, budget preparation packages are prepared and submitted to the department heads/bureau chiefs for use in developing financial projections for their expenditures for the ensuing year.

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2. The budget staff reviews the department heads'/bureau chiefs' expenditure projections and submits a first draft to the Business Administrator. Subsequent to the Business Administrator's review, the draft and recommendations are forwarded to the Mayor.
3. During September, departmental review forms are prepared and submitted to all department heads/bureau chiefs for use in developing financial projections for anticipated revenues for the ensuing year.
4. Mayoral hearings are then held with each department to discuss their budgets as submitted and allow them to substantiate projected expenditures.
5. After hearings, the budget staff again reviews the projections and presents to the Business Administrator options as to the most viable method of financing them.
6. A second draft is then given to the Mayor with the balanced budget prepared as a result of meetings held between the Mayor, the Business Administrator, and the budget staff.
7. On the fourth Tuesday of November, the final Mayoral recommended budget is presented to City Council.
8. Council holds Budget and Finance Committee meetings to substantiate the proposed budget and arrive at any amendments to the budget.
9. By December 31, the budget, as amended by Council, is legally enacted through the passage of an ordinance.

Appropriations are authorized by ordinance at the fund level with the exception of the General Fund, which is appropriated at the functional office or department level except for the Office of Administration, which has separate budgets for administration and general expenditures. Appropriations are further defined through the establishment of more detailed line-item budgets. These are the legal levels of budgetary control.

The Business Administrator may authorize transfers up to \$20,000 between line-items within a department or office. However, no transfers may be made from personnel line-items to non-personnel line-items without City Council approval. City Council approval is required for transfers in excess of \$20,000 along budget line-items. In the absence of budgeted financing, City Council may approve a supplemental appropriation from unappropriated fund balances; or from a new, unanticipated and unbudgeted revenue source(s) received during the course of the budget year. Therefore, the legal level of control is the line-item level. There were supplemental appropriations enacted during 2009.

Budget to actual comparison by department for the City's general fund is included in required supplementary information.

U. *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental and proprietary fund types. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

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Encumbrances outstanding at year-end for unfilled obligations of the current year budget are reappropriated in the succeeding year. The City records encumbrances as reservations of fund balance in all governmental funds, except grant funds, at year-end. Encumbrance accounting is used in proprietary fund types as a tool for budgetary control, but reserves are not reported. There were no encumbrances outstanding at December 31, 2009 in the proprietary funds. The subsequent year's appropriations provide authority to complete the transactions as expenditures. Encumbrances outstanding at December 31, 2009 consisted of \$1,097,834 in the Grant Programs Fund and are not reflected on the governmental funds balance sheet, because they relate to funds which have zero fund balances at year-end.

Encumbrances outstanding which are reflected on the governmental funds balance sheet at December 31, 2009, by fund type, are presented below:

General	\$ 361,595
Capital Projects	<u>165,825</u>
	<u>\$ 527,420</u>

V. *Extraordinary Item*

Extraordinary items are both unusual in nature and infrequent in occurrence.

W. *Use of Estimates*

Management of the City 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.

X. *Non-Recourse Debt Issue*

The Harrisburg Authority and the Redevelopment Authority participate in various bond issues for which they have limited liability. Acting solely in an agency capacity, the Authorities serve as a financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although the Authorities are a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the Authorities in the case of default. As such, the corresponding debt is not reflected on the balance sheet of the Authorities. As of December 31, 2009, non-recourse debt issues outstanding of The Harrisburg Authority totaled \$90,460,000. As of December 31, 2009, non-recourse debt issues of the Redevelopment Authority totaled approximately \$55,723,000 including approximately \$12,966,000 on behalf of the City. See Note 22 regarding a material event notice issued by an entity for which The Harrisburg Authority issued non-recourse debt.

Y. *Reclassifications*

Certain reclassifications were made to the component unit financial statements to conform with the City's financial statement presentation.

Z. Pending Changes in Accounting Principles

In June 2008, GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*," as amended by GASB Statement No. 64. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The provisions of this Statement are effective for the City's 2010 financial statements.

In February 2009, GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The provisions of this Statement are effective for the City's 2011 financial statements.

In December 2009, GASB issued Statement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*." This Statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The provisions of this Statement are effective for the City's 2010 financial statements.

In November 2010, GASB issued Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements*." This statement improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The provisions of this Statement are effective for the City's 2012 financial statements.

In June 2011, GASB issued Statement No. 61, "*The Financial Reporting Entity*." The objective of this Statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this Statement are effective for the City's 2013 financial statements.

In June 2011, GASB issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*." Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this statement are effective for the City's 2012 financial statements.

In March 2012, GASB issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities*." Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for the City's 2013 financial statements.

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The effect of implementation of these statements has not yet been determined.

2. DEPOSITS AND INVESTMENTS

Primary Government

The deposit and investment policy of the City adheres to state statutes and prudent business practices. City deposits must be held in insured, federally regulated banks or financial institutions and must be fully collateralized in accordance with state statutes. Permissible investments include direct obligations of the U.S. Treasury and U.S. Governmental agencies; certificates of deposit issued by insured banks, bank and trust companies, and savings and loan associations; repurchase agreements not to exceed 30 days, secured by U.S. Government obligations with collateral to be delivered to a third-party custodian; shares of registered investment companies whose portfolios consist solely of government securities; general obligation bonds of any state, Pennsylvania subdivisions, or any of its agencies or instrumentalities backed by the full faith and credit of the issuing entity and having the highest rating of a recognized bond rating agency; and pooled funds of public agencies of the Commonwealth of Pennsylvania. This policy is in accordance with applicable Pennsylvania statutes. There were no deposit or investment transactions that were in violation of either state statutes or the policy of the City at December 31, 2009, nor during the year then ended.

Proceeds from debt and other funds, which are held in bank trust accounts in the City's name and administered by trustees for payment of revenue bonds and the enterprise fund portion of general long-term debt, are classified as restricted assets since their use is limited by applicable bond indentures.

Deposits

At December 31, 2009, the deposits of the City of Harrisburg, including component units were as follows:

Reconciliation to statement of net assets:	
Governmental activities	
Unrestricted	\$ 7,273,740
Restricted	538,009
Business-type activities	
Unrestricted	5,395,925
Restricted	2,159
Fiduciary funds - agency fund	<u>1,602,241</u>
Total primary government	<u>\$ 14,812,074</u>
Component units	
Unrestricted	\$ 14,099,174
Restricted	<u>3,659,675</u>
Total component units	<u>\$ 17,758,849</u>

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 City has no policy, other than as presented above, that further limits its custodial credit deposit risk. As of December 31, 2009, the City's book balance was \$14,812,074 and the bank balance was \$16,960,559. Of the bank balance, \$1,322,354 was covered by federal depository insurance and \$15,368,271 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the

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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. The remaining bank balance of \$269,934 was invested in an external investment pool with the Pennsylvania Local Government Investment Trust (PLGIT). PLGIT separately issues audited financial statements which are available to the public. The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania is the formal external regulatory oversight for the external investment pool. At December 31, 2009, PLGIT carried a AAA rating and had an average maturity of less than one year.

Component units

The Harrisburg Authority

The deposit and investment policy of The Harrisburg 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 Harrisburg Authority at December 31, 2009 were as follows:

Cash and cash equivalents	
Unrestricted	\$ 10,140,464
Restricted under trust indentures and guarantee agreements	<u>3,659,564</u>
	<u>\$ 13,800,028</u>

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 Harrisburg Authority does not have a deposit policy for custodial credit risk. As of December 31, 2009, The Harrisburg Authority's book balance was \$13,800,028 and the bank balance was \$13,803,770. Of the bank balance, \$508,076 was covered by federal depository insurance and \$13,295,694 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.

Harrisburg Parking Authority and Coordinated Parking Fund

The Parking Authority Law limits the Authority to the type of deposits it may make. Allowable deposits include deposits with banks or savings associations that, to the extent not insured, are secured by a pledge of direct obligations of the U.S. Government, Commonwealth of Pennsylvania, or the City having an aggregate market value at least equal to the balance of such deposits.

The Authority maintains a separate operating account for each component of the coordinated parking system and for the Fund. Amounts deposited into these accounts are combined into one account for investment by the Authority. Interest earned from the investment account is allocated to the operating accounts, including the Fund's operating account, based on the monthly investment balance.

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Custodial credit risk. At December 31, 2009, the non-pooled book balance of the Authority was \$1,329,786 and the bank balance was \$1,190,386. Of the non-pooled bank balance, \$250,000 was covered by federal depository insurance at December 31, 2009. The remainder of the non-pooled bank balance at December 31, 2009 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.

The Authority pools certain of its deposits with the Fund. At December 31, 2009, the pooled account had a book and bank balance of \$1,841,969. Of this balance \$1,016,227 was held in certificates of deposit purchased through a third party, all of which were covered by federal depository insurance held in the name of the Authority. The remaining balance of \$825,742 was invested in a money market fund which carried a AAA rating and had an average weighted maturity of less than one year. At December 31, 2009, the Authority's position in the pool was (\$1,989,798) and the Fund's position in the pool was \$3,831,767.

Redevelopment Authority of the City of Harrisburg

Custodial Credit Risk. As of December 31, 2009, the Redevelopment Authority's book balance was \$787,066 and the bank balance was \$843,694. Of the bank balance, \$839,421 was covered by federal depository insurance. The remaining balance of \$4,273 was uncollateralized by the Redevelopment Authority's financial institution.

Investments

At December 31, 2009, the investments of the City of Harrisburg were as follows:

Primary Government	
Unrestricted investments	
Money market funds	\$ 1,164,091
External investment pool	1,180,788
Total unrestricted investments	<u>2,344,879</u>
Restricted investments	
Money market funds	<u>903,365</u>
Total restricted investments	<u>903,365</u>
Fiduciary funds	
Money market funds	553,032
Fixed income funds	9,916,972
U.S. Government obligations	2,346,434
U.S. Government agency obligations	4,729,963
Corporate bonds	3,353,847
Equity funds	27,061,144
Common stocks	<u>8,717,082</u>
Total fiduciary funds	<u>56,678,474</u>
Total primary government	<u>\$ 59,926,718</u>

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Component Units	
Unrestricted investments	
Money market funds	\$ 126,245
Total unrestricted investments	<u>126,245</u>
Restricted investments	
Money market funds	44,715,944
U.S. Government obligations	198,540
U.S. Government agency obligations	8,213,697
Commercial paper	8,220,504
Guaranteed investment contracts	2,596,893
Municipal bonds	<u>7,425,175</u>
Total restricted investments	<u>71,370,753</u>
Total component units	<u>\$ 71,496,998</u>

For financial statement purposes, the City's balance held in PLGIT, an external investment pool, is disclosed as a deposit.

Primary Government

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 City has no policy, other than as presented above, that further limits its custodial credit investment risk. Of the City's total investments of \$59,926,718, \$3,248,244 was held by the counterparty's trust department or agent not in the City's name.

The City uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for the City's funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST) which separately issues audited financial statements which are available to the public. The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight of the pool.

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. At December 31, 2009, there were no investments that represent more than 5 percent of the City's total investments.

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Credit risk. The City does not have a formal policy relating to credit risk of investments. The City's money market, external investment pool, and fixed income investments had the following level of exposure to credit risk as of December 31, 2009:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 1,456,397	AAA
Money market funds	\$ 1,164,091	Unrated
External investment pools	\$ 1,180,788	AAA
Fixed income funds	\$ 9,916,972	AA
U.S. Government agency obligations	\$ 4,574,617	AAA
U.S. Government agency obligations	\$ 46,883	AA+
U.S. Government agency obligations	\$ 108,463	Unrated
Corporate bonds	\$ 56,584	AAA
Corporate bonds	\$ 332,401	AA+
Corporate bonds	\$ 108,939	AA
Corporate bonds	\$ 304,258	A+
Corporate bonds	\$ 1,340,441	A
Corporate bonds	\$ 877,940	A-
Corporate bonds	\$ 160,983	BBB+
Corporate bonds	\$ 172,301	BBB

Interest rate risk. The City 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 City's money market, external investment pool, and fixed income investments and their related average maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>			
		<u>2010</u>	<u>2011-2015</u>	<u>2016-2020</u>	<u>2021 and beyond</u>
Money market funds	\$ 2,620,488	\$ 2,620,488	\$ -	\$ -	\$ -
External investment pool	1,180,788	1,180,788	-	-	-
Fixed income funds	9,916,972	-	9,916,972	-	-
U.S. Government obligations	2,346,434	-	2,047,353	237,400	61,681
U.S. Government agency obligations	4,729,963	312,136	1,540,533	1,320,839	1,556,455
Corporate bonds	3,353,847	119,826	1,432,624	1,553,490	247,907
Total	<u>\$ 24,148,492</u>	<u>\$ 4,233,238</u>	<u>\$ 14,937,482</u>	<u>\$ 3,111,729</u>	<u>\$ 1,866,043</u>

Workers' Compensation

In accordance with the provisions of the Pennsylvania Workers' Compensation Act, the City has secured an exemption from the necessity of insuring its workers' compensation liability and has elected to maintain a separate fund to provide a reserve for claimants entitled to benefits. Since inception, a total of \$600,000 has been deposited in a bank trust account through December 31, 2009. Interest of \$1,514,091 has been earned on the deposits and claims of \$700,000 have been paid from the trust account from inception through December 31, 2009. During 2006, the City withdrew \$1,300,000 to fund operating deficits of the General Fund. At December 31, 2006, the City had deposited \$1,050,000 back into the fund, giving the City total assets held as reserves of \$1,164,091 at December 31, 2009, of

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which \$150,847 is included in the General Fund, \$734,240 is included in the Sewer Fund and \$279,004 is included in the Sanitation Fund as investments at December 31, 2009.

Component Units

The Harrisburg Authority

The restricted investments of The Harrisburg Authority at December 31, 2009 were as follows:

Money market funds	\$ 37,305,302
U.S. Government agency obligations	8,213,697
U.S. Government obligations	198,540
Municipal bonds	7,425,175
Commercial paper	<u>3,780,510</u>
Total	<u>\$ 56,923,224</u>

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

Custodial Credit Risk. The Harrisburg Authority does not have a formal investment policy for custodial credit risk. All of The Harrisburg Authority's investments are held by the counterparty's trust department or agent not in The Harrisburg Authority's name.

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

	<u>Fair Value</u>	<u>% of Total</u>
Federal National Mortgage Association	\$ 6,521,753	11.46%
General Obligation Pension Bonds - Illinois State	\$ 5,247,270	9.22%
FCAB Owner Trust Discount C/P	\$ 3,780,510	6.64%

Credit Risk. The Harrisburg Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Harrisburg Authority's money market funds and fixed income investments had the following level of exposure to credit risk as of December 31, 2009:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 37,305,302	AAA
U.S. Government agency obligations	\$ 8,213,697	AAA
U.S. Government obligations	\$ 198,540	AAA
Municipal bonds	\$ 5,247,270	A
Municipal bonds	\$ 2,177,905	BB
Commercial paper	\$ 3,780,510	A+

Interest Rate Risk. The Harrisburg 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

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rates. The following is a list of The Harrisburg Authority's money market and fixed income investments and their related average maturities:

	Fair Value	Investment Maturity (in Years)			
		Less than 1 year	1-5 years	6-10 years	Greater than 10 years
Money market funds	\$ 37,305,302	\$ 37,305,302	\$ -	\$ -	\$ -
U.S. government agency obligations	8,213,697	2,804,094	-	-	5,409,603
U.S. government obligations	198,540	198,540	-	-	-
Municipal bonds	7,425,175	-	-	-	7,425,175
Commercial paper	3,780,510	3,780,510	-	-	-
Total	\$ 56,923,224	\$ 44,088,446	\$ -	\$ -	\$ 12,834,778

Harrisburg Parking Authority

The bond indentures related to the Authority's parking revenue bonds required the establishment of various funds and accounts. The unexpended amounts in these funds and accounts as of December 31, 2009 and the related interest receivable are restricted for designated purposes under the bond indentures.

Allowable investments as outlined in the Authority's internal investment policy include certificates of deposit, repurchase agreements with financial institutions having assets in excess of \$500,000,000, direct obligations of the U.S. Government, or as permitted in the individual trust indentures.

The restricted investments of the Authority at December 31, 2009 were as follows:

Money market funds	\$ 7,410,642
Commercial paper	<u>4,439,994</u>
Total	<u>\$ 11,850,636</u>

Custodial Credit Risk. The Authority does not have a formal investment policy for custodial credit risk. The securities are held by the counterparty, not in the Authority's name.

Concentration of credit risk. The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments were held with the following issuers:

	<u>Fair Value</u>	<u>Percent of Investments</u>
Restricted:		
Commercial paper:		
HSBC Finance Corporation	\$ 4,439,994	37.47%

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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, 2009:

	<u>Fair Value</u>	<u>Rating</u>
Restricted:		
Money market funds	\$ 7,410,642	AAA
Commercial paper	\$ 4,439,994	A1

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. At December 31, 2009, the Authority's money market and fixed income investments have an average maturity of less than one year.

Redevelopment Authority of the City of Harrisburg

Investments

The fair value of the investments of the Redevelopment Authority at December 31, 2009 was as follows:

<u>Investments</u>	<u>Fair (Contract) Value</u>
Money market funds	\$ 159,710
External investment pool	843
Guaranteed investment contracts	<u>2,562,585</u>
Total investments	<u>\$ 2,723,138</u>
<u>Investments</u>	
Unrestricted	\$ 126,245
Restricted	<u>2,596,893</u>
Total investments	<u>\$ 2,723,138</u>

The Redevelopment Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for the Redevelopment Authority's funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST), which separately issues audited financial statements that are available to the public. The fair value of the Redevelopment Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight of the pool.

Custodial Credit Risk. The Redevelopment Authority does not have an investment policy for custodial credit risk. At December 31, 2009, the Redevelopment Authority was not exposed to custodial credit risk, because the investments held by the Redevelopment Authority are not evidenced by securities in book entry or paper form.

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Concentration of Credit Risk. The Redevelopment Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2009, more than 5 percent of the Redevelopment Authority's investments were held with the following issuer:

Issuer	Contract Value	Percentage
Guaranteed investment contracts		
Bank of America - 5.3%	\$ 2,562,585	94.10%

Credit Risk. The Redevelopment Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Redevelopment Authority's investments had the following level of exposure to credit risk as of December 31, 2009:

	Fair (Contract) Value	Rating
Money market funds	\$ 159,710	AAA
External investment pool	843	AAA
Guaranteed investment contracts	2,562,585	Unrated

Interest Rate Risk. The Redevelopment 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 Redevelopment Authority's investments and their related average maturities as of December 31, 2009:

	Fair (Contract) Value	Investment Maturities			
		2010	2011-2015	2016-2020	Subsequent to 2020
Money market funds	\$ 159,710	\$ 159,710	\$ -	\$ -	\$ -
External investment pool	843	843	-	-	-
Guaranteed investment contracts	2,562,585	-	-	1,144,511	1,418,074
Total	\$ 2,723,138	\$ 160,553	\$ -	\$ 1,144,511	\$ 1,418,074

3. PROPERTY TAXES

Based upon assessed valuations provided by the County, the City bills and collects its own property taxes. Delinquent accounts are turned over to the County, which collects the taxes on behalf of the City. The schedule for property taxes levied for 2009 is as follows:

January 1, 2009	- lien date
January 31, 2009	- original levy date
January 31 – March 31, 2009	- 2% discount period
April 1 – May 31, 2009	- face payment period
June 1 – December 31, 2009	- 10% penalty period
January 1, 2010	- turned over to County for collection

The City is permitted by the Third Class City Code to levy real estate taxes up to 25 mills on every dollar of assessed valuation for general City purposes. However, under an order of court dated

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December 20, 1982, the City was authorized to exceed the statutory general millage rate, up to a maximum of 30 mills.

The real property tax imposed by the City in 2009 was 4.78 mills on improvements and 28.67 mills on land. Both land and improvements are assessed at 100% of market value, with an effective combined equivalent single millage rate of 10.0207 mills.

Property taxes are recorded as of the date levied. Amounts not collected within sixty days after the end of the year are deferred in the governmental funds.

In addition, City taxes may be paid in four installments due on or before January 31, March 31, May 31, and July 31 of the tax year with no discount period allowed. Any delinquent installment is subject to a penalty of 10%.

4. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances at December 31, 2009 is as follows:

<u>Primary Government</u>	Due from Other Funds	Due to Other Funds
General Fund	\$ 1,376,572	\$ 1,166,450
Grant Programs Fund	747,195	242,681
Nonmajor governmental funds	185,998	702,112
Total governmental funds	<u>2,309,765</u>	<u>2,111,243</u>
Sewer Fund	515,000	70,842
Sanitation Fund	-	603,270
Harrisburg Senators Fund	78,386	-
Total proprietary funds	<u>593,386</u>	<u>674,112</u>
Agency fund	-	117,796
Total primary government	<u><u>\$ 2,903,151</u></u>	<u><u>\$ 2,903,151</u></u>

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These amounts represent short-term receivables and payables for unsettled transactions and short-term borrowings between funds for the purposes of cash flow.

Component Units	Due from Component Units	Due to Primary Government	Advances to Primary Government	Advances from Component Units
Primary Government				
General Fund	\$ 851,543	\$ -	\$ -	\$ 357,712
Nonmajor governmental funds	607,635	-	-	-
Sewer Fund	301,289	-	-	1,893,032
Sanitation Fund	-	-	-	132,122
Harrisburg Senators Fund	-	-	-	72,964
Component Units	-	9,767,454	2,455,830	-
Total	\$ 1,760,467	\$ 9,767,454	\$ 2,455,830	\$ 2,455,830

Amounts due to the City do not equal amounts receivable from component units. There are amounts due from component unit, specifically The Harrisburg Authority, for debt service paid by the City under the guarantee of The Harrisburg Authority Resource Recovery Bonds as discussed further in Note 22. At the time of the various guarantees, the City and The Harrisburg Authority entered into reimbursement agreements, requiring repayment by The Harrisburg Authority in the event that the City had to pay under the guarantees. However, while the City maintains that there is a legal claim against The Harrisburg Authority for the approximately \$5 million in debt service payments made by the City under the guarantees and the approximately \$3 million paid by the second guarantor and the bond insurer during the year ended December 31, 2009, the City has deemed the likelihood of collection as remote and a full allowance has been established. The City continues to anticipate continued pursuit of collection against The Harrisburg Authority in the event of available excess revenues or through sale of the facility.

The composition of interfund transfers for the year ended December 31, 2009 is as follows:

Primary Government	Transfers In	Transfers Out
General Fund	\$ 2,659,476	\$ 14,085,121
Debt Service Fund	11,406,553	1,553,390
Nonmajor governmental funds	2,746,250	982,682
Total governmental funds	16,812,279	16,621,193
Sanitation Fund	-	1,774,476
Harrisburg Senators Fund	1,553,390	-
Total proprietary funds	1,553,390	1,774,476
Total primary government	\$ 18,365,669	\$ 18,395,669

Interfund transfers were made primarily to fund debt service and to move excess cash, per budgeted transfers, to provide for capital project fund expenditures.

5. INTERGOVERNMENTAL REVENUE, RECEIVABLES, AND PAYABLES

The General Fund intergovernmental revenue for the year ended December 31, 2009 is as follows:

Commonwealth of Pennsylvania, Pension System Aid	\$ 2,511,795
Harrisburg Parking Authority, excess parking revenue	4,050,000
Commonwealth of Pennsylvania, Capital fire protection	1,000,000
Utilities payments in lieu of taxes from other governments	37,641
	<u>\$ 7,599,436</u>

The City also participates in a number of state and federal grant programs. Revenues from these programs are as follows:

Grant Programs Fund	
Community Development Block Grant	\$ 1,761,624
Lead Based Paint Grant	582,982
HOME Program	655,144
Section 108 Program	390,925
Federal Emergency Management Agency grants	1,219,045
Capital improvement grants	4,277,539
Other state/federal grants	675,221
	<u>\$ 9,562,480</u>

The Grant Programs Fund had deferred revenue of \$2,545,882 at December 31, 2009, representing payments received in advance for various grant programs. The remaining deferred revenues of \$3,086,377 represent deferred loans receivable.

6. RESTRICTED ASSETS

Revenue Bond and General Obligation Note Proceeds

Proceeds from debt and other funds, which are held in bank trust accounts and administered by trustees, are classified as restricted assets in the enterprise funds since their use is limited by applicable bond indentures or contractual obligations.

7. ASSETS HELD FOR SALE

City Council passed a resolution requiring the administration to develop a plan by February 2007, to sell certain historical artifacts owned by the City. At a minimum, the plan was to include a timeframe for the sale of the artifacts, all of which were to be liquidated no later than December 15, 2008; the process used by the administration to determine the value and accomplish the sale of the artifacts; provide for quarterly reporting by the City Treasurer of the artifacts sold, original purchase price, and the amounts received from the sale of the artifacts; ensure that all funds received from the sale of the artifacts were deposited with a local financial institution and used to pay off the interest and principal of the City's Revenue Bonds, Series of 2006; and provide a detailed listing of all costs and expenses associated with the sale of the artifacts.

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The cost of the artifacts to be sold amounted to \$7,843,648. At December 31, 2009, the City has sold artifacts with an approximate cost of \$2.1 million. The proceeds of the sale, through December 31, 2009, amounted to approximately \$1.7 million.

Additionally, artifacts bought by the City from a certain vendor have been deemed to be inauthentic. Such artifacts had a cost value of approximately \$2.1 million. An appraisal of a portion of the artifacts was extrapolated to the entire population purchased from this vendor. This extrapolation resulted in decreasing the estimated fair value of these artifacts to \$73,000. Subsequent to December 31, 2009, the City entered into an agreement with the aforementioned vendor's estate, which resulted in a \$450,000 settlement to the City. This settlement is reported as a general revenue on the government-wide Statement of Activities.

Finally, during the year ended December 31, 2008, the City had determined, through consultation with industry experts, that the remaining artifacts have a value of approximately 40% of the remaining cost. This valuation resulted in a decrease in the estimated fair value of the remaining artifacts in the amount of approximately \$2 million during the year ended December 31, 2008.

8. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 is as follows:

Primary Government

	Beginning of Year	Additions	Retirements and Dispositions	End of Year
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 6,658,096	\$ 486,767	\$ -	\$ 7,144,863
Construction in progress	-	265,488	-	265,488
Artifacts	18,649,000	-	-	18,649,000
Total capital assets, not being depreciated	25,307,096	752,255	-	26,059,351
Capital assets, being depreciated				
Buildings	64,012,532	9,835	-	64,022,367
Improvements	16,521,213	9,310	-	16,530,523
Equipment and furniture	31,220,931	3,069,276	(627,027)	33,663,180
Infrastructure	93,325,703	3,082,200	-	96,407,903
Total capital assets, being depreciated	205,080,379	6,170,621	(627,027)	210,623,973
Less accumulated depreciation for				
Buildings	(26,735,036)	(1,587,067)	-	(28,322,103)
Improvements	(5,760,762)	(372,813)	-	(6,133,575)
Equipment and furniture	(25,668,757)	(1,835,170)	627,027	(26,876,900)
Infrastructure	(58,308,436)	(2,763,856)	-	(61,072,292)
Total accumulated depreciation	(116,472,991)	(6,558,906)	627,027	(122,404,870)
Total capital assets, being depreciated, net	88,607,388	(388,285)	-	88,219,103
Governmental activities, capital assets, net	\$ 113,914,484	\$ 363,970	\$ -	\$ 114,278,454

CITY OF HARRISBURG, PENNSYLVANIA
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	Beginning of Year	Additions	Retirements and Dispositions	End of Year
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 361,421	\$ -	\$ -	\$ 361,421
Construction in progress	8,707,087	12,036,485	-	20,743,572
Total capital assets, not being depreciated	<u>9,068,508</u>	<u>12,036,485</u>	<u>-</u>	<u>21,104,993</u>
Capital assets, being depreciated				
Buildings	35,262,349	-	-	35,262,349
Improvements	2,685,962	-	-	2,685,962
Equipment and furniture	40,188,811	745,026	(42,167)	40,891,670
Infrastructure	13,790,448	-	-	13,790,448
Total capital assets, being depreciated	<u>91,927,570</u>	<u>745,026</u>	<u>(42,167)</u>	<u>92,630,429</u>
Less accumulated depreciation for				
Buildings	(18,251,693)	(676,012)	-	(18,927,705)
Improvements	(751,563)	(28,287)	-	(779,850)
Equipment and furniture	(29,288,875)	(1,195,432)	42,167	(30,442,140)
Infrastructure	(6,196,773)	(134,323)	-	(6,331,096)
Total accumulated depreciation	<u>(54,488,904)</u>	<u>(2,034,054)</u>	<u>42,167</u>	<u>(56,480,791)</u>
Total capital assets, being depreciated, net	<u>37,438,666</u>	<u>(1,289,028)</u>	<u>-</u>	<u>36,149,638</u>
Business-type activities, capital assets, net	<u>\$ 46,507,174</u>	<u>\$ 10,747,457</u>	<u>\$ -</u>	<u>\$ 57,254,631</u>

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 1,551,185
Building and housing development	135,913
Public safety	1,316,186
Public works	2,729,688
Parks and recreation	825,934
Total depreciation expense - governmental activities	<u>\$ 6,558,906</u>
Business-type activities:	
Sewer	\$ 1,795,696
Sanitation	200,971
Harrisburg Senators	37,387
Total depreciation expense - business-type activities	<u>\$ 2,034,054</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Component Units

	<u>Beginning of Year</u>	<u>Additions/ Transfers In</u>	<u>Retirements/ Transfers Out</u>	<u>End of Year</u>
The Harrisburg Authority:				
Capital assets, not being depreciated:				
Artifacts	\$ 351,865	\$ -	\$ -	\$ 351,865
Construction in progress	11,592,991	3,988,775	(13,460,350)	2,121,416
Total capital assets, not being depreciated	<u>11,944,856</u>	<u>3,988,775</u>	<u>(13,460,350)</u>	<u>2,473,281</u>
Capital assets, being depreciated:				
Land improvements	1,223,614	1,624,129	-	2,847,743
Buildings and improvements	120,021,676	7,858,944	-	127,880,620
Furniture and fixtures	372,552	291,143	-	663,695
Machinery and equipment	100,675,026	9,979,069	(11,191)	110,642,904
Total capital assets being depreciated	<u>222,292,868</u>	<u>19,753,285</u>	<u>(11,191)</u>	<u>242,034,962</u>
Less accumulated depreciation	<u>(51,007,402)</u>	<u>(6,980,230)</u>	<u>11,191</u>	<u>(57,976,441)</u>
Total accumulated depreciation	<u>(51,007,402)</u>	<u>(6,980,230)</u>	<u>11,191</u>	<u>(57,976,441)</u>
Total capital assets being depreciated, net	<u>171,285,466</u>	<u>12,773,055</u>	<u>-</u>	<u>184,058,521</u>
The Harrisburg Authority, capital assets, net	<u>\$ 183,230,322</u>	<u>\$ 16,761,830</u>	<u>\$ (13,460,350)</u>	<u>\$ 186,531,802</u>
	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of Year</u>
Harrisburg Parking Authority:				
Capital assets, not being depreciated:				
Land	\$ 6,939,212	\$ -	\$ -	\$ 6,939,212
Construction in progress	1,050,293	236,542	-	1,286,835
Total capital assets, not being depreciated	<u>7,989,505</u>	<u>236,542</u>	<u>-</u>	<u>8,226,047</u>
Capital assets, being depreciated:				
Land improvements	127,922	-	-	127,922
Buildings and improvements	84,476,475	19,800	-	84,496,275
Furniture and fixtures	326,531	1,035	-	327,566
Machinery and equipment	2,221,980	103,342	-	2,325,322
Total capital assets being depreciated	<u>87,152,908</u>	<u>124,177</u>	<u>-</u>	<u>87,277,085</u>
Less accumulated depreciation	<u>(30,551,169)</u>	<u>(3,190,765)</u>	<u>-</u>	<u>(33,741,934)</u>
Total accumulated depreciation	<u>(30,551,169)</u>	<u>(3,190,765)</u>	<u>-</u>	<u>(33,741,934)</u>
Total capital assets being depreciated, net	<u>56,601,739</u>	<u>(3,066,588)</u>	<u>-</u>	<u>53,535,151</u>
Harrisburg Parking Authority, capital assets, net	<u>\$ 64,591,244</u>	<u>\$ (2,830,046)</u>	<u>\$ -</u>	<u>\$ 61,761,198</u>

CITY OF HARRISBURG, PENNSYLVANIA
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	Beginning of Year (Restated)	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
Redevelopment Authority of the City of Harrisburg:				
Capital assets, not being depreciated:				
Construction in progress	\$ 236,161	\$ 122,574	\$ (236,161)	\$ 122,574
Land	30,000	-	-	30,000
Total capital assets, not being depreciated	266,161	122,574	(236,161)	152,574
Capital assets, being depreciated:				
Buildings	-	2,093,040	-	2,093,040
Leasehold improvements	4,147,949	-	-	4,147,949
Total capital assets being depreciated	4,147,949	2,093,040	-	6,240,989
Less accumulated depreciation for:				
Buildings	-	(26,163)	-	(26,163)
Leasehold improvements	(103,699)	(103,699)	-	(207,398)
Total accumulated depreciation	(103,699)	(129,862)	-	(233,561)
Total capital assets being depreciated, net	4,044,250	1,963,178	-	6,007,428
Redevelopment Authority of the City of Harrisburg, capital assets, net	\$ 4,310,411	\$ 2,085,752	\$ (236,161)	\$ 6,160,002

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2009 is as follows:

Primary Government

	Beginning of Year	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
Governmental activities:						
Workers' compensation claims	\$ 3,599,404	\$ 812,556	\$ -	\$ (1,090,320)	\$ 3,321,640	\$ 770,953
Bonds payable (Note 10)	47,331,645	-	2,252,860	(6,330,977)	43,253,528	6,749,702
Notes payable (Note 12)	50,013,240	-	2,211,793	(2,332,108)	49,892,925	2,868,757
Capital lease obligations (Note 14)	9,043,850	151,085	-	(2,298,568)	6,896,367	1,995,499
Vested compensated absences	9,075,876	3,830,718	-	(4,606,155)	8,300,439	786,165
Governmental activities Long-term liabilities	\$ 119,064,015	\$ 4,794,359	\$ 4,464,653	\$ (16,658,128)	\$ 111,664,899	\$ 13,171,076

CITY OF HARRISBURG, PENNSYLVANIA
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	<u>Beginning of Year</u>	<u>Additions</u>	<u>Accretion/ Amortization</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Current Portion</u>
Business-type activities:						
Workers' compensation						
claims	\$ 817,746	\$ 87,790	\$ -	\$ (200,161)	\$ 705,375	\$ 163,717
Bonds payable (Note 10)	9,783,548	-	9,064	(1,454,188)	8,338,424	282,559
Capital lease						
obligations (Note 14)	666,900	-	-	(162,584)	504,316	147,800
Vested compensated						
absences	415,238	398,568	-	(419,342)	394,464	16,368
Lease rental payable						
(Note 14)	4,830,416	-	-	(1,494,506)	3,335,910	1,731,084
Business-type activities						
Long-term liabilities	<u>\$ 16,513,848</u>	<u>\$ 486,358</u>	<u>\$ 9,064</u>	<u>\$ (3,730,781)</u>	<u>\$ 13,278,489</u>	<u>\$ 2,341,528</u>

Workers' compensation claims and compensated absences typically have been liquidated by the general fund and the enterprise funds.

Component Units

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Accretion/ Amortization</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Current Portion</u>
The Harrisburg Authority:						
Loans payable (Note 13)	\$ 8,233,000	\$ 12,466,000	\$ -	\$ (1,275,000)	\$ 19,424,000	\$ 1,912,500
Bonds payable (Note 10)	332,720,000	-	-	(6,840,000)	325,880,000	9,240,000
Notes payable (Note 12)	105,634,299	-	-	(914,977)	104,719,322	35,648,250
Total bonds and notes						
payable	446,587,299	12,466,000	-	(9,029,977)	450,023,322	46,800,750
Less:						
Deferred loss on						
refunding	(33,290,715)	-	3,084,512	-	(30,206,203)	-
Unamortized premium	3,240,519	-	1,507,655	-	4,748,174	-
The Harrisburg Authority						
Long-term liabilities	<u>\$ 416,537,103</u>	<u>\$ 12,466,000</u>	<u>\$ 4,592,167</u>	<u>\$ (9,029,977)</u>	<u>\$ 424,565,293</u>	<u>\$ 46,800,750</u>

CITY OF HARRISBURG, PENNSYLVANIA
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	Beginning of Year	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
Harrisburg Parking Authority:						
Bonds payable (Note 10)	\$ 110,655,000	\$ -	\$ -	\$ (2,865,000)	\$ 107,790,000	\$ 3,710,000
Less:						
Deferred loss on refunding	(4,265,186)	-	428,240	-	(3,836,946)	-
Unamortized premium	671,781	-	(86,564)	-	585,217	-
Harrisburg Parking Authority Long-term liabilities	\$ 107,061,595	\$ -	\$ 341,676	\$ (2,865,000)	\$ 104,538,271	\$ 3,710,000
	Beginning of Year (Restated)	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
Redevelopment Authority of the City of Harrisburg:						
Bonds payable (Note 10)	\$ 93,590,000	\$ -	\$ -	\$ -	\$ 93,590,000	\$ -
Notes payable (Note 12)	557,074	1,017,049	-	(251,138)	1,322,985	321,207
Due to other governments	170,832	-	-	-	170,832	-
Total long-term liabilities	94,317,906	1,017,049	-	(251,138)	95,083,817	321,207
Less:						
Unamortized discount	(52,158,863)	-	2,402,968	-	(49,755,895)	-
Redevelopment Authority of the City of Harrisburg Long-term liabilities	\$ 42,159,043	\$ 1,017,049	\$ 2,402,968	\$ (251,138)	\$ 45,327,922	\$ 321,207

CITY OF HARRISBURG, PENNSYLVANIA
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10. BONDS PAYABLE

Bonds payable at December 31, 2009 are as follows:

	Primary Government		Total Primary Government
	Governmental Activities	Business-type Activities	
Bonds payable	\$ 43,253,528	\$ 8,392,559	\$ 51,646,087
Unamortized discount	-	(54,135)	(54,135)
Total bonds payable	\$ 43,253,528	\$ 8,338,424	\$ 51,591,952

	Component Units			Total Component Units
	The Harrisburg Authority	Harrisburg Parking Authority	Redevelopment Authority	
Bonds payable	\$ 325,880,000	\$ 107,790,000	\$ 93,590,000	\$ 527,260,000
Deferred loss on refunding	(30,206,203)	(3,836,946)	-	(34,043,149)
Unamortized premium (discount)	5,578,985	585,217	(49,755,895)	(43,591,693)
Total bonds payable	\$ 301,252,782	\$ 104,538,271	\$ 43,834,105	\$ 449,625,158

Bonds payable are accounted for in the following activities:

	Governmental Activities	Business-type Activities	Total Primary Government
General Obligation Bonds			
Series A of 1995	\$ 3,739,827	\$ 47,559	\$ 3,787,386
Series D of 1997	34,892,554	-	34,892,554
Total general obligation bonds	38,632,381	47,559	38,679,940
Revenue Bonds			
Senators Revenue Bonds			
Series A-2 of 2005	-	8,345,000	8,345,000
Less: Unamortized discount	-	(54,135)	(54,135)
Lease Revenue Bonds			
Series of 2006	4,621,147	-	4,621,147
Total revenue bonds	4,621,147	8,290,865	12,912,012
Total bonds payable	\$ 43,253,528	\$ 8,338,424	\$ 51,591,952

CITY OF HARRISBURG, PENNSYLVANIA
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Bonds payable are accounted for in the following component units:

	The Harrisburg Authority	Harrisburg Parking Authority	Redevelopment Authority	Total Component Units
Revenue Bonds:				
Water Revenue Bonds, Series of 2008	\$ 69,420,000	\$ -	\$ -	\$ 69,420,000
Water Revenue Bonds, Series A of 2004	36,920,000	-	-	36,920,000
Water Revenue Bonds, Series A, B, C and D of 2002	48,825,000	-	-	48,825,000
Water Revenue Bonds, Series A of 2001	4,295,000	-	-	4,295,000
Sewer Revenue Refunding, Series of 1992	5,195,000	-	-	5,195,000
Sewer Revenue Refunding, Second and Third Series of 1989	5,195,000	-	-	5,195,000
Resource Recovery Facility Bonds, Series A, D, E and F of 2003	144,825,000	-	-	144,825,000
Resource Recovery Facility Bonds, Series A of 1998	11,205,000	-	-	11,205,000
Office and Parking Revenue Bonds:				
Series K of 2000	-	11,800,000	-	11,800,000
Series J of 2001	-	28,010,000	-	28,010,000
Series N of 2003	-	4,685,000	-	4,685,000
Series O of 2003	-	10,435,000	-	10,435,000
Series P of 2005	-	16,620,000	-	16,620,000
Series R of 2007	-	16,965,000	-	16,965,000
Series T of 2007	-	19,275,000	-	19,275,000
Guaranteed Revenue Bonds, Series A and B of 1998	-	-	93,590,000	93,590,000
Less: Deferred loss on refunding and unamortized premium (discount)	<u>(24,627,218)</u>	<u>(3,251,729)</u>	<u>(49,755,895)</u>	<u>(77,634,842)</u>
Total bonds payable	<u>\$ 301,252,782</u>	<u>\$ 104,538,271</u>	<u>\$ 43,834,105</u>	<u>\$ 449,625,158</u>

Under the terms of its respective debt agreements, the City is required to maintain certain balances in restricted trust accounts, to make timely payments to the trustee or to a sinking fund for principal and interest, and to insure and maintain assets acquired with the proceeds of the debt.

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The composition of bonds outstanding included in the primary government at December 31, 2009 is as follows:

General Obligation Bonds

5.6%, General Obligation Bonds, Series A of 1995, dated December 15, 1995, principal payable in final annual installment of \$3,787,386 on April 1, 2010, to be serviced through general revenues of the city and through sewer operating revenues and State Liquid Fuels Funds, issued to fund the City's unfunded actuarial accrued pension liability. \$ 3,787,386

5.15%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of \$825,256 to \$4,114,369 through September 15, 2022, to be serviced through general revenues of the City, issued to advance refund the City's General Obligation Bonds, Series B-1 of 1997, which was originally issued to fund certain capital projects of the City. 34,892,554

Revenue Bonds

4.40%-5.29%, Senators Revenue Bonds, Series A-2 of 2005, dated January 2005 Series A-2 matures at various amounts from 2006 through 2030, issued to renovate the baseball stadium. 8,345,000

5.00%, Revenue Bonds, Series of 2006, dated December 2006, principal payable in annual installments of \$660,164 through May 2016, to be serviced through general revenues of the City, issued to finance the lease payments of the McCormick Public Service Center. 4,621,147

Total primary government bonds payable 51,646,087

Less: unamortized discount (54,135)

Net primary government bonds payable \$ 51,591,952

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The composition of bonds outstanding included in the component units at December 31, 2009 is as follows:

The Harrisburg Authority	
Revenue Bonds	
4.88%-5.25%, Water Revenue Bonds, Series of 2008 dated August 2008. Series of 2008 matures at various amounts from 2025 through 2031.	\$ 69,420,000
1.5%-5.0%, Water Revenue Bonds, Series A of 2004 dated August 2004. Series A matures at various amounts from 2005 through 2023.	36,920,000
.41%-5.65%, Water Revenue Bonds, Series A,B,C, and D of 2002 dated July 3, 2002. Series A matures at various amounts from 2023 through 2029. Series B matures at various amounts from 2011 through 2017. Series C matures in 2029. Series D matures at various amounts from 2010 through 2011.	48,825,000
3.40%-5.75%, Water Revenue Bonds, Series A of 2001, dated May 2001. The bonds mature at various amounts from 2002 through 2015.	4,295,000
6.0%-6.8%, Sewer Revenue Refunding Bonds, Series of 1992 dated March 3, 1992, principal payable in various amounts through 2012 and are collateralized by lease rentals paid by the City to the Authority.	5,195,000
6.8%-7.15%, Sewer Revenue Refunding Bonds, Second and Third Series of 1989. The Second and Third Series mature at various amounts through 2012.	5,195,000
4.45%-6.25%, Resource Recovery Revenue Bonds, Series A,D,E, and F of 2003. Series A matures at various amounts from 2018 through 2034. Series D matures at various amounts from 2017 to 2033. Series E and F mature at various amounts from 2009 to 2017. Series D and E have the secondary guarantee by the County.	144,825,000
4.45%-5.00%, Resource Recovery Revenue Bonds, Series A of 1998. Series A matures at various amounts from 2006 through 2021.	<u>11,205,000</u>
Total The Harrisburg Authority	325,880,000
Less: deferred loss on refunding and unamortized premium	<u>(24,627,218)</u>
Net The Harrisburg Authority	<u><u>\$ 301,252,782</u></u>

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Harrisburg Parking Authority
Revenue Bonds

Variable rate, Series K Bonds, dated June 1, 2000, consisting of term bonds maturing December 2023 and December 2024. The interest rate varies approximately at BMA and was .32% at December 31, 2009.	\$ 11,800,000
2.8%-5.00%, Series J Bonds, dated September 1, 2001, consisting of serial bonds maturing from September 1, 2003 to September 1, 2022 in annual installments of various amounts.	28,010,000
2.5%-4.3%, Series N Bonds, dated October 28, 2003, consisting of serial bonds maturing from November 15, 2004 to November 15, 2016 in annual installments of various amounts.	4,685,000
1.5%-5.00%, Series O Bonds, dated November 18, 2003, consisting of serial bonds maturing from August 1, 2004 to August 1, 2016 in annual installments of various amounts.	10,435,000
3.30%-5.70%, Series P Bonds, dated July 15, 2005, consisting of serial bonds maturing from September 1, 2007 to September 1, 2027 in annual installments of various amounts.	16,620,000
3.60%-5.00%, Series R Bonds, dated January 11, 2007, consisting of serial bonds maturing from May 15, 2010 to May 15, 2036 in annual installments of various amounts.	16,965,000
3.50%-4.50%, Series T Bonds, dated December 15, 2007, consisting of serial bonds maturing from May 15, 2009 to May 15, 2030 in annual installments of various amounts.	<u>19,275,000</u>

Total Harrisburg Parking Authority	107,790,000
Less: deferred loss on refunding and unamortized premium	<u>(3,251,729)</u>
Net Harrisburg Parking Authority	<u>\$ 104,538,271</u>

Redevelopment Authority of the City of Harrisburg
Revenue Bonds

Series A and B Bonds, dated December 19, 1998, consisting of term bonds maturing from 2016 to 2033 in annual installments of various amounts.	\$ 93,590,000
Less: unamortized discount	<u>(49,755,895)</u>
Net Redevelopment Authority of the City of Harrisburg	<u>\$ 43,834,105</u>
Total component unit bonds payable	<u>\$ 449,625,158</u>

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The Harrisburg Authority

The Harrisburg 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 debt service sinking fund and swap agreements. In exchange for cash payments to The Harrisburg Authority at the inception of the agreements totaling approximately \$5,188,198, at December 31, 2009, 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 unearned revenue in The Harrisburg Authority's financial statements because the substance of these agreements effectively is to pay The Harrisburg Authority currently for interest that normally would be earned in later years. The unearned revenue resulting from these transactions of \$2,808,576 at December 31, 2009, is being amortized over the respective life of each agreement under a method that approximates the interest method.

Harrisburg Parking Authority

In February 2000, the Authority entered into (i) a debt service reserve fund forward purchase agreement with Lehman for investment of monies in the Series F Debt Service Reserve Account securing the Series F Bonds, (ii) a debt service reserve forward delivery agreement with Bank of America, N.A. (BofA) for the investment of monies in the Series G and H Debt Service Reserve Fund securing the Authority's Series G Bonds and Series H Bonds, and (iii) a debt service reserve forward delivery agreement with BofA for the Series I Debt Service Reserve Fund securing the Series I Bonds. The Authority received fees of \$68,584, \$280,000, and \$210,000 respectively, when it entered into the agreements. In September 2001, the Authority refunded the Series I Bonds with its Series J Bonds, and the Series I debt reserve fund agreement was amended to apply to the Series J Debt Service Reserve Account securing the Authority's Series J Bonds. Similarly, the Series G and H debt reserve fund agreement was amended to apply to the Series O Bonds issued to refund or otherwise retire the Series G and H Bonds. In connection with that November 2003 amendment, BofA paid the Authority an additional fee of \$252,000. The Series F debt reserve fund agreement was amended in February 2004 to apply to the debt service reserve fund securing the Series N Bonds issued to refund the Series F Bonds. The unearned revenue is being amortized over the respective life of the agreement under a method that approximates the interest method. Amortization for the year ended December 31, 2009, totaled \$48,148.

The debt service requirements for Series F Bonds are payable solely from and are secured by a pledge of (1) all the right, title, and interest of the Authority in and to the Fund, (2) all amounts on deposit and investment securities in any fund or account established under the related bond indenture, (3) a guaranty by the City, and (4) a municipal bond insurance policy. Amounts on deposit in the Fund are to be transferred to the Debt Service Fund created under the bond indenture and used to make required debt service payments on the Series F Bonds. These Bonds have been defeased through the issuance of "Harrisburg Parking Authority Guaranteed Parking Revenue Refunding Bonds, Series N of 2003."

Debt service on the Series G and Series H Bonds was payable from certain Capital Replacement Reserve Funds held by the Authority established under the Cooperation Agreement.

The Series G and Series H Bonds were also secured by a pledge of (1) all amounts on deposit and investment securities in any fund established under the related bond indenture, (2) the City's guaranty, and (3) a municipal bond insurance policy. The annual payment of debt service on the Series G and Series H Bonds is subordinated to provision of funds to cover 130% of the debt service on the

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Authority Series F Bonds. The Series H Bonds have been defeased through the issuance of the Authority "Guaranteed Parking Revenue Bonds, Series O of 2003."

The City has guaranteed the payment of debt service on a majority of the Authority's bonds and notes pursuant to certain Guaranty Agreements. Concurrent with the execution of the Guaranty Agreements, the Authority also executed certain Reimbursement Agreements with the City whereby the Authority agreed to reimburse the City for any payments made by the City under the aforementioned Guaranty Agreements.

The Authority bond indentures contain certain financial and reporting covenants. At December 31, 2009, the Authority was in compliance with such covenants. However, see Note 22 for information on subsequent compliance.

The annual requirements to amortize all bonds outstanding as of December 31, 2009, using interest rates in effect at December 31, 2009 for variable rate issues, are as follows:

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Primary Government						
2010	\$ 6,137,097	\$ 235,419	\$ 895,164	\$ 633,578	\$ 7,032,261	\$ 868,997
2011	4,114,370	380,630	905,164	589,875	5,019,534	970,505
2012	3,906,338	593,662	920,164	545,362	4,826,502	1,139,024
2013	3,701,776	798,224	930,164	500,042	4,631,940	1,298,266
2014	3,498,829	996,171	940,164	454,038	4,438,993	1,450,209
2015-2019	14,859,291	7,610,709	2,950,327	1,698,321	17,809,618	9,309,030
2020-2024	2,462,239	2,272,761	2,090,000	1,162,580	4,552,239	3,435,341
2025-2029	-	-	2,705,000	539,494	2,705,000	539,494
2030	-	-	630,000	16,663	630,000	16,663
	<u>38,679,940</u>	<u>12,887,576</u>	<u>12,966,147</u>	<u>6,139,953</u>	<u>51,646,087</u>	<u>19,027,529</u>
Less unamortized discount	-	-	(54,135)	-	(54,135)	-
Primary Government, net	<u>\$ 38,679,940</u>	<u>\$ 12,887,576</u>	<u>\$ 12,912,012</u>	<u>\$ 6,139,953</u>	<u>\$ 51,591,952</u>	<u>\$ 19,027,529</u>

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Harrisburg Authority						
2010	\$ -	\$ -	\$ 9,240,000	\$ 16,235,318	\$ 9,240,000	\$ 16,235,318
2011	-	-	9,490,000	13,307,920	9,490,000	13,307,920
2012	-	-	9,875,000	11,562,331	9,875,000	11,562,331
2013	-	-	6,865,000	11,355,783	6,865,000	11,355,783
2014	-	-	7,355,000	12,034,745	7,355,000	12,034,745
2015-2019	-	-	54,850,000	55,820,150	54,850,000	55,820,150
2020-2024	-	-	82,085,000	42,344,686	82,085,000	42,344,686
2025-2029	-	-	84,520,000	24,127,837	84,520,000	24,127,837
2030-2034	-	-	61,600,000	6,853,352	61,600,000	6,853,352
	-	-	<u>325,880,000</u>	<u>193,642,122</u>	<u>325,880,000</u>	<u>193,642,122</u>
Less deferred loss on refunding and unamortized premium	-	-	(24,627,218)	-	(24,627,218)	-
The Harrisburg Authority, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 301,252,782</u>	<u>\$ 193,642,122</u>	<u>\$ 301,252,782</u>	<u>\$ 193,642,122</u>

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	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Harrisburg Parking Authority						
2010	\$ -	\$ -	\$ 3,710,000	\$ 4,481,544	\$ 3,710,000	\$ 4,481,544
2011	-	-	3,525,000	4,344,692	3,525,000	4,344,692
2012	-	-	3,665,000	4,208,599	3,665,000	4,208,599
2013	-	-	3,805,000	4,070,837	3,805,000	4,070,837
2014	-	-	3,975,000	3,903,034	3,975,000	3,903,034
2015-2019	-	-	24,230,000	16,429,285	24,230,000	16,429,285
2020-2024	-	-	33,825,000	10,380,212	33,825,000	10,380,212
2025-2029	-	-	24,030,000	4,228,253	24,030,000	4,228,253
2030-2034	-	-	4,940,000	999,675	4,940,000	999,675
2035-2036	-	-	2,085,000	94,838	2,085,000	94,838
	-	-	107,790,000	53,140,969	107,790,000	53,140,969
Less deferred loss on refunding and unamortized premium	-	-	(3,251,729)	-	(3,251,729)	-
Harrisburg Parking Authority, net	\$ -	\$ -	\$ 104,538,271	\$ 53,140,969	\$ 104,538,271	\$ 53,140,969

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Redevelopment Authority of the City of Harrisburg						
2015-2019	\$ -	\$ -	\$ 25,900,000	\$ -	\$ 25,900,000	\$ -
2020-2024	-	-	37,570,000	-	37,570,000	-
2025-2029	-	-	15,910,000	-	15,910,000	-
2030-2033	-	-	14,210,000	-	14,210,000	-
	-	-	93,590,000	-	93,590,000	-
Less unamortized discount	-	-	(49,755,895)	-	(49,755,895)	-
Redevelopment Authority of the City of Harrisburg, net	\$ -	\$ -	\$ 43,834,105	\$ -	\$ 43,834,105	\$ -
Total	\$ 38,679,940	\$ 12,887,576	\$ 462,537,170	\$ 252,923,044	\$ 501,217,110	\$ 265,810,620

11. DEFEASANCE OF DEBT

The City and its component units defeased general obligation and other bonds in prior years by placing the proceeds of net bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the City's financial statements. At December 31, 2009, the following bonds outstanding are considered defeased:

City of Harrisburg	
General Obligation Bonds, Series A of 1995	\$ 35,415,000
The Harrisburg Authority	
Water Revenue Bonds, Series A of 1999	4,510,000
Resource Recovery Revenue Bonds, Series A of 1998	15,810,000
Resource Recovery Revenue Bonds, Series B of 1998	6,995,000
Resource Recovery Revenue Bonds, Series C of 1998	3,125,000
Seventh Street Office & Parking Revenue Bonds, Series A of 1998	11,765,000
Seventh Street Office & Parking Revenue Bonds, Series B of 1998	6,185,000
Resource Recovery Revenue Notes, Series A of 2000	4,195,000
Resource Recovery Revenue Notes, Series B of 2000	2,835,000
Harrisburg Parking Authority	
Guaranteed Parking Revenue Bonds, Series 2001 Bonds	15,965,000
	<u>\$ 106,800,000</u>

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12. NOTES PAYABLE

The City entered into various promissory notes under Section 108 of the Housing and Community Development Act of 1974 (Public Law 93-383), as amended. The proceeds from the notes are provided to administer acquisition, relocation, and clearance of City properties.

As collateral, the City pledged all grants approved or for which the City may become eligible under Title I of the Housing and Community Development Act of 1974, as amended, and program income derived from disposition by sale or lease of any real property to the extent acquired or rehabilitated with the guaranteed loan funds, including any interest earned on such disposition proceeds.

Interest payments are required to be made to the Federal Financing Bank on the daily unpaid principal balances.

The composition of promissory notes outstanding under Section 108 (included in governmental activities) at December 31, 2009 is as follows:

5.75%-6.56%, Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of \$205,000 to \$335,000, through August 1, 2019, to be serviced through general revenues of the City.	\$ 2,655,000
4.99%-5.77%, Section 108 Note, dated September 14, 2006, interest payable semiannually and principal payable in annual installments of \$210,000 to \$225,000, through August 1, 2026, to be serviced through general revenues of the City.	<u>3,585,000</u>
	<u>6,240,000</u>

The composition of notes payable included in the primary government at December 31, 2009 is as follows:

5.25%-5.52%, General Obligation Refunding Notes, Series F of 1997, dated December 31, 1997, principal payable in annual installments of \$2,182,178 to \$3,960,974 beginning September 15, 1999 through September 15, 2022, to be serviced through general revenues of the City, issued to currently refund the City's General Obligation Bonds, Series of 1995, which was originally issued to pay for certain capital projects of the City.	41,185,212
1.59%-4.13%, Pennsylvania Infrastructure bank loans, principal payable through March 26, 2018, to be serviced through general revenues of the City, used to fund City street resurfacing projects.	<u>2,467,713</u>
	<u>43,652,925</u>
Total primary government notes payable	<u>\$ 49,892,925</u>

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The composition of notes payable included in the component units at December 31, 2009 is as follows:

The Harrisburg Authority

1.536%-3.071%, The Harrisburg Authority, 1998 Guaranteed Sewer Revenue Notes, Series A and B, payable through 2018, to finance projects related to the sewer collection system.	\$ 1,794,322
5.72%, The Harrisburg Authority, 2002 Guaranteed Resource Recovery Notes, Series A payable through 2022, to fund acquisition of equipment and engineering studies and working capital.	14,870,000
3.70%-5.0%, The Harrisburg Authority, 2003 Guaranteed Resource Recovery Notes, Series B and C payable beginning 2025 through 2034, to advance refund a portion of the 1998 Series A Bonds, all of the outstanding 1998 Series B and C Bonds, all of the outstanding 2000 Series A and B Notes.	53,370,000
4.50%, The Harrisburg Authority, 2007 Guaranteed Resource Recovery Limited Obligation Notes, Series C payable in 2010, to fund the working capital component of the Retrofit Completion Project. Secondary guarantee by the County.	23,920,000
6.0%, The Harrisburg Authority, 2007 Guaranteed Resource Recovery Limited Obligation Notes, Series D payable in 2010, to fund the Reimbursement Project. Secondary guarantee by the County.	<u>10,765,000</u>
Total The Harrisburg Authority	104,719,322
Less: unamortized discount	<u>(830,811)</u>
Net The Harrisburg Authority	<u>\$ 103,888,511</u>

Redevelopment Authority of the City of Harrisburg

3.75%, 2000 Infrastructure Bank Loan, for bridge financing of the Transportation Center improvements until grant money is received and is payable in annual installments through December 31, 2009.	\$ 271,427
2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is to be forgiven over a fifteen-year period, given that certain compliance requirements are met.	483,333
4.83%, 2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is payable through August 10, 2029.	<u>568,225</u>
Total Redevelopment Authority of the City of Harrisburg	<u>\$ 1,322,985</u>

Total component units notes payable	<u>\$ 105,211,496</u>
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The annual requirements to amortize all notes payable outstanding as of December 31, 2009, using interest rates in effect at December 31, 2009 for variable rate issues, are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
Primary Government		
2010	\$ 2,868,757	\$ 565,135
2011	4,532,915	785,590
2012	4,347,131	945,047
2013	4,182,615	1,097,516
2014	3,957,998	1,244,166
2015-2019	17,437,899	8,046,003
2020-2024	12,130,610	10,432,338
2025-2026	435,000	38,019
	<u>\$ 49,892,925</u>	<u>\$ 23,153,814</u>
Component Units:		
	<u>The Harrisburg Authority</u>	
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 35,648,250	\$ 3,198,702
2011	1,021,597	3,264,418
2012	1,080,014	3,212,781
2013	1,139,506	3,153,804
2014	1,210,075	3,093,771
2015-2019	6,784,880	14,444,750
2020-2024	4,465,000	12,562,134
2025-2029	23,040,000	10,350,010
2030-2034	30,330,000	4,632,460
	104,719,322	57,912,830
Less: unamortized discount	(830,811)	-
	<u>\$ 103,888,511</u>	<u>\$ 57,912,830</u>

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<u>Year Ending December 31,</u>	Redevelopment Authority of the City of Harrisburg	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 321,207	\$ 35,792
2011	50,592	26,301
2012	51,444	25,448
2013	52,338	24,554
2014	53,277	23,615
2015-2019	282,168	102,294
2020-2024	296,986	70,814
2025-2029	214,973	31,275
	<u>\$ 1,322,985</u>	<u>\$ 340,093</u>

13. LOANS PAYABLE

The composition of loans payable included in the component units at December 31, 2009 is as follows:

The Harrisburg Authority

4.00%-8.00%, The Harrisburg Authority, 2008 Covanta Construction Loan, payable through 2021, to perform the Retrofit completion work at the Resource Recovery Facility \$ 19,424,000

During 2007, The Harrisburg 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, 2009, The Harrisburg Authority had drawn down \$19,424,000. This loan constitutes subordinate debt of The Harrisburg Authority pursuant to the provisions of the The Harrisburg Authority's various debt indentures. No interest accrues until July 1, 2011, at which time simple interest begins to accrue at the rate of 4% per annum until July 1, 2012 and at a rate of 8% per annum thereafter. Interest is payable beginning October 1, 2011 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. Refer to Note 22 for information on payments made by the City under the guarantee.

The annual requirements to amortize all loans payable outstanding as of December 31, 2009 are as follows:

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Component Unit:

<u>Year Ending December 31,</u>	<u>The Harrisburg Authority</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 1,912,500	\$ -
2011	1,543,807	324,730
2012	1,130,078	1,244,072
2013	1,223,232	1,150,918
2014	1,324,066	1,050,084
2015-2019	8,448,948	3,421,800
2020-2021	3,841,369	313,393
	<u>\$ 19,424,000</u>	<u>\$ 7,504,997</u>

14. LEASES

Future Lease Rentals Payable to Component Unit

On October 1, 1984, the City entered into a supplemental lease agreement pursuant to the refunding of The Harrisburg Authority's Guaranteed Sewer Revenue Bonds, Series of 1978. The 1984 Second Supplemental Agreement of Lease provides for rental payments in an amount sufficient to retire bonds issued to finance the cost of major construction improvements to the sewage conveyance and treatment system. Also included are interest and administrative costs of The Harrisburg Authority.

On January 15, 1988, the City entered into a Third Supplemental Agreement of Lease and a Collection System Lease pursuant to the issuance of The Harrisburg Authority's Sewer Revenue Bonds, Series A and B of 1988. The Third Supplemental Agreement of Lease was entered into providing for rental payments in an amount sufficient to retire bonds issued to finance the Series A Project relating to the sewage conveyance and treatment system. The Collection System Lease was entered into providing for rental payments in an amount sufficient to retire bonds issued to finance the Series B Project relating to the sewage collection system.

In accordance with the lease agreements, the City is required to make the following minimum annual lease rental payments:

<u>Lease year ending December 31,</u>	<u>Basic Lease</u>	<u>Authority</u>	
	<u>Rental</u>	<u>Administrative</u>	<u>Total</u>
		<u>Expense</u>	
2010	\$ 1,861,382	\$ 250,000	\$ 2,111,382
2011	1,855,496	250,000	2,105,496
Total minimum lease payments	3,716,878	<u>\$ 500,000</u>	<u>\$ 4,216,878</u>
Less amount representing interest	<u>(380,968)</u>		
Present value of net minimum lease payments	3,335,910		
Current portion	<u>1,731,084</u>		
Long-term portion	<u>\$ 1,604,826</u>		

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The net book value of equipment held under capital leases included in capital assets was \$16,573,127 at December 31, 2009. Capital improvements to these systems under the lease agreements were \$976,515 during 2009. Capital assets under the lease agreement have been treated as noncash transactions in the Statement of Cash Flows.

The City is required under the terms of the Second Supplemental Agreement of Lease, the Third Supplemental Agreement of Lease and Collection System Lease to make additional rental payments within 190 days after the end of each year, equal to excess funds in the Sewer Fund as defined in the respective lease agreements. There were no excess funds at December 31, 2009 and, accordingly, no additional payment was due.

Capitalized Lease Obligations

The City leased certain equipment under long-term lease agreements which were classified as capital leases. During the year ended December 31, 2004, the City refinanced all of the then existing capital leases into a consolidated master capital lease. Additional capital leases were issued during the years ended December 31, 2005, 2007, and 2009. As of December 31, 2009, the governmental activities and the business-type activities included equipment and furniture under capital leases with a net book value of \$8,643,036 and \$312,244, respectively.

The future minimum payments under capital leases and the present value of the minimum lease payments at December 31, 2009 are as follows:

Year ending December 31,	Governmental Activities	Business-type Activities	Total
2010	\$ 2,237,726	\$ 165,952	\$ 2,403,678
2011	1,872,660	146,420	2,019,080
2012	1,578,067	130,794	1,708,861
2013	730,599	41,786	772,385
2014	730,598	41,785	772,383
2015	125,963	7,204	133,167
2016	125,963	7,204	133,167
2017	125,938	7,223	133,161
Total minimum lease payments	7,527,514	548,368	8,075,882
Less amount representing interest	(631,147)	(44,052)	(675,199)
Present value of future minimum lease payments	\$ 6,896,367	\$ 504,316	\$ 7,400,683

Transportation Center Lease Income

The Redevelopment Authority, through the Transportation Center Fund, leases space to a commercial rail company and other tenants with lease ending dates varying through 2014. Additionally, the Redevelopment Authority leases space to a non-profit corporation with a lease ending date of 2012. These leases are noncancellable operating leases. Minimum rentals on noncancellable leases through 2014 are as follows:

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<u>Lease year ending December 31,</u>	
2010	\$ 877,225
2011	809,731
2012	701,490
2013	359,349
2014	<u>43,027</u>
Total minimum lease payments	<u>\$ 2,790,822</u>

Operating Lease

The Redevelopment Authority leases space from the National Railroad Passenger Corporation (Amtrak) through 2013. The minimum lease payments for the term of the lease are as follows:

<u>Lease year ending December 31,</u>	
2010	\$ 127,447
2011	127,447
2012	127,447
2013	<u>127,447</u>
Total minimum lease payments	<u>\$ 509,788</u>

The lease is adjusted annually on January 1 for the National Consumer Price Index. The above amounts do not reflect the annual CPI increase. Management does not anticipate a significant increase in the above amounts. Total rental expenses for the year ended December 31, 2009 approximated \$127,447.

15. INTEREST RATE SWAPS

Component Units

The Harrisburg Authority

Variable Rate Issues and Interest Rate Swaps

In connection with its incurrence of long-term indebtedness, The Harrisburg 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 Harrisburg Authority entered into a contract with Societe Generale, New York Branch (Societe Generale), obligating The Harrisburg 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 Harrisburg Authority's 1993 Water

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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 Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg Authority an upfront payment of \$1,415,000. Under the swap agreement, Societe Generale agreed to pay to The Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg Authority under the LIBOR Swap and the SIFMA Swap were determined in April 2002 when The Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg 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 overall 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 Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg Authority received a total of \$1.25 million from Deutsche Bank.

Fair value. As of December 31, 2009, it would cost the Counterparty \$804,762 and \$400,572 to terminate the LIBOR CMS and the SIFMA CMS, respectively, 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, 2009, The Harrisburg Authority was exposed to credit risk in the amount of the LIBOR CMS and 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, 2009. 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.

Yield Curve Risk. The Constant Maturity Swaps expose The Harrisburg 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 Harrisburg 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 Harrisburg Authority in the amount of \$1,250,000.

Termination risk. The LIBOR CMS and the SIFMA CMS were terminated in March 2010 and The Harrisburg Authority received \$673,200 and \$372,200, respectively.

Series of 2004, Water Revenue Refunding Bonds

Objective of the interest rate swaps. In August 2004, The Harrisburg 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 Harrisburg Authority's net interest cost on the 2004 Water Revenue Bonds, The Harrisburg Authority entered into the 2005 Basis Swap, on the then outstanding bonds, in the notional amount of \$37,360,000.

In August 2006, The Harrisburg 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 converts 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 Harrisburg 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 Harrisburg 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 converts The Harrisburg 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, 2009, it would cost Bank of America \$1,646,588 to terminate the 2005 Basis Swap, as amended, with The Harrisburg Authority. 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, 2009, The Harrisburg Authority is exposed 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, 2009. 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 Harrisburg Authority to basis risk because The Harrisburg 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 Harrisburg Authority is receiving payments based on a taxable rate which may be different from the amount The Harrisburg Authority pays to Bank of America, which is based on the SIFMA Index, a tax-exempt rate. As of December 31, 2009, the interest rate The Harrisburg Authority was paying under the 2005 Basis Swap was .25 percent, where as the interest The Harrisburg Authority was receiving at 69% of the five-year LIBOR Swap Rate was 2.07 percent.

Termination risk. The 2005 Basis Swap was terminated in February 2010 and The Harrisburg Authority received \$1,101,045.

2003 Guaranteed Resource Recovery Revenue Bonds, Series D1 and D2

Objective of the interest rate swaps. The Harrisburg Authority's asset/liability strategy is to have a combination of fixed and variable-rate debt. On December 30, 2003, The Harrisburg 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. On December 1, 2008, The Harrisburg 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%. On December 1, 2010, the Subseries D-1 of 2003 Bonds were remarketed to a fixed rate of 5.25% through December 1, 2013. To convert the interest rate on the 2003 D-1 and 2003 D-2 Bonds to a synthetic variable rate, The Harrisburg 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 Harrisburg 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 Harrisburg Authority paid RBC floating amounts calculated by applying a floating rate per annum determined by reference to the SIFMA Index, and The Harrisburg Authority received 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 Harrisburg Authority pays interest on the notional amount under the D-2 Swap at a

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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 contained an embedded interest rate cap, providing that the floating rate to be paid by The Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg Authority received \$1,106,000 as a result of this amendment.

On August 31, 2005, The Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg Authority terminated the portion of the 2005 Swap from June 1, 2011 through December 1, 2033. Under the revised agreement, effective June 1, 2006, The Harrisburg 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 Harrisburg Authority received \$4,027,000.

Fair value. As of December 31, 2009, it would cost the Counterparty \$4,005,204 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, 2009, it would cost The Harrisburg Authority \$3,851,966 to terminate the D-1/D-2 Cap. The Harrisburg 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. These payments are included as a component of interest expense as paid.

As of December 31, 2009, it would cost The Harrisburg Authority \$3,977,104 to terminate the 2005 Swap.

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Credit risk. As of December 31, 2009, The Harrisburg 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 Harrisburg Authority would be exposed to credit risk in the amount of the swap agreement's fair value. The Harrisburg 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, 2009, 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 Harrisburg Authority entered into the 2005 Swap and the D-1/D-2 Cap to fix the interest rate as noted above and to limit their exposure to changes in interest rates. However, the D-2 Swap exposes The Harrisburg Authority to interest rate risk, as it is highly sensitive to changes in interest rates and the changes will have a material impact on the valuation of the Swap.

Termination risk. The Harrisburg Authority or RBC may terminate the D-2 Swap if the other party defaults under the D-2 Swap. In addition, The Harrisburg 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 Harrisburg Authority would be liable to RBC for that payment.

Swap payments and associated debt. Using interest rates as of December 31, 2009, principal and interest requirements of the 2003 D-1 Bonds and 2003 D-2 Bonds fixed-rate debt and net swap payments through the swap termination dates were as follows. As rates set forth in the D-1 and D-2 Swaps agreement vary, net swap payments will vary.

Fiscal Year Ending December 31,	D-1 Bonds		2005	Total
	Principal	Interest	Swap *	
2010	\$ -	\$ 2,124,900	\$ 1,005,156	\$ 3,130,056
2011	-	1,023,100	502,578	1,525,678
	<u>\$ -</u>	<u>\$ 3,148,000</u>	<u>\$ 1,507,734</u>	<u>\$ 4,655,734</u>

*Computed: (3.35%-1.57%) x \$31,480,000 through June 1, 2011

Fiscal Year Ending December 31,	D-2 Bonds		2005		Total
	Principal	Interest	D-2 Swap *	Swap **	
2010	\$ -	\$ 3,250,000	\$ (2,028,000)	\$ 2,075,450	\$ 3,297,450
2011	-	3,250,000	(2,028,000)	1,037,725	2,259,725
2012	-	3,250,000	(2,028,000)	-	1,222,000
2013	-	3,250,000	(2,028,000)	-	1,222,000
	<u>\$ -</u>	<u>\$ 13,000,000</u>	<u>\$ (8,112,000)</u>	<u>\$ 3,113,175</u>	<u>\$ 8,001,175</u>

*Computed: (.25%-3.37%) x \$65,000,000

**Computed: (3.35%-1.57%) x \$65,000,000 through June 1, 2011

Basis risk. The Harrisburg 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 Harrisburg Authority's calculated payment, and as a result, cost savings or synthetic interest rates may not be realized.

Subsequent Event. As of December 16, 2011, it would cost the Counterparty \$3,759,899 to terminate the D-2 Swap and the embedded D-2 Cap. As of December 16, 2011, it would cost The Harrisburg Authority \$4,490,155 to terminate the D-1/D-2 Cap.

RBC was rated AA- by Standard & Poor's and Aa1 by Moody's Investor Service as of December 16, 2011.

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 previous 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, .41 percent at December 31, 2009.

2002 Water Revenue Bonds, Series C

These Bonds bear interest at a taxable weekly rate, .7 percent at December 31, 2009.

1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 2.4375 percent at December 31, 2009.

16. PENSION PLAN

Plan Description

The City has four defined benefit pension plans. Two of the plans, Non-uniformed Employees' Plans A and B, are controlled by provisions of Ordinance-Bill No. 49-1984, adopted pursuant to Act 15. On January 2, 2002, the assets of Plans A and B were combined, but the requirements for eligibility and benefits remain separate. The Combined Firefighters' Plan is controlled by provisions of Ordinance-Bill No. 44-2002. For these plans, the City contributes to the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer Public Employees Retirement System (PERS). The remaining plan, the Combined Police Pension Plan, was established January 1, 1999 under Ordinance-Ordinance No. 21 of 1998 and is controlled by the provisions of Ordinance No. 5 of 2001, as amended. This ordinance withdrew the Police Officers' Plan A and Police Officers' Plan B from PMRS, and established an amended and restated pension plan for police officers of the City. The combined Police Pension Plan is a single-employer pension plan and is controlled by a separate independent board of trustees.

The plans have been established to cover substantially all full-time employees. Employees become eligible for participation in a plan immediately upon employment and become fully vested after 20 years of service for City A plans, 10 years for City B and Combined Firefighters' Plans and 20 years for the Combined Police Pension Plan. The plans have been established by City ordinance in accordance with the authority for municipal contributions required by Act 205-1984 (Act 205) of the

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Pennsylvania legislature, as amended by Act 189-1990. The plans require covered employees to contribute a percentage of total compensation.

PMRS issues publicly available financial reports that include financial statements and required supplementary information. The PMRS report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

In addition, the City of Harrisburg Police Pension Board issues a separate publicly available financial report that includes financial statements and required supplementary information for the Combined Police Pension Fund. That report may be obtained by writing to the City of Harrisburg Police Pension Board, The Reverend Dr. Martin Luther King, Jr. City Government Center, 10 North Second Street, Harrisburg PA 17101 or by calling 717-255-6507.

The benefits provided by the plans differ by employment group and are based upon average compensation and length of service. Normal benefits are calculated at 2.5% per year of credited service multiplied by the final average annual salary for the Non-uniformed Employees' A and Combined Firefighters' plan. In no case may the benefit exceed 50% of the final average annual salary. The benefits provided by the Non-uniformed Employees' B plan are calculated at 2.0% per year of credited service multiplied by the final average annual salary. In no case may the benefit exceed 75% of the final average annual salary. For members who complete 20 or more years of service, the benefits provided by the Combined Police Pension plan are calculated at 50% of the participant's average monthly compensation, plus an incremental pension equal to 2.5% of the average monthly compensation for each complete year of service over 20 years, up to a maximum of 65% of average monthly compensation. Additionally, members who have attained 27 or more years of service shall receive 70% of average compensation.

The plans provide retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plans.

In addition, Non-uniformed Employees' Plan A is closed to new entrants.

Funding Policy

Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's bi-annual actuarial valuation.

Contributions by the City are determined under the entry age normal method. Unfunded past service liability is amortized over the average future service of active participants.

Employee contributions to the plan are based on a percentage of compensation. Non-uniformed employees are required to contribute 4.0-6.0% and 5.0% of annual compensation for plans A and B, respectively. Fire employees contribute 5% of annual compensation, while police employees contribute 5% of annual compensation plus \$1 per month. An interest rate of 6.0% is applied to the non-uniformed and fire employees accounts. Employees' accumulated contributions plus interest (if applicable) will be returned upon termination or death if no other benefits are payable under the plan. The plans are also eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the City in accordance with Act 205.

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The Commonwealth of Pennsylvania allocates foreign fire and casualty insurance premium collections to aid individual municipalities. The monies received must be contributed to the pension plans or used to pay debt service on unfunded pension liability bonds. Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the annually required contribution. State aid received in excess of the City's statutory funding requirement was not deposited to the pension plans but was utilized to fund debt service on the City's unfunded pension liability general obligation bonds issued in 1995 in accordance with Act 205 as amended.

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the plan and funded through investment earnings. Benefits and refunds of the defined benefit pension plan are recognized when due and payable in accordance with the terms of the plan.

Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
Non-Uniformed Employees':						
1/1/2011	\$ 77,363,937	\$ 55,795,290	\$ (21,568,647)	138.66%	\$ 12,786,819	-168.68%
Firefighters'						
1/1/2011	\$ 68,266,174	\$ 55,064,548	\$ (13,201,626)	123.97%	\$ 5,279,457	-250.06%
Police Officers':						
1/1/2011	\$ 63,759,040	\$ 72,302,610	\$ 8,543,570	88.18%	\$ 10,398,023	82.17%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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Actuarial Assumptions

The information presented was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

	Non-Uniformed Employees'		Firefighters'	Police Officers'
	Plan A	Plan B	Combined	Combined
Actuarial valuation date	1/1/11	1/1/11	1/1/11	1/1/11
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed	Level dollar, closed
Remaining amortization period	14 years	14 years	4 years	13 years
Asset valuation method	Fair value	Fair value	Fair value	*
Actuarial assumptions				
Investment rate of return	6.0% net of expenses	6.0% net of expenses	6.0% net of expenses	8.0% net of expenses
Projected salary increases	Salary scale	Salary scale	Salary scale	5.0%

* - Each year, the investment gain (excess of actual investment income including realized and unrealized appreciation over expected investment income) or loss is recognized over a five-year period. In no event is the actuarial value of assets allowed to be greater than 120% or less than 80% of market value.

Annual Required Contribution and Net Pension Obligation

The City's annual pension cost and net pension obligation to the Plans at December 31, 2009 are as follows:

	Non-Uniformed Employees'		Firefighters'	Police Officers'
	Plan A	Plan B	Combined	Combined
Annual required contribution	\$ -	\$ -	\$ 834	\$ 275,869
Contributions made	-	-	-	275,869
Change in net pension obligation	-	-	834	-
Net pension obligation – beginning of year	-	-	-	-
Net pension obligation – end of year	\$ -	\$ -	\$ 834	\$ -

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Three-Year Trend Information

Non-Uniformed Employees' – Plan A	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2007	\$ -	- %	\$ -
December 31, 2008	-	-	-
December 31, 2009	-	-	-
Non-Uniformed Employees' – Plan B	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2007	\$ -	- %	\$ -
December 31, 2008	-	-	-
December 31, 2009	-	-	-
Firefighters' Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2007	\$ -	- %	\$ -
December 31, 2008	-	-	-
December 31, 2009	834	-	834
Police Officers' – Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2007	\$ 523,803	100 %	\$ -
December 31, 2008	285,274	100	-
December 31, 2009	275,869	100	-

The annual required contribution for the current year was determined as part of the January 1, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions for the Non-Uniformed Employees' Plan and Combined Firefighters' Plan include (a) a 6.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.50% per year. The actuarial assumptions for the combined Police Pension Fund include (a) an 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% per year. The assumptions do not include postretirement benefit increases, which are funded by State appropriation when granted. The actuarial value is determined using market values determined by the trustee.

The Combined Police Pension Plan, through the City, is involved in litigation with the Fraternal Order of Police (FOP). The FOP has alleged that the City committed unfair labor practices when it failed to enact an amendment to the Police Pension Plan Ordinance that was agreed to in an amendment to the Basic Labor Agreement between the former mayor and the FOP. The proposed amendment would increase the maximum benefit incrementally to 80% of average monthly compensation for Plan members who retire with 21 to 27 years of credited service. The cost to the Combined Police Pension Plan would be \$514,000 per year, as estimated by the actuarial cost study.

On September 17, 2010, the unfair labor practices charges were dismissed. The FOP appealed the ruling to the Commonwealth Court, who affirmed the ruling on November 1, 2011. The FOP has since filed a Petition for Allowance of Appeal to the Pennsylvania Supreme Court, who denied the appeal on May 14, 2012.

17. OTHER POST-EMPLOYMENT BENEFITS

Plan Descriptions

In addition to the pension benefits described in Note 16, the City provides certain post-employment healthcare benefits to its retirees through one single-employer, defined benefit other post-employment benefit (OPEB) plan. However, within this one plan, there are four groups of employees with different types of benefits. A separate financial statement is not issued for the plan.

Police

Section 9 of the Basic Labor Agreement between the City of Harrisburg and the Fraternal Order of Police, Capital City Lodge No. 12, effective January 1, 2004, establishes retiree's eligibility for post-retirement life insurance and medical benefits.

Retired prior to December 31, 1991:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The City would pay the cost of coverage for the retiree, including spouse and dependents, from retirement until the retiree's Medicare eligibility. If retiree dies, coverage for spouse and dependents continues until the spouse reaches Medicare eligibility. Currently, two retirees have been "grandfathered" and the City continues to pay for coverage after Medicare age. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer.

Retire after January 1, 1992:

Eligibility: Any officer that is eligible for the Police Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage medical, prescription drug, dental, and vision for the retiree, including spouse and dependents. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer.

Firefighters

Article 14, Section 2a and 2b and Article 15 of the Collective Bargaining Agreement between Local Union No. 428 of the International Association of Firefighters (AFL-CIO), effective January 1, 2006, establishes retiree's eligible for post-retirement medical and life insurance benefits, respectively.

Retired prior to December 31, 1986:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The retiree would pay the cost of coverage for the retiree and his or her spouse. If the

retiree dies, the spouse may continue coverage. In such case, the spouse would pay for the full cost of coverage. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer.

Retired between January 1, 1987 and December 31, 1992:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The City would pay the cost of coverage for the retiree. The retiree must pay for any additional coverage for his or her spouse and dependents. . If the retiree dies, the spouse may continue coverage, in which case the spouse would pay for the full cost of coverage. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer.

Retire after January 1, 1993:

Eligibility: Any firefighter that is eligible for the Fire Pension Plan A or Plan B benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage medical, prescription drug, dental, and vision for the retiree, including spouse through Medicare eligibility. Once Medicare eligible, the City will reimburse the retiree for the Medicare Part B premium. If the retiree dies, the City continues full coverage for the spouse and eligible dependents. If the firefighter dies in the line of duty, the City continues full coverage for the spouse and eligible dependents. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer.

Non-uniformed management employees:

An inter-office memo, distributed by the Mayor to City management employees, establishes retirees' eligibility for post-employment medical benefits.

Retire prior to August 4, 2002:

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The retiree would pay the full cost of coverage for the retiree and his or her spouse. If the retiree dies, the spouse may continue coverage. In such case the spouse and any eligible dependents would pay for the full cost of coverage. Currently, four retirees have been "grandfathered" and the City continues to pay the cost full coverage. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer.

Retire after August 5, 2002 and hired prior to January 31, 2008:

Eligibility: Any non-uniform management employee who is eligible for the Non-uniform Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical and prescription drug for the retiree and spouse. The retiree would pay for any additional coverage

for eligible dependents. Retiree would pay for dental and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the City would pay the full medical and prescription drug premium for the spouse and the spouse would pay for coverage for any eligible dependents. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer.

Retire after August 5, 2002 and hired after February 1, 2008:

Eligibility: Any non-uniform management employee who is eligible for the Non-uniform Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical coverage for the retiree. The retiree would pay for any additional coverage for spouse and any eligible dependents. Retiree would pay for prescription drug, dental, and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay the full cost of coverage. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer.

Non-uniformed union employees:

Articles X, XI and XII of the Collective Bargaining Agreement between the City and the Local 521 American Federation of State, County and Municipal Employees District Council 90, effective January 1, 2007, establish retirees' eligibility for post-retirement life insurance and medical benefits.

Retire prior to December 31, 1996:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The retiree would pay the cost of coverage for the retiree and his or her spouse and eligible dependents. If the retiree dies, the spouse may continue coverage. In such case, the spouse and any eligible dependents would pay for the full cost of coverage. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer. Coverage may be reinstated only upon proof of the termination of coverage under the other employer's plan.

Retire between January 1, 1997 and December 31, 2001:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay fifty percent of the premium for single coverage. The retiree would pay the remaining fifty percent of the premium for single coverage. For any coverage other than single coverage, the retiree would pay the difference. Retiree would pay full premiums for prescription drug, dental, and vision. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer. Coverage may be reinstated only upon proof of the termination of coverage under the other employer's plan.

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Retired between January 1, 2002 and May 30 2007, except between January 1, 2004 and April 30, 2004:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay sixty percent of the premium for single coverage. The retiree would pay the remaining forty percent of the premium for single coverage. For any coverage other than single coverage, the retiree would pay the difference. Retiree would pay full premiums for prescription drug, dental, and vision. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer. Coverage may be reinstated only upon proof of the termination of coverage under the other employer's plan.

Retired between January 1, 2004 and April 30, 2004:

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay the cost of coverage for the retiree. Retiree would pay for additional premiums for coverage for his or her spouse and eligible dependents. The City would pay for seventy-five percent of the coverage for prescription drug for the retiree. Retiree would pay for the remaining twenty-five percent of the coverage for prescription drug and for any additional coverage for his or her spouse and any eligible dependents. Retiree must pay for full coverage for dental and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer. Coverage may be reinstated only upon proof of the termination of coverage under the other employer's plan.

Retire after June 1, 2007:

Eligibility: Non-uniform union employee must be eligible for the Non-Uniform Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the full cost single coverage or a percentage thereof based on the retiree's age and years of service. Otherwise, the retiree would pay the full cost of coverage. For any coverage other than single, the retiree would pay the difference in the premiums. Retirees would pay for prescription drug, dental, and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage. Eligibility may be suspended if the retiree has available coverage from a subsequent employer or through the spouse's employer. Coverage may be reinstated only upon proof of the termination of coverage under the other employer's plan.

Funding Policy and Annual OPEB Costs

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2009, the City contributed \$4,982,199 to the OPEB Plan.

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The City has opted to not fully fund the OPEB contributions and will continue to fund the annual OPEB costs on a pay-as-you-go basis.

The City pays the cost of coverage for the police, fire, non-uniform management and non-uniform union retirees (including dependents) based on the various criteria described above.

The City's annual OPEB costs are calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new estimate are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2008
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5.0%
Amortization period	30 year open period
Healthcare cost trend rate	8.5%

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Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB costs and net OPEB obligations to the Plan for the year ended December 31, 2009 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 17,079,876	\$ 760,527	\$ 17,840,403
Interest on net OPEB obligation	571,787	26,989	598,776
Adjustment to ARC	(780,063)	(36,821)	(816,884)
Annual OPEB cost	16,871,600	750,695	17,622,295
Contribution made	(4,809,413)	(172,786)	(4,982,199)
Change in Net OPEB Obligation	12,062,187	577,909	12,640,096
Net OPEB Obligation, beginning	12,697,698	605,472	13,303,170
Net OPEB Obligation, ending	<u>\$ 24,759,885</u>	<u>\$ 1,183,381</u>	<u>\$ 25,943,266</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
2009	\$ 17,622,295	28.27%	\$ 25,943,266
2008	17,836,610	25.42%	13,303,170
2007	N/A	N/A	N/A

N/A - Not Applicable; 2008 is implementation year for GASB Statement No. 45.

Funded Status and Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2008	\$ -	\$ 184,123,955	\$ 184,123,955	0.00%	\$ 29,200,000	630.56%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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18. SEGMENT INFORMATION

The Harrisburg Authority supports three separate segments. The Water Segment accounts for the provision of basic water service to customers of the Harrisburg Water System. The Resource Recovery Segment accounts for the activities at the Harrisburg Resource Recovery and Steam Generating Facility (Resource Recovery Facility), which converts waste into energy. The Sewer Segment provides financing for the City's sewer fund. Selected segment information as of and for the year ended December 31, 2009, is as follows:

CONDENSED STATEMENT OF NET ASSETS	<u>Water Segment</u>	<u>Sewer Segment</u>	<u>Resource Recovery Segment</u>
Assets			
Current assets			
Other current assets	\$ 5,699,917	\$ 2,075,017	\$ 8,895,608
Due from (to) other funds	321,487	-	(421,487)
Due to the City	-	173,250	-
Total current assets	<u>6,021,404</u>	<u>2,248,267</u>	<u>8,474,121</u>
Restricted assets	34,918,917	10,378,815	15,068,682
Capital assets	66,935,245	-	119,244,692
Advances to the City	-	1,624,782	-
Other noncurrent assets	<u>4,863,453</u>	<u>1,639,204</u>	<u>8,660,423</u>
Total assets	<u>112,739,019</u>	<u>15,891,068</u>	<u>151,447,918</u>
Liabilities			
Current liabilities			
Other current liabilities	551,706	-	-
Due to the City of Harrisburg	1,029,479	-	5,279,824
Due to bond insurer	-	-	630,474
Due to County	-	-	2,329,367
Total current liabilities	<u>1,581,185</u>	<u>-</u>	<u>8,239,665</u>
Liabilities payable from restricted assets	6,005,277	3,706,768	46,023,797
Noncurrent liabilities	140,291,511	7,224,576	235,299,294
Due to the City of Harrisburg	<u>341,428</u>	<u>-</u>	<u>24,760</u>
Total liabilities	<u>148,219,401</u>	<u>10,931,344</u>	<u>289,587,516</u>
Net assets			
Invested in capital assets, net of related debt	(38,662,654)	-	(134,081,167)
Restricted	1,136,443	10,378,815	-
Unrestricted	<u>2,045,829</u>	<u>(5,419,091)</u>	<u>(4,058,431)</u>
Total net assets	<u>\$ (35,480,382)</u>	<u>\$ 4,959,724</u>	<u>\$ (138,139,598)</u>

CITY OF HARRISBURG
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**CONDENSED STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS**

	Water Segment	Sewer Segment	Resource Recovery Segment
Operating revenues	\$ 17,189,742	\$ 125,000	\$ 25,032,944
Operating expenses			
Operating	8,805,327	-	21,241,253
Administration	400,000	160,000	221,299
Depreciation	2,169,925	-	4,810,305
Total operating expenses	11,375,252	160,000	26,272,857
Operating income (loss)	5,814,490	(35,000)	(1,239,913)
Nonoperating revenues (expenses)			
Investment income	101,924	40,741	538,646
Lease rental income	-	414,977	-
Miscellaneous income (expense)	7,660	(594)	(112,486)
Transfers to City sewer fund	-	(4,586,313)	-
Interest expense	(8,489,206)	(880,305)	(15,647,403)
Amortization of bond issuance costs	(446,538)	(21,648)	(1,474,789)
Total nonoperating expenses	(8,826,160)	(5,033,142)	(16,696,032)
Change in net assets before transfers	(3,011,670)	(5,068,142)	(17,935,945)
Transfers in	-	-	310,824
Change in net assets	(3,011,670)	(5,068,142)	(17,625,121)
Net assets - January 1, 2009	(32,468,712)	10,027,866	(120,514,477)
Net assets - December 31, 2009	\$ (35,480,382)	\$ 4,959,724	\$ (138,139,598)

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided by operating activities	\$ 8,975,928	\$ (367,707)	\$ 866,472
Net cash provided by (used in) investing activities	(1,470,294)	8,465,422	10,436,455
Net cash used in non-capital financing activities	-	(3,200,000)	-
Net cash used in capital and related financing activities	(8,294,472)	(4,897,715)	(5,532,212)
Net increase (decrease) in cash and cash equivalents	(788,838)	-	5,770,715
Cash and cash equivalents, January 1, 2009	4,699,662	8,076	2,786,315
Cash and cash equivalents, December 31, 2009	\$ 3,910,824	\$ 8,076	\$ 8,557,030

19. ACCUMULATED DEFICITS

Harrisburg Parking Authority

The Authority has an accumulated deficit of \$11,114,368. The deficit resulted from losses on the extinguishment of debt in the amount of \$2,549,981 and \$992,836 in 1994 and 1993, respectively. This loss is essentially the cost of carrying old bonds during the escrow period, and is increased by cumulative net loss of \$7,571,551.

The Harrisburg Authority

The rate covenant calculation required under applicable trust indentures pertaining to The Harrisburg Authority's Resource Recovery Facility financing has not been met for the year ended December 31, 2009. 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 Harrisburg Authority, and the respective trustees for the bonds and notes. The 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 Harrisburg 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.

The Water and Resource Recovery segments of The Harrisburg Authority have accumulated deficits at December 31, 2009 of \$35,480,382 and \$138,139,598, respectively. The deficits are primarily due to The Harrisburg Authority not charging enough to cover depreciation expense incurred since acquisition 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.

The Harrisburg Authority's Resource Recovery Facility, as required by the Environmental Protection Agency, was temporarily closed so that The Harrisburg 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 approximately \$138 million at December 31, 2009, and is in violation of certain covenants under the trust indentures. The Harrisburg 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 incompleteness of the facility retrofit as originally anticipated.

In the fall of 2007, The Harrisburg 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 Harrisburg Authority engaged Covanta Energy, Inc. (Covanta) to manage and operate the Facility and to provide professional services. Included in Covanta's Agreement with The Harrisburg 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 Harrisburg 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 were funded by a loan from Covanta to pay for such work. Payment of the debt service on the Covanta loan was to be from revenue generated from the facility when all three burners are operating (although the Covanta loan is subordinate in payment to The Harrisburg 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. Repayment of the debt service on the Covanta loan began prior to completion of the construction project. The Harrisburg Authority's revenues were insufficient to make payment on the loan and the City guarantee was called upon. The City made payments to Covanta until their financial situation precluded such payments in April 2010. As of December 2011, \$4,637,722 remains unpaid to Covanta. Additionally, The Harrisburg Authority owes approximately \$2,000,000 to vendors on the retrofit completion project due to Covanta failing to release advance funds once The Harrisburg Authority and City were unable to make reimbursement payments.

The Harrisburg 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 matured 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. The Harrisburg Authority, City, and County failed to reach agreement on the refinancing and, as a result, the County alone refinanced the working capital loan.

Since 2008, The Harrisburg Authority's Resource Recovery Facility has been able to cover operating expenses but unable to generate sufficient revenue to cover debt service. As such, The Harrisburg Authority has drawn on debt service reserves, called upon guarantors, and revenue enhancement insurance policies to avoid default. Fees associated with the guarantor and insurance agreements continue to accrue.

Due to delays in completing construction that resulted in a revenue shortfall together with the increased debt burden and limitations on revenue enhancement, the project has not met debt covenant coverage requirements. The covenant requirements are closely monitored and adhered to when possible.

The Harrisburg Authority continues to pursue revenue enhancing and expense reducing activities, but will continue to rely upon reserves, guarantors and insurance until a coordinated solution is accomplished. To this end, The Harrisburg Authority is participating in the City's Act 47 process that seeks to provide a plan to eliminate the financial burden of The Harrisburg Authority's Resource Recovery Facility on the revenues, guarantors and insurance providers.

In 1993, The Harrisburg Authority purchased the Resource Recovery Facility from the City. In consideration, The Harrisburg Authority paid the City approximately \$30 million. 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 to the City only after The Harrisburg Authority completes financing of the improvements to the

Facility described earlier, in such amount as is set forth in a report of The Harrisburg Authority's consulting engineer certifying that facility revenues upon completion of such improvements is sufficient to pay all operating expenses, debt service, and any other facility funding requirements. There were no additional payments required during the year ended December 31, 2009.

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority net asset (deficit) at December 31, 2009 is related to the 1998 Series A and B bond issuances. Since no asset is recorded related to these debt issuances, the total debt outstanding reduces unrestricted net assets. The outstanding debt on these issuances is \$43,834,105. These debt issuances reduced the Redevelopment Authority's net assets from a positive \$738,416 to the deficit balance of \$43,095,689. The City guarantees the payment of those bond issuances. In addition, the Redevelopment Authority will gain title to certain buildings in the year 2016 in relation to the issuance of these bonds.

20. FINANCIAL RECOVERY PLAN

For several years, the City has been exploring various options to close its structural budget gap and address its Resource Recovery Facility debt issue. In 2008, the City applied for and was awarded a \$100,000 Pennsylvania Department of Community and Economic Development Act 47 Early Intervention Program Grant to develop a Management and Financial Audit and Five-Year Financial Plan. During 2009, the City hired a national management consulting firm to conduct a thorough review of the City's finances and operations and to develop the Plan. An Emergency Financial Plan and Five-Year Plan (Plan) was issued in March 2010 and implementation immediately began. Due to City Council's failure to adopt the Plan, the Administration filed a Petition for Determination of Municipal Financial Distress on October 1, 2010 under Pennsylvania's Municipalities Financial Recovery Act of 1987 (Act 47). The City was accepted into the Act 47 program on December 15, 2010. The Act 47 program allowed the City to obtain assistance from the Commonwealth of Pennsylvania in developing a new financial recovery plan. A Municipal Financial Recovery Act Recovery Plan (Recovery Plan) was submitted by the Act 47 coordinator to the City on June 13, 2011. City Council rejected the Recovery Plan in July 2011. Immediately thereafter, and pursuant to Act 47, the Mayor became the Act 47 coordinator. As such, she developed her own Plan and submitted it to City Council on August 2, 2011. City Council rejected this second Plan on August 31, 2011. The Mayor submitted an amended version of her Plan to City Council, but Council rejected this amended Plan on September 13, 2011.

Pennsylvania's governor signed legislation on October 20, 2011 authorizing the State to declare a fiscal emergency in Harrisburg. On November 18, 2011, a receiver was appointed under this legislation to implement a Recovery Plan and take control of the City's finances. The Receiver unveiled his Recovery Plan for the City on February 6, 2012. The full Recovery Plan can be viewed at the Receiver's website at "www.pa.gov/harrisburgreceiver". The Recovery Plan was approved by the Commonwealth Court on March 9, 2012. The City Receiver testimony in Commonwealth Court on March 1, 2012, pertaining to financial aspects of the Act 47 recovery plan, can be found at <http://www.portal.state.pa.us/portal/server.pt?open=514&objID=1053490&parentname=ObjMgr&parentid=24&mode=2>.

In the Recovery Plan, the Receiver indicated that the City's financial distress is a very complicated problem. He further indicated that it cannot be solved easily or quickly. He identified three primary challenges to be addressed in connection with the fiscal recovery of the City: first, the extraordinary amount of debt related to The Harrisburg Authority's Resource Recovery Facility (Incinerator) which

the City guarantees; second, the City's structural budget deficit (the amount by which the City's operating expenditures consistently exceed its revenues); and third, filling of the Business Administrator/Chief of Staff position (termed Chief Operating Officer in the Plan) which had been vacant since January 2011, to lead and manage the entire staff and oversee the implementation of the Receiver's Recovery Plan Initiatives.

To address the burden of the Incinerator debt, the Receiver called for the possible sale and/or long-term lease of the Incinerator and separate parking facilities owned and operated by the Authority. The Recovery Plan also assumed the potential for so called "stranded debt" (the amount of debt remaining after the proceeds of the sale or lease of assets is applied to the Incinerator debt) and set forth contributions to be made by various stakeholders. Since the contributions required from stakeholders cannot be determined until the value of the assets is known, the Harrisburg Authority and the Authority were directed to participate in a Request for Qualifications and Proposals (RFQ&P) process to determine interested parties with respect to two sets of assets: the Incinerator and parking facilities. Unrelated to the Incinerator debt problem, The Harrisburg Authority was also directed to undertake an RFQ&P process for management and operation of its water and wastewater assets.

With these processes, the Receiver, with the advice of the relevant Authority, would then be in a position to negotiate with one or more offerors, and ultimately with the various stakeholders regarding any stranded debt or other issues related to the asset transactions. Both Authorities have since undertaken these processes. The Receiver is authorized under Act 47 to proceed with all transactions related to the assets of the City and the Authorities, and to cause the sale, lease, conveyance, assignment or other use or disposition of those assets.

Assuming that a comprehensive solution is achieved, the Receiver will file an amendment to this Recovery Plan with the Commonwealth Court indicating consensual agreements with stakeholders. If a comprehensive solution is not agreed upon, the Receiver indicated he is prepared to file for bankruptcy under Chapter 9 of the Bankruptcy Code in order to protect the ability of the City to perform its vital and necessary services.

To address the City's structural budget deficit, an annual gap in excess of \$11 million as estimated by the Receiver, the Recovery Plan calls for a combination of concessions from the labor unions, an increase in the resident Earned income Tax, service efficiencies, and additional revenues from fees and outside sources.

As for the third primary challenge, the City hired a Chief Operating Officer on April 18, 2012. His primary focus has been to see to the coordination and implementation of the Plan Initiatives.

The ultimate outcome of the City's Recovery Plan is subject to significant uncertainty.

21. COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services.

Federal and State

Under the terms of federal and state grants, periodic audits and compliance reviews are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits and compliance reviews could lead to reimbursement to the grantor agencies. The City

believes the following disallowances, and others if any, will be immaterial, but wishes to disclose the following:

The United States Department of Energy (DOE) conducted an on-site monitoring of the City's \$256,200 EECBG grant program (8/21/2009-8/20/2012) in November 2011 and forwarded a Notice of Non-Compliance dated April 4, 2012. In both the monitoring report (dated November 22, 2011) and Notice of Non-Compliance, DOE outlined several items requiring corrective action. Specifically, the DOE found that the City had not properly requested an amendment to the scope of work of the grant and had not adequately documented the use of grant funds for administrative purposes. Amongst the corrective actions called for the City to undertake were a return of advanced funds of \$180,150 to the United States Treasury with interest and submission of delinquent 2009 and 2010 A-133 (Single) Audits. The City has responded to the monitoring report and Notice of Non-Compliance offering a work-out plan in response to DOE's prescribed Corrective Action Plan, but was unsuccessful in obtaining a waiver of the requirement to return the advanced grant funds and is awaiting City Receiver and Pennsylvania Department of Community and Economic Development (PA DCED) approval for the return of the balance of funds to the United States Treasury.

The City received a Notice of Rejected Audit Report from PA DCED dated January 3, 2012, and has been unsuccessful in closing out this \$100,000 Economic Advancement Program – SusqueCentennial Celebration Grant Contract (7/1/2007-6/30/2011). At issue were several unsubstantiated expenditures totaling \$50,000 for which PA DCED has stated that the City would either have to identify and document eligible expenditures of a like amount or repay the amount to PA DCED. The City responded to the Audit Report and provided documentation to substantiate a number of the expenditures, however, there were numerous documents missing from the grant files maintained by the Harrisburg SusqueCentennial Commission's Executive Director. The City is currently attempting to reconcile the \$50,000 discrepancy.

Construction Commitments

Primary Government

The City has contractual commitments for construction, engineering and licensing related to the City properties of approximately \$276,335.

Component Units

The Harrisburg Authority

The Harrisburg Authority entered into an Administrative Services and Interim Operation and Maintenance Agreement (Interim Agreement) with 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 Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg Authority within 30 days. Reimbursable expenses are

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defined in the agreement. The Harrisburg 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 Harrisburg Authority then 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.

The Harrisburg Authority has entered into various construction contracts related to the construction of the various facilities. The outstanding commitment under these contracts at December 31, 2009, excluding amounts in accounts payable, was approximately \$6 million.

In June 2010, The Harrisburg Authority entered into a Consent Order and Agreement (COA) with the Pennsylvania Department of Environmental Protection (DEP) relative to the Resource Recovery Facility for violations of air quality-related emissions limits as of January 2007. In lieu of paying the total fine for the violations, the COA established the following:

- Civil penalty of \$125,000 due at execution of COA.
- Additional civil penalty of \$100,000 due no later than December 31, 2011, December 31, 2012, and December 31, 2013.

In lieu of paying civil penalties for the period of 2011 – 2013, The Harrisburg Authority may perform certain projects for the benefit of the residents of the City and/or the Borough of Steelton. In order for the funds expended on the projects to qualify as Project Credits under the COA, the Projects must be certain projects and meet certain conditions:

- Asthma Education Program for Community School Children – implement the American Lung Association’s Open Airways for Schools Program. The Harrisburg Authority will provide funds to the Project Administrator (Hamilton Health Center).
- South Allison Hill Weed and Seed Revitalization Plan – bulk trash cleanup, cameras to monitor illegal dumping, and vacant lot cleanup. The Harrisburg Authority will participate by providing funds to Project Administrator (YMCA Weed and Seed).

For payments to qualify for the Project Credits, The Harrisburg Authority must:

- Receive written approval from the DEP for the draft contract between The Harrisburg Authority and the Project Administrators.
- Execute the DEP approved contract with the Project Administrator.
- Provide DEP with copy of executed contract with first quarterly report.
- Provide DEP with quarterly reports (within 30 days of the end of the quarter).

The \$100,000 penalty for period of 2011 – 2013 will not be due for each year if The Harrisburg Authority demonstrates at least \$50,000 of Project Credits pursuant to the Final Completion Reports submitted during each calendar year. If The Harrisburg Authority demonstrates any Project Credits pursuant to the Final Completion Reports submitted during the 2010 calendar year, the 2010 Project Credits shall be applied as Project Credits to the 2011 calendar year. If The Harrisburg Authority demonstrates more than \$50,000 of Project Credits pursuant to Final Completion Reports submitted

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during 2011 and 2012 calendar years, the Project Credits exceeding \$50,000 in any given year may be applied as Project Credits in the next calendar year

On August 19, 2009, The Harrisburg Authority received the H2O Pennsylvania Act Grant in the sum of \$5,520,000 from the Commonwealth Financing Authority for construction and improvements to the waste water treatment plant located in Swatara Township. Under the grant agreement, the project must be completed prior to June 30, 2012. To receive payments under this grant, The Harrisburg Authority must submit requests for payment based on the estimate of expenditures. Total costs for the draw down of the grant were \$247,649 at December 31, 2009. All requests for reimbursements were submitted at December 31, 2009.

On December 23, 2009, The Harrisburg Authority entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority (Penn Vest) in an amount not to exceed \$1,880,000 for capital improvements of the wastewater treatment facility. The loan is guaranteed by the City. As of December 31, 2009, no amounts have been drawn down on the loan.

The Harrisburg Authority Resource Recovery Facility Forensic Investigation, which reviews matters concerning the financing of the Resource Recovery Facility, was issued on January 12, 2012, and can be found at <http://www.hbgauthority.com/news/Forensic%20Investigation/Harrisburg%20Report.pdf>.

Downtown Coordinated Parking Fund

Parking revenue generated from ten parking garages, on-street parking meters and City-owned surface lots, net of expenses, are deposited to the Downtown Coordinated Parking Fund (CPF). The "Cooperation Agreement for Downtown Coordinated Parking System," dated June 27, 1984, as amended and restated on December 3, 1991, as further amended on March 16, 1994, requires the Authority to deposit, at least quarterly, the new revenues from the garages, parking meters, city lots and any unrestricted administrative fund balance into the Fund. The CPF currently secures the Authority's Series N Bonds of 2003. Any excess fund balance is transferred to the City of Harrisburg annually. During the year, the City received a refund of \$4,050,000 representing excess amounts deposited into the system for 2009.

Guarantees

The City is contingently liable under various agreements which guarantee debt of entities not included in the primary government's financial statements aggregating \$455,569,321 at December 31, 2009, and maturing at various dates through 2034. Of the \$455,569,321, \$449,494,907 is for guarantees of component unit debt. See Note 26 on the recording of an extraordinary item with respect to the City's contingent liability with respect to the City's guarantee of The Harrisburg Authority's debt. See Note 26 on the recording of an extraordinary item with respect to the City's contingent liability regarding the City's guarantee of The Harrisburg Authority debt. Additionally, City Council failed to adopt funding appropriations in the 2010, 2011 and 2012 proposed Debt Service Fund budgets to honor these guarantees. The City has filed a notice of material event stating that the City does not expect to be able to fulfill its guarantee obligations with respect to the bonds for which the City is guarantor.

During July 2012, the City was released from approximately \$17 million of component unit debt guarantees, because the related debt was extinguished.

Capital Area Transit (CAT) entered into an agreement to receive federal matching funds for the purchase of 30 new replacement buses and for the enhancement of its service, through the addition of

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new bus routes and expansion of existing routes. CAT authorized and issued its Revolving Revenue Note of 2003 (CAT 2003 Note) in the amount of \$1,400,000. As an inducement to CAT to undertake the authorization and issuance of the CAT 2003 Note, the City of Harrisburg, Cumberland County and Dauphin County agreed to make certain annual payments to CAT through December 31, 2011. These payments are to be utilized to pay the debt service on the CAT 2003 Note. The City of Harrisburg agreed to pay \$243,168 to CAT on an annual basis.

The Harrisburg Authority 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, \$250,000 has been placed in a separate account and this amount is included on the Statement of Net Assets as restricted cash and cash equivalents.

Landfill Closure and Post-closure Care Costs

State and federal laws and regulations require The Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg 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. During 2009, The Harrisburg Authority received a landfill permit extension for another four years. The capacity will last that long, if The Harrisburg 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.

The Harrisburg Authority has accrued \$2,242,262 for landfill closure and post-closure care costs as of December 31, 2009, which represents the use of 95.93% of the estimated capacity of the disposal area. Based on the annual usage at December 31, 2009, the estimated remaining life of the landfill is approximately three years. Under the new closure and post-closure agreement, The Harrisburg Authority is required by state regulations and its permit to make quarterly payments of \$170,000 to the Consolidated Closure Trust. The Harrisburg Authority is in compliance with those requirements at December 31, 2009.

As of December 31, 2009, cash and investments of \$2,210,671 are held for closure and post-closure care expenses. Those funds are reported as restricted assets on the Statement of Net Assets.

Environmental Remediation Liability

During the year ended December 31, 2008, GASB Statement No. 49 (GASB 49), "*Accounting and Financial Reporting for Pollution Remediation Obligations*," became effective. A prior period adjustment, as described in Note 25, was recorded to reflect the Redevelopment Authority's environmental remediation liability, prospectively.

The Redevelopment Authority assumed and acquired title to a property, formerly the site of a dry cleaning company, which required environmental remediation. This property was acquired for redevelopment. After the project is complete, the property will be acquired by a local educational institution.

The Redevelopment Authority is required to remediate the property. The Redevelopment Authority estimates that total project costs will be \$961,000. The estimate is based on projected remediation costs. The estimate was included in a grant proposal, which was approved by the Department of Environmental Protection.

The \$375,241 ending balance of the contamination liability is based on the total estimated project cost, less costs incurred to date. The Redevelopment Authority does not expect to receive insurance recoveries that have the potential to reduce the recorded liability. The estimated liability may potentially change, due to factors such as price increases or changes in technology. The Redevelopment Authority has made significant progress on the project to date and continues work subsequent to year-end.

22. COMPLIANCE

Primary Government

Management of the City believes that the City has complied, in all material respects, with all applicable finance related legal and contractual provisions including applicable covenants of bond indentures, except as noted throughout Notes 22 and 23.

Under the continuing disclosure undertaking, the City 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 City to submit its audited financial statements to the trustee within 180 days. The financial statements were not completed by either date. In addition, there is ongoing litigation regarding the City's obligation under certain guarantees of The Harrisburg Authority's debt, as discussed in Note 23.

On October 28, 2009, the City received notice that Moody's downgraded its rating on its outstanding obligations to Ba2 from Baa2. On February 11, 2010, Moody's downgraded its rating on the City's general obligation bonds again to a rating of B2, with a negative outlook. In a notice of material event, filed by the City on March 29, 2011, the City stated its October 2009 downgrade and that it has not provided an annual report for the fiscal year ended December 31, 2009.

On March 9, 2012, the City issued a notice of material event with respect to City's General Obligation Refunding Bonds, Series D and F of 1997. The notice stated that the City would not be making its scheduled debt service payments with respect to the City's General Obligation Refunding Bonds,

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Series D and F of 1997 of \$2,735,000 and \$2,530,000, respectively, due on March 15, 2012. These bonds are insured by municipal bond insurance policies.

The City's single audit is required to be filed with the Federal Audit Clearinghouse by each September 30, following their year-end. The City has not filed its single audit for the years ended December 31, 2009 and 2010 by the required dates.

The City is required under the Debt Act to maintain certain of their debt obligations below a specified legal debt limit. Because certain of City guaranteed The Harrisburg Authority Resource Recovery Facility debt are no longer considered self-liquidating, the City has exceeded its legal debt limit at December 31, 2009 by approximately \$213 million.

Component Units

The Harrisburg Authority

Resource Recovery Facility

Under the continuing disclosure undertaking, The Harrisburg 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 Harrisburg Authority to submit its audited financial statements to the trustee within 180 days. On December 13, 2010 and September 29, 2011, The Harrisburg Authority issued a notice of material event with respect to the issuance of The Harrisburg Authority's financial statements for the years ended December 31, 2009 and 2010, stating that neither were completed by the required dates.

Under the trust indentures, The Harrisburg Authority is required to maintain certain minimum balances in the Resource Recovery operating reserve fund. At December 31, 2009, The Harrisburg Authority's balance in the Resource Recovery operating reserve fund was \$220 and the reserve requirement was \$2,993,333. The trust indenture states that if the balance in the Resource Recovery operating reserve fund becomes deficient, The Harrisburg Authority is to restore the balance with twelve substantially equal installments. The Resource Recovery operating reserve was replenished through a transfer from the revenue fund in the amount of approximately \$3 million on July 29, 2010.

Under the trust indentures, The Harrisburg Authority is required to maintain certain minimum balances in the Resource Recovery debt service reserve funds. At December 31, 2009, The Harrisburg Authority's balances in the debt service reserve funds and the related reserve requirements are as follows:

Bond Series	Balance at December 31, 2009	Reserve Requirement
1998	\$ 3,889,979	\$ 3,900,215
2002	88	800,000
2003A - C	5,408,194	7,200,000
2003D	3,151,276	8,000,000
2003E	1	1,000,000
2003F	1	1,000,000

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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 2011, The Harrisburg Authority has not replenished the Debt Service Reserve Accounts.

The Resource Recovery Facility's 2009 budget was approved by the Board of Directors in June 2009. As required under the trust indentures, the budget is required to be approved 30 days prior to the end of the preceding calendar year. Additionally, the 2009 and 2010 consulting engineers' reports, which were due, per the trust indenture, 90 days prior to the end of the calendar year, were not received by The Harrisburg Authority until February 2010 and December 2010, respectively. Finally, management has not instituted a system to calculate the rate covenant requirement noted earlier.

On March 20, 2009, The Harrisburg Authority issued a notice of material event with respect to The Harrisburg 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 Harrisburg 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.

On March 5, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg 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 \$315,908 due on the 1998 Series A Bonds on September 1, 2009. There were no funds on deposit with the Trustee with respect to the 1998 Series A Bonds, resulting in a deficiency of \$315,908. In accordance with the terms of the 1998 Indenture, the Trustee transferred funds from the 1998 Series Debt Service Reserve Account to the 1998 Series A, B, and C Debt Service Account in an amount sufficient to satisfy the deficiency and to enable the Trustee to make the necessary payment of interest on the 1998 Series A Bonds on September 1, 2009.

On March 8, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg 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 \$280,085 due on the 1998 Series A Bonds on March 1, 2010. There were no funds on deposit with the Trustee with respect to the 1998 Series A Bonds, resulting in a deficiency of \$280,085. In accordance with the terms of the 1998 Indenture, the Trustee transferred funds from the 1998 Series Debt Service Reserve Account to the 1998 Series A, B, and C Debt Service Account in an amount sufficient to satisfy the deficiency and to enable the Trustee to make the necessary payment of interest on the 1998 Series A Bonds on March 1, 2010.

On September 14, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg 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 principal and interest payment of \$320,085 due on the 1998 Series A Bonds on September 1, 2010. There were no funds on deposit with the Trustee with respect to the 1998 Series A Bonds, resulting in a deficiency of \$320,085. In accordance with the terms of the 1998 Indenture, the Trustee transferred funds from the 1998 Series Debt Service Reserve Account to the 1998 Series A, B, and C Debt Service Account in an amount sufficient to satisfy the deficiency and to enable the Trustee to make the necessary payment of interest on the 1998 Series A Bonds on September 1, 2010.

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On June 22, 2009, The Harrisburg Authority issued a notice of material event with respect to The Harrisburg 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 Harrisburg 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.

On March 8, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$1,196,732 due on the 2002 Series A Notes on November 1, 2009. The amount of \$88 was on deposit with the Trustee with respect to the 2002 Series A Notes, resulting in a deficiency of \$1,196,644. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was only able to transfer \$396,732, which amount representing a portion of the funds required for the debt service payment due on the 2002 Series A Notes on November 1, 2009. Upon the failure of the City to advance sufficient monies as required under the City Note Guaranty, the Trustee then transferred funds from the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund in the amount of \$799,912 to the 2002 Debt Service Account in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment the 2002 Series A Notes on November 1, 2009.

On May 4, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$425,282 due on the 2002 Series A Notes on May 1, 2010. On April 25, 2010, there were no funds on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$425,282. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was not able to provide any funds under the City Note Guaranty in order to make the May 1, 2010 payment. Upon the failure of the City to advance funds as required under the City Note Guaranty, the Trustee then transferred funds from the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund in the amount of \$88 to the 2002 Debt Service Account. After transferring funds from the 2002 Debt Service Reserve Fund, the 2002 Debt Service Account was deficient in the amount of \$425,194. In accordance with the 2002 Indenture, the Trustee then notified the 2002 Bond Insurer of the deficiency of funds on deposit in the 2002 Debt Service Account required to make the May 1, 2010 payment and requested that such shortfall be paid upon under the bond insurance policy. The 2002 Bond Insurer paid the amount \$425,194 to the Trustee under the bond insurance policy, which amount, together with other funds on deposit in the 2002 Debt Service Account, was sufficient to pay the scheduled debt service payment on May 1, 2010.

On November 3, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$1,215,282 due on the 2002 Series A Notes on November 1, 2010. On October 25, 2010, there were no funds on deposit with the

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Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$1,215,282. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was not able to provide any funds under the City Note Guaranty in order to make the November 1, 2010 payment. Upon the failure of the City to advance funds as required under the City Note Guaranty, the Trustee was required to transfer any funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund to the 2002 Debt Service Account of the Debt Service Fund. There were no funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund, resulting in a deficiency in the amount of \$1,215,282. In accordance with the 2002 Indenture, the Trustee then notified the 2002 Bond Insurer of the deficiency of funds on deposit in the 2002 Debt Service Account required to make the November 1, 2010 payment and requested that such shortfall be paid upon under the bond insurance policy. The 2002 Bond Insurer paid the amount \$1,215,282 to the Trustee under the bond insurance policy, which amount was sufficient to pay the scheduled debt service payment on November 1, 2010.

On May 2, 2011, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$402,688 due on the 2002 Series A Notes on May 1, 2011. On April 25, 2011, there were no funds on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$402,688. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was not able to provide any funds under the City Note Guaranty in order to make the May 1, 2011 payment. Upon the failure of the City to advance funds as required under the City Note Guaranty, the Trustee was required to transfer any funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund to the 2002 Debt Service Account of the Debt Service Fund. There were no funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund, resulting in a deficiency in the amount of \$402,688. In accordance with the 2002 Indenture, the Trustee then notified the 2002 Bond Insurer of the deficiency of funds on deposit in the 2002 Debt Service Account required to make the May 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The 2002 Bond Insurer paid the amount \$402,688 to the Trustee under the bond insurance policy, which amount was sufficient to pay the scheduled debt service payment on May 1, 2011.

On November 1, 2011, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$1,242,688 due on the 2002 Series A Notes on November 1, 2011. On October 25, 2011, there were no funds on deposit with the Trustee with respect to the 2002 Series A Notes resulting in a deficiency of \$1,242,688. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was not able to provide any funds under the City Note Guaranty in order to make the November 1, 2011 payment. Upon the failure of the City to advance funds as required under the City Note Guaranty, the Trustee was required to transfer any funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund to the 2002 Debt Service Account of the Debt Service Fund. There were no funds on deposit in the 2002 Debt

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Service Reserve Account of the Debt Service Reserve Fund, resulting in a deficiency in the amount of \$1,242,688. In accordance with the 2002 Indenture, the Trustee then notified the 2002 Bond Insurer of the deficiency of funds on deposit in the 2002 Debt Service Account required to make the November 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The 2002 Bond Insurer paid the amount \$1,242,688 to the Trustee under the bond insurance policy, which amount was sufficient to pay the scheduled debt service payment on November 1, 2011.

On May 1, 2012, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg Authority's Series A Notes of 2002. The 2002 Debt Service Account did not have sufficient funds to pay the scheduled debt service payment of \$378,664 due on the 2002 Series A Notes on May 1, 2012. On May 1, 2012, there were no funds on deposit with the Trustee with respect to the 2002 Series A Notes, resulting in a deficiency of \$378,664. Pursuant to terms of the trust indenture and the City Note Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiency in the 2002 Debt Service Account. Under the terms of the City Note Guaranty, the City, as guarantor, was required to fund any deficiency in the 2002 Debt Service Account. The City notified the Trustee that the City was not able to provide any funds under the City Note Guaranty in order to make the May 1, 2012 payment. Upon the failure of the City to advance funds as required under the City Note Guaranty, the Trustee was required to transfer any funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund to the 2002 Debt Service Account of the Debt Service Fund. There were no funds on deposit in the 2002 Debt Service Reserve Account of the Debt Service Reserve Fund, resulting in a deficiency in the amount of \$378,664. In accordance with the 2002 Indenture, the Trustee then notified the 2002 Bond Insurer of the deficiency of funds on deposit in the 2002 Debt Service Account required to make the May 1, 2012 payment and requested that such shortfall be paid upon under the bond insurance policy. The 2002 Bond Insurer paid the amount \$378,664 to the Trustee under the bond insurance policy, which amount was sufficient to pay the scheduled debt service payment on May 1, 2012.

On March 20, 2009, The Harrisburg Authority issued a notice of material event with respect to The Harrisburg 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, respectively. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified The Harrisburg 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.

On March 8, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg 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 \$607,120 due on the Series A, B, and C of 2003 Bonds, respectively, on September 1, 2009. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of The Harrisburg Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the September 1, 2009 debt service payment. However, the City notified the Trustee on August 25, 2009

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that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on September 1, 2009. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred funds from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts in amounts sufficient to satisfy the respective deficiencies therein and to enable the Trustee to make the necessary payments of interest on the Series 2003 A, B, and C Obligations on September 1, 2009.

On March 9, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg 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 \$607,120 due on the Series A, B, and C of 2003 Bonds, respectively, on March 1, 2010. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of The Harrisburg Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the March 1, 2010 debt service payment. However, the City notified the Trustee on February 23, 2010 that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on March 1, 2010. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred funds from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts in amounts sufficient to satisfy the respective deficiencies therein and to enable the Trustee to make the necessary payments of interest on the Series 2003 A, B, and C Obligations on March 1, 2010.

On September 2, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg 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, \$378,898, and \$607,120 due on the Series A, B, and C of 2003 Bonds, respectively, on September 1, 2010. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of The Harrisburg Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the September 1, 2010 debt service payment. However, the City notified the Trustee that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on September 1, 2010. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred funds from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts in amounts sufficient to satisfy the respective deficiencies therein and to enable the Trustee to make the necessary payments of interest on the Series 2003 A, B, and C Obligations on September 1, 2010.

On March 1, 2011, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg 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, \$147,612, and \$607,120 due on the Series A, B, and C of 2003 Bonds, respectively, on

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March 1, 2011. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of The Harrisburg Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the March 1, 2011 debt service payment. However, the City notified the Trustee that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on March 1, 2011. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred funds from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts in amounts sufficient to satisfy the respective deficiencies therein and to enable the Trustee to make the necessary payments of interest on the Series 2003 A, B, and C Obligations on March 1, 2011.

On September 1, 2011, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg 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, \$143,034, and \$607,125 due on the Series A, B, and C of 2003 Bonds, respectively, on September 1, 2011. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of The Harrisburg Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the September 1, 2011 debt service payment. However, the City notified the Trustee that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on September 1, 2011. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred \$580,868 consisting of all remaining funds on deposit in the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts. In accordance with the Series 2003 A, B, and C Indenture, the Trustee then notified the Bond Insurer of the deficiency of funds on deposit in the Series of 2003 Debt Service Accounts required to make the September 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The Bond Insurer paid the amount \$816,551 to the Trustee under the bond insurance policy, which amount, together with the funds transferred from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund, was sufficient to pay the scheduled debt service payment on September 1, 2011.

On March 1, 2012, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg 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, \$147,572, and \$607,125 due on the Series A, B, and C of 2003 Bonds, respectively, on March 1, 2012. Pursuant to the terms of the Series 2003 A, B, and C Indenture and the City Bond Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiencies in the Series of 2003 Debt Service Accounts. The Series 2003 A, B, and C Indenture and the City Bond Guaranty provide that if there are insufficient revenues available from the operation of The Harrisburg Authority's Resource Recovery Facility to pay debt service on the Series 2003 A, B, and C Obligations, then the Trustee is to draw upon the City Bond Guaranty for the monies for debt service. The Trustee

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so notified the City of the respective deficiencies in the Series of 2003 Debt Service Accounts for the March 1, 2012 debt service payment. However, the City notified the Trustee that the City was not able to transfer funds for the debt service payment due on the Series 2003 A, B, and C Obligations on March 1, 2012. Upon the failure of the City to advance monies as required under the City Bond Guaranty, the Trustee then transferred \$10 consisting of all remaining funds on deposit in the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund to the Series of 2003 Debt Service Accounts. In accordance with the Series 2003 A, B, and C Indenture, the Trustee then notified the Bond Insurer of the deficiency of funds on deposit in the Series of 2003 Debt Service Accounts required to make the March 1, 2012 payment and requested that such shortfall be paid upon under the bond insurance policy. The Bond Insurer paid the amount \$1,401,950 to the Trustee under the bond insurance policy, which amount, together with the funds transferred from the 2003 Debt Service Reserve Account of the Debt Service Reserve Fund, was sufficient to pay the scheduled debt service payment on March 1, 2012.

On June 29, July 16 and July 22, 2009, The Harrisburg Authority and the City issued joint notices of material events with respect to The Harrisburg 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, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of The Harrisburg 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 Harrisburg 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 in May 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.

On March 8 and March 9, 2010, The Harrisburg Authority and the City issued joint notices of material events with respect to The Harrisburg 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 debt service payments in the amount of \$1,062,450, \$1,625,000, \$1,743,030, and \$1,684,895 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on December 1, 2009. There were no funds on deposit in the 2003 Retrofit Debt Services Accounts, resulting in a deficiency of \$1,062,450, \$1,625,000, \$1,743,030, and \$1,684,895, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of The Harrisburg 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 Harrisburg 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

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the Trustee that the City could only able to transfer \$127,613, \$195,181, \$209,358, and \$202,376, respectively, for the Series D-1, D-2, E, and F Bonds of 2003, which amount represented a portion of the funds required for the debt service payment due on the Series D-1, D-2, E, and F Bonds on December 1, 2009. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$2,364,656, \$746,468, and \$1,482,519, respectively, from the 2003D, E and F Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on December 1, 2009. However, after transferring funds from the 2003 E Bonds Subaccount of the Retrofit Debt Service Reserve Account, the 2003E Bonds Subaccount of the Retrofit Debt Service Account was still deficient in the amount of \$787,204. Under the terms of the Indenture and the County Guaranty Agreement, dated as of December 1, 2003 (County Guaranty Agreement), among the County, The Harrisburg Authority and the Trustee, the County, as guarantor, was required to fund any deficiency in the 2003E Bonds Subaccount of the Retrofit Debt Service Account after deposits therein from the City under the City Bond Guaranty Agreement and from the 2003E Bonds Subaccount of the Retrofit Debt Service Reserve Account. Pursuant to the terms of the Indenture and the County Bond Guaranty Agreement, the Trustee notified The Harrisburg Authority and the County of such deficiency in the 2003 E Bonds Subaccount of the Retrofit Debt Service Account. The County, as guarantor, in accordance with the County Guaranty Agreement, transferred funds in the amount of \$787,204 to the Trustee for deposit into the 2003E Bonds Subaccount of the Retrofit Debt Service Account in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment the Series E Bonds on December 1, 2009. In addition, the Series F Bonds Subaccount of the Retrofit Debt Service Reserve Account was deficient in the amount of \$630,474, which required The Harrisburg Authority to draw on its debt service reserve fund surety policy. Such amount is presented as due to bond insurer on the face of the financial statement.

On June 1, 2010, The Harrisburg Authority and the City issued joint notices of material events with respect to The Harrisburg 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 debt service payments in the amount of \$1,062,450, \$1,625,000, \$322,103, and \$314,745 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on June 1, 2010. The amount of \$2, \$3, \$0, and \$2 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 \$1,062,448, \$1,624,997, \$322,103, and \$314,743, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of The Harrisburg 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 Harrisburg 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 provide any funds under the City Bond Guaranty in order to make the debt service payment due on the Series D-1, D-2, E, and F Bonds on June 1, 2010. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$2,687,445, \$322,103, and \$314,743, respectively, from the 2003D, E and F Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on June 1, 2010. The funds on deposit in the 2003E Bonds Subaccount of the Retrofit Debt Service Reserve Account were derived from monthly deposits required to be made by the County under the terms of the County Guaranty Agreement.

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On June 2, 2011, The Harrisburg Authority and the City issued joint notices of material events with respect to The Harrisburg 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 debt service payments in the amount of \$826,350, \$1,625,000, \$289,729, and \$283,245 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on June 1, 2011. The amount of \$339,151, \$502,022, \$89,508, and \$87,505 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 \$487,199, \$1,122,978, \$200,221, and \$195,740, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of The Harrisburg 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 Harrisburg 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 provide any funds under the City Bond Guaranty in order to make the debt service payment due on the Series D-1, D-2, E, and F Bonds on June 1, 2011. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew

\$1,610,177 and \$200,221, respectively, from the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on June 1, 2011. However, the Series F Bonds Subaccount of the Retrofit Debt Service Reserve Account did not have any funds on deposit therein. In accordance with the Indenture, the Trustee then notified the Bond Insurer of the deficiency of funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account required to make the June 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The Bond Insurer paid the amount \$195,740 to the Trustee under the bond insurance policy, which amount, together with funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account, was sufficient to pay the scheduled debt service payment on June 1, 2011. The funds on deposit in the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account were derived from monthly deposits required to be made by the County under the terms of the County Guaranty Agreement.

On December 2, 2011, The Harrisburg Authority and the City issued joint notices of material events with respect to The Harrisburg 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 debt service payments in the amount of \$826,350, \$1,625,000, \$1,809,729, and \$1,748,245 due on the Series D-1, D-2, E, and F of 2003 Bonds, respectively, on December 1, 2011. The amount of \$523,217, \$1,028,596, \$1,145,495, and \$1,106,575 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 \$303,133, \$569,404, \$664,234, and \$641,670, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of The Harrisburg 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 Harrisburg 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 provide any funds under the City Bond Guaranty in order to make the debt service payment due on the Series D-1, D-2, E, and F Bonds on December 1, 2011. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$899,537 and \$664,234, respectively, from the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on December 1, 2011. However, the Series F Bonds Subaccount of the Retrofit Debt Service Reserve Account did not have any funds on deposit therein. In accordance with the Indenture, the Trustee then notified the Bond Insurer of the deficiency of funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account required to make the December 1, 2011 payment and requested that such shortfall be paid upon under the bond insurance policy. The Bond Insurer paid the amount \$664,670 to the Trustee under the bond insurance policy, which amount, together with funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account, was sufficient to pay the scheduled debt service payment on December 1, 2011. The funds on deposit in the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account were derived from monthly deposits required to be made by the County under the terms of the County Guaranty Agreement.

On June 4, 2012, The Harrisburg Authority and the City issued joint notices of material events with respect to The Harrisburg 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 debt service payments in the amount of \$826,350, \$1,625,000, \$255,909, and \$250,283 due on the Series D-

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1, D-2, E, and F of 2003 Bonds, respectively, on June 1, 2012. The amount of \$4, \$28, \$8, and \$8 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 \$826,346, \$1,624,972, \$255,901, and \$250,275, respectively. The trust indenture and the City Bond Guaranty Agreement provide that if there are insufficient revenues available from the operation of The Harrisburg 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 Harrisburg 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 provide any funds under the City Bond Guaranty in order to make the debt service payment due on the Series D-1, D-2, E, and F Bonds on June 1, 2012. Upon the failure of the City to advance sufficient monies as required under the City Bond Guaranty Agreement, the Trustee then withdrew \$1,707,606 and \$255,901, respectively, from the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account of the Debt Service Reserve Fund in order to satisfy the remaining deficiency therein and to enable the Trustee to make the necessary debt service payment on June 1, 2012. However, the Series F Bonds Subaccount of the Retrofit Debt Service Reserve Account did not have any funds on deposit therein. In accordance with the Indenture, the Trustee then notified the Bond Insurer of the deficiency of funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account required to make the June 1, 2012 payment and requested that such shortfall be paid upon under the bond insurance policy. The Bond Insurer paid the amount \$250,275 to the Trustee under the bond insurance policy, which amount, together with funds on deposit in the 2003F Bonds Subaccount of the Retrofit Debt Service Account, was sufficient to pay the scheduled debt service payment on June 1, 2012. The funds on deposit in the 2003D and E Bonds Subaccount of the Retrofit Debt Service Reserve Account were derived from monthly deposits required to be made by the County under the terms of the County Guaranty Agreement.

On August 23, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg Authority's Series C and D Notes of 2007. The Trustee was required to notify the City and the County by August 1, 2010 of the amounts on deposit in the Series C Debt Service Account and the Series D Debt Service Account and the amount of the Stated Value at Maturity of the Series C Notes and the Series D Notes. In the event that the respective Stated Value at Maturity of the Series C Notes or the Series D Notes exceeded the respective amounts on deposit in the Series C Debt Service Account or the Series D Debt Service Account, the Trustee was required to instruct the City to transfer to the Trustee on or before August 15, 2010 amounts sufficient to cure such deficiency or deficiencies.

On July 30, 2010, the Trustee provided notice to the City and the County indicating that there was \$0 on deposit in the Series C Debt Service Account and the Series D Debt Service Account and further instructing the City to transfer \$23,920,000 to the Series C Debt Service Account and \$10,764,999 to the Series D Debt Service Account by August 15, 2010 in order to cure the deficiency. Upon receipt of such notice by the Trustee, the City was to transfer the required amounts to the Series C Debt Service Account or the Series D Debt Service Account by August 15, 2010. On August 13, 2010, the City notified the Trustee that its current financial condition precluded the City from making the required transfers under the Guaranty Agreement.

Upon such failure by the City under the Guaranty Agreement, the Trustee was required under the Indenture to notify the County by August 20, 2010 of the amounts on deposit in the Series C Debt Service Account, the Series D Debt Service Account, the Series C City Guaranty Subaccount and the

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Series D City Guaranty Subaccount. To the extent that the Stated Value at Maturity of the Series C Notes or the Series D Notes exceeds the aggregate amounts on deposit in the corresponding aforementioned Accounts and Subaccounts, the Trustee is required to instruct the County to transfer to the Trustee on or before December 1, 2010 amounts to cure such deficiency or deficiencies. In accordance with the provisions of the County Guaranty Agreement, dated as of December 15, 2007 (County Guaranty Agreement), among the County, The Harrisburg Authority and the Trustee, the County has agreed to transfer the required amounts to the Series C Debt Service Account or the Series D Debt Service Account by December 1, 2010.

On August 20, 2010, the Trustee provided notice to the County indicating that there was a deficiency in the Series C Debt Service Account and the Series C City Guaranty Subaccount in the amount of \$23,920,000 and a deficiency in the Series D Debt Service Account and the Series D City Guaranty Subaccount in the amount of \$10,765,000 and requesting a transfer of funds sufficient to cure such deficiencies by December 1, 2010. Upon receipt of such notice by the Trustee, the County pursuant to the County Guaranty Agreement agreed to transfer the required amounts to the Series C Debt Service Account or the Series D Debt Service Account by December 1, 2010.

On December 17, 2010, The Harrisburg Authority and the City issued a joint notice of material event with respect to The Harrisburg Authority's Series C and D Notes of 2007. The C and D of 2007 D Debt Service Accounts did not have sufficient funds on deposit on November 30, 2010 to pay the Stated Value at Maturity of the Series C Notes or the Series D Notes on December 15, 2010. In accordance with the provisions of the Indenture and the County Guaranty Agreement, dated as of December 15, 2007 (County Guaranty Agreement), among the County, The Harrisburg Authority and the Trustee, the County transferred the required amounts to the Series C Debt Service Account and the Series D Debt Service Account on or about December 1, 2010. The Trustee applied such amounts deposited by the County to the Series C Debt Service Account and the Series D Debt Service Account to pay the Stated Value at Maturity of the Series C Notes and the Series D Notes on December 15, 2010. The Series C Notes and the Series D Notes are no longer outstanding.

In a notice of material event filed by The Harrisburg Authority on April 25, 2011, The Harrisburg Authority stated that it has not provided an annual report for the fiscal year ended December 31, 2009. In a notice of material event filed by The Harrisburg Authority on October 5, 2011, The Harrisburg Authority stated that it has not provided an annual report for the fiscal year ended December 31, 2010.

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 also made payments in the amount of \$250,430 and \$469,833 on November 27, 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 City also made a payment in the amount of \$98,322 on December 1, 2009 under the City Guaranty with respect to the Series D-1 and D-2 Swap agreement. On June 1, 2010, December 1, 2010, and June 1, 2011, the County made payments in the amount of \$804,152, \$675,762, and \$541,090, respectively, under the Swap/Cap agreements.

The City made payments in the amount of \$637,500 during July 2009, October 2009, and January 2010 under the guaranty with respect to a construction loan from Covanta. There have been no subsequent payments to Covanta with respect to the construction loan.

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Water Fund

The Harrisburg Authority's Water Facility's 2009 and 2010 budgets were approved by the Board in June 2009 and November 2010, 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 2009 and 2010 consulting engineers' reports, which are due, per the trust indenture, 90 days prior to the end of the calendar year, were not been received by The Harrisburg Authority until May 2010 and October 2010, respectively. Finally, management has not instituted a system to calculate the rate covenant requirement.

Under the continuing disclosure undertaking, The Harrisburg 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 Harrisburg Authority to submit its audited financial statements to the trustee within 180 days. On December 13, 2010 and September 29, 2011, The Harrisburg Authority issued a notice of material event with respect to the issuance of The Harrisburg Authority's financial statements for the years ended December 31, 2009 and 2010, stating that neither were completed by the required dates.

Under the trust indentures, The Harrisburg Authority is required to maintain certain minimum balances in the Water Operating Reserve Fund. At December 31, 2009, The Harrisburg Authority's balance in the Water Operating Reserve Fund was \$107,350 and the reserve requirement was \$867,245. The trust indenture states that if the balance in the Water Operating Reserve Fund becomes deficient, The Harrisburg Authority is to restore the balance with twelve substantially equal installments. The Water operating reserve fund was replenished through nine transfers of \$83,333 plus accrued interest.

On January 18, 2011, The Harrisburg Authority issued a notice of material event with respect to the Moody's Investor Service (Moody's) downgrade to Ba1 from A1 of The Harrisburg Authority's 2008 Water Revenue Bonds. In addition, Moody's has removed The Harrisburg Authority's 2008 Water Revenue Bonds from watchlist and a negative outlook has been assigned. On November 15, 2011, Moody's downgraded to Ba3 with negative outlook from Ba1 the rating on The Harrisburg Authority's 2008 Water Revenue Bonds and then withdrew the rating. Accordingly, The Harrisburg Authority's 2008 Water Revenue Bonds are no longer rated by Moody's.

Under the 2008 Water Revenue Bond trust indenture, The Harrisburg Authority is required to maintain certain minimum balances in the 2008 Water Debt Service Reserve Fund. At December 31, 2009, The Harrisburg Authority's balance in the 2008 Water Debt Service Reserve Fund was \$6,807,446 and the required balance was \$6,942,000. The trust indenture states that if the balance in the Water operating reserve fund becomes deficient, The Harrisburg Authority is to restore the balance with twelve substantially equal installments. The Water Debt Service Reserve Fund was replenished through increases in the market value of investments.

Additionally, beginning in August 2009, The Harrisburg Authority was to transfer 1/12 of the next principal payment due and 1/6 of the next interest payment due, from the Water Revenue Fund to the 2002 Water Debt Service Fund, for the 2002 Water Revenue Bonds, Series D. While the payments for interest were transferred, the payments for principal were not.

On June 7, 2012, The Harrisburg Authority filed notice of expiration of liquidity facility without replacement with respect to the Variable Rate Water Revenue Refunding Bonds, Series B of 2002 (2002B Bonds) and the Federally Taxable Variable Rate Water Revenue Refunding Bonds, Series C of 2002 (2002C Bonds). The related standby bond purchase agreement dated July 18, 2002 is due to

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expire on July 18, 2012. The liquidity facility provides liquidity for the Authority's 2002B Bonds and 2002C Bonds (together 2002 Bonds).

The Harrisburg Authority was notified that the liquidity facility would not be extended beyond the expiration date. As a result, The Harrisburg Authority issued a request for proposals dated April 12, 2012 (RFP) seeking a replacement facility or a direct loan to replace the Liquidity Facility. Responses to the RFP were due on or before May 16, 2012. The Harrisburg Authority received no responses to the RFP. As a result, the 2002 Bonds are expected to be subject to mandatory tender for purchase on the fifth business day preceding the expiration date or July 11, 2012. It is expected that notice of such mandatory tender will be given in accordance with terms of the Ninth Supplemental Trust Indenture dated as of July 1, 2002 between The Harrisburg Authority and the Trustee (Ninth Supplement) under which the 2002 Bonds were issued, and that the 2002 Bonds so tendered will be purchased with moneys advanced under the Liquidity Facility. It is not expected that the 2002 Bonds will be remarketed following such tender but rather it is expected that the 2002 Bonds will be held by the liquidity provider and will be subject to special mandatory sinking fund redemption on a level principal basis beginning on January 15, 2013 and on each January 15 and July 15 thereafter until July 15, 2017 in the case of the 2002B Bonds and until July 15, 2019 in the case of the 2002C Bonds.

Harrisburg University

Pursuant to a Trust Indenture dated as of January 1, 2007 (Indenture), The Harrisburg Authority issued its University Revenue Bonds, Series of 2007 (The Harrisburg University of Science and Technology Project) in the aggregate principal amount of \$87,915,000, comprised of its University Revenue Bonds, Series A of 2007 (The Harrisburg University of Science and Technology Project) in the aggregate principal amount of \$27,690,000 (Series A Bonds) and its University Revenue Bonds, Series B of 2007 (The Harrisburg University of Science and Technology Project) in the aggregate principal amount of \$60,225,000 (Series B Bonds, and together with the Harrisburg University Series A Bonds, the Bonds). The Series A Bonds have been paid and are no longer outstanding under the Indenture.

In order to secure the Bonds, The Harrisburg Authority assigned to the trustee under the Indenture all of its right, title and interest in and to all funds and accounts established under the Indenture (other than the rebate fund created thereunder) and the pledged revenues, as defined in the Indenture. Further, the performance of the obligations of The Harrisburg University of Science and Technology (University) under a certain Loan Agreement dated as of January 1, 2007 (Loan Agreement) by and between The Harrisburg Authority and the University is secured by a certain Open-End Mortgage and Security Agreement dated as of January 1, 2007 (Mortgage). Capitalized terms not defined herein shall have the meanings ascribed to them in the Indenture and Loan Agreement, as applicable. The Series B Bonds are also secured by the provisions of a certain credit support agreement (Credit Support Agreement) and a guaranty agreement (Guaranty), whereby the County will undertake for a ten-year period (commencing January 1, 2010 and subject to certain earlier rights of termination) to guarantee payment of a portion of the debt service on the Series B Bonds in the maximum amount of \$1,500,000 each year over such ten-year period, for a total maximum amount of \$15,000,000.

The Series B Bonds were also secured by a certain Standby Letter of Credit issued by Metro Bank, successor to Commerce Bank/Harrisburg, National Association (Letter of Credit Bank), as of January 1, 2007 (Standby Letter of Credit) under and pursuant to a Reimbursement Agreement dated as of January 1, 2007, by and among The Harrisburg Authority, the Harrisburg University and the Letter of Credit Bank (Reimbursement Agreement). The Standby Letter of Credit was initially issued in the

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amount of \$3,300,000. The Standby Letter of Credit expired as of September 1, 2011. The Standby Letter of Credit has not been replaced.

The Loan Agreement provides that the University is required to make, as Loan Payments, payments which correspond, as to amounts and due dates, to the Bonds Debt Service, at least seventy-five (75) Business Days (or earlier if required by the Indenture) prior to the date when such principal, premium, if any, and interest is due and payable. By written notice dated December 5, 2011, the Trustee notified the University of its failure to make the required Loan Payment, in anticipation of the Bonds Debt Service payment due on March 1, 2012. The amount due on March 1, 2012 equaled \$1,806,650 (calculated as the amount due of \$1,806,750 minus the amount of \$100 currently on deposit in the Series B Bonds Debt Service Fund of the Indenture).

The Indenture requires that if on the sixty fifth (65th) Business Day prior to any principal or interest payment date there are not sufficient moneys in the Series B Bonds Debt Service Fund on such date to pay principal of and interest on the Series B Bonds to become due and owing on such date, the trustee shall immediately notify the County of such shortfall, not less than sixty (60) days prior to such principal or interest payment date pursuant to the terms of the Guaranty, and moneys will be transferred to the Series B Bonds Debt Service Fund from the sources described in the Indenture in an amount which, together with the amount then on deposit in the Series B Bonds Debt Service Fund, will result in the Series B Bonds Debt Service Fund having the balance required to be on deposit therein in order to pay interest and principal to become due and payable on such date. As the Standby Letter of Credit has expired, the first source available to the trustee to undertake the required transfer is the Guaranty. The trustee notified the County and the University of such deficiency by letter dated December 6, 2011.

Pursuant to the Loan Agreement, the University's failure to observe and perform a term or condition of the Loan Agreement, including its requirements as stated in the immediately preceding paragraph, for a period of 30 days after notice thereof, or such longer period as The Harrisburg Authority and the trustee may agree to in writing but in no event longer than one hundred twenty (120) days, would constitute an Event of Default. By letter agreement dated February 26, 2012, the trustee and The Harrisburg Authority agreed to extend the thirty (30) day cure period provided in the Loan Agreement by one hundred twenty (120) days, or to April 3, 2012.

Under the Credit Support Agreement, the County is required to transfer to the trustee not later than three (3) days prior to March 1, 2012, an amount equal to the amount as requested by the trustee, and in this case, \$1,500,000.

The University was not able to accomplish, in full, the Loan Payment due on March 1, 2012. As a result of such failure, and in order to satisfy the Bonds Debt Service payment due on March 1, 2012, the trustee has drawn on the Guaranty in the amount of \$1,500,000. The remainder due of \$306,650 was paid from funds of the University.

The draw on the Guaranty does not constitute an event of default under the Indenture, the Loan Agreement, the Guaranty, the Credit Support Agreement or any of the other finance documents relative to the Bonds.

Under the Credit Support Agreement, in the event that any funds paid by the County to the trustee are not returned to the County by close of business on the third business day following the debt service payment date for which such sums were advanced, the University is required to pay to the County interest on such funds, payable on demand and in any event on the date on which such funds are

returned to the County, at a default rate of six (6%) percent, subject, however, to such different or additional terms as may be mutually acceptable to the University and the County.

Harrisburg Parking Authority

In November 2010, the Authority received notice that, based upon the City's statements in the Act 47 Petition, the bond insurer concluded that an Event of Default occurred under Section 10.01(c)(ii) of the Indenture as of October 1, 2010 (the date the Act 47 Petition was filed by the City) by declaring in writing its inability to pay when due its debts generally as they become due. The bond insurer informed the trustee that under Section 7.03 of the Indenture, such Event of Default allows the insurer to control all available remedies with respect to the Series J Bonds and directs the trustee to refrain from exercising any remedies or taking any other actions with respect to the Series J Bonds unless and until directed in writing by the insurer.

Redevelopment Authority of the City of Harrisburg

On March 15 2012, the Redevelopment Authority was given notice of an event of default which occurred under a trust indenture, dated as of December 1, 2001 between the Redevelopment Authority and the trustee related to the Taxable Guaranteed Revenue Bonds, Series of 2001. Pursuant to a guarantee agreement dated December 1, 2001, among the issuer, the trustee and the City, the City has guaranteed the payment of principal and interest on the bonds when due. To date, there has been no default on the payment of principal or interest on the bonds when due; consequently, the trustee has not been required to notify the City of any payment to be made by the City under the guarantee.

The event of default has occurred under Section 7.01(g)(ii) of the indenture by reason of the City admitting in writing that it is unable to pay its debts as they generally become due, as evidenced by the City's admission that it is unable to pay, on March 15, 2012, debt service on certain of its general obligation debt which became due and payable on that date.

The financial statements do not include any adjustments that might result from the outcome of this contingency.

23. LITIGATION

Primary Government

The City and its component units are involved in several lawsuits. Management of each entity believes that none of the litigation outstanding against the City or its component units will have a material adverse effect on the financial position of the City or its component units at December 31, 2009, except as discussed in Note 26.

Guarantees

The principal and interest on The Harrisburg Authority's Resource Recovery Facility debt is to be paid from revenue generated by the upgraded Incinerator. However, if the revenue generated proves insufficient to make the payments due, then the City, as first guarantor, and the County, as second guarantor of certain debt issuances, have agreed to pay any amounts which the Authority fails to pay. If the City and the County fail to make payments pursuant to their respective guaranties, then payment of the amounts due are insured by a municipal bond insurer.

With respect to certain Resource Recovery Facility debt in the combined principal amount of approximately \$218 million, certain plaintiffs claim that the City has not paid more than \$30 million dollars which it should have paid pursuant to the City's guaranties of the Resource Recovery Facility debt. The plaintiffs seek: (a) judgment against the City for the amounts which they assert that the City should have paid, plus interest, costs of suit and attorneys' fees; (b) an order of mandamus, directing the City to pay the first dollar of all of the revenue which it receives to the plaintiffs until the full amount owed under the City's guaranties of the Resource Recovery Facility debt is paid; (c) an order under the Debt Act directing the City to include in its annual budget amounts due on the Resource Recovery Facility debt; and (d) an order under the Debt Act directing the City to levy taxes in an amount sufficient to pay all amounts due under its guaranties of the Resource Recovery Facility debt.

On or about November 9, 2010, the plaintiffs filed a motion for an order of mandamus and other relief under the Debt Act. The Court held a hearing on plaintiffs' motion on September 22, 2011. The parties subsequently briefed the motion and it is pending with the Court. The City has responded aggressively to the plaintiffs' complaint and to the plaintiffs' request for an order of mandamus.

The City has asserted substantial defenses to the mandamus request. In addition, the Receiver for the City appointed by the Commonwealth Court has intervened in this matter and has opposed plaintiffs' request for mandamus relief. The City believes that the request for mandamus relief should be denied.

In a separate action, with respect to certain Resource Recovery Facility debt with a maturity value of approximately \$35 million, a certain plaintiff claims the City should have deposited approximately \$35 million into the debt service account on or before August 15, 2010. When the City did not deposit these funds, a complaint was filed by the plaintiff. When such debt matured on December 15, 2010, the County paid the debt in full. The plaintiff seeks: (a) an order of mandamus, pursuant to the Debt Act, directing the City to pay the first dollar on all of the revenue which it receives to the plaintiff until the full amount that was due at maturity is paid; and (b) an order under the Debt Act directing the City to levy taxes in an amount sufficient to pay all amounts that were due at maturity.

On or about December 2, 2010, the plaintiff filed a motion for an order of mandamus under the Debt Act. The Court held a hearing on plaintiff's motion on September 22, 2011. The parties subsequently briefed the motion and it is pending with the Court. The City has responded aggressively to the plaintiff's complaint and to the plaintiff's request for an order of mandamus.

The City has asserted substantial defenses to the mandamus request. In addition, the Receiver for the City appointed by the Commonwealth Court has intervened in this matter and has opposed plaintiffs' request for mandamus relief. The City believes that the request for mandamus relief should be denied. Further, the City believes the plaintiff's complaint should be dismissed, and to the extent that a claim against the City for failure to make payments due on such debt exists, that the claim must be brought by the County under the related reimbursement agreement, entered into between the City and the County.

In another action, the City guaranteed the repayment of a loan made by Covanta to The Harrisburg Authority. The Harrisburg Authority and Covanta entered into a Management and Professional Services Agreement, to which Covanta agreed to help The Harrisburg Authority finish constructing the improvements to the Resource Recovery Facility and to loan The Harrisburg Authority up to \$25.5 million to be applied to the cost of the improvements' completion. The City guaranteed the repayment to Covanta of any amount which Covanta advanced to The Harrisburg Authority. Covanta alleges that it loaned The Harrisburg Authority \$21,736,000. The Harrisburg Authority then failed to make payments due on the loan on April 1, July 1, and October 1, 2010. Together, these missed payments

totaled \$1,980,117. When the City also failed to make the payments pursuant to its guaranty of Covanta's loan to the Authority, Covanta filed a complaint against the City on October 5, 2010. In its complaint, Covanta seeks: (a) judgment against the City in the amount of \$1,912,500, plus interest, costs and attorneys' fees; (b) an order of mandamus pursuant to the Debt Act directing the City to pay the first dollar on all of the revenue which it receives to Covanta until the full amount due to Covanta has been paid; and (c) an order rendering any judgment obtained by Covanta a priority judgment under the Debt Act.

On or about July 19, 2011, Covanta filed a motion for summary judgment. The parties have briefed the motion, but the Court has not yet heard argument or entered a decision.

On or about February 6, 2012, the Receiver for the City of Harrisburg petitioned to intervene in this matter. Covanta has opposed the Receiver's petition, and the Court held argument on the petition on June 5, 2012. The City is waiting the Courts decision on the Receiver's petition to intervene.

The City intends to continue to respond aggressively to Covanta's claims.

The City and its elected officials, including the Mayor, members of City Council, Treasurer, and Controller, have been named as defendants in a 2009 suit filed by the County and two individual taxpayers. In this litigation, the County and two individual taxpayers are seeking to enforce certain agreements entered into by the City in connection with what is known as the 2003 Retrofit Financing, including the City's guarantee agreement as well as a reimbursement agreement among the County; City, and The Harrisburg Authority. Plaintiffs' claims are premised on the City's alleged defaults in both current and prospective obligations arising under these agreements. The Court granted in part the preliminary objections of the City, permitting only the taxpayers' claim for mandamus against the Treasurer to go forward. The taxpayers sought a hearing on this claim. However, prior to such hearing, the parties agreed to continue the litigation, pending application of the Commonwealth's Act 47 recovery plan for the City. At this point, the City is unable to state whether an outcome unfavorable to the City is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome.

The City and its elected officials, including the Mayor, members of City Council, Treasurer, and Controller, have been named in the following suit. In this litigation, the County and two individual taxpayers are seeking to enforce certain agreements entered into by the City in connection with what is known as the 2007 Retrofit Financing, including the City's guarantee agreement as well as a reimbursement agreement between the County and the City. Plaintiffs' claims are premised on the City's alleged defaults in both current and prospective obligations arising under these agreements. The Court granted in total the preliminary objections of the City, dismissing the County and taxpayers' claims. However, plaintiffs appealed to the Commonwealth Court, which reversed in part the trial court's dismissal, reinstating only the County's claim for specific performance against the City, and the taxpayers' claim for mandamus against the Treasurer. The Supreme Court has since denied the City's request to consider these issues. At this point, the City is unable to state whether an outcome unfavorable to the City is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome.

The City has been named as a defendant in another suit filed in 2010 by the County. Following dismissal of its equitable claims in the case noted in the previous paragraph, the County brought this suit at law, seeking damages for breach of certain obligations in connection with what is known as the 2003 Retrofit Financing, including the City bond guaranty agreement, the City swap guaranty

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agreement, and the reimbursement agreement. The County has demanded damages in the amount of \$6,743,197, plus costs, fees, expenses, and interest. The City has answered the complaint, setting forth its defenses. At this point, the City is unable to state whether an outcome unfavorable to the City is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome.

The City has been named as a defendant in an additional suit filed in 2011. Following dismissal of its equitable claims in the 2009 case mentioned above, the County brought this suit at law, seeking damages for breach of certain obligations in connection with what is known as the 2003 Retrofit Financing, including the retrofit indenture, the City swap guaranty agreement, and the reimbursement agreement. The County has demanded damages in the amount of \$675,762 plus costs, fees, expenses, and interest. The City has answered the complaint; setting forth its defenses. At this point, the City is unable to state whether an outcome unfavorable to the City is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome.

If these matters are not resolved, then the City may face a substantial financial loss. At December 31, 2009, amounts paid by the second guarantor and bond insurer through December 31, 2009 are presented on the statement of net assets and the balance sheet as due to the respective organizations. In addition, approximately \$264 million, the principal amount of the guaranteed Resource Recovery Facility debt outstanding at December 31, 2009, has been accrued as a contingent liability. See Note 26 to the financial statements.

Debt

A municipal bond insurer insures the bondholders of general obligation bonds issued by the City in 1997, to which the City is in the process of repayment. In March 2012, the City missed its scheduled debt service payment on the bonds in the amount of \$5,265,000 at the direction of the former Receiver for the City, and subsequently the insurer proceeded pursuant to its subrogation rights against the City to recover amounts that were due under the bonds and remedies under the Debt Act including mandamus. The insurer filed its complaint on April 6, 2012. The insurer has granted several extensions to the City to file a responsive pleading. Presently, the City has a deadline of the end of mid-July 2012 to file a responsive pleading.

The City will assert a vigorous defense against the effort of the plaintiff to obtain a mandamus order against the City as such an order would disable the City from being able to provide essential services and seriously compromise the Recovery Plan, which the Receiver is attempting to implement.

Although there is little likelihood, if any, that the City can prevent judgment from being entered against the City, the City remains hopeful that the Court will not order mandamus against the City. The City also expects the Receiver's Office to intervene and argue that mandamus relief would interfere with their attempts to effectuate an economic recovery plan for the City.

Other

On December 7, 2010, certain plaintiffs filed a complaint against numerous defendants, including the City's Mayor, regarding the alleged "rescission" of their employment contracts with the School District. With regard to the City's Mayor, the complaint alleged that the Mayor had violated the plaintiff's due process rights.

On January 14, 2011, the named defendants jointly removed the case to the United States District Court for the Middle District of Pennsylvania. On February 11, 2011, the Mayor filed a motion to dismiss the plaintiff's due process claim for failure to state a claim for which relief could be granted. On March 8, 2011, the Mayor filed a subsequent motion to dismiss the plaintiff's amended complaint again for failure to state a claim for which relief could be granted. On September 2, 2011, the court dismissed the plaintiff's claim against the Mayor and also dismissed the Mayor from the action entirely.

On January 27, 2012, the School District filed a joinder complaint against third-party defendants, including the City's Mayor under the same matter. The joinder complaint alleged a civil conspiracy claim and a tortious interference with contract claim against the Mayor and another of the defendants. Essentially, the theory of the joinder complaint is that if the School District were found to be liable to the plaintiffs, it would only be because of alleged wrongdoing on the part of the third-party defendants. Thus, the School District argues that any potential liability should shift to the third-party defendants, including the Mayor.

On February 28, 2012, the Mayor filed a motion to dismiss the joinder for failure to state a claim for which relief could be granted. On May 7, 2012, the court dismissed the tortious interference with contract claim against the Mayor, but did not dismiss the civil conspiracy claim. Thus, the only pending litigation regarding the Mayor is the third-party civil conspiracy claim filed by the School District.

All parties involved in the lawsuit attended a settlement conference on June 25, 2012. The parties were unsuccessful in reaching a settlement. At this time, the Mayor has no intention to seek a settlement. Therefore, the City is preparing to contest the case vigorously as the City believes the City will prevail should the case go to trial. Due to the broad range of relief requested by the plaintiffs, it is impossible to predict the potential financial loss, if any, should the City not prevail at trial.

In another matter, a number of contractors that provided construction services to the developer of the Capital View Commerce Center (CVCC Project) have asserted claims against the City and a financial institution (Bank), both of which were involved in financing for the CVCC Project. Plaintiff contractors claim that they have not been paid by the developer of the CVCC Project and that, on a variety of legal theories, they are entitled to payment directly by the City and the Bank. The City has asserted preliminary objections to the contractors' claims, including that the Court lacks jurisdiction and that the claims asserted by the plaintiff contractors have no legal merit. The City's preliminary objections have been briefed and argued to the Court, which has not indicated when it will render its decision. At this point, the City is unable to state whether an outcome unfavorable is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome.

On November 3, 2010, the United States Securities and Exchange Commission (SEC) issued a formal order of investigation in the matter of City municipal bonds. This "Order Directing Private Investigation and Designating Officers to Take Testimony" (Formal Order) stated that the SEC has information regarding possible violations, including securities fraud, by certain persons "from at least January 2008 to the present," of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, in connection with the offer, purchase or sale of securities. The effect of the Formal Order was to initiate a "private investigation" under Section 20(a) of the Securities Act and Section 21(a) of the Exchange Act "to determine whether any persons or entities have engaged in, or are about to engage in, any of the reported acts or practices or any acts or practices of similar purport or object" to those reported in the Formal Order. The SEC commenced this private investigation

shortly thereafter and has subpoenaed documents from the City and third parties, and has taken the testimony of current and former City officials and employees, and of third parties.

Legal counsel for the City has participated in settlement negotiations with the SEC, and the parties have agreed in principle on terms that will result in a settlement of the matter. The proposed settlement will involve the City consenting to the SEC's administrative finding of numerous securities law violations, as outlined in the previous paragraph, but neither admitting nor denying that the City and/or City officials or employees committed any of the violations found by the SEC. Under the proposed settlement, the City will not be required to pay any financial penalty or other costs. The parties are currently awaiting the SEC Commissioners' final approval of the settlement. At this point, the City is unable to state whether an outcome unfavorable to the City is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome.

The City is party to a suit arising from the City's economic development and transportation project commonly known as the Southern Gateway Project. Plaintiffs sought a declaration that a de facto taking had occurred as a result of the City's publicity of the project and payment of just compensation for the property. The lawsuit also seeks statutorily authorized damages in the form of attorneys' fees and other costs and fees.

The court issued an order declaring a de facto taking occurred and issued an award of just compensation in the amount of \$530,000. The Court also appointed a special master to determine the supplemental damages to which Plaintiffs were entitled. The Special Master issued a decision on December 30, 2009, awarding statutory interest in the amount of \$66,250 and other costs and fees in the amount of \$45,053, if paid as of December 31, 2009, for a total award of \$641,303. Subsequently, the City entered into a settlement agreement dated June 29, 2010 to pay the damages over a two-year period. The agreement called for the City to pay \$320,652 on or before July 9, 2010, and then to pay \$320,652 plus additional interest and additional attorneys fees incurred after the special master's decision on or before July 1, 2011. The total amount of the second installment was \$371,295. The City has satisfied the judgment, and the Plaintiffs filed a discontinuance of the action, such that the City owns the property in fee simple with no liens. Because the settlement is immaterial to the government-wide financial statements, this amount has not been accrued at December 31, 2009.

A paving contractor that performed a major street paving project for the City in 2008 is seeking damages in the form of a price escalation clause that they allege was incorporated into the contract. The City has taken the position that the contractor was bound to the prices included in their bid, and that there was no price escalation clause in the contract.

The City has responded to the plaintiff's requests for discovery. Plaintiff filed a motion for summary judgment, to which the City filed a response. The Court ruled in the City's favor denying the plaintiff's motion for summary judgment by Order of Court dated May 19, 2011.

Because of the bankruptcy filing of City Council in October 2011, and subsequently due to the confirmation of a Receiver, the contractor and the City have agreed to a temporary stay in this case until September 2012. The City has and will continue to vigorously defend this lawsuit and believes it is reasonably possible that the City will prevail. This case amounts to approximately \$250,000.

The United States Environmental Protection Agency (EPA) has issued an order against the City under the Clean Water Act, requiring the City to provide certain information in response to EPA inquiries into the issues involving the City's combined sewer overflows and its municipal separate storm system program. Based on the EPA's review of the responses provided by the City, the EPA could assess

criminal or civil penalties against the City for failure to comply with environmental laws and regulations. Amounts are unknown at this time.

An attorney has been retained by the municipalities with whom the City has an agreement to transport and treat sewage, and from whom the City collects fees for such transportation and treatment. The municipalities allege that the City has overcharged them in the amount of approximately \$14.5 million for at least 10 years evidenced by the alleged excessive transfer of "administrative fees" from the sewer fund into the City's general fund. Recently, the municipalities have begun to submit fees that are at the previous lower rate that existed up to and including 2006. The City expects that resolution of these possible claims will be incorporated into the recovery plan and has not accrued amounts due back to the sewer fund or to the surrounding municipalities for the alleged overcharge. At this point, the City is unable to state whether an outcome unfavorable to the City is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome.

Component Units

The Harrisburg Authority

On December 31, 2003, The Harrisburg Authority entered into the Non-Exclusive Technology Sub-Licensing Agreement and Technology Purchase Agreement with the original contractor of the Resource Recovery Facility retrofit project. The original contractor granted The Harrisburg 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 (CIT) for \$25 million. In turn, The Harrisburg 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 Harrisburg 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 Harrisburg 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 Harrisburg Authority will pay to CIT the following fees:

Base Fee - For each calendar quarter ending prior to January 1, 2026, The Harrisburg 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 Harrisburg 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

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expenses incurred by The Harrisburg 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 Harrisburg 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, 2008, or 2009.

CIT is asserting that, pursuant to one of the many agreements signed on or about January 11, 2006, The Harrisburg 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 further argues that The Harrisburg Authority's obligation is an "operating expense" and that it should be given priority in payment ahead of The Harrisburg Authority's debt service obligations. The case is presently in federal court and a non-jury trial was held in January 2012. The Court then asked for post-trial Finding of Fact, Conclusions of Law, and Legal Briefs. These documents were filed by all parties in early April. The case awaits decision by the Court. The Harrisburg Authority has defended against the claim by asserting that the agreements upon which CIT was basing its claims are unenforceable and ultra vires acts, and, among other arguments, that there was a lack of consideration for the agreements. The Harrisburg Authority is contesting CIT's arguments vigorously and is seeking a declaration that the agreements upon which CIT relies are void and unenforceable.

The Harrisburg Authority believes it has a reasonable and valid basis upon which to defend against the claims of CIT, as well as reasonable and valid basis, in the event of an adverse verdict in favor of CIT, to pursue a claim for reimbursement or indemnification from the professionals who advised it on the transactions. As such, no liability for this case is reported in The Harrisburg Authority's December 31, 2009 financial statements.

The Harrisburg Authority had contractual relations with several vendors who completed the Resource Recovery Facility. These vendors were to be paid through a draw down from a construction advance provided by Covanta. Covanta failed to advance funds to pay these vendors when The Harrisburg Authority failed to reimburse Covanta on the advance, and the City failed under its guaranty of The Harrisburg Authority reimbursement. The Harrisburg Authority has been unable to pay the vendors since it does not believe the vendors costs are properly termed "operating expenses" and thus cannot be paid prior to debt service. The Harrisburg Authority has stipulated to judgments of three vendors in the principal amount of \$1,021,985 plus interest and court costs. The Harrisburg Authority has no defense to the claims as the work was approved by Covanta, The Harrisburg Authority, and The Harrisburg Authority's consulting engineer on the job. All have, at some point, demanded payment. Instead of litigating these claims, it has been The Harrisburg Authority's policy to allow vendors to enter judgment against The Harrisburg Authority in the amount The Harrisburg Authority shows as being due and owing on its books. Only one vendor has sought payment through mandamus at this point. This vendor seeks an order that The Harrisburg Authority pay immediately. While not contesting the work or the right of each vendor to be paid, The Harrisburg Authority believes the vendors should be paid by Covanta through draw downs from the Covanta construction advance and intends to litigate

this defense vigorously. Furthermore, The Harrisburg Authority recognizes the rights of the bond trustees, which hold security interests in the Resource Recovery Facility revenues and has resisted paying the vendors ahead of debt service obligations. The Harrisburg Authority has involved the trustees in discussions and litigation at this point. The Harrisburg Authority seeks to have the Court consider the equities and all interested parties and set forth a plan to get all vendors paid the amounts due. The Harrisburg Authority believes the law supports such an outcome. No trial date has been set on the mandamus action. The Harrisburg Authority has a reasonable and valid basis for the positions it has taken. The principal amount due is accrued on The Harrisburg Authority's December 31, 2009 financial statements and may be handled through payment via a plan under Act 47, as amended, or through a City bankruptcy in accordance with the current law.

There is one pending case in which a subcontractor of Barlow, unable to collect from Barlow for work performed at the Resource Recovery Facility, has sued The Harrisburg Authority, in the amount of \$529,550 plus interest, costs, etc. The Harrisburg Authority has no contractual privity with this subcontractor. The Harrisburg Authority does not believe it is liable under the law and is defending this case vigorously. The Harrisburg Authority believes it has a reasonable position on the cross-motions, which may result in dismissal of the case. As such, no liability for this case is reported in The Harrisburg Authority's December 31, 2009 financial statements.

The Harrisburg Authority is involved in litigation involving malfunction of the steam turbine at the Resource Recovery Facility. The claims stem from The Harrisburg 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 Harrisburg Authority asserted a claim against the manufacturer, which was filed in April 2009. In November 2009, the manufacturer filed an amended counter-claim versus The Harrisburg Authority for breach of contract. The manufacturer asserts that The Harrisburg Authority has not paid approximately \$450,000 in repair bills that were submitted to The Harrisburg Authority. The Harrisburg Authority's has reached an oral agreement that has not been reduced to writing. The Harrisburg Authority is not at liberty to disclose the terms of the settlement, although the amount The Harrisburg Authority will pay as part of the settlement will be paid out of amounts The Harrisburg Authority has been holding and received through an insurance settlement related to this case. This amount is not considered material to the financial statements and, as such, no liability for this case is reported in The Harrisburg Authority's December 31, 2009 financial statements.

The County is seeking \$6,743,197 as of October 26, 2010 for reimbursement of payments it made as guarantor of Swap Payments in June and December of 2009, June 2010, and payments under Retrofit Indentures, Series D and E of 2003. The County also demands interest and costs. On February 15, 2011, the County is seeking \$675,762 for reimbursement of payments made as guarantor of Swap Payments made in December 2010. The pleadings are closed and the case has been inactive. No trial date has been set. The Harrisburg Authority has defended by asserting that the County has frustrated The Harrisburg Authority's ability to charge rates that would have allowed it to meet its debt service. The Harrisburg Authority has also raised that the County has not been diligent in enforcing flow control ordinance, thus costing The Harrisburg Authority tipping fees, that otherwise would have been recovered. The Harrisburg Authority will defend itself vigorously. The Harrisburg Authority believes that it has a reasonable and valid basis for its position. The loss may be handled through payment via a

plan under Act 47 (Municipalities Financial Recovery Act), as amended, or through a City bankruptcy in accordance with the current law.

The Trustees of bondholders and bond insurer have made a claim against The Harrisburg Authority to recover amounts The Harrisburg Authority has not paid by under its various debt service obligations. Plaintiffs further seek all costs and attorneys fees associated with The Harrisburg Authority default and that these costs and fees be a "first draw" on Resource Recovery Facility revenues. Part of Plaintiffs' case is the appointment of a receiver over the Resource Recovery Facility. Plaintiffs have requested a hearing which, as of this writing, has not been scheduled. Plaintiffs may seek payment of its costs and fees if a receiver is appointed. The portion of the claim requesting monetary relief has been inactive and no trial date has been set. The Harrisburg Authority has responded to the claim for monetary relief in two ways. First, for the claims of the bond trustees, The Harrisburg Authority has defended that any amounts paid by the County cannot be recovered, and that the only rights to reimbursement are the County's under its Reimbursement Agreement. There does not appear to be a dispute that the bond insurer paid under its bond insurance policy, thus there is a likelihood that the insurer's claim for reimbursement will be successful. The Harrisburg Authority believes there is a reasonable and valid basis for its position as to the Trustee/Plaintiffs' claim for payment. The Harrisburg Authority believes Plaintiffs' claims for costs and fees to be excessive and may challenge certain portions of the claim for costs. The amount due may be handled through payment via a plan under Act 47, as amended, or through a City bankruptcy in accordance with the current law.

Unless resolved through a plan under Act 47 or in the bankruptcy referenced above, it is likely that for each payment the County or the bond insurer make as guarantor and insurer, respectively, they will make a claim against The Harrisburg Authority for the amounts paid as well as costs and attorneys. As of December 20, 2011, the County and bond insurer have made payments to cover The Harrisburg Authority's debt service of \$46,007,537 and \$7,339,224, respectively

Harrisburg Parking Authority

On January 11, 2007, the Authority entered into an agreement with Harrisburg University of Science and Technology (University), whereby the Authority intends to purchase a condominium unit in a building to be constructed by the University. The condominium unit consists of seven floors of parking facilities which will include approximately 392 parking spaces. The total purchase price of this unit is \$14,000,000, which was financed through the issuance of the Guaranteed Parking Revenue Bonds, Series R of 2007. The agreement required an earnest money deposit in the amount of \$100,000 payable upon execution of the agreement and twenty-four equal monthly payments of \$579,167, commencing January 2007. As of December 31, 2009, \$14,000,500 represents the Authority's portion of equitable ownership interest in the property. All required payments have been made as of December 31, 2009.

In addition to the aforementioned agreement, the Authority also entered into an Option to Purchase agreement with the University on January 11, 2007, whereby the Authority agrees to lease three hundred parking permits to the University for the right to park in the condominium unit. The agreement commences when the construction of the garage is complete and when the legal title to the parking units has been conveyed to the Authority. The first year's rent for the leased spaces will be the fair market rate, multiplied by 300 for parking spaces located within the central business district parking garages owned and operated in the City by the Authority. The Authority also grants the University a total of five options to purchase the parking units, the first option commencing on January 11, 2017, and the remaining options commencing on each succeeding five-year anniversary date. The options

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shall be exercisable with at least six months' advance written notice by the University to the Authority. The period of this agreement is thirty years.

On, January 27, 2010, the Authority filed a material event notice. A portion of the funds derived from the Series R Bonds are being used by the Authority to acquire a condominium unit in a building constructed by the University. The condominium unit consists of seven floors of parking facilities which will include approximately 392 parking spaces. Under the parking license, in any year in which revenues from operation of the parking facility fail to meet the Authority's debt service requirements on the Series R Bonds and the operation and maintenance costs of the parking facility, the University is required to pay the difference up to an annual cap (HU Subsidy) to the Authority.

Under the Indenture, the Authority agreed to pay debt service on the Series R Bonds from a debt service account funded, in part, with revenues of the parking facility, including the HU Subsidy and other payments to be made by the University under the parking license. In the event of a shortfall in the debt service account, the Authority agreed to pay debt service from a debt service reserve account.

Despite demand, the University failed to make the first payment of the HU Subsidy on or before November 10, 2009, as required by the parking license. To avoid a draw on the debt service reserve account to make the debt service payment on November 15, 2009, the Authority deposited money from its general fund into the debt service account. During the years ended December 31, 2011 and 2010, the University failed to make any payments of the HU Subsidy, as required by the parking license. The Authority withdrew a total of \$523,464 from the Debt Service Reserve Account during the year ended December 31, 2011 in order to make the debt service payment on May 15, 2011. The Authority transferred \$574,454 from its main checking account in order to make the debt service payment on November 15, 2011. If the University fails to make future debt service payments on the Series R Bonds, the debt service payments will continue to be paid from the Debt Service Reserve Fund or the main checking account. As of December 31, 2011, settlement regarding the amount of the HU Subsidy is pending.

The Authority bond indentures contain financial and reporting covenants. During the year ended December 31, 2010, the Authority was unable to meet Series R Bonds debt covenant requirement 6.05, which states that the Authority shall maintain in the Series R Debt Service Reserve Fund moneys and investments with a value equal to the Debt Service Reserve Requirement with respect to the Series R Bonds. The covenant also requires any deficiency in the Series R Debt Service Reserve Fund to be replenished within 12 months of the Authority's receipt of the notification of the deficiency. On May 17, 2010, \$547,494 was withdrawn from the Debt Service Reserve Fund in order to meet the May 2010 debt service payment. Beginning in June 2010, the Authority made monthly transfers of \$45,625, in an effort to replenish the Debt Service Reserve Fund within the required 12 months. The replenishments for the months of November 2010 through March 2011 were made in March 2011. As of December 31, 2010, \$319,369 of the May 2010 transfer remained due to the Debt Service Reserve Fund. On November 15, 2010, \$371,388 was withdrawn from the Debt Service Reserve Fund in order to meet the November 2010 debt service payment. As of December 31, 2010, the full balance of \$371,388 remained due to the Debt Service Reserve Fund. The replenishments for the months of December 2010 through March 2011 were made in March 2011.

At December 31, 2011, the Authority was unable to meet Series R Bonds debt covenant requirement 6.05. On May 16, 2011, \$523,464 was withdrawn from the Debt Service Reserve Fund in order to meet the May 2011 debt service payment. Beginning in June 2011, the Authority made monthly transfers of \$74,572, in an effort to replenish the Debt Service Reserve Fund within the required 12 months. As of

December 31, 2011, \$217,979 of the May 2011 transfer remained due to the Debt Service Reserve Fund. As a result of the deficiency in the Debt Service Reserve Fund, the Authority was unable to withdraw funds for the November 2011 debt service payment. On November 14, 2011, \$574,454 was transferred from the Authority's main checking account in order to meet the November 2011 debt service payment.

On May 23, 2012, despite demand, the University failed to make the payment of the HU Subsidy on or before May 10, 2012, as required by the parking license. As a result, there were insufficient funds in the debt service account to make the debt service payment due May 15, 2012. A total payment of \$729,954 was due to the bondholders on May 15, 2012, and such amount was transferred by the Trustee to the debt service account from other available funds of the Authority.

On January 18, 2011, the Authority received notice that Moody's Investor Service downgraded its rating on the Authority's Series T of 2007 Bonds to "Ba3" from "Baa2". In addition, a "negative outlook" was assigned to the rating on the Series T of 2007 Bonds. Per Moody's disclosure, such rating downgrade was due to the City filing for Act 47.

In February 2012, the Authority issued a notice of mandatory tender for exchange, stating that the Authority called for mandatory tender for exchange on March 8, 2012 all of the outstanding principal amount of the Series U-1 Bonds. Pursuant to the terms of the Series U-1 Bonds and the indenture, the federally taxable period for the Series U-1 Bonds terminated as of March 1, 2012. The federally taxable Series U-1 Bonds were to be exchanged on the mandatory tender date for federally tax-exempt Series U-1 Bonds, which bear interest at a rate of 8.5%, pursuant to the terms of the indenture.

24. TRANSACTIONS WITH COMPONENT UNIT

In accordance with the respective Articles 5 of the Second Supplemental Agreement of Lease, as amended by the Third Supplemental Agreement of Lease and the Collection System Lease between The Harrisburg Authority and the City of Harrisburg, Pennsylvania, the City is, at the end of each lease year, required to accumulate amounts in the sewer revenue accounts, after withdrawals for operating expense obligations, until the balance is such that the reserve shall equal the sum of (1) one-half of the lease rental due under the next lease year, and (2) one-half of the annual operating expenses as estimated by the consulting engineers, for the next succeeding lease year. Additionally, after the required reserve balance is attained, the City is required to pay any excess funds to The Harrisburg Authority within 190 days after the end of the year. The City may withdraw funds from the reserve account to satisfy lease payments as required by the Collection System Lease agreement. The City's required reserves in excess of funds available at December 31, 2009 were \$1,281,892.

25. RESTATEMENT

Redevelopment Authority of the City of Harrisburg

Beginning net assets of the Redevelopment Authority have been increased by \$1,372,613 from (\$36,250,643) to (\$34,878,030). A summary of the restatement is as follows:

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Net assets at December 31, 2008, as originally stated	\$ (36,250,643)
Decrease to properly record 2008 loan draws	(57,074)
Decrease to properly record accretion on bonds	(392,431)
Decrease to properly record environmental remediation liability	(909,250)
Increase to properly record land and construction costs incurred during 2008	266,161
Decrease to properly record construction costs payable at December 31, 2008	(69,548)
Increase to properly recognize grant revenue earned during 2008 and 2007	69,262
Increase to properly record investments related to the 1998 Series A and B bond issuance	<u>2,465,493</u>
Net assets at December 31, 2008, restated	<u>\$ (34,878,030)</u>

If the above adjustments were recorded in the proper period, the change in net assets for the year ended December 31, 2008 would have decreased by \$1,008,098, restating the decrease in net assets originally reported in the amount of (\$1,982,548) to (\$2,990,646).

26. EXTRAORDINARY ITEM

Based on the events on events of default discussed in Notes 22 and 23, where the City, secondary guarantor, and the bond insurer were required to make payments on The Harrisburg Authority's bonds, the City has recorded an extraordinary loss of approximately \$264 million for the contingent liability for component unit debt (combined outstanding principal on The Harrisburg Authority Resource Recovery debt issues, less amounts held in the debt service reserve funds at December 31, 2009). While the City continues to pursue payment under a reimbursement agreement with The Harrisburg Authority, continued losses and the required priority of payments under the related bond indentures make it probable that the City will continue to pay under the guarantees.

27. SUBSEQUENT EVENTS

The Combined Police Pension Plan's funds are invested in various types of financial instruments. This diversification of the investment portfolio serves to assist in mitigating the various types of risks associated with different types of financial instruments. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near-term and that such a change could materially affect the amount reported on the statement of fiduciary net assets.

Subsequent events with respect to material event notices, debt related items, and receivership and financial recovery plan are included in the respective notes.

In March 2011, The Harrisburg Authority entered into a professional services agreement with respect to The Harrisburg Authority's sewer facility, for technical services, in an amount not to exceed \$2.871

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

million. The contract includes a provision whereby The Harrisburg Authority will give notice to proceed at each defined phase of the service.

In August 2011, The Harrisburg Authority entered into an agreement with Covanta to manage all aspects of the air heater project at the Resource Recovery Facility, at an estimated cost of \$1.2 million for both units.

In April 2011, The Harrisburg Authority applied for a PennVest loan, in the amount not to exceed \$5.7 million for the purpose of financing The Harrisburg Authority's water system improvements. As of the date of this report, this loan has not settled.

The Harrisburg 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 Harrisburg Authority's Water System and 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 Harrisburg Authority nor Lehman Special Financing has terminated the outstanding debt service forward delivery agreements, with the exception of the agreement on the Series A-1 of 1994 Water Bonds, which was terminated on March 31, 2011 and resulted in The Harrisburg Authority paying \$173,300 to Lehman Special Financing.

In September 2010, The Harrisburg Authority terminated an agreement with JP Morgan Chase Bank, N.A. on the Series A of 1998 Resource Recovery Bonds, which resulted in proceeds to The Harrisburg Authority of \$570,000.

During the year ended December 31, 2010, The Harrisburg Authority authorized the optional redemption of the 1989 Sewer Revenue Bonds, Series 2 and 3. As such, both Series of Bonds were redeemed on April 1, 2010.

Subsequent to December 31, 2009, the County, on behalf of The Harrisburg Authority, paid the debt service due on the 2007 Guaranteed Resource Recovery Limited Obligation Notes, Series C and D, and other Resource Recovery Facility debt obligations. Refer to Notes 22 and 23 for more information.

In September 2011, the Authority issued the "Harrisburg Parking Authority Tax Convertible Parking Revenue Bonds, Series U of 2011" (Series U Bonds) principal amount of \$10,645,000 (less an original issue discount of \$212,900) with an interest rate of 10.75% during the Federally Taxable Period, to provide for the financing of certain improvements to the Walnut Street Garage, including reimbursement of certain costs paid by the Authority; financing of certain change orders to the Harrisburg University Garage; prepaying of rent to the City for an extension of the lease for the Walnut Street Garage, Chestnut Street Garage, and Fifth Street Garage; and paying the costs of issuing the bonds. Series U Bonds are collectively comprised of three subseries; "Series U-1 Bonds" principal amount of \$7,885,000, "Series U-2 Bonds" principal amount of \$2,135,000, and "Series U-3 Bonds" principal amount of \$625,000. In February 2012, the Series U-1 Bonds converted from a 10.75% interest rate to a federally tax-exempt obligation rate of 8.50% on the bonds.

The City receives State Aid from the Commonwealth of Pennsylvania in accordance with the Municipal Pension Plan Funding and Recovery Act (Act 205 of 1984). The City received \$1,880,796 of State Aid on September 30, 2011; however, these funds were not deposited to the Plan until March 29, 2012.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE
BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2009
REQUIRED SUPPLEMENTARY INFORMATION

	Budget		Variance of Original with Final Budget Positive (Negative)	Actual Amounts	Variance of Actual with Final Budget Positive (Negative)
	Original Amounts	Final Amounts			
Revenues					
Taxes	\$ 26,642,230	\$ 26,642,230	\$ -	\$ 26,047,622	\$ (594,608)
Licenses and permits	482,000	482,000	-	577,845	95,845
Intergovernmental revenue	8,379,000	8,379,000	-	7,599,436	(779,564)
Departmental earnings	20,997,552	21,743,780	746,228	21,663,339	(80,441)
Fines and forfeits	2,179,500	2,179,500	-	1,740,861	(438,639)
Investment income	248,675	248,675	-	147,571	(101,104)
Miscellaneous	959,000	959,000	-	906,128	(52,872)
Total revenues	59,887,957	60,634,185	746,228	58,682,802	(1,951,383)
Expenditures					
General government					
Elected and appointed offices					
City Council	404,198	404,198	-	344,247	59,951
Mayor	357,416	357,416	-	332,316	25,100
City Controller	198,800	198,800	-	185,815	12,985
City Treasurer	624,143	624,143	-	580,606	43,537
City Solicitor	322,466	322,466	-	268,960	53,506
Office of City Engineer	1,476,935	1,418,435	58,500	1,145,753	272,682
Human Relations Commission	159,705	159,705	-	147,677	12,028
Mayor's Office of Economic Development	449,647	453,349	(3,702)	436,200	17,149
Total elected and appointed offices	3,993,310	3,938,512	54,798	3,441,574	496,938
Office of administration					
Administration	3,103,055	2,896,055	207,000	2,541,130	354,925
General expenditures	12,230,714	12,448,277	(217,563)	11,585,571	862,706
Total general government	19,327,079	19,282,844	44,235	17,568,275	1,714,569
Building and housing development	934,367	934,367	-	864,092	70,275
Public safety	23,920,205	24,429,231	(509,026)	23,198,155	1,231,076
Public works	5,855,258	5,810,800	44,458	4,514,372	1,296,428
Parks and recreation	2,570,414	2,573,583	(3,169)	2,368,353	205,230
Incinerator	-	4,883,609	(4,883,609)	4,883,582	27
Total expenditures	52,607,323	57,914,434	(5,307,111)	53,396,829	4,517,605
Excess of revenues over (under) expenditures before other financing sources (uses)	7,280,634	2,719,751	(4,560,883)	5,285,973	2,566,222
Other financing sources (uses)					
Proceeds from the sale of assets	50,000	50,000	-	-	(50,000)
Transfers in	1,248,324	2,144,476	(896,152)	2,144,476	-
Transfers out	(11,266,223)	(11,338,873)	72,650	(11,338,871)	2
Total other financing sources (uses)	(9,967,899)	(9,144,397)	(823,502)	(9,194,395)	(49,998)
Net change in fund balance	(2,687,265)	(6,424,646)	(3,737,381)	(3,908,422)	2,516,224
Fund balances - beginning of year, budgetary basis	2,687,265	6,424,646	3,737,381	10,886,999	4,462,353
Fund balances - end of year, budgetary basis	\$ -	\$ -	\$ -	\$ 6,978,577	\$ 6,978,577

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON
SCHEDULE
DECEMBER 31, 2009
REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETARY DATA

Annual budgets are legally adopted for the General Fund, Debt Service Fund, State Liquid Fuels Tax Fund (nonmajor governmental fund), and for the Sewer (net of applicable activity of The Harrisburg Authority) and Sanitation Funds. Budgets for governmental funds are prepared on a cash basis with respect to revenues and on an item voucher basis with respect to expenditures. Specific funds exempted from legally adopted budgetary requirements include:

- Grant Programs Fund
- Capital Projects Fund
- Parks and Property Improvement Fund (nonmajor governmental fund)
- Harrisburg Senators Fund
- Incinerator Fund

Over 30 different grant programs, which are accounted for in the grant programs fund, are administered under project budgets determined by contracts with state and federal grantor agencies. Effective expenditure control is achieved in the Capital Projects Fund through debt provisions and supplemental appropriations of City Council. Controls over spending in the Parks and Property Improvement Fund (a nonmajor fund) is achieved by the use of internal spending limits.

The actual results of operations presented in accordance with accounting principles generally accepted in the United States of America differ from the budgetary basis used in preparation of the 2009 budget for governmental funds. The budget for the General Fund was prepared on a cash basis with respect to revenues and on an item voucher basis with respect to expenditures. For the purpose of preparing the Budgetary Comparison Schedule – Budgetary (Non-GAAP) Basis – General Fund, the actual results of operations have been presented on a budgetary basis consistent with the City's budgeted revenues and expenditures.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON
SCHEDULE
DECEMBER 31, 2009
REQUIRED SUPPLEMENTARY INFORMATION

A reconciliation of the differences between the budgetary basis and GAAP basis financial statements of the General Fund is as follows:

	Fund Balance, Beginning of Year	Revenues	Expenditure	Financing Sources (Uses) and Equity Transfer	Fund Balance, End of Year
Budgetary basis	\$ 10,886,999	\$ 58,682,802	\$ (53,396,829)	\$ (9,194,395)	\$ 6,978,577
Taxes receivable	6,724,157	841,366	-	-	7,565,523
Accounts Receivable	235,408	(78,154)	(445)	-	156,809
Other assets	75,791	-	(22,485)	-	53,306
Accounts payable, net of items vouchered	(75,285)	-	1,024	-	(74,261)
Accrued liabilities	(943,929)	-	(3,049,463)	-	(3,993,392)
Advances and amounts due to other funds and component units	64,424	2,886	215,971	430,672	713,953
Deferred revenue	(9,372,531)	(639,861)	-	-	(10,012,392)
Other	5,998,953	542,051	(1,404,473)	(2,510,837)	2,625,694
GAAP basis	<u>\$ 13,593,987</u>	<u>\$ 59,351,090</u>	<u>\$ (57,656,700)</u>	<u>\$ (11,274,560)</u>	<u>\$ 4,013,817</u>

2. BUDGET TO ACTUAL COMPARISONS

The General Fund's budget comparison is presented in the Other Required Supplementary Information section. The State Liquid Fuels Tax Fund (a nonmajor fund) and major debt service fund budget comparisons are presented in the combining section. On the bottom of these comparisons is a demonstration of the adjustments necessary to reconcile to the GAAP change in fund balance/net assets.

3. COMPLIANCE

Because the legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within this document, the City has prepared a separate budgetary report to demonstrate compliance at the line item level.

CITY OF HARRISBURG, PENNSYLVANIA
COMBINED NON-UNIFORMED EMPLOYEES' PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress 01/01/98-01/01/11

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (FAAL) (b-a)	(d) Funded Ratio (a/b)	(e) Covered Payroll	UAAL as a Percentage of covered Payroll (c/e)
01/01/98	\$34,019,246	\$28,867,727	\$ (5,151,519)	117.85 %	\$ 15,636,652	(32.95) %
01/01/99	39,353,200	29,978,847	(9,374,353)	131.27	16,583,243	(56.53)
01/01/00	45,531,632	32,927,232	(12,604,400)	138.28	17,016,237	(74.07)
01/01/01	51,841,303	36,252,370	(15,588,933)	143.00	18,441,260	(84.53)
01/01/02	54,063,426	37,487,414	(16,576,012)	144.22	18,399,410	(90.09)
01/01/03	56,946,711	44,367,335	(12,579,376)	128.35	19,970,077	(62.99)
01/01/05	63,053,150	52,154,704	(10,898,446)	120.90	17,639,572	(61.78)
01/01/07	67,814,104	55,904,700	(11,909,404)	121.30	16,465,482	(72.33)
01/01/09	72,842,581	53,764,888	(19,077,693)	135.48	14,132,981	(134.99)
01/01/11	77,363,937	55,795,290	(21,568,647)	138.66	12,786,819	(168.68)

Schedule of Required Employer Contributions and Other Contributing Entities 2000-2009

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	(h) State Aid	Percentage Contribution [(g+h)/f]
2000	\$ 267,206	01/01/98	\$ -	(2) \$ 267,206	100.00 %
2001	-	01/01/99	-	-	-
2002	-	01/01/00	-	-	-
2003	-	01/01/01	-	-	-
2004	-	01/01/02	-	-	-
2005	-	01/01/03	-	-	-
2006	-	01/01/05	-	-	-
2007	-	01/01/05	-	-	-
2008	-	01/01/07	-	-	-
2009	-	01/01/07	-	-	-

(1) 2000-2009 – Total contributions were made in accordance with funding requirements established by Act 205 as amended by Act 1990-189, enacted on December 18, 1990, with implementation effective January 1, 1992.

(2) 2000 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

**CITY OF HARRISBURG, PENNSYLVANIA
COMBINED FIREFIGHTERS' PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress 01/01/98-01/01/11

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (FAAL) (b-a)	(d) Funded Ratio (a/b)	(e) Covered Payroll	UAAL as a Percentage of covered Payroll (c/e)
01/01/98	\$31,292,069	\$25,039,429	\$ (6,252,640)	124.97 %	\$ 3,979,412	(157.12) %
01/01/99	35,998,739	27,297,560	(8,701,179)	131.88	4,246,322	(204.91)
01/01/00	41,417,147	27,847,384	(13,569,763)	148.73	4,223,595	(321.28)
01/01/01	46,998,856	30,136,310	(16,862,546)	155.95	4,711,683	(357.89)
01/01/02	49,385,139	37,980,915	(11,404,224)	130.03	5,001,240	(228.03)
01/01/03	52,137,632	39,968,500	(12,169,132)	130.45	4,898,162	(248.44)
01/01/05	61,270,530	50,101,540	(11,168,990)	122.29	5,251,910	(212.67)
01/01/07	60,115,728	50,833,300	(9,282,428)	118.26	5,091,469	(182.31)
01/01/09	65,332,550	53,322,794	(12,009,756)	122.52	5,691,628	(211.01)
01/01/11	68,266,174	55,064,548	(13,201,626)	123.97	5,279,457	(250.06)

Schedule of Required Employer Contributions and Other Contributing Entities 2000-2009

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	(h) State Aid	Percentage Contribution [(g+h)/f]
2000	\$ 167,966	01/01/98	\$ - (2)	\$ 167,966	100.00 %
2001	188,199	01/01/99	-	188,199	100.00
2002	145,716	01/01/00	-	145,716	100.00
2003	107,728	01/01/01	-	107,728	100.00
2004	-	01/01/02	-	-	-
2005	-	01/01/03	-	-	-
2006	-	01/01/05	-	-	-
2007	-	01/01/05	-	-	-
2008	-	01/01/07	-	-	-
2009	834	01/01/07	-	-	-

(1) 2000-2008 – Total contributions were made in accordance with funding requirements established by Act 205 as amended by Act 1990-189, enacted on December 18, 1990, with implementation effective January 1, 1992.

(2) 2000-2003 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

CITY OF HARRISBURG, PENNSYLVANIA
COMBINED POLICE OFFICERS' PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress 01/01/98-01/01/11

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (FAAL) (b-a)	(d) Funded Ratio (a/b)	(e) Covered Payroll	UAAL as a Percentage of covered Payroll (c/e)
01/01/98	\$43,280,978	\$36,683,332	\$ (6,597,646)	117.99 %	\$ 7,889,242	(83.63) %
01/01/99	49,828,312	39,413,195	(10,415,117)	126.43	8,272,417	(125.90)
01/01/00	57,143,147	36,876,195	(20,266,952)	154.96	7,968,452	(254.34)
01/01/01	57,189,470	39,086,593	(18,102,877)	146.31	8,008,858	(226.04)
01/01/02	55,690,061	47,122,954	(8,567,107)	118.18	8,210,921	(104.34)
01/01/03	48,588,557	50,541,728	1,953,171	96.14	9,007,242	21.68
01/01/05	61,438,353	55,244,375	(6,193,978)	111.21	9,206,031	(67.28)
01/01/07	68,875,536	59,874,001	(9,001,535)	115.03	9,138,604	(98.50)
01/01/09	63,959,386	65,951,752	1,992,366	96.98	9,626,150	20.70
01/01/11	63,759,040	72,302,610	8,543,570	88.18	10,398,023	82.17

Schedule of Required Employer Contributions and Other Contributing Entities 2000-2009

Year Ended December 31	(t) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	(h) State Aid	Percentage Contribution [(g+h)/f]
2000	\$ 469,959	01/01/98	\$ - (2)	\$ 469,959	100.00 %
2001	310,040	01/01/99	-	310,040	100.00
2002	-	01/01/00	-	-	-
2003	-	01/01/01	-	-	-
2004	285,823	01/01/02	-	285,823	100.00
2005	1,303,069	01/01/03	-	1,303,069	100.00
2006	512,593	01/01/05	-	512,593	100.00
2007	523,803	01/01/05	523,803	-	100.00
2008	285,274	01/01/07	285,274	-	100.00
2009	275,869	01/01/07	275,869	-	100.00

(1) 2000-2009 – Total contributions were made in accordance with funding requirements established by Act 205 as amended by Act 1990-189, enacted on December 18, 1990, with implementation effective January 1, 1992.

(2) 2000-2001 and 2004-2006 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

CITY OF HARRISBURG, PENNSYLVANIA
OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress 01/01/08

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (FAAL) (b-a)	(d) Funded Ratio (a/b)	(e) Covered Payroll	UAAL as a Percentage of covered Payroll (c/e)
01/01/08	\$ -	\$ 184,123,955	\$ 184,123,955	0.00 %	\$ 29,200,000	630.56 %

Schedule of Required Employer Contributions 2008-2009

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	Percentage Contribution (g/f)
2008	\$ 17,836,610	01/01/08	\$ 4,533,440	25.42%
2009	17,840,403	01/01/08	4,982,199	27.93%

**COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF FUNDS
NONMAJOR GOVERNMENTAL FUNDS

State Liquid Fuels Tax Fund

The State Liquid Fuels Tax Fund is used to account for state aid revenue used primarily for building and improving City roads and bridges in accordance with policies and procedures of the County Liquid Fuels Tax Act of 1981 and Liquid Fuels Act 655.

Parks and Property Improvement Fund

The Parks and Property Improvement Fund is used to account for contributions that have been designated for improvements to specific parks and properties in the City.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or improvement of major capital facilities (other than those financed by proprietary funds).

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	Special Revenue			Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Parks and Property Improvement Fund	Capital Projects	
ASSETS				
Cash	\$ 2,408	\$ 272,374	\$ 12,373	\$ 287,155
Investments	270,506	597,810	4,683	872,999
Receivables, net of allowance for uncollectible accounts				
Taxes	-	-	46,689	46,689
Loans receivable	-	-	33,600	33,600
Due from other funds	-	-	185,998	185,998
Advances and amounts due from component units	-	-	607,635	607,635
Other assets	-	-	5,068	5,068
Restricted assets				
Cash and cash equivalents	-	-	471,919	471,919
Total assets	<u>\$ 272,914</u>	<u>\$ 870,184</u>	<u>\$ 1,367,965</u>	<u>\$ 2,511,063</u>
LIABILITIES AND FUND BALANCE				
Accounts payable	\$ 28,411	\$ 53,767	\$ 8,351	\$ 90,529
Due to other funds	-	701,445	667	702,112
Total liabilities	<u>28,411</u>	<u>755,212</u>	<u>9,018</u>	<u>792,641</u>
Fund balance				
Reserved				
Encumbrances	-	-	165,825	165,825
Unreserved, reported in				
Capital projects fund	-	-	1,193,122	1,193,122
Special revenue funds	244,503	114,972	-	359,475
Total fund balance	<u>244,503</u>	<u>114,972</u>	<u>1,358,947</u>	<u>1,718,422</u>
Total liabilities and fund balance	<u>\$ 272,914</u>	<u>\$ 870,184</u>	<u>\$ 1,367,965</u>	<u>\$ 2,511,063</u>

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2009

	Special Revenue			Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Parks and Property Improvement Fund	Capital Projects	
Revenues				
Intergovernmental revenue	\$ 929,148	\$ -	\$ -	\$ 929,148
Department earnings and program revenue	-	-	707,403	707,403
Investment income	1,687	-	14,126	15,813
Miscellaneous	-	-	23,510	23,510
Total revenues	<u>930,835</u>	<u>-</u>	<u>745,039</u>	<u>1,675,874</u>
Expenditures				
Current				
Building and housing development	-	-	16,800	16,800
Public works	821,958	-	-	821,958
Tourism	-	-	139,027	139,027
Capital outlay				
Infrastructure	-	-	232,383	232,383
Other	-	-	2,687,884	2,687,884
Debt service				
Principal retirements	-	-	309,091	309,091
Total expenditures	<u>821,958</u>	<u>-</u>	<u>3,385,185</u>	<u>4,207,143</u>
Excess of revenues over (under) expenditures	<u>108,877</u>	<u>-</u>	<u>(2,640,146)</u>	<u>(2,531,269)</u>
Other financing sources (uses)				
Transfers in	-	-	2,746,250	2,746,250
Transfers out	<u>(67,682)</u>	<u>-</u>	<u>(915,000)</u>	<u>(982,682)</u>
Total other financing sources (uses)	<u>(67,682)</u>	<u>-</u>	<u>1,831,250</u>	<u>1,763,568</u>
Net change in fund balance	41,195	-	(808,896)	(767,701)
Fund balance - beginning of year	<u>203,308</u>	<u>114,972</u>	<u>2,167,843</u>	<u>2,486,123</u>
Fund balance - end of year	<u>\$ 244,503</u>	<u>\$ 114,972</u>	<u>\$ 1,358,947</u>	<u>\$ 1,718,422</u>

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2009

	Nonmajor Fund					Major Fund				
	State Liquid Fuels Tax Fund					Debt Service Fund				
	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)	Actual	Variance of Actual with Final Budget Positive (Negative)	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)	Actual	Variance of Actual with Final Budget Positive (Negative)
Revenues										
Intergovernmental revenue	\$ 926,856	\$ 926,856	\$ -	\$ 929,148	\$ 2,292	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	7,400	7,400	-	1,687	(5,713)	2,100	2,100	-	855	(1,245)
Miscellaneous	-	-	-	-	-	600,710	600,710	-	372,001	(228,709)
Total revenues	<u>934,256</u>	<u>934,256</u>	<u>-</u>	<u>930,835</u>	<u>(3,421)</u>	<u>602,810</u>	<u>602,810</u>	<u>-</u>	<u>372,856</u>	<u>(229,954)</u>
Expenditures										
Public works	866,574	866,574	-	841,241	25,333	-	-	-	-	-
Debt service	-	-	-	-	-	12,013,715	12,013,715	-	11,949,976	63,739
Total expenditures	<u>866,574</u>	<u>866,574</u>	<u>-</u>	<u>841,241</u>	<u>25,333</u>	<u>12,013,715</u>	<u>12,013,715</u>	<u>-</u>	<u>11,949,976</u>	<u>63,739</u>
Excess of revenues over (under) expenditures before other financing sources (uses)	<u>67,682</u>	<u>67,682</u>	<u>-</u>	<u>89,594</u>	<u>21,912</u>	<u>(11,410,905)</u>	<u>(11,410,905)</u>	<u>-</u>	<u>(11,577,120)</u>	<u>(166,215)</u>
Other financing sources (uses)										
Transfers in	-	-	-	-	-	11,333,905	11,333,905	-	11,406,553	72,648
Transfers out	(67,682)	(67,682)	-	(67,682)	-	-	-	-	-	-
Total other financing sources (uses)	<u>(67,682)</u>	<u>(67,682)</u>	<u>-</u>	<u>(67,682)</u>	<u>-</u>	<u>11,333,905</u>	<u>11,333,905</u>	<u>-</u>	<u>11,406,553</u>	<u>72,648</u>
Net change in fund balance	-	-	-	21,912	21,912	(77,000)	(77,000)	-	(170,567)	(93,567)
Fund balance - beginning of year, budgetary basis	-	-	-	257,643	257,643	77,000	77,000	-	157,307	80,307
Fund balance - end of year, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,555</u>	<u>\$ 279,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,260)</u>	<u>\$ (13,260)</u>
Explanation of differences between budget basis and GAAP:										
Net change in fund balance - budgetary basis				\$ 21,912					\$ (170,567)	
Accrued expenditures - December 31, 2008				33,254					-	
Accrued expenditures - December 31, 2009				(13,971)					-	
Net change in fund balance - GAAP basis				<u>\$ 41,195</u>					<u>\$ (170,567)</u>	

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF FUNDS
AGENCY FUNDS

Agency Funds

The School Tax Collection Fund is used to account for the collection and payment to the school district of property taxes billed and collected on its behalf.

The Payroll and Other Escrow Liabilities Fund is used to account for the collection and payment of miscellaneous escrow liabilities.

The Pass-Through Grant Fund is used to account for the temporary collection and disbursement of pass-through grants.

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS
DECEMBER 31, 2009

	<u>School Tax Collection</u>	<u>Payroll and Other Escrow Liabilities</u>	<u>Pass- Through Grants</u>	<u>Total Agency Funds</u>
ASSETS				
Cash	\$ 550,754	\$ 635,672	\$ 415,815	\$ 1,602,241
Investments, at fair value	-	-	935,386	935,386
	<u>550,754</u>	<u>635,672</u>	<u>1,351,201</u>	<u>2,537,627</u>
LIABILITIES				
Due to other governments	550,754	-	-	550,754
Due to City's general fund	-	117,796	-	117,796
Escrow liabilities	-	517,876	1,351,201	1,869,077
	<u>550,754</u>	<u>635,672</u>	<u>1,351,201</u>	<u>2,537,627</u>
Total liabilities	<u>\$ 550,754</u>	<u>\$ 635,672</u>	<u>\$ 1,351,201</u>	<u>\$ 2,537,627</u>

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2009

	Beginning of Year	Additions	Deductions	End of Year
School Tax Collection				
Assets				
Cash	\$ 416,222	\$ 35,996,978	\$ 35,862,446	\$ 550,754
Liabilities				
Due to other governments	\$ 416,222	\$ 35,996,978	\$ 35,862,446	\$ 550,754
Payroll and Other Escrow Liabilities				
Assets				
Cash	\$ 454,300	\$ 36,491,145	\$ 36,309,773	\$ 635,672
Liabilities				
Due to other funds	\$ -	\$ 117,796	\$ -	\$ 117,796
Escrow liabilities	454,300	36,373,349	36,309,773	517,876
Total liabilities	\$ 454,300	\$ 36,491,145	\$ 36,309,773	\$ 635,672
Pass-Through Grants				
Assets				
Cash	\$ 409,847	\$ 305,968	\$ 300,000	\$ 415,815
Investments	1,223,781	11,637	300,032	935,386
Total assets	\$ 1,633,628	\$ 317,605	\$ 600,032	\$ 1,351,201
Liabilities				
Escrow liabilities	\$ 1,633,628	\$ 317,605	\$ 600,032	\$ 1,351,201
Total Agency Funds				
Assets				
Cash	\$ 1,280,369	\$ 72,794,091	\$ 72,472,219	\$ 1,602,241
Investments	1,223,781	11,637	300,032	935,386
Total assets	\$ 2,504,150	\$ 72,805,728	\$ 72,772,251	\$ 2,537,627
Liabilities				
Due to other governments	\$ 416,222	\$ 35,996,978	\$ 35,862,446	\$ 550,754
Due to other funds	-	117,796	-	117,796
Escrow liabilities	2,087,928	36,690,954	36,909,805	1,869,077
Total liabilities	\$ 2,504,150	\$ 72,805,728	\$ 72,772,251	\$ 2,537,627

City of Harrisburg, Pennsylvania

Federal Award Programs in Accordance
with OMB Circular A-133

Year Ended December 31, 2009



Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

The Honorable Linda D. Thompson, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania, as of and for the year ended December 31, 2009, which collectively comprise the City of Harrisburg's basic financial statements and have issued our report thereon dated July 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of The Harrisburg Authority, the Harrisburg Parking Authority, the Coordinated Parking Fund, and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harrisburg's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harrisburg's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Harrisburg's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and one other deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely basis. We considered the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2009-01, 2009-02, 2009-03, 2009-04, 2009-05, and 2009-06 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We

The Honorable Linda D. Thompson, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Internal
Control Over Financial Reporting

consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2009-07 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harrisburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as findings 2009-03 and 2009-06.

We noted certain other matters that we have reported to management of the City of Harrisburg, Pennsylvania, in a separate letter dated July 18, 2012.

* * * * *

The City of Harrisburg's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Harrisburg's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maher Duessel

Harrisburg, Pennsylvania
July 18, 2012

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Federal Program and on Internal Control over Compliance and
Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

The Honorable Linda D. Thompson, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania

Compliance

We have audited the compliance of the City of Harrisburg, Pennsylvania with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of the City of Harrisburg, Pennsylvania's major federal programs for the year ended December 31, 2009. The City of Harrisburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Harrisburg's management. Our responsibility is to express an opinion on the City of Harrisburg's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Harrisburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Harrisburg's compliance with those requirements.

As described in Finding 2009-08 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with certain OMB Circular A-133 reporting requirements that are applicable to its Community Development Block Grants/Entitlement program, Lead-Based Paint Hazard Control program, Highway Planning and Construction program, and National Urban Search and Rescue Response System program. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to those programs.

As described in Finding 2009-09 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with requirements regarding suspension and debarment that are applicable to its Community Development Block Grants/Entitlement Grants program, Lead-Based Paint Hazard Control program, and Highway Planning and Construction program. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to those programs.

As described in Finding 2009-10 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with requirements regarding Davis-Bacon that are applicable to its Highway Planning and Construction program. Compliance with such requirements is necessary, in

The Honorable Linda D. Thompson, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Compliance
with Requirements Applicable to Each Major Program

our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to this program.

As described in Finding 2009-11 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with requirements regarding real property acquisitions that are applicable to its Highway Planning and Construction program. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to this program.

As described in Findings 2009-12 and 2009-17 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with requirements regarding cash management that are applicable to its Highway Planning and Construction program and Lead-Based Paint Hazard Control program. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to those programs.

As described in Finding 2009-13 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with requirements regarding final inspections that are applicable to its Lead-Based Paint Hazard Control program. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to this program.

As described in Finding 2009-14 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with requirements regarding testing of elevated blood lead levels that are applicable to its Lead-Based Paint Hazard Control program. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to this program.

As described in Finding 2009-15 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with requirements regarding written agreements with unit owners or tenants of units that are applicable to its Lead-Based Paint Hazard Control program. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to this program.

As described in Finding 2009-16 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with requirements regarding maintaining a public registry of units in which lead hazard control work was performed that are applicable to its Lead-Based Paint Hazard Control program. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to this program.

As described in Finding 2009-18 in the accompanying schedule of findings and questioned costs, the City of Harrisburg, Pennsylvania did not comply with reporting requirements that are applicable to its Lead-Based Paint Hazard Control program. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, Pennsylvania to comply with the requirements applicable to this program.

The Honorable Linda D. Thompson, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Compliance
with Requirements Applicable to Each Major Program

In our opinion, except for the noncompliance described in the preceding paragraphs, the City of Harrisburg, Pennsylvania, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of the City of Harrisburg, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Harrisburg's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Harrisburg, Pennsylvania's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2009-08, 2009-09, 2009-10, 2009-11, 2009-12, 2009-13, 2009-14, 2009-15, 2009-16, 2009-17, and 2009-18 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania, as of and for the year ended December 31, 2009, which collectively comprise the City of Harrisburg, Pennsylvania's basic financial statements, and have issued our report thereon dated July 18, 2012. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrisburg, Pennsylvania's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

The Honorable Linda D. Thompson, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Compliance
with Requirements Applicable to Each Major Program

statements and in our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

* * * * *

The City of Harrisburg, Pennsylvania's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Harrisburg's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maher Duessel

Harrisburg, Pennsylvania
July 18, 2012

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grants/Entitlement Grants	D	14.218	N/A	\$ 2,177,953
Community Development Block Grants - Section 108 Loan Guarantees	D	14.248	N/A	56,059
Emergency Shelter Grants Program	D	14.231	N/A	97,093
Home Investment Partnerships Program	D	14.239	N/A	669,708
Homelessness Prevention and Rapid Re-Housing Program Technical Assistance - ARRA	D	14.262	N/A	2,584
Lead-Based Paint Hazard Control	D	14.900	N/A	510,740
Passed through the Pennsylvania Department of Health:				
Lead-Based Paint Hazard Control	I	14.900	SAP 4100034430	<u>75,645</u>
Subtotal 14.900				<u>586,385</u>
Total U.S. Department of Housing and Urban Development				<u>3,589,782</u>
U.S. Department of Justice				
Gang Resistance Education and Training	D	16.737	N/A	54,366
Edward Byrne Memorial Justice Assistance Grant Program	D	16.738	N/A	8,800
Edward Byrne Memorial Justice Assistance Grant Program - ARRA	D	16.803	N/A	<u>35,943</u>
Total U.S. Department of Justice				<u>99,109</u>
U.S. Department of Transportation				
Passed through the Pennsylvania Department of Transportation:				
Surface Transportation Program	I	20.205	Q23-X085-130	335,990
Surface Transportation Program	I	20.205	X085-134-Q23	737,255
Highway Planning and Construction	I	20.205	T085-132-L220	1,362
Highway Planning and Construction	I	20.205	T085-115-0Q22	2,841,031
Highway Planning and Construction	I	20.205	BRC-PRD-8-81	<u>9,310</u>
Total U.S. Department of Transportation				<u>3,924,948</u>
U.S. Department of Homeland Security - Federal Emergency Management Agency				
National Urban Search and Rescue Response System	D	97.025	N/A	1,120,576
Passed through Pennsylvania Emergency Management Agency:				
Homeland Security Grant Program	I	97.067	PEMA-2009-014	<u>101,208</u>
Total U.S. Department of Homeland Security - Federal Emergency Management Agency				<u>1,221,784</u>
Total Expenditures of Federal Awards				<u>\$ 8,835,623</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the primary government of the City of Harrisburg (City), Pennsylvania. The City's reporting entity is defined in Note 1(a) to the City's basic financial statements. Federal awards expended directly from federal agencies as well as federal awards passed through other government agencies are included on the Schedule.

2. BASIS OF ACCOUNTING

Generally, expenditures are recognized in the Schedule on the modified accrual basis of accounting. Federal expenditures under loan programs consist of loans disbursed during the year ended December 31, 2009.

3. SECTION 108 LOANS

The City entered into two promissory notes under Section 108 of the Housing and Community Development Act of 1974 (Public Law 93-383), as amended. The proceeds from the notes were to administer acquisition, relocation, clearance, rehabilitation, and disposition of City properties.

As collateral, the City pledged all grants approved or for which the City may become eligible under Title I of the Housing and Community Development Act of 1974, as amended, and program income derived from disposition by sale or lease of any real property to the extent acquired or rehabilitated with the guaranteed loan funds, including any interest earned on such disposition proceeds.

Interest payments are required to be made to the Federal Financing Bank on the daily unpaid principal balances.

The composition of promissory notes outstanding under Section 108 at December 31, 2009 is as follows:

<u>Date of Notice</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Required Interest Payment</u>	<u>Principal Balance December 31, 2009</u>	<u>2009 Principal Payments</u>
May 13, 2000	\$ 3,960,000	5.75%- 6.56%	Semi-annually, February and August 1st	\$ 2,655,000	\$ 195,000
September 14, 2006	\$ 3,795,000	4.99%- 5.77%	Semi-annually, February and August 1st	3,585,000	210,000
				<u>\$ 6,240,000</u>	<u>\$ 405,000</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009

Section 108 loans changed during the year as follows:

<u>Beginning of Year</u>	<u>Additions</u>	<u>Payments</u>	<u>End of Year</u>
<u>\$ 6,645,000</u>	<u>\$ -</u>	<u>\$ 405,000</u>	<u>\$ 6,240,000</u>

4. CONTINGENCIES

The Housing and Urban Development (HUD) Grant Funds were required to be deposited into a separate, identifiable, custodial "Guaranteed Loan Funds Account." The contract required that all funds in the Guaranteed Loan Funds Account be withdrawn and disbursed by the City for approved activities by September 30, 2008. At December 31, 2009, the City is holding the remaining Section 108 Guaranteed Funds, in the amount of \$2,197,886, in a separate account.

Effective May 2008, the North Cameron Street Project, funded through HUD, was suspended due to allegations of improper financial management by the subgrantee. The ultimate outcome of this matter is subject to significant uncertainty.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2009

Prior Year Findings

Financial Statement Findings

Control Deficiency: Material Weakness

Finding 2008-01: Monitoring and Reconciliation of Loans Receivable

Condition: For the Department of Building and Housing Development (DBHD) loans, administered by DBHD, we noted the following items:

- Consistent with prior years, DBHD loan construction projects are not set up to earn interest at the percentage and for the terms as shown in their loan agreements. Per discussion with management, it has been determined that Portfolio (the City's loan management system) does have the ability to automatically accrue interest on the outstanding balance. However, management has decided not to utilize this feature, as these construction project loans function as deferred grants in which a portion of the loan balance is forgiven each year and full payment of principal plus accrued interest is only due in the event of default.
- Loan balances per Portfolio are not reconciled to the general ledger balances recorded in Pentamation, the City's accounting system. New loans were issued in 2008; however, there was no change in Pentamation's DBHD loan receivable general ledger balance from the prior year ending balance and certain loans were not recorded in the Portfolio. In addition, payments on loans are recorded as program income throughout the year and no entry was made at year-end to reduce the receivable balance in Pentamation. Finally, one loan written off as of December 31, 2006 remained on the December 31, 2008 Portfolio Trial Balance.

For the Mayor's Office of Economic Development (MOED) loans, administered by MOED, we noted the following items:

- Loan balances per Portfolio were not reconciled to the Pentamation general ledger for the General Fund or the State Grants Fund.
- Loan documents for new loans issued during 2008 were not completed or available for our review.
- Two new loans for 2008 were not entered into the Portfolio.
- Two new loans were entered into the Portfolio under incorrect categories (i.e., loan entered in the General Fund in the Pentamation general ledger, but recorded as a State Grant Fund loan in the Portfolio).
- Loans that were issued and recorded on the Pentamation general ledger in 2007 had not been added to the Portfolio.
- Disbursements for new loans per the Pentamation general ledger for the General fund were not recorded in Portfolio.
- Loans that were written off in 2007 were not removed from the Portfolio.
- Principal and interest payments for Enterprise Community loans are all posted to program revenue rather than the principal portion against the loan receivable and the interest portion to interest income.
- No written policies and procedures manual exists for the issuance of loans, formal notification of disapproval, assessing late fees, processing change orders, and processing of payments.

Recommendation: With respect to the DBHD loans, we recommend that:

- Procedures be established to include the accrued interest on construction projects in Portfolio.
- Procedures be established to reconcile all outstanding loan balances to the Pentamation general ledger balances.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2009

With respect to the MOED loans, we recommend that:

- All documentation for new loans or amendments to existing loans be contained in the loan file.
- Reconciliations of the loan balances in Portfolio to the Pentamation loan receivable general ledger balance of the state grants and general funds be prepared on at least a quarterly basis.
- Written policies and procedures manual be prepared.

Current Status: See current year Finding 2009-01.

Finding 2008-02: Artifact Cost

Condition: Throughout 2007 and 2008, the City sold historical artifacts through auction. However, the City was unable to verify the original cost of many of the items sold and held for sale.

Recommendation: We recommend that the City continue in their efforts to identify the cost of the artifacts held for sale.

Current Status: See current year Finding 2009-02.

Finding 2008-03: Financial Reporting

Condition: During the audit process, various material adjustments were proposed to the City's records by the auditors. These audit adjustments were necessary to correct the City's recording of agency fund cash, deferred revenue, compensated absences, adjust receivables and related allowances, and adjustment of assets held for sale to fair value.

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can eliminate the financial reporting deficiencies noted above.

Current Status: Various material adjustments were proposed to the City's records for the year ended December 31, 2009. See current Finding 2009-03.

Federal Award Findings and Questioned Costs

Finding 2008-04: Subrecipient Monitoring

U.S. Department of Housing and Urban Development – Community Development Block Entitlement Program (CFDA #14.218)

Condition: The City did not follow the subrecipient monitoring procedures contained within the OMB Circular A-133 *Compliance Supplement* regarding financial and performance reporting, as well as their own internal policy regarding reviewing monthly progress reports and performing site visits at least once during the contract period on one of the three subrecipients tested.

Recommendation: The City should not continue to use subrecipients that are not willing to comply with the City's subrecipient monitoring policies. All federal funding should cease to be passed through to this agency.

Current Status: No discrepancies were noted during testing in the current year as it relates to the Community Development Block Entitlement Program subrecipient monitoring.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2009

Finding 2008-05: Section 108 Loan Guarantee Assistance - Loan Recipient Noncompliance with Loan Agreement

U.S. Department of Housing and Urban Development – Section 108 Loan Guarantee Assistance (CFDA #14.248)

Condition: The loan recipient did not provide the City with all records with respect to matters covered by the Loan Agreement between the City and the loan recipient. Such records include proof of payment to contractors. Additionally, the loan recipient has made no principal payments on the loan.

Recommendation: The City should continue to pursue enforcement of the terms of the Loan Agreement with the loan recipient.

Current Status: The City continues to pursue enforcement of the Loan Agreement.

Finding 2008-06: Reporting

U.S. Department of Housing and Urban Development – Section 108 Loan Guarantee Assistance (CFDA #14.248)

Condition: The City did not submit the required reports of the Section 108 Loan Guarantee Assistance Program to the HUD as required by the OMB Circular A-133 *Compliance Supplement*.

Recommendation: The City should review the requirements of this Federal program and submit all necessary reports to HUD.

Current Status: While the Section 108 Loan Guarantee Assistance Program was not selected as a major program for the year ended December 31, 2009, there were discrepancies noted in testing of major programs funded through the Department of Housing and Urban Development during 2009. See current Finding 2009-18.

Finding 2008-07: Cash Management

U.S. Department of Homeland Security, Federal Emergency Management Agency – National Urban Search and Rescue Response System (CFDA #97.025)

Condition: Reimbursement requests made by the City could not be traced to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.

Recommendation: The City should maintain supporting documentation detailing the expenses making up the reimbursement requests in order to ensure compliance with this requirement of the program.

Current Status: No discrepancies were noted during testing in the current year as it relates to the National Urban Search and Rescue Response System cash management.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Part I. Summary of Auditor's Results

Financial Statements

An unqualified auditor's report on the financial statements was issued.

Internal control over financial reporting

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? X Yes No

Noncompliance material to financial statements noted? X Yes No

Federal Awards

Internal control over major programs

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X No

An unqualified auditor's report on compliance for major programs was issued. Yes X No

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? X Yes No

CFDA Number(s)	Name of Major Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.900	Lead-Based Paint Hazard Control
20.205	Highway Planning and Construction
97.025	National Urban Search and Rescue Response System

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Financial Statement Findings

Control Deficiency: Material Weakness

Finding 2009-01: Monitoring and Reconciliation of Loans Receivable

Condition: For the Department of Building and Housing Development (DBHD) loans, administered by DBHD, we noted the following items:

- Consistent with prior years, DBHD loan construction projects are not set up to earn interest at the percentage and for the terms as shown in their loan agreements. Per discussion with management, it has been determined that Portfolio (the City's loan management system) does have the ability to automatically accrue interest on the outstanding balance. However, management has decided not to utilize this feature, as these construction project loans function as deferred grants in which a portion of the loan balance is forgiven each year and full payment of principal plus accrued interest is only due in the event of default.
- Loan balances per Portfolio are not reconciled to the general ledger balances recorded in Pentamation, the City's accounting system.
 - Loan issued in 2008 was double recorded in Portfolio and was not corrected in 2009.
 - New loans were issued in 2008 and 2009; however, certain loans were not recorded in the Portfolio.
- Loan amounts as documented in the mortgage and note agreement did not agree to the amounts actually disbursed. In addition, several typographical errors were noted in the mortgage and note agreement related to the amount of the loan, the amount of the grant, and the monthly payment amount.

For the Mayor's Office of Economic Development (MOED) loans, administered by MOED, we noted the following items:

- Loan balances per Portfolio were not reconciled to the Pentamation general ledger for the General Fund or the State Grants Fund.
 - Two new loans were entered into the Portfolio in 2008 under incorrect categories (i.e., loan entered in the General Fund in the Pentamation general ledger, but recorded as a State Grant Fund loan in the Portfolio) and were not corrected in 2009.
 - 2008 disbursements for loans per the Pentamation general ledger for the General Fund were not recorded in Portfolio in 2008 or 2009.
 - 2008 disbursement for a loan that was recorded in Portfolio was not recorded in the Pentamation general ledger.
- Loan documents for new loans issued during 2009 for \$100,000 were not available for our review.
- No written policies and procedures manual exists for the issuance of loans, formal notification of disapproval, assessing late fees, processing change orders, and processing of payments.

Criteria: Subsidiary ledgers should support the amounts reported in Pentamation and be reconciled periodically.

Effect: The City's trial balances are misstated throughout the year.

Cause: Reconciliations are not being performed.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Recommendation: With respect to the DBHD loans, we recommend that:

- Procedures be established to include the accrued interest on construction projects in Portfolio.
- Procedures be established to reconcile all outstanding loan balances to the Pentamation general ledger balances.
- Procedures be established to ensure that accurate documentation is prepared and maintained for each loan.

With respect to the MOED loans, we recommend that:

- Procedures be established to ensure that all documentation for new loans or amendments to existing loans be contained in the loan file.
- Procedures be established to reconcile the loan balances in Portfolio to the Pentamation loan receivable general ledger balance of the state grants and general funds on at least a quarterly basis.
- A written policies and procedures manual be prepared.

Views of Responsible Officials: The City agrees. The 2010 adopted budget reorganized MOED loan portfolio management into DBHD. The DBHD has undertaken the process to establish reconciliation procedures.

Finding 2009-02: Artifact Cost

Condition: Throughout 2007 and 2008, the City sold historical artifacts through auction. However, the City was unable to verify the original cost of many of the items sold and held for sale.

Criteria: In order to accurately report the gains and losses on sales of the artifacts, the City needs to know the original cost.

Effect: The City was unable to provide actual cost for a significant number of artifacts sold and used estimates, based on extrapolated cost to sales for those items that it could locate, to assign a cost to the balance of the items sold.

Cause: The City hired an independent entity to catalog the cost of the artifacts. At times, the artifacts were logged into the catalog system in lots, rather than as individual pieces. Additionally, descriptions used in the sale did not match descriptions used in the catalog system.

Recommendation: We recommend that the City continue in their efforts to identify the cost of the artifacts held for sale.

Views of Responsible Officials: The City agrees. City Council adopted a Resolution in 2011 authorizing the auction of all remaining artifacts. Therefore, cost will no longer be an issue.

Finding 2009-03: Financial Reporting and Debt Compliance

Condition: During the audit process, various material adjustments were proposed to the City's records by the auditors. These audit adjustments were necessary to correct the City's recording of matching funds for the Third Street Extension Project in the federal grant fund, agency fund cash, deferred revenue, compensated absences, adjust receivables and related allowances, expenses allocations, due to other governments, debt, and accounts payable.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Additionally, because one of the City's component units has been unable to meet their debt service requirements, the City has been required to pay under certain guarantee agreements. During the year ended December 31, 2009, and in future periods, the City has been unable to honor its guarantee. Ongoing requirements to honor the guarantee have caused the City to evaluate the potential for reporting the contingency for such debt issues. Audit adjustments were proposed to the City's records for the contingent liability for component unit debt. Because the aforementioned debt is no longer considered self-liquidating under the Debt Act, the City has exceeded its legal debt limit by approximately \$213 million.

Criteria: The City should have the ability to produce its financial statements in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities ("GAAP").

Effect: If the entity relies upon its auditors to assist them in producing GAAP financial statements, the auditor is required to communicate a significant deficiency or material weakness related to financial reporting.

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can eliminate the financial reporting deficiencies noted above.

Views of Responsible Officials: The City agrees. The 2012 adopted budget approved the hiring of a Senior Accountant for the Bureau of Financial Management so that the City can produce GAAP compliant financial statements without reliance upon the auditors.

Finding 2009-04: Segregation of Duties

Condition: The City had segregation of duties issues noted in the following areas:

- No review of the payroll account reconciliation prepared by the Controller's office.
- Payments for MOED loans are received directly by MOED staff and recorded in the Portfolio system.
- Payments for building permits are received directly by the Bureau of Codes staff and the checks are not restrictively endorsed.
- Information Technology (IT) staff have control over multiple IT functions.

Criteria: In order to ensure that all transactions of the City are recorded and reported properly, the City needs to establish proper segregation of duties.

Effect: Opportunities exist for undetected intentional or unintentional errors in the City's processes.

Cause: The City does not have adequate staffing involved in each of the processes for appropriate segregation of duties.

Recommendation: With respect to the payroll account, we recommend that someone review the bank statement upon receipt and, once the reconciliation has been prepared, that the reconciliation be reviewed for accuracy and reconciled to the general ledger by someone other than the person reconciling the account. With respect to the MOED loan payments and the building permit receipts, we recommend that all receipts go to the Treasury, as a central depository, and copies of check and/or a receipt be provided to MOED and the Bureau of Codes for recording in the appropriate system or for authorization of the permit. With respect to IT staffing, we recommend that the information technology operations, librarian, systems analyst, programming, network, and administrative functions be performed by separate employees to ensure that no one person has control over multiple information technology functions.

Views of Responsible Officials: The City agrees. See response to Finding 2009-03.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Finding 2009-05: Reconciling Subsidiary Reports

Condition: The City had not reconciled the amounts reported in Pentamation to the subsidiary reports for the Q and S accounts (utility billing accounts), capital assets, or accounts payable.

Criteria: Subsidiary ledgers should support the amounts reported in Pentamation and be reconciled periodically.

Effect: The City's trial balances and/or customer billings may be misstated throughout the year.

Cause: Reconciliations are not being performed.

Recommendation: With respect to reconciliation of subsidiary reports, we recommend that:

- All Q and S account payments reported to the Department of Operations and Revenue by Treasury be reported properly on each customer's excel spreadsheet and that the spreadsheets are reconciled to Pentamation at year-end.
- Capital asset transactions per Pentamation be reconciled to the capital asset depreciation system.
- Cut-off procedures are established to ensure that all disbursements are reported in the appropriate periods.

Views of Responsible Officials: The City agrees. The new Senior Accountant will perform these reconciliations.

Finding 2009-06 – Following Securities and Exchange Commission Regulations

Condition: On November 3, 2010, the United States Securities and Exchange Commission (SEC) issued a formal order of investigation in the matter of City municipal bonds. This "Order Directing Private Investigation and Designating Officers to Take Testimony" (Formal Order) states that the SEC has information regarding possible violations, including securities fraud, by certain persons "from at least January 2008 to present," of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, in connection with the offer; purchase or sale of securities. The effect of the Formal Order was to initiate a "private investigation" under Section 20(a) of the Securities Act and Section 21(a) of the Exchange Act "to determine whether any persons or entities have engaged in, or are about to engage in, any of the reported acts or practices or any acts or practices of similar purport or object" to those reported in the Formal Order. The SEC commenced this private investigation shortly thereafter and has subpoenaed documents from the City and third parties, and has taken the testimony of current and former City officials and employees, and of third parties.

Criteria: In order to issue municipal bonds, the City is required to follow SEC federal securities laws.

Effect: Legal counsel for the City has participated in settlement negotiations with the SEC, and the parties have agreed in principle on terms that will result in a settlement of the matter. The propose settlement will involve the City consenting to the SEC's administrative finding of numerous securities law violations, as outlined in the Condition to this finding, but neither admitting nor denying that the City and/or City officials or employees committed any of the violations found by the SEC. Under the proposed settlement, the City will not be required to pay any financial penalty or other costs.

Cause: The City may have engaged in acts or practices inconsistent with SEC federal securities laws.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Recommendation: We recommend that the City establish systems to ensure compliance with applicable SEC federal securities laws.

Views of Responsible Officials: The City agrees, and has since enhanced its continuing disclosure process by drafting a formal written policy and instituting related procedures with respect to public statements regarding financial information made by the City and its compliance with its Continuing Disclosure Certificates.

Control Deficiency: Significant Deficiency

Finding 2009-07 - Maintaining Proper Documentation For Disbursements

Condition: The City's policy is to maintain a copy of the check (in electronic format) and original supporting invoices for each disbursement. During our testing of 120 invoices, three had no supporting documentation or invoices and one had no check copy or supporting documentation or invoice.

Criteria: In order to accurately substantiate the payment of City expenditure, the City should maintain a copy of the check and all supporting documentation.

Effect: The City was unable to provide a copy of a check or supporting documentation for disbursements.

Cause: The City did not follow its policy for maintaining electronic copies of each check and supporting documentation for each disbursement.

Recommendation: We recommend that the City maintain proper documentation for all disbursements in accordance with City policy.

Views of Responsible Officials: The City agrees. The Administration will see to it that proper documentation for all disbursements are maintained.

Part III

Federal Award Findings and Questioned Costs

Finding 2009-08: Schedule of Expenditures of Federal Awards

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Program (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control (CFDA # 14.900); Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA # 14.900); U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA # 20.205); U.S. Department of Homeland Security – Federal Emergency Management Agency – National Urban Search and Rescue Response System (CFDA # 97.025)

Condition: The City, after multiple attempts, could not provide an accurate expenditure detail of federal awards or schedule of expenditures of federal awards. Various material adjustments were proposed to the City's schedule of federal awards during the audit process.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Criteria: The City should have, in place, an internal control system relative to federal awards that is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations. In addition, an internal controls system pertaining to the compliance requirements for federal programs should provide reasonable assurance that transactions are properly recorded and accounted for to: 1) permit the preparation of reliable financial statements and federal reports; 2) maintain accountability over assets; and 3) demonstrate compliance with laws, regulations, and other compliance requirements. OMB Circular A-133, Section .310 states that the auditee shall prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. The schedule is required to include, at a minimum: 1) individual federal programs by federally agency; 2) the name of the pass-through entity and the identifying number assigned by the pass-through entity; and 3) the total federal awards expended for each individual federal program.

Cause of Condition: Because of grant decentralization, there are no procedures in place to ensure that all federal expenditures are being captured for reporting on the schedule of expenditures of federal awards.

Effect: A complete and accurate schedule of expenditures of federal awards was not prepared by the City.

Recommendation: The City should designate one person with the responsibility of oversight of all federal grants and provide training as necessary for a grants coordinator. However, personnel in other departments should be cross-trained to perform duties associated with grants, should the grants coordinator become unable to perform the duties. Policies should be implemented to facilitate more timely and accurate grant revenue reporting, and a central individual should be assigned to consolidate and prepare the schedule of expenditures of federal awards.

Views of Responsible Officials: The City agrees. The City has designated the newly hired Grants Manager to have responsibility of oversight of all federal grants, cross-training of appropriate personnel, and facilitate timely and accurate grant revenue and schedule of expenditures of federal awards reporting.

Finding 2009-09: Suspension and Debarment

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Program (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control (CFDA # 14.900); Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA # 14.900); U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA # 20.205)

Condition: During our audit, 16 eligible project files were selected for testing for suspension and debarment. The City was not able to provide evidence verifying that the contractor utilized was not suspended or debarred prior to awarding the contract for any of the project files tested.

Criteria: The Code of Federal Regulations (2 CFR 180.300) requires that grantees verify the entities engaged in covered transactions, procurement contracts for goods and services awarded that are expected to equal or exceed \$25,000, are not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Cause of Condition: The City does not have controls in place to ensure that contractors bidding on a project are neither suspended nor debarred prior to awarding the contract.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Effect: The City is not in compliance with procurement, suspension, and debarment requirements. Failure to comply with grant award requirements could jeopardize future funding. However, none of the contractors selected for testing were suspended or debarred parties.

Recommendation: The City should establish controls to ensure that verification that contractors bidding on a project are neither suspended nor debarred is performed prior to awarding the contract. The City should search the Excluded Parties List System and maintain supporting documentation that the search was performed.

Views of Responsible Officials: The City agrees. Staff of DBHD will research, and the Purchasing Manager will confirm, this verification as recommended by the auditors.

Finding 2009-10: Davis-Bacon Requirements

U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA # 20.205)

Condition: During our audit, it was noted that the City did not collect certified payrolls of contractors and subcontractors hired to work on construction projects funded by the Highway Planning and Construction program.

Criteria: The Code of Federal Regulations (29 CFR Section 5.5) requires that contractors or subcontractors submit to the non-Federal entity (the City) weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls). The OMB Circular A-133 *Compliance Supplement* requires that the City verify that the contractor or subcontractor submitted weekly the required certified payrolls.

Cause of Condition: The City does not have controls in place to ensure that certified payrolls are obtained from contractors or subcontractors performing work on construction projects funded by the Highway Planning and Construction program.

Effect: The City was not able to provide certified payrolls obtained from the contractor performing work for a construction project funded through the Highway Planning and Construction program. Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls to collect and maintain certified payrolls of contractors and subcontractors performing work on construction projects funded by the Highway Planning and Construction program.

Views of Responsible Officials: The City agrees. The City's Purchasing Manager and Grants Manager will coordinate the collection and maintenance of these certified payrolls with the appropriate department head.

Finding 2009-11: Real Property Acquisition

U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA # 20.205)

Condition: During our audit, one of two acquired properties selected for testing did not have evidence to substantiate that an appraisal was performed. Without this documentation in the property file, it could not be determined that just compensation was received for the property.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Criteria: The Code of Federal Regulations (24 CFR 24.102) requires that property to be acquired shall be appraised before the initiation of negotiations in order to determine the just compensation for the real property. The amount shall not be less than the approved appraisal of the fair market value of the property, taking into account the value of allowable damages or benefit to any remaining property. The appraisal should be maintained in the property files.

Cause of Condition: The City does not have controls in place to ensure that appraisals are maintained in the property files for properties acquired with funding from the Highway Planning and Construction program.

Effect: The City was not able to provide documentation supporting that an appraisal was performed for a property that was acquired with funding from the Highway Planning and Construction program.

Recommendation: The City should establish controls to ensure appraisals are maintained in the property files for properties acquired with funding from the Highway Planning and Construction program.

Views of Responsible Officials: The City agrees. The City Engineer's Office, in coordination with DBHD, will establish controls to ensure appraisals are maintained in the property files for properties acquired with funding from the Highway Planning and Construction program.

Finding 2009-12: Cash Management

U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA # 20.205)

Condition: During our audit, two of four reimbursement requests selected for testing contained invoices for allowable costs that were not paid within ten calendar days of the date of the Commonwealth of Pennsylvania's (Commonwealth) remittance.

Criteria: The General Reimbursement Agreements for Federal-Aid Highway Projects entered into with the Commonwealth, acting through the Pennsylvania Department of Transportation, requires the City to pay its consultants and contractors within ten calendar days of the date on the Commonwealth's remittance.

Cause of Condition: The City does not have controls in place to ensure that invoices are paid in accordance with the General Reimbursement Agreements for Federal-Aid Highway Projects between the Commonwealth and the City.

Effect: The City is not in compliance with cash management requirements. Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls to ensure that invoices for vendors are paid within ten calendar days of the date of the Commonwealth's remittance.

Views of Responsible Officials: The City agrees. The Bureau of Financial Management will develop procedures and controls will be put in place to coordinate the payment of said invoices within 10 calendar days.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Finding 2009-13: Special Tests and Provisions – Record Retention of Final Inspection Documentation

U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control (CFDA # 14.900);
Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA # 14.900)

Condition: During our audit, the City could not provide final inspection documentation for three out of six projects selected for testing.

Criteria: The Code of Federal Regulations (24 CFR Section 570.490) states that records of the State and units of general local government, including supporting documentation, shall be retained for at least three years from closeout of the grant.

Cause of Condition: The City does not have controls in place to ensure that all records regarding the City's federal programs are retained for the required amount of time. It was noted during testing that supporting documentation for projects were in several locations and not maintained in one central file.

Effect: The City could not provide supporting documentation to support that final inspections related to the Lead-Based Paint Hazard Control program were performed. Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls over record retention of federal program documentation to ensure that records are retained for the required amount of time. Records and supporting documentation for projects should be maintained in one central file location.

Views of Responsible Officials: The City agrees. DBHD staff will endeavor to establish and maintain proper federal program documentation as recommended by the auditors.

Finding 2009-14: Special Tests and Provisions – Testing of Elevated Blood Lead Levels

U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control (CFDA # 14.900);
Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA # 14.900)

Condition: During our audit, two of six project files selected for review of elevated blood lead levels in children under the age of six resulted in exceptions. The City was not able to provide evidence showing that testing of elevated blood lead levels were conducted on children under the age of six for one property. Testing of elevated blood lead levels for a second property was outside the required six-month timeframe.

Criteria: The Lead-Based Paint Hazard Control Notice of Funds Available (Federal Register, Vol. 72, No. 48) states that each child under the age of six that resides or frequents the property should be tested for lead poisoning within the six months preceding the lead hazard control work.

Cause of Condition: The City does not have controls in place to ensure that all children under the age of six are being tested within six months preceding the lead work. The City is also not obtaining and maintaining adequate supporting documentation to verify that the evaluated blood lead level testing is being performed.

Effect: The City is not in compliance with the blood lead level testing requirements and failure to comply with grant award requirements could jeopardize future funding.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Recommendation: The City should establish controls to ensure that all children under the age of six are being tested for elevated blood lead levels within six months preceding the start of lead hazard control work. The City should also obtain and maintain documentation in each project file regarding the name and age of children residing or frequenting the properties worked on, and the dates the testing was performed.

Views of Responsible Officials: The City agrees. DBHD staff will endeavor to establish these controls and obtain and maintain all related documentation as required, per the auditor's recommendation.

Finding 2009-15: Special Tests and Provisions – Contracts with Unit Owners or Tenants of Units for Lead Hazard Control Work

U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control (CFDA # 14.900); Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA # 14.900)

Condition: During our audit, it was noted that for three of the six project files selected for testing, the City was not able to provide a signed agreement between the contractor and homeowner/tenant of the properties where lead hazard work was performed.

Criteria: The grant agreement between the Pennsylvania Department of Health and the City (SAP #4100034430) states that "the grantee shall be responsible to enter into or have its subcontractors enter into, any necessary written agreement with unit owners or tenants in units to be served under the Lead Hazard Control Program prior to the initiation of lead-based paint hazard control." Because the federal funding received from the Pennsylvania Department of Health is passed through from the Department of Housing and Urban Development (HUD), this requirement was considered applicable to all federal funds received under the Lead-Based Paint Hazard Control program of the City.

Cause of Condition: The City does not have controls in place to ensure that there is a valid contract for the services being provided under the Lead-Based Paint Hazard Control program.

Effect: The City could not provide signed written agreements between the City or the City's subcontractors and unit owners or tenants in units. Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls to ensure that there is a valid contract for the services provided under the Lead-Based Paint Hazard Control program with a contractor certified to perform the lead hazard control work. Documentation of the agreement should be maintained in the project files.

Views of Responsible Officials: The City agrees. DBHD staff and the City's Purchasing Manager will coordinate the establishment of procedures and controls, and document maintenance per the auditor's recommendation.

Finding 2009-16: Special Tests and Provisions – Public Registry

U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control (CFDA # 14.900); Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA # 14.900)

Condition: During our audit, it was noted that the City did not maintain a public registry of units in which lead hazard work had been performed.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Criteria: The Lead-Based Paint Hazard Control Notice of Funds Available (Federal Register, Vol. 72, No. 48) states that the City is required to establish and maintain a public registry (listing) of lead-safe housing or inclusion of the lead-safe status of properties in a publicly accessible, address-based property information system to be affirmatively marketed to families with young children.

Cause of Condition: The City does not have controls in place to ensure that a public registry is established and maintained.

Effect: The City could not provide a public registry of units in which lead hazard work had been performed. Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls to ensure that a public registry related to lead hazard control work is established and maintained in a publicly accessible address-based property information system throughout the grant period.

Views of Responsible Officials: The City agrees. DBHD staff will endeavor to establish and maintain the required public registry per the auditor's recommendation.

Finding 2009-17: Cash Management

U.S. Department of Housing and Urban Development – Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA # 14.900)

Condition: During our audit, one of three reimbursement requests selected for testing contained invoices for allowable costs that were not paid timely (within ten calendar days of the date of receipt). The invoices were paid 27 days after receipt from the Commonwealth.

Criteria: The OMB Circular A-133 *Compliance Supplement* states that when funds are received, recipients must follow procedures to minimize the time elapsing between the receipt of federal funds and disbursement to vendors. For audit purposes, ten calendar days was considered reasonable when evaluating the time elapsed between the receipt of federal funds and disbursement to vendors.

Cause of Condition: The City does not have controls in place to ensure that invoices are paid in accordance with the OMB Circular A-133 *Compliance Supplement*.

Effect: The City is not in compliance with cash management requirements. Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls to ensure that invoices for vendors are paid within ten calendar days of the date of receipt.

Views of Responsible Officials: The City agrees. Bureau of Financial Management and DBHD staff will endeavor to establish controls to ensure that invoices are paid within 10 calendar days of the date of receipt of federal funds.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Finding 2009-18: Reporting

U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control (CFDA # 14.900); Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA # 14.900)

Condition: During our audit, the City could not provide documentation to substantiate the date of submission for one of the two quarterly progress reports to the Pennsylvania Department of Health selected for testing and for two quarterly progress reports to the U.S. Department of Housing and Urban Development selected for testing. The City also could not provide documentation for the submission date of the two Federal Financial Status Reports selected for testing. The City was not able to provide the Section 3 Report (Form HUD-60002) for the federal funds passed through the Pennsylvania Department of Health. The Section 3 Report (Form HUD-60002) related to the federal funds received from the U.S. Department of Housing and Urban Development was not submitted within the required timeframe.

Criteria: The grant agreement (SAP #4100034430) between the Pennsylvania Department of Health and the City requires quarterly progress reports to be submitted within 15 days after the end of each calendar quarter. The agreement also requires the Section 3 Report (Form HUD-60002) to be submitted on or before January 5th for the previous calendar year. The U.S. Department of Housing and Urban Development (policy guidance number 2001-03 under the Lead-Based Paint Hazard Control program) requires quarterly progress reports to be submitted no later than 30 days after the end of each calendar quarter. The Lead-Based Paint Hazard Control Notice of Funds Available (Federal Register, Vol. 72, No. 48) requires the Section 3 Report (Form HUD-60002) to be submitted on an annual basis by September 30th of each year.

Cause of Condition: The City does not have controls in place to ensure that all necessary reports are submitted within the specified timeframes required.

Effect: Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls to ensure that all required reports are submitted within the appropriate timeframe and documentation is maintained validating the date of submission.

Views of Responsible Officials: The City agrees. The Grants Manager and DBHD staff will coordinate the establishment and implementation of controls to ensure compliance with report filing deadlines and proper documentation as recommended by the auditors.

