MaherDuessel
Certified Public Accountants

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

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

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

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 (City) as of and for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We reported on internal controls and their operation to the management of the City in the 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* dated July 18, 2012, and in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 dated July 18, 2012. However, during our audit, we noted certain matters involving internal controls and other operational matters that are presented in the attached memorandum for your consideration. This letter does not affect our report dated July 18, 2012 on the financial statements of the City.

The City's responses to the other matters identified in our audit are described in the attached memorandum. We did not audit the City's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the audit committee, management, and City Council 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

RECONCILING BANK STATEMENTS

During the audit, it was noted that the bank statements for the Washington Square Escrow account were not being maintained in the City Treasurer's Office. The bank statements are received and reconciled in Bureau of Financial Management. We recommend that the City Treasurer's Office maintain copies of all bank statements and reconcile them to the general ledger monthly.

Management's Response: The City concurs with the auditor's comments and recommendation. The Administration will endeavor to assist the City Treasurer's Office with this transition, per the auditor's recommendation.

DEPOSITING AND TRACKING NAMING RIGHTS REVENUE

The City is to receive naming rights revenue for the baseball stadium. During the year ended December 31, 2009, it was difficult for the City to determine 1) if they had received the naming rights revenue, and 2) if they had, where it was recorded in the general ledger system. We recommend that the City deposit the naming rights revenue into the Harrisburg Senators Fund, since it has been pledged for debt service on the Senator's bonds, which are also recorded in this fund.

Management's Response: The City concurs with the auditor's comments and recommendation. The City will endeavor to budget for the receipt of the naming rights revenue and debt service on the Stadium Bonds in the Harrisburg Senator's Fund beginning in 2013, per the auditor's recommendation.

TIMELY PROCESSING OF CASH RECEIPTS

It is the City's procedure that all cash and checks received by the Treasurer's Office (including receipts received by other City departments and subsequently sent to Treasury) are deposited into the Central Depository Account. It is also the City's procedure that all money received by Treasury is immediately recorded and deposited in the bank the same day. The only exception to this procedure is the receipt of mercantile taxes. Treasury receives weekly collections of mercantile taxes, which may take several days to process and record.

During our discussions with various department personnel, it was noted that receipts are not being processed and recorded timely and, as a result, untimely and inaccurate bills are being sent to various City customers. We recommend that all cash receipts be processed and recorded in accordance with the City's procedures so as to ensure accurate and timely billing of City customers and to maximize cash flow.

Management's Response: The City concurs with the auditor's comments and recommendation. The City will endeavor to process, deposit, and record all receipts in accordance with established procedures, pursuant to the auditor's recommendation.

ACCOUNTING FOR ANCILLARY COSTS ASSOCIATED WITH CAPITAL ASSETS CONSTRUCTED BY THE CITY

Governmental Accounting Standards Board (GASB) Statement No. 34 requires that the City track all capital assets, including infrastructure assets (roads, bridges, traffic signals, etc.). In addition to the hard cost of materials used for the construction of capital assets, the City is to capitalize any internal costs necessary to place the capital asset into its intended use. Therefore, should the City construct capital assets, the cost of labor, benefits, etc., should be included in the capitalized cost of the capital asset. We recommend that the City develop a policy to assist in capturing the ancillary costs for all capital assets constructed or put into place by the City.

Management's Response: The City concurs with the auditor's comments and recommendation. The Administration will undertake the development of a policy to assist in capturing the ancillary costs for all capital assets constructed or put into use by the City, pursuant to the auditor's recommendation.

INVENTORYING CAPITAL ASSETS

No physical inventory has been taken since 2005. In that year, the accounting department provided each department head with a list of capital assets for their department. The department heads were to review the list for any obsolete assets or assets that were disposed. Further, when infrastructure capital assets are replaced, the replaced assets are not being removed from the capital asset inventory unless the department head completes a disposal form.

We recommend that the City inventory its capital assets on an annual basis so that disposals and additions are properly accounted for. The capital assets per the books should reconcile to the inventory of capital assets held by the City's departments. Additionally, the capital asset inventory should periodically be compared to insurance policies, to verify the completeness of the inventory.

Management's Response: The City concurs with the auditor's comments and recommendation. The City will endeavor to inventory its capital assets annually so that additions, transfers, and disposals are properly accounted for once critical professional positions are filled in the Bureau of Financial Management or as otherwise assisted through PA/DCED/Act 47.

REVIEWING COMPENSATED ABSENCES

The carryover and "advanced" balances are entered into the payroll system for each employee by the Bureau of Information Technology (IT). The advanced amounts, for the majority of the employees, are populated by the system (calculated based on their seniority date (hire date)). However, if an employee moves from one years-of-service bracket to another during the current year, their advance carryover will need to be adjusted manually. For instance, if the years-of-service brackets change from 10 – 11 years of service and an employee will reach the 11 years of service in the current year, IT will manually have to calculate the number of days advanced at the "old" years-of-service bracket and the "new" years-of-service bracket.

In order to determine the employees that fall into this category, IT prints an employee list that is sorted and totaled by seniority date. From that list, those employees that will change years-of-service brackets can be determined. However, there is no review of these "advanced" amounts by the timekeeper or the department heads. We recommend that the department head or the timekeeper review the advanced amounts at the beginning of the year to determine that the correct amounts have been made available to each employee.

Management's Response: The City concurs with the auditor's comments and recommendation. The City's Bureau of Human Resources will coordinate this notification process with IT and the timekeeper's effective January 1, 2013, per the auditor's recommendation.

FOLLOWING ESTABLISHED PERSONNEL POLICIES FOR SEPARATION PAY

According to the City's pay-out policy for sick time accumulated by management personnel, sick time is to be compensated at 100% for the first 600 hours (75 days), and any days in excess of 75 days are to be paid out at 50%. During our testing of separation pay, specifically for those employees who entered into signed agreements with the City for future payouts, we noted one employee who was compensated for 100% of accumulated, unused sick time. We noted that the former mayor had authorized a "single and non-precedent-setting exception" such that this employee would receive a pay-out of 100% of accumulated, unused sick time. We recommend that the City adhere to all personnel policies and procedures as it relates to separation pay and the pay-out thereof.

Management's Response: The City concurs with the auditor's comments and recommendation. The City's former Mayor authorized this deviation from City policy. No such deviation has occurred since, fulfilling the auditor's recommendation.

COMPLYING WITH DEBT COVENANTS

The City's debt covenants require the City to provide certain financial information, including audited financial statements and operating data relating to the City no later than 270 or 180 days after the end of each fiscal year, depending upon the particular covenant. The City's debt covenants also require the City to provide the electronic municipal market access system (EMMA) and the appropriate information depository in Pennsylvania (SID), annual audited general purpose financial statements presented in conformity with accounting principles generally accepted in the United States of America. Such financial statements must be provided within 270 days after the end of the fiscal year. We recommend that the City make every effort to complete the audited financial statements within the time requirements of the various debt covenants.

Management's Response: The City concurs with the auditor's recommendation. With the assistance of legal counsel, the City has enhanced its disclosures process by drafting a formal written policy and has implemented related procedures with respect to public statements made by the City regarding financial information, and its compliance with its Continuing Disclosure Certificates.

DEVELOPING FORMAL PROGRAM AND SYSTEM CHANGE CONTROL POLICIES AND PROCEDURES

IT performs program development, operating system maintenance, and application software maintenance on the City's information technology systems. IT management maintains close oversight over the change control process, but more formalized documentation is recommended to reduce the risk of unauthorized changes being made to the City's information technology systems. The risk of unauthorized changes being made to information technology systems and programs could result in processing errors and system down-time. We recommend that a comprehensive written policy be developed that outlines all the procedures and documentation required for changes to the City's information technology systems and programs. The policy should follow the system development life cycle methodology to include the following:

- Preparation of written requests.
- Approval of the request by management.

- Required documentation standards.
- Testing of the changes, follow-up of discrepancies, and participation and approval by users.
- Procedures for integrating the changes into the production environment from a separate test environment.

Management's Response: The City concurs with the auditor's comments and recommendation. The Bureau of IT will endeavor to develop a comprehensive written policy per the auditor's recommendation.

DEVELOPING A POLICY FOR MONITORING NETWORK ACTIVITY

IT is responsible for monitoring network activity and responding to potentially suspicious activity occurring within the network. There is currently no Intrusion Detection System that would allow monitoring of both internal and external traffic on a real-time basis. IT would not know if the network is being used maliciously until after a security breach has occurred. We recommend that an Intrusion Detection System be installed to monitor network activity.

Management's Response: The City concurs with the auditor's comments and recommendation. The Bureau of IT will look into the acquisition and installation of an Intrusion Detection System as recommended by the auditors as funding and other priorities allow.

PROVIDING COMPUTER EMPLOYEE TRAINING

IT currently has 7 employees. There is currently limited training scheduled. It is extremely important for IT staff to be trained on the hardware and software changes occurring in the City's computer environment. If the IT staff is not trained properly, this could result in vulnerabilities, poor employee performance, and down-time. We recommend that a training schedule be established for all IT staff as the budget permits.

Management's Response: The City concurs with the auditor's comments and recommendation. IT will request funding in the 2013 Budget to provide this needed training, per the auditor's recommendation.

MAINTAINING DIRECT DEPOSIT AUTHORIZATION FORMS FOR ALL EMPLOYEES

Direct deposit authorization forms for employees who elect to receive direct deposit in lieu of payroll checks are not maintained in the current personnel files of employees. We would recommend that the City maintain direct deposit authorization forms in the current personnel files.

Management's Response: The City respectfully disagrees with the auditor's recommendation. The authorization form signed by the employee only gives approval for the Payroll Manager to have access to their banking information, no one else. Placing the form in the personnel folder will allow others to have unauthorized access to this form.

FOLLOWING ESTABLISHED PURCHASING PROCEDURES

According to state policy and the policy of the City, three vendor quotes must be obtained for every purchase of $1,000 or more. During our audit of the procurement procedures associated with the Harrisburg Senators Stadium Renovation project, we identified one instance where three vendor quotes could not be located. In addition, we identified another instance where the listing of vendors who provided quotes was available; however, a detailed listing of actual amounts of the quotes was not available. We recommend that the City follow established procurement procedures to ensure compliance with both state and internal policies.

Management's Response: The City concurs with the auditor's comments and recommendation. The Purchasing Office will issue a City-wide memorandum instructing that the State and City purchasing policies and procedures be strictly adhered to and will be enforced, per the auditor's recommendation.

ESTABLISHING A SYSTEM FOR ADMINISTRATIVE SERVICE CHARGES

Through the annual budget process, the City establishes administrative service charges that are paid by the CDBG and utility funds (sewer, sanitation, water) to the City's General Fund. During the year ended December 31, 2009, in addition to the administrative service charge originally budgeted, the sewer fund paid an additional $3.2 million. We recommend that the City establish a system to document support for the amount of administrative service charge being paid by each fund and reconcile the amounts with actual expenditures, annually.

Management's Response: The City concurs with the auditor's comments and recommendation. Beginning with 2012, the City Receiver instructed that these annual administrative service charges be limited to the amounts determined as indicated in the City's most recent Indirect Cost Allocation Plans. The City has complied with the Receiver's instructions.

IMPLEMENTING STANDARDS AND INTERPRETATIONS OF THE GASB

GASB STATEMENT NO. 51, *"ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS"*

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, *"Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments."* This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

The guidance specific to intangible assets referred to above includes guidance on recognition. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software.

This Statement also establishes guidance specific to intangible assets related to amortization. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated.

GASB STATEMENT NO. 53, *"ACCOUNTING AND FINANCIAL REPORTING FOR DERIVATIVE INSTRUMENTS"*

This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.

Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (that is, hedgeable items); or to lower the costs of borrowings. Governments often enter into derivative instruments with the intention of effectively fixing cash flows or synthetically fixing prices. For example, a government with variable-rate debt may enter into a derivative instrument designed to synthetically fix the debt's interest rate, thereby hedging the risk that rising interest rates will negatively affect cash flows. Governments also enter into derivative instruments to offset the changes in fair value of hedgeable items.

A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals.

Derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. In these instances, hedge accounting should be applied. Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows in a government's statement of net assets.

Much of this Statement describes the methods of evaluating effectiveness. The consistent critical terms method considers the terms of the potential hedging derivative instrument and the hedgeable item. If relevant terms match or in certain instances are similar, a potential hedging derivative instrument is determined to be effective. The other methods are based on quantitative analyses. The synthetic instrument method considers whether a fixed rate or price has been established within a prescribed range. The dollar-offset method evaluates changes in expected cash flows or fair values over time between the potential hedging derivative instrument and the hedgeable item. The regression analysis method considers the relationship between changes in the cash flows or fair values of the potential hedging derivative instrument and the hedgeable item. In these methods, critical and quantitative values are evaluated to determine whether a potential hedging derivative instrument is effective. Quantitative methods other than those specified in the Statement are permitted, provided that they address whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

The disclosures required by Technical Bulletin No. 2003-1, *"Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets"*, have been incorporated into this Statement. The objectives, terms, and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements. The disclosures for investment derivative instruments are similar to the disclosures of other investments.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. For potential hedging derivative instruments existing prior to the fiscal period during which this Statement is implemented, the evaluation of effectiveness should be performed as of the end of the current period. If determined to be effective, hedging derivative instruments are reported as if they were effective from their inception. If determined to be ineffective, the potential hedging derivative instrument is then evaluated as of the end of the prior reporting period.

GASB STATEMENT NO. 54, *"FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS"*

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing 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 initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

GASB STATEMENT NO. 58, *"ACCOUNTING AND FINANCIAL REPORTING FOR CHAPTER 9 BANKRUPTCIES"*

The objective of this Statement is to provide 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.

For accounts payable, notes, debentures and bonds, and related interest payable, this Statement requires governments to base remeasurement on the new payment plan. Reductions in future interest payments would result in lower interest costs reported in future periods. Reductions to principal or to accrued interest payable may result in gains reported at the time of the reduction. If the new payment plan does not indicate whether it reduces principal payments or future interest payments that have not been accrued, the debt should be remeasured at the present value of the future payments using the original discount rate, and a gain should be reported at the time of the reduction.

For leases, pollution remediation liabilities, and liabilities for pension and other postemployment benefit plans, this Statement requires remeasurement based on existing authoritative guidance. However, if a benefit plan is rejected in bankruptcy and becomes general unsecured debt, this Statement requires the existing liability to be removed and a new approved payment plan to be recognized as a judgment, with a gain or loss recognized for the difference.

For governments that are not expected to emerge from bankruptcy as going concerns, this Statement requires remeasurement of assets to a value that represents the amount expected to be received.
This Statement classifies gains or losses resulting from remeasurement of liabilities and assets as an extraordinary item.

Governments that have filed for bankruptcy are required to disclose information regarding, among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services.

This Statement is effective for reporting periods beginning after June 15, 2009.

GASB STATEMENT NO. 60, *"ACCOUNTING AND FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS"*

The objective of this Statement is to improve 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 (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. A transferor reports the facility subject to an SCA as its capital asset, generally following existing measurement, recognition, and disclosure guidance for capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenue is recognized by the transferor in a systematic and rational manner over the term of the arrangement.

This Statement also provides guidance for governments that are operators in an SCA. The governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees; it amortizes the intangible asset over the term of the arrangement in a systematic and rational manner. For existing facilities, a governmental operator's cost may be the amount of an up-front payment or the present value of installment payments. For new or improved facilities, a governmental operator's cost may be its cost of improving an existing facility or constructing or acquiring a new facility.

For revenue sharing arrangements, this Statement requires governmental operators to report all revenues and expenses. A transferor reports its portion of the shared revenues.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

GASB STATEMENT NO. 61, *"THE FINANCIAL REPORTING ENTITY: OMNIBUS – AN AMENDMENT TO GASB STATEMENTS NO. 14 AND NO. 34"*

The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *"The Financial Reporting Entity,"* and the related financial reporting requirements of Statement No. 34, *"Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,"* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of the Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

GASB STATEMENT NO. 63, *"FINANCIAL REPORTING OF DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION"*

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *"Elements of Financial Statements,"* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also indentifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in GASB Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,"* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

GASB STATEMENT NO. 64, *"DERIVATIVE INSTRUMENTS; APPLICATION OF HEDGE ACCOUNTING TERMINATION PROVISIIONS – AN AMENDMENT OF GASB STATEMENT NO. 53"*

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.

GASB STATEMENT NO. 65, *"ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES"*

This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

Concepts Statement No. 4, "*Elements of Financial Statements,*" specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement 4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

Management's Response: The following pertains to the auditor's general comments on planning for the implementation of GASB Statement Nos. 51, 53. 54. 58. 60. 61. 63. 64 and 65. The City concurs that planning is a crucial element of successful implementation of these GASB Statements and will review the specific requirements of these new standards and their potential impact on the City of Harrisburg. The Bureau of Financial Management will continue to review and plan for these implementation requirements and monitor subsequent interpretations and guidance from the American Institute of Certified Public Accountants and Government Finance Officers Association.