City of Harrisburg, Pennsylvania

Financial Statements and Supplementary Information

Year Ended December 31, 2012 with Independent Auditor's Reports

CITY OF HARRISBURG

TABLE OF CONTENTS

CITY OF HARRISBURG

TABLE OF CONTENTS (Cont'd)

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, and the Coordinated Parking Fund 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

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 position 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 21. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The accompanying financial statements have been prepared assuming that The Harrisburg Authority, a discretely presented component unit of the City, will continue as a going concern. The Harrisburg Authority's Resource Recovery Segment has experienced significant operating losses, has an accumulated deficit of approximately $210 million at December 31, 2012, and had not met its debt obligations as they come due. Additionally, as discussed further in Note 23 to the financial statements, The Harrisburg Authority is in violation of certain covenants under its trust indentures and has issued multiple notices of material events, including, but not limited to, non-payment of required debt service with respect to certain of the Resource Recovery Facility bonds and notes, which are guaranteed by the City.

The Harrisburg Authority's Water Segment has an accumulated deficit of approximately $33 million at December 31, 2012. Management of The Harrisburg Authority's plans in regard to these matters are described in Note 20. The Harrisburg Authority's financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), budgetary comparison information, and pension plan and other post-employment benefit plan information on pages 4 through 15, 128 through 130, and 131 through 134, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purposes of additional analysis and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
November 8, 2013

This section of the City of Harrisburg's Comprehensive Annual Financial Report (CAFR) presents Management's Discussion and Analysis of the City's financial performance during the year ending December 31, 2012. Readers are encouraged to consider the information within the context of the preceding Transmittal Letter and the following financial statements. The discussion also focuses on the **primary government** and unless otherwise noted, component units are not included.

Financial Highlights

- The City of Harrisburg's liabilities as of December 31, 2012 exceeded assets by $277,261,834. At the end of 2011, liabilities exceeded its assets by $249,169,792 representing a decrease of net position of $28,092,042. Significant factors comprising this decrease during 2012 include the City's Due to Bond Insurer liability increasing approximately $9 million due to defaulting on its General Obligation Bonds - Series D of 1997 and General Obligation Notes - Series F of 1997, a noted $2 million decrease in total primary government program revenues, total primary government expenses decreasing by $5.6 million, a $10.4 million increase in the noncurrent liability of Other post-employment benefits, and an $11.2 million increase under Noncurrent liabilities for the accrued liability associated with the settlement of reimbursable amounts owed to several suburban municipalities under the Harrisburg Strong Plan.

    - Net investment in capital assets, in the amount of $103,459,502 and $97,903,038 as of December 31, 2012 and 2011, respectively, are all capital assets including infrastructure.
    - Restricted net position with external restrictions imposed by creditors or laws or regulations of other governments amounted to $3,241,180 and $3,748,473 as of December 31, 2012 and 2011, respectively.
    - Unrestricted net position, which is net position not restricted for any particular purpose, was ($383,962,516) and ($350,821,303) as of December 31, 2012 and 2011, respectively.

- As of December 31, 2012 and 2011, the fund balance of the City of Harrisburg's governmental funds was ($76,414,768) and ($52,993,537), respectively. This negative net fund balance condition was produced in 2010, with the accrual of approximately $44.6 million in reimbursements due to The Harrisburg Authority bond insurer and Dauphin County pursuant to the City's guarantee obligations under The Harrisburg Authority Resource Recovery Facility debt. The further decrease of $23,421,231 in fund balance during 2012 is attributable to a $7 million decrease in administrative service charge revenue from the Water and Sewer utility funds, a $7 million decrease in investment income related to the advance payment of a lease with the Harrisburg Parking Authority offset by an additional $5.4 million in intergovernmental grant revenue related mostly to the 7th Street Widening project, and an additional $5 million occurring in write-offs of incinerator amounts receivable from The Harrisburg Authority under guaranty agreements for principal and interest previously paid by the bond insurer.

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 of Harrisburg'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.

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

   The Statement of Activities presents information on how net position 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 Position 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 of Harrisburg's governmental activities are comprised of general government, building and housing development, public safety (police and fire), public works, parks and recreation, incinerator, tourism, and interest on long-term debt. 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 of Harrisburg 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 of Harrisburg reports four major enterprise funds: (1) the Sewer Fund, which accounts for the revenues and expenses 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 Harrisburg Senators Fund, which accounts for the revenues and expenses associated with the payment of debt on the financing of a new stadium of the Harrisburg Senators, a AA minor league baseball franchise formerly owned by the City; (3) the Incinerator Fund, which accounts for the collection and remittance of incinerator/resource recovery disposal fees billed by the City of Harrisburg 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; and (4) 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 establishments of the City.

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, to demonstrate compliance with this budget. 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.

Government-wide Financial Analysis

CITY OF HARRISBURG
CONDENSED STATEMENT OF NET POSITION
DECEMBER 31, 2012 AND 2011

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 32,597,219	$ 28,682,329	$ 16,596,812	$ 13,310,410	$ 49,194,031	$ 41,992,739
Capital assets	103,570,405	103,962,710	77,476,194	78,103,505	181,046,599	182,066,215
Total assets	136,167,624	132,645,039	94,073,006	91,413,915	230,240,630	224,058,954
Current and other liabilities	106,331,027	82,798,900	3,083,808	3,648,668	109,414,835	86,447,568
Noncurrent liabilities	385,604,482	374,063,031	12,483,147	12,718,147	398,087,629	386,781,178
Total liabilities	491,935,509	456,861,931	15,566,955	16,366,815	507,502,464	473,228,746
Net position:						
Net investment in capital assets	34,549,918	29,241,273	68,909,584	68,661,765	103,459,502	97,903,038
Restricted	2,582,918	3,090,228	658,262	658,245	3,241,180	3,748,473
Unrestricted	(392,900,721)	(356,548,393)	8,938,205	5,727,090	(383,962,516)	(350,821,303)
Total net position	$ (355,767,885)	$ (324,216,892)	$ 78,506,051	$ 75,047,100	$ (277,261,834)	$ (249,169,792)

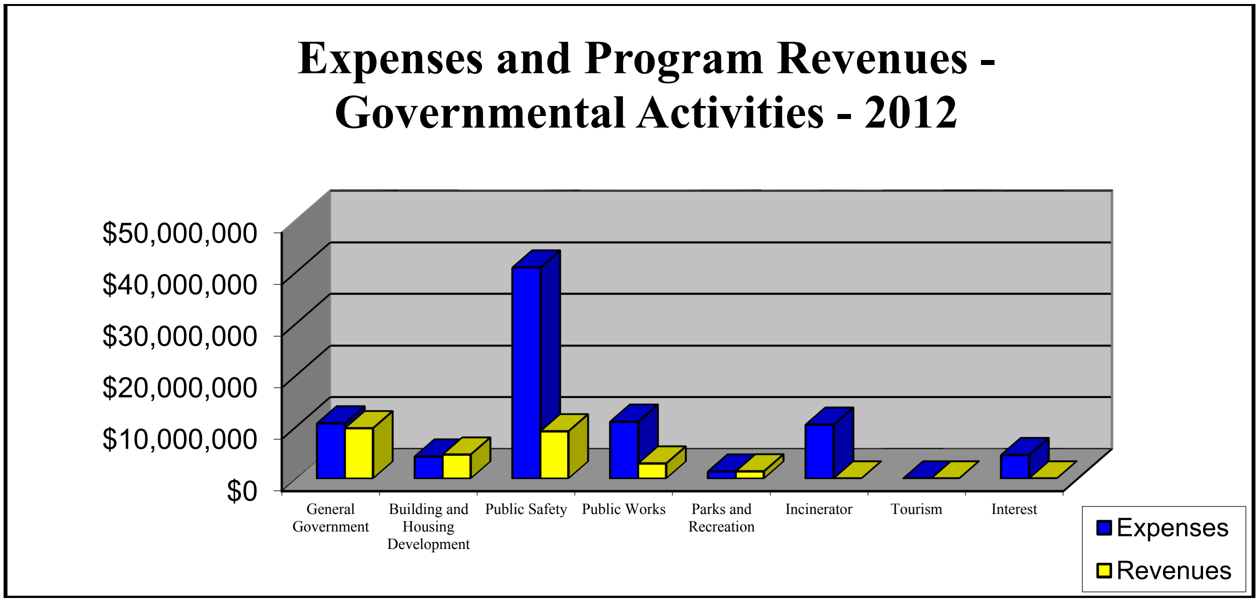
As noted earlier, net position may serve over time as a useful indicator of the government's financial position. As of December 31, 2012, the City's liabilities exceeded its assets by $277,261,834. As of December 31, 2011, the City's liabilities exceeded its assets by $249,169,792.

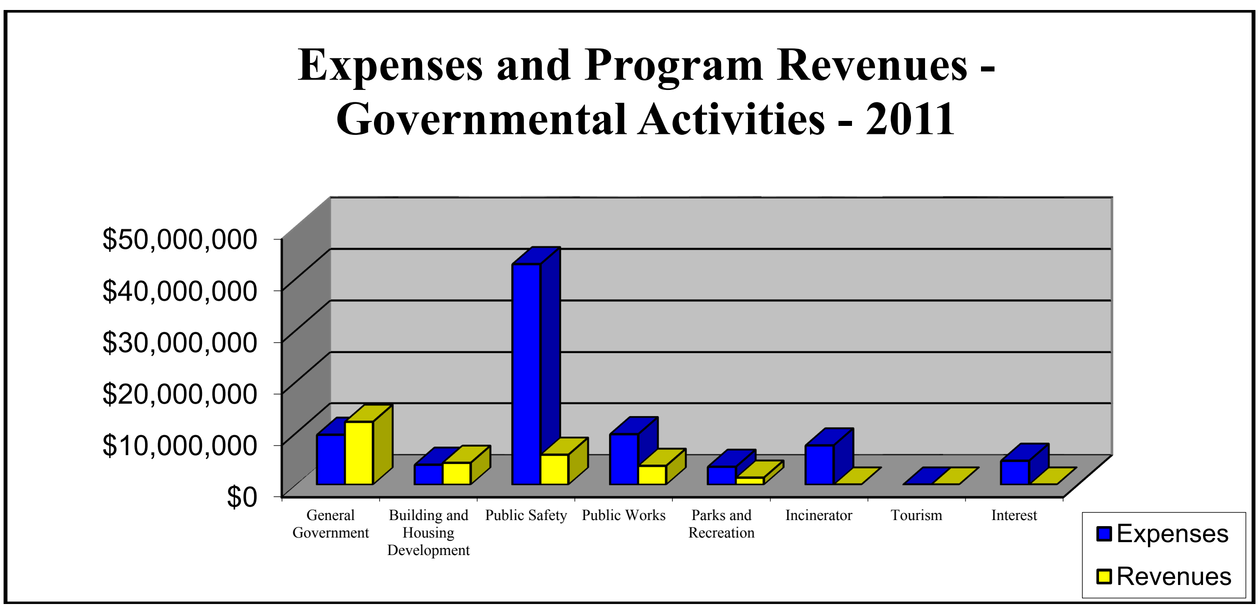
The largest portion of City of Harrisburg's net position (-37% for 2012 and -39% for 2011) is the City's investment in capital assets (i.e., land, archives, building, land and building improvements, equipment and furniture, infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used by the City of Harrisburg 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.

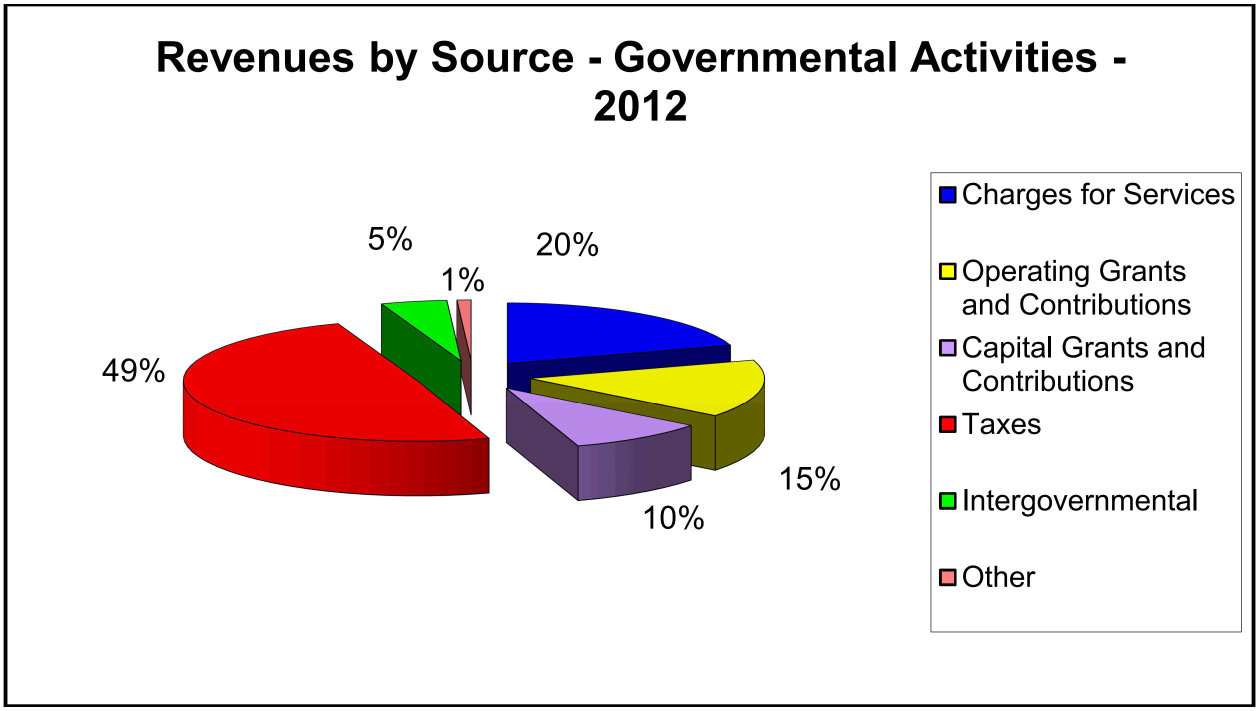
The City of Harrisburg's unrestricted net position balances were ($383,962,516) and ($350,821,303) as of December 31, 2012 and 2011, respectively. This negative net position balance began in 2009 and continues to remain in effect, resulting from the recording of the remaining Resource Recovery Facility guaranteed debt for which the City is contingently liable.

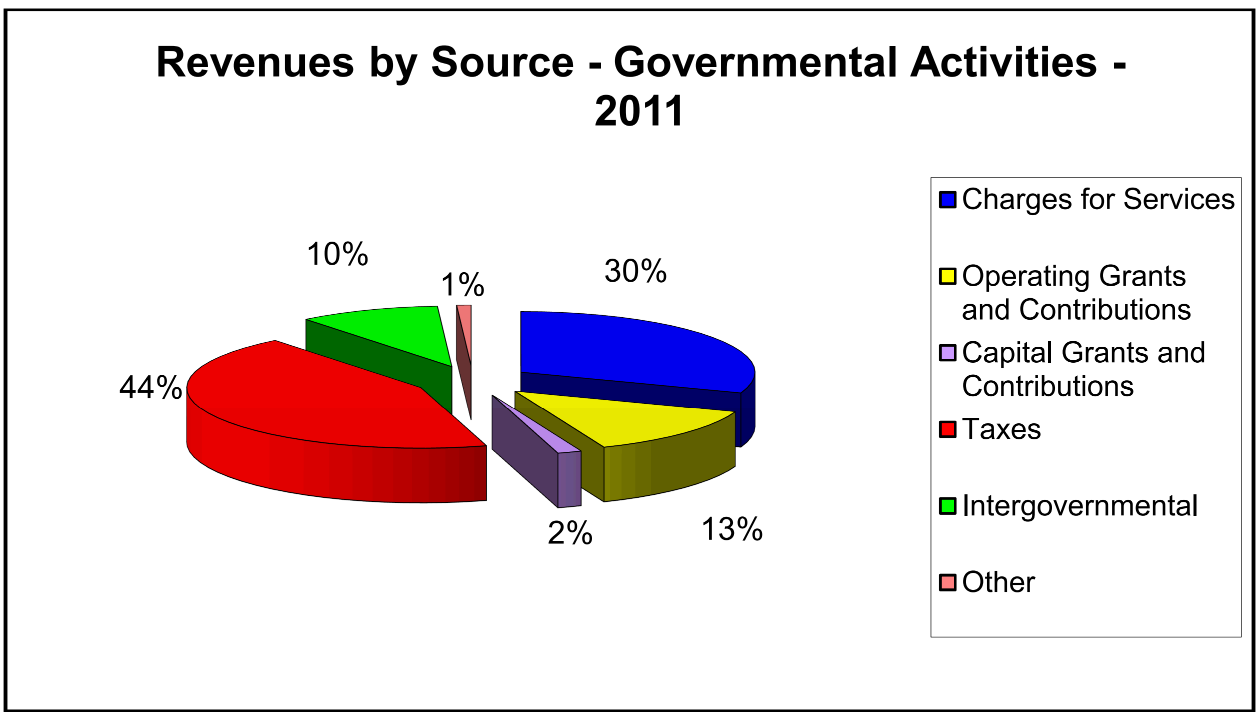
CITY OF HARRISBURG
CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	$ 12,318,964	$ 18,156,090	$ 23,583,457	$ 25,923,963	$ 35,902,421	$ 44,080,053
Operating grants and contributions	9,476,900	7,854,858	51,853	36,337	9,528,753	7,891,195
Capital grants and contributions	5,819,787	990,057	1,049,542	1,400,791	6,869,329	2,390,848
General revenues:						
Taxes	30,280,393	25,993,809	-	-	30,280,393	25,993,809
Grants and contributions not restricted to specific functions	2,793,634	5,780,373	-	-	2,793,634	5,780,373
Other	593,588	586,976	24,614	15,411	618,202	602,387
Total revenues	61,283,266	59,362,163	24,709,466	27,376,502	85,992,732	86,738,665
Expenses						
General government	10,819,415	9,610,524	-	-	10,819,415	9,610,524
Building and housing development	4,235,693	3,822,733	-	-	4,235,693	3,822,733
Public safety	40,859,175	42,751,189	-	-	40,859,175	42,751,189
Public works	10,947,141	9,723,212	-	-	10,947,141	9,723,212
Parks and recreation	1,338,934	3,432,543	-	-	1,338,934	3,432,543
Incinerator	10,367,451	7,554,484	-	-	10,367,451	7,554,484
Tourism	71	1,084	-	-	71	1,084
Interest on long-term debt	4,510,977	4,588,166	-	-	4,510,977	4,588,166
Sewer	-	-	9,863,885	16,482,029	9,863,885	16,482,029
Sanitation	-	-	2,711,335	2,683,966	2,711,335	2,683,966
Harrisburg Senators	-	-	1,396,634	1,374,984	1,396,634	1,374,984
Incinerator	-	-	5,809,063	6,234,436	5,809,063	6,234,436
Total expenses	83,078,857	81,483,935	19,780,917	26,775,415	102,859,774	108,259,350
Change in net position before transfers and special item	(21,795,591)	(22,121,772)	4,928,549	601,087	(16,867,042)	(21,520,685)
Transfers	1,469,598	1,638,356	(1,469,598)	(1,638,356)	-	-
Special item - Settlement with suburban municipalities	(11,225,000)	-	-	-	(11,225,000)	-
Change in net position	(31,550,993)	(20,483,416)	3,458,951	(1,037,269)	(28,092,042)	(21,520,685)
Net position, January 1	(324,216,892)	(303,733,476)	75,047,100	76,084,369	(249,169,792)	(227,649,107)
Net position, December 31	$ (355,767,885)	$ (324,216,892)	$ 78,506,051	$ 75,047,100	$ (277,261,834)	$ (249,169,792)

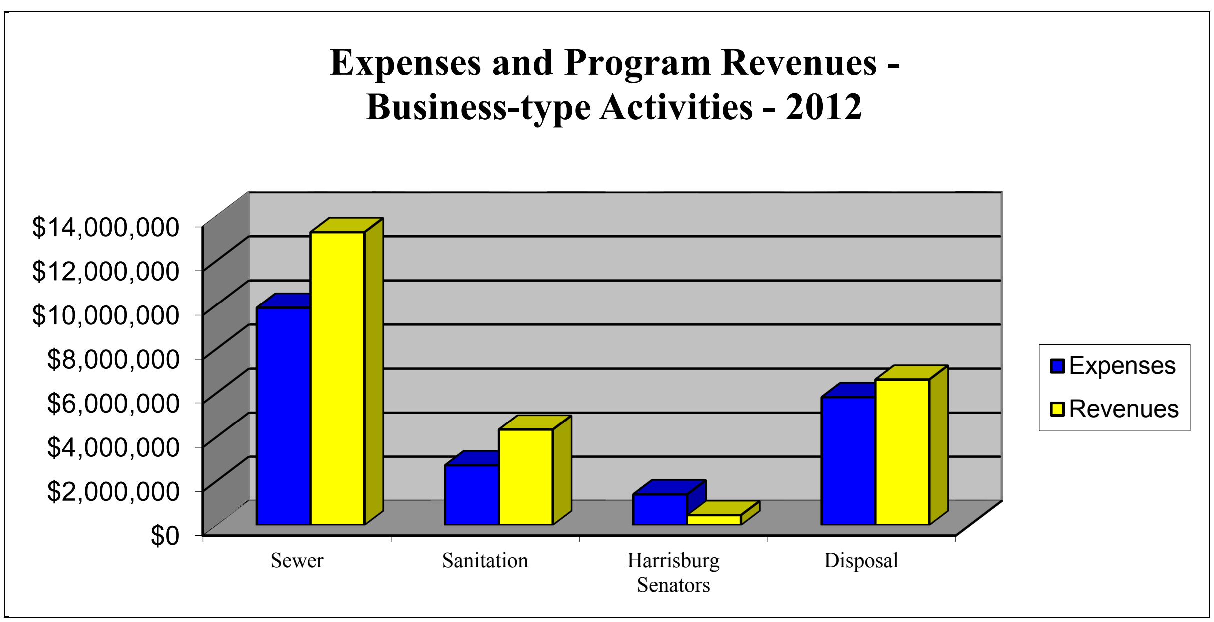

Expenses and Program Revenues - Governmental Activities - 2012
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
General Government
Building and Housing Development
Public Safety
Public Works
Parks and Recreation
Incinerator
Tourism
Interest
Expenses
Revenues

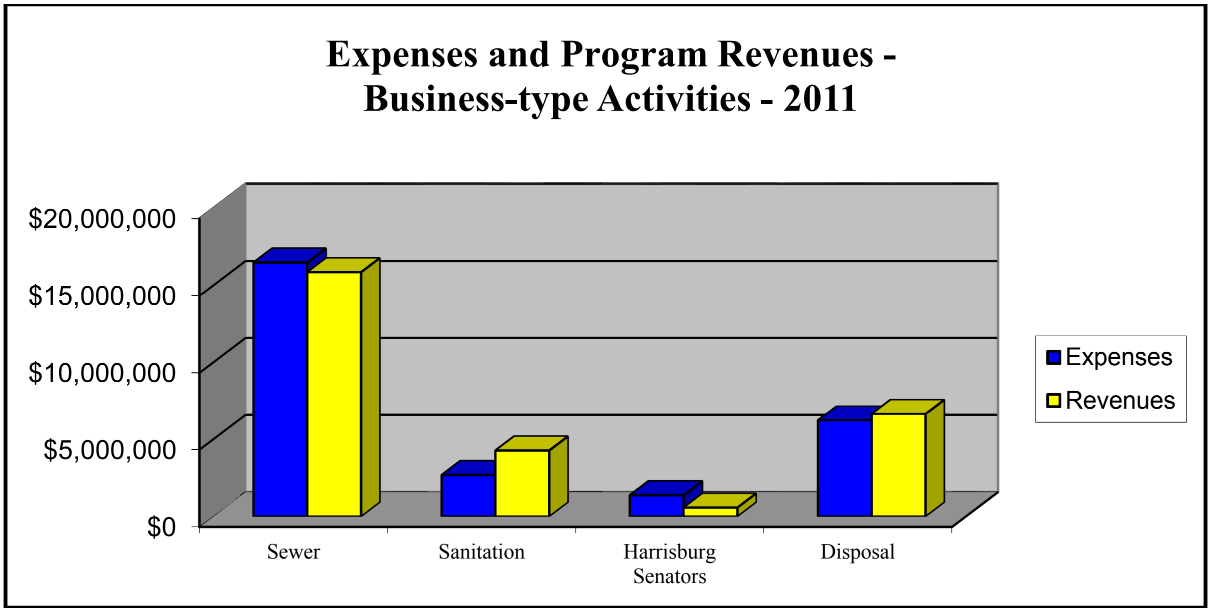

Expenses and Program Revenues - Governmental Activities - 2011
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
General Government
Building and Housing Development
Public Safety
Public Works
Parks and Recreation
Incinerator
Tourism
Interest
Expenses
Revenues


Revenues by Source - Governmental Activities - 2012
5%
1%
20%
49%
15%
10%
Charges for Services
Operating Grants and Contributions
Capital Grants and Contributions
Taxes
Intergovernmental
Other


Revenues by Source - Governmental Activities - 2011
10%
1%
30%
44%
2%
13%
Charges for Services
Operating Grants and Contributions
Capital Grants and Contributions
Taxes
Intergovernmental
Other

Governmental Activities: Net position for governmental activities decreased by $31,550,993 and $20,483,416 for the years ended December 31, 2012 and 2011, respectively. 2012 revenue for governmental activities increased by approximately $2 million which was comprised of a $7 million decrease in administrative service charge revenue, a $4.8 million increase in capital grants and contributions (mostly the 7th Street Widening project), and a $4.3 million increase in taxes revenue mainly due to rate increases for both real estate and parking taxes. 2012 expenses for governmental activities increased by approximately $1.6 million, which was primarily attributed to incinerator expenses significantly increasing as a result of the write-off of additional amounts receivable from The Harrisburg Authority (THA) under guaranty agreements. In addition, further information describing the Special item noted above as to Settlement with suburban municipalities can be found under Financial Highlights on page 4 and Economic Factors on page 15. 2011 revenue for governmental activities decreased by approximately $8 million, which was mostly comprised of a significant decrease in administrative service charge revenue from the Water Fund due to an increase in its debt service payments. 2011 expenses for governmental activities decreased by approximately $11 million, which was mostly comprised of incinerator expenses significantly decreasing from the prior year when the most material amounts related to the THA Resource Recovery Facility debt were accrued.





Business-Type Activities: Net position for business-type activities increased by $3,458,951 and decreased by $1,037,269 for the years ended December 31, 2012 and 2011, respectively. 2012 revenue for business-type activities decreased by approximately $2.6 million, which was primarily attributed to a notable decrease in the Sewer Fund's charges for services revenue. This decrease was caused by both an increase in the allowance for uncollectible accounts, specifically relevant to the "S" accounts, and commercial customers of Swatara Township being disconnected from the City's sewer system effective January 1, 2012. 2012 expenses for business-type activities decreased by approximately $7 million, which was primarily attributed to $6.4 million less in Sewer Fund administrative service charges occurring in accordance with the Receiver's directive (is detailed at length per the Financial Recovery Plan footnote (Note 21) to the basic financial statements). 2011 revenue for business-type activities dramatically decreased by over $23 million, which was mostly due to a $19.5 million state grant being received in 2010 for improvements and upgrades to the Harrisburg Senators baseball stadium. 2011 expenses for business-type activities were very comparable in total to the prior year.

Financial Analysis of the City's Funds

Governmental Funds The focus of the City of Harrisburg'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 of Harrisburg'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 2012, the City of Harrisburg's governmental funds reported combined ending fund balances of ($76,414,768), a decrease of $23,421,231 from 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 $23,569,137 for the year ended December 31, 2012. As described in more detail under Financial Highlights on page 4, the decrease in this Governmental fund balance is attributed to a significant reduction in administrative service charge revenue, a significant decrease in investment income offset by a notable increase in intergovernmental grant revenue, and a significant increase in write-off expense associated with the involved incinerator debt of The Harrisburg Authority.

The Grant Programs Fund generally does not report a fund balance. In this fund, revenue is recognized only when allowable expenditures are incurred and the legal and contractual requirements of the individual programs are met; however, during the year ended December 31, 2012, expenditures incurred in previous years by other governmental funds were reimbursed by a grantor agency and deposited into the Grant Programs Fund. The City chose to maintain those unrestricted reimbursements in the Grant Programs Fund rather than reimbursing those other funds from which the original payments had been made. The fund balance of the Debt Service Fund did not materially change during the year ended December 31, 2012. The fund balance of Other Governmental Funds experienced a decrease of approximately $300,000 during fiscal year 2012 due to a notable increase of about 25% in Public works expenditures.

The fund balance of the General Fund decreased by $10,386,175 for the year ended December 31, 2011 from the prior year, due to significant increases in both Public safety and Public works expenditures and a decrease in the Department earnings and program revenue.

The fund balance of the Debt Service Fund decreased by $435,715 for the year ended December 31, 2011 from the prior year which essentially offset the prior year increase of $449,630. The fund balance of Other Governmental Funds experienced a decrease of $431,094 during fiscal year 2011 due to a notable increase of approximately 33% in Public works expenditures.

General Fund Budgetary Highlights

On a budgetary basis, the General Fund's actual revenues were $10 million less than the final budget amounts. This total revenue variance was largely attributed to significant under-budget occurrences for both Departmental earnings (administrative service charge revenue) and Intergovernmental revenue (Coordinated Parking Fund revenue). The General Fund's actual expenditures were approximately $3,500,000 less than the final budget amounts. This favorable variance is attributed to City-wide budgetary savings occurring across all offices and departments, and of this $3.5 million, 11%, 2%, and 87% apply to elected/appointed offices, Department of Administration, and various public departments, respectively.

Capital Asset and Debt Administration

1. **Capital assets** The City's investment in capital assets for its governmental activities and business-type activities as of December 31, 2012 amounts to $103,570,405 and $77,476,194 (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:

   - $4,442,052 in additional construction-in-progress occurred for the Federal funded Seventh Street Widening project.

- Motor vehicles increased with the $669,991 rescue pumper fire truck addition.

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

- Construction-in-progress (CIP) activity increased by a net amount of $1,023,374, related to sewer projects, comprised of $2,047,992 in new CIP and $1,024,618 in former CIP becoming depreciable in 2012.

- Buildings and structures increased $219,959 related to the Harrisburg Senators Stadium project.

Additional information on the City's capital assets can be found beginning on page 64 of this report.

2. **Long-term debt** The only debt activity in the City's governmental or business-type activities was the required principal and interest payments under existing debt arrangements.

   Additional information on the City's long-term debt can be found beginning on page 67 of this report.

Economic Factors

Arguably, the two most significant factors affecting the City's financial position are the extent of the City's debt load due to the assumption of the Resource Recovery Facility's guaranteed debt obligations and the City's structural budget deficit discussed at length throughout this CAFR.

Additionally, 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 the City has been able to see these costs be the same or lower in recent years. If the City is back at full staffing, there will be a significant increase shown.

(b) 2012 salaries for the City's Police, Firefighter, and Non-Uniformed unions were negotiated to increase 3%, 4%, and 3%, respectively; for 2013 in continued respective order, these increases are 3%, 3%, and 3%.

(c) The Harrisburg Authority (THA), a component unit of the City of Harrisburg, 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 honored those guarantees at various times during 2009 and January 2010.

(d) Pension benefits and OPEB obligations of the primary government are also considered here, as these liabilities have experienced continuous increases in recent years.

(e) The Harrisburg Strong Plan provides for the agreed-to settlement of reimbursable amounts owed to several suburban municipalities in accordance with the Receiver's negotiated compromise of the involved claim. Applicable payments totaling $11,225,000 have been scheduled to occur over multiple years beginning in 2013 through fiscal year 2019.

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 Finance Director, The Rev. Dr. Martin Luther King Jr., City Government Center, 10 North Second Street, Suite 303, 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 POSITION
DECEMBER 31, 2012

	Primary Government				
	Governmental Activities	Business-type Activities	Total	Component Units	Total
Assets					
Cash and cash equivalents	$ 1,867,422	$ 1,451,479	$ 3,318,901	$ 17,913,659	$ 21,232,560
Investments, at fair value	7,958,974	6,592,470	14,551,444	72,831	14,624,275
Receivables, net of allowance for uncollectible accounts					
Taxes	10,715,552	-	10,715,552	-	10,715,552
Accounts	145,344	4,570,755	4,716,099	5,330,469	10,046,568
Loans	3,271,325	-	3,271,325	351,350	3,622,675
Grants	-	-	-	120,500	120,500
Other	1,343,046	-	1,343,046	-	1,343,046
Internal balances	(273,285)	273,285	-	-	-
Due from City's agency fund	202,153	-	202,153	-	202,153
Due from component units	593,505	1,330,329	1,923,834	-	1,923,834
Due from primary government	-	-	-	2,721,360	2,721,360
Assets held for sale	1,727,384	-	1,727,384	-	1,727,384
Other assets	506,223	1,013,435	1,519,658	1,122,400	2,642,058
Restricted assets					
Cash and cash equivalents	682,432	2,159	684,591	-	684,591
Cash with fiscal agents	-	-	-	9,419,987	9,419,987
Investments, at fair value	-	660,145	660,145	54,175,813	54,835,958
Future lease rentals receivable from primary government	-	-	-	1,597,167	1,597,167
Prepaid lease payment to primary government	-	-	-	7,400,000	7,400,000
Direct financing lease proceeds receivable from component unit	-	702,755	702,755	-	702,755
Equitable ownership interest	-	-	-	12,880,460	12,880,460
Deferred charges, net of accumulated amortization	-	-	-	14,134,706	14,134,706
Right to building	-	-	-	20,369,411	20,369,411
Net pension asset	3,857,144	-	3,857,144	-	3,857,144
Capital assets, not being depreciated	31,288,674	4,857,143	36,145,817	10,402,893	46,548,710
Capital assets, less accumulated depreciation and amortization	72,281,731	72,619,051	144,900,782	223,192,961	368,093,743
Deposits	-	-	-	350	350
Derivative asset	-	-	-	2,070,232	2,070,232
Total assets	136,167,624	94,073,006	230,240,630	383,276,549	613,517,179

(continued)

	Primary Government				
	Governmental Activities	Business-type Activities	Total	Component Units	Total
Liabilities					
Accounts payable and other current liabilities	7,942,157	666,481	8,608,638	1,639,649	10,248,287
Matured bond coupons	20,097	-	20,097	-	20,097
Due to City Police Pension Plan	1,006,983	-	1,006,983	-	1,006,983
Accrued liabilities	2,966,534	49,746	3,016,280	6,126,271	9,142,551
Due to primary government	-	-	-	78,433,223	78,433,223
Due to bond insurer under guarantee agreements	14,779,378	-	14,779,378	-	14,779,378
Due to bond insurer	8,984,907	-	8,984,907	-	8,984,907
Due to County of Dauphin	54,363,948	-	54,363,948	-	54,363,948
Due to component units	89,245	2,367,581	2,456,826	-	2,456,826
Due to other governments	1,827,433	-	1,827,433	-	1,827,433
Unearned revenue	14,350,345	-	14,350,345	474,158	14,824,503
Liabilities payable from restricted assets	-	-	-	11,231,076	11,231,076
Noncurrent liabilities:					
Due within one year	17,542,434	560,520	18,102,954	37,381,997	55,484,951
Due in more than one year	81,656,396	9,534,583	91,190,979	505,810,021	597,001,000
Other post-employment benefits	56,860,180	2,388,044	59,248,224	717,752	59,965,976
Contingent liability for component unit debt	229,545,472	-	229,545,472	-	229,545,472
Derivative liabilities	-	-	-	5,794,328	5,794,328
Unearned revenue	-	-	-	3,080,381	3,080,381
Environmental remediation liability	-	-	-	40,636	40,636
Accrued landfill closure and post-closure liability	-	-	-	2,037,568	2,037,568
Liability for obligations to construct assets under direct financing leases	-	-	-	702,755	702,755
Total liabilities	491,935,509	15,566,955	507,502,464	653,469,815	1,160,972,279
Net position					
Net investment in capital assets	34,549,918	68,909,584	103,459,502	(183,902,646)	(80,443,144)
Restricted for:					
Revolving loan program	2,002,534	-	2,002,534	-	2,002,534
Parks and recreation	114,972	-	114,972	-	114,972
Tourism	359,247	-	359,247	-	359,247
Debt service	-	658,262	658,262	3,246,213	3,904,475
Capital projects	-	-	-	3,310,965	3,310,965
Other	106,165	-	106,165	-	106,165
Landfill closure	-	-	-	1,362,259	1,362,259
Guarantee agreement	-	-	-	250,000	250,000
Water operations	-	-	-	10,605,242	10,605,242
Unrestricted	(392,900,721)	8,938,205	(383,962,516)	(105,065,299)	(489,027,815)
Total net position	$ (355,767,885)	$ 78,506,051	$ (277,261,834)	$ (270,193,266)	$ (547,455,100)

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	$ 10,819,415	$ 4,201,175	$ 369,434	$ 5,108,924
Building and housing development	4,235,693	979,188	3,624,777	-
Public safety	40,859,175	5,057,422	3,319,427	710,863
Public works	10,947,141	1,951,430	929,762	-
Parks and recreation	1,338,934	129,749	1,233,500	-
Incinerator	10,367,451	-	-	-
Tourism	71	-	-	-
Interest on long-term debt	4,510,977	-	-	-
Total governmental activities	83,078,857	12,318,964	9,476,900	5,819,787
Business-type activities				
Sewer	9,863,885	12,255,817	-	1,033,017
Harrisburg Senators	1,396,634	437,464	-	16,525
Incinerator	5,809,063	6,608,376	-	-
Sanitation	2,711,335	4,281,800	51,853	-
Total business-type activities	19,780,917	23,583,457	51,853	1,049,542
Total primary government	$ 102,859,774	$ 35,902,421	$ 9,528,753	$ 6,869,329
Component units				
The Harrisburg Authority	$ 62,625,014	$ 43,545,305	$ -	$ -
Harrisburg Parking Authority	13,379,547	13,645,728	-	-
Coordinated Parking Fund	6,412,550	5,570,068	-	-
Redevelopment Authority	4,906,271	204,926	556,633	124,250
Total component units	$ 87,323,382	$ 62,966,027	$ 556,633	$ 124,250

General revenues
Property taxes
Real estate transfer taxes
Local services 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
Other income
Unrestricted investment earnings
Transfers - internal activities
Special item - settlement with suburban municipalities

Total general revenues, transfers, and special item

Change in net position

Net position - January 1, 2012 - restated

Net position - December 31, 2012

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
$ (1,139,882)	$ -	$ (1,139,882)	$ -	$ (1,139,882)
368,272	-	368,272	-	368,272
(31,771,463)	-	(31,771,463)	-	(31,771,463)
(8,065,949)	-	(8,065,949)	-	(8,065,949)
24,315	-	24,315	-	24,315
(10,367,451)	-	(10,367,451)	-	(10,367,451)
(71)	-	(71)	-	(71)
(4,510,977)	-	(4,510,977)	-	(4,510,977)
(55,463,206)	-	(55,463,206)	-	(55,463,206)
-	3,424,949	3,424,949	-	3,424,949
-	1,622,318	1,622,318	-	1,622,318
-	(942,645)	(942,645)	-	(942,645)
-	799,313	799,313	-	799,313
-	4,903,935	4,903,935	-	4,903,935
(55,463,206)	4,903,935	(50,559,271)	-	(50,559,271)
-	-	-	(19,079,709)	(19,079,709)
-	-	-	266,181	266,181
-	-	-	(842,482)	(842,482)
-	-	-	(4,020,462)	(4,020,462)
-	-	-	(23,676,472)	(23,676,472)
17,777,740	-	17,777,740	-	17,777,740
451,528	-	451,528	-	451,528
2,088,885	-	2,088,885	-	2,088,885
3,934,680	-	3,934,680	-	3,934,680
5,089,375	-	5,089,375	-	5,089,375
542,255	-	542,255	-	542,255
35,704	-	35,704	-	35,704
360,226	-	360,226	-	360,226
2,793,634	-	2,793,634	-	2,793,634
-	-	-	1,248,602	1,248,602
593,588	24,614	618,202	(580,325)	37,877
1,469,598	(1,469,598)	-	-	-
(11,225,000)	-	(11,225,000)	-	(11,225,000)
23,912,213	(1,444,984)	22,467,229	668,277	23,135,506
(31,550,993)	3,458,951	(28,092,042)	(23,008,195)	(51,100,237)
(324,216,892)	75,047,100	(249,169,792)	(247,185,071)	(496,354,863)
$ (355,767,885)	$ 78,506,051	$ (277,261,834)	$ (270,193,266)	$ (547,455,100)

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

CITY OF HARRISBURG, PENNSYLVANIA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets					
Cash and cash equivalents	$ 1,717,878	$ 123,127	$ -	$ 26,417	$ 1,867,422
Investments, at fair value	1,740,939	4,832,343	21,041	1,364,651	7,958,974
Receivables, net of allowance for uncollectible accounts					
Taxes	10,655,732	-	-	59,820	10,715,552
Accounts	145,344	-	-	-	145,344
Loans	2,002,534	1,268,791	-	-	3,271,325
Other	377,084	965,962	-	-	1,343,046
Due from other funds	2,035,735	769,976	734,970	189,205	3,729,886
Advances and amounts due from component units	442,234	-	-	151,271	593,505
Other assets	490,332	-	-	-	490,332
Restricted assets					
Cash and cash equivalents	105,221	-	-	577,211	682,432
Total assets	$ 19,713,033	$ 7,960,199	$ 756,011	$ 2,368,575	$ 30,797,818
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	$ 5,516,496	$ 1,810,330	$ -	$ 615,331	$ 7,942,157
Accrued liabilities	1,764,966	429	-	-	1,765,395
Notes payable	-	-	67,264	-	67,264
Capital lease obligation	-	-	667,706	-	667,706
Due to bond insurer under guarantee agreement	14,779,378	-	-	-	14,779,378
Due to bond insurer	8,984,907	-	-	-	8,984,907
Due to County of Dauphin	54,363,948	-	-	-	54,363,948
Matured bond coupons payable	-	-	20,097	-	20,097
Due to other funds	2,142,516	932,375	-	726,127	3,801,018
Due to City Police Pension Plan	1,006,983	-	-	-	1,006,983
Advances and amounts due to component units	-	-	-	89,245	89,245
Due to other governments	-	1,827,433	-	-	1,827,433
Unearned revenue	8,949,725	2,939,001	-	8,329	11,897,055
Total liabilities	97,508,919	7,509,568	755,067	1,439,032	107,212,586
Fund balance					
Nonspendable	490,332	-	-	-	490,332
Restricted for					
Revolving loan program	2,002,534	-	-	-	2,002,534
Parks and recreation	-	-	-	114,972	114,972
Tourism	-	-	-	359,247	359,247
Other	105,221	-	944	-	106,165
Capital projects	-	-	-	458,017	458,017
Unassigned	(80,393,973)	450,631	-	(2,693)	(79,946,035)
Total fund balance	(77,795,886)	450,631	944	929,543	(76,414,768)
Total liabilities and fund balance	$ 19,713,033	$ 7,960,199	$ 756,011	$ 2,368,575	$ 30,797,818

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 POSITION
DECEMBER 31, 2012

Fund balance - total governmental funds		$ (76,414,768)
Amounts reported for governmental activities in the statement of net position 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	244,655,297	
Less accumulated depreciation	(141,084,892)	103,570,405
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 reported as unearned in the funds.		8,803,037
Net pension asset		3,857,144
Guarantee and swap fees and bond issuance costs are reported on the statement of net position for governmental activities 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.		(3,840,436)
Certain lease payments received in advance are reported as unearned revenue and amortized over the life of the lease agreement, but are available to pay current-period expenditures and, therefore, are not reported in the funds.		(7,400,000)
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	(4,193,905)	
Bonds payable	(31,241,935)	
Notes payable	(43,752,312)	
Notes payable due and payable at December 31, 2012	67,264	
Capital leases payable	(2,430,303)	
Capital leases payable due and payable at December 31, 2012	667,706	
Compensated absences	(6,355,375)	
Settlement with suburban municipalities	(11,225,000)	
Other post-employment benefits	(56,860,180)	
Contingent liability for component unit debt	(229,545,472)	
Accrued interest payable	(1,201,139)	(386,070,651)
Net position of governmental activities		$ (355,767,885)

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, 2012

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 28,175,334	$ -	$ -	$ -	$ 28,175,334
Licenses and permits	570,995	-	-	-	570,995
Intergovernmental revenue	5,329,338	11,688,176	-	1,146,433	18,163,947
Department earnings and program revenue	7,767,181	31,326	-	715,989	8,514,496
Fines and forfeits	1,642,640	-	-	-	1,642,640
Investment income	647,999	2,058	22	639	650,718
Miscellaneous	848,803	33,900	34,491	-	917,194
Total revenues	44,982,290	11,755,460	34,513	1,863,061	58,635,324
Expenditures					
Current					
General government	7,707,593	4,983,706	-	-	12,691,299
Building and housing development	1,010,326	2,898,383	-	25,934	3,934,643
Public safety	31,124,123	388,686	-	-	31,512,809
Public works	7,090,582	-	-	1,198,730	8,289,312
Parks and recreation	425,549	-	-	-	425,549
Tourism	-	-	-	71	71
Incinerator	13,933,799	-	-	-	13,933,799
Capital outlay	-	-	-	310,876	310,876
Debt service					
Principal retirements	48,890	440,000	11,063,775	45,816	11,598,481
Interest and fiscal charges	323,202	312,030	194,082	-	829,314
Total expenditures	61,664,064	9,022,805	11,257,857	1,581,427	83,526,153
Excess of revenues over (under) expenditures	(16,681,774)	2,732,655	(11,223,344)	281,634	(24,890,829)
Other financing sources (uses)					
Transfers in	4,558,847	-	11,446,210	-	16,005,057
Transfers out	(11,446,210)	(2,282,024)	(219,341)	(587,884)	(14,535,459)
Total other financing sources (uses)	(6,887,363)	(2,282,024)	11,226,869	(587,884)	1,469,598
Net change in fund balances	(23,569,137)	450,631	3,525	(306,250)	(23,421,231)
Fund balances - beginning of year	(54,226,749)	-	(2,581)	1,235,793	(52,993,537)
Fund balances - end of year	$ (77,795,886)	$ 450,631	$ 944	$ 929,543	$ (76,414,768)

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 BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - total governmental funds		$ (23,421,231)
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.		
Capital outlays	6,099,336	
Depreciation expense	(6,491,641)	(392,305)
Change in net pension asset		898,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,457,210
Governmental funds report guarantee fees and swap fees as revenues when received. However, in the statement of activities, the fees are amortized over the guarantee or swap period and reported as investment income.		
Amortization		520,741
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 position.		
Principal repayments		11,598,481
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.		
Workers' compensation	(820,495)	
Claims and settlements	110,000	
Compensated absences	(109,757)	
Other post-employment benefits	(10,051,322)	
Settlement with suburban municipalities	(11,225,000)	
Contingent liability for component unit debt	3,566,348	
Accrued interest	(92,012)	
Amortization of bond issuance costs	(8,939)	
Amortization of bond discounts	(3,580,712)	(22,211,889)
Change in net position of governmental activities		$ (31,550,993)

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2012

	Sewer Fund	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
ASSETS					
Current assets					
Cash and cash equivalents	$ 517,288	$ -	$ 22	$ 934,169	$ 1,451,479
Investments, at fair value	5,815,228	-	-	777,242	6,592,470
Receivables, net of allowance for uncollectible accounts					
Accounts	2,207,316	-	1,840,505	522,934	4,570,755
Due from other funds	876,342	78,386	383,541	-	1,338,269
Due from component units	174,675	36,736	1,082,972	35,946	1,330,329
Prepaid expenses and other assets	807,910	189,009	-	16,516	1,013,435
Total current assets	10,398,759	304,131	3,307,040	2,286,807	16,296,737
Long-term assets					
Restricted assets					
Cash and cash equivalents	-	2,159	-	-	2,159
Investments, at fair value	-	660,145	-	-	660,145
Direct financing lease proceeds receivable from component unit	702,755	-	-	-	702,755
Capital assets, not being depreciated	4,857,143	-	-	-	4,857,143
Capital assets, less accumulated depreciation and amortization	37,736,576	34,659,291	-	223,184	72,619,051
Total long-term assets	43,296,474	35,321,595	-	223,184	78,841,253
Total assets	53,695,233	35,625,726	3,307,040	2,509,991	95,137,990
LIABILITIES					
Current liabilities					
Accounts payable	561,239	405	-	104,837	666,481
Accrued liabilities	-	48,856	-	890	49,746
Due to other funds	197,658	-	-	867,326	1,064,984
Due to component units	1,469,893	-	897,688	-	2,367,581
Current portion of future lease rentals payable to component unit	80,163	-	-	-	80,163
Current portion of workers' compensation	18,517	-	-	66,044	84,561
Current portion of lease rental bonds payable	-	270,000	-	-	270,000
Current portion of capitalized lease obligations	-	-	-	90,167	90,167
Current portion of vested compensated absences	16,914	-	-	18,715	35,629
Total current liabilities	2,344,384	319,261	897,688	1,147,979	4,709,312
Long-term liabilities					
Workers' compensation	63,599	-	-	226,832	290,431
Lease rental bonds payable	-	7,293,296	-	-	7,293,296
Capitalized lease obligations	-	-	-	60,280	60,280
Vested compensated absences	243,914	-	-	129,658	373,572
Other post-employment benefits	1,411,640	-	-	976,404	2,388,044
Future lease rentals payable to component unit	1,517,004	-	-	-	1,517,004
Total long-term liabilities	3,236,157	7,293,296	-	1,393,174	11,922,627
Total liabilities	5,580,541	7,612,557	897,688	2,541,153	16,631,939
NET POSITION					
Net investment in capital assets	41,699,307	27,403,763	-	(193,486)	68,909,584
Restricted					
Debt service	-	658,262	-	-	658,262
Unrestricted	6,415,385	(48,856)	2,409,352	162,324	8,938,205
Total net position	$ 48,114,692	$ 28,013,169	$ 2,409,352	$ (31,162)	$ 78,506,051

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

	Sewer Fund	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Operating revenues					
Charges for service	$ 12,255,043	$ 437,464	$ 6,608,376	$ 4,281,800	$ 23,582,683
Operating expenses					
Salaries and wages	1,744,080	-	-	808,942	2,553,022
Fringe benefits	1,091,994	-	-	440,261	1,532,255
Communications	20,963	-	-	2,592	23,555
Professional fees	95,681	-	-	13,519	109,200
Utilities	1,638,237	-	-	-	1,638,237
Insurance	390,509	-	-	36,169	426,678
Maintenance and repairs	574,758	-	-	113,550	688,308
Contracted services	855,433	-	5,796,913	974,970	7,627,316
Supplies	1,162,384	-	12,150	168,674	1,343,208
Depreciation	1,902,643	960,488	-	148,364	3,011,495
Total operating expenses	9,476,682	960,488	5,809,063	2,707,041	18,953,274
Operating income (loss)	2,778,361	(523,024)	799,313	1,574,759	4,629,409
Nonoperating revenues (expenses)					
State subsidy	1,033,017	16,525	-	51,853	1,101,395
Investment income	24,804	40	20	(250)	24,614
Interest expense	(387,203)	(417,884)	-	(4,294)	(809,381)
Amortization of bond issue costs	-	(18,262)	-	-	(18,262)
Gain on sale of assets	774	-	-	-	774
Total nonoperating revenues (expenses)	671,392	(419,581)	20	47,309	299,140
Income (loss) before contributions and transfers	3,449,753	(942,605)	799,333	1,622,068	4,928,549
Transfers in	-	219,341	-	-	219,341
Transfers out	-	-	-	(1,688,939)	(1,688,939)
Change in net position	3,449,753	(723,264)	799,333	(66,871)	3,458,951
Net position - beginning of year	44,664,939	28,736,433	1,610,019	35,709	75,047,100
Net position - end of year	$ 48,114,692	$ 28,013,169	$ 2,409,352	$ (31,162)	$ 78,506,051

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

	Sewer Fund	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Cash flows from operating activities					
Received from user charges	$13,241,998	$ 437,464	$ 6,110,641	$ 5,301,593	$25,091,696
Payments to employees for services	(1,736,428)	-	-	(790,866)	(2,527,294)
Payments for fringe benefits	(890,201)	-	-	(314,141)	(1,204,342)
Payments to suppliers for goods and services	(4,429,664)	-	(6,110,661)	(1,486,069)	(12,026,394)
Net cash provided by (used in) operating activities	6,185,705	437,464	(20)	2,710,517	9,333,666
Cash flows from noncapital financing activities					
Transfers in	-	219,341	-	-	219,341
Transfers out	-	-	-	(1,688,939)	(1,688,939)
State subsidy	-	-	-	51,853	51,853
Proceeds from (repayment of) amounts due to other funds	630,881	-	-	-	630,881
Net cash provided by (used in) noncapital financing activities	630,881	219,341	-	(1,637,086)	(786,864)
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(92,247)	(331,320)	-	-	(423,567)
Proceeds from sale of assets	774	-	-	-	774
Transfers to component unit	(2,050,000)	-	-	-	(2,050,000)
State subsidy	-	263,177	-	-	263,177
Interest paid	-	(415,350)	-	(4,294)	(419,644)
Lease, bond and note payments	(452,884)	(260,000)	-	(71,944)	(784,828)
Net cash used in capital and related financing activities	(2,594,357)	(743,493)	-	(76,238)	(3,414,088)
Cash flows from investing activities					
Sales (purchases) of investments	(5,078,364)	86,651	-	(492,320)	(5,484,033)
Investment income	24,804	37	20	(250)	24,611
Net cash provided by (used in) investing activities	(5,053,560)	86,688	20	(492,570)	(5,459,422)
Net increase (decrease) in cash and cash equivalents	(831,331)	-	-	504,623	(326,708)
Cash and cash equivalents (including restricted cash) - beginning of year	1,348,619	2,159	22	429,546	1,780,346
Cash and cash equivalents (including restricted assets) - end of year	$ 517,288	$ 2,159	$ 22	$ 934,169	$ 1,453,638

(continued)

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2012

	Sewer Fund	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ 2,778,361	$ (523,024)	$ 799,313	$ 1,574,759	$ 4,629,409
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation and amortization	1,902,643	960,488	-	148,364	3,011,495
Provision for uncollectible accounts	1,638,620	-	375,759	37,340	2,051,719
Changes in assets and liabilities					
Accounts receivable	(651,665)	-	(324,768)	(108,073)	(1,084,506)
Due from/to other funds	-	-	102,761	205,783	308,544
Due from/to component units	-	-	(651,487)	884,743	233,256
Other assets	238,548	-	-	(2,119)	236,429
Direct financing lease	159,217	-	-	-	159,217
Vested compensated absences	7,652	-	-	18,076	25,728
Other post-employment benefits	201,793	-	-	126,120	327,913
Workers' compensation	46,786	-	-	(223,552)	(176,766)
Accounts payable and other accrued costs	(136,250)	-	(301,598)	49,076	(388,772)
Net cash provided by (used in) operating activities	$ 6,185,705	$ 437,464	$ (20)	$ 2,710,517	$ 9,333,666
Noncash investing, capital, and financing activities					
Amortization of bond issuance costs and bond discount	$ -	$ 18,262	$ -	$ -	$ 18,262
Capital assets purchased by The Harrisburg Authority on behalf of the Sewer Fund	$ 2,006,745	$ -	$ -	$ -	$ 2,006,745

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2012

	Police Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 2,317,498
Receivables		
Due from City of Harrisburg	1,006,983	-
Interest and dividends	55,619	-
Total receivables	1,062,602	-
Investments, at fair value		
Money market funds	1,324,669	-
Certificates of deposit	2,195,666	-
Fixed income funds	14,153,808	-
U.S. Government obligations	1,318,214	-
U.S. Government agency obligations	1,936,462	-
Corporate bonds	3,267,162	-
Municipal bonds	122,244	-
Equity funds	39,025,679	-
Common stocks	1,444,878	-
Total investments	64,788,782	-
Total assets	65,851,384	2,317,498
LIABILITIES		
Due to other governments	-	426,879
Due to City's General Fund	-	202,153
Due to others	-	1,159,948
Escrow liabilities	-	528,518
Total liabilities	-	$ 2,317,498
NET POSITION		
Restricted for police pension benefits	$ 65,851,384	

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

Additions	
Contributions	
Employee	$ 522,377
Employer	2,524,734
Total contributions	3,047,111
Investment income	
Interest and dividend income	2,226,443
Net appreciation in fair value of investments	5,040,596
Total investment income	7,267,039
Less investment expense	(174,990)
Net investment income	7,092,049
Total additions	10,139,160
Deductions	
Pension benefits	4,276,388
Administrative expenses	77,997
Total deductions	4,354,385
Change in net position	5,784,775
Net position - beginning of year	60,066,609
Net position - end of year	$ 65,851,384

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

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, Pennsylvania, (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, the City's parking meters, and a portion of the parking tax collected by the City.

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.

	The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total Component Units
ASSETS					
Current assets					
Cash and cash equivalents	$ 12,842,083	$ 3,685,680	$ 533,040	$ 852,856	$ 17,913,659
Investments	-	-	-	72,831	72,831
Receivables, net of allowance for uncollectible accounts					
Accounts	4,139,146	1,004,950	-	186,373	5,330,469
Loans	-	-	-	351,350	351,350
Grants	-	-	-	120,500	120,500
Advances and amounts due from primary government	1,314,206	-	353,779	-	1,667,985
Prepaid expenses and other assets	980,788	141,612	-	-	1,122,400
Current portion of direct financing lease	80,163	-	-	-	80,163
Total current assets	19,356,386	4,832,242	886,819	1,583,910	26,659,357
Restricted assets					
Cash with fiscal agents	9,419,975	12	-	-	9,419,987
Investments	38,480,096	12,662,743	-	3,032,974	54,175,813
Total restricted assets	47,900,071	12,662,755	-	3,032,974	63,595,800
Advances to primary government	1,053,375	-	-	-	1,053,375
Future lease rentals receivable from primary government	1,517,004	-	-	-	1,517,004
Prepaid lease payment to primary government	-	7,400,000	-	-	7,400,000
Equitable ownership interest	-	12,880,460	-	-	12,880,460
Deferred charges, net of accumulated amortization	9,431,222	4,703,484	-	-	14,134,706
Right to building	-	-	-	20,369,411	20,369,411
Capital assets, not being depreciated	689,957	9,682,936	-	30,000	10,402,893
Capital assets, less accumulated depreciation	169,251,214	45,739,990	-	8,201,757	223,192,961
Deposits	350	-	-	-	350
Derivative assets	2,070,232	-	-	-	2,070,232
Total assets	251,269,811	97,901,867	886,819	33,218,052	383,276,549

(continued)

LIABILITIES	The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total Component Units
Current liabilities (payable from current assets)					
Accounts payable and accrued liabilities	100,420	1,420,911	6,064	112,254	1,639,649
Advances and amounts due to primary government	77,670,196	661,367	-	36,736	78,368,299
Current portion of capital lease	15,000,000	-	-	-	15,000,000
Accrued interest payable	6,085,233	-	-	41,038	6,126,271
Advances and amounts due to component unit	-	973,705	(973,705)	-	-
Unearned revenue	-	359,958	-	114,200	474,158
Current portion of bonds payable	-	3,805,000	-	-	3,805,000
Total current liabilities (payable from current assets)	98,855,849	7,220,941	(967,641)	304,228	105,413,377
Current liabilities (payable from restricted assets)					
Accounts payable	3,615,536	-	-	-	3,615,536
Accrued interest payable	6,197,140	1,418,400	-	-	7,615,540
Current portion of loan payable	8,645,310	-	-	-	8,645,310
Current portion of revenue bonds payable	8,381,000	-	-	-	8,381,000
Current portion of revenue notes payable	1,213,187	-	-	337,500	1,550,687
Total current liabilities (payable from restricted assets)	28,052,173	1,418,400	-	337,500	29,808,073
Noncurrent liabilities					
Loans payable	11,178,190	-	-	-	11,178,190
Revenue bonds payable, net of discount	272,281,015	101,251,531	-	51,934,990	425,467,536
Revenue notes payable, net of discount	68,099,176	-	-	894,287	68,993,463
Due to other governments	-	-	-	170,832	170,832
Due to primary government	64,924	-	-	-	64,924
Derivative liabilities	5,794,328	-	-	-	5,794,328
Unearned revenue	2,951,299	129,082	-	-	3,080,381
Other post-employment benefits	-	717,752	-	-	717,752
Environmental remediation liability	-	-	-	40,636	40,636
Accrued landfill closure and post-closure liability	2,037,568	-	-	-	2,037,568
Liability for obligations to construct assets under direct financing leases	702,755	-	-	-	702,755
Total liabilities	490,017,277	110,737,706	(967,641)	53,682,473	653,469,815
NET POSITION					
Net position					
Net investment in capital assets	(176,587,077)	(14,316,385)	-	7,000,816	(183,902,646)
Restricted:					
Debt service	213,239	-	-	3,032,974	3,246,213
Capital projects	3,310,965	-	-	-	3,310,965
Landfill closure	1,362,259	-	-	-	1,362,259
Guarantee agreement	250,000	-	-	-	250,000
Water operations	10,605,242	-	-	-	10,605,242
Unrestricted	(77,902,094)	1,480,546	1,854,460	(30,498,211)	(105,065,299)
Total net position	$ (238,747,466)	$ (12,835,839)	$ 1,854,460	$ (20,464,421)	$ (270,193,266)

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

CITY OF HARRISBURG
STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2012

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
The Harrisburg Authority	$ 62,625,014	$ 43,545,305	$ -	$ -
Harrisburg Parking Authority	13,379,547	13,645,728	-	-
Coordinated Parking Fund	6,412,550	5,570,068	-	-
Redevelopment Authority	4,906,271	204,926	556,633	124,250
Total component units	$ 87,323,382	$ 62,966,027	$ 556,633	$ 124,250

General revenues
Space rental income
Miscellaneous income
Unrestricted investment earnings

Total general revenues

Change in net position

Net position - January 1, 2012 - restated

Net position - December 31, 2012

Net (Expense) Revenue and Changes in Net Position				
The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total
$ (19,079,709)	$ -	$ -	$ -	$ (19,079,709)
-	266,181	-	-	266,181
-	-	(842,482)	-	(842,482)
-	-	-	(4,020,462)	(4,020,462)
(19,079,709)	266,181	(842,482)	(4,020,462)	(23,676,472)
-	-	-	931,914	931,914
-	252,239	-	64,449	316,688
(1,116,517)	376,639	-	159,553	(580,325)
(1,116,517)	628,878	-	1,155,916	668,277
(20,196,226)	895,059	(842,482)	(2,864,546)	(23,008,195)
(218,551,240)	(13,730,898)	2,696,942	(17,599,875)	(247,185,071)
$ (238,747,466)	$ (12,835,839)	$ 1,854,460	$ (20,464,421)	$ (270,193,266)

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 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, 2012.

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 the Mayor and confirmed 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. With respect to the water system, the contract requires that the Mayor prepare an operating expense 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 $5,300,974 in expenses under this agreement in 2012. 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 lease revenue bonds and notes for which the City pledged all sewer system revenues to secure The Harrisburg Authority's bonds and notes.

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.

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.

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, 2012:

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	$ 3,588,162
Capital Assets, Net	$ 29,648,847
Total Assets	$ 33,312,924
Net Position	$ 29,261,272
Operating Revenue	$ 7,075,726
Operating Loss	$ (15,488,342)
Change in Net Position	$ (200,424)
City Contribution to Operations	$ 204,820

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
Planning Commission
Private Industry Council
Tri-County Regional Planning Commission
Emergency Planning Committee
Board of Health
Historical and Architectural Review Board
Plumbing Board
Downtown Improvement District, Inc.
Susquehanna Area Regional Airport Authority
Harrisburg Human Relations Commission
License and Tax Appeals
Electrical Code Advisory and Licensing
Building Code Board of Appeals
Housing Code Board of Appeals
Civil Service Board
Zoning Hearing Board
Revolving Loan Review Committee

The amounts the City appropriated to these organizations during the year ended December 31, 2012 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, 2012, there has been no further negotiation and the organization continues to pay rent of $1 per year.

B. *Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position 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 and other post-employment benefit contributions are reported to the extent that they mature each period.

The City reports unearned revenue on its governmental fund balance sheet. Unearned revenues arise when a potential revenue does not meet the "measurable" and "available" criteria for recognition in the current period. Unearned 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 unearned 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 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.

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 sewage service to the residents and commercial and industrial establishments of the City as well as six municipalities surrounding 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, a minor league franchise 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.

Sanitation Fund – Accounts for the revenue and expenses associated with the collection of refuse and recyclable items and transportation of both to the solid waste facility.

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.

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 and its component units 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 and its component units carry their investments at fair value. The fair value of the 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 (DBHD) in the amount of $4,100,441 and the Mayor's Office of Equal Economic Opportunity (MOEEO) in the amount of $2,773,462, net of allowances for uncollectible accounts of $2,884,578 and $718,000, respectively. The balance of loans receivable that is reported in the General Fund, net of allowance for uncollectible accounts, is presented as restricted 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 unearned revenue. DBHD loans in the amount of $3,469,959 were written off during the year ended December 31, 2012. Write-offs are determined based on events of loan default, bankruptcy, or negotiated settlement with the City.

In June 2003, 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 the Governor's Square (formerly McClay Street) redevelopment project within the City. The grant funds were loaned to developers 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 uncollectible accounts at December 31, 2012.

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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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. ***Prepaid Expenses***

For the Authority, certain payments to vendors reflect costs applicable to future accounting periods. These payments are classified as prepaid expenses when made and expensed in future periods. The prepaid lease payment to the City will be expensed monthly from March 2, 2016 to March 1, 2026 in accordance with the amended lease agreement. The City recognized the full payment from the Authority as revenue in the General Fund during the year ended December 31, 2011. The City has reported this transaction as unearned revenue in the governmental activities and will recognize the revenue over the life of the lease agreement.

L. *Right to Building*

In 1998, the Redevelopment Authority purchased the right, title, and interest in and to certain portions of the Strawberry Square Site located in the City. The Redevelopment Authority is not entitled to any ownership of the buildings until 2016. The future right to the building is valued on the statement of net position at amortized cost. No amortization was required to be recorded through December 31, 2012.

M. *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 one year. 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 $2,447,811 at December 31, 2012. 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.

Capital assets of the primary government 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

<u>*The Harrisburg Authority*</u>

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 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 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

All capital assets are capitalized at historical cost at the acquisition date. Donated fixed assets are reported at their fair market value as of the date received. The Redevelopment Authority maintains a capitalization threshold of $5,000 for vehicles, equipment, and furniture and fixtures. Leasehold improvements, land improvements, buildings, and building improvements have a capitalization threshold of $25,000. All capital assets are depreciated, except for land, land improvements (excavation, fill, grading, landscaping), construction in progress, easements, and rights of way.

Depreciation is computed using the straight-line method over the following useful lives:

Buildings and building improvements	40 years
Land improvements	20 years
Furniture and fixtures	10 years
Leasehold improvements	7-10 years
Vehicles	7-10 years
Equipment	5 years

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

As further discussed in Note 23, during the years ended December 31, 2009, 2010, 2011, and 2012, 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 primary government on The Harrisburg Authority's statement of net position and as due to the various entities on the General Fund balance sheet and the governmental activities statement of net position at December 31, 2012. In addition, the amounts due to the various entities include accrued interest at various interest rates, dependent upon the applicable agreement.

In addition, as discussed in Note 23, during the year ended December 31, 2012, the City's bond insurer was required to make certain debt service payments on behalf of the City under a bond insurance agreement. These amounts are presented as due to bond insurer on the General Fund balance sheet and the governmental activities statement of net position at December 31, 2012.

O. *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.

P. *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

<u>*Redevelopment Authority of the City of Harrisburg*</u>

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 position.

Q. *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 position. Bond premiums and discounts, as well as issuance costs, are 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 assets 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, the Authority, and the Redevelopment 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 statement of net position, the amount of the unamortized deferred costs of refunding is reported as a deduction from the new liability. As of December 31, 2012, the unamortized deferred costs of refunding recorded by The Harrisburg Authority, the Authority, and the Redevelopment Authority were $21,785,544, $2,648,509, and $0, respectively.

R. *Fund Equity and Net Position*

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

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. 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 Position – 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 Position – This category represents the net position of the City, that is not restricted for any project or other purpose.

In the fund financial statements, governmental funds report fund balance in categories based on the level of constraints placed upon the funds. The levels are as follows:

Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures.

Restricted **–** This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.

Unassigned **–** This category represents all other funds not otherwise defined.

The City's policy is to use funds in the order of the most restrictive to the least restrictive.

S. *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, the actuarial accrued pension liability exceeded the actuarial value of assets in the Combined Police Pension Plan in the amount of $8,543,570. However, the actuarial value of assets exceeded the actuarial accrued pension liability in the Non-uniformed and Fire Pension Plans in the amounts of $21,568,647 and $13,201,626, respectively.

T. *Risk Management*

Primary Government

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 including workers' compensation excess coverage for those risks related to injuries of 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 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 $600,000 for each workers' compensation claim 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 position. A liability for these amounts is reported in governmental funds only if they have matured. The accrued cost for unpaid claims was $4,193,905 and $374,992 in the governmental activities and business-type activities, respectively, at December 31, 2012. 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	2012	2011
Beginning - January 1	$ 3,373,410	$ 551,758	$ 3,925,168	$ 4,429,630
Current year claims and changes in estimates	1,915,373	(103,378)	1,811,995	634,960
Claim payments	(1,094,878)	(73,388)	(1,168,266)	(1,139,422)
Ending - December 31	$ 4,193,905	$ 374,992	$ 4,568,897	$ 3,925,168

Component Units

The City's discretely presented component units are 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. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in 2012. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

U. *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.

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. The Budget staff conducts public hearings to review the department's budget requests.

4. Mayoral hearings are then held during October 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 shall be permitted into or within any personnel line-items to augment any individual wage or salary allocation previously established by City Council for any position without City Council approval, except to accommodate payments to employees as required under applicable laws or collective bargaining agreements. 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 2012.

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

V. *Special Items*

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

W. *Use of Estimates*

Management of the City and its discretely presented component units have 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, 2012, non-recourse debt issues outstanding of The Harrisburg Authority totaled $89,355,000. As of December 31, 2012, non-recourse debt issues of the Redevelopment Authority totaled approximately $25,744,000 including approximately $10,036,000 on behalf of the City. See Note 23 regarding a material event notice issued by an entity for which The Harrisburg Authority issued non-recourse debt.

Y. *Pending Changes in Accounting Principles*

In June 2011, the Governmental Accounting Standards Board (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 December 31, 2013 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 December 31, 2013 financial statements.

In March 2012, GASB issued Statement No. 66, *"Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62."* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions,"* and Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* The provisions of this Statement are effective for the City's December 31, 2013 financial statements.

In June 2012, GASB issued Statements No. 67 and 68, *"Financial Reporting for Pension Plans"* and *"Accounting and Financial Reporting for Pensions."* These Statements revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of these Statements are effective for the City's December 31, 2014 and 2015 financial statements.

In January 2013, GASB issued Statement No. 69, *"Government Combinations and Disposals of Government Operations."* Statement No. 69 establishes accounting and reporting standards related to government combinations and disposals of government operations. The provisions of this Statement are effective for the City's December 31, 2014 financial statements.

In April 2013, GASB issued Statement No. 70, *"Accounting and Financial Reporting for Nonexchange Financial Guarantees."* Statement No. 70 improves accounting and financial reporting by governments that extend and receive nonexhange financial guarantees. The provisions of this Statement are effective for the City's December 31, 2014 financial statements.

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. Any investment authorized by 20 Pa. C.S. Ch. 73 (relating to fiduciary investments) is an authorized investment for any pension or retirement fund. 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, 2012, 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, 2012, the deposits of the City of Harrisburg, including component units were as follows:

Reconciliation to statement of net position:	
Governmental activities	
Unrestricted	$ 1,867,422
Restricted	682,432
Business-type activities	
Unrestricted	1,451,479
Restricted	2,159
Fiduciary funds - agency fund	2,317,498
Total primary government	$ 6,320,990
Component units	
Unrestricted	$ 17,913,659
Restricted	9,419,987
Total component units	$ 27,333,646

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, 2012, the City's book balance was $6,320,990 and the bank balance was $6,148,223. Of the bank balance, $571,913 was covered by federal depository insurance and $5,449,860 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), 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 remaining bank balance of $126,450 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, 2012, 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, 2012 were as follows:

Cash and cash equivalents	
Unrestricted	$ 12,842,083
Restricted under trust indentures	
and guarantee agreement	9,419,975
	$ 22,262,058

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, 2012, The Harrisburg Authority's book balance was $22,262,058 and the bank balance was $23,472,115. Of the bank balance, $515,954 was covered by federal depository insurance and $22,956,161 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), 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 has elected to apply this law to the Fund's 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.

Custodial credit risk. The Authority pools certain of its deposits with the Fund. At December 31, 2012, the pooled account had a book and bank balance of $4,218,732 and $3,640,878, respectively. Of the pooled bank balance, $250,000 was covered by federal depository insurance at December 31, 2012, and $502,629 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly (Act), 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 remaining $2,888,249 was invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST). INVEST issues audited financial statements that are available to the public. The fair value of the Authority's and the Fund's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool. At December 31, 2012, INVEST carried a AAA rating and had an average weighted maturity of less than one year. At December 31, 2012, the Authority's position in the pool was $3,685,692, and the Fund's position in the pool was $533,040.

Redevelopment Authority of the City of Harrisburg

Custodial Credit Risk. As of December 31, 2012, the Redevelopment Authority's book balance was $852,856 and the bank balance was $882,208. Of the bank balance, $523,083 was covered by federal depository insurance. The remaining balance of $359,125 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Investments

At December 31, 2012, the investments of the City were as follows:

Primary Government	
Unrestricted investments	
Money market funds	$ 1,167,569
External investment pool	13,383,875
Total unrestricted investments	14,551,444
Restricted investments	
Money market funds	660,145
Total restricted investments	660,145
Fiduciary funds	
Money market funds	1,324,669
Certificates of deposit	2,195,666
Fixed income funds	14,153,808
U.S. Government obligations	1,318,214
U.S. Government agency obligations	1,936,462
Corporate bonds	3,267,162
Municipal bonds	122,244
Equity funds	39,025,679
Common stocks	1,444,878
Total fiduciary funds	64,788,782
Total primary government	$ 80,000,371

Component Units	
Unrestricted investments	
Money market funds	$ 72,831
Total unrestricted investments	72,831
Restricted investments	
Money market funds	28,471,613
External investment pool	4,439,389
U.S. Government agency obligations	9,572,700
Guaranteed investment contracts	2,998,654
Municipal bonds	8,693,457
Total restricted investments	54,175,813
Total component units	$ 54,248,644

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 $80,000,371, $15,211,589 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, 2012, there were no investments that represent more than five percent of the City's total investments.

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, 2012:

	Fair Value	Rating
Money market funds	$ 1,984,814	AAA
Money market funds	$ 1,167,569	Unrated
External investment pools	$ 13,383,875	AAA
Fixed income funds	$ 8,074,920	AA
Fixed income funds	$ 2,015,326	A
Fixed income funds	$ 4,063,562	B
U.S. Government agency obligations	$ 1,936,462	AA+
Corporate bonds	$ 100,061	Unrated
Corporate bonds	$ 349,144	AAA
Corporate bonds	$ 132,471	AA+
Corporate bonds	$ 320,777	AA-
Corporate bonds	$ 263,486	AA
Corporate bonds	$ 486,376	A+
Corporate bonds	$ 950,769	A
Corporate bonds	$ 553,858	A-
Corporate bonds	$ 110,220	BBB+
Municipal bonds	$ 122,244	AA

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:

		Investment Maturities			
Investment Type	Fair Value	2013	2014-2018	2019-2023	2024 and beyond
Money market funds	$ 3,152,383	$ 3,152,383	$ -	$ -	$ -
External investment pool	13,383,875	13,383,875	-	-	-
Certificates of deposit	2,195,666	-	2,195,666	-	-
Fixed income funds	14,153,808	-	-	12,109,777	2,044,031
U.S. Government obligations	1,318,214	418,316	534,776	168,788	196,334
U.S. Government agency obligations	1,936,462	-	358,709	23,522	1,554,231
Corporate bonds	3,267,162	63,729	1,079,932	1,382,949	740,552
Municipal bonds	122,244	-	-	-	122,244
Total	$ 39,529,814	$ 17,018,303	$ 4,169,083	$ 13,685,036	$ 4,657,392

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, 2012. Interest of

$1,517,569 has been earned on the deposits and claims of $700,000 have been paid from the trust account from inception through December 31, 2012. 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 $1,167,569 at December 31, 2012, of which $153,070 is included in the General Fund, $735,036 is included in the Sewer Fund and $279,463 is included in the Sanitation Fund as investments at December 31, 2012.

Component Units

The Harrisburg Authority

The restricted investments of The Harrisburg Authority at December 31, 2012 were as follows:

Money market funds	$ 20,213,939
U.S. Government agency obligations	9,572,700
Municipal bonds	8,693,457
Total	$ 38,480,096

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:

	Fair Value	% of Total
Federal National Mortgage Association	$ 7,345,192	19.09%
General Obligation Pension Bonds - Illinois State	6,293,196	16.35%
Taxable Pension Bonds - Scranton, PA	2,400,261	6.24%

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, 2012:

	Fair Value	Rating
Money market funds	$ 20,213,939	AAA
U.S. Government agency obligations	9,572,700	AA+
Municipal bonds	6,293,196	A+
Municipal bonds	2,400,261	BBB-

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

		Investment Maturities			
	Fair Value	2013	2014-2018	2019-2023	2024 and beyond
Money market funds	$ 20,213,939	$ 20,213,939	$ -	$ -	$ -
U.S. government agency obligations	9,572,700	2,776,193	-	-	6,796,507
Municipal bonds	8,693,457	-	-	-	8,693,457
Total	$ 38,480,096	$ 22,990,132	$ -	$ -	$ 15,489,964

As further described in Note 16, The Harrisburg Authority has several derivative instruments that are accounted for as investments. Credit and interest rate risks related to these investments are described in Note 16.

<u>*Harrisburg Parking Authority*</u>

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, 2012, 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, 2012 were as follows:

Money market funds	$ 8,223,354
Commercial paper	4,439,389
Total	$ 12,662,743

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:

	Fair Value	Percent of Investments
Restricted:		
Commercial paper:		
Fortis Funding LLC	$ 4,439,389	35.06%

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, 2012:

		Fair Value	Rating
Restricted:			
Money market funds	$	8,223,354	AAA
Commercial paper	$	4,439,389	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, 2012, 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

Restricted investments represent resources set aside for liquidation of specific obligations.

The fair value of the investments of the Redevelopment Authority at December 31, 2012 was as follows:

Investments		Fair (Contract) Value
Money market funds	$	106,305
External investment pool		846
Guaranteed investment contracts		2,998,654
Total investments	$	3,105,805
Investments		
Unrestricted	$	72,831
Restricted		3,032,974
Total investments	$	3,105,805

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, 2012, 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.

Concentration of Credit Risk. The Redevelopment Authority places no limit on the amount the Redevelopment Authority may invest in any one issuer. At December 31, 2012, 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%	$ 2,998,654	96.55%

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, 2012:

	Fair (Contract) Value	Rating
Money market funds	$ 106,305	AAA
External investment pool	846	AAA
Guaranteed investment contracts	2,998,654	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, 2012:

		Investment Maturities			
	Fair (Contract) Value	2013	2014-2018	2019-2023	2024 and beyond
Money market funds	$ 106,305	$ 106,305	$ -	$ -	$ -
External investment pool	846	846	-	-	-
Guaranteed investment contracts	2,998,654	-	1,338,657	-	1,659,997
Total	$ 3,105,805	$ 107,151	$ 1,338,657	$ -	$ 1,659,997

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 2012 is as follows:

January 1, 2012	- lien date
January 31, 2012	- original levy date
January 31 – March 31, 2012	- 2% discount period
April 1 – May 31, 2012	- face payment period
June 1 – December 31, 2012	- 10% penalty period
January 1, 2013	- 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

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 2012 was 5.16 mills on improvements and 30.97 mills on land. Both land and improvements are assessed at 100% of market value, with an effective combined equivalent single millage rate of 10.8578 mills.

Property taxes are recorded as of the date levied. Amounts not collected within sixty days after the end of the year are reported as unearned 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, 2012 is as follows:

Primary Government	Due from Other Funds	Due to Other Funds
General Fund	$ 2,035,735	$ 2,142,516
Grant Programs Fund	769,976	932,375
Debt Service Fund	734,970	-
Nonmajor governmental funds	189,205	726,127
Total governmental funds	3,729,886	3,801,018
Sewer Fund	876,342	197,658
Harrisburg Senators Fund	78,386	-
Incinerator Fund	383,541	-
Sanitation Fund	-	867,326
Total proprietary funds	1,338,269	1,064,984
Agency Fund	-	202,153
Total primary government	$ 5,068,155	$ 5,068,155

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	$ 442,234	$ -	$ -	$ -
Nonmajor governmental funds	151,271	-	-	89,245
Sewer Fund	174,675	-	-	1,469,893
Harrisburg Senators Fund	36,736	-	-	-
Incinerator Fund	1,082,972	-	-	897,688
Sanitation Fund	35,946	-	-	-
Component Units	-	78,168,689	2,456,826	-
Total	$ 1,923,834	$ 78,168,689	$ 2,456,826	$ 2,456,826

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 Facility debt as discussed further in Note 23. 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 $6 million in debt service payments made by the City under the guarantees, and the approximately $65 million paid by the second guarantor and the bond insurer, and the related accrued interest, 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.

Under the Third Amendment to the Municipal Waste Disposal Agreement with the City, the City waived the requirement that The Harrisburg Authority pay a host municipality benefit fee to the City of $1 for every ton of waste delivered to the Resource Recovery Facility. In lieu of paying a host municipality benefit fee, The Harrisburg Authority had agreed to allow the City to occupy and/or access the Public Works Complex Facilities and the Dewatering & Drying Building (D & D Building) on the Resource Recovery Facility site and provide heat to these buildings at no cost to the City. During the year ended December 31, 2012, the City rescinded the third amendment to the Municipal Waste Disposal Agreement via Resolution No. 24-2012. The Harrisburg Authority at its November 28, 2012 meeting approved Resolution 2012-009: Authorization of Rescission of Third Amendment to the Municipal Waste Disposal Agreement between The Harrisburg Authority and the City (re: Reinstatement of host municipality benefit fees to be paid to the City by the Operator of the Harrisburg Resource Recovery Facility). The Harrisburg Authority Board authorized the approval and execution of the Rescission of Third Amendment to the Municipal Waste Disposal Agreement between The Harrisburg Authority and the City, contingent upon the City's proper approval and execution of the Commercial Lease Agreements relative to the Public Works Complex Facility and the D & D Building for the period July 1, 2012 through December 31, 2012 located at the Harrisburg Resource Recovery Facility. Execution of the Rescission Agreement will reinstate the host municipality benefit fee payable to the City by the operator of the Harrisburg Resource Recovery Facility. Authorization and approval of execution of the Rescission of Third Amendment Agreement as stated above was previously approved by the City via Resolution No. 24-2012. The Harrisburg Authority has not received properly approved and executed Commercial Lease Agreements from the City and, consequently, The Harrisburg Authority has not issued or accrued the host municipality benefit fee payments to the City.

The composition of interfund transfers for the year ended December 31, 2012 is as follows:

Primary Government	Transfers In	Transfers Out
General Fund	$ 4,558,847	$ 11,446,210
Grant Programs Fund	-	2,282,024
Debt Service Fund	11,446,210	219,341
Nonmajor governmental funds	-	587,884
Total governmental funds	16,005,057	14,535,459
Harrisburg Senators Fund	219,341	-
Sanitation Fund	-	1,688,939
Total proprietary funds	219,341	1,688,939
Total primary government	$ 16,224,398	$ 16,224,398

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

5. INTERGOVERNMENTAL REVENUE, RECEIVABLES, AND PAYABLES

The General Fund intergovernmental revenue for the year ended December 31, 2012 is as follows:

Commonwealth of Pennsylvania, Pension System Aid	$ 2,543,634
Harrisburg Parking Authority, excess parking revenue	250,000
Commonwealth of Pennsylvania, Capital fire protection	2,500,000
Utilities payments in lieu of taxes from other governments	35,704
	$ 5,329,338

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	$ 2,137,248
Lead Based Paint Grant	208,996
HOME Program	723,358
Section 108 Program	380,434
Federal and Pennsylvania Emergency Management Agency	1,011,282
Federal and state capital projects	4,779,139
Justice Assistance Grant	36,541
Homelessness Prevention and Rapid Re-housing Program	97,049
COPS grant	291,567
Emergency Solutions Grant	71,085
Pennsylvania Department of Community and Economic Development	1,889,023
Other state/federal grants	62,454
	$ 11,688,176

The Grant Programs Fund had unearned revenue of $1,670,210 at December 31, 2012, representing payments received in advance for various grant programs. The remaining deferred revenues of $1,268,791 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.

The cost of the artifacts to be sold amounted to $7,843,648. As of December 31, 2012, the City has sold artifacts with an approximate cost of $2.1 million. The proceeds of the sale, through December 31, 2012, 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. During the year ended December 31, 2010, the City entered into an agreement with the aforementioned vendor's estate, which resulted in a $450,000 settlement to the City.

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. No revaluation has been performed through the date of this report. However, during the summer of 2013, the City held an auction of a portion of these artifacts and the proceeds, net of commission, were approximately $2.1 million.

8. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 is as follows:

Primary Government

	Beginning of Year	Additions	Retirements and Dispositions	End of Year
Governmental activities				
Capital assets, not being depreciated				
Land	$ 7,144,863	$ -	$ -	$ 7,144,863
Construction in progress	1,005,699	4,489,112	-	5,494,811
Artifacts	18,649,000	-	-	18,649,000
Total capital assets, not being depreciated	26,799,562	4,489,112	-	31,288,674
Capital assets, being depreciated				
Buildings	64,714,314	410,000	-	65,124,314
Improvements	16,751,620	295,349	-	17,046,969
Equipment and furniture	33,123,868	904,875	(3,110)	34,025,633
Infrastructure	97,169,707	-	-	97,169,707
Total capital assets, being depreciated	211,759,509	1,610,224	(3,110)	213,366,623
Less accumulated depreciation for				
Buildings	(31,496,236)	(1,614,800)	-	(33,111,036)
Improvements	(6,884,423)	(383,625)	-	(7,268,048)
Equipment and furniture	(29,610,690)	(1,775,761)	3,110	(31,383,341)
Infrastructure	(66,605,012)	(2,717,455)	-	(69,322,467)
Total accumulated depreciation	(134,596,361)	(6,491,641)	3,110	(141,084,892)
Total capital assets, being depreciated, net	77,163,148	(4,881,417)	-	72,281,731
Governmental activities, capital assets, net	$ 103,962,710	$ (392,305)	$ -	$ 103,570,405

	Beginning of Year	Additions/ Transfers In	Retirements and Dispositions/ Transfers Out	End of Year
Business-type activities				
Capital assets, not being depreciated				
Land	$ 361,421	$ -	$ -	$ 361,421
Construction in progress	3,472,348	2,047,992	(1,024,618)	4,495,722
Total capital assets, not being depreciated	3,833,769	2,047,992	(1,024,618)	4,857,143
Capital assets, being depreciated				
Buildings	72,186,406	219,959	-	72,406,365
Improvements	2,685,962	-	-	2,685,962
Equipment and furniture	47,392,224	1,140,851	-	48,533,075
Infrastructure	13,790,448	-	-	13,790,448
Total capital assets, being depreciated	136,055,040	1,360,810	-	137,415,850
Less accumulated depreciation for				
Buildings	(21,843,854)	(1,568,702)	-	(23,412,556)
Improvements	(836,423)	(28,286)	-	(864,709)
Equipment and furniture	(32,505,530)	(1,280,452)	-	(33,785,982)
Infrastructure	(6,599,497)	(134,055)	-	(6,733,552)
Total accumulated depreciation	(61,785,304)	(3,011,495)	-	(64,796,799)
Total capital assets, being depreciated, net	74,269,736	(1,650,685)	-	72,619,051
Business-type activities, capital assets, net	$ 78,103,505	$ 397,307	$ (1,024,618)	$ 77,476,194

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

Governmental activities:	
General government	$ 1,722,786
Building and housing development	140,894
Public safety	1,109,924
Public works	2,682,094
Parks and recreation	835,943
Total depreciation expense - governmental activities	$ 6,491,641
Business-type activities:	
Sewer	$ 1,902,643
Harrisburg Senators	960,488
Sanitation	148,364
Total depreciation expense - business-type activities	$ 3,011,495

Component Units

	Beginning of Year	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
The Harrisburg Authority				
Capital assets, not being depreciated				
Artifacts	$ 351,865	$ -	$ -	$ 351,865
Construction in progress	250,444	162,711	(75,063)	338,092
Total capital assets, not being depreciated	602,309	162,711	(75,063)	689,957
Capital assets, being depreciated				
Land improvements	2,847,743	-	-	2,847,743
Buildings and improvements	130,277,114	405,991	-	130,683,105
Furniture and fixtures	663,695	-	-	663,695
Machinery and equipment	111,701,093	3,744,467	(126,621)	115,318,939
Total capital assets being depreciated	245,489,645	4,150,458	(126,621)	249,513,482
Less accumulated depreciation	(72,911,480)	(7,477,409)	126,621	(80,262,268)
Total accumulated depreciation	(72,911,480)	(7,477,409)	126,621	(80,262,268)
Total capital assets being depreciated, net	172,578,165	(3,326,951)	-	169,251,214
The Harrisburg Authority, capital assets, net	$ 173,180,474	$ (3,164,240)	$ (75,063)	$ 169,941,171

	Beginning of Year	Additions	Retirements	End of Year
Harrisburg Parking Authority				
Capital assets, not being depreciated				
Land	$ 6,939,212	$ -	$ -	$ 6,939,212
Construction in progress	486,490	2,257,234	-	2,743,724
Total capital assets, not being depreciated	7,425,702	2,257,234	-	9,682,936
Capital assets, being depreciated				
Land improvements	127,922	-	-	127,922
Buildings and improvements	86,354,419	391,983	-	86,746,402
Furniture and fixtures	329,882	1,593	-	331,475
Machinery and equipment	2,410,493	38,102	-	2,448,595
Total capital assets being depreciated	89,222,716	431,678	-	89,654,394
Less accumulated depreciation	(40,506,457)	(3,407,947)	-	(43,914,404)
Total accumulated depreciation	(40,506,457)	(3,407,947)	-	(43,914,404)
Total capital assets being depreciated, net	48,716,259	(2,976,269)	-	45,739,990
Harrisburg Parking Authority, capital assets, net	$ 56,141,961	$ (719,035)	$ -	$ 55,422,926

	Beginning of Year	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
Redevelopment Authority of the City of Harrisburg				
Capital assets, not being depreciated				
Construction in progress	$ 2,698,699	$ 14,579	$ (2,713,278)	$ -
Land	30,000	-	-	30,000
Total capital assets, not being depreciated	2,728,699	14,579	(2,713,278)	30,000
Capital assets, being depreciated				
Buildings	2,093,040	-	-	2,093,040
Leasehold improvements	4,147,949	2,713,278	-	6,861,227
Total capital assets being depreciated	6,240,989	2,713,278	-	8,954,267
Less accumulated depreciation for				
Buildings	(130,815)	(52,326)		(183,141)
Leasehold improvements	(414,796)	(154,573)	-	(569,369)
Total accumulated depreciation	(545,611)	(206,899)	-	(752,510)
Total capital assets being depreciated, net	5,695,378	2,506,379	-	8,201,757
Redevelopment Authority of the City of Harrisburg, capital assets, net	$ 8,424,077	$ 2,520,958	$ (2,713,278)	$ 8,231,757

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2012 is as follows:

Primary Government

	Beginning of Year	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
Governmental activities:						
Workers' compensation claims	$ 3,373,410	$ 1,915,373	$ -	$ (1,094,878)	$ 4,193,905	$ 945,726
Bonds payable (Note 10)	34,858,781	-	1,668,154	(5,285,000)	31,241,935	5,182,084
Notes payable (Note 12)	46,485,095	-	2,096,582	(4,829,365)	43,752,312	4,838,610
Capital lease obligations (Note 14)	3,179,449	-	-	(749,146)	2,430,303	1,385,316
Vested compensated absences	6,245,618	4,241,600	-	(4,131,843)	6,355,375	690,698
Contingent liability for component unit debt	233,111,820	-	-	(3,566,348)	229,545,472	-
Settlement with suburban municipalities (Note 15)	-	11,225,000	-	-	11,225,000	4,500,000
Governmental activities Long-term liabilities	$ 327,254,173	$ 17,381,973	$ 3,764,736	$ (19,656,580)	$ 328,744,302	$ 17,542,434

	Beginning of Year	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
Business-type activities:						
Workers' compensation claims	$ 551,758	$ (103,378)	$ -	$ (73,388)	$ 374,992	$ 84,561
Bonds payable (Note 10)	7,819,267	-	4,029	(260,000)	7,563,296	270,000
Capital lease obligations (Note 14)	222,391	-	-	(71,944)	150,447	90,167
Vested compensated absences	383,473	408,513	-	(382,785)	409,201	35,629
Lease rental payable (Note 14)	1,681,127	-	-	(83,960)	1,597,167	80,163
Business-type activities Long-term liabilities	$ 10,658,016	$ 305,135	$ 4,029	$ (872,077)	$ 10,095,103	$ 560,520

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

Component Units

	Beginning of Year	Additions	Amortization	Retirements	End of Year	Current Portion
The Harrisburg Authority:						
Loans payable (Note 13)	$ 19,823,500	$ -	$ -	$ -	$ 19,823,500	$ 8,645,310
Bonds payable (Note 10)	305,420,000	-	-	(8,145,000)	297,275,000	8,381,000
Notes payable (Note 12)	69,737,921	-	-	(1,163,997)	68,573,924	1,213,187
Capital lease obligation (Note 14)	15,000,000	-	-	-	15,000,000	15,000,000
Total long-term liabilities	409,981,421	-	-	(9,308,997)	400,672,424	33,239,497
Less:						
Deferred loss on refunding	(24,443,365)	-	2,657,821	-	(21,785,544)	-
Unamortized premium	6,419,763	-	(508,765)	-	5,910,998	-
The Harrisburg Authority Long-term liabilities	$ 391,957,819	$ -	$ 2,149,056	$ (9,308,997)	$ 384,797,878	$ 33,239,497

	Beginning of Year	Additions	Amortization	Retirements	End of Year	Current Portion
Harrisburg Parking Authority:						
Bonds payable (Note 10)	$ 111,200,000	$ -	$ -	$ (3,665,000)	$ 107,535,000	$ 3,805,000
Less:						
Deferred loss on refunding	(3,027,063)	-	378,554	-	(2,648,509)	-
Unamortized premium	218,172	-	(48,132)	-	170,040	-
Harrisburg Parking Authority Long-term liabilities	$ 108,391,109	$ -	$ 330,422	$ (3,665,000)	$ 105,056,531	$ 3,805,000

	Beginning of Year	Additions	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)	1,290,652	-	-	(58,865)	1,231,787	337,500
Due to other governments	170,832	-	-	-	170,832	-
Total long-term liabilities	95,051,484	-	-	(58,865)	94,992,619	337,500
Less:						
Unamortized discount	(44,512,112)	-	2,857,102	-	(41,655,010)	-
Redevelopment Authority of the City of Harrisburg Long-term liabilities	$ 50,539,372	$ -	$ 2,857,102	$ (58,865)	$ 53,337,609	$ 337,500

10. BONDS PAYABLE

Bonds payable at December 31, 2012 are as follows:

	Primary Government		
	Governmental Activities	Business-type Activities	Total Primary Government
Bonds payable	$ 31,241,935	$ 7,605,000	$ 38,846,935
Unamortized discount	-	(41,704)	(41,704)
Total bonds payable	$ 31,241,935	$ 7,563,296	$ 38,805,231

	Component Units			
	The Harrisburg Authority	Harrisburg Parking Authority	Redevelopment Authority	Total Component Units
Bonds payable	$ 297,275,000	$ 107,535,000	$ 93,590,000	$ 498,400,000
Deferred loss on refunding	(21,785,544)	(2,648,509)	-	(24,434,053)
Unamortized premium (discount)	5,172,559	170,040	(41,655,010)	(36,312,411)
Total bonds payable	$ 280,662,015	$ 105,056,531	$ 51,934,990	$ 437,653,536

Bonds payable are accounted for in the following activities:

	Governmental Activities	Business-type Activities	Total Primary Government
General Obligation Bonds			
Series D of 1997	$ 28,810,787	$ -	$ 28,810,787
Total general obligation bonds	28,810,787	-	28,810,787
Revenue Bonds			
Senators Revenue Bonds			
Series A-2 of 2005	-	7,605,000	7,605,000
Less: Unamortized discount	-	(41,704)	(41,704)
Lease Revenue Bonds			
Series of 2006	2,431,148	-	2,431,148
Total revenue bonds	2,431,148	7,563,296	9,994,444
Total bonds payable	$ 31,241,935	$ 7,563,296	$ 38,805,231

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	36,535,000	-	-	36,535,000
Water Revenue Bonds, Series A, B, and C of 2002	41,615,000	-	-	41,615,000
Water Revenue Bonds, Series A of 2001	2,670,000	-	-	2,670,000
Resource Recovery Facility Revenue Bonds, Series of A, D, E, and F of 2003	135,870,000	-	-	135,870,000
Resource Recovery Facility Revenue Bonds, Series of A of 1998	11,165,000	-	-	11,165,000
Office and Parking Revenue Bonds:				
Series K of 2000	-	11,800,000	-	11,800,000
Series J of 2001	-	25,930,000	-	25,930,000
Series N of 2003	-	2,825,000	-	2,825,000
Series O of 2003	-	6,680,000	-	6,680,000
Series P of 2005	-	16,450,000	-	16,450,000
Series R of 2007	-	15,905,000	-	15,905,000
Series T of 2007	-	17,300,000	-	17,300,000
Series U of 2011	-	10,645,000	-	10,645,000
Guaranteed Revenue Bonds, Series A and B of 1998	-	-	93,590,000	93,590,000
Less: Deferred loss on refunding and unamortized premium (discount)	(16,612,985)	(2,478,469)	(41,655,010)	(60,746,464)
Total bonds payable	$ 280,662,015	$ 105,056,531	$ 51,934,990	$ 437,653,536

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. At December 31, 2012, the City was not in compliance with such covenants. See Note 23 for further information on the City's compliance.

The composition of bonds outstanding included in the primary government at December 31, 2012 is as follows:

General Obligation Bonds	
5.35%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of $971,701 to $4,337,084 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.	$ 28,810,787
Revenue Bonds	
4.69%-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.	7,605,000
2.25%, Lease Revenue Bonds, Series of 2006, dated December 2006, principal payable in various installments through May 2015, to be serviced through general revenues of the City and proceeds from the sale of historic artifacts, issued to finance the lease payments of the McCormick Public Service Center.	2,431,148
Total primary government bonds payable	38,846,935
Less: unamortized discount	(41,704)
Net primary government bonds payable	$ 38,805,231

The composition of bonds outstanding included in the component units at December 31, 2012 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 2024 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.	36,535,000
4.25%-5.00%, Water Revenue Bonds, Series A, B, and C 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 from 2013 through 2019.	41,615,000
3.40%-5.75%, Water Revenue Bonds, Series A of 2001, dated May 2001. The bonds mature at various amounts from 2002 through 2015.	2,670,000
4.45%-6.25%, Resource Recovery Facility 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.	135,870,000
4.45%-5.00%, Resource Recovery Facility Revenue Bonds, Series A of 1998. Series A matures at various amounts from 2006 through 2021.	11,165,000
Total The Harrisburg Authority	297,275,000
Less: deferred loss on refunding and unamortized premium	(16,612,985)
Net The Harrisburg Authority	$ 280,662,015

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 .20% at December 31, 2012.	$ 11,800,000
2.8%-5.125%, 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.	25,930,000
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.	2,825,000
1.5%-5.25%, 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.	6,680,000
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.	16,450,000
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.	15,905,000
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.	17,300,000
8.5%-10.75%, Series U Bonds, dated September 14, 2011, consisting of serial bonds maturing from March 1, 2016 to March 1, 2026 in annual installments of various amounts.	10,645,000
Total Harrisburg Parking Authority	107,535,000
Less: deferred loss on refunding and unamortized premium	(2,478,469)
Net Harrisburg Parking Authority	$ 105,056,531

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	(41,655,010)
Net Redevelopment Authority of the City of Harrisburg	$ 51,934,990
Total component unit bonds payable	$ 437,653,536

The Harrisburg Authority

The Harrisburg Authority has entered into five 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 $3,278,698, at December 31, 2012, 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 $1,555,987 at December 31, 2012, is being amortized over the respective life of each agreement under a method that approximates the interest method.

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 The Harrisburg Authority's Resource Recovery Facility. In the fall of 2008, Lehman Special Financing filed for bankruptcy protection under the U. S. Bankruptcy Code. As of the date hereof, neither The 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.

Because debt service is not being paid by The Harrisburg Authority on certain Resource Recovery Facility obligations, there are limited funds to purchase securities under these agreements. Certain of the Resource Recovery Facility forward debt service delivery agreements give the provider the right, upon default, to terminate such agreements. If the provider determines to terminate the agreement, it must first give notice of such termination in accordance with the agreement. Upon termination, The Harrisburg Authority could owe an amount of money to the provider equal to the termination value which would be calculated in accordance with the agreement. The calculation would yield the present value at the time of termination of the amounts to be earned through the investment of the future remaining deposits. No such notice of termination has been given.

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, 2012 totaled $36,033.

The debt service requirements for Series F Bonds were 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 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.

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.

The Authority bond indentures contain certain financial and reporting covenants. At December 31, 2012, the Authority was not in compliance with such covenants. See Note 23 for information on further information on the Authority's compliance.

The annual requirements to amortize all bonds outstanding as of December 31, 2012, using interest rates in effect at December 31, 2012 for variable rate issues, are as follows:

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Primary Government						
2013	$ 4,337,084	$ 162,916	$ 1,115,000	$ 430,256	$ 5,452,084	$ 593,172
2014	4,105,298	389,702	1,190,000	397,237	5,295,298	786,939
2015	3,886,357	608,643	971,148	365,379	4,857,505	974,022
2016	3,682,024	812,976	310,000	343,026	3,992,024	1,156,002
2017	3,488,437	1,006,563	325,000	327,403	3,813,437	1,333,966
2018-2022	9,311,587	4,408,411	1,890,000	1,367,436	11,201,587	5,775,847
2023-2027	-	-	2,435,000	809,443	2,435,000	809,443
2028-2030	-	-	1,800,000	146,004	1,800,000	146,004
	28,810,787	7,389,211	10,036,148	4,186,184	38,846,935	11,575,395
Less unamortized discount	-	-	(41,704)	-	(41,704)	-
Primary Government, net	$ 28,810,787	$ 7,389,211	$ 9,994,444	$ 4,186,184	$ 38,805,231	$ 11,575,395

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Harrisburg Authority						
2013	$ -	$ -	$ 8,381,000	$ 12,792,851	$ 8,381,000	$ 12,792,851
2014	-	-	9,257,000	14,652,353	9,257,000	14,652,353
2015	-	-	10,347,000	14,223,303	10,347,000	14,223,303
2016	-	-	10,517,000	13,742,551	10,517,000	13,742,551
2017	-	-	13,018,000	13,253,250	13,018,000	13,253,250
2018-2022	-	-	69,890,000	57,100,070	69,890,000	57,100,070
2023-2027	-	-	81,865,000	36,868,418	81,865,000	36,868,418
2028-2032	-	-	78,945,000	16,203,607	78,945,000	16,203,607
2033-2034	-	-	15,055,000	1,312,387	15,055,000	1,312,387
	-	-	297,275,000	180,148,790	297,275,000	180,148,790
Less deferred loss on refunding and unamortized premium	-	-	(16,612,985)	-	(16,612,985)	-
The Harrisburg Authority, net	$ -	$ -	$ 280,662,015	$ 180,148,790	$ 280,662,015	$ 180,148,790

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Harrisburg Parking Authority						
2013	$ -	$ -	$ 3,805,000	$ 5,023,602	$ 3,805,000	$ 5,023,602
2014	-	-	3,975,000	4,855,799	3,975,000	4,855,799
2015	-	-	4,185,000	4,680,811	4,185,000	4,680,811
2016	-	-	6,250,000	4,468,385	6,250,000	4,468,385
2017	-	-	5,155,000	4,150,861	5,155,000	4,150,861
2018-2022	-	-	34,635,000	16,282,064	34,635,000	16,282,064
2023-2027	-	-	38,325,000	7,804,541	38,325,000	7,804,541
2028-2032	-	-	7,215,000	1,547,663	7,215,000	1,547,663
2033-2036	-	-	3,990,000	369,225	3,990,000	369,225
	-	-	107,535,000	49,182,951	107,535,000	49,182,951
Less deferred loss on refunding and unamortized premium	-	-	(2,478,469)	-	(2,478,469)	-
Harrisburg Parking Authority, net	$ -	$ -	$ 105,056,531	$ 49,182,951	$ 105,056,531	$ 49,182,951

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Redevelopment Authority of the City of Harrisburg						
2016	$ -	$ -	$ 3,680,000	$ -	$ 3,680,000	$ -
2017	-	-	7,380,000	-	7,380,000	-
2018-2022	-	-	37,300,000	-	37,300,000	-
2023-2027	-	-	26,630,000	-	26,630,000	-
2028-2032	-	-	11,250,000	-	11,250,000	-
2033-2037	-	-	7,350,000	-	7,350,000	-
	-	-	93,590,000	-	93,590,000	-
Less unamortized discount	-	-	(41,655,010)	-	(41,655,010)	-
Redevelopment Authority of the City of Harrisburg, net	$ -	$ -	$ 51,934,990	$ -	$ 51,934,990	$ -
Total	$ 28,810,787	$ 7,389,211	$ 447,647,980	$ 233,517,925	$ 476,458,767	$ 240,907,136

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, 2012, the following bonds outstanding are considered defeased:

City of Harrisburg		
General Obligation Bonds, Series A of 1995	$	27,545,000
The Harrisburg Authority		
Resource Recovery Revenue Bonds, Series A of 1998		10,485,000
Resource Recovery Revenue Bonds, Series B of 1998		5,610,000
Resource Recovery Revenue Bonds, Series C of 1998		2,505,000
Seventh Street Office & Parking Revenue Bonds, Series A of 1998		8,920,000
Seventh Street Office & Parking Revenue Bonds, Series B of 1998		6,185,000
Resource Recovery Revenue Notes, Series B of 2000		540,000
	$	61,790,000

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 were to administer acquisition, relocation, and clearance of City properties. These notes do not have continuing compliance requirements.

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, 2012 is as follows:

5.75%-6.56%, Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of $240,000 to $335,000, through August 1, 2019, to be serviced through general revenues of the City.	$	2,000,000
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.		2,955,000
		4,955,000

The composition of notes payable included in the primary government at December 31, 2012 is as follows:

5.35%-5.52%, General Obligation Refunding Notes, Series F of 1997, dated December 31, 1997, principal payable in annual installments of $2,891,738 to $4,661,145 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.	37,106,954
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.	1,690,358
	38,797,312
Total primary government notes payable	$ 43,752,312

The composition of notes payable included in the component units at December 31, 2012 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.	$ 1,242,689
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.	12,350,000
.96%-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
1.27%-2.55%, The Harrisburg Authority, 2009 Guaranteed Sewer Revenue Note, payable through 2031, to finance capital improvements and replacements to the wastewater treatment facility.	1,611,235
Total The Harrisburg Authority	68,573,924
Plus: unamortized premium	738,439
Net The Harrisburg Authority	$ 69,312,363

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. However, the final principal payment has not been paid as of December 31, 2012, as the Redevelopment Authority is seeking loan forgiveness.	$	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.		383,334
4.83% for the first three years and variable based on the prime rate thereafter (3.25% at December 31, 2012), 2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is payable through December 10, 2026.		577,026
Total Redevelopment Authority of the City of Harrisburg	$	1,231,787
Total component units notes payable	$	70,544,150

The annual requirements to amortize all notes payable outstanding as of December 31, 2012, using interest rates in effect at December 31, 2012 for variable rate issues, are as follows:

	Governmental Activities			
Year Ending December 31,		Principal		Interest
Primary Government				
2013	$	4,838,610	$	511,520
2014		4,521,291		680,873
2015		4,342,914		845,191
2016		4,178,626		994,322
2017		4,036,522		1,135,176
2018-2022		20,979,349		11,028,855
2023-2026		855,000		123,916
	$	43,752,312	$	15,319,853

Component Units:

	The Harrisburg Authority			
Year Ending December 31,		Principal		Interest
2013	$	1,213,187	$	2,258,888
2014		1,290,965		2,199,528
2015		1,355,100		2,152,458
2016		1,428,747		2,084,471
2017		1,489,962		2,009,675
2018-2022		7,627,553		8,870,145
2023-2027		13,099,832		7,435,295
2028-2032		28,068,578		6,151,407
2033-2034		13,000,000		983,000
		68,573,924		34,144,867
Plus: unamortized premium		738,439		-
	$	69,312,363	$	34,144,867

Year Ending December 31,	Redevelopment Authority of the City of Harrisburg Principal	Interest
2013	$ 337,500	$ 59,106
2014	67,153	16,988
2015	68,268	15,873
2016	69,421	14,720
2017	70,611	13,530
2018-2022	372,338	48,370
2023-2026	246,496	12,897
	$ 1,231,787	$ 181,484

As further discussed in Note 23, the City did not make the payments required under its Pennsylvania Infrastructure bank loans during the year ended December 31, 2012. These missed payments are included in the 2013 maturities noted above.

13. LOANS PAYABLE

The composition of loans payable included in the component units at December 31, 2012 is as follows:

The Harrisburg Authority

4.00%-8.00%, The Harrisburg Authority, 2008 Covanta Construction Loan, payable through 2018, to perform the Retrofit completion work at the Resource Recovery Facility	$ 19,823,500

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, 2012, The Harrisburg Authority had drawn down $20,461,000. This loan constitutes subordinate debt of The Harrisburg Authority pursuant to the provisions of The Harrisburg Authority's various debt indentures. No interest accrued until July 1, 2011, at which time simple interest began to accrue at the rate of 4% per annum until July 1, 2012 and at a rate of 8% per annum thereafter. Interest was payable beginning October 1, 2011 and continuing thereafter in quarterly installments due and payable on the first day of each calendar quarter. Principal was 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 23 for information on payments made by the City under the guarantee.

The annual requirements to amortize all loans payable outstanding as of December 31, 2012 are as follows:

Component Unit:

	The Harrisburg Authority	
Year Ending December 31,	Principal	Interest
2013	$ 8,645,310	$ 3,021,927
2014	2,138,165	837,094
2015	2,314,418	660,841
2016	2,505,201	470,058
2017	2,711,710	263,549
2018	1,508,696	51,951
	$ 19,823,500	$ 5,305,420

14. LEASES

Future Lease Rentals Payable to Component Unit

On December 23, 2009, the City entered into a Fourth Supplemental Agreement of Lease pursuant to the issuance of The Harrisburg Authority's 2009 Guaranteed Sewer Revenue Note (2009 Note). The Fourth Supplemental Agreement of Lease was entered into providing for rental payments in an amount sufficient to provide for the principal and interest on the 2009 Note issued to finance the construction and acquisition of certain alterations, additions, improvements and extensions to the sewage conveyance and treatment system.

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

Lease year ending December 31,	Basic Lease Rental
2013	$ 82,453
2014	100,207
2015	110,411
2016	110,411
2017	110,411
2018 - 2022	552,055
2023 - 2027	552,055
2028 - 2030	331,231
Total minimum lease payments	1,949,234
Less amount representing interest	(352,067)
Present value of net minimum lease payments	1,597,167
Current portion	80,163
Long-term portion	$ 1,517,004

The net book value of equipment held under capital leases included in capital assets was $20,206,660 at December 31, 2012. Capital improvements to these systems under the lease agreements were $2,006,745 during 2012. 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, Third, and Fourth 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. Funds available were approximately $1.83 million in excess of the reserve requirement at December 31, 2012. No payments were made by the City within the 190 days.

Capitalized Lease Obligations

Primary Government

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, 2012, the governmental activities and the business-type activities included equipment and furniture under capital leases with a net book value of $2,916,761 and $231,082, respectively.

The future minimum payments under capital leases and the present value of the minimum lease payments at December 31, 2012 are as follows:

Year ending December 31,	Governmental Activities	Business-type Activities	Total
2013	$ 1,489,712	$ 96,206	$ 1,585,918
2014	728,183	41,785	769,968
2015	125,545	7,205	132,750
2016	125,546	7,204	132,750
2017	120,336	7,222	127,558
Total minimum lease payments	2,589,322	159,622	2,748,944
Less amount representing interest	(159,019)	(9,175)	(168,194)
Present value of future minimum lease payments	$ 2,430,303	$ 150,447	$ 2,580,750

As further discussed in Note 23, the City did not make the payments required under its 2007 capital lease during the year ended December 31, 2012. These missed payments are included in the 2013 maturities noted above.

Component Units

Non-Exclusive Technology Sub-Licensing Agreement and Technology Purchase Agreement

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 Retrofit. 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 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:

<u>Base Fee</u> - 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.

<u>Supplemental Fee</u> - 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 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 from the year ended December 31, 2007 through December 31, 2012. At December 31, 2012, The Harrisburg Authority's statement of net position reflects the remaining balance due under this capital lease in the amount of $15,000,000, in addition to accrued interest of $6,085,233.

CIT and Aireal Technologies assert 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 District Court entered judgment against The Harrisburg Authority in the amount of $19.3 million as of January 2012. The case is presently on appeal with the Circuit Court of Appeals. The case was referred to mediation by the Third Circuit. There have been productive settlement discussions, but no formal settlement agreement has been signed. 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 will continue to pursue its position on appeal absent a formal settlement. The loss may be handled through payment via a plan under Act 47 (Municipalities Financial Recovery Act), as amended.

Transportation Center Lease Income

The Redevelopment Authority, through the Transportation Center Fund, leases space and parking to a commercial rail company and other tenants with lease ending dates varying through 2017. Additionally, the Redevelopment Authority leases space to a non-profit corporation with a lease ending date of 2015. These leases are noncancellable operating leases. Minimum rentals on noncancellable leases through 2017 are as follows:

Lease year ending December 31,	
2013	$ 628,655
2014	318,624
2015	174,140
2016	52,177
2017	24,435
Total minimum lease payments	$ 1,198,031

Operating Lease

The Redevelopment Authority leases space from the National Railroad Passenger Corporation (Amtrak) through 2013. The lease was amended on June 27, 2013 to extend the term through July 14, 2014. The minimum lease payments for the remaining term of the lease are $65,225 for the years ended December 31, 2013 and 2014.

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, 2012 approximated $141,326.

15. SPECIAL ITEM – SETTLEMENT WITH SUBURBAN MUNICIPALITIES

The City has an agreement to transport and treat sewage for several suburban municipalities, from whom the City collects fees for such transportation and treatment. The suburban municipalities allege that the City has overcharged for at least 10 years evidenced by the alleged excessive transfer of "administrative fees" from the sewer fund into the City's general fund. The municipalities claim they are owed approximately $15 million in reimbursement. The Receiver, with the cooperation and agreement of the suburban municipalities, through their counsel, has negotiated a compromise of the claim and other amounts that might be owed to the suburban municipalities as a result of the overcharging of sewer rates. In settlement of these claims, in addition to the City's agreement to credit certain amounts as part of the suburban municipalities' prospective financial commitments to the comprehensive overhaul of the sewer system and subject to obtaining the necessary legislative approvals by suburban municipalities and approval and consummation of the Harrisburg Strong Plan, the City will make payments to the suburban municipalities pursuant to the following payment schedule.

Year Ending December 31,	
2013	$ 4,500,000
2014	1,500,000
2015	1,500,000
2016	1,500,000
2017	1,000,000
2018-2019	1,225,000
	$ 11,225,000

16. INTEREST RATE SWAPS

Component Units

The Harrisburg Authority

Variable Rate Issues and Interest Rate Swaps

Derivative Financial Instruments - 2003 Guaranteed Resource Recovery Revenue Bonds, Series D1 and D2

Objective of the interest rate swap. 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 bore 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 at the time of their issuance in 2003, 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, 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 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-2 Swap contains an 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.

Pursuant to the agreements, The Harrisburg Authority pays to or receives from the counterparty a net swap payment. For the year ended December 31, 2012, The Harrisburg Authority received $2,097,297 with respect to the D-2 Swap and the embedded D-2 Cap. For the year ended December 31, 2012, The Harrisburg Authority paid $569,232 for the D-1/D-2 Cap, as noted below.

Fair value. As of December 31, 2012, it would cost the Counterparty $2,070,232 to terminate the D-2 Swap and the embedded D-2 Cap and this amount is presented as a derivative asset on the Statement of Net Position. 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, 2012, it would cost The Harrisburg Authority $5,794,328 to terminate the D-1/D-2 Cap and this amount is presented as a derivative liability on the Statement of Net Position. 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.

Changes in fair value for the year ended December 31, 2012 of ($1,697,084) and ($1,296,178) for the D-2 Swap and the embedded D-2 Cap and D-1/D-2 Cap, respectively, are recorded as a component of unrestricted investment earnings on the Statement of Activities.

Credit risk. As of December 31, 2012, The Harrisburg Authority was not exposed to credit risk on the D-1/D-2 Cap because it had a negative fair value. However, should interest rates change and the fair value of the D-1/D-2 Cap become positive, The Harrisburg Authority would be exposed to credit risk in the amount of the D-1/D-2 Cap'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 their fair value. As of December 31, 2012, RBC was rated Aa3 by Moody's Investors Service and AA- by Standard & Poor's, and AA by Fitch. If RBC's rating falls below A3 by Moody's Investors Service or A- by Standard & Poor's, and if the fair value of the D-2 Swap becomes positive for The Harrisburg Authority, then The Harrisburg Authority may choose to terminate the D-2 Swap to mitigate credit risk.

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 its 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.

Subsequent Event. As of September 6, 2013, it would cost the Counterparty $1,048,125 to terminate the D-2 Swap and the embedded D-2 Cap. As of September 6, 2013, it would cost The Harrisburg Authority $4,441,297 to terminate the D-1/D-2 Cap.

RBC was rated AA- by Standard & Poor's, Aa3 by Moody's Investor Service, and AA by Fitch as of September 2013.

2003 Guaranteed Resource Recovery Revenue Notes, Series B

These Notes bear interest at a tax-exempt weekly rate equal to the SIFMA index plus 75 basis points on each date of determination, .959 percent at December 31, 2012.

2002 Water Revenue Bonds, Series B

These Bonds bear interest at Dexia Credit Local's prime rate plus 100 basis points, 4.25 percent at December 31, 2012.

2002 Water Revenue Bonds, Series C

These Bonds bear interest at Dexia Credit Local's prime rate plus 100 basis points, 4.25 percent at December 31, 2012.

1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 2.4375 percent at December 31, 2012.

17. 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 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 in excess of 20 years, up to a maximum of 65% of average monthly compensation for participants who complete 26 years of service. An additional 5% of average compensation is added to participants who complete 27 years of service, up to a maximum monthly pension of 70% of average monthly compensation. The Combined Police Pension plan defines average monthly compensation as the final annualized basic compensation rate, including longevity payments, or the average monthly compensation, including longevity payments, received during the last five years of employment, if higher.

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.

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.

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 (asset) to the Plans at December 31, 2012 are as follows:

	Non-Uniformed Employees'		Firefighters'	Police Officers'
	Plan A	Plan B	Combined	Combined
Annual required contribution (MMO)	$ -	$ -	$ -	$ 1,517,751
Interest on net pension obligation (asset)	-	-	-	(236,732)
Adjustment to annual required contribution	-	-	-	345,715
Annual pension cost	-	-	-	1,626,734
Contribution made	-	-	-	(2,524,734)
Increase in net pension obligation (asset)	-	-	-	(898,000)
Net pension obligation (asset), beginning	-	-	834	(2,959,144)
Net pension obligation (asset), ending	$ -	$ -	$ 834	$ (3,857,144)

Three-Year Trend Information

Non-Uniformed Employees' – Plan A	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2010	$ -	- %	$ -
December 31, 2011	-	-	-
December 31, 2012	-	-	-

Non-Uniformed Employees' – Plan B	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2010	$ -	- %	$ -
December 31, 2011	-	-	-
December 31, 2012	-	-	-

Firefighters' Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2010	$ -	- %	$ 834
December 31, 2011	-	-	834
December 31, 2012	-	-	834

Police Officers' – Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
December 31, 2010	$ 314,094	100 %	$ -
December 31, 2011	1,551,579	100+	(2,959,144)
December 31, 2012	1,626,734	100+	(3,857,144)

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 on a salary scale. 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.

18. OTHER POST-EMPLOYMENT BENEFITS

Plan Descriptions

In addition to the pension benefits described in Note 17, 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.

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 for medical, prescription drug, dental, and vision for the retiree, including spouse and dependents.

All police officers hired prior to January 1, 1987, and retiring subsequent to January 1, 1987, who have completed twenty (20) years of actual service may continue to participate in the City's group health insurance (including family coverage) in effect at the time of retirement as noted above provided that the retired employee or his/her spouse does not have alternative health care coverage in the following six areas: (a) physician services, (b) hospital services, (c) major medical, (d) dental, (e) vision, (f) prescription. In those areas where alternative heath care coverage is available, the City is not required to provide coverage in that area.

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.

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

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 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. Upon reaching age 65, the City will provide supplemental coverage, major medical, and prescription unless prescription is provided by another agency. This benefit is for the retired firefighter only. If the retiree dies, the spouse may continue coverage, in which case the spouse would pay for the full cost of coverage.

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 for 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.

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, one retiree has been "grandfathered" and the City continues to pay the cost of full coverage.

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

Eligibility: Any non-uniformed management employee who is eligible for the Non-uniformed 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. Currently there are two retirees and one active employee that are covered under the Police contract.

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

Eligibility: Any non-uniformed management employee who is eligible for the Non-uniformed 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.

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.

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 medical 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.

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 medical 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.

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 the medical 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.

Retire after June 1, 2007:

Eligibility: Non-uniformed union employee must be eligible for the Non-Uniformed 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 for medical or a percentage thereof based on the retiree's age and years of service. If retiree is disabled after completion of 20 years of service, attained age 55 and completed 20 years of service or attained age 65 and completed 15 years of service, City would pay 60% of premium for single coverage. Otherwise retiree would pay for 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.

A retiree may suspend coverage under the plan if the retiree and/or spouse become covered under the plan of another 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, 2012, the City contributed $4,476,131 to the OPEB Plan.

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	1/1/2012
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	7.5% in 2012, decreasing by .05% per year to 5.5% in 2016, rates gradually decrease from 5.3% in 2017 to 4.2% in 2089

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, 2012 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	$ 15,118,664	$ 536,084	$ 15,654,748
Interest on net OPEB obligation	2,091,753	102,807	2,194,560
Adjustment to ARC	(2,853,687)	(140,255)	(2,993,942)
Annual OPEB cost	14,356,730	498,636	14,855,366
Contribution made	(4,305,408)	(170,723)	(4,476,131)
Change in Net OPEB Obligation	10,051,322	327,913	10,379,235
Net OPEB Obligation, beginning	46,808,858	2,060,131	48,868,989
Net OPEB Obligation, ending	$ 56,860,180	$ 2,388,044	$ 59,248,224

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2012	$ 14,855,366	30.13%	59,248,224
2011	15,829,014	29.68%	$ 48,868,989
2010	16,051,136	26.52%	37,737,308

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)
1/1/2012	$ -	$ 173,117,094	$ 173,117,094	0.00%	$ 25,384,925	681.97%

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.

19. 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 Sewer Segment accounts for the leasing of the wastewater conveyance and treatment system to the City under a direct financing lease. 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. Selected segment information as of and for the year ended December 31, 2012 is as follows:

CONDENSED STATEMENT OF NET POSITION	Water Segment	Sewer Segment	Resource Recovery Segment
Assets			
Current assets			
Other current assets	$ 9,549,539	$ 80,163	$ 7,330,816
Due from (to) other funds	911,570	231,510	(1,414,999)
Due from the City	-	416,518	897,688
Total current assets	10,461,109	728,191	6,813,505
Restricted assets	34,004,745	3,524,204	10,121,122
Capital assets	61,196,477	-	108,392,829
Advances to the City	-	1,053,375	-
Other noncurrent assets	3,595,691	1,517,004	7,906,113
Total assets	109,258,022	6,822,774	133,233,569
Liabilities			
Current liabilities			
Other current liabilities	99,132	-	21,085,233
Due to the City	1,098,997	-	76,571,199
Total current liabilities	1,198,129	-	97,656,432
Liabilities payable from restricted assets	8,079,431	273,187	19,699,555
Noncurrent liabilities	132,703,641	3,283,492	225,661,886
Due to the City	64,924	-	-
Total liabilities	142,046,125	3,556,679	343,017,873
Net position			
Net investment in capital assets	(43,393,345)	-	(133,545,597)
Restricted	2,459,183	3,524,204	1,362,259
Unrestricted	8,146,059	(258,109)	(77,600,966)
Total net position	$ (32,788,103)	$ 3,266,095	$ (209,784,304)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Water Segment	Sewer Segment	Resource Recovery Segment
Operating revenues	$ 16,625,586	$ 328,490	$ 24,577,308
Operating expenses			
Operating	4,993,871	-	22,171,298
Administration	307,103	328,490	1,129,464
Depreciation	2,109,865	-	5,367,544
Total operating expenses	7,410,839	328,490	28,668,306
Operating income	9,214,747	-	(4,090,998)
Nonoperating revenues (expenses)			
Investment income	1,761,960	4,265	(2,889,059)
Lease rental income	-	58,714	-
Miscellaneous income (expense)	35,079	(7,707)	14,036
Interest expense	(8,884,223)	(170,806)	(14,659,183)
Gain on sale of assets	-	-	6,000
Amortization of financing costs	(411,594)	(3,316)	(773,402)
Total nonoperating revenues (expenses)	(7,498,778)	(118,850)	(18,301,608)
Change in net position	1,715,969	(118,850)	(22,392,606)
Net position - January 1, 2012	(34,504,072)	3,384,945	(187,391,698)
Net position - December 31, 2012	$ (32,788,103)	$ 3,266,095	$ (209,784,304)

CONDENSED STATEMENT OF CASH FLOWS

	Water Segment	Sewer Segment	Resource Recovery Segment
Net cash provided by (used in) operating activities	$ 10,324,148	$ (318,711)	$ 1,959,820
Net cash provided by investing activities	69,410	4,106,339	1,485,513
Net cash used in capital and related financing activities	(11,466,409)	(1,493,860)	(4,986,727)
Net increase (decrease) in cash and cash equivalents	(1,072,851)	2,293,768	(1,541,394)
Cash and cash equivalents, January 1, 2012	10,066,119	1,017,197	10,169,378
Cash and cash equivalents, December 31, 2012	$ 8,993,268	$ 3,310,965	$ 8,627,984

20. ACCUMULATED DEFICITS

Harrisburg Parking Authority

The Authority has an accumulated deficit of $12,835,839. The deficit resulted from losses on the extinguishment of debt in the amount of approximately $2.5 million and the rate of depreciation exceeding the long-term debt maturities.

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, 2012. 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 net position deficits at December 31, 2012 of $32,788,103 and $209,784,304, 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, 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. The contractor defaulted and was terminated as of December 31, 2006. In 2007, Covanta was retained to complete the project and take over management responsibilities. The Resource Recovery Segment has experienced significant operating losses, has an accumulated deficit of approximately $210 million at December 31, 2012, is in violation of certain covenants under the trust indentures, and payment defaults have occurred. The Harrisburg Authority has issued multiple notices of material events with the Electronic Municipal Market Access System (EMMA) established by the Municipal Securities Rulemaking Board with respect to certain bonds of the Resource Recovery Facility. Many of the above items were due to delays and significant cost overruns.

In the fall of 2007, The Harrisburg Authority developed a recovery plan for the Resource Recovery Facility to complete construction and bring the three burners on line. The Harrisburg Authority engaged Covanta to manage and operate the Facility and to provide professional services. Included in Covanta's Agreement with The Harrisburg Authority was 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 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 subordinate in payment to The Harrisburg Authority's prior debt relating to the Resource Recovery Facility. 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. Covanta has sued The Harrisburg Authority and the City for amounts that remain unpaid to Covanta under the loan. Additionally, approximately $2.0 million is owed 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 on or prior to December 2010. Only the County had the ability to refinance the working capital loan upon its maturity and did such at that time.

Since 2008, the Resource Recovery Facility has been able to cover operating expenses but unable to generate sufficient revenue to cover debt service and amounts due under the interest rate cap with RBC. As such, The Harrisburg Authority has drawn on debt service reserves, called upon guarantors, and insurance policies in order to make sure that bondholders were paid. Claims for fees associated with the guaranty and insurance agreements continue to accrue.

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 Resource Recovery Facility on the revenues, guarantors, and insurance providers.

The Financially Distressed Municipalities Act, also known as Act 47, empowers the Pennsylvania Department of Community and Economic Development (DCED) to declare certain municipalities as financially distressed. On October, 1, 2010, Mayor Linda D. Thompson filed a request asking for the City to be designated a financially distressed municipality. DCED investigated the financial affairs of the City and, on December 15, 2010, following public hearings on the City's request, DCED issued a determination of municipal financial distress for the City.

A recovery plan (Coordinator's Act 47 Recovery Plan) was developed. However, on July 19, 2011, a majority of the Harrisburg City Council rejected the Coordinator's Act 47 Recovery Plan. Following the City Council's rejection of the Act 47 Recovery Plan, Mayor Thompson was tasked with developing and filing an alternate Recovery Plan pursuant the provisions of Act 47. The Mayor filed a Recovery Plan on August 22, 2011 and on August 31, 2011, a majority of Harrisburg City Council rejected Mayor Thompson's Recovery Plan and again rejected a modified plan on September 13, 2011.

On September 20, 2011, Governor Tom Corbett signed into law Senate Bill 1151, amending Act 47 and providing for a Declaration of Fiscal Emergency in circumstances in which a financially distressed city of the third class fails to adopt a financial recovery plan. Additionally, the law provides for the appointment and confirmation of a receiver if the distressed city fails to enact a consent agreement to adopt and implement a recovery plan.

As a result of the fiscal circumstances existing in the City, Governor Corbett declared a fiscal emergency on October 24, 2011. As part of the Emergency Declaration, Governor Corbett directed the Secretary of DCED, C. Alan Walker, to develop an Emergency Action Plan to ensure all vital and necessary services are maintained in the City until a fiscal recovery plan is enacted.

On November 18, 2011, a Receiver was appointed, who is tasked with developing and submitting a fiscal recovery plan to the Commonwealth Court, DCED Secretary, City Council and the Mayor.

The Receiver's recovery plan was submitted, the Commonwealth Court held a hearing and the Court confirmed the Receiver's Recovery Plan.

At this time, the Office of the Receiver is pursuing implementation of the Receiver's Recovery Plan and actively negotiating resolution of the City's fiscal crisis and seeking resolution with creditors of the City and The Harrisburg Authority relating to the outstanding Resource Recovery Facility debt.

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, 2012.

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority’s net position (deficit) at December 31, 2012 is related to the 1998 Series A and B bond issuances. Since the right to building is recorded at amortized cost and the debt includes appreciation, the total debt outstanding, less the asset’s amortized cost, reduces net position. The outstanding debt on these issuances is $51,934,990 and the amortized cost of the right to building is $20,369,411. These balances reduced the Redevelopment Authority’s net position from a positive $11,101,158 to the deficit balance of $20,464,421. 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.

Beginning net position of the Redevelopment Authority has been increased by $73,323 from ($17,673,198) to ($17,599,875). This increase is to properly record investments related to a revolving loan program that had not been reported previously.

Had the above adjustment been recorded in the proper period, the effect on the change in net position of the Redevelopment Authority for the year ended December 31, 2011 would have been immaterial.

21. 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 preliminary 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 and subsequent status reports related thereto 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.

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 (EIT), service efficiencies, and additional revenues from fees and outside sources. During October 2012, City Council approved a 1% increase in the EIT effective January 1, 2013, and an Act 47 grant funded fee study was completed, with certain of the study's proposed fee increases being considered for approval by City Council in 2013.

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.

Having achieved a comprehensive solution indicating consensual agreements with stakeholders, the Receiver filed a modified recovery plan with the Commonwealth Court on August 26, 2013 entitled the "Harrisburg Strong Plan". In the days leading to this filing, City Council took action on various issues related to the sale of the Incinerator, Parking System monetization, earned income tax rate extension through 2016, and Fraternal Order of Police (FOP) and American Federation of State, County and Municipal Employees (AFSCME) labor contracts concession amendments.

A hearing was held before the Court on September 19, 2013, at which counsel for the Mayor, City Council, Dauphin County, Assured Guaranty Municipal Assurance Corporation (AGM), and the suburban communities all stated support for the Harrisburg Strong Plan. On September 23, 2013, the Court issued an Order confirming the Harrisburg Strong Plan and directed its implementation in accordance with the terms of the Plan.

The Plan sets a new course for the City. One that fully eliminates the debt on the Incinerator, provides balanced budgets through at least 2016, provides an ongoing revenue stream from the Parking System assets, provides needed resources for capital and economic development, as well as to help address the City's OPEB liabilities. The Harrisburg Strong Plan and Court Order confirming same can also be viewed at www.pa.gov/harrisburgreceiver.

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

22. 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. The advanced grant funds of $180,150 were returned in August 2012 to the United States Treasury with interest of $452. In exchange, the DOE approved the workout plan in September 2012 allowing the grant funds to be used to complete the scope of the work.

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 attempted to reconcile the $50,000 discrepancy. However, PA DCED opted to lessen a subsequent $2 million Financial Assistance Grant by the $50,000, closing the matter in 2012.

Construction Commitments

Primary Government

The City has contractual commitments for construction, engineering, and licensing related to the City properties of approximately $4,195,679.

Component Units

The Harrisburg Authority

Many of The Harrisburg Authority's financings are insured by a bond insurance policy. On January 17, 2013, Moody's Investor Services downgraded the insurance financial strength rating of The Harrisburg Authority's bond insurer from Aa3 to A2.

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 reimbursable 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 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, 2012, excluding amounts in accounts payable, was approximately $2.7 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 (paid in 2010).
- 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 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. The project requirements were met and the Project Credits applied for the year ended December 31, 2012.

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. During October and November 2012, the PA Senate Local Government Committee held two public hearings to interview parties named in the forensic investigation to gain a better understanding of the details disclosed therein.

Harrisburg Parking Authority

During 2012, the Authority entered into construction contracts in the amount of $3,098,310 for the Walnut Street Garage maintenance project and the Chestnut Street Garage maintenance project. As of December 31, 2012, the amount of $706,792 is the commitment remaining on these construction contracts.

Downtown Coordinated Parking Fund

On June 27, 1984, the City, the Redevelopment Authority, Harristown Development Corporation, the Authority, the Mayor of Harrisburg, and Harrisburg City Council entered into the Cooperation Agreement for a Downtown Coordinated Parking System (Cooperation Agreement). The Cooperation Agreement has been amended ten times, with the most recent amendment (confusingly titled the Eleventh Amendment) dated September 14, 2011. All of the amendments coincide with an Authority financing transaction.

The Cooperation Agreement established a coordinated parking system that is managed and operated by the Authority. The components of the coordinated parking system include ten parking garages owned and operated by the Authority (four of the garages are located on land leased by the Authority from the City, and one of the garages is equitably owned by the Authority), two City-owned lots, the parking meters within the City, and a portion of the parking tax collected by the City. The revenues from each component are placed into separate operational accounts established by the Cooperation Agreement, and the operational costs of each component are paid out of the respective account. Additionally, the Reserve Fund is funded from the operational accounts. The Reserve Fund may be used for replacements or other improvements in any of the Authority garages in accordance with and as identified in the Authority's annual budget.

Following the payment of operational expenses and the funding of the Reserve Fund by the Authority, several subaccounts are funded for the payment of the debt service for the outstanding bonds. Out of the Walnut, Fifth and Chestnut Street Garages Operating Account, the Replacement Reserve Subaccount is funded to pay the debt service of the Series O Bonds; however, the Replacement Reserve Subaccount may only be funded upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities will meet at least 130% of the debt service requirements of the Series N Bonds. Out of the 2000 Garages/Series I Operating Account, which receives the revenue from the River Street Garage and the City Island Garage, the Series I Subaccount is funded to pay the debt service for the Series J, P and R Bonds; however, the Series I Subaccount may only be funded upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities will meet at least 130% of the debt service requirements of the Series N Bonds and funding requirements of the Replacement Reserve Subaccount. Also, out of the 2000 Garages/Series I Operating Account, the Series K and L Subaccount is funded to pay the debt service for the Series K Bonds; however, the Series K and L Subaccount may only be funded upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities will meet at least 130% of the debt service requirements of the Series N Bonds and the funding requirements of the Replacement Reserve Subaccount and the Series I Subaccount. Out of the Seventh Street Garage Operating Account the Series T Subaccount is funded to pay the debt service for the Series T and Series U Bonds; however the Series T Subaccount may only be funded upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities will meet at least 130% of the debt service requirements of the Series N Bonds and the funding requirements of the Replacement Reserve Subaccount, the Series I Subaccount, and the Series K and L Subaccount.

Following the funding of the aforementioned subaccounts, to the extent possible from their respective operating accounts, all of the net revenue from the coordinated parking system is deposited into the Fund. To the extent that any subaccount is deficient to pay its debt service obligations, such deficiency is cured by funds from the Fund upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities will meet at least 130% of the debt service requirements of the Series N Bonds, and the deficiencies are covered in the following priority: (1) Replacement Reserve Subaccount, (2) Series I Subaccount, (3) Series K and L Subaccount, and (4) Series T Subaccount. The debt service for the Series N Bonds is also paid out of the Fund. When the Fund's balance together with amounts expected to be deposited therein is equal to or greater than 130% of the next debt payment for the Series N Bonds, and all other payments are made pursuant to the Cooperation Agreement (including specifically the funding of the subaccounts), the remaining balance, no less than annually, is to be paid to the City.

During the year, the City received a refund of $250,000 representing excess amounts deposited into the system for 2012.

Guarantees

The City is contingently liable under various agreements which guarantee debt of entities not included in the primary government's financial statements aggregating $370,637,768 at December 31, 2012, and maturing at various dates through 2036. Of the $370,637,768, $366,957,414 is for guarantees of component unit debt. See Note 24 on the recording of the City's contingent liability with respect to the City's guarantee of The Harrisburg Authority's debt. Additionally, City Council failed to adopt funding appropriations in the 2010, 2011, 2012, and 2013 proposed Debt Service Fund budgets to honor these guarantees. The City has filed a notice of material event with EMMA 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 conduit debt guarantees, because the related debt was extinguished.

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, The Harrisburg Authority has placed $250,000 in a separate account and this amount is included on the statement of net position 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 Line of Credit 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. 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 Resource Recovery Facility.

The Harrisburg Authority has accrued $2,037,568 for landfill closure and post-closure care costs as of December 31, 2012, which represents the use of 86.49% of the estimated capacity of the disposal area. Based on the annual usage at December 31, 2012, the estimated remaining life of the landfill is approximately one year. 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 until fully funded. The Harrisburg Authority is in compliance with those requirements at December 31, 2012.

In August 2013, the Department of Environmental Protection approved increasing the landfill closure and post-closure care costs bonding amount to $3,453,827.

As of December 31, 2012, cash and investments of $3,399,827 are held for closure and post-closure care expenses. Those funds are reported as restricted assets on the statement of net position.

Environmental Remediation Liability

The Redevelopment Authority assumed and acquired title to a property which required environmental remediation. These properties were 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 this property. The Redevelopment Authority has estimated that total project costs will amount to $961,000. The estimate is based on projected remediation costs. The estimate is included in a grant proposal, which was approved by the Department of Environmental Protection.

The $40,636 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.

23. 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 21, 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 24. 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 with EMMA 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. Subsequently, through its notice of failure to provide annual financial information as required filed with EMMA on July 13, 2012, the City stated that it had not filed its comprehensive annual financial report for the fiscal years ended December 31, 2009, 2010, and 2011. However, the City filed its 2009, 2010, and 2011 comprehensive annual financial reports on August 6, 2012, December 20, 2012, and May 16, 2013, respectively. Through its notices of failure to provide annual financial information as required filed with EMMA on July 15, 2013 and October 10, 2013, the City stated that it had not filed its comprehensive annual financial report for the fiscal year ended December 31, 2012.

The City has issued multiple notices of material events with EMMA with respect to its inability to make required debt service payments with respect to the City's General Obligation Refunding Bonds and Notes, Series D and F of 1997 for the years ended December 31, 2012 and 2013.

The City did not pay the required debt service on three of four Pennsylvania Infrastructure Bank loans during the year ended December 31, 2012. Principal and interest payments in the amount of approximately $70,000 were not paid during the year ended December 31, 2012. As this amount is due and payable at December 31, 2012, it has been accrued in the fund financial statements.

The City did not pay the required debt service on its 2007 capital lease obligation during the year ended December 31, 2012. Principal and interest payments in the amount of approximately $700,000 were not paid during the year ended December 31, 2012. As this amount is due and payable at December 31, 2012, it has been accrued in the fund financial statements.

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, 2010, 2011, and 2012 by the required dates. However, the 2010 and 2011 single audits were subsequently filed.

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, 2012 by approximately $114.9 million.

As indicated earlier, the City's legal level of budgetary control is established at the line-item level. There was an instance within the General Fund in 2012 where the City exceeded the budgeted expenditure amount for the medical benefits line-item in General Expenses.

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 $1,006,983 of State Aid on October 3, 2012; however, these funds were not deposited to the Police Pension Plan until March 6, 2013. This has been recorded as a receivable by the Pension Trust Fund and a payable by the General Fund on the statement of plan net position and balance sheet, respectively, as of December 31, 2012 and as employer contributions on the statement of changes in plan net position for the year ended December 31, 2012.

Component Units

The Harrisburg Authority

Resource Recovery Facility

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, 2012, 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, 2012	Reserve Requirement
1998	$ 3,032,958	$ 3,900,215
2002	-	800,000
2003A - C	-	7,200,000
2003D	68	8,000,000
2003E	2	1,000,000
2003F	-	1,000,000

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 September 2013, The Harrisburg Authority has not replenished the Debt Service Reserve Accounts.

The Harrisburg Authority's management has not instituted a system to calculate the rate covenant requirement noted earlier with respect to the Resource Recovery Facility debt.

The Harrisburg Authority has issued multiple notices of material events with EMMA with respect to its inability to make required debt service payments, including draws on debt service reserve funds, under guaranty agreements, and insurance policies with respect to The Harrisburg Authority's 1998 Series A, B, and C, Series A Notes of 2002, Series A, B, and C Bonds of 2003, Series D-1, D-2, E, and F Bonds of 2003, and Series C and D Notes of 2007, from 2009 through 2013. These draws were necessary for The Harrisburg Authority to make debt service payments under the respective bond issues.

Additionally, the County made payments from 2009 through 2011 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. Beginning in October 2010, the County began making monthly deposits into the Series D, E and F Debt Service Reserve Funds. These deposits have been used to make subsequent Swap/Cap payments.

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

The above-mentioned draws are presented as Due to the City of Harrisburg on the balance sheet. Draw activity by funding source, for the year ended December 31, 2012, is as follows:

	Beginning Balance at January 1, 2012	Additions	Ending Balance at December 31, 2012
City of Harrisburg	$ 5,521,082	$ -	$ 5,521,082
Dauphin County	46,007,341	4,765,052	50,772,393
Insurer	7,339,224	6,416,623	13,755,847
Total draws	58,867,647	11,181,675	70,049,322
Accrued interest	3,443,410	2,752,123	6,195,533
	$ 62,311,057	$ 13,933,798	$ 76,244,855

Water Segment

The Harrisburg Authority's management has not instituted a system to calculate the rate covenant requirement with respect to the Water debt.

On January 18, 2011, The Harrisburg Authority issued a notice of material event with EMMA 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.

On June 7, 2012, The Harrisburg Authority issued a notice of expiration of liquidity facility without replacement. The standby bond purchase agreement (liquidity facility), dated July 18, 2002, was due to expire on July 18, 2012. The liquidity facility provides liquidity for The Harrisburg Authority's Variable Rate Water Revenue Refunding Bonds, Series B of 2002 and The Harrisburg Authority's Variable Rate Water Revenue Refunding Bonds, Series C of 2002. 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 proposal dated April 12, 2012 seeking a replacement facility or a direct loan to replace the liquidity facility. Responses to the request for proposal were due on or before May 16, 2012. The Harrisburg Authority received no responses to this request for proposal.

On July 11, 2012, The Harrisburg Authority's Variable Rate Water Revenue Refunding Bonds, Series B of 2002 were purchased by Dexia Credit Local (Dexia), the liquidity facility provider, prior to the expiration of the standby bond purchase agreement, which was not extended. The Harrisburg Authority's Variable Rate Water Revenue Refunding Bonds, Series B of 2002 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 and bear interest at Dexia's prime rate, plus 1%.

On July 11, 2012, The Harrisburg Authority's Variable Rate Water Revenue Refunding Bonds, Series C of 2002 were purchased by Dexia, the liquidity facility provider, prior to the expiration of the standby bond purchase agreement, which was not extended. The Harrisburg Authority's Variable Rate Water Revenue Refunding Bonds, Series C of 2002 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, 2019 and bear interest at Dexia's prime rate, plus 1%.

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 in the aggregate principal amount of $27,690,000 (Series A Bonds) and its University Revenue Bonds, Series B of 2007 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 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.

During the year ending December 31, 2011 and through September 2013, the University has reported that it has been unable to make the required loan payments and, in some cases, has utilized the County guaranty to pay the required loan payments. 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.

During the year ended December 31, 2012 and through September 2013, in its multiple Notices of Default, the Trustee asserted that the failure to make the required loan payments constituted an event of default under the Loan Agreement and under the Indenture.

Although The Harrisburg Authority is a party to the trust indenture with the University and the Trustee, such agreements are structured such that there is no recourse against The Harrisburg Authority in the case of default.

Harrisburg Parking Authority

The Authority bond indentures contain financial and reporting covenants. At December 31, 2011, 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 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. Transfers of $43,600 and $174,379 were made in January 2012 to fully replenish the Debt Service 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 other available funds in order to meet the November 2011 debt service payment. As a result of the deficiency in the Debt Service Fund, the Authority was unable to withdraw funds for the May and November 2012 debt service payments. During the year ended December 31, 2012, $547,454 and $548,293 were transferred from the Authority's other available funds on May 15, 2012 and November 14, 2012, respectively, in order to make the May and November 2012 debt service payments.

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.

On July 20, 2012, the Authority issued a material event notice with EMMA stating that on July 10, 2012, The Bank of New York Mellon Trust Company, N.A. (Trustee), as successor trustee with respect to the Authority's Series J Bonds, the Series O Bonds, the Series P Bonds and the Series R Bonds, provided notice to holders of the Series J Bonds, the Series O Bonds, the Series P Bonds and the Series R Bonds, of the occurrence of an Event of Default. The Trustee found that an Event of Default has occurred by reason of the City's admitting in writing that it is unable to pay its debts as they generally become due as evidenced by, inter alia, the City's admission that it was unable to pay, on March 15, 2012, the debt service payment due on certain of its general obligation debt issues which became due and payable on that date. The Trustee notified the holders that the bond insurance policies guaranteeing the scheduled payment of principal of and interest on the Series J Bonds, the Series O Bonds, the Series P Bonds, and the Series R Bonds remain in full force and effect, and that, as long as each bond insurance policy remains in effect with respect to a series of Bonds, and the bond insurer for such series is not in default thereunder, neither the Trustee nor the Registered Owners have any rights to exercise any remedies respecting the series of Bonds upon the occurrence of an Event of Default, and the bond insurer has the right to direct the Trustee to exercise such remedies as it may deem appropriate and are otherwise permitted under the indenture governing the bonds.

Further notice is given that National Public Finance Guarantee Corporation (National), as bond insurer for the Authority's Series J Bonds, has asserted in a letter to the Trustee that National will control all available remedies with respect to the Series J Bonds and directed the Trustee to refrain from exercising any remedies or taking other actions with respect to the Series J Bonds unless and until directed in writing by National. The bond insurers for the Series O Bonds, the Series P Bonds and the Series R Bonds have not communicated with the Authority or, to the Authority's knowledge, with the Trustee with respect to the Event of Default.

To date, there has been no default by the Authority on the payment of principal of or interest on the Series J Bonds, the Series O Bonds, the Series P Bonds or the Series R 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 City's guaranty. The Authority does not expect that the City's financial difficulties will negatively impact its ability to meet its obligations. Because National has not disclosed what remedies, if any, it will direct, however, no assurances can be given that such remedies will not prevent the Authority from paying its debt obligations in the future.

In January 2011, the Authority received notice that the rating of Series T Bonds has been downgraded to "Ba3" from "Baa2" by Moody's Investors Service. Per Moody's disclosure, such rating downgrade was due to the City filing for Act 47, as mentioned previously.

24. 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, 2012, except for The Harrisburg Authority guarantees as noted below.

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 Harrisburg 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 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 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. If the Court grants the mandamus relief requested by the plaintiffs, then all of the City's revenue would have to be applied first to the payment of any amount due and outstanding on the Bonds.

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 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 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 Harrisburg 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 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. The Receiver for the City sought and was granted permission by the Court to intervene in this matter.

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 in the following 2009 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 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. The County sought reconsideration of the Court’s order granting in-part the preliminary objections. The Court granted the motion for reconsideration and reinstated certain claims against the City. The City answered the complaint, setting forth its defenses.

The City and its elected officials, including the Mayor, members of City Council, Treasurer, and Controller, have been named in the following 2009 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. The City as answered the complaint, setting forth its defenses.

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 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 City bond guaranty agreement, the City swap guaranty 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.

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.

If these matters are not resolved, then the City may face a substantial financial loss. At December 31, 2012, amounts paid by the second guarantor and bond insurer through December 31, 2012 are presented on the statement of net position and the balance sheet as due to the respective organizations. In addition, approximately $230 million, the principal amount of the guaranteed Resource Recovery Facility debt outstanding at December 31, 2012, net of applicable debt service reserve funds, has been accrued as a contingent liability.

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 and September 2012, the City missed its scheduled debt service payment on the bonds in the amount of $8,665,000 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 related to the March 2012 missed payment. The insurer has granted several extensions to the City to file a responsive pleading. Presently, the City has a deadline of the end of November 9, 2013 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 this suit to be settled as part of the overall debt solution of the Harrisburg Strong Plan.

Other

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 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.

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 Securities 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.

On May 6, 2013, the SEC reported that they accepted a settlement of the charges against the City, which involved the issuance of a cease and desist order, but no financial sanctions against the City. The cease and desist order included disclosure requirements that must be followed going forward. The City has already begun compliance with the Order by enactment of a “Continuing Disclosure Policy Concerning Securities Issued or Guaranteed by the City of Harrisburg.” As long as the City complies with the requirements imposed under the cease and desist order, there will be no penalties as a result of this investigation that materially impact the City’s financial position.

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. The 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 agreed to a temporary stay in this case until September 2012. Since September, the plaintiff has made no attempt to lift the stay. 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) and Commonwealth of Pennsylvania Department of Environmental Protection have asserted that the City and The Harrisburg Authority may be in violation of certain environmental laws, including the federal Clean Water Act and the Pennsylvania Clean Streams Law. The alleged violations, among other things, relate to The Harrisburg Authority’s ownership and the City’s operation of a waste water treatment plan, combined sewer overflow structures, and related operations (collectively, the sewer system). As a result of such alleged violations, the City, along with The Harrisburg Authority, may be liable for penalties and/or obligated to undertake improvements to the sewer system. At this time, it is not possible to ascertain the costs associated with any such improvements, the scope, if any, of penalties and the breakdown of responsibility for any required improvements between The Harrisburg Authority and the City.

Component Units

The Harrisburg Authority

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 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. One vendor has initiated a lawsuit, which has been stayed due to an agreement to arbitrate all disputes. The Harrisburg Authority has stipulated to judgments of three vendors in the principal amount of $1,021,985 plus interest and court costs. Only one of the three vendors 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. 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 bond 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. 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, 2012 financial statements and may be handled through payment via a plan under Act 47, as amended.

During the years ended December 31, 2011 and 2012, The Harrisburg Authority conducted a forensic audit of the debt financings related to the Resource Recovery Facility. The Harrisburg Authority and other parties are evaluating the results of the forensic audit and any related outcome is subject to significant uncertainty.

This is an equity matter where the County is seeking specific performance of The Harrisburg Authority's obligations under the Reimbursement Agreement in the amount of approximately $3.5 million. The Harrisburg Authority is obligated to reimburse all amounts the County had to pay under its guarantees under Resource Recovery Facility Series D and E of 2003 Bonds (including debt service reserve fund replenishment) and swap documents. The Harrisburg Authority was initially dismissed from this lawsuit as of August 6, 2010. The County sought reconsideration of the decision dismissing The Harrisburg Authority from the case and the Court granted reconsideration and reinstated the claims against The Harrisburg Authority. The Harrisburg Authority is required to file an answer to the compliant for specific performance. The Harrisburg Authority must file the answer on or before September 30, 2012. The Harrisburg Authority has defended the equity matter and was initially dismissed from the case. The Harrisburg Authority will continue to purpose that legal position and vigorously defend this claim for specific performance. 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, as amended.

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, as amended.

The bond Trustees and the 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. The Lower Court granted the request for a receiver which The Harrisburg Authority appealed and which is pending before the Commonwealth Court. 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 potential loss is in excess of $9 million. 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.

Unless resolved through a plan under Act 47, 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 fees. As of September 6, 2013, the County and bond insurer have made payments to cover The Harrisburg Authority's debt service (including swap payments) of $55,054,580 and $17,107,694, 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, 2012, $12,880,460 represents the Authority's portion of equitable ownership interest in the property. All required payments have been made as of December 31, 2012. The equitable ownership interest is being amortized over the remaining life of the Series R of 2007 Bonds.

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 are 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 with EMMA. 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. As mentioned previously, 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 payments on May 15, 2011. The Authority transferred $574,454 from other available funds in order to make the debt service payment on November 15, 2011. During the year ended December 31, 2012, 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. The University failed to make the payment of the HU Subsidy on or before November 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 November 15, 2012. A total payment of $358,293 was due to the bondholders on November 15, 2012, and such amount was transferred by the Trustee to the debt service account from other available funds of the Authority. The University failed to make the payment of the HU Subsidy on or before May 10, 2013, as required by the parking license. As a result HPA believes there will be insufficient funds in the debt service account to make the debt service payment due May 15, 2013. A total payment of $738,293 will be due to the bondholders on May 15, 2013, and it is anticipated that such amounts will need to be transferred by the Trustee to the debt service accounts from other available funds of the Authority. 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 other available funds. As of December 31, 2012, settlement regarding the amount of the HU Subsidy is pending.

On March 3, 2010, the Authority commenced a civil action against the University in the Court of Common Pleas of Dauphin County, Pennsylvania. The Authority sought specific performance of an agreement to purchase a parking garage from the University. The Authority also sought reformation of a related contract with the University to which a mistaken exhibit had been attached. The Authority also sued the University for nonpayment of a contractual subsidy obligation in the amount of $778,919, and a rent obligation in the amount of $39,000, both of which obligations continued to accrue. The University countersued the Authority for nonpayment of change orders in the amount of $723,026 and for failing to use its best efforts to lease unused University parking spaces. The pleadings are closed and no significant discovery has been conducted. The University has paid rent since the lawsuit was commenced and is currently approximately one month in arrears. The parties have conducted settlement negotiations as to the other claims. During the pendency of the lawsuit and the conduct of the settlement negotiations, the Authority has operated the garage substantially as if it were the legal owner of the garage. At this point, no determination can be made whether an unfavorable outcome is either probable or remote to the Authority, nor can an estimate of the possible loss in the event of an unfavorable outcome be determined.

25. TRANSACTIONS WITH COMPONENT UNIT

In accordance with the respective Articles 5 of the Second Supplemental Agreement of Lease, as amended by the Third and Fourth 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. Funds available were approximately $1.83 million in excess of the reserve requirement at December 31, 2012. No payments were made by the City within the 190 days.

26. 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 position.

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

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.

In July 2013, PennVest offered The Harrisburg Authority a loan, in the amount not to exceed $26 million for the purpose of financing The Harrisburg Authority's improvements to the Advanced Waste Treatment Facility. This is a 20-year low-interest loan. As of the date of this report, this loan has not settled.

In 2013, The Harrisburg Authority has entered into multiple contracts with respect to the GIS project in the amount of approximately $2.3 million.

In January 2013, City Council approved an inter-fund and revenue anticipation borrowing in the amount of $4,000,000, bearing interest at an annual rate of 0.50% annually, and maturing on June 20, 2013. The City has not drawn against this loan as of the date of this report.

In July 2013, PennVest offered the City a loan, in the amount of $900,000 for the purpose of financing the utility and sinkhole repair project. This is a 20-year low-interest loan. As of the date of this report, this loan has not settled.

In October 2013, the City was awarded and received a $4.504 million PA DCED Financial Assistance Grant for police and fire salaries, wages, FICA, and health benefits, to provide public safety services to Commonwealth of Pennsylvania employees and property within the City limits.

Effective November 4, 2013, operational responsibility for the water and sewer systems has been transferred to The Harrisburg Authority. The transfer will consolidate administrative, operational, and financial responsibility for the water and sewer operation with The Harrisburg Authority. It is expected that sewer fund capital assets with a net book value at December 31, 2012 of approximately $43 million will be transferred to The Harrisburg Authority. In future years, sewer fund activity will be reported by The Harrisburg Authority.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE
BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2012
REQUIRED SUPPLEMENTARY INFORMATION

	Budget		Variance of Original with Final Budget Positive (Negative)		Variance of Actual with Final Budget Positive (Negative)
	Original Amounts	Final Amounts		Actual Amounts	
Revenues					
Taxes	$ 27,668,885	$ 27,698,489	$ 29,604	$ 28,334,934	$ 636,445
Licenses and permits	575,840	575,840	-	573,299	(2,541)
Intergovernmental revenue	5,455,751	6,462,734	1,006,983	5,329,337	(1,133,397)
Departmental earnings	16,353,898	16,353,898	-	7,628,109	(8,725,789)
Fines and forfeits	2,077,202	2,077,202	-	1,711,475	(365,727)
Investment income	132,361	132,361	-	122,832	(9,529)
Miscellaneous	1,008,233	1,008,233	-	604,996	(403,237)
Total revenues	53,272,170	54,308,757	1,036,587	44,304,982	(10,003,775)
Expenditures					
General government					
Elected and appointed offices					
City Council	368,586	368,586	-	253,768	114,818
Mayor	207,850	217,960	(10,110)	216,784	1,176
City Controller	207,629	207,629	-	175,530	32,099
City Treasurer	615,311	615,311	-	510,929	104,382
City Solicitor	496,436	651,040	(154,604)	509,539	141,501
Total elected and appointed offices	1,895,812	2,060,526	(164,714)	1,666,550	393,976
Office of administration					
Administration	2,439,361	2,426,256	13,105	2,001,612	424,644
General expenditures	8,527,717	12,205,147	(3,677,430)	12,545,454	(340,307)
Total general government	12,862,890	16,691,929	(3,829,039)	16,213,616	478,313
Building and housing development	776,849	795,418	(18,569)	702,916	92,502
Public safety	23,694,732	26,220,906	(2,526,174)	24,041,773	2,179,133
Public works	5,718,607	5,912,613	(194,006)	5,227,995	684,618
Parks and recreation	423,017	423,017	-	340,204	82,813
Total expenditures	43,476,095	50,043,883	(6,567,788)	46,526,504	3,517,379
Excess of revenues over (under) expenditures before other financing sources (uses)	9,796,075	4,264,874	(5,531,201)	(2,221,522)	(6,486,396)
Other financing sources (uses)					
Transfers in	1,688,939	1,688,939	-	3,438,939	1,750,000
Transfers out	(11,485,014)	(5,953,813)	5,531,201	(2,781,209)	3,172,604
Total other financing sources (uses)	(9,796,075)	(4,264,874)	5,531,201	657,730	4,922,604
Net change in fund balance	-	-	-	(1,563,792)	(1,563,792)
Fund balance - beginning of year, budgetary basis	-	-	-	3,236,604	3,236,604
Fund balance - end of year, budgetary basis	$ -	$ -	$ -	$ 1,672,812	$ 1,672,812

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 2012 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.

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	Expenditures	Financing Sources (Uses) and Equity Transfer	Fund Balance, End of Year
Budgetary basis	$ 3,236,604	$ 44,304,982	$ (46,526,504)	$ 657,730	$ 1,672,812
Taxes receivable	9,629,837	1,025,895	-	-	10,655,732
Accounts receivable	141,020	4,324	-	-	145,344
Other assets	362,747	-	(769,361)	-	(406,614)
Accounts payable, net of items vouchered	(2,406,641)	-	2,533,370	-	126,729
Accrued liabilities	(55,748,804)	526,039	(14,752,369)	(8,665,000)	(78,640,134)
Advances and amounts due to other funds and component units	(427,605)	1,430,406	(1,706,674)	381,235	(322,638)
Deferred revenue	(11,460,503)	(1,415,585)	-	-	(12,876,088)
Other	2,446,596	(893,771)	(442,526)	738,672	1,848,971
GAAP basis	$ (54,226,749)	$ 44,982,290	$ (61,664,064)	$ (6,887,363)	$ (77,795,886)

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 position.

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. However, there was an instance where the City exceeded the budgeted expenditure amount on a line item level.

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 2003-2012

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]
2003	$ -	01/01/01	$ -	$ -	- %
2004	-	01/01/02	-	-	-
2005	-	01/01/03	-	-	-
2006	-	01/01/03	-	-	-
2007	-	01/01/05	-	-	-
2008	-	01/01/05	-	-	-
2009	-	01/01/07	-	-	-
2010	-	01/01/07	-	-	-
2011	-	01/01/09	-	-	-
2012	-	01/01/09	-	-	-

(1) 2003-2012 – 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.

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 2003-2012

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]
2003	$ 107,728	01/01/01	$ - (2)	$ 107,728	100.00 %
2004	-	01/01/02	-	-	-
2005	-	01/01/03	-	-	-
2006	-	01/01/03	-	-	-
2007	-	01/01/05	-	-	-
2008	-	01/01/05	-	-	-
2009	834	01/01/07	-	-	-
2010	-	01/01/07	-	-	-
2011	-	01/01/09	-	-	-
2012	-	01/01/09	-	-	-

(1) 2003-2011 – 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) 2003 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

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 2003-2012

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]
2003	$ -	01/01/01	$ -		$ -	- %
2004	285,823	01/01/02	-	(2)	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
2010	314,094	01/01/07	314,094		-	100.00
2011	1,551,579	01/01/09	-		4,510,723	100.00
2012	1,517,751	01/01/09	-		2,524,734	100.00

(1) 2004-2012 – 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) 2004-2006 and 2011-2012 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

Schedule of Funding Progress 01/01/08-01/01/12

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 %
01/01/10	-	177,796,013	177,796,013	0.00	28,435,550	625.26
01/01/12	-	173,117,094	173,117,094	0.00	25,384,925	681.97

Schedule of Required Employer Contributions 2008-2012

Year Ended December 31	(f) Annual Required Contribution (ARC)	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%
2010	16,475,883	01/01/10	4,257,094	25.84%
2011	16,445,618	01/01/10	4,697,333	28.56%
2012	15,654,748	01/01/12	4,476,131	28.59%

SUPPLEMENTARY INFORMATION
COMBINING AND INDIVIDUAL NONMAJOR FUND FINANCIAL STATEMENTS AND SCHEDULES

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 restricted 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, 2012

	Special Revenue			
	State Liquid Fuels Tax Fund	Parks and Property Improvement Fund	Capital Projects	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 482	$ 1,342	$ 24,593	$ 26,417
Investments, at fair value	444,257	876,360	44,034	1,364,651
Receivables, net of allowance for uncollectible accounts				
Taxes	-	-	59,820	59,820
Due from other funds	3,130	77	185,998	189,205
Advances and amounts due from component units	-	-	151,271	151,271
Restricted assets				
Cash and cash equivalents	-	-	577,211	577,211
Total assets	$ 447,869	$ 877,779	$ 1,042,927	$ 2,368,575
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	$ 450,562	$ 36,680	$ 128,089	$ 615,331
Due to other funds	-	726,127	-	726,127
Advances and amounts due to component units	-	-	89,245	89,245
Unearned revenue	-	-	8,329	8,329
Total liabilities	450,562	762,807	225,663	1,439,032
Fund balance				
Restricted for				
Parks and recreation	-	114,972	-	114,972
Tourism			359,247	359,247
Capital projects	-	-	458,017	458,017
Unassigned	(2,693)	-	-	(2,693)
Total fund balance	(2,693)	114,972	817,264	929,543
Total liabilities and fund balance	$ 447,869	$ 877,779	$ 1,042,927	$ 2,368,575

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	Special Revenue			
	State Liquid Fuels Tax Fund	Parks and Property Improvement Fund	Capital Projects	Total Nonmajor Governmental Funds
Revenues				
Intergovernmental revenue	$ 929,762	$ -	$ 216,671	$ 1,146,433
Department earnings and program revenue	-	-	715,989	715,989
Investment income	276	-	363	639
Total revenues	930,038	-	933,023	1,863,061
Expenditures				
Current				
Building and housing development	-	-	25,934	25,934
Public works	1,198,730	-	-	1,198,730
Tourism	-	-	71	71
Capital outlay	-	-	310,876	310,876
Debt service				
Principal retirements	-	-	45,816	45,816
Total expenditures	1,198,730	-	382,697	1,581,427
Excess of revenues over (under) expenditures	(268,692)	-	550,326	281,634
Other financing sources (uses)				
Transfers out	-	-	(587,884)	(587,884)
Total other financing sources (uses)	-	-	(587,884)	(587,884)
Net change in fund balances	(268,692)	-	(37,558)	(306,250)
Fund balances - beginning of year	265,999	114,972	854,822	1,235,793
Fund balances - end of year	$ (2,693)	$ 114,972	$ 817,264	$ 929,543

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	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	$ 944,659	$ 944,659	$ -	$ 929,762	$ (14,897)	$ -	$ -	$ -	$ -	$ -
Investment income	620	620	-	276	(344)	500,150	500,150	-	471,976	(28,174)
Total revenues	945,279	945,279	-	930,038	(15,241)	500,150	500,150	-	471,976	(28,174)
Expenditures										
Public works	945,279	1,220,279	(275,000)	1,165,430	54,849	-	-	-	-	-
Debt service	-	-	-	-	-	11,985,164	11,985,164	-	3,249,661	8,735,503
Total expenditures	945,279	1,220,279	(275,000)	1,165,430	54,849	11,985,164	11,985,164	-	3,249,661	8,735,503
Excess of revenues over (under) expenditures before other financing sources (uses)	-	(275,000)	(275,000)	(235,392)	39,608	(11,485,014)	(11,485,014)	-	(2,777,685)	8,707,329
Other financing sources (uses)										
Transfers in	-	-	-	-	-	11,485,014	11,485,014	-	2,046,240	(9,438,774)
Total other financing sources (uses)	-	-	-	-	-	11,485,014	11,485,014	-	2,046,240	(9,438,774)
Net change in fund balance	-	(275,000)	(275,000)	(235,392)	39,608	-	-	-	(731,445)	(731,445)
Fund balance - beginning of year, budgetary basis	-	275,000	275,000	609,533	334,533	-	-	-	655	655
Fund balance - end of year, budgetary basis	$ -	$ -	$ -	$ 374,141	$ 374,141	$ -	$ -	$ -	$ (730,790)	$ (730,790)

Explanation of differences between budget basis and GAAP:

	State Liquid Fuels Tax Fund	Debt Service Fund
Net change in fund balance - budgetary basis	$ (235,392)	$ (731,445)
Accrued expenditures - December 31, 2011	322,453	-
Accrued expenditures - December 31, 2012	(355,753)	-
Accrued revenues - December 31, 2012	-	734,970
Net change in fund balance - GAAP basis	$ (268,692)	$ 3,525

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 POSITION - AGENCY FUNDS
DECEMBER 31, 2012

	School Tax Collection	Payroll and Other Escrow Liabilities	Pass-Through Grants	Total Agency Funds
ASSETS				
Cash and cash equivalents	$ 426,879	$ 1,890,619	$ -	$ 2,317,498
Total assets	426,879	1,890,619	-	2,317,498
LIABILITIES				
Due to other governments	426,879	-	-	426,879
Due to City's General Fund	-	202,153	-	202,153
Due to others	-	1,159,948	-	1,159,948
Escrow liabilities	-	528,518	-	528,518
Total liabilities	$ 426,879	$ 1,890,619	$ -	$ 2,317,498

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2012

	Beginning of Year	Additions	Deductions	End of Year
School Tax Collection				
Assets				
Cash and cash equivalents	$ 573,142	$ 36,932,379	$ 37,078,642	$ 426,879
Liabilities				
Due to other governments	$ 573,142	$ 36,932,379	$ 37,078,642	$ 426,879
Payroll and Other Escrow Liabilities				
Assets				
Cash and cash equivalents	$ 1,877,140	$ 34,310,779	$ 34,297,300	$ 1,890,619
Liabilities				
Due to City's General Fund	$ 189,778	$ 75,876	$ 63,501	$ 202,153
Due to others	1,181,292	1,159,948	1,181,292	1,159,948
Escrow liabilities	506,070	33,074,955	33,052,507	528,518
Total liabilities	$ 720,338	$ 34,310,779	$ 34,297,300	$ 1,890,619
Pass-Through Grants				
Assets				
Cash and cash equivalents	$ 109,880	$ 327,000	$ 436,880	$ -
Investments, at fair value	324,973	2,027	327,000	-
Total assets	$ 434,853	$ 329,027	$ 763,880	$ -
Liabilities				
Escrow liabilities	$ 434,853	$ 329,027	$ 763,880	$ -
Total Agency Funds				
Assets				
Cash and cash equivalents	$ 2,560,162	$ 71,570,158	$ 71,812,822	$ 2,317,498
Investments, at fair value	324,973	2,027	327,000	-
Total assets	$ 2,885,135	$ 71,572,185	$ 72,139,822	$ 2,317,498
Liabilities				
Due to other governments	$ 573,142	$ 36,932,379	$ 37,078,642	$ 426,879
Due to City's General Fund	189,778	75,876	63,501	202,153
Due to others	1,181,292	1,159,948	1,181,292	1,159,948
Escrow liabilities	940,923	33,403,982	33,816,387	528,518
Total liabilities	$ 2,885,135	$ 71,572,185	$ 72,139,822	$ 2,317,498

City of Harrisburg, Pennsylvania

Federal Award Programs in Accordance
with OMB Circular A-133

Year Ended December 31, 2012

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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, in accordance with the 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 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 8, 2013. The financial statements of The Harrisburg Authority, the Harrisburg Parking Authority, and the Coordinated Parking Fund were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not 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.

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 a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2012-01, 2012-02, 2012-03, 2012-04, 2012-05, and 2012-06 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2012-03.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
November 8, 2013

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Harrisburg, Pennsylvania's (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Certain Major Federal Programs

As described in the accompanying schedule of findings and questioned costs, the City of Harrisburg did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2012-07	14.218 20.205 14.239	Community Development Block Grants/ Entitlement Grants Highway Planning and Construction Home Investment Partnership Program	Cash Management
2012-08	14.218	Community Development Block Grants/ Entitlement Program	Reporting
2012-09	14.218	Community Development Block Grants/ Entitlement Program	Reporting
2012-10	14.218 14.239	Community Development Block Grants/ Entitlement Program Home Investment Partnership Program	Reporting
2012-11	14.218 14.239	Community Development Block Grants/ Entitlement Program Home Investment Partnership Program	Reporting
2012-12	14.218 14.239	Community Development Block Grants/ Entitlement Program Home Investment Partnership Program	Subrecipient Monitoring
2012-13	14.218 14.239	Community Development Block Grants/ Entitlement Program Home Investment Partnership Program	Program Income

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

Qualified Opinion on Certain Major Federal Programs

In our opinion, except as described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Community Development Block Grants/ Entitlement Grants, Highway Planning and Construction, and Home Investment Partnership Program for the year ended December 31, 2012.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as follows:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2012-08	14.900 16.710	Lead-Based Paint Hazard Control Program Public Safety Partnership and Community Policing Grants	Reporting
2012-09	14.257 16.710	Homelessness Prevention and Rapid Re-Housing Program – ARRA Public Safety Partnership and Community Policing Grants - ARRA	Reporting
2012-12	14.257	Homelessness Prevention and Rapid Re-Housing Program – ARRA	Subrecipient Monitoring
2012-13	14.900	Lead-Based Paint Hazard Control Program	Program Income

Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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's internal control over compliance.

Our consideration of 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 2012-07, 2012-08, 2012-09, 2012-10, 2012-11, 2012-12, and 2012-13 to be material weaknesses.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
November 8, 2013

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

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	$ 2,162,700
Emergency Solutions Grant Program	D	14.231	N/A	71,085
Home Investment Partnerships Program	D	14.239	N/A	729,513
Homelessness Prevention and Rapid Re-Housing Program - ARRA	D	14.257	N/A	97,049
Lead-Based Paint Hazard Control	D	14.900	N/A	64,656
Passed through the Pennsylvania Department of Health:				
Lead-Based Paint Hazard Control	I	14.900	SAP 4100050064	144,340
Subtotal 14.900				208,996
Total U.S. Department of Housing and Urban Development				3,269,343
U.S. Department of Justice				
JAG Program Cluster:				
Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories	D	16.738	N/A	23,791
Edward Byrne Memorial Justice Assistance Grant Program/Grants to Units of Local Governments - ARRA	D	16.804	N/A	12,750
Subtotal JAG Program Cluster				36,541
Public Safety Partnership and Community Policing Grants - ARRA	D	16.710	N/A	291,567
Total U.S. Department of Justice				328,108
U.S. Department of Transportation				
Passed through the Pennsylvania Department of Transportation:				
Highway Planning and Construction	I	20.205	089595	4,677,847
Highway Planning and Construction	I	20.205	088787	17,841
Total U.S. Department of Transportation				4,695,688
U.S. Department of Homeland Security - Federal Emergency Management Agency				
National Urban Search and Rescue Response System	D	97.025	N/A	197,578
Staffing for Adequate Fire and Emergency Response	D	97.044	N/A	240,457
Passed through the Pennsylvania Emergency Management Agency:				
Disaster Grants - Public Assistance	I	97.036	N/A	592,797
Total U.S. Department of Homeland Security - Federal Emergency Management Agency				1,030,832
Total Expenditures of Federal Awards				$ 9,323,971

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, 2012.

3. SECTION 108 LOANS

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 were to administer acquisition, relocation, clearance, rehabilitation, and disposition of City properties. These notes do not have continuing compliance requirements.

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, 2012 is as follows:

Date of Notice	Amount of Note	Interest Rate	Required Interest Payment	Principal Balance December 31, 2012	2012 Principal Payments
May 13, 2000	$ 3,960,000	5.75%- 6.56%	Semi-annually, February and August 1st	$ 2,000,000	$ 230,000
September 14, 2006	$ 3,795,000	4.99%- 5.77%	Semi-annually, February and August 1st	2,955,000	210,000
				$ 4,955,000	$ 440,000

Section 108 loans changed during the year as follows:

Beginning of Year	Additions	Payments	End of Year
$ 5,395,000	$ -	$ 440,000	$ 4,955,000

4. PENNSYLVANIA DEPARTMENT OF HEALTH

The following represents activity related to federal funding passed through the Pennsylvania Department of Health for the year ended December 31, 2012:

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Accrued (Deferred) Revenue 12/31/2011	Cash Receipts	Federal Expenditures	Accrued (Deferred) Revenue 12/31/2012
Lead-Based Paint Hazard Control	14.900	SAP 4100050064	$ 19,125	$ 123,009	$ 144,340	$ 40,456

5. CONTINGENCIES

Certain 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. 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. At December 31, 2012, the City is holding the remaining Section 108 Guaranteed Funds, in the amount of $1,089,004, in a separate account and using the funds to pay down the outstanding loan balance.

6. DISASTER ASSISTANCE – PUBLIC ASSISTANCE

The amount recognized on the schedule of expenditures of federal awards related to CFDA #97.036, Disaster Assistance – Public Assistance, includes expenditures in the amount of $592,797 that were incurred in 2011 and 2012, and not previously reported on the schedules of expenditures of federal awards. The inclusion of these expenditures on the 2012 Schedule did not impact the determination of other major programs. The Disaster Assistance – Public Assistance program was audited as a major program in 2012.

Prior Year Findings

Financial Statement Findings

Finding 2011-01: 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.

For the Mayor's Office of Equal Economic Opportunity (MOEEO) (formerly Mayor's Office of Economic Development or MOED) loans, administered by DBHD, we noted the following items:

- Loan balances per Portfolio were not reconciled to the general ledger balances recorded in Pentamation for the General Fund or the State Grants Fund.
- 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 in Portfolio to the Pentamation loan receivable general ledger balances on at least a quarterly basis.

With respect to the MOEEO loans, we recommend that:

- Procedures be established to reconcile all outstanding loan balances in Portfolio to the Pentamation loan receivable general ledger balances of the state grants and general funds on at least a quarterly basis.
- A written policies and procedures manual be prepared.

Current Status: See current year Finding 2012-01.

Finding 2011-02: 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 2012-02.

Finding 2011-03: 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 grant revenue, receivables (utility, taxes and other) and related allowances, due to other funds and due to other governments, capital assets, accounts payable, lease payable, and debt.

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. Since 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 $109.1 million.

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: See current year Finding 2012-03.

Finding 2011-04: Segregation of Duties

Condition: The City had segregation of duties issues noted in the following areas:

- Journal entries recorded in the general ledger system are not reviewed and approved.
- Q and S account utility billings are not reviewed and approved.
- Payments for MOEEO and DBHD loans are received directly by DBHD 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.

Recommendation: With respect to the journal entries, we recommend that the City follow its policy that all journal entries be entered, posted, and reviewed by a person independent of each process. With respect to the Q and S account billings, we recommend that the City follow its policy that the Operation and Revenue Billing Clerk prepare the billings for review by the Director of Operations and Revenue prior to mailing. With respect to the MOEEO and DBHD loans and building permit receipts, we recommend that all receipts go directly to the City Treasurer's office, as a central depository, and copies of check and/or a receipt be provided to DBHD and the Bureau of Codes for recording in the appropriate system or 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.

Current Status: See current year Finding 2012-04.

Finding 2011-05: 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) or accounts payable.

Recommendation: With respect to reconciliation of subsidiary reports, we recommend that:

- All Q and S account balances be reconciled to Pentamation at year-end.
- Cut-off procedures be established to ensure that all disbursements are reported in the appropriate periods.

Current Status: See current year Finding 2012-05.

Finding 2011-06: 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.

Recommendation: We recommend that the City establish systems to ensure compliance with applicable SEC federal securities laws.

Current Status: The City 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.

Finding 2011-07: Reconciling Bank Accounts

Condition: The City's policy is that all bank account statements, other than payroll account bank statements, are to be received and reconciled by the City Treasurer's office on a monthly basis. Bank statements for the payroll accounts are to be received directly and reconciled by the Controller's office. During the audit, we noted the following:

- The bank statements for the Washington Square Escrow Account were not being received or maintained in the City Treasurer's office. These bank statements were maintained in DBHD and there was no monthly reconciliation performed on this account.
- The payroll accounts were received by the City Treasurer's office and then forwarded to the Finance Department. The bank statements were not reconciled by the Controller's office, City Treasurer's office, or the Finance Department.
- Although the monthly reconciliations were prepared for all other accounts, these reconciliations were not prepared on a timely basis.

Recommendation: We recommend that the City follow its policies for which department should receive and reconcile its bank accounts and that all bank accounts be reconciled on a timely basis.

Current Status: See current year Finding 2012-06.

III – Findings and questioned costs for federal awards.

Control Deficiency: Material Weakness

Finding 2011-08: Cash Management

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA #20.205)

Condition: During the audit, three out of the five reimbursement requests selected for testing related to the Community Development Block Grants/Entitlement Program contained invoices for allowable costs that were not paid within ten calendar days of the date of the U.S. Department of Housing and Urban Development's (HUD) remittance.

During the audit, two of three reimbursement requests selected for testing related to the Highway Planning and Construction Program contained invoices for allowable costs that were not paid within ten calendar days of the Commonwealth of Pennsylvania's (Commonwealth) remittance.

Recommendation: The City should establish controls to minimize the time elapsing between the receipt of federal funds and disbursements to vendors (defined as ten calendar days by the Pennsylvania Department of Transportation).

Current Status: See current year Finding 2012-07.

Finding 2011-09: Suspension and Debarment

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239); 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 the audit, 16 project files were selected for testing for suspension and debarment. The City was not able to provide evidence verifying that the contractors utilized were not suspended or debarred prior to awarding the contract for any of the project files tested.

Recommendation: The City should establish controls to ensure that verification that contractors are neither suspended nor debarred is performed prior to awarding the contract. The City should search the SAM and maintain supporting documentation that the search was performed.

Current Status: No discrepancies were noted regarding suspension and debarment during the December 31, 2012 audit.

Finding 2011-10: Submitting Required Reports

U.S. Department of Housing and Urban Development – Homelessness Prevention and Rapid Re-Housing Program – ARRA (CFDA #14.257); 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 Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710)

Condition: During the audit, the City did not submit the Section 1512 ARRA Reports within the specified timeframe for one of four quarters selected for testing related to the Homelessness Prevention and Rapid Re-Housing Program – ARRA (HPRP). The City did not submit the Section 1512 ARRA Reports within the specified timeframe for two of four quarters selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA.

The City did not submit the Annual Performance Report (APR) within the specified timeframe related to the HPRP Program.

The City did not submit the Federal Financial Reports within the specified timeframe for two of four quarters related to the Lead-Based Paint Hazard Control Program.

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.

Current Status: No discrepancies were noted regarding submitting required reports with respect to CFDA #14.257 during the December 31, 2012 audit. See current year Finding 2012-08 related to CFDA #14.900 and CFDA #16.710.

Finding 2011-11: Preparing Required Reports

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Homelessness Prevention and Rapid Re-Housing Program – ARRA (CFDA #14.257); U.S. Department of Housing and Urban Development – Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA #14.900); U.S. Department of Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710)

Condition: The City did not report accurate information on the Federal Financial Reports for any of the four quarters selected for testing related to the Community Development Block Grants/Entitlement Grants Program or the Public Safety Partnership and Community Policing Grants – ARRA.

The City did not report accurate information on the Section 1512 ARRA Reports for two of four quarters selected for testing related to the Homelessness Prevention and Rapid Re-Housing Program – ARRA (HPRP) or for three of four quarters selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA.

The City did not report accurate information on the Annual Performance Report (APR) submitted during 2011 related to the HPRP Program.

The City did not report accurate information on the State Progress Reports for one of four quarters selected for testing related to the Lead-Based Paint Hazard Control Program.

Recommendation: The City should implement procedures to ensure that all reports are reconciled to the general ledger system and prepared by an individual knowledgeable of the reporting requirements. The reports should be reviewed and approved by an individual, other than the preparer, who is also knowledgeable of the reporting requirements.

Current Status: No discrepancies were noted regarding submitting required reports with respect to CFDA #14.900 during the December 31, 2012 audit. See current year Finding 2012-09 related to CFDA #14.218, CFDA #14.257, and CFDA #16.710.

Finding 2011-12: Submitting Section 3 Summary Reports

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239); 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: The City was not able to provide the Section 3 Summary Report (HUD-60002) for the federal funds received from HUD for the Community Development Block Grants/Entitlement Grants Program, Home Investment Partnerships Program, and the Lead-Based Paint Hazard Control Program. The City was not able to provide the Section 3 Summary Report (HUD-60002) for the federal funds passed through the Pennsylvania Department of Health related to the Lead-Based Hazard Control Program.

Recommendation: The City should establish controls to ensure that all required reports be submitted within the appropriate timeframe and documentation is kept regarding the date of submission.

Current Status: No discrepancies were noted regarding submitting required reports with respect to CFDA #14.900 during the December 31, 2012 audit. See current year Finding 2012-10 related to CFDA #14.218 and CFDA #14.239.

Finding 2011-13: Federal Funding Accountability and Transparency Act (FFATA) Reporting

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239)

Condition: During the audit, it was noted that the City did not report first-tier subawards over $25,000 in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Recommendation: The City should establish controls to ensure that the FFATA requirements are met and reporting of the obligation of subawards of $25,000 is completed within the timeframe required.

Current Status: See current year Finding 2012-11.

Finding 2011-14: Subrecipient Monitoring

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239); U.S. Department of Housing and Urban Development – Homelessness Prevention and Rapid Re-Housing Program – ARRA (CFDA #14.257)

Condition: During the audit, the City was unable to provide evidence that monitoring was performed during the year for four of five subrecipients selected for testing from the Community Development Block Grants/Entitlement Grants Program and the Home Investment Partnerships Program.

During the audit, the financial statements for one of five subrecipients selected for testing did not properly report federal funding received from the City under the Homelessness Prevention and Rapid Re-Housing Program. No documentation could be provided during the audit validating that the City followed up with the subrecipient related to this omission.

Recommendation: The City should establish controls to ensure that subrecipient monitoring occurs as required for all federal funding passed through from the City to subrecipients.

Current Status: See current year Finding 2012-12.

Finding 2011-15: 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 the audit, it was noted that the City did not maintain a public registry of units in which lead hazard work had been performed.

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.

Current Status: No discrepancies were noted regarding special tests and provisions – public registry during the December 31, 2012 audit.

Finding 2011-16: Procurement

U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239)

Condition: During the audit, the City could not provide procurement records for one of three projects selected for testing related to the Home Investment Partnerships Program.

Recommendation: The City should establish controls to ensure that all records regarding the City's federal programs are retained for the required amount of time. Records and supporting documentation should be maintained in one central file location.

Current Status: No discrepancies were noted regarding procurement during the December 31, 2012 audit.

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified – Going Concern

2. Internal control over financial reporting:

   Material weakness(es) identified? ☒ yes ☐ no
   Significant deficiency(ies) identified that are not considered to be material weakness (es)?
   ☐ yes ☒ none reported

3. Noncompliance material to financial statements noted? ☒ yes ☐ no

4. Internal control over major programs:

   Material weakness(es) identified? ☒ yes ☐ no
   Significant deficiency(ies) identified that are not considered to be material weakness (es)?
   ☐ yes ☒ none reported

5. Type of auditor's report issued on compliance for major programs:

   Qualified
   - Community Development Block Grants/Entitlement Grants
   - Home Investment Partnerships Program
   - Highway Planning and Construction

   Unmodified
   - Disaster Grants – Public Assistance

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ yes ☐ no

7. Major Programs:

CFDA Numbers	Name of Federal Program
14.218	Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program
20.205	Highway Planning and Construction
97.036	Disaster Grants - Public Assistance

8. Dollar threshold used to distinguish between type A and type B programs: $300,000

9. Auditee qualified as low-risk auditee? ☐ yes ☒ no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

Control Deficiency: Material Weakness

Finding 2012-01: 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.

For the Mayor's Office of Equal Economic Opportunity (MOEEO) (formerly Mayor's Office of Economic Development or MOED) loans, administered by DBHD, we noted the following items:

- Loan balances per Portfolio were not reconciled to the general ledger balances recorded in Pentamation for the General Fund or the State Grants Fund.
- 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.

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 in Portfolio to the Pentamation loan receivable general ledger balances on at least a quarterly basis.

With respect to the MOEEO loans, we recommend that:

- Procedures be established to reconcile all outstanding loan balances in Portfolio to the Pentamation loan receivable general ledger balances 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. DBHD is developing a process to track accrued interest on construction projects with pro bono web site calculators. With respect to DBHD loans, DBHD is working with the Bureau of Financial Management to develop and implement procedures to reconcile outstanding loan balances with the Pentamation general ledger. With respect to MOEEO loans, DBHD is working with the Bureau of Financial Management to develop and implement procedures to reconcile loan balances in Portfolio to the Pentamation loan receivable general ledger related to state funds and general funds. These corrective actions will be possible with the hiring of the vacant Staff Accountant/Financial Analyst position. DBHD has earlier developed a written loan policies and procedures manual.

Finding 2012-02: 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. The auctions were held in July and October 2013, at which the majority of artifacts were sold. Therefore, cost is no longer an issue.

Finding 2012-03: 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 grant revenue, receivables (utility, taxes and other) and related allowances, due to other funds and due to other governments, accounts payable, lease payable, and debt.

Additionally, the City defaulted on its 1997 Series D and F bonds during 2012. Payments on the bonds were made by the bond insurer under the insurance agreement per the trust indenture. Also, the City also did not make the required principal and interest payments on three of its four Pennsylvania Infrastructure Bank (PIB) loans or the third or fourth quarter principal and interest payments on its 2007 capital lease.

Finally, 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. Since 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 $114.9 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"). The City should comply with the trust indentures for the 1997 series bonds, the loan agreements for the PIB loans and the capital lease agreements as it relates to required principal and interest payments.

Effect: If the entity relies upon its auditors to assist them in producing GAAP financial statements, or the entity fails to make the required principal and interest payments required under its debt and lease obligations, the auditor is required to communicate a significant deficiency or material weakness related to financial reporting.

Cause: The City does not have adequate staffing to produce GAAP financial statements and cash flow difficulties have prevented the City from making its required principal and interest payments and honoring its guarantees.

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 and default on debt obligations as noted above.

Views of Responsible Officials: The City agrees. The Bureau of Financial Management hired an Accounting Manager in November 2012, whose duties include the elimination of financial reporting deficiencies. The Accounting Manager will be able to carry out these duties once the vacant Staff Accountant/Financial Analyst position is filled.

Finding 2012-04: Segregation of Duties

Condition: The City had segregation of duties issues noted in the following areas:

- Journal entries recorded in the general ledger system are not reviewed and approved.
- Q and S account utility billings are not reviewed and approved.
- Payments for MOEEO and DBHD loans are received directly by DBHD 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 journal entries, we recommend that the City follow its policy that all journal entries be entered, posted, and reviewed by a person independent of each process. With respect to the Q and S account billings, we recommend that the City follow its policy that the Operation and Revenue Billing Clerk prepare the billings for review by the Director of Operations and Revenue prior to mailing. With respect to the MOEEO and DBHD loans and building permit receipts, we recommend that all receipts go directly to the City Treasurer's office, as a central depository, and copies of check and/or a receipt be provided to DBHD and the Bureau of Codes for recording in the appropriate system or 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 2012-03. Additionally, DBHD policy provides for the Bureau of Housing Asset Manager to photocopy loan payments for DBHD loan files and to forward loan payments to the City Treasurer's Office for deposit. The DBHD Bureau of Codes policy provides for the Bureau to enter into a database all building permit receipts and to forward building permit receipts to the City Treasurer's Office.

Finding 2012-05: 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) 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 balances be reconciled to Pentamation at year-end.
- Cut-off procedures be established to ensure that all disbursements are reported in the appropriate periods.

Views of Responsible Officials: The City agrees. It is anticipated that the vacant Staff Accountant/Financial Analyst position will perform these reconciliations once hired.

Finding 2012-06: Reconciling Bank Accounts

Condition: The City's policy is that all bank account statements, other than payroll account bank statements, are to be received and reconciled by the City Treasurer's office on a monthly basis. Bank statements for the payroll accounts are to be received directly and reconciled by the Controller's office. During the audit, we noted the following:

- For the bank statements that are received by the City Treasurer's office, no one is reviewing the statements for unusual items prior to reconciliation.
- The bank statements for the Washington Square Escrow Account were not being received or maintained in the City Treasurer's office prior to May 2012. These bank statements were maintained in DBHD and there was no monthly reconciliation performed on this account.
- The payroll accounts were received by the City Treasurer's office and then forwarded to the Finance Department. The bank statements were not reconciled by the City Treasurer's office or the Finance Department. The Controller's office began reconciling the payroll accounts in July 2012.
- Although the monthly reconciliations were prepared for all other accounts, they did not reflect any adjustments related to the 2009, 2010, or 2011 audits.
- Monthly reconciliations for the year ended December 31, 2012 were not provided to the Controller's office for review until May 2013.

Criteria: In order to accurately report the City's cash balances, the City should reconcile the bank accounts on a timely basis.

Effect: The City bank reconciliations did not reflect all adjustments from previous years' audits and were not reviewed on a timely basis.

Cause: The City did not follow its policy for review of the bank reconciliations on a timely basis.

Recommendation: We recommend that the City follow its policies for which department should receive its bank accounts and that all bank accounts be reconciled and reviewed on a timely basis.

Views of Responsible Officials: The City agrees. It is anticipated that the vacant Staff Accountant/Financial Analyst position, once hired, will see to it that all bank accounts are reconciled by the appropriate department on a timely basis.

III – Findings and questioned costs for federal awards.

Control Deficiency: Material Weakness

Finding 2012-07: Cash Management

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA #20.205); U.S. Department of Housing and Urban Development- Home Investment Partnership Program (CFDA #14.239)

Condition: During the audit, three out of the five reimbursement requests selected for testing related to the Community Development Block Grants/Entitlement Program contained invoices for allowable costs that were not paid within ten calendar days of the date of the U.S. Department of Housing and Urban Development's (HUD) remittance.

During the audit, all four reimbursement requests selected for testing related to the Home Investment Planning and Construction Program contained invoices for allowable costs that were not paid within ten calendar days of the date of HUD's remittance.

During the audit, three out of four reimbursement requests selected for testing related to the Highway Planning and Construction Program contained invoices for allowable costs that were not paid within ten calendar days of the Commonwealth of Pennsylvania's (Commonwealth) remittance.

Criteria: The U.S. Office of Management and Budget (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 disbursements 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.

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 the consultants and contractors within ten calendar days of the date of the Commonwealth's remittance.

Cause: The City does not have controls in place to ensure that invoices are paid in accordance with the OMB Circular A-133 *Compliance Supplement* or General Reimbursement Agreements for Federal-Aid 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 minimize the time elapsing between the receipt of federal funds and disbursements to vendors (defined as ten calendar days by the Pennsylvania Department of Transportation).

Views of Responsible Officials: DBHD has an established invoice payment schedule that is provided to each contractor/vendor annually. The schedule outlines the dates that invoices are due to the City, due to the Department Director for approval, and due to the Bureau of Financial Management for processing. The schedule also identifies the check print dates and the distribution date.

To alleviate the week delay in the distribution of checks, the Bureau of Housing (BOH) has instituted the internal policy that all payment requests (pink sheets) will be marked "HOLD" to allow all checks for contractors to be distributed directly to Housing Staff. Copies of the checks are tagged with receipt labels and contractors/vendors are contacted to come in to sign for each check

In addition, BOH has implemented internal policy changes to ensure that contractor/vendor invoices are processed and paid in a timely manner.

- BOH staff was instructed to inform all contractors/vendors to submit their invoices and/or payment requests directly to the Deputy Director of BOH.
- An Invoice Tracking Log was created to keep track of invoice processing from receipt-to-payment/check distribution. Each invoice is recorded in the log including the following information:
    - Date of receipt and initials of staff who received the invoice; associated project information (e.g., contractor, address, inspection date, etc.); the responsible Program Manager; date invoices were entered into e-Finance, approved by the Deputy Director of BOH and the Director of DBHD; date checks are anticipated and actual check date.

Finding 2012-08: Submitting Required Reports

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 Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710); U.S. Department of Housing and Urban Development- Community Development Block Grants/Entitlement Program (CFDA #14.218)

Condition: During the audit, the City did not submit the Section 1512 ARRA Reports within the specified timeframe for two of four quarters selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA.

The City did not submit the Federal Financial Reports within the specified timeframe for two of four quarters related to the Lead-Based Paint Hazard Control Program.

The City did not submit the Annual Performance and Evaluation Report within the specified timeframe related to the Community Development Block Grants/Entitlement Program.

Criteria: The City is required to submit quarterly Section 1512 ARRA Reports pursuant to the requirements of the American Recovery and Reinvestment Act of 2009. The City is required to submit these quarterly Section 1512 ARRA Reports within ten days after the end of each quarter, unless otherwise notified.

The City is required to submit quarterly Federal Financial Reports pursuant to the requirements in the OMB Circular A-133 *Compliance Supplement* for the Lead-Based Paint Hazard Control Program.

The City is required to submit the Annual Performance and Evaluation Report within ninety days after the end of the program year related to the Community Development Block Grants/Entitlement Program.

Cause: The City does not have controls in place to ensure that all necessary reports are submitted within the specified timeframes.

Effect: The City is not in compliance with reporting requirements. 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 submission of required reports under HPRP was delayed due to staff turnover and a delay in processing the request for access to the e-snaps system by the Deputy Director. Once access was obtained, reports were subsequently submitted in a timely manner.

The Deputy Director of BOH has developed a Calendar of Reports detailing each specific report required by HUD, the due dates, and the responsible party to oversee its completion. Each Program Manager has a poster-sized copy of the calendar for reference.

Finding 2012-09: Preparing Required Reports

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Homelessness Prevention and Rapid Re-Housing Program – ARRA (CFDA #14.257); U.S. Department of Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710)

Condition: The City did not report accurate information on the Federal Financial Reports for any of the four quarters selected for testing related to the Community Development Block Grants/Entitlement Grants Program or the Public Safety Partnership and Community Policing Grants – ARRA.

The City did not report accurate information on the Section 1512 ARRA Reports for two of three quarters selected for testing related to the Homelessness Prevention and Rapid Re-Housing Program – ARRA (HPRP) or for all four quarters selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA.

The City did not report accurate information on the Annual Performance Report (APR) submitted during 2012 related to the HPRP Program.

The City did not report accurate information on the PR26 – CDBG Financial Summary Report related to the Community Development Block Grants/Entitlement Grants Program.

Criteria: The City is required to submit quarterly Federal Financial Reports for the Community Development Block Grants/Entitlement Grants Program and the Public Safety Partnership and Community Policing Grants – ARRA Program. The expenditures for each quarter should reflect the amount of funds expended and recorded in the City's general ledger on a cumulative basis and will not necessarily reflect the amount of expenditures reported in the Integrated Disbursement and Information System (IDIS).

The City is required to submit quarterly Section 1512 ARRA Reports for the HPRP Program and Public Safety Partnership and Community Policing Grants – ARRA pursuant to the requirements of the American Recovery and Reinvestment Act of 2009. All data contained in each quarterly report must be cumulative in order to encompass the total amount of funds expended to date.

The City is required to submit an APR for the HPRP Program. The expenditures should reflect the amount of funds expended and recorded in the City's general ledger on a cumulative basis and will not necessarily reflect the amount of expenditures reported in the IDIS.

The City is required to submit a PR26 – CDBG Financial Summary Report for the Community Development Block Grants/Entitlement Grants Program. The report should reflect the amount of program income received for the program year.

Cause: Adequate review for the accuracy of expenditures and cash receipts on the reports was not performed. Additionally, no reconciliation with the general ledger system was performed to ensure that the reports reflected all of the expenditures and receipts to date.

Effect: The data on the Federal Financial Reports for four quarters selected for testing related to the Community Development Block Grants/Entitlement Grants Program and the Public Safety Partnership and Community Policing Grants – ARRA were not cumulative and, therefore, did not encompass the total amount of funds expended and received to date.

The data on the Section 1512 ARRA Report for two of three quarters selected for testing related to the HPRP Program and all four quarter selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA were not cumulative and, therefore, did not encompass the total amount of funds expended and received to date.

The data on the APR submitted for 2012 related to the HPRP Program was not cumulative and, therefore, did not encompass the total amount of funds expended and received to date.

The program income on the PR26 – CDBG Financial Summary Report related to the Community Development Block Grants/Entitlement Grants Program for program year 2011 did not include amounts of program income received during that program year.

Recommendation: The City should implement procedures to ensure that all reports are reconciled to the general ledger system and prepared by an individual knowledgeable of the reporting requirements. The reports should be reviewed and approved by an individual, other than the preparer, who is also knowledgeable of the reporting requirements.

Views of Responsible Officials: The City has implemented new procedures for the preparation of Federal Financial Reports and reconciliation to the general ledger system. All financial reports will be prepared ahead of the deadline and will be reviewed and approved by a qualified individual other than the preparer.

Finding 2012-10: Submitting Section 3 Summary Reports

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239)

Condition: The City was not able to provide the Section 3 Summary Report (HUD-60002) for the federal funds received from U.S. Department of Housing and Urban Development (HUD) for the Home Investment Partnerships Program. The City did not report complete and accurate information on the Section 3 Summary Report for the Community Development Block Grant Entitlement Grants Program

Criteria: The U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the Code of Federal Regulations specify that the Section 3 Summary Report is required to be completed and submitted to HUD annually by recipients of housing and urban development assistance in excess of $200,000 expended for: (1) housing rehabilitation; (2) housing construction; or (3) other public construction projects.

Cause: The City does not have controls in place to ensure that all necessary reports are submitted within the specified timeframes required
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Effect: Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls to ensure that all required reports be submitted within the appropriate timeframe and documentation is kept regarding the date of submission.

Views of Responsible Officials: DBHD has established and implemented controls to ensure that required reports (including the Section 3 Reports) are submitted within the appropriate timeframe and that documentation is maintained regarding the date of submission.

Finding 2012-11: Federal Funding Accountability and Transparency Act (FFATA) Reporting

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239)

Condition: During the audit, it was noted that the City did not report first-tier subawards over $25,000 in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Criteria: The Federal Funding Accountability and Transparency Act (FFATA) requires that first-tier subawards obligating non-ARRA federal funding of $25,000 or more must be reported in the FSRS by the end of the month following the month in which the reportable action occurred. The effective date for FFATA was October 1, 2010 and recipients are not required to report on subawards made on or after October 1, 2010 that use funds awarded prior to that date.

Cause: The City was unaware of the reporting requirements.

Effect: The City did not comply with the reporting requirements of FFATA. Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls to ensure that the FFATA requirements are met and reporting of the obligation of subawards of $25,000 is completed within the timeframe required.

Views of Responsible Officials: DBHD staff was unaware of the FFATA requirements. The FFATA report will be assigned to a staff member for completion and submission within the timeframe required.

Finding 2012-12: Subrecipient Monitoring

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239); U.S. Department of Housing and Urban Development – Homelessness Prevention and Rapid Re-Housing Program – ARRA (CFDA #14.257)

Condition: During the audit, the City was unable to provide evidence that monitoring was performed during the year for any of the subrecipients selected for testing from the Community Development Block Grants/Entitlement Grants Program, the Home Investment Partnerships Program, and the Homelessness Prevention and Rapid Re-Housing Program.

Criteria: The Code of Federal Regulations (24 CFR 570.503) requires that pass-through entities monitor subrecipient performance for compliance and follow up on any issues that were observed during monitoring.

Cause: The City does not have controls in place to ensure its subrecipients are in compliance with grant award requirements.

Effect: The City is not in compliance with subrecipient monitoring requirements. Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should establish controls to ensure that subrecipient monitoring occurs as required for all federal funding passed through from the City to subrecipients.

Views of Responsible Officials: DBHD BOH staff will ensure that all federally-funded subrecipients are monitored at least annually (including progress reports and site visits) and that monitoring reports are completed and filed.

Finding 2012-13: Program Income

U.S. Department of Housing and Urban Development – Home Investment Partnership Program (CFDA # 14.239); U.S. Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900)

Condition: During the audit, the City did not report program income received during 2012 in the Integrated Disbursement and Information System (IDIS) related to several loan repayments originally funded by the Community Development Block Grants/Entitlement Grants Program, the Home Investment Partnerships Program, and the Lead-Based Paint Hazard Control Program. The City did not expend the program income received during 2012 for eligible activities prior to drawing down additional funds.

Criteria: The Code of Federal Regulations (24 CFR 570.504) requires program income to be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury. At the end of each program year, the aggregate amount of program income cash balances and any investment thereof that, as of the last day of the program year, exceeds one-twelfth of the most recent grant shall be remitted to HUD as soon as practicable thereafter, to be placed in the City's line of credit.

Cause: The City does not have controls in place to ensure that program income received is properly reported as program income in IDIS and the funds received are expended for eligible activities prior to drawing down additional funds.

Effect: As of December 31, 2012, the City received but did not report program income of $1,290,400, $431,300, and $163,020 related to the Community Development Block Grants/Entitlement Grants Program, the Home Investment Partnerships Program, and the Lead-Based Paint Hazard Control Program, respectively.

Under 24 CFR 570.504, as of the program year ended September 30, 2012, the City had program income cash balances in excess of one-twelfth of the most recent grant awards of $758,999 and $201,394 related to the Community Development Block Grants/Entitlement Grants Program and the HOME Investment Partnerships Program, respectively. These amounts should have been remitted to HUD to be placed in the City's line of credit.

The City is not in compliance with cash management and program income requirements. Failure to comply with grant award requirements could jeopardize future funding.

Recommendation: The City should implement procedures to ensure that all program income received is properly reported as program income in IDIS and the funds received are expended for eligible activities prior to drawing down additional funds.

Views of Responsible Officials: DBHD BOH has implemented corrective action to ensure that all program income is receipted back to the appropriate federal grant program, allocated to eligible activities, and drawn in compliance with HUD's established "first-in/first-out" policy as it relates to the drawdown of program income prior to drawing grant funds.