

HARRISBURG PARKING AUTHORITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2007 AND 2006
WITH
INDEPENDENT AUDITOR'S REPORT**

MAHER DUESSEL

CERTIFIED PUBLIC ACCOUNTANTS

HARRISBURG PARKING AUTHORITY

YEARS ENDED DECEMBER 31, 2007 AND 2006

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MAHER DUESSEL

CERTIFIED PUBLIC ACCOUNTANTS

3211 NORTH FRONT STREET - SUITE 101
HARRISBURG, PA 17110

(717) 232-1230
FAX (717) 232-8230

Independent Auditor's Report

Board of Directors
Harrisburg Parking Authority

We have audited the accompanying basic financial statements of the Harrisburg Parking Authority (the Authority), a component unit of the City of Harrisburg, as of and for the years ended December 31, 2007 and 2006, and the related statements of revenue, expenses, and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Board of Directors
Harrisburg Parking Authority
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Our audit was conducted for the purpose of forming an opinion on the Authority's financial statements taken as a whole. The Calculation of Payments to Coordinated Parking Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

MaHer Duessel

Harrisburg, Pennsylvania
April 21, 2008

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HARRISBURG PARKING AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 3,603,116	\$ 3,480,216
Receivables - trade	171,097	222,747
Due from Coordinated Parking Fund	1,515,135	1,568,797
Due from City of Harrisburg	10,000	-
Prepaid expenses	150,916	44,147
Current portion of note receivable	-	59,879
Total current assets	<u>5,450,264</u>	<u>5,375,786</u>
Restricted assets:		
Cash and cash equivalents	13	41
Investments	<u>20,398,231</u>	<u>19,383,217</u>
Total restricted assets	<u>20,398,244</u>	<u>19,383,258</u>
Noncurrent assets:		
Capital assets not being depreciated	7,184,250	15,018,210
Capital assets (net of accumulated depreciation of \$27,366,868 and \$24,619,141)	60,799,203	47,055,137
Equitable ownership interest	7,050,000	-
Deferred bond issuance costs (net of amortization of \$973,886 and \$945,474)	4,572,101	3,036,078
Management and operating rights (net of amortization of \$860,938 and \$742,188)	<u>1,989,062</u>	<u>2,107,812</u>
Total noncurrent assets	<u>81,594,616</u>	<u>67,217,237</u>
Total Assets	<u><u>\$107,443,124</u></u>	<u><u>\$ 91,976,281</u></u>

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

Liabilities and Net Assets	<u>2007</u>	<u>2006</u>
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,263,989	\$ 871,057
Deferred parking revenue	358,771	457,069
Current portion of bonds and notes payable	<u>2,175,000</u>	<u>2,640,000</u>
Total current liabilities	<u>3,797,760</u>	<u>3,968,126</u>
Current liabilities payable from restricted assets:		
Construction payables	1,198,396	1,097,129
Accrued interest payable on bonds	1,185,671	1,198,439
Deferred parking revenue	<u>87,063</u>	<u>87,513</u>
Total current liabilities payable from restricted assets	<u>2,471,130</u>	<u>2,383,081</u>
Long-term liabilities:		
Bonds and notes payable, net of current portion	106,727,390	90,968,110
Deferred revenue	<u>349,302</u>	<u>402,966</u>
Total long-term liabilities	<u>107,076,692</u>	<u>91,371,076</u>
Total Liabilities	<u>113,345,582</u>	<u>97,722,283</u>
Net Assets:		
Invested in capital assets, net of related debt Unrestricted	(11,378,608)	(11,502,911)
	<u>5,476,150</u>	<u>5,756,909</u>
Total Net Assets	<u>(5,902,458)</u>	<u>(5,746,002)</u>
Total Liabilities and Net Assets	<u>\$107,443,124</u>	<u>\$ 91,976,281</u>

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HARRISBURG PARKING AUTHORITY

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Public parking	\$ 11,194,032	\$ 10,874,816
State parking	1,328,892	1,281,470
Office rent	67,577	63,849
Other	56,799	52,167
Total operating revenue	<u>12,647,300</u>	<u>12,272,302</u>
Operating Expenses:		
Salaries and fringe benefits	2,237,619	2,181,567
Repairs, maintenance, and supplies	685,588	650,382
Professional services	396,052	266,028
Depreciation	2,747,728	2,617,873
Insurance	194,210	180,832
Utilities	514,088	437,431
Real estate taxes	52,932	52,006
Rental	38,373	37,387
Other	207,653	203,979
Total operating expenses	<u>7,074,243</u>	<u>6,627,485</u>
Operating Income	<u>5,573,057</u>	<u>5,644,817</u>
Nonoperating Revenue (Expenses):		
Investment income	1,726,621	1,071,502
Interest expense	(5,074,477)	(4,716,631)
Transfer from the Coordinated Parking Fund	2,720,725	2,620,777
Required payments under cooperation agreement for downtown parking system to the Coordinated Parking Fund	<u>(5,102,382)</u>	<u>(4,896,729)</u>
Total nonoperating expenses, net	<u>(5,729,513)</u>	<u>(5,921,081)</u>
Change in Net Assets	(156,456)	(276,264)
Net Assets:		
Beginning	<u>(5,746,002)</u>	<u>(5,469,738)</u>
Ending	<u>\$ (5,902,458)</u>	<u>\$ (5,746,002)</u>

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

HARRISBURG PARKING AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities:		
Received from user charges	\$ 12,654,314	\$ 10,436,098
Payments to employees for services	(2,237,619)	(2,181,567)
Payments to suppliers for goods and services	(1,693,983)	(1,499,043)
Net cash provided by operating activities	<u>8,722,712</u>	<u>6,755,488</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of parking revenue bonds	36,588,891	-
Interest paid on parking revenue bonds	(5,117,099)	(4,262,670)
Principal paid on parking revenue bonds	(2,640,000)	(2,570,000)
Cash paid to bond escrow agent	(18,388,217)	-
Cash payments to Coordinated Parking Fund	(5,102,382)	(4,896,729)
Cash payments from Coordinated Parking Fund	2,720,725	2,620,777
Acquisition and construction of capital assets	(8,042,643)	(6,242,235)
Equitable ownership interest in condominium unit	(7,050,000)	-
Cash paid for bond issuance costs	(2,286,487)	(10,049)
Net cash used in capital and related financing activities	<u>(9,317,212)</u>	<u>(15,360,906)</u>
Cash Flows From Investing Activities:		
Investment income	1,579,974	952,776
Purchases of investment securities	(12,069,481)	(10,970,718)
Proceeds from sale and maturities of investment securities	11,147,000	21,416,110
Payments received on note receivable	59,879	59,880
Net cash provided by (used in) investing activities	<u>717,372</u>	<u>11,458,048</u>
Net Increase (Decrease) in Cash and Cash Equivalents	122,872	2,852,630
Cash and Cash Equivalents:		
Beginning	<u>3,480,257</u>	<u>627,627</u>
Ending	<u>\$ 3,603,129</u>	<u>\$ 3,480,257</u>

HARRISBURG PARKING AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 5,573,057	\$ 5,644,817
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation	2,747,728	2,617,873
Amortization	118,750	118,750
Changes in operating assets and liabilities:		
Receivables:		
Trade	51,650	(87,699)
Coordinated Parking Fund	53,662	(1,604,141)
City of Harrisburg	(10,000)	142,750
Prepaid expenses	(106,769)	81,023
Accounts payable and accrued expenses	392,932	(13,521)
Deferred parking revenue	(98,298)	(144,364)
Net cash provided by operating activities	<u>\$ 8,722,712</u>	<u>\$ 6,755,488</u>

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

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description

The Harrisburg Parking Authority (HPA) was incorporated in 1972 under the Pennsylvania Parking Authority Law of 1947. HPA is an agency and instrumentality of the City of Harrisburg (City), Pennsylvania, which owns and operates parking facilities in the City. For financial statement purposes, HPA is a component unit (single enterprise fund) of the City and is thus included in the City's comprehensive annual financial report.

The five-member board of HPA is appointed by the Mayor and members of the Board can be removed from the Board at will. The City receives the benefit of excess parking revenues through a Cooperation Agreement with HPA and the City has guaranteed all of HPA's outstanding debt.

B. Reporting Entity

For financial reporting purposes, HPA includes those operations that are generally controlled by or dependent on HPA. Controlled by or dependent on HPA is determined on the basis of such factors as budget adoption, outstanding debt secured by revenues of HPA, obligations of HPA to finance any deficit that may occur, or receipt of significant subsidies from HPA.

The City, Harrisburg Redevelopment Authority (HRA), Harristown Development Corporation, HPA, the Mayor of Harrisburg, and Harrisburg City Council entered into a Cooperation Agreement for a Downtown Coordinated Parking System (Cooperation Agreement). In accordance with the Cooperation Agreement, HPA established the Coordinated Parking Fund (Fund). Under terms of the Cooperation Agreement, HPA manages and operates a coordinated parking system and is required to deposit the net operating revenues, as defined, from the operations of the components of the coordinated parking system into the Fund. Since HPA does not exercise control over the Fund, financial information for the Fund is reported in separate financial statements and is excluded from HPA's reporting entity.

C. Basis of Presentation

HPA's operations are funded through user charges. Therefore, HPA is presented within the City's comprehensive annual financial report as an enterprise fund, a proprietary fund type, using the economic resources measurement focus. An enterprise fund is used to account for operations where the costs of providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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 HPA are charges for parking. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Basis of Accounting

The accrual basis of accounting is utilized by HPA. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred.

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

E. Cash Equivalents

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

F. Restricted Assets

Assets required to be segregated by bond indentures or contractual obligations are identified as restricted assets. Restricted assets at December 31, 2007 represent monies required to be restricted under the terms of bond indentures related to the Series H, I, J, K, N, O, P, R, and T Series Guaranteed Parking Revenue Bonds and a purchase agreement executed between HPA and Allegheny Electric Cooperative, Inc. (AEC) in 1987, as mentioned in Note 9.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

G. Investments

With the exception of guaranteed investment contracts, which are reported at contract value, investments are reported at fair market value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

H. Capital Assets

Capital assets in service and construction in progress are stated on the basis of cost. Capital assets are defined by HPA 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.

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.

I. Deferred Bond Issuance Costs

Deferred bond issuance costs are carried at cost, net of accumulated amortization, and are amortized over the outstanding terms of the associated bond issues using the bonds-outstanding method, which approximates the effective interest method.

J. Pooled Cash and Investments

HPA maintains a separate operating account for each component of the coordinated parking system and for the Coordinated Parking Fund, as mentioned in Note 2. Amounts deposited into these accounts are combined into one account for investment by HPA, as mentioned in Note 3. Interest earned from the investment account is allocated to the operating accounts based on the monthly investment balance.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

K. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Unrestricted consists of all other net assets not included in the above categories.

L. Restricted Resources

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

M. Accounting Standards

Under the guidelines of GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*," HPA has elected not to apply any Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, relative to the accounting and financial reporting of HPA's operations and activities. This is consistent with the election made by the City of Harrisburg.

N. Risk Management

HPA 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. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in 2007. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

O. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

2. COOPERATION AGREEMENT

The City of Harrisburg (City), Harrisburg Redevelopment Authority (HRA), HPA, the Mayor of Harrisburg, and Harrisburg City Council entered into a Cooperation Agreement for a Downtown Coordinated Parking System (Cooperation Agreement). In connection with the Cooperation Agreement, HPA issued Parking Revenue Bonds, Series A of 1986 (the Series A Bonds). The proceeds of the Series A Bonds were used to acquire land and to finance construction of the Locust Street Garage.

In accordance with the Cooperation Agreement, HPA established the Coordinated Parking Fund (Fund). Under terms of the Cooperation Agreement, HPA manages and operates a coordinated parking system and is required to deposit the net operating revenues, as defined, from the operations of the components of the coordinated parking system into the Fund. The components of the coordinated parking system include seven parking garages owned by HPA (HPA Garages), two of the City's surface lots (City Lots), and the City's parking meters (Parking Meters). During December of 2007, the Cooperation Agreement was amended to include the net operating revenues, as defined, of the HPA's Seventh Street Garage. HPA is also required to deposit into the Fund the revenues from a parking tax imposed by the City and any unrestricted portion of HPA's administrative fund net assets.

The Fund is pledged as security for the debt service payments of HPA's Parking Revenue Bonds, Series F (Series F Bonds). During the year ended December 31, 2003, HPA issued Parking Revenue Bonds, Series N, which were used to defease the Series F Bonds. The Fund continues to be pledged as security for the Series N Bonds. The Fund is also used to reimburse certain HPA garages for below market rentals to certain lessors and, if any excess is available, to distribute such amount to the City calculated in accordance with the Cooperation Agreement. The Fund is also designated for future distributions to the City as cash becomes available.

During the years ended December 31, 2007 and 2006, a total of \$736,500 and \$759,000 was transferred to HPA from the Fund for payment of Series N Debt Service.

Under a separate agreement executed between the City and HPA, the City has agreed to make the excess funds in the Coordinated Parking Fund available to HPA for the purpose of funding the River Street Replacement Reserve Fund for payment of the debt service on HPA Series J Bonds and Series K Bonds. During the years ended December 31, 2007 and 2006, a total of \$1,533,181 and \$1,428,827 was transferred to HPA from the Fund for payment of Series J debt service. A total of \$451,044 and \$424,850 was transferred from HPA from the Fund for payment of Series K debt service during the years ended December 31, 2007 and 2006.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

The amounts that are transferred to HPA for debt service and parking projects represent excess funds that would be available for distribution to the City.

3. DEPOSITS AND INVESTMENTS

Deposits

The Parking Authority Law limits HPA 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.

Custodial credit risk. At December 31, 2007 and 2006, the non-pooled book balances of HPA were \$1,366,703 and \$3,480,257 and the bank balances were \$1,361,576 and \$1,192,207. Of the non-pooled bank balances, \$100,000 was covered by federal depository insurance at December 31, 2007 and 2006. The remainder of the non-pooled bank balance at December 31, 2007 and 2006 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits.

HPA pools certain of its deposits with the Coordinated Parking Fund. At December 31, 2007 the pooled account had a book and bank balance of \$3,760,341. Of this balance \$1,399,675 was held in certificates of deposit purchased through a third party, all of which were covered by federal depository insurance held in the name of HPA. The remaining balance of \$2,360,666 was invested in a money market fund which carried a AAA rating and had an average weighted maturity of less than one year. At December 31, 2007, HPA's position in the pool was \$2,236,426 and the Coordinated Parking Fund's position in the pool was \$1,523,915.

Investments

The bond indentures related to HPA's parking revenue bonds and the purchase agreement executed between HPA and Allegheny Electric Cooperative, Inc. (AEC) in 1987 (Purchase Agreement) required the establishment of various funds and accounts. The unexpended amounts in these funds and accounts as of December 31, 2007 and 2006, and the related interest receivable are restricted for designated purposes under the bond indentures and the Purchase Agreement.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

Allowable investments as outlined in HPA'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 composition of restricted assets at December 31, 2007 and 2006, by fund and account is as follows:

<u>December 31, 2007</u>	<u>Construction Fund</u>	<u>Total Fair Value</u>
Series I Proceeds:		
Money market funds	<u>\$ 665,590</u>	<u>\$ 665,590</u>
	<u>Prepaid Rental Escrow</u>	<u>Total Fair Value</u>
Prepaid rental proceeds held in escrow account:		
Money market funds	<u>\$ 95,782</u>	<u>\$ 95,782</u>
	<u>Debt Service Reserve</u>	<u>Total Fair Value</u>
Series K Proceeds:		
Money market funds	<u>\$ 25</u>	<u>\$ 1,311,708</u>
	<u>Debt Service Reserve Fund</u>	<u>Total Fair Value</u>
Series J Proceeds:		
Commercial Paper	-	2,633,707
Money market funds	1	712,157
	<u>\$ 1</u>	<u>\$ 3,345,864</u>
	<u>Debt Service Fund</u>	<u>Debt Service Reserve Fund</u>
Guaranteed Parking:		
Revenue bonds proceeds		
Money market funds	<u>\$ 388</u>	<u>\$ 5,096</u>
		<u>\$ 5,484</u>

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

December 31, 2007	Clearing Fund	Interest and Principal Fund	Debt Service Reserve Fund	Total Fair Value
Series N Proceeds:				
Commercial paper	\$ -	\$ -	\$ 796,055	\$ 796,055
Fixed income government issues	-	125,639	-	125,639
Money market funds	12	725	428	1,165
	\$ 12	\$ 126,364	\$ 796,483	\$ 922,859
	Clearing Fund	Debt Service Fund	Debt Service Reserve Fund	
Series O Proceeds:				
Commercial paper	\$ -	\$ -	\$ 1,806,223	
Money market funds	283	35,610	915	
	\$ 283	\$ 35,610	\$ 1,807,138	
			Rebate Fund	Total Fair Value
Series O Proceeds (continued):				
Commercial paper			\$ -	\$ 1,806,223
Money market funds			9,535	46,343
			\$ 9,535	\$ 1,852,566
	Clearing Fund	Debt Service Fund	Debt Service Reserve Fund	
Series P Proceeds:				
Money market funds	\$ -	\$ 1,111	\$ 1,733,355	
		Rebate Fund	Construction Funds	Total Fair Value
Series P Proceeds (continued):				
Money market funds		\$ 34,919	\$ 28,710	\$ 1,798,095

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

December 31, 2007	Settlement Fund	Debt Service Fund	Debt Service Reserve Fund	
Series R Proceeds:				
Money market funds	\$ 2	\$ 3,666	\$ 1,100,727	
			Construction Fund	Total Fair Value
Series R Proceeds (continued):				
Money market funds			\$ 7,711,794	\$ 8,816,189
	Settlement Fund	Debt Service Fund	Debt Service Reserve Fund	Total Fair Value
Series T Proceeds:				
Money market funds	\$ 156,452	\$ 6,791	\$ 1,420,825	\$ 1,584,068
December 31, 2006			Construction Fund	Total Fair Value
Series I Proceeds:				
Money market funds			\$ 574,813	\$ 574,813
			Prepaid Rental Escrow	Total Fair Value
Prepaid rental proceeds held in escrow account:				
U.S. Treasury Securities			\$ 91,616	\$ 91,616
Money market funds			246	246
			\$ 91,862	\$ 91,862
			Debt Service Reserve	Total Fair Value
Series K Proceeds:				
Money market funds		\$ 5,803	\$ 1,256,291	\$ 1,262,094
			Debt Service Reserve Fund	Total Fair Value
Series J Proceeds:				
Commercial Paper		\$ -	\$ 2,633,707	\$ 2,633,707
Money market funds		448	613,340	613,788
		\$ 448	\$ 3,247,047	\$ 3,247,495

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

December 31, 2006	Debt Service Fund	Debt Service Reserve Fund	Total Fair Value	
Guaranteed Parking:				
Revenue bonds proceeds				
Money market funds	\$ 55,402	\$ 1,456,910	\$ 1,512,312	
	Clearing Fund	Interest and Principal Fund	Debt Service Reserve Fund	Total Fair Value
Series N Proceeds:				
Commercial paper	\$ -	\$ -	\$ 795,250	\$ 795,250
Fixed income government issues	-	63,691	-	63,691
Money market funds	12	70,172	1,062	71,246
	\$ 12	\$ 133,863	\$ 796,312	\$ 930,187
	Clearing Fund	Debt Service Fund	Debt Service Reserve Fund	
Series O Proceeds:				
Commercial paper	\$ -	\$ -	\$ 1,806,223	
Money market funds	1	35,320	44	
	\$ 1	\$ 35,320	\$ 1,806,267	
			Rebate Fund	Total Fair Value
Series O Proceeds (continued):				
Commercial paper			\$ -	\$ 1,806,223
Money market funds			9,079	44,444
			\$ 9,079	\$ 1,850,667

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

December 31, 2006	Clearing Fund	Debt Service Fund	Debt Service Reserve Fund		
Series P Proceeds:					
Government investment contracts	\$ -	\$ 685,097	\$ -		
Money market funds	-	11,215	1,691,156		
	<u>\$ -</u>	<u>\$ 696,312</u>	<u>\$ 1,691,156</u>		
		Rebate Fund	Construction Funds	Total Fair Value	
Series P Proceeds (continued):					
Government investment contracts		\$ -	\$ 7,480,691	\$ 8,165,788	
Money market funds		33,193	12,435	1,747,999	
		<u>\$ 33,193</u>	<u>\$ 7,493,126</u>	<u>\$ 9,913,787</u>	

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. HPA does not have an investment policy for custodial credit risk. The securities are held by the counterparty, not in HPA's name.

HPA's U.S. government obligations include U.S. Treasury principal-only STRIPS. These particular STRIPS have little credit and legal risk while the market risk is significant as principal-only STRIPS are more sensitive to fluctuations in interest rates than other traditional investments. The carrying amount of these STRIPS at December 31, 2007 was \$89,349 and is reported as part of restricted investments on the balance sheet.

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

December 31, 2007	Fair Value/ Contract Value	Percent of Investments
Restricted		
Commercial paper:		
UBS Financial	\$ 4,439,930	21.77%
<u>December 31, 2006</u>		
Restricted		
Commercial paper:		
General Electric Capital Corporation	\$ 5,235,180	27.01%
Guaranteed investment contracts:		
MBIA, Inc.	\$ 8,165,788	42.13%

Credit risk. HPA does not have a formal policy that would limit its investment choices with regard to credit risk. HPA's money market funds and fixed income investments had the following level of exposure to credit risk as of December 31, 2007 and 2006:

December 31, 2007	Fair Value/ Contract Value	Rating
Restricted		
Money market funds	\$ 15,036,607	AAA
Commercial paper	\$ 796,055	AAA
Commercial paper	\$ 4,439,930	AA-
<u>December 31, 2006</u>		
Restricted		
Money market funds	\$ 5,826,942	AAA
Commercial paper:		
General Electric Capital Corporation	\$ 5,235,180	A1
Guaranteed investment contracts	\$ 8,165,788	Unrated

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Interest rate risk. HPA 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, 2007 and 2006, HPA's money market and fixed income investments have an average maturity of less than one year.

4. DUE FROM THE CITY OF HARRISBURG

On September 16, 2005, HPA entered into a note agreement with the City of Harrisburg in the amount of \$142,750. The principal was due with no interest on or before February 15, 2006. Principal was paid in full during 2006.

5. NOTE RECEIVABLE

As part of an agreement of sale for a parcel of land during the year ended December 31, 2002, HPA has a note receivable that is non-interest bearing and due in five annual installments of \$59,879. The note matured in April 2007. As of December 31, 2006, the balance of this note totaled \$59,879. The balance was paid in full during 2007.

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NOTES TO FINANCIAL STATEMENTS

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6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	<u>Beginning of Year</u>	<u>Additions and Transfers</u>	<u>Dispositions and Transfers</u>	<u>End of Year</u>
Capital assets, not being depreciated:				
Land	\$ 6,959,764	\$ -	\$ (20,552)	\$ 6,939,212
Construction-in-progress	<u>8,058,446</u>	<u>8,835,135</u>	<u>(16,648,543)</u>	<u>245,038</u>
Total capital assets, not being depreciated	<u>15,018,210</u>	<u>8,835,135</u>	<u>(16,669,095)</u>	<u>7,184,250</u>
Capital assets, being depreciated:				
Land improvements	127,922	-	-	127,922
Buildings and improvements	69,038,035	16,459,371	-	85,497,406
Furniture and fixtures	308,965	13,326	-	322,291
Machinery and equipment	<u>2,199,356</u>	<u>19,096</u>	<u>-</u>	<u>2,218,452</u>
Total capital assets, being depreciated	71,674,278	16,491,793	-	88,166,071
Less accumulated depreciation	<u>(24,619,141)</u>	<u>(2,747,727)</u>	<u>-</u>	<u>(27,366,868)</u>
Total capital assets, being depreciated, net	<u>47,055,137</u>	<u>13,744,066</u>	<u>-</u>	<u>60,799,203</u>
Capital assets, net	<u>\$ 62,073,347</u>	<u>\$ 22,579,201</u>	<u>\$ (16,669,095)</u>	<u>\$ 67,983,453</u>

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Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements and Dispositions</u>	<u>End of Year</u>
Capital assets, not being depreciated:				
Land	\$ 6,959,764	\$ -	\$ -	\$ 6,959,764
Construction-in-progress	971,135	7,087,311	-	8,058,446
Total capital assets, not being depreciated	<u>7,930,899</u>	<u>7,087,311</u>	<u>-</u>	<u>15,018,210</u>
Capital assets, being depreciated:				
Land improvements	127,922	-	-	127,922
Buildings and improvements	68,643,885	394,150	-	69,038,035
Furniture and fixtures	308,965	-	-	308,965
Machinery and equipment	2,108,466	90,890	-	2,199,356
Total capital assets, being depreciated	<u>71,189,238</u>	<u>485,040</u>	<u>-</u>	<u>71,674,278</u>
Less accumulated depreciation	<u>(22,001,268)</u>	<u>(2,617,873)</u>	<u>-</u>	<u>(24,619,141)</u>
Total capital assets, being depreciated, net	<u>49,187,970</u>	<u>(2,132,833)</u>	<u>-</u>	<u>47,055,137</u>
Capital assets, net	<u>\$ 57,118,869</u>	<u>\$ 4,954,478</u>	<u>\$ -</u>	<u>\$ 62,073,347</u>

7. MANAGEMENT AND OPERATING RIGHTS

On October 15, 2000, HPA entered into an agreement with the Harrisburg Authority to assist in the development and operation of the parking facilities at the National Civil War Museum and to act as the sole and exclusive manager and operator of such parking facility through October 2024. In consideration for its appointment and designation as manager and operator of the parking facilities, HPA agreed to pay \$2,850,000 to the Harrisburg Authority. The management and operating rights acquired by HPA are being amortized over the life of the agreement. Amortization of the rights for the years ended December 31, 2007 and 2006 totaled \$118,750.

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NOTES TO FINANCIAL STATEMENTS

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8. BONDS AND NOTES PAYABLE

At December 31, bonds and notes payable consist of the following:

	<u>2007</u>	<u>2006</u>
Series K Note dated June 1, 2000:		
Variable rate term notes due December 1, 2023 (3.48% at December 31, 2007) (approximately BMA)	\$ 2,900,000	\$ 2,900,000
Variable rate term notes due December 1, 2024 (3.48% at December 31, 2007) (approximately BMA)	<u>8,900,000</u>	<u>8,900,000</u>
	<u>11,800,000</u>	<u>11,800,000</u>
Series J Bonds dated September 1, 2001:		
2.80% to 5.00% Bonds due serially from September 1, 2003 to September 1, 2022 in annual installments ranging from \$5,000 to \$4,835,000	<u>28,565,000</u>	<u>28,795,000</u>
Guaranteed Parking Revenue Bonds Series of 2001 dated December 15, 2001 (defeased through issuance of Series T): 3.10% to 5.25% Bonds due serially from May 15, 2003 to May 15, 2025 in annual installments ranging from \$470,000 to \$2,745,000	<u>-</u>	<u>17,615,000</u>
Series N Bonds dated October 28, 2003:		
2.50% to 4.30% Bonds due serially from November 15, 2004 to November 15, 2016 in annual installments ranging from \$485,000 to \$730,000	<u>5,820,000</u>	<u>6,370,000</u>
Series O Bonds dated November 18, 2003:		
1.50% to 5.00% Bonds due serially from August 1, 2004 to August 1, 2016 in annual installments ranging from \$735,000 to \$2,770,000	<u>13,160,000</u>	<u>14,495,000</u>
Series P Bonds dated July 15, 2005:		
3.30% to 5.25% Bonds due serially from September 1, 2007 to September 1, 2027 in annual installments ranging from \$5,000 to \$4,850,000	12,520,000	12,520,000
5.70% Bonds due serially from September 1, 2023 to September 1, 2025 in annual installments ranging from \$365,000 to \$2,810,000	<u>4,110,000</u>	<u>4,110,000</u>
	<u>16,630,000</u>	<u>16,630,000</u>

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	2007	2006
Continued:		
Series R Bonds dated January 11, 2007:		
3.60% to 5.00% Bonds due serially from May 15, 2010 to May 15, 2036 in annual installments ranging from \$340,000 to \$1,065,000	16,965,000	-
Series T Bonds dated December 15, 2007:		
3.50% to 4.50% Bonds due serially from May 15, 2009 to May 15, 2030 in annual installments ranging from \$480,000 to \$1,360,000	19,890,000	-
Total Debt	112,830,000	95,705,000
Plus (less):		
Amortized debt premium (discount)	765,657	1,128,491
Deferred loss on defeasance	(4,693,267)	(3,225,381)
Current portion	(2,175,000)	(2,640,000)
	(6,102,610)	(4,736,890)
Long-term portion	\$ 106,727,390	\$ 90,968,110

On March 16, 1994, HPA issued the “Harrisburg Parking Authority Federally Taxable Guaranteed Parking Revenue Refunding Bonds, Series G of 1994” (Series G Bonds) and the “Harrisburg Parking Authority Tax-Exempt Guaranteed Parking Revenue Refunding Bonds, Series H of 1994” (Series H Bonds) in the aggregate principal amount of \$26,860,000 (plus accrued interest of \$122,550 less an original issue discount of \$475,176) with interest rates ranging from 4.00% to 6.55% to advance refund \$24,045,000 of outstanding Series C, D, and E Bonds with interest rates ranging from 5.00% to 7.00%. The net proceeds of \$25,535,783 (after payment of \$837,655 in insurance costs and deposit of \$11,386 to the Debt Service Reserve Fund for the series G and H Debt Service Accounts), were used to purchase U.S. Government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series C, D, and E Bonds. As a result, the Series C, D, and E Bonds are considered to be defeased and the liability for those bonds has been removed from HPA’s balance sheet. At December 31, 2007, no Series C, D, or E Bonds remained outstanding.

The debt service requirements for Series F Bonds were payable solely from and secured by a pledge of (1) all the right, title, and interest of HPA in and to the Coordinated Parking Fund, (2) all amounts on deposit and investment securities in any fund or account established under the related bond indenture, (3) guaranty by the City, and (4) a municipal bond insurance policy. Amounts on deposit in the Coordinated Parking Fund are to be transferred to the Debt Service Fund created under the bond indenture and used to make required debt service

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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 HPA as 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 HPA Series F Bonds. The Series H Bonds have been defeased through the issuance of “Guaranteed Parking Revenue Bonds, Series O of 2003.”

In 1998, HPA issued the “Guaranteed Parking Revenue Bonds, Series I of 1998” (Series I Bonds) in the aggregate principal amount of \$25,800,000 (less an original issue discount of \$635,978) with interest rates ranging from 4.50% to 6.15% to provide for the acquisition, design, development, and construction of three parking garages, provide for the funding of a debt service reserve fund under the HPA indenture and the payment of the costs of issuing the Bonds. These Bonds have been defeased through the issuance of “Guaranteed Parking Revenue Bonds, Series J of 2001.”

In 2000, HPA issued the “Guaranteed Parking Revenue Note, Series K of 2000” (Series K Notes) in the aggregate principal amount of \$11,800,000 with a variable interest rate to provide funding for the costs of completing the acquisition, design, development, construction, and equipping of three parking garages; certain costs of acquiring, constructing, and equipping miscellaneous capital additions of HPA’s parking facilities and parking system; debt service reserve funds under a third supplemental indenture of the City of York General Authority and fund capitalized interest on the Series K Note; and paying the costs of issuing HPA’s Series K Notes. In order to minimize the risk of interest rate fluctuations, HPA has entered into an interest rate cap agreement, the term of which will run from June 1, 2000 through and including October 1, 2024. The maximum rate under this agreement is 8.0% annually.

In 2001, HPA issued the “Guaranteed Parking Revenue Bonds, Series J of 2001” (Series J Bonds) in the aggregate principal amount of \$29,400,000 (plus an original issue premium of \$174,804 and accrued interest of \$71,090) with interest rates ranging from 2.80% to 5.00% to advance refund \$25,785,000 of Outstanding Series I Bonds with interest rates ranging from 4.50% to 6.15%. The net proceeds of \$28,626,025 (after payment of \$622,136 in issuance costs and deposits of \$347,251 to the Debt Service Reserve Fund for the Series J Bonds and \$50,842 to the Series J Debt Service Account), were used to purchase U.S. Government

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securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series I Bonds. As a result, the Series I Bonds are considered to be defeased and the liability for those bonds has been removed from HPA's balance sheet. As of December 31, 2007, no Series I remained outstanding.

In 2001, HPA issued the "Guaranteed Parking Revenue Bonds, Series 2001" in the aggregate principal amount of \$19,500,000 (less an original issue discount of \$37,590) with interest rates ranging from 3.00% to 5.75% to provide for the acquisition of the Seventh Street Garage; funding of a debt service reserve fund under the HPA indenture; and the payment of the costs of issuing bonds. These Bonds have been defeased through the issuance of "Guaranteed Parking Revenue Bonds, Series T of 2007."

In 2003, HPA issued the "Harrisburg Parking Authority Guaranteed Parking Revenue Refunding Bonds, Series N of 2003" (Series N Bonds) principal amount of \$7,905,000 (plus accrued interest of \$10,051 plus an original issue premium of \$98,721) with interest rates ranging from 2.50% to 4.30% to advance refund \$7,400,000 of outstanding Series F Bonds. The net proceed of \$7,024,776 (after payment of \$267,997 in issuance costs and \$982,000 to fund the termination amount to terminate a forward interest swap agreement relating to the Series N Bonds), were used to currently refund HPA's Guaranteed Parking Revenue Refunding Bonds, Series F of 1993, establish the necessary reserves under the Indenture, and payment of the costs and expenses associated with the issuance of the Series N Bonds. As a result, the Series F Bonds are considered to be defeased and the liability for those Bonds has been removed from HPA's balance sheet. At December 31, 2007, no Series F Bonds remained outstanding.

In 2003, HPA issued the "Harrisburg Parking Authority Guaranteed Parking Revenue Refunding Bonds, Series O of 2003" (Series O Bonds) principal amount of \$17,780,000 (plus accrued interest of \$5,442 plus an original issue premium of \$691,189) with interest rates ranging from 1.50% to 5.25% to advance refund \$17,350,000 of outstanding Series H Bonds. The net proceeds of \$18,316,612 (after payment of \$460,990 in issuance costs and deposits of \$1,778,000 to the Series O Debt Service Reserve Fund) together with \$1,491,883 from various Series H trust accounts and additional funds of \$252,000 from HPA were used to purchase U.S. Government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all debt service payments on the Series H Bonds. As a result, the Series H Bonds are considered to be defeased and the liability for those Bonds has been removed from HPA's balance sheet. As of December 31, 2007, no Series H Bonds remain outstanding.

In 2005, HPA issued the "Harrisburg Parking Authority Guaranteed Parking Revenue Bonds, Series P of 2005" (Series P Bonds) in the aggregate principal amount of \$16,630,000 (plus an original issue premium of \$506,664) with interest rates ranging from 3.30% to 5.25% to

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provide for the acquisition and construction of the South Street Garage; funding of a debt service reserve fund under the HPA indenture; and the payment of the costs of issuing the bonds.

On January 11, 2007, HPA issued the "Harrisburg Parking Authority Guaranteed Parking Revenue Bonds, Series R of 2007" (Series R Bonds) in the aggregate principal amount of \$16,695,000 (less an original issue discount of \$98,959) with interest rates ranging from 3.60% to 5.00% to provide for the acquisition of a parking condominium, as described in Note 12; funding of a debt service reserve fund under the HPA indenture; and the payment of the costs of issuing the Bonds.

On December 15, 2007, HPA issued the "Harrisburg Parking Authority Guaranteed Parking Revenue Refunding Bonds, Series T of 2007" (Series T Bonds) principal amount of \$19,890,000 (plus accrued interest of \$6,783 less an original issue discount of \$365,066) with interest rates ranging from 3.50% to 4.50% to advance refund \$17,090,000 of outstanding Guaranteed Parking Revenue Bonds, Series 2001 Bonds (Series 2001). The net proceeds of \$18,158,129 (after payment of \$1,174,687 in issuance costs and deposits of \$1,418,976 to the Series T Debt Service Reserve Fund) together with \$1,456,945 from the Series 2001 Debt Service Reserve Fund trust account were used to purchase U.S. Government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all debt service payments on the Series 2001 Bonds. As a result, the Series 2001 Bonds are considered to be defeased and the liability for those Bonds has been removed from HPA's balance sheet. As of December 31, 2007, \$17,090,000 of Series 2001 Bonds remain outstanding. The Authority completed the current refunding to extend the life of the debt. The total debt service payments increased by \$3,751,970 through the year 2030 and resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$1,122,968.

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

HPA bond indentures contain financial and reporting covenants. At December 31, 2007 and 2006, HPA was in compliance with such covenants with the exception of deposits to the rebate fund. The trust indentures require the Authority to deposit amounts into the Series N and Series O Rebate Account annually on or before the day which is 30 days after the close of each Bond Year for any moneys owed. The Authority made the payments into the Rebate Accounts, but not within the required time period.

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

	Beginning of Year	Additions	Amortization	Retirements	End of Year	Current Portion
Bonds payable	\$ 95,705,000	\$ 36,855,000	\$ -	\$(19,730,000)	\$112,830,000	\$ 2,175,000
Less:						
Deferred loss on refunding	(3,225,381)	(1,783,734)	315,848	-	(4,693,267)	-
Unamortized premium (discount)	1,128,491	(266,107)	(120,753)	24,026	765,657	-
Long-term liabilities	<u>\$ 93,608,110</u>	<u>\$ 34,805,159</u>	<u>\$ 195,095</u>	<u>\$(19,705,974)</u>	<u>\$108,902,390</u>	<u>\$ 2,175,000</u>

Long-term liability activity for the year ended December 31, 2006 was as follows:

	Beginning of Year	Additions	Amortization	Retirements	End of Year	Current Portion
Bonds payable	\$ 98,275,000	\$ -	\$ -	\$ (2,570,000)	\$ 95,705,000	\$ 2,640,000
Less:						
Deferred loss on refunding	(3,547,790)	-	322,409	-	(3,225,381)	-
Unamortized premium (discount)	1,242,032	-	(113,541)	-	1,128,491	-
Long-term liabilities	<u>\$ 95,969,242</u>	<u>\$ -</u>	<u>\$ 208,868</u>	<u>\$(2,570,000)</u>	<u>\$ 93,608,110</u>	<u>\$ 2,640,000</u>

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Debt service requirements, including interest, subsequent to December 31, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,175,000	\$ 4,968,553	\$ 7,143,553
2009	2,865,000	4,960,899	7,825,899
2010	3,710,000	4,854,424	8,564,424
2011	3,525,000	4,717,572	8,242,572
2012	3,665,000	4,581,479	8,246,479
2013-2017	22,245,000	20,379,195	42,624,195
2018-2022	30,475,000	14,757,595	45,232,595
2023-2027	32,965,000	7,179,415	40,144,415
2028-2032	8,145,000	1,706,288	9,851,288
2033-2036	3,060,000	210,600	3,270,600
	<u>\$ 112,830,000</u>	<u>\$ 68,316,020</u>	<u>\$ 181,146,020</u>

9. ESCROW AGREEMENT

On June 26, 1987, HPA purchased land from AEC to be used along with the land acquired by HPA in April 1987 as the site for the construction of the Locust Street Garage. Under terms of the purchase agreement, the total purchase price of \$650,000 was paid by HPA to AEC from monies set aside for such acquisition in the Series A construction account. The agreement also provides that HPA will lease to AEC certain guaranteed but unreserved parking spaces in the Locust Street Garage. In consideration of AEC's future use of the parking spaces, AEC was required to pay \$650,000 to HPA which, along with interest earnings thereon, represents prepaid rental for the use of such parking spaces for a period of twenty years beginning January 1, 1989, which was the first day of commercial operation of the Locust Street Garage. The \$650,000 proceeds received by HPA under this arrangement were deposited into an escrow account.

On November 4, 2004, HPA entered into the First Amendment to Locust Street Garage Agreement. This agreement allowed the escrow agent to transfer to HPA all amounts in the prepaid rental escrow account, prior to their maturity. As escrow obligations mature, they may be transferred to HPA for deposit to the Locust Street Account.

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This account is separate and apart from all funds and accounts held under the bond indentures. As of December 31, 2007 and 2006, \$87,063 and \$87,513 of the original proceeds including interest earnings are on deposit in this escrow account and are recorded as deferred revenues. In accordance with the First Amendment to Locust Street Garage Agreement, a total of \$181,713 was transferred out of the restricted deferred parking revenue and placed in unrestricted deferred parking revenue during the year ended December 31, 2006. There was no amount transferred out of this account during 2007.

The amounts still held in this escrow account at December 31, 2007 and 2006, including accrued interest receivable, are included in restricted assets on the financial statements.

10. PENSION PLAN

HPA is the sponsor of a defined contribution plan, called the Parking Authority of the City of Harrisburg Retirement Plan, which covers substantially all full-time employees who are 18 years of age or older and have completed one year of service. Employees may elect to have the employer defer a portion of their compensation, subject to certain maximum limitations, and contribute such amount to the Plan.

Contributions to the Plan are made by HPA at its discretion based on a percentage of the covered employee's compensation. Employees' vesting percentages in such contributions are based on total years of service. Contributions by HPA totaled \$57,163 and \$65,468 for the years ended December 31, 2007 and 2006 and were based on covered compensation of \$1,068,500 and \$1,095,000, compared to total compensation of \$1,652,528 and \$1,598,218. These contributions represented approximately 5.3% and 6.0% of covered payroll for the years ended December 31, 2007 and 2006, respectively. Employee contributions totaled \$53,059 and \$46,950 for the years ended December 31, 2007 and 2006. These contributions represented 5.0% and 4.3% of covered payroll. Pension costs are expensed as funded.

11. DEBT SERVICE RESERVE FUND FORWARD PURCHASE AGREEMENTS

In February 2000, HPA 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 HPA'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. HPA received fees of \$68,584, \$280,000, and \$210,000 respectively, when it entered into the agreements. In September 2001, HPA refunded the

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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 HPA'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 HPA 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 deferred revenue is being amortized over the respective life of the agreement under a method that approximates the interest method. Amortization for the years ended December 31, 2007 and 2006 totaled \$53,664 and \$55,933, respectively.

12. COMMITMENTS AND RELATED PARTY TRANSACTIONS

HPA has entered into a parking garage lease with Third and Walnut Inc. (TWI) whereby HPA agreed to lease and allocate up to 277 parking spaces within the Walnut Street Garage and/or the Locust Street Garage to TWI for use by the occupants of a commercial office building (Project). Under the terms of the agreement, the parking spaces will be available through the year 2015. TWI has the option to extend the term of the lease for an additional 25 years and at the end of such 25 years, for an additional 10-year period. In consideration for TWI's use of such parking spaces, TWI was required to pay HPA the current market rate for a portion of the 277 spaces and below market rates for the remaining spaces through 2001. Beginning in 2001 and continuing until termination of the existing lease, TWI is paying HPA the current market rate for the use of the 277 spaces.

On June 30, 1995, HPA entered into an Amended and Restated Market Square Hotel Project Parking Agreement with Harrisburg Hotel Associates (HHA), the City, HRA, HDC, and Richfield Hospitality Services, Inc. to amend and restate the existing parking agreement dated September 29, 1988. Under this agreement, which was effective February 1, 1995, HHA shall pay to HPA a monthly amount equal to \$1.67 times the total number of garage exits by hotel patrons parking in the Walnut Street Garage for such given month. This rate of \$1.67 was in effect through December 31, 1996. Beginning January 1, 1997, and annually on each January 1 thereafter, the cost per garage exit is to be increased subject to certain provision in the agreement, based on the annual percentage increase in the Consumer Price Index. Additionally, HHA is permitted to use other HPA parking facilities for its hotel patrons under this agreement and shall pay HPA the existing unit cost for each garage exit up to 600 exits per year. Any exits in excess of 600 will be charged at two times the unit cost. The rates under this agreement are below current market rates for HPA garages.

In connection with an office building lease between HDC and the Commonwealth of Pennsylvania (Commonwealth), HDC entered into an agreement with the Commonwealth

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whereby HDC agreed to provide 1,500 off-street parking spaces for the use of the Commonwealth. The rental paid by the Commonwealth for these spaces is the annual amount required to amortize the HDC bonds, including interest, used to finance the total allowance costs of the parking facilities, plus annual operating and administrative costs determined on a per parking space basis, times the number of spaces used by the Commonwealth, but not less than 1,500 spaces. On December 31, 1991, this agreement with the Commonwealth was assigned by HDC to HPA in connection with HPA's acquisition of certain garages from HDC.

On March 8, 1993, HPA executed a parking garage lease with the Commonwealth, whereby HPA is required to provide at least 200 parking spaces in the Market Square Garage for use by the Department of Environmental Resources (DER). Any spaces over the 200 parking spaces are subject to availability. The term of the agreement is for a period of ten years commencing February 1, 1993 and ending January 31, 2003. This lease has been extended through January 31, 2008 at current market rates. In consideration for DER's use of these spaces, HPA also has a parking garage lease with the Commonwealth (DGS), whereby HPA is required to provide 98 parking spaces in the Market Square Garage for a period of 25 years beginning on January 27, 1992, at the current market rate. The Commonwealth has the option to extend the term of the lease at the end of such 25 years, for an additional 25-year period, and then for an additional 10-year period.

The Commonwealth is required to pay HPA 90% of the current market rate for the first 100 spaces, 80% of the current market rate for the second block of 100 spaces, 70% of the current market rate for the third block of 100 spaces, and 50% of the current market rate for the fourth block of 100 spaces. The third and fourth blocks are based on availability and are not guaranteed. The Commonwealth has the option to extend the original term of the lease for three additional five-year periods.

On August 25, 1999, HPA executed an agreement with the Pennsylvania State Education Association (PSEA), whereby HPA is required to provide to PSEA seventy-five parking spaces at the River Street Garage. PSEA is required to pay the current monthly rental discounted by fifteen percent for sixty of the parking spaces and the normal current monthly rental for the remaining fifteen spaces. The period of the agreement is for twenty-five years.

On February 25, 2005, HPA executed an agreement with PSEA, whereby HPA agreed to acquire PSEA property in order to construct the South Street Garage. The consideration for the PSEA real property is the long-term parking rights in sixty-four parking spaces, which have a final determination value of \$13,750 per parking space upon the completion of the parking garage. The initial option period to acquire these parking rights commenced on the date the South Street Garage was completed and made available for use by PSEA and expires on the fifth anniversary of such date. In addition to this option, HPA also agreed to lease to

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PSEA up to eighty-nine parking spaces at the South Street Garage. At its option, PSEA may extinguish the discounted lease rate at the River Street Garage, on some or all of its discounted leased spaces, in exchange for the remaining term of the discount as per the agreement between PSEA and HPA dated August 25, 1999. When all sixty spaces at the River Street Garage for which PSEA has a right to a discount have been extinguished, no further discounts will accrue or be available to PSEA. All rights to discounts will expire based upon the expiration of the term of discount available to PSEA at the River Street Garage. The period of the agreement is for twenty-five years. In March 2008, PSEA exercised this option and acquired sixty parking rights at \$13,750 each, totaling \$825,000.

On January 11, 2007, HPA entered into an agreement with Harrisburg University of Science and Technology (University), whereby HPA intends to purchase a condominium unit in a building to be constructed by the University. The condominium unit will consist 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, 2007, \$7,050,000 represents HPA's portion of equitable ownership interest in the property. The remaining payments totaling \$6,950,000 will be paid to the University on a monthly basis during 2008, with the final payment scheduled for December 2008. The University's estimated completion date of this project is December 31, 2008.

In addition to the aforementioned agreement, HPA also entered into an Option to Purchase agreement with the University on January 11, 2007, whereby HPA 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 HPA. The first years rent for the leased spaces shall 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 HPA. HPA 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 shall be exercisable with at least six months advance written notice by the University to HPA. The period of this agreement is thirty years.

In connection with the construction of the South Street Garage, HPA has entered into contracts with construction contractors in the amount of \$14,564,000 during 2006. At December 31, 2007 and 2006, \$1,198,396 and \$1,097,129 was included in accounts payable, respectively. The commitment remaining on the contracts at December 31, 2007 and 2006 was approximately \$1,198,396 and \$7,633,000, respectively.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

13. CONCESSION AGREEMENT

On March 7, 2007, the City and HPA engaged a financial advisor to assist in evaluating a long-term concession and lease agreement relating to certain parking assets of HPA. If such a transaction is completed, a success fee due on the financial close of the transaction payable by HPA to the financial advisor would be 1.5% of the total transaction value if the value is less than \$200,000,000, and 2% of the total transaction value if the value is more than or equal to \$200,000,000. This financial advisor agreement is for a period of twelve months and will automatically renew for another term without a written termination notice received by either party. This contract was renewed in March 2008.

This concession would be a long-term agreement granting the Concessionaire the exclusive right to collect fare revenue from the leased assets during the term, anticipated to be a minimum thirty years in duration. The City and HPA originally required a potential Concessionaire to contract with HPA to perform substantially all of the operating and maintenance obligations under the concession with the Concessionaire having oversight of HPA performance and policies relating to operations and maintenance of Concessionaire facilities, and that pursuant to the concession, HPA would have the absolute right to develop additional parking facilities and other economic development-related projects in the City. As of April 2008, the HPA has not entered into a formal concession agreement with regards to HPA assets; however, HPA has entered into wide ranging negotiations which may result in such a proposed concession with terms which may vary from the original proposed terms with respect to terms and conditions. Any such concession must be publicly considered and adopted by the HPA Board of Directors.

SUPPLEMENTARY INFORMATION

HARRISBURG PARKING AUTHORITY

CALCULATION OF PAYMENTS TO COORDINATED PARKING FUND

YEAR ENDED DECEMBER 31, 2007

	Admini- strative	City Lots	HPA Garages	Parking Meters	Total
Operating Revenues:					
Administration fees	\$ 884,086	\$ -	\$ -	\$ -	\$ 884,086
Public parking revenue					
Monthly parking	-	208,240	4,915,079	-	5,123,319
Daily parking	-	95,185	2,626,391	-	2,721,576
Meter operations	-	-	-	1,167,346	1,167,346
State parking revenue	-	-	1,328,892	-	1,328,892
Other income	-	24,670	81,407	(10)	106,067
Total operating revenue	<u>884,086</u>	<u>328,095</u>	<u>8,951,769</u>	<u>1,167,336</u>	<u>11,331,286</u>
Operating Expenses:					
Salaries and fringe benefits	446,523	88,356	1,413,514	52,182	2,000,575
Repairs, maintenance and supplies	75,602	134,217	255,191	19,326	484,336
Professional services	209,820	6,910	142,735	2,178	361,643
Insurance	16,751	8,263	141,332	5,759	172,105
Depreciation	43,799	-	-	-	43,799
Utilities	24,687	36,858	398,023	-	459,568
Real estate taxes	-	-	52,932	-	52,932
Rental	17,029	-	21,343	-	38,372
Other	49,875	20,128	24,649	310	94,962
Administrative fees	-	23,004	630,381	81,799	735,184
Total operating expenses	<u>884,086</u>	<u>317,736</u>	<u>3,080,100</u>	<u>161,554</u>	<u>4,443,476</u>
Operating Income	<u>-</u>	<u>10,359</u>	<u>5,871,669</u>	<u>1,005,782</u>	<u>6,887,810</u>
Nonoperating Revenues (Expenses):					
Interest income	72,782	205	3,461	80	76,528
Interest expense	-	-	-	-	-
Transfer to the City of Harrisburg	-	-	-	-	-
Required payments from the coordinated parking fund	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>72,782</u>	<u>205</u>	<u>3,461</u>	<u>80</u>	<u>76,528</u>
Income before contributions to capital replacement reserve accounts	72,782	10,564	5,875,130	1,005,862	6,964,338
Capital replacement reserve accounts	-	-	(1,787,478)	(74,478)	(1,861,956)
Operating account balances	<u>72,782</u>	<u>10,564</u>	<u>4,087,652</u>	<u>931,384</u>	<u>5,102,382</u>
Required Payments to Coordinated Parking Fund	<u>\$ (72,782)</u>	<u>\$ (10,564)</u>	<u>\$ (4,087,652)</u>	<u>\$ (931,384)</u>	<u>\$ (5,102,382)</u>