CITY OF HARRISBURG, PENNSYLVANIA

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2006
WITH
INDEPENDENT AUDITOR'S REPORT

MAHER DUESSEL

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HARRISBURG

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CITY OF HARRISBURG

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MAHER DUESSEL
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Honorable Stephen R. Reed, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Redevelopment Authority of the City of Harrisburg, which represents 1.50 percent, 23.61 percent, and 8.38 percent, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Redevelopment Authority of the City of Harrisburg, is based on the report of the other auditors.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph 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 of Harrisburg, Pennsylvania, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information, and pension plan information on pages 3 through 13 and 108 through 113 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Honorable Stephen R. Reed, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrisburg's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maher Duessel

Harrisburg, Pennsylvania
October 1, 2007

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, 2006. 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 assets for the years ending December 31, 2006 and 2005, exceeded its liabilities by $42,275,517 and $52,542,300, respectively.

    - Invested in capital assets, net of related debt, in the amount of $75,155,792 and $75,856,552 for the years ending December 31, 2006 and 2005, respectively, includes all capital assets including infrastructure.
    - Restricted net assets with external restrictions imposed by creditors or laws or regulations of other governments amounted to $2,138,921 and $2,256,978 for the years ending December 31, 2006 and 2005, respectively.
    - Unrestricted net assets, which are assets not restricted for any particular purpose, were ($35,019,196) and ($25,571,230) for the years ending December 31, 2006 and 2005, respectively.

- At December 31, 2006 and 2005, the fund balance of the City of Harrisburg's governmental funds was $4,690,689 and $7,758,440, respectively.

- The City's total net assets decreased by $10,266,783 and the fund balance of the governmental funds decreased by $3,067,751 for the year ended December 31, 2006, primarily due to unreimbursed operating expenses of The Harrisburg Authority's Resource Recovery Facility, and real estate tax lien proceeds, 911 revenues, and administrative service charges for the Resource Recovery Facility that were anticipated but not received.

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.

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

The Statement of Activities presents information on how net assets changed during the year. All changes are recorded as soon as the change occurs even though cash may not be received yet; cash flow may even occur in a later fiscal year, such as uncollected taxes and vacation leave earned, but not used. The Statement of Net Assets and the Statement of Activities distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The City of Harrisburg's governmental activities are general government, building and housing development, public safety (police and fire), public works, and parks and recreation. The business-type activities of the City include Sewer, Sanitation, and Harrisburg Senators 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 four major governmental funds: (1) the General Fund, which accounts for all financial resources of the general government except those required to be 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; (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; and (4) the Capital Projects Fund, which accounts for financial resources to be used for the acquisition, construction, or improvement of major capital facilities (other than those financed by proprietary funds). 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 three major enterprise funds: (1) the Sewer Fund, which accounts for the revenues and expense associated with the provision of sewage service to the residents and commercial and industrial establishments of the City as well as six municipalities surrounding the City; (2) the Sanitation Fund, which accounts for the revenues and expenses associated with the provision of refuse collection and disposal services to the residents and commercial and industrial establishments of the City; and (3) the Harrisburg Senators Fund, which accounts for the revenues and expenses associated with the Harrisburg Senators minor league baseball franchise, owned by the City. The City does not present any non-major enterprise funds.

c. **Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City's fiduciary funds are all classified as trust and agency funds. Fiduciary fund financial statements report similarly to proprietary funds.

3. **Notes to the Financial Statements** The Notes give additional information that is necessary to understand fully the data provided in the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

4. **Other Information** The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the General Fund, in required supplementary information, 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 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 ASSETS
DECEMBER 31, 2006 AND 2005

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 34,141,702	$ 25,120,234	$ 25,899,693	$ 26,301,779	$ 60,041,395	$ 51,422,013
Capital assets	122,346,233	124,798,596	44,510,818	45,718,293	166,857,051	170,516,889
Total assets	156,487,935	149,918,830	70,410,511	72,020,072	226,898,446	221,938,902
Current and other liabilities	32,635,722	22,364,521	2,900,439	3,021,951	35,536,161	25,386,472
Noncurrent liabilities	117,380,121	109,198,551	31,706,647	34,811,579	149,086,768	144,010,130
Total liabilities	150,015,843	131,563,072	34,607,086	37,833,530	184,622,929	169,396,602
Net assets:						
Invested in capital assets, net of related debt	44,681,389	46,519,502	30,474,403	29,337,050	75,155,792	75,856,552
Restricted	464,077	298,844	1,674,844	1,958,134	2,138,921	2,256,978
Unrestricted	(38,673,374)	(28,462,588)	3,654,178	2,891,358	(35,019,196)	(25,571,230)
Total net assets	$ 6,472,092	$ 18,355,758	$ 35,803,425	$ 34,186,542	$ 42,275,517	$ 52,542,300

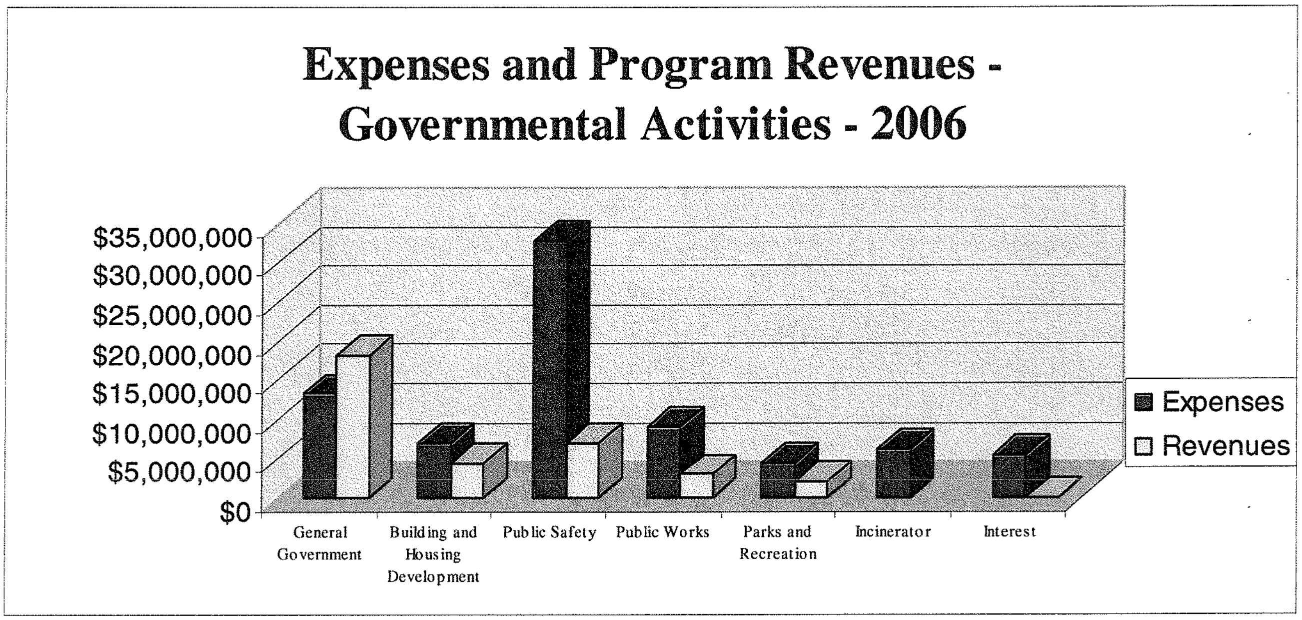
As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. The City of Harrisburg's assets exceeded its liabilities by $42,275,517 and $52,542,300 for years ending December 31, 2006 and 2005.

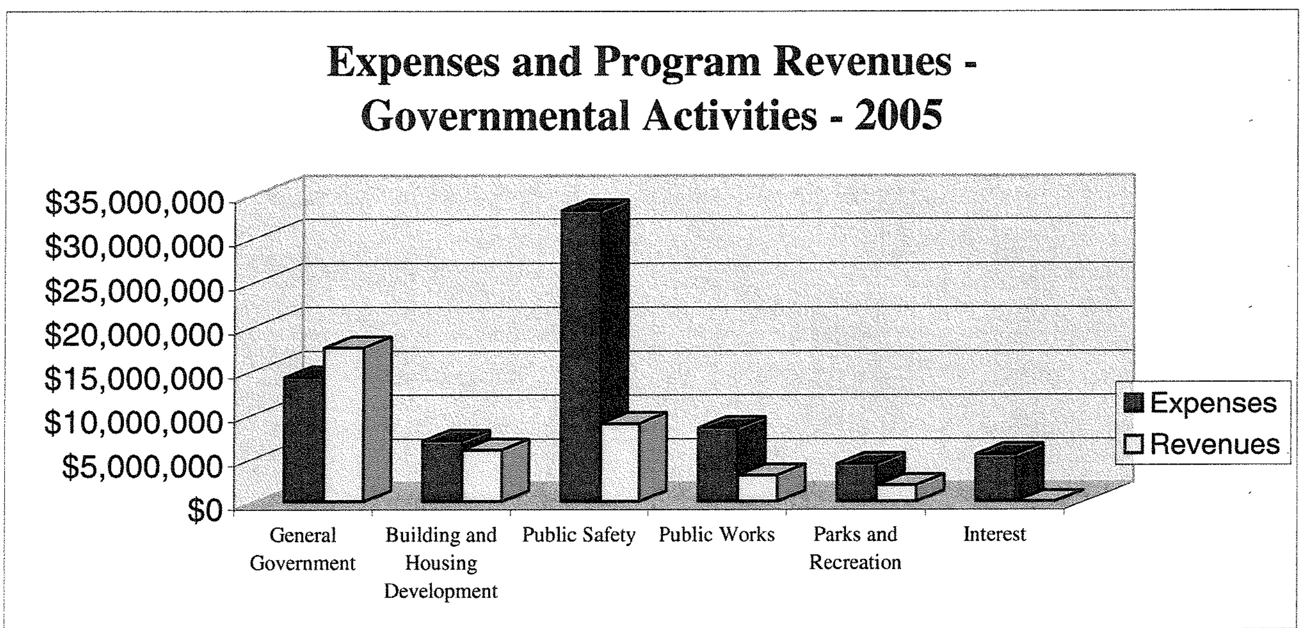
The largest portion of City of Harrisburg's net assets (178% for 2006 and 144% for 2005) is the City's investment in capital assets (i.e., land, archives, building, land and building improvements, equipment and furniture, infrastructure); less any related outstanding debt used to acquire those assets. 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.

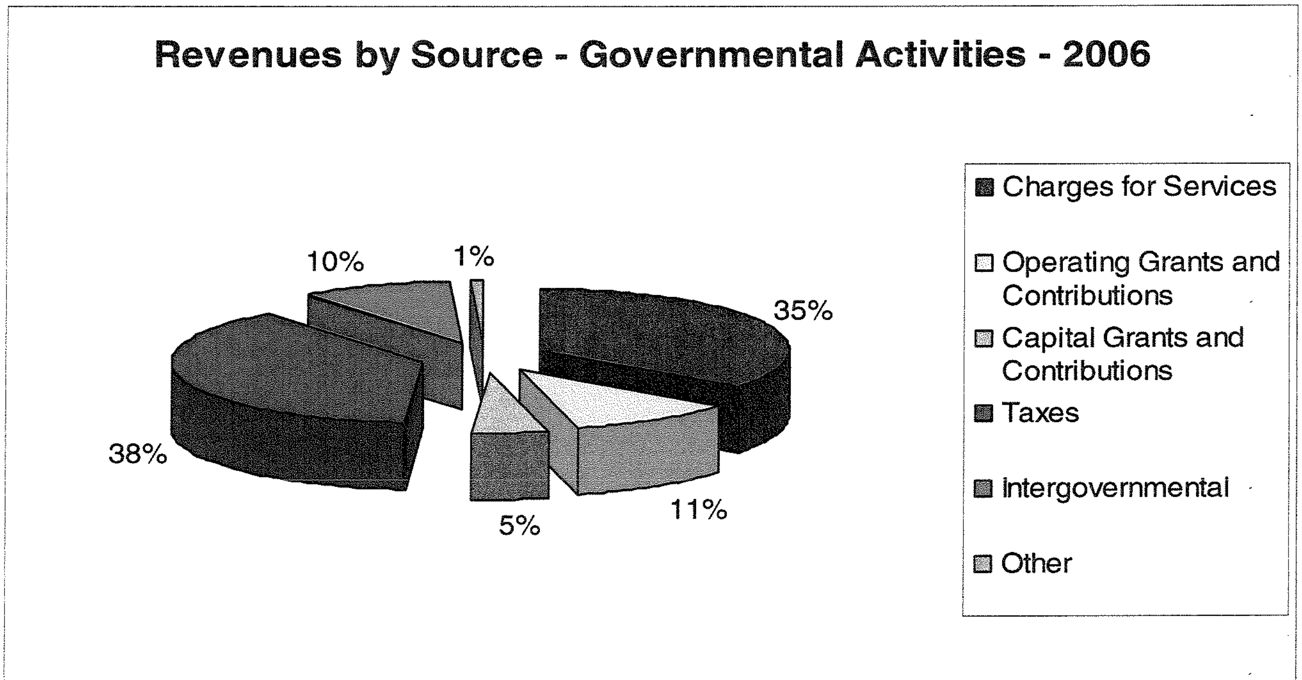
The City of Harrisburg's unrestricted net asset balances of ($35,019,196) and ($25,571,230) for the years ending December 31, 2006 and 2005 result from the recording of unfunded pension liability bonds, General Obligation Bonds, Series A and B of 1995, in the amount of $13,515,233 and $16,251,442, respectively; and vested compensated absences in the amount of $9,340,904 and $9,474,620, respectively. Additionally, at December 31, 2006, the City had incurred approximately $6.1 in unreimbursed operating expenses of The Harrisburg Authority's Resource Recovery Facility.

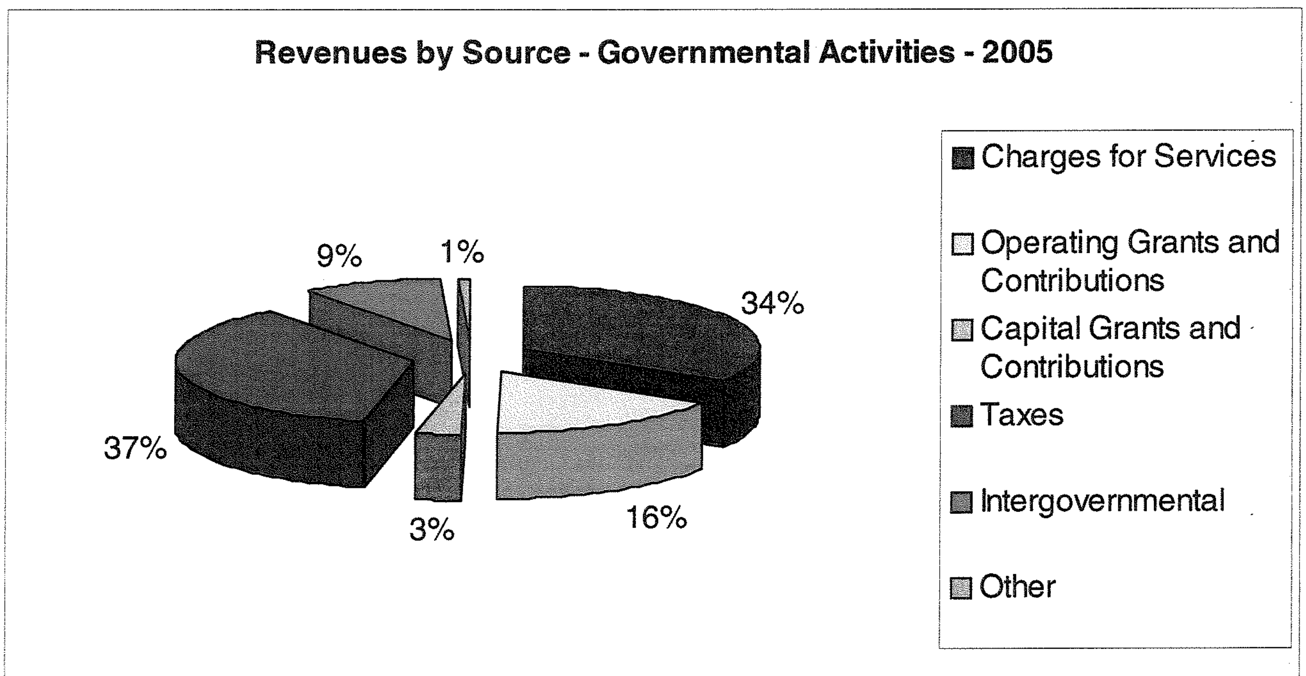
CITY OF HARRISBURG
CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Changes for services	$ 23,372,150	$ 23,656,728	$ 17,583,142	$ 17,031,236	$ 40,955,292	$ 40,687,964
Operating grants and contributions	7,199,902	11,373,798	86,856	111,640	7,286,758	11,485,438
Capital grants and contributions	3,329,257	2,165,159	657,537	-	3,986,794	2,165,159
General revenues:						
Taxes	25,647,506	25,323,079	-	-	25,647,506	25,323,079
Grants and contributions not restricted to specific functions	6,354,219	6,616,045	-	-	6,354,219	6,616,045
Other	584,035	634,910	806,672	414,114	1,390,707	1,049,024
Total revenues	66,487,069	69,769,719	19,134,207	17,556,990	85,621,276	87,326,709
Expenses						
General government	13,031,646	14,140,790	-	-	13,031,646	14,140,790
Building and housing development	6,882,911	6,889,200	-	-	6,882,911	6,889,200
Public safety	32,619,877	33,096,267	-	-	32,619,877	33,096,267
Public works	8,909,731	8,409,045	-	-	8,909,731	8,409,045
Parks and recreation	4,324,052	4,269,849	-	-	4,324,052	4,269,849
Incinerator	6,119,838	-	-	-	6,119,838	-
Interest on long-term debt	5,333,204	5,352,500	-	-	5,333,204	5,352,500
Sewer	-	-	13,835,359	14,400,217	13,835,359	14,400,217
Sanitation	-	-	2,917,043	3,068,741	2,917,043	3,068,741
Harrisburg Senators	-	-	1,914,398	1,636,709	1,914,398	1,636,709
Total expenses	77,221,259	72,157,651	18,666,800	19,105,667	95,888,059	91,263,318
Change in net assets before transfers	(10,734,190)	(2,387,932)	467,407	(1,548,677)	(10,266,783)	(3,936,609)
Transfers	(1,149,476)	(940,524)	1,149,476	940,524	-	-
Change in net assets	(11,883,666)	(3,328,456)	1,616,883	(608,153)	(10,266,783)	(3,936,609)
Net assets January 1,	18,355,758	21,684,214	34,186,542	34,794,695	52,542,300	56,478,909
Net assets, December 31	$ 6,472,092	$ 18,355,758	$ 35,803,425	$ 34,186,542	$ 42,275,517	$ 52,542,300


Expenses and Program Revenues - Governmental Activities - 2006
$35,000,000
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
General Government
Building and Housing Development
Public Safety
Public Works
Parks and Recreation
Incinerator
Interest
Expenses
Revenues

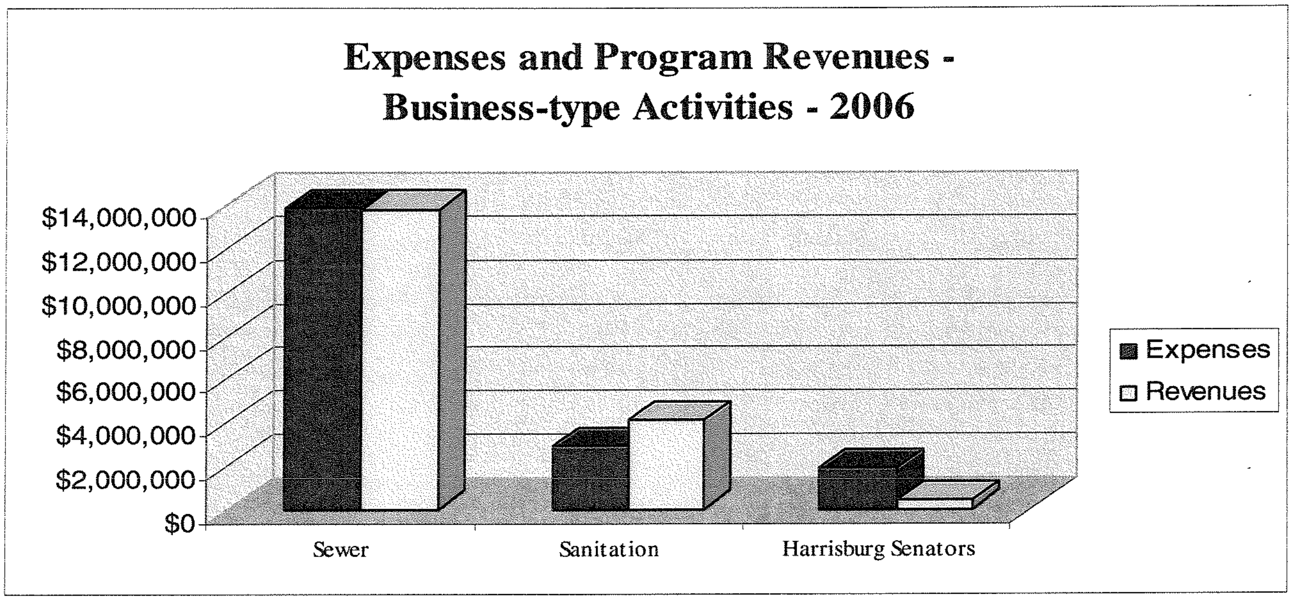

Expenses and Program Revenues - Governmental Activities - 2005
$35,000,000
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
General Government
Building and Housing Development
Public Safety
Public Works
Parks and Recreation
Interest
Expenses
Revenues

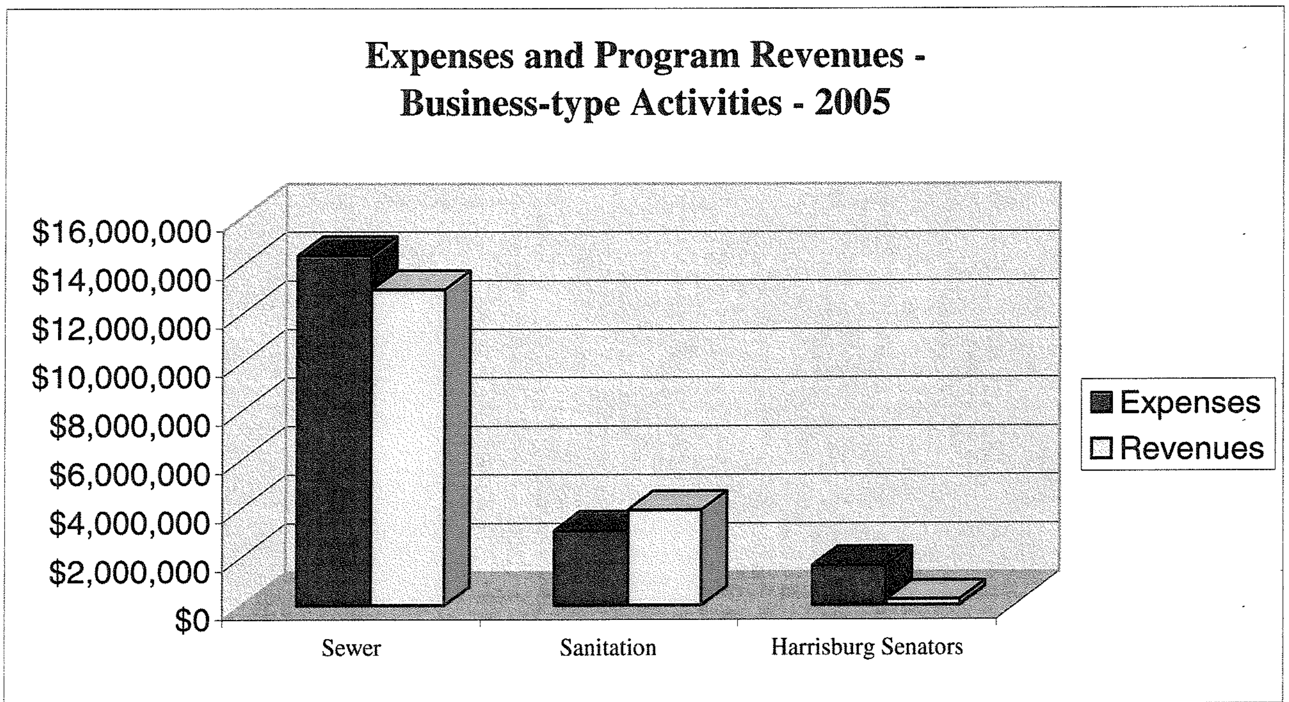




Governmental Activities Net assets for governmental activities decreased by $11,883,666 for the year ending December 31, 2006. The basic factor for the change in net assets was due to unreimbursed operating expenses of The Harrisburg Authority's Resource Recovery Facility, and real estate tax lien proceeds, 911 revenues, and administrative service charges for the Resource Recovery Facility that were anticipated but not received.

Net assets for governmental activities decreased by $3,328,456 for the year ending December 31, 2006. The basic factor for the change in the net assets was due to one-time revenue sources anticipated but not received.





Business-Type Activities Net assets for business-type activities increased by $1,616,883 and decreased by $608,153 for the years ending December 31, 2006 and 2005. The basic factor for the change in net assets during the year ending December 31, 2006 was the sewer and sanitation rate increase. The basic factor for the change in net assets during the year ending December 31, 2005 was unfunded depreciation of the sewer lines.

Financial Analysis of the City's Funds

1. **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 the current fiscal year, the City of Harrisburg's governmental funds reported combined ending fund balances of $4,690,689, a decrease of $3,067,751 in comparison with the prior year.

   The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The Fund Balance of the General Fund decreased by $3,033,419 for the year ending December 31, 2006, or 81.1%, from the prior year. The basic factor for the change in the net assets is unreimbursed operating expenses of The Harrisburg Authority's Resource Recovery Facility, and real estate tax lien proceeds, 911 revenues, and administrative service charges for the Resource Recovery Facility that were anticipated but not received..

   The Grant Programs Fund does not report a fund balance because revenue equals expenditures. In this fund, revenue is recognized only when allowable expenditures are incurred and the legal and contractual requirements of the individual programs are met. The Fund Balance of the Debt Service Fund decreased by $11,372 for the year ending December 31, 2006, or 6.17%, from the prior year. The Fund Balance of the Capital Projects Fund decreased by $80,932 for the year ending December 31, 2006, or 022%, 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 $3,113,488 for the year ending December 31, 2005, or 45.43%, from the prior year. The basic factor for the change in the net assets is one-time revenue sources anticipated but not received.

   The Grant Programs Fund does not report a fund balance because revenue equals expenditures. In this fund, revenue is recognized only when allowable expenditures are incurred and the legal and contractual requirements of the individual programs are met. The Fund Balance of the Debt Service Fund increased by $3,429 for the year ending December 31, 2005, or 5.23%, from the prior year. The Fund Balance of the Capital Projects Fund decreased by $149,534 for the year ending December 31, 2005, or 3.93%, from the prior year.

2. **General Fund Budgetary Highlights** On a budgetary basis, the General Fund's actual revenues were $6,982,840 less than the final budgeted amounts. Included in the 2006 budget was $1.2 million of delinquent tax lien sales proceeds. However, the sale of the liens did not transpire. Additionally, $2.37 million was budgeted for 911 grant funds. The City expected to receive these funds from the Pennsylvania Emergency Management Agency via Dauphin County for the operation of its telecommunications center. The City was subsequently determined to be ineligible. Finally, $1.5 million was budgeted to be received from The Harrisburg Authority Resource Recovery Facility for administrative service charges. Due to limited cash flow, the facility was not able to make any payments during 2006. The General Fund's actual expenditures were $2,270,295 million more than the final budgeted amounts. This was primarily because the City had incurred approximately $6.1 in unbudgeted, unreimbursed operating expenses of The Harrisburg Authority's Resource Recovery Facility. However, because of limited cash flow, the City tried to mitigate the budgeted revenue deficit

with offsetting reductions in expenditures and by issuing the Lease Revenue Bonds, Series of 2006, which proceeds are reflected in other financing sources being $6,965,347 greater than budget.

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, 2006, amounts to $122,346,233 and $44,510,818 (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:

   - Improvements increased by $1.6 primarily due to the $1 million construction of the State Street promenade and $400,000 for capital upgrades due to the hurricane IVAN flood.
   - Infrastructure increased by $2.2 million primarily due to the $1.6 million acquisition of street lights and $500,000 of street improvements to Southern Gateway, 7th Street and the 6th, 13th and 17th Street corridor.

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

   - Construction-in-progress and buildings increased by $390,000 and $445,000 for construction within the Sewer Fund, paid for through the capital lease with The Harrisburg Authority.

   Additional information on the City's capital assets can be found on page 58 of this report.

2. **Long-term debt** Other than the required principal and interest payments, the only debt activity in the City's governmental or business-type activities was the issuance of the Harrisburg Redevelopment Authority Lease Revenue Bonds, Series of 2006. These bonds, issued in the face amount of $7.2 million, were issued to finance the leasing of the McCormick Public Service Center from the City and then subleasing of the building back to the City. The funds from the issuance of the bonds were turned over to the City. The City is responsible to pay the debt service on the bonds. Additionally, the City issued a HUD Section 108 Note in the amount of $3,795,000 to be used to relocate a print shop from North Cameron Street as part of an economic development initiative.

   Additional information on the City's long-term debt can be found on page 61 of this report.

Economic Factors

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

Moreover, the most significant unfunded mandate affecting us 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, more than 48% 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 2007 costs:

(a) Harrisburg's 2007 health insurance costs have been budgeted to increase approximately $349,000, an increase of 3.4% from the previous year.
(b) Fuel and energy costs have reached their highest levels in U.S. history and the City has experienced higher expenses for both.
(c) Salaries for the City's police officers are budgeted to increase 3.4% for 2007.
(d) Additionally, the City has experienced higher unemployment costs and severance costs as a result of the layoffs from late 2006.

The City is currently in arbitration with the International Association of Fire Fighters. The results of this negotiation are unknown at this time.

The City has been ambitious in its further pursuit of reduced costs and balanced budgets. Some examples are worthy of note:

(a) 58 full-time positions were eliminated since January 2007.
(b) Aggressive medical bill repricing in the Workers' Compensation Program saved the City $208,037 through June 2007.
(c) Overtime throughout City government, with the exception of public safety, has been reduced in the 2007 budget by 6.2%.
(d) During 2007, the City further reduced the number of cell phones, pagers, and vehicles utilized in city operations. The City continues to monitor the necessity of these items.
(e) As a result of the effectiveness of the City's risk management and loss control program, the City-wide insurance package was renewed with a 14.4% reduction in the premium – which is substantially less than insurance cost increases being experienced in the general market. This realized a savings of at least $150,276.
(f) In 2007, the City announced the sale of the Harrisburg Senators for $13.25 million. The proceeds from the sale will be used to refund debt service payments made in 2007 related to the Senator's bonds.

There was a 2007 real estate tax increase of 17.2 percent or 1.5 mills.

During 2007, the City was required to fund two payments in the amount of $3.455 million under the Guarantee Agreement with The Harrisburg Authority for the Resource Recovery Facility. During August 2007, Harrisburg City Council approved the guarantee of The Harrisburg Authority's Resource Recovery Facility Subordinate Revenue Notes, Series of 2007, in the amount of $11,577,670 and lease rental debt in the maximum amount of $25,500,000 subject to various conditions. Neither of these debt issuances has been issued as of the auditor's report date

Requests for Information

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government				
	Governmental Activities	Business-type Activities	Total	Component Units	Total
Assets					
Cash and cash equivalents	$ 8,560,926	$ 2,606,004	$ 11,166,930	$ 10,435,811	$ 21,602,741
Investments, at fair value	1,473,683	1,007,984	2,481,667	335,384	2,817,051
Receivables, net of allowance for uncollectible accounts					
Taxes	5,769,452	-	5,769,452	-	5,769,452
Accounts	188,317	3,375,996	3,564,313	5,788,970	9,353,283
Loans	8,701,043	-	8,701,043	-	8,701,043
Other	2,436,840	-	2,436,840	1,004,706	3,441,546
Internal balances	(366,388)	366,388	-	-	-
Due from component unit	6,969,626	-	6,969,626	-	6,969,626
Due from primary government	-	-	-	2,586,048	2,586,048
Other assets	226,885	1,203,015	1,429,900	44,147	1,474,047
Restricted assets					
Cash	181,318	10,251,138	10,432,456	-	10,432,456
Cash with fiscal agents	-	-	-	4,060,200	4,060,200
Investments, at fair value	-	3,570,349	3,570,349	94,858,044	98,428,393
Accrued interest receivable	-	-	-	90,967	90,967
Note receivable	-	-	-	59,879	59,879
Future lease rentals receivable from primary government	-	-	-	7,508,856	7,508,856
Direct financing lease proceeds receivable from component unit	-	161,966	161,966	-	161,966
Capital assets, not being depreciated	32,969,219	3,665,524	36,634,743	21,501,734	58,136,477
Capital assets, less accumulated depreciation and amortization	89,377,014	40,845,294	130,222,308	224,841,237	355,063,545
Franchise fee, less accumulated amortization	-	3,356,853	3,356,853	-	3,356,853
Deferred charges, net of accumulated amortization	-	-	-	22,021,072	22,021,072
Total assets	156,487,935	70,410,511	226,898,446	395,137,055	622,035,501

(continued)

	Primary Government				
	Governmental Activities	Business-type Activities	Total	Component Units	Total
Liabilities					
Accounts payable and other current liabilities	5,613,283	360,846	5,974,129	2,052,212	8,026,341
Matured bond coupons	20,097	-	20,097	-	20,097
Accrued liabilities	2,732,726	270,175	3,002,901	-	3,002,901
Due to primary government	-	-	-	6,969,626	6,969,626
Due to component unit	316,630	2,269,418	2,586,048	-	2,586,048
Unearned revenue	23,952,986	-	23,952,986	457,069	24,410,055
Liabilities payable from restricted assets	-	-	-	8,649,273	8,649,273
Noncurrent liabilities:					
Due within one year	9,010,622	4,267,228	13,277,850	8,075,281	21,353,131
Due in more than one year	108,369,499	27,439,419	135,808,918	502,585,486	638,394,404
Deferred revenue	-	-	-	5,311,252	5,311,252
Liability for obligations to construct assets under direct financing leases	-	-	-	161,966	161,966
Accrued landfill closure and postclosure liability	-	-	-	40,268	40,268
Total liabilities	150,015,843	34,607,086	184,622,929	534,302,433	718,925,362
Net assets					
Invested in capital assets, net of related debt	44,681,389	30,474,403	75,155,792	(123,122,160)	(47,966,368)
Restricted for:					
Highways and streets	241,612	-	241,612	-	241,612
Culture and recreation	158,893	-	158,893	-	158,893
Debt service	-	1,674,844	1,674,844	22,235,801	23,910,645
Construction	-	-	-	774,189	774,189
Trust closure	-	-	-	749,378	749,378
Guarantee agreement	-	-	-	274,512	274,512
Special projects	-	-	-	12,329	12,329
Water operations	-	-	-	3,193,523	3,193,523
Other	63,572	-	63,572	-	63,572
Unrestricted	(38,673,374)	3,654,178	(35,019,196)	(43,282,950)	(78,302,146)
Total net assets	$ 6,472,092	$ 35,803,425	$ 42,275,517	$(139,165,378)	$ (96,889,861)

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	$ 13,031,646	$ 14,612,126	$ 14,637	$ 3,329,257
Building and housing development	6,882,911	1,796,060	2,535,874	-
Public safety	32,619,877	4,786,780	2,027,116	-
Public works	8,909,731	1,996,113	846,057	-
Parks and recreation	4,324,052	181,071	1,776,218	-
Incinerator	6,119,838	-	-	-
Interest on long-term debt	5,333,204	-	-	-
Total governmental activities	77,221,259	23,372,150	7,199,902	3,329,257
Business-type activities				
Sewer	13,835,359	13,151,051	-	657,537
Sanitation	2,917,043	4,007,812	86,856	-
Harrisburg Senators	1,914,398	424,279	-	-
Total business-type activities	18,666,800	17,583,142	86,856	657,537
Total primary government	$ 95,888,059	$ 40,955,292	$ 7,286,758	$ 3,986,794
Component units				
The Harrisburg Authority	$ 50,523,773	$ 28,807,745	$ -	$ 3,815,635
Harrisburg Parking Authority	13,620,068	12,272,302	-	-
Coordinated Parking Fund	6,148,938	6,208,889	-	-
Redevelopment Authority	4,840,814	422,332	1,003,228	2,864,469
Total component units	$ 75,133,593	$ 47,711,268	$ 1,003,228	$ 6,680,104

General revenues
Property taxes
Real estate transfer taxes
Emergency and municipal services taxes
Occupational privilege taxes
Earned income taxes
Business privilege taxes
Franchise taxes
Public utility realty taxes
Payments in lieu of taxes
Grants and contributions not restricted to specific functions
Other income
Unrestricted investment earnings
Transfers - internal activities
Special item

Total general revenues, transfers, and special item

Change in net assets
Net assets - January 1, 2006

Net assets - December 31, 2006

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
$ 4,924,374	$ -	$ 4,924,374	$ -	$ 4,924,374
(2,550,977)	-	(2,550,977)	-	(2,550,977)
(25,805,981)	-	(25,805,981)	-	(25,805,981)
(6,067,561)	-	(6,067,561)	-	(6,067,561)
(2,366,763)	-	(2,366,763)	-	(2,366,763)
(6,119,838)	-	(6,119,838)	-	(6,119,838)
(5,333,204)	-	(5,333,204)	-	(5,333,204)
(43,319,950)	-	(43,319,950)	-	(43,319,950)
-	(26,771)	(26,771)	-	(26,771)
-	1,177,625	1,177,625	-	1,177,625
-	(1,490,119)	(1,490,119)	-	(1,490,119)
-	(339,265)	(339,265)	-	(339,265)
(43,319,950)	(339,265)	(43,659,215)	-	(43,659,215)
-	-	-	(17,900,393)	(17,900,393)
-	-	-	(1,347,766)	(1,347,766)
-	-	-	59,951	59,951
-	-	-	(550,785)	(550,785)
-	-	-	(19,738,993)	(19,738,993)
13,981,639	-	13,981,639	-	13,981,639
818,858	-	818,858	-	818,858
3,016,240	-	3,016,240	-	3,016,240
6,311	-	6,311	-	6,311
3,390,099	-	3,390,099	-	3,390,099
3,497,175	-	3,497,175	-	3,497,175
474,849	-	474,849	-	474,849
39,536	-	39,536	-	39,536
422,799	-	422,799	-	422,799
6,354,219	-	6,354,219	-	6,354,219
-	-	-	809,143	809,143
584,035	806,672	1,390,707	5,209,829	6,600,536
(1,149,476)	1,149,476	-	-	-
-	-	-	4,027,000	4,027,000
31,436,284	1,956,148	33,392,432	10,045,972	43,438,404
(11,883,666)	1,616,883	(10,266,783)	(9,693,021)	(19,959,804)
18,355,758	34,186,542	52,542,300	(129,472,357)	(76,930,057)
$ 6,472,092	$ 35,803,425	$ 42,275,517	$ (139,165,378)	$ (96,889,861)

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

CITY OF HARRISBURG, PENNSYLVANIA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Grant Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Assets						
Cash	$ 3,129,387	$ 4,893,725	$ 77,292	$ 161,787	$ 298,735	$ 8,560,926
Investments, at fair value	776,248	1,172	331	34,499	661,433	1,473,683
Receivables, net of allowance for uncollectible accounts						
Taxes	5,722,897	-	-	46,555	-	5,769,452
Accounts receivable	188,317	-	-	-	-	188,317
Loans receivable	2,757,790	5,859,253	-	84,000	-	8,701,043
Other receivable	840,308	-	-	1,596,532	-	2,436,840
Due from other funds	1,577,260	1,822,592	-	935,785	-	4,335,637
Advances and amounts due from component units	6,344,782	-	-	624,844	-	6,969,626
Other assets	106,929	486	-	2,970	-	110,385
Restricted assets						
Cash	63,572	-	-	117,746	-	181,318
Investments, at fair value	-	-	-	-	-	-
Total assets	$ 21,507,490	$ 12,577,228	$ 77,623	$ 3,604,718	$ 960,168	$ 38,727,227
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	$ 4,922,786	$ 573,934	$ -	$ 21,296	$ 95,267	$ 5,613,283
Accrued liabilities	1,196,644	14,824	-	-	-	1,211,468
Matured bond coupons payable	-	-	20,097	-	-	20,097
Due to other funds	2,897,592	1,283,417	-	10,629	510,387	4,702,025
Advances and amounts due to component units	316,630	-	-	-	-	316,630
Deferred revenue	11,467,982	10,705,053	-	-	-	22,173,035
Total liabilities	20,801,634	12,577,228	20,097	31,925	605,654	34,036,538
Fund balances						
Reserved						
Capital outlay	-	-	-	3,474,034	-	3,474,034
Encumbrances	35,223	-	-	98,759	26,142	160,124
Debt service	-	-	57,526	-	-	57,526
Workers' compensation	104,950	-	-	-	-	104,950
Revolving loan program	2,505,447	-	-	-	-	2,505,447
Unreserved, reported in						
General fund	(1,939,764)	-	-	-	-	(1,939,764)
Special revenue funds	-	-	-	-	328,372	328,372
Total fund balances	705,856	-	57,526	3,572,793	354,514	4,690,689
Total liabilities and fund balances	$ 21,507,490	$ 12,577,228	$ 77,623	$ 3,604,718	$ 960,168	$ 38,727,227

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

CITY OF HARRISBURG, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

Fund balances - total governmental funds		$ 4,690,689
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets	228,497,097	
Less accumulated depreciation	(106,150,864)	122,346,233
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		5,095,801
Guarantee and swap fees and bond issuance costs are deferred and amortized over the life of the guarantee, swap or bond period, but are available to pay current-period expenditures and, therefore, are not reported in the funds.		(6,759,252)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Workers' compensation	(3,172,133)	
Bonds payable	(54,680,766)	
Notes payable	(46,638,776)	
Capital leases payable	(4,084,633)	
Compensated absences	(8,803,813)	
Accrued interest payable	(1,521,258)	(118,901,379)
Net assets of governmental activities		$ 6,472,092

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, 2006

	General	Grant Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	$23,825,971	$ -	$ -	$ -	$ -	$23,825,971
Licenses and permits	508,799	-	-	-	-	508,799
Intergovernmental revenue	7,413,755	7,933,436	-	-	846,057	16,193,248
Department earnings and program revenue	17,430,054	457,983	-	680,314	740	18,569,091
Fines and forfeits	1,690,845	-	-	-	-	1,690,845
Investment income	322,676	82,687	2,169	9,570	24,282	441,384
Miscellaneous	3,254,364	42,325	-	10,097	-	3,306,786
Total revenues	54,446,464	8,516,431	2,169	699,981	871,079	64,536,124
Expenditures						
Current						
General government	10,347,959	3,255,645	-	549,424	13,001	14,166,029
Building and housing development	1,416,919	5,327,139	-	16,800	-	6,760,858
Public safety	28,433,477	2,979,875	-	-	-	31,413,352
Public works	5,177,545	-	-	-	736,052	5,913,597
Parks and recreation	3,847,544	432,020	-	-	-	4,279,564
Incinerator	6,119,838	-	-	-	-	6,119,838
Capital outlay						
Infrastructure	-	-	-	35,713	-	35,713
Debt service						
Principal retirements	1,233,369	165,000	6,658,255	328,797	-	8,385,421
Interest and fiscal charges	303,791	204,701	33,335	-	-	541,827
Total expenditures	56,880,442	12,364,380	6,691,590	930,734	749,053	77,616,199
Excess of revenues over (under) expenditures	(2,433,978)	(3,847,949)	(6,689,421)	(230,753)	122,026	(13,080,075)
Other financing sources (uses)						
Proceeds from the issuance of debt	7,214,620	3,795,000	-	149,830	-	11,159,450
Proceeds from the sale of assets	2,350	-	-	-	-	2,350
Transfers in	1,013,519	52,949	6,678,049	-	-	7,744,517
Transfers out	(8,829,930)	-	-	-	(64,063)	(8,893,993)
Total other financing sources (uses)	(599,441)	3,847,949	6,678,049	149,830	(64,063)	10,012,324
Net change in fund balances	(3,033,419)	-	(11,372)	(80,923)	57,963	(3,067,751)
Fund balances - beginning of year	3,739,275	-	68,898	3,653,716	296,551	7,758,440
Fund balances - end of year	$ 705,856	$ -	$ 57,526	$ 3,572,793	$ 354,514	$ 4,690,689

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

CITY OF HARRISBURG, PENNSYLVANIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2006

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds		$ (3,067,751)
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	3,950,194	
Depreciation expense	(6,402,557)	(2,452,363)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		980,176
Governmental funds report guarantee fees and swap fees as revenues. However in the statement of activities, the fees are amortized over the guarantee or swap period and reported as investment income.		
Amortization	773,004	773,004
The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Bond issuance costs	116,500	
Debt issued or incurred	(11,159,450)	
Principal repayments	8,385,421	(2,657,529)
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	(707,302)	
Compensated absences	155,976	
Accrued interest	(51,662)	
Amortization of bond discounts	(4,856,215)	(5,459,203)
Change in net assets of governmental activities		$ (11,883,666)

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2006

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Total Proprietary Funds
ASSETS				
Current assets				
Cash	$ 2,163,692	$ 442,312	$ -	$ 2,606,004
Investments, at fair value	720,503	287,481	-	1,007,984
Receivables, net of allowance for uncollectible accounts				
Accounts receivable	2,895,283	480,713	-	3,375,996
Due from other funds	1,165,000	-	-	1,165,000
Prepaid expenses and other assets	542,382	1,057	659,576	1,203,015
Total current assets	7,486,860	1,211,563	659,576	9,357,999
Long-term assets				
Restricted assets				
Cash	-	-	10,251,138	10,251,138
Investments, at fair value	-	-	3,570,349	3,570,349
Direct financing lease proceeds receivable from component unit	161,966	-	-	161,966
Capital assets, not being depreciated	751,605	-	2,913,919	3,665,524
Capital assets, less accumulated depreciation and amortization	40,073,546	510,042	261,706	40,845,294
Franchise fee, less accumulated amortization	-	-	3,356,853	3,356,853
Total long-term assets	40,987,117	510,042	20,353,965	61,851,124
Total assets	48,473,977	1,721,605	21,013,541	71,209,123
LIABILITIES				
Current liabilities				
Accounts payable	353,815	7,031	-	360,846
Accrued expenses	36,066	18,893	215,216	270,175
Due to other funds	28,881	19,944	749,787	798,612
Amounts due to component units	2,269,418	-	-	2,269,418
Current portion of future lease rentals payable to component unit	1,724,537	-	-	1,724,537
Current portion of workers' compensation	86,543	74,663	-	161,206
Current portion of general obligation bonds payable	45,483	-	1,775,000	1,820,483
Current portion of lease rental bonds payable	-	-	405,000	405,000
Current portion of capitalized lease obligations	-	129,012	-	129,012
Current portion of vested compensated absences	19,961	7,029	-	26,990
Total current liabilities	4,564,704	256,572	3,145,003	7,966,279
Long-term liabilities				
Workers' compensation	256,472	221,268	-	477,740
General obligation bonds payable	123,674	-	2,880,000	3,003,674
Lease rental bonds payable	-	-	17,275,831	17,275,831
Capitalized lease obligations	-	387,754	-	387,754
Vested compensated absences	377,277	132,824	-	510,101
Future lease rentals payable to component unit	5,784,319	-	-	5,784,319
Total long-term liabilities	6,541,742	741,846	20,155,831	27,439,419
Total liabilities	11,106,446	998,418	23,300,834	35,405,698
NET ASSETS				
Invested in capital assets, net of related debt	33,478,261	(6,724)	(2,997,134)	30,474,403
Restricted				
Debt service	-	-	1,674,844	1,674,844
Unrestricted	3,889,270	729,911	(965,003)	3,654,178
Total net assets	$ 37,367,531	$ 723,187	$ (2,287,293)	$ 35,803,425

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2006

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Total Proprietary Funds
Operating revenues				
Charges for service	$ 13,151,051	$ 4,007,812	$ 424,279	$ 17,583,142
Operating expenses				
Salaries and wages	1,829,075	852,835	-	2,681,910
Fringe benefits	618,030	458,720	-	1,076,750
Communications	23,024	2,646	-	25,670
Professional fees	340,845	5,204	-	346,049
Utilities	1,861,527	4,341	-	1,865,868
Insurance	316,125	40,296	-	356,421
Maintenance and repairs	249,862	122,749	-	372,611
Contracted services	5,260,728	978,939	-	6,239,667
Supplies	624,691	194,898	-	819,589
Depreciation	1,829,405	231,355	37,385	2,098,145
Total operating expenses	12,953,312	2,891,983	37,385	15,882,680
Operating income	197,739	1,115,829	386,894	1,700,462
Nonoperating revenues (expenses)				
State subsidy	657,537	86,856	-	744,393
Investment income	91,134	15,279	700,259	806,672
Interest expense	(880,352)	(25,060)	(1,493,180)	(2,398,592)
Loss on disposal of capital assets	(1,695)	-	-	(1,695)
Amortization of bond issue costs and franchise fees	-	-	(383,833)	(383,833)
Total nonoperating revenues (expenses)	(133,376)	77,075	(1,176,754)	(1,233,055)
Income (loss) before transfers	64,363	1,192,904	(789,860)	467,407
Transfers in	-	-	2,162,995	2,162,995
Transfers out	-	(1,013,519)	-	(1,013,519)
Change in net assets	64,363	179,385	1,373,135	1,616,883
Net assets - beginning of year	37,303,168	543,802	(3,660,428)	34,186,542
Net assets - end of year	$ 37,367,531	$ 723,187	$ (2,287,293)	$ 35,803,425

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2006

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Total Proprietary Funds
Cash flows from operating activities				
Received from user charges	$ 13,087,390	$ 4,023,797	$ 424,279	$ 17,535,466
Payments to employees for services	(1,809,844)	(849,806)	-	(2,659,650)
Payments for fringe benefits	(618,030)	(458,720)	-	(1,076,750)
Payments to suppliers for goods and services	(8,212,026)	(1,280,402)	-	(9,492,428)
Net cash provided by operating activities	2,447,490	1,434,869	424,279	4,306,638
Cash flows from noncapital financing activities				
Transfers in	-	-	2,162,995	2,162,995
Transfers out	-	(1,013,519)	-	(1,013,519)
State subsidy	-	198,496	-	198,496
(Decrease) increase in advances from other funds	315	(112,178)	(226,735)	(338,598)
Net cash provided by (used in) noncapital financing activities	315	(927,201)	1,936,260	1,009,374
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(45,967)	-	(92,293)	(138,260)
Interest paid	-	(25,060)	(1,448,919)	(1,473,979)
Capital lease payments	-	(150,354)	-	(150,354)
Lease, bond and note payments	(2,258,131)	-	(1,860,000)	(4,118,131)
Net cash used in capital and related financing activities	(2,304,098)	(175,414)	(3,401,212)	(5,880,724)
Cash flows from investing activities				
Purchase of investments	213,550	(5,300)	(418,755)	(210,505)
Investment income received	42,477	15,279	708,407	766,163
Net cash provided by investing activities	256,027	9,979	289,652	555,658
Net increase (decrease) in cash and cash equivalents	399,734	342,233	(751,021)	(9,054)
Cash and cash equivalents (including restricted cash) - beginning of year	1,763,958	100,079	11,002,159	12,866,196
Cash and cash equivalents (including restricted assets) - end of year	$ 2,163,692	$ 442,312	$ 10,251,138	$ 12,857,142

(continued)

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2006

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Total Proprietary Funds
Reconciliation of operating income to net cash provided by operating activities				
Operating income	$ 197,739	$ 1,115,829	$ 386,894	$ 1,700,462
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	1,829,405	231,355	37,385	2,098,145
Provision for uncollectible accounts	(94,492)	(24,453)	-	(118,945)
Changes in assets and liabilities				
Accounts receivable	30,831	40,438	-	71,269
Other assets	65,195	4,125	-	69,320
Direct financing lease	277,762	-	-	277,762
Vested compensated absences	19,231	3,029	-	22,260
Workers' compensation	44,269	65,398	-	109,667
Accounts payable and other accrued costs	77,550	(852)	-	76,698
Net cash provided by operating activities	$ 2,447,490	$ 1,434,869	$ 424,279	$ 4,306,638
Noncash investing, capital and financing activities				
Amortization of deferred bond issuance costs and bond discount and franchise fees	$ -	$ -	$ 391,272	$ 391,272
Capital assets purchased by The Harrisburg Authority on behalf of the Sewer Fund	$ 861,031	$ -	$ -	$ 861,031

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2006

	Police Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 828,676
Receivables		
Interest and dividends	71,762	-
Investments, at fair value		
Money market funds	12,965,134	
Fixed income funds	12,743,734	-
Equity funds	15,376,657	-
Balanced funds	160,097	-
Common stocks	27,540,439	-
U.S. Government agency obligations - STRIPS	-	1,331,748
U.S. Government obligations - STRIPS	-	264,780
Total investments	68,786,061	1,596,528
Total assets	68,857,823	2,425,204
LIABILITIES		
Due to other governments	-	403,629
Escrow liabilities	-	2,021,575
Total liabilities	-	$ 2,425,204
NET ASSETS		
Net assets held in trust for police pension benefits (a summary of funding progress is presented on page 113)	$ 68,857,823	

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - POLICE PENSION TRUST FUND
YEAR ENDED DECEMBER 31, 2006

Additions	
Contributions	
Employee contributions	$ 470,343
State contribution	512,593
Total contributions	982,936
Investment income	
Interest and dividend income	3,256,380
Net appreciation in fair value of investments	3,760,630
Total investment earnings	7,017,010
Less investment expense	(288,396)
Net investment income	6,728,614
Total additions	7,711,550
Deductions	
Pension benefits	2,883,075
Administrative expenses	55,145
Total deductions	2,938,220
Change in net assets	4,773,330
Net assets held in trust for pension benefits - January 1	64,084,493
Net assets held in trust for pension benefits - December 31	$ 68,857,823

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

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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 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 eight parking garages containing approximately 6,550 spaces in the central business district of the City, in addition to funds it receives from on-street parking meter charges and five 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 seven parking garages owned by the Harrisburg Parking Authority, two of the City's surface lots, and the City's parking meters. The Fund is pledged as security for the debt service payments of the Harrisburg Parking Authority Series N Bonds and is currently used to make the debt service payments for such bonds. The Fund may also be used to reimburse certain of the Harrisburg Parking Authority garages for below market rentals to certain lessors, and, if any excess is available, to distribute such amount to the City.

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 for May 24, 1945, as amended for the purpose of providing redevelopment and other related activities within the City of Harrisburg.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET ASSETS - COMPONENT UNITS
DECEMBER 31, 2006

	The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total Component Units
ASSETS					
Current assets					
Cash	$ 3,739,639	$ 3,480,216	$ 1,500,000	$ 1,715,956	$10,435,811
Investments, at fair value	-	-	335,384	-	335,384
Accounts receivable, net of allowance for uncollectible	5,454,224	222,747	-	111,999	5,788,970
Other receivables	110,000	-	-	894,706	1,004,706
Advances and amounts due from primary government	149,635	-	316,630	-	466,265
Prepaid expenses and other assets	-	44,147	-	-	44,147
Current portion of note receivable	-	59,879	-	-	59,879
Current portion of direct financing lease	1,724,537	-	-	-	1,724,537
Total current assets	11,178,035	3,806,989	2,152,014	2,722,661	19,859,699
Restricted assets					
Cash with fiscal agents	3,708,551	41	-	351,608	4,060,200
Investments	75,474,827	19,383,217	-	-	94,858,044
Accrued interest receivable	90,967	-	-	-	90,967
Total restricted assets	79,274,345	19,383,258	-	351,608	99,009,211
Advances to primary government	2,119,783	-	-	-	2,119,783
Future lease rentals receivable from primary government	5,784,319	-	-	-	5,784,319
Capital assets, not being depreciated	3,619,055	15,018,210	-	2,864,469	21,501,734
Capital assets, less accumulated depreciation	177,786,100	47,055,137	-	-	224,841,237
Deferred charges, net of accumulated amortization	16,877,182	5,143,890	-	-	22,021,072
Total assets	296,638,819	90,407,484	2,152,014	5,938,738	395,137,055

(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	207,522	871,057	2,330	971,303	2,052,212
Advances and amounts due to primary government	6,486,860	-	-	-	6,486,860
Advances and amounts due to component unit	-	(1,568,797)	1,568,797	-	-
Deferred revenue	-	457,069	-	-	457,069
Current portion of bonds payable	-	2,640,000	-	-	2,640,000
Total current liabilities (payable from current assets)	6,694,382	2,399,329	1,571,127	971,303	11,636,141
Current liabilities (payable from restricted assets)					
Accounts payable	468,479	1,097,129	-	4,562	1,570,170
Accrued bond interest payable	5,313,240	1,198,439	-	-	6,511,679
Deferred revenue	-	87,513	-	479,911	567,424
Current portion of revenue bonds payable	4,370,000	-	-	-	4,370,000
Current portion of revenue notes payable	819,635	-	-	245,646	1,065,281
Total current liabilities (payable from restricted assets)	10,971,354	2,383,081	-	730,119	14,084,554
Noncurrent liabilities					
Revenue bonds payable, net of discount	301,797,566	90,968,110	-	36,666,716	429,432,392
Revenue notes payable, net of discount	72,727,908	-	-	254,354	72,982,262
Due to other governments	-	-	-	170,832	170,832
Due to primary government	482,766	-	-	-	482,766
Deferred revenue	4,908,286	402,966	-	-	5,311,252
Liability for obligations to construct assets under direct financing leases	161,966	-	-	-	161,966
Accrued landfill closure and postclosure care liability	40,268				40,268
Total liabilities	397,784,496	96,153,486	1,571,127	38,793,324	534,302,433
NET ASSETS					
Net assets					
Invested in capital asset, net of related debt	(114,483,718)	(11,502,911)	-	2,864,469	(123,122,160)
Restricted					
Debt service	22,235,801	-	-	-	22,235,801
Construction	774,189	-	-	-	774,189
Trust closure	749,378	-	-	-	749,378
Guarantee agreement	274,512	-	-	-	274,512
Special projects	12,329	-	-	-	12,329
Water operations	3,193,523	-	-	-	3,193,523
Unrestricted	(13,901,691)	5,756,909	580,887	(35,719,055)	(43,282,950)
Total net assets	$ (101,145,677)	$ (5,746,002)	$ 580,887	$(32,854,586)	$(139,165,378)

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

CITY OF HARRISBURG
STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2006

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
The Harrisburg Authority	$ 50,523,773	$ 28,807,745	$ -	$ 3,815,635
Harrisburg Parking Authority	13,620,068	12,272,302	-	-
Coordinated Parking Fund	6,148,938	6,208,889	-	-
Redevelopment Authority	4,840,814	422,332	1,003,228	2,864,469
Total component units	$ 75,133,593	$ 47,711,268	$ 1,003,228	$ 6,680,104

General revenues
Space rental income
Unrestricted investment earnings
Special item
Proceeds from swap termination

Total general revenues and special items

Change in net assets

Net assets - January 1, 2006

Net assets - December 31, 2006

Net (Expense) Revenue and Changes in Net Assets				
The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total
$ (17,900,393)	$ -	$ -	$ -	$ (17,900,393)
-	(1,347,766)	-	-	(1,347,766)
-	-	59,951	-	59,951
-	-	-	(550,785)	(550,785)
(17,900,393)	(1,347,766)	59,951	(550,785)	(19,738,993)
-	-	-	809,143	809,143
4,092,087	1,071,502	304	45,936	5,209,829
4,027,000	-	-	-	4,027,000
8,119,087	1,071,502	304	855,079	10,045,972
(9,781,306)	(276,264)	60,255	304,294	(9,693,021)
(91,364,371)	(5,469,738)	520,632	(33,158,880)	(129,472,357)
$ (101,145,677)	$ (5,746,002)	$ 580,887	$ (32,854,586)	$ (139,165,378)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organization's governing body and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City as defined below:

  - **Impose its Will** – If the City can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
  - **Financial Benefit or Burden** – Exists if the City (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the City.

Based on the foregoing criteria, the reporting entity has been defined to include all the fund types 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 Authority's only financial transaction is the financing of City projects. There was no activity during the year ended December 31, 2006.

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
- Harrisburg Redevelopment Authority

The Harrisburg Authority

The Harrisburg Authority was incorporated in 1957 under the provisions of the Municipal Authority Act. The entire five-member Board is appointed by the Mayor and/or City Council. Appointment authority is currently being litigated in the Pennsylvania Supreme Court. The Harrisburg Authority has purchased the water system and incinerator facility from the City and contracts with the City to manage the facilities. The contracts require that the Mayor prepare an operating expenses budget for adoption by the City Council, with final approval by the Authority with the inclusion of such operating expenses in the Authority's annual budget. The Authority incurred $22,128,854 in expenses under these agreements in 2006. Additionally, the Authority has agreed to adopt rates sufficient to pay the operating expenses budget, as approved, plus administrative and debt service expenses. The Authority also has financed the sewer system for the City with a lease revenue bond transaction for which the City pledged all sewer system revenues to secure the Authority's bonds.

Harrisburg Parking Authority

The Harrisburg Parking Authority (Authority) was incorporated in 1972 under the Pennsylvania Parking Authority Law of 1947. The five-member Board of Directors is appointed by the Mayor and members can be removed from the Board at will. The Authority owns and operates eight parking garages containing approximately 6,550 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 five open lots. The City receives the benefit of excess parking revenues through a Cooperation Agreement with the Authority and the City has guaranteed all 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 Harrisburg Redevelopment Authority, Harristown Development Corporation, Harrisburg Parking Authority, The Mayor of Harrisburg, and the Harrisburg City Council. The Harrisburg Parking Authority Board administers the fund on behalf of the City. The Fund is pledged as security for the debt service payments of the Harrisburg Parking Authority Series N bonds and is currently used to make the debt service payments for such bonds. The Fund may also be used to reimburse certain of the Harrisburg Parking Authority garages for below market rentals to certain lessors, and, if any excess is available, to distribute such amount to the City.

Harrisburg Redevelopment Authority (Redevelopment Authority)

The 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, 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 (Housing Authority)

The 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, 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 (HDC)

The Harristown Development Corporation 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 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.

Harrisburg School District

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

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

Joint Venture

The City is a participant with other municipalities in a joint venture that provides services to the constituents of all the participants. The City has no financial or equity interest in the joint venture. The following is a summary of the significant facts and circumstances for the joint venture for the year ended June 30, 2006:

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	$ 3,465,213
Capital Assets, Net	$ 19,507,121
Total Assets	$ 22,972,334
Net Assets	$ 21,397,177
Operating Revenue	$ 5,675,325
Operating Loss	$ (10,702,888)
Change in Net Assets	$ 608,450
City Contribution to Operations	$ 250,464

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
Harrisburg Economic Development Corporation
Downtown Improvement District, Inc.
Harrisburg Civic Baseball Club
Susquehanna Area Regional Airport Authority
Harrisburg Human Relations Commission
Harrisburg Mayor's Commission on Literacy
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
Harris Com, Inc.

The amounts the City appropriated to these organizations during the year ended December 31, 2006 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. The mayor is one of twenty-five potential board members of the organization. Payments made by the City, on behalf of the organization, for the year ended December 31, 2006, were $177,300. During the year ended December 31, 2006, the City provided funding to pay off the organization's letter of credit in the amount of $225,000.

The South Central Assembly for Effective Governance is an eight county consortium of government, business, education and community leaders charged with seeking creative ways to foster intergovernmental cooperation, to identify economies of scale in shared municipal services, to further sound, regional planning and growth management on a multi-metropolitan basis in the greater region, and to promote tourism and enhanced quality of life for all. The City appoints one member of the forty-five member board. Payments made by the City, on behalf of the South Central Assembly for Effective Governance, for the year ended December 31, 2006, were $144,689.

B. *Government-Wide and Fund Financial Statements*

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Real estate, earned income, 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, and employer pension contributions are reported to the extent that they mature each period.

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

The City reports the following major governmental funds:

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

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

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.

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

The City reports the following major proprietary funds:

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

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

Harrisburg Senators Fund - Accounts for the revenues and expenses associated with the Harrisburg Senators minor league baseball franchise, owned by the City.

In addition, the City reports the following fund types:

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

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

The City follows GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* (Statement No. 20), for reporting and disclosure purposes. As permitted by Statement No. 20, the City has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 unless the GASB specifically adopts the FASB Statement or Interpretation.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. *Cash and Cash Equivalents*

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

E. *Investments*

The City carries its investments at fair value. The fair value of the City's investments are 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. *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. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

H. *Capital Assets*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, dams, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Assets acquired prior to 1982 have been valued by applying an inflation index to current replacement cost to determine estimated historical costs. The cost of such assets amounted to $2,603,129 at December 31, 2006. 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 $26,492,648, have been recorded at cost in the governmental activities column of the government-wide financial statements.

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, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

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

I. *Vested Compensated Absences*

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.

J. *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 governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the related obligation using the effective interest method. Debt is reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related obligation.

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

The City, The Harrisburg Authority and The Harrisburg Parking Authority follow the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. GASB Statement No. 23 requires that the difference between the reacquisition price and the net carrying amount of the defeased debt be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the amount of the unamortized deferred costs of refunding is reported as a deduction from the new liability. As of December 31, 2006, the unamortized deferred costs of refunding recorded by The Harrisburg Authority and the Harrisburg Parking Authority were $28,191,672 and $3,225,381, respectively.

K. *Interest Rate Swaps*

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

L. *Fund Equity and Net Assets*

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

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

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

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

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

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

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

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

Governmental Funds

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

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

Reserved for debt service – An account used to segregate a portion of fund balance for assets restricted to the payment of general long-term obligation principal and interest maturing in future years.

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

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

M. *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, 2005, the date of the most recent actuarial valuation, the actuarial value of assets exceeded the actuarial accrued pension liability in the amount of $6,193,978.

N. *Risk Management*

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

The City is self-insured for workers' compensation. As a self-insurer, the City is required to fund an already established trust fund, dollar for dollar, once the City has passed a total outstanding liability threshold of $3,281,245, as established by the Commonwealth of Pennsylvania. Accordingly, the City has established a trust fund for workers' compensation claims, but has not had to fund it as the City's current outstanding liability for claims incurred at December 31, 2006 does not exceed the established threshold. The City provides coverage for up to a maximum of $500,000 for each workers' compensation claim, and has purchased commercial coverage for claims in excess of coverage provided by the City.

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 governmental activities, business-type activities or proprietary fund type statement of net assets. A liability for these amounts is reported in governmental funds only if they have matured. The City has reserved its General Fund balance for the amount of the trust fund. The accrued cost for unpaid claims was $3,172,133 and $638,946 in the governmental activities and business-type activities, respectively, at December 31, 2006. These claims liabilities are discounted to present value at a discount rate of 5% and are based on the requirements of Governmental Accounting Standards Board Statement No. 10, 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	2006	2005
Beginning – January 1	$ 2,464,831	$ 529,279	$ 2,994,110	$ 2,965,084
Current year claims and changes in estimates	1,780,335	283,180	2,063,515	696,657
Claim payments	(1,073,033)	(173,513)	(1,246,546)	(667,631)
Ending - December 31	$ 3,172,133	$ 638,946	$ 3,811,079	$ 2,994,110

O. *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.

4. Mayoral hearings are then held with each department to discuss their budgets as submitted and allow them to substantiate projected expenditures.

5. After hearings, the budget staff again reviews the projections and presents to the Business Administrator options as to the most viable method of financing them.

6. A second draft is then given to the Mayor with the balanced budget prepared as a result of meetings held between the Mayor, the Business Administrator, and the budget staff.

7. On the fourth Tuesday of November, the final Mayoral recommended budget is presented to City Council.

8. Council holds Budget and Finance Committee meetings to substantiate the proposed budget and arrive at any amendments to the budget.

9. By December 31, the budget, as amended by Council, is legally enacted through the passage of an ordinance.

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

The Business Administrator may authorize transfers less than $20,000 within a department or office. While administratively City Council approval is required for transfers in excess of $20,000 along budget lines, the City considers budgetary authority to be at the office/departmental level, as it is at this higher level that the budget is legally adopted. In the absence of budgeted financing, City Council may approve a supplemental appropriation from unappropriated fund balances. Therefore, the legal level of control is the department level. There were supplemental appropriations enacted during 2006.

P. *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental and proprietary fund types. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end for unfilled obligations of the current year budget are reappropriated in the succeeding year. The City records encumbrances as reservations of fund balance in all governmental funds, except grant funds, at year-end. Encumbrance accounting is used in proprietary fund types as a tool for budgetary control, but reserves are not reported. There were no encumbrances outstanding at December 31, 2006 in the proprietary funds. The subsequent year's appropriations provide authority to complete the transactions as expenditures. Encumbrances outstanding at December 31, 2006 consisted of $4,617,973 in the Grant Programs Fund and are not reflected on the governmental funds balance sheet, because they relate to funds which have zero fund balances at year-end.

Encumbrances outstanding which are reflected on the governmental funds balance sheet at December 31, 2006, by fund type, are presented below:

General	$	35,223
Capital Projects		98,759
State Liquid Fuels		26,142
	$	160,124

Q. ***Special and Extraordinary Items***

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. If such items exist during the reporting period, they are reported separately in financial statements.

R. ***Use of Estimates***

Management of the City has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

S. ***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 Authority in the case of default. As such, the corresponding debt is not reflected on the balance sheet of the Authorities. As of December 31, 2006, non-recourse debt issues outstanding of The Harrisburg Authority totaled $202,131,825 including $54,175,000 on behalf of the City. As of December 31, 2006, non-recourse debt issues of the Redevelopment Authority totaled approximately $124,139,000 including approximately $27,700,000 on behalf of the City.

T. ***Pending Changes in Accounting Principles***

In 2004, the GASB issued Statement No. 45 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" The Statement addresses how the City should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. The City is required to adopt Statement No. 45 for their calendar year 2008.

2. DEPOSITS AND INVESTMENTS

Primary Government

The deposit and investment policy of the City adheres to state statutes and prudent business practices. City deposits must be held in insured, federally regulated banks or financial institutions and must be fully collateralized in accordance with state statutes. Permissible investments include direct obligations of the U.S. Treasury and U.S. Governmental agencies; certificates of deposit issued by insured banks, bank and trust companies, and savings and loan associations; repurchase agreements not to exceed 30 days, secured by U.S. Government obligations with collateral to be delivered to a third-party custodian; shares of registered investment companies whose portfolios consist solely of government securities; general obligation bonds of any state, Pennsylvania subdivisions, or any of its agencies or instrumentalities backed by the full faith and credit of the issuing entity and having the highest rating of a recognized bond rating agency; and pooled funds of public agencies of the Commonwealth of Pennsylvania. This policy is in accordance with applicable Pennsylvania statutes. There were no deposit or investment transactions that were in violation of either state statutes or the policy of the City at December 31, 2006, 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, 2006, the deposits of the City of Harrisburg, including component units were as follows:

Reconciliation to statement of net assets:	
Governmental activities	
Unrestricted	$ 8,560,926
Restricted	181,318
Business-type activities	
Unrestricted	2,606,004
Restricted	10,251,138
Fiduciary funds - agency fund	828,676
Total primary government	$ 22,428,062
Component units	
Unrestricted	$ 10,435,811
Restricted cash	4,060,200
Total component units	$ 14,496,011

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, 2006, the City's book balance was $22,428,062 and the bank balance was $23,414,974. Of the bank balance, $566,924 was covered by federal depository insurance and $22,757,713 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits. The remaining bank balance of $90,337 was collateralized by 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.

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.

Custodial Credit Risk. The Harrisburg Authority does not have a deposit policy for custodial credit risk. As of December 31, 2006, The Harrisburg Authority's bank deposits were $7,448,190 and the bank balance was $7,424,543. Of the bank balance, $208,129 was covered by federal depository insurance and $7,216,414 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits.

Harrisburg Parking Authority

The Parking Authority Law limits the Authority to the types 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, 2006, the carrying amount of the Authority's deposits was $3,480,257 and the bank balances was $1,192,207. Of the bank balances, $100,000 was covered by federal depository insurance at December 31, 2006 and the remainder of the bank balance 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.

Coordinated Parking Fund

The Authority maintains a separate operating account for each component of the coordinated parking system and for the Coordinated Parking 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 Coordinated Parking Fund's operating account, based on the monthly investment balance.

Custodial Credit Risk. As of December 31, 2006, the Fund's bank deposits consist of $1,500,000 in certificates of deposit. The entire $1,500,000 was covered by federal depository insurance.

Redevelopment Authority

Custodial Credit Risk. As of December 31, 2006, the Redevelopment Authority's cash and restricted cash balances were $2,067,564 and its bank balances were $2,117,657. Of those bank balances, $1,817,216 was collateralized with securities held by pledging financial institutions, or by their trust departments or agents, but not in the Redevelopment Authority's name.

Investments

At December 31, 2006, the investments of the City of Harrisburg were as follows:

Primary Government	
Unrestricted Investments	
Money market funds	$ 1,092,264
External investment pool	1,389,403
Total unrestricted investments	2,481,667
Restricted investments	
Money market funds	3,570,349
Total restricted investments	3,570,349
Fiduciary funds	
Money market funds	12,965,134
U.S. Government agency obligations – STRIPS	1,322,070
U.S. Government obligations	274,458
Fixed income funds	12,743,734
Equity funds	15,376,657
Common stock	27,540,439
Balanced funds	160,097
Total fiduciary funds	70,382,589
Total primary government	$ 76,434,605
Component Units	
Unrestricted investments	
Money market funds	$ 335,384
Total component unit unrestricted investments	$ 335,384
Restricted investments	
Money market funds	46,179,566
Commercial paper	10,410,180
U.S. Government agency obligations	16,534,831
U.S. Government obligations	2,642,280
Guaranteed investment contracts	8,165,788
Fixed income government issues	63,691
Municipal bonds	10,861,708
Total component unit restricted investments	$ 94,858,044

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 $76,434,605, $6,326,474 was held by the counterparty's trust department or agent not in the City's name.

Included in the Agency Fund investments are Resolution Funding Corporation and 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, 2006, was $1,596,528 and is reported as part of restricted investments in the Statement of Fiduciary Net Assets.

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. More than 5 percent of the City's investments are held as follows:

	Fair Value	% of Total
Western Assets Trust Core Portfolio	$6,431,063	8.41%
Western Asset Intermediate Portfolio	$6,312,671	8.26%
MTB Money Market Funds Institutional II	$12,965,134	16.96%

Credit risk. The City does not have a formal policy relating to credit risk of investments. The City's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2006:

	Fair Value	Rating
Money market funds	$ 3,570,349	AAA
Money market funds	$14,057,398	Unrated
External investment pool	$ 1,389,403	AAA
U.S. Government Agency Obligations	$ 1,322,070	AAA
Fixed income fund - Western Asset Trust Core Portfolio	$ 6,431,063	AA+
Fixed income fund - Western Asset Intermediate Portfolio	$ 6,312,671	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 Type	Fair Value	Investment Maturity (in Years) Less than 1	1-5	6-10
Money market funds	$ 17,627,747	$ 17,627,747	$ -	$ -
External investment pool	1,389,403	1,389,403	-	-
U.S. Government agency obligations	1,322,070	282,181	1,039,889	-
Fixed income funds	12,743,734	-	-	12,743,734
Total	$ 33,082,954	$ 19,299,331	$ 1,039,889	$ 12,743,734

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, 2006. Interest of $1,409,927 has been earned on the deposits and claims of $700,000 have been paid from the trust account from inception through December 31, 2006. 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 $1,092,264 at December 31, 2006, of which $104,950 is included in the General Fund, $717,791 is included in the Sewer Fund and $269,523 is included in the Sanitation Fund as investments at December 31, 2006.

Component Units

The Harrisburg Authority

Included in the component units restricted investments are Resolution Funding Corporation and U.S. Treasury principal–only STRIPS. These STRIPS are to be used, when they mature, to pay a portion of the principal and interest on The Harrisburg Authority Sewer Revenue Bonds, Series of 1984. There also are STRIPS in an investment account for which The Harrisburg Authority has not yet made the final determination of use. However, monies on deposit in the investment account may be applied by The Harrisburg Authority for any purpose permitted by the respective Sewer Revenue Indentures. 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, 2006, was $10,452,105 and is reported as part of restricted investments in the Statement of Net Assets.

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 5 percent of The Harrisburg Authority's investments are held as follows:

	Fair Value	% of Total
Federated Treasury Obligations Money Market Fund – Institutional Shares	$ 11,422,870	15.13%
Federated Government Obligations Money Market Fund	$ 8,946,846	11.85%
Federated Money Market Obligations Trust	$ 7,248,508	9.60%
JP Morgan U.S. Government Money Market Fund	$ 6,113,432	8.10%
Toyota Credit Corporation – Commercial Paper	$ 4,496,000	5.96%
Resolution Funding Corporation – STRIPS	$ 8,733,138	11.57%
Federal National Mortgage Association	$ 6,375,556	8.45%
General Obligation Pension Bonds – Illinois State	$ 6,037,920	8.00%

Credit risk. The Harrisburg Authority's fixed income investments had the following level of exposure to credit risk as of December 31, 2006:

	Fair Value	Rating
Money market funds	$ 40,352,624	AAA
Commercial paper	$ 5,175,000	A1+
U.S. Government agency obligations – STRIPS	$ 8,733,138	AAA
U.S. Government agency obligations	$ 7,801,693	AAA
Municipal bonds	$ 10,861,708	AAA

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 Maturity (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	Greater than 10
Money market funds	$ 40,352,624	$ 40,352,624	$ -	$ -	$ -
Commercial paper	5,175,000	5,175,000	-	-	-
U.S. Government agency obligations	16,534,831	4,082,276	7,073,999	-	5,378,556
Municipal bonds	10,861,708	-	-	2,006,783	8,854,925
Total	$ 72,924,163	$ 49,609,900	$ 7,073,999	$ 2 ,006,783	$ 14,233,481

Harrisburg Parking Authority

The bond indentures related to the Authority's parking revenue bonds and the purchase agreement executed between the Authority 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, 2006, and the related interest receivable are restricted for designated purposes under the bond indentures and the Purchase Agreement.

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

Custodial Credit Risk. The Authority does not have a formal investment policy for custodial credit risk. The securities in which the bond proceeds and the prepaid rental proceeds are invested, i.e., restricted assets, as well as the unrestricted assets are held by the investment's counterparty and identified in their internal accounting records 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	% of Total
Restricted		
Money market funds		
JP Morgan	$ 3,052,536	15.75%
First American	$ 1,262,094	6.51%
M & T Investment Group	$ 1,512,312	7.80%
Commercial paper		
General Electric Capital Corporation	$ 5,235,180	27.01%
Guaranteed investment contracts		
MBIA, Inc.	$ 8,165,788	42.13%

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, 2006:

	Fair Value	Rating
Restricted		
Money market funds	$ 5,826,942	AAA
Commercial paper		
General Electric Capital Corporation – discount	$ 5,235,180	A1
Guaranteed investment contracts	$ 8,165,788	Unrated

Interest rate risk. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the Authority's money market and fixed income investments and their related average maturities:

	Fair Value	Investment Maturity (in Years) Less than 1	1-5	6-10
Restricted				
Money market funds	$ 5,826,942	$ 5,826,942	$ -	$ -
Commercial paper	5,235,180	5,235,180	-	-
Guaranteed investment contracts	8,165,788	8,165,788	-	-
	$ 19,227,910	$ 19,227,910	$ -	$ -

Coordinated Parking Fund

The Fund's investments at December 31, 2006 consist of $335,384 in money market funds.

Concentration of credit risk. The Fund places no limit on the amount the Authority may invest in any one issuer. At December 31, 2006, 100 percent of the Fund's investments was held with Commerce Capital Markets, Inc.

Interest rate risk. The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2006, the money market funds were rated AAA by Standard and Poor Rating Agency and had a weighted average maturity of 13 days.

3. PROPERTY TAXES

Based upon assessed valuations provided by the County of Dauphin (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 2006 is as follows:

January 1, 2006	- lien date
January 31, 2006	- original levy date
January 31 – March 31, 2006	- 2% discount period
April 1 – May 31, 2006	- face payment period
June 1 – December 31, 2006	- 10% penalty period
January 1, 2007	- turned over to County for collection

The City elected to sell their tax liens for 1999 through 2004 levies to the Harrisburg Redevelopment Authority which resulted in the City recognizing as revenue the proceeds from the bulk sale of liens in the current year, instead of recording an estimated amount of future collections as deferred revenue. See Note 19 for more information on the tax lien management program.

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 2006 was 4.069 mills on improvements and 24.414 mills on land. Both land and improvements are assessed at 100% of market value, with an effective combined equivalent single millage rate of 8.585 mills.

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

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

4. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances at December 31, 2006, is as follows:

Primary Government	Due from Other Funds	Due to Other Funds
General Fund	$ 1,577,260	$ 2,897,592
Grant Programs Fund	1,822,592	1,283,417
Capital Projects Fund	935,785	10,629
Nonmajor governmental funds	-	510,387
Total governmental funds	4,335,637	4,702,025
Sewer Fund	1,165,000	28,881
Sanitation Fund	-	19,944
Harrisburg Senators Fund	-	749,787
Total proprietary funds	1,165,000	798,612
Total primary government	$ 5,500,637	$ 5,500,637

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 Primary Government/ Component Units	Due to Component Units/ Primary Government	Advances to Primary Government/ Component Units	Advances From Component Units/ Primary Government
Primary Government				
General Fund	$ 6,344,782	$ -	$ -	$ 316,630
Capital Projects Fund	624,844	-	-	-
Sewer Fund	-	-	-	2,269,418
Component Units	-	6,969,626	2,586,048	-
Total	$ 6,969,626	$ 6,969,626	$ 2,586,048	$ 2,586,048

The composition of interfund transfers for the year ended December 31, 2006, is as follows:

Primary Government	Transfers In	Transfers Out
General Fund	$ 1,013,519	$ 8,829,930
Grant Programs Fund	52,949	-
Debt Service Fund	6,678,049	-
Nonmajor governmental funds	-	64,063
Total governmental funds	7,744,517	8,893,993
Sanitation Fund	-	1,013,519
Harrisburg Senators Fund	2,162,995	-
Total proprietary funds	2,162,995	1,013,519
Total primary government	$ 9,907,512	$ 9,907,512

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

5. NOTE RECEIVABLE

As part of an agreement of sale for a parcel of land, the Harrisburg Parking Authority agreed to accept a note receivable in the amount of $299,397. This note is non-interest bearing and due in five annual installments of $59,879. The note matures in April 2007. As of December 31, 2006, the balance on this note totaled $59,879.

6. INTERGOVERNMENTAL REVENUE, RECEIVABLES, AND PAYABLES

The General Fund intergovernmental revenue for the year ended December 31, 2006, is as follows:

Commonwealth of Pennsylvania, Pension System Aid	$ 2,829,326
Harrisburg Parking Authority, excess parking revenue	3,524,893
Commonwealth of Pennsylvania, Capital fire protection	1,020,000
Utilities payments in lieu of taxes from other governments	39,536
	$ 7,413,755

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	$ 2,763,591
Lead Based Paint Grant	1,196,669
HOME Program	1,237,000
Universal Hiring Program	589,261
Federal Emergency Management Agency grants	1,864,951
Capital improvements grants	3,173,472
Other state/federal grants	903,492
Less: Proceeds from HUD 108 debt issuance	(3,795,000)
	$ 7,933,436

The Grant Programs Fund had deferred revenue of $4,845,800 at December 31, 2006, representing payments received in advance for various grant programs. The remaining deferred revenues of $5,859,253 represent deferred loans receivable.

7. 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 for payment of revenue bonds, are classified as restricted assets in the enterprise funds since their use is limited by applicable bond indentures.

8. CAPITAL ASSETS

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

Primary Government

	Beginning of Year	Additions	Retirements and Dispositions	End of Year
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 6,476,571	$ -	$ -	$ 6,476,571
Archives	26,492,648	-	-	26,492,648
Total capital assets, not being depreciated	32,969,219	-	-	32,969,219
Capital assets, being depreciated:				
Buildings	63,951,966	42,286	-	63,994,252
Improvements	14,436,187	1,558,210	-	15,994,398
Equipment and furniture	27,265,774	115,680	(84,155)	27,297,271
Infrastructure	86,007,950	2,234,048	-	88,241,956
Total capital assets, being depreciated	191,661,877	3,950,194	(84,155)	195,527,877
Less accumulated depreciation for:				
Buildings	(21,967,173)	(1,591,331)	-	(23,558,454)
Improvements	(4,677,302)	(342,396)	-	(5,019,668)
Equipment and furniture	(23,412,562)	(1,619,950)	84,155	(24,948,357)
Infrastructure	(49,775,463)	(2,848,880)	-	(52,624,384)
Total accumulated depreciation	(99,832,500)	(6,402,557)	84,155	(106,150,863)
Total capital assets, being depreciated, net	91,829,377	(2,452,363)	-	89,377,014
Governmental activities, capital assets, net	$ 124,798,596	$ (2,452,363)	$ -	$ 122,346,233

	Beginning of Year	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 361,421	$ -	$ -	$ 361,421
Construction in progress	2,941,656	482,477	(120,030)	3,304,103
Total capital assets, not being depreciated	3,303,077	482,477	(120,030)	3,665,524
Capital assets, being depreciated:				
Buildings	34,480,599	445,201	-	34,925,800
Improvements	2,666,415	19,547	-	2,685,962
Equipment and furniture	40,054,812	65,170	(16,951)	40,103,031
Infrastructure	13,790,448	-	-	13,790,448
Senator's franchise fee (Note 18)	7,067,061	-	-	7,067,061
Total capital assets, being depreciated	98,059,335	529,918	(16,951)	98,572,302
Less accumulated depreciation for:				
Buildings	(16,100,100)	(734,790)	-	(16,834,890)
Improvements	(667,112)	(27,879)	-	(694,991)
Equipment and furniture	(26,016,358)	(1,200,926)	15,257	(27,202,027)
Infrastructure	(5,793,488)	(134,551)	-	(5,928,039)
Senator's franchise fee (Note 18)	(3,356,854)	(353,354)	-	(3,710,208)
Total accumulated depreciation	(51,933,912)	(2,451,500)	15,257	(54,370,155)
Total capital assets, being depreciated, net	46,125,423	(1,921,582)	(1,694)	44,202,147
Business-type activities, capital assets, net	$ 49,428,500	$ (1,439,105)	$ (121,724)	$ 47,867,671

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

Governmental activities:	
General government	$ 1,543,144
Building and housing development	133,006
Public safety	1,275,173
Public works	2,863,273
Parks and recreation	587,961
Total depreciation expense – governmental activities	$ 6,402,557
Business-type activities:	
Sewer	$ 1,829,405
Sanitation	231,355
Harrisburg Senators	390,740
Total depreciation and amortization expenses – business-type activities	$ 2,451,500

Component Units

	Beginning of Year	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
The Harrisburg Authority:				
Capital assets, not being depreciated:				
Archives	$ 209,477	$ 145,313	$ -	$ 354,790
Construction in progress	86,567,959	2,798,065	(86,101,759)	3,264,265
Total capital assets, not being depreciated	86,777,436	2,943,378	(86,101,759)	3,619,055
Capital assets, being depreciated:				
Land improvements	1,223,614	-	-	1,223,614
Buildings and improvements	33,803,274	82,366,269	-	116,169,543
Furniture and fixtures	236,751	89,101	-	325,852
Machinery and equipment	87,317,376	10,881,539	(42,624)	98,156,291
Total capital assets, being depreciated	122,581,015	93,336,909	(42,624)	215,875,300
Less accumulated depreciation	(33,533,712)	(4,555,488)	-	(38,089,200)
Total capital assets, being depreciated, net	89,047,303	88,781,421	(42,624)	177,786,100
The Harrisburg Authority, capital assets, net	$ 175,824,739	$ 91,724,799	$ (86,144,383)	$ 181,405,155

	Beginning of Year	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
Harrisburg Parking Authority:				
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	7,930,899	7,087,311	-	15,018,210
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	71,189,238	485,040	-	71,674,278
Less accumulated depreciation	(22,001,268)	(2,617,873)	-	(24,619,141)
Total capital assets, being depreciated, net	49,187,970	(2,132,833)	-	47,055,137
Harrisburg Parking Authority, capital assets, net	$ 57,118,869	$ 4,954,478	$ -	$ 62,073,347

	Beginning of Year	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
Harrisburg Redevelopment Authority:				
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 2,862,469	$ -	$ 2,862,469
Harrisburg Redevelopment Authority, capital assets, net	$ -	$ 2,862,469	$ -	$ 2,862,469

9. LONG-TERM LIABILITIES

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

Primary Government

	Beginning of Year	Additions	Accretion	Retirements	End of Year	Current Portion
Governmental activities:						
Workers' compensation claims	$ 2,464,831	$ 1,780,335	$ -	$ (1,073,033)	$ 3,172,133	$ 800,329
Bonds payable (Note 10)	49,886,425	7,200,000	2,777,905	(5,183,564)	54,680,766	5,053,131
Notes payable (Note 12)	42,405,157	3,795,000	2,078,310	(1,639,691)	46,638,776	1,599,484
Capitalized lease obligations (Note 13)	5,482,349	164,450	-	(1,562,166)	4,084,633	1,115,280
Vested compensated absences	8,959,789	3,742,702	-	(3,898,678)	8,803,813	442,398
Governmental activity Long-term liabilities	$ 109,198,551	$ 16,682,487	$ 4,856,215	$ (13,357,132)	$ 117,380,121	$ 9,010,622

	Beginning of Year	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
Business-type activities:						
Workers' compensation claims	$ 529,279	$ 283,180	$ -	$ (173,513)	$ 638,946	$ 161,206
Bonds payable (Note 10)	24,391,753	-	19,671	(1,906,436)	22,504,988	2,225,483
Capitalized lease obligations (Note 13)	667,120	-	-	(150,354)	516,766	129,012
Vested compensated absences	514,831	315,721	-	(293,461)	537,091	26,990
Lease rental payable (Note 13)	8,708,596	-	-	(1,199,740)	7,508,856	1,724,537
Business-type activity Long-term liabilities	$ 34,811,579	$ 598,901	$ 19,671	$ (3,723,504)	$ 31,706,647	$ 4,267,228

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

Component Units

	Beginning of Year	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
The Harrisburg Authority:						
Bonds payable (Note 10)	$ 334,530,000	$ -	$ -	$ (4,990,000)	$ 329,540,000	$ 4,370,000
Notes payable (Note 12)	72,780,238	-	-	(144,531)	72,635,707	819,635
Total bonds and notes payable	407,310,238	-	-	(5,134,531)	402,175,707	5,189,635
Less:						
Deferred loss on refunding	(31,515,916)	-	3,324,247	-	(28,191,669)	-
Unamortized premium	4,795,617	-	935,454	-	5,731,071	-
The Harrisburg Authority Long-term liabilities	$ 380,589,939	$ -	$ 4,259,701	$ (5,134,531)	$ 379,715,109	$ 5,189,635
Harrisburg Parking Authority:						
Bonds payable (Note 10)	$ 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	-
Harrisburg Parking Authority Long-term liabilities	$ 95,969,242	$ -	$ 208,868	$ (2,570,000)	$ 93,608,110	$ 2,640,000
Redevelopment Authority:						
Bonds payable (Note 10)	$ 93,590,000	$ -	$ -	$ -	$ 93,590,000	$ -
Notes payable (Note 12)	500,000	-	-	-	500,000	245,646
Due to other governments	170,832	-	-	-	170,832	30,000
Total long-term liabilities	94,260,832	-	-	-	94,260,832	275,646
Less:						
Unamortized discount	(58,927,631)	-	2,004,347	-	(56,923,284)	-
Redevelopment Authority Long-term liabilities	$ 35,333,201	$ -	$ 2,004,347	$ -	$ 37,337,548	$ 275,646

10. BONDS PAYABLE

Bonds payable at December 31, 2006 are as follows:

	Primary Government		
	Governmental Activities	Business-type Activities	Total Primary Government
Bonds payable	$ 54,680,766	$ 22,639,157	$ 77,319,923
Unamortized discount	-	(134,169)	(134,169)
Total bonds payable	$ 54,680,766	$ 22,504,988	$ 77,185,754

	Component Units			
	The Harrisburg Authority	Harrisburg Parking Authority	Redevelopment Authority	Total Component Units
Bonds payable	$ 329,540,000	$ 95,705,000	$ 93,590,000	$ 518,835,000
Deferred loss on refunding	(28,191,669)	(3,225,381)	-	(31,417,050)
Unamortized premium (discount)	4,819,235	1,128,491	(56,923,284)	(50,975,558)
Total bonds payable	$ 306,167,566	$ 93,608,110	$ 36,666,716	$ 436,442,392

Bonds payable are accounted for in the following activities:

	Governmental Activities	Business-Type Activities	Total Primary Government
General Obligation Bonds			
Series A and B of 1995	$ 13,346,076	$ 169,157	$ 13,515,233
Series A-1 of 1997	-	4,655,000	4,655,000
Series D of 1997	34,134,690	-	34,134,690
Total general obligation bonds	47,480,766	4,824,157	52,304,923
Revenue Bonds			
Senators Revenue Bonds			
Series A-1 and A-2 of 2005	-	17,815,000	17,815,000
Less: Unamortized discount	-	(134,169)	(134,169)
Lease Revenue Bonds			
Series of 2006	7,200,000	-	7,200,000
Total revenue bonds	7,200,000	17,680,831	24,880,831
Total bonds payable	$ 54,680,766	$ 22,504,988	$ 77,185,754

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 A of 2004	$ 37,260,000	$ -	$ -	$ 37,260,000
Water Revenue Bonds				
Series A of 2003	56,260,000	-	-	56,260,000
Water Revenue Bonds				
Series A, B, C, and D of 2002	48,825,000	-	-	48,825,000
Water Revenue Bonds				
Series A of 2001	5,695,000	-	-	5,695,000
Sewer Revenue Refunding				
Series of 1992	10,380,000	-	-	10,380,000
Sewer Revenue Bonds,				
Second and Third Series of 1989	10,380,000	-	-	10,380,000
Sewer Revenue Refunding Bonds				
Series of 1984	1,885,000	-	-	1,885,000
Resource Recovery Facility Bonds				
Series A, D, E and F of 2003	147,555,000	-	-	147,555,000
Resource Recovery Facility Bonds				
Series A of 1998	11,300,000	-	-	11,300,000
Office and Parking Revenue Bonds				
Series K of 2000	-	11,800,000	-	11,800,000
Series J of 2001	-	28,795,000	-	28,795,000
Series of 2001	-	17,615,000	-	17,615,000
Series N of 2003	-	6,370,000	-	6,370,000
Series O of 2003	-	14,495,000	-	14,495,000
Series P of 2005	-	16,630,000	-	16,630,000
Guaranteed Revenue Bonds				
Series A and B of 1998	-	-	93,590,000	93,590,000
Less: Deferred loss on refunding and unamortized premium (discount)	(23,372,434)	(2,096,890)	(56,923,284)	(82,392,608)
Total bonds payable	$ 306,167,566	$ 93,608,110	$ 36,666,716	$ 436,442,392

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.

Management believes that the City has complied in all material respects with the terms of its respective debt agreements, except as discussed in Note 19.

The composition of bonds outstanding included in the primary government at December 31, 2006 is as follows:

General Obligation Bonds		
5.60%-6.84%, General Obligation Bonds, Series A and B of 1995, dated December 15, 1995, principal payable in annual installments of $3,109,641 to $3,638,650 through April 1, 2010, to be serviced through general revenues of the City and through sewer operating revenues and State Liquid Fuels Funds, issued to fund the City's unfunded actuarial accrued pension liability.	$	13,515,233
7.69%-7.75%, Federally Taxable General Obligation Bonds, Series A-l of 1997, dated January 5, 1998, principal payable in annual installments of $1,180,000 to $1,775,000 through September 1, 2009. These bonds are included in the City's enterprise fund and are to be serviced through fund operations, issued to retire the General Obligation Note, Series A of 1996, which was originally issued to acquire the Harrisburg Senators, an AA minor league baseball team, and construct the scoreboard and various stadium improvements.		4,655,000
5.00%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of $694,760 to $3,337,048 through September 15, 2022, to be serviced through general revenues of the City, issued to advance refund the City's General Obligation Bonds, Series B-1 of 1997, which was originally issued to fund certain capital projects of the City.		34,134,690
Revenue Bonds		
3.74%-6.00%, Senator's Revenue Bonds, Series A-1 and A-2 of 2005, dated January 2005 Series A-1 and A-2 mature at various amounts from 2006 through 2030, issued to renovate the baseball stadium.		17,815,000
6.95%-7.50%, Revenue Bonds, Series of 2006, dated December 2006, principal payable in annual installments of $585,000 to $1,060,000 through May 2016, to be serviced through general revenues of the City, issued to finance the lease payments of the McCormick Public Service Center.		7,200,000
Total primary government bonds payable		77,319,923
Less: unamortized discount		(134,169)
Net primary government bonds payable	$	77,185,754

On December 15, 2006, the Harrisburg Redevelopment Authority, on behalf of the City of Harrisburg, issued Lease Revenue Bonds, Series of 2006 in the amount of $7,200,000. The bonds were used to finance the leasing of the McCormick Public Service Center from the City and then subleasing of the building back to the City. The funds from the issuance of the bonds were turned over to the City. The City is responsible to pay the debt service on the bonds. Harrisburg City Council has authorized the sale of certain artifacts owned by the City of Harrisburg, proceeds of which will be used to pay down the Lease Revenue Bonds, Series of 2006.

The composition of bonds outstanding included in the component units at December 31, 2006 is as follows:

The Harrisburg Authority	
Revenue Bonds	
1.5% - 5.0%, Water Revenue Bonds, Series A of 2004 dated August 2004. Series A matures at various amounts from 2005 through 2023.	$ 37,260,000
3.96% - 5.16%, Water Revenue Bonds, Series A of 2003 dated July 2003. Series A matures at various amounts from 2005 through 2029.	56,260,000
3.96% - 5.65%, Water Revenue Bonds, Series A, B, C, and D of 2002 dated July 3, 2002. Series A matures at various amounts from 2023 through 2029. Series B matures at various amounts from 2011 through 2017. Series C matures in 2029. Series D matures at various amounts from 2010 through 2011.	48,825,000
3.40% - 5.75%, Water Revenue Bonds, Series A of 2001, dated May 2001. The bonds mature at various amounts from 2002 through 2015.	5,695,000
6.0% - 6.8%, Sewer Revenue Refunding Bonds, Series of 1992 dated March 3, 1992, principal payable in various amounts through 2012 and are collateralized by lease rentals paid by the City to the Authority.	10,380,000
6.80% - 7.15%, Sewer Revenue Refunding Bonds, Second and Third Series of 1989. The first Series matured on January 1, 2002 and the Second and Third Series mature at various amounts through 2012.	10,380,000
9.75% - 10.5%, Sewer Revenue Refunding Bonds, Series of 1984 consisting of compound interest bonds which mature on January 1, 2008.	1,885,000
4.45% - 6.25%, Resource Recovery Revenue Bonds, Series A, D, E and F of 2003. Series A mature at various amounts from 2009 through 2034. Series D mature at various amounts from 2017 to 2033. Series E and F mature at various amounts from 2009 to 2017.	147,555,000
4.45% - 5.00%, Resource Recovery Revenue Bonds, Series A of 1998. Series A mature at various amounts from 2006 through 2021.	11,300,000
Total The Harrisburg Authority	329,540,000
Less: deferred loss on refunding and unamortized premium	(23,372,434)
Net The Harrisburg Authority	$ 306,167,566

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 3.92% at December 31, 2006.	$	11,800,000
2.80% - 5.00%, Series J Bonds, dated September 1, 2001, consisting of serial bonds maturing from September 1, 2003 to September 1, 2022 in annual installments of various amounts.		28,795,000
3.10% - 5.25%, Guaranteed Parking Revenue Bonds Series of 2001, dated December 15, 2001, consisting of serial bonds maturing from May 15, 2003 to May 15, 2025 in annual installments of various amounts.		17,615,000
2.50% - 4.30%, 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.		6,370,000
1.50% - 5.00%, Series O Bonds, dated November 18, 2003, consisting of serial bonds maturing from August 1, 2004 to August 1, 2016 in annual installments of various amounts.		14,495,000
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.		16,630,000
Total Harrisburg Parking Authority		95,705,000
Less: Deferred loss on refunding and unamortized premium		(2,096,890)
Net Harrisburg Parking Authority	$	93,608,110
Redevelopment Authority		
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		(56,923,284)
Net Redevelopment Authority	$	36,666,716
Total component unit bonds payable	$	436,442,392

The Harrisburg Authority

The Harrisburg Authority has entered into seven debt service forward delivery agreements with a financial intermediary that result in a forward swap of interest earned on amounts placed in various debt service sinking funds and swap agreements. In exchange for cash payments to The Harrisburg Authority at the inception of the agreements totaling approximately $4,038,000, at December 31, 2006, the financial intermediary has the right, under the debt service forward delivery agreement, to invest the funds on hand in the sinking funds and retain the investment earnings. The amounts received were recorded as deferred 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 deferred revenue resulting from these transactions of $2,800,474 at December 31, 2006, is being amortized over the respective life of each agreement under a method that approximates the interest method.

Harrisburg Parking Authority

In February 2000, the Authority entered into (i) a debt service reserve fund forward purchase agreement with Lehman for investment of monies in the Series F Debt Service Reserve Account securing the Series F Bonds, (ii) a debt service reserve forward delivery agreement with Bank of America, N.A. (BofA) for the investment of moneys 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 deferred 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, 2006, totaled $55,933.

The Authority entered into a 19-year interest rate swap agreement for their Series I bonds. Based on the swap agreement, the Authority owed interest calculated at a variable rate to the counterparty to the swap. In return, the counterparty owed the Authority interest on a fixed rate that matched the rate required by the bonds. Only the net difference in interest payments was actually exchanged with the counterparty. The Series I bond principal was not exchanged; it was only the basis on which the interest payments were calculated. In order to minimize the risk of interest rate fluctuations, the Authority entered into an interest rate cap agreement for the duration of the interest rate swap agreement.

This agreement was transferred to the "Guaranteed Parking Revenue Bonds, Series J of 2001" when the Series I Bonds were defeased. The Authority pays interest to bondholders at the fixed rate provided by the bonds. However, during the term of the swap agreement, the Authority effectively pays a variable rate on the debt.

The debt service requirements for Series F Bonds are payable solely from and are secured by a pledge of (1) all the right, title, and interest of the Authority in and to the Coordinated Parking 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 Coordinated Parking 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 the Harrisburg Parking Authority's bonds and notes pursuant to certain Guaranty Agreements. Concurrent with the execution of the Guaranty Agreements, the Harrisburg Parking Authority also executed certain Reimbursement Agreements with the City whereby the Harrisburg Parking Authority agreed to reimburse the City for any payments made by the City under the aforementioned Guaranty Agreements.

The Harrisburg Parking Authority bond indentures contain certain financial and reporting covenants. At December 31, 2006, management believes that the Authority was in compliance with such covenants.

The annual requirements to amortize all bonds outstanding as of December 31, 2006, using interest rates in effect at December 31, 2006 for variable rate issues, are as follows:

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Primary Government						
2007	$ 6,873,614	$ 535,573	$ 405,000	$ 1,434,406	$ 7,278,614	$ 1,969,979
2008	6,542,837	709,853	1,010,000	1,435,505	7,552,837	2,145,358
2009	6,059,167	932,283	1,070,000	1,388,183	7,129,167	2,320,466
2010	5,121,026	1,268,974	1,135,000	1,334,587	6,256,026	2,603,561
2011	3,516,816	978,184	1,215,000	1,257,705	4,731,816	2,235,889
2012-2016	14,959,880	7,525,120	7,380,000	4,926,136	22,339,880	12,451,256
2017-2021	8,548,190	7,991,810	3,575,000	3,163,034	12,123,190	11,154,844
2022-2026	700,875	974,126	4,600,000	2,044,545	5,300,875	3,018,671
2027-2030	-	-	4,625,000	606,807	4,625,000	606,807
	52,322,405	20,915,924	25,015,000	17,590,908	77,337,405	38,506,832
Less unamortized discount	(17,482)	-	(134,169)	-	(151,651)	-
Primary Government, net	$ 52,304,923	$ 20,915,924	$ 24,880,831	$ 17,590,908	$ 77,185,754	$ 38,506,832
The Harrisburg Authority						
2007	$ -	$ -	$ 4,370,000	$ 15,805,548	$ 4,370,000	$ 15,805,548
2008	-	-	5,920,000	15,775,494	5,920,000	15,775,494
2009	-	-	7,005,000	15,113,279	7,005,000	15,113,279
2010	-	-	9,415,000	14,952,371	9,415,000	14,952,371
2011	-	-	9,675,000	14,657,703	9,675,000	14,657,703
2012-2016	-	-	43,875,000	64,092,585	43,875,000	64,092,585
2017-2021	-	-	67,850,000	49,675,632	67,850,000	49,675,632
2022-2026	-	-	82,555,000	31,904,158	82,555,000	31,904,158
2027-2031	-	-	76,315,000	13,060,772	76,315,000	13,060,772
2032-2034	-	-	22,560,000	2,104,487	22,560,000	2,104,487
	-	-	329,540,000	237,142,028	329,540,000	237,142,028
Less deferred loss on refunding and unamortized premium	-	-	(23,372,434)	-	(23,372,434)	-
The Harrisburg Authority, net	$ -	$ -	$306,167,566	$237,142,028	$306,167,566	$237,142,028
Harrisburg Parking Authority						
2007	$ -	$ -	$ 2,640,000	$ 4,477,507	$ 2,640,000	$ 4,477,507
2008	-	-	2,725,000	4,396,412	2,725,000	4,396,412
2009	-	-	2,825,000	4,305,632	2,825,000	4,305,632
2010	-	-	3,340,000	4,196,139	3,340,000	4,196,139
2011	-	-	3,145,000	4,061,991	3,145,000	4,061,991
2012-2016	-	-	19,400,000	18,084,772	19,400,000	18,084,772
2017-2021	-	-	22,920,000	12,880,495	22,920,000	12,880,495
2022-2026	-	-	33,860,000	5,748,023	33,860,000	5,748,023
Thereafter	-	-	4,850,000	254,625	4,850,000	254,625
	-	-	95,705,000	58,405,596	95,705,000	58,405,596
Less deferred loss on refunding and unamortized premium	-	-	(2,096,890)	-	(2,096,890)	-
Harrisburg Parking Authority, net	$ -	$ -	$ 93,608,110	$ 58,405,596	$ 93,608,110	$ 58,405,596

Redevelopment Authority						
2012-2016	$ -	$ -	$ 3,680,000	$ -	$ 3,680,000	$ -
2017-2021	-	-	37,170,000	-	37,170,000	-
2022-2026	-	-	31,990,000	-	31,990,000	-
2027-2031	-	-	11,080,000	-	11,080,000	-
2032-2033	-	-	9,670,000	-	9,670,000	-
	-	-	93,590,000	-	93,590,000	-
Less unamortized discount	-	-	(56,923,284)	-	(56,923,284)	-
Redevelopment Authority, net	$ -	$ -	$ 36,666,716	$ -	$ 36,666,716	$ -
Total	$ 52,304,923	$ 20,915,924	$461,323,223	$313,138,532	$ 513,628,146	$334,054,456

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, 2006, the following bonds outstanding are considered defeased:

City of Harrisburg	
General Obligation Bonds, Series A of 1995	$ 35,415,000
General Obligation Bonds, Series B-1 of 1997	22,155,000
The Harrisburg Authority	
Guaranteed Sewer Revenue Bonds, Series of 1978	3,500,000
Water Revenue Bonds, Series A of 1999	4,510,000
Resource Recovery Revenue Bonds, Series A of 1998	20,385,000
Resource Recovery Revenue Bonds, Series B of 1998	8,210,000
Resource Recovery Revenue Bonds, Series C of 1998	3,660,000
Seventh Street Office & Parking Revenue Bonds, Series A of 1998	14,155,000
Seventh Street Office & Parking Revenue Bonds, Series B of 1998	6,185,000
Resource Recovery Revenue Notes, Series A of 2000	4,195,000
Resource Recovery Revenue Notes, Series B of 2000	3,435,000
Harrisburg Parking Authority	
Harrisburg Parking Authority, Series I of 1998	25,735,000
	$ 151,540,000

12. NOTES PAYABLE

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

As collateral, the City of Harrisburg 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, 2006 is as follows:

7.02%, Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of $175,000 to $335,000, through August 1, 2019, to be serviced through general revenues of the City.	$ 3,210,000
5.34%, 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.	3,795,000
	7,005,000

The composition of notes payable included in the primary government at December 31, 2006 is as follows:

5.00% - 5.52%, General Obligation Refunding Notes, Series F of 1997, dated December 30, 1997, principal payable in semi-annual installments of $1,296,782 to $3,365,973 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.	39,180,949
1.60% - 2.15% Pennsylvania Infrastructure bank loan, principal payable through September 1, 2013, to be serviced through general revenues of the City, issued to fund City street resurfacing projects.	452,827
	39,633,776
Total primary government notes payable	$ 46,638,776

The composition of notes payable included in the component units at December 31, 2006 is as follows:

The Harrisburg Authority		
1.536% - 6.1875%, The Harrisburg Authority, 1998 Guaranteed Sewer Revenue Notes, Series A and B, payable through 2018, to finance projects related to the sewer collection system.	$	2,265,707
5.72%, The Harrisburg Authority, 2002 Guaranteed Resource Recovery Notes, Series A payable in 2022, to fund acquisition of equipment and engineering studies and working capital.		17,000,000
3.70%-5.0%, The Harrisburg Authority, 2003 Guaranteed Resource Recovery Notes, Series B and C payable beginning 2025 through 2034, to advance refund a portion of the 1998 Series A Bonds, all of the outstanding 1998 Series B and C Bonds, all of the outstanding 2000 Series A and B Notes.		53,370,000
		72,635,707
Add: Unamortized premium		911,836
Net The Harrisburg Authority	$	73,547,543
Redevelopment Authority		
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 and on December 31, 2009.	$	500,000
Total component units notes payable	$	74,047,543

The annual requirements to amortize all notes payable outstanding as of December 31, 2006, using interest rates in effect at December 31, 2006, are as follows:

Year Ending December 31,	Governmental Activities Principal	Governmental Activities Interest
Primary Government		
2007	$ 1,599,484	$ 457,879
2008	1,543,897	535,027
2009	1,913,385	622,209
2010	2,347,613	788,536
2011	3,762,420	1,258,342
2012-2016	16,343,103	8,303,711
2017-2021	15,142,424	14,196,298
2022-2026	3,986,451	4,238,161
	$ 46,638,776	$ 30,400,163

Component Units:

	The Harrisburg Authority Principal	The Harrisburg Authority Interest
2007	$ 819,635	$ 3,386,308
2008	866,781	3,342,740
2009	914,981	3,291,259
2010	963,254	3,239,612
2011	1,021,599	3,301,543
2012-2016	6,062,782	15,574,342
2017-2021	7,041,675	13,713,281
2022-2026	9,290,000	12,001,811
2027-2031	26,615,000	8,357,205
2032-2034	19,040,000	1,935,000
	72,635,707	68,143,101
Add: unamortized premium	911,836	-
	$ 73,547,543	$ 68,143,101

	Redevelopment Authority Principal	Redevelopment Authority Interest
2007	$ 245,646	$ 18,750
2008	254,354	9,538
	$ 500,000	$ 28,288

13. LEASES

Future Lease Rentals Payable to Component Unit

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

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

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

Lease year ending December 31,	Basic Lease Rental	Authority Administrative Expense	Total
2007	$ 1,854,341	$ 100,000	$ 1,954,341
2008	1,857,422	60,000	1,917,422
2009	1,858,081	60,000	1,918,081
2010	1,861,382	60,000	1,921,382
2011	1,855,497	60,000	1,915,497
Total minimum lease payments	9,286,723	$ 340,000	$ 9,626,723
Less amount representing interest	(1,777,867)		
Present value of net minimum lease payments	7,508,856		
Current portion	1,724,537		
Long-term portion	$ 5,784,319		

The net book value of equipment held under capital leases included in capital assets was $14,088,171 at December 31, 2006. In addition, the Sewer Fund has capital lease proceeds receivable totaling $161,966 at December 31, 2006, which represent funds available for future capital improvements to the sewage conveyance, treatment and collection systems under the lease agreements. Capital improvements to these systems under the lease agreements were $861,031 during 2006.

The City is required under the terms of the Second Supplemental Agreement of Lease, the Third Supplemental Agreement of Lease and Collection System Lease to make additional rental payments within 190 days after the end of each year, equal to excess funds in the Sewer Fund as defined in the respective lease agreements. There were no excess funds at December 31, 2006 and, accordingly, no additional payment was due.

Capitalized Lease Obligations

The City leased certain equipment and infrastructure 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. An additional capital lease was issued during the year ended December 31, 2005. As of December 31, 2006, the governmental activities and the business-type activities included equipment and furniture under both capital leases had a net book value of $2,799,058 and $396,839, respectively. The future minimum payments under capital leases and the present value of the new minimum lease payments at December 31, 2006 are as follows:

Year ending December 31,	Governmental Activities	Business-type Activities	Total
2007	$ 1,250,559	$ 148,192	$ 1,398,751
2008	1,089,734	139,119	1,228,853
2009	1,065,672	100,180	1,165,852
2010	676,839	79,067	755,906
2011	312,519	59,536	372,055
2012	17,925	43,909	61,834
Total minimum lease payments	4,413,248	570,003	4,983,251
Less amount representing interest	(328,615)	(53,237)	(381,852)
Present value of future minimum lease payments	$ 4,084,633	$ 516,766	$ 4,601,399

Transportation Center Lease Income

The Redevelopment Authority, through the Transportation Center fund, leases space to a commercial rail company and other tenants with lease ending dates varying through 2013. These leases are noncancellable operating leases. Minimum rentals on noncancellable leases through 2011 are as follows:

Lease year ending December 31,	
2007	$ 712,758
2008	667,314
2009	623,847
2010	522,792
2011	570,312
Total minimum lease payments	$ 3,097,023

The leases are 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.

Operating Lease Income

The Redevelopment Authority leases space from a commercial rail company. The minimum lease payments for the next five years are as follows:

Lease year ending December 31,		
2007	$	134,838
2008		134,838
2009		134,838
2010		134,838
2011		134,838
Total minimum lease payments	$	674,190

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, 2006 approximated $134,838.

14. INTEREST RATE SWAPS

Primary Government

Objective of the interest rate swap. The City's asset/liability strategy is to have a combination of fixed-rate and variable-rate debt. In late 1999, the City began to explore and consider a debt management plan which would permit it to convert fixed interest rates, which it was paying on certain of its outstanding debt obligations, to a synthetic variable rate by entering into certain fixed-to-floating interest rate swaps. In connection therewith, the City identified two separate sets of cash flows representing portions of the debt service on fixed rate bonds issued or guaranteed by the City. The first set of cash flows constituted a portion of (a) the lease payments payable by the City, with respect to Guaranteed Lease Revenue Bonds, Series of 1991, issued by City of Harrisburg Leasing Authority in the original principal amount of $3,280,000, and (b) debt service payments payable by the City on its Federally Taxable General Obligation Bonds, Series A of 1995, issued with a stated value at issuance of $33,394,416, Federally Taxable General Obligation Bonds, Series B of 1995, issued in the original principal amount of $2,340,000 and its General Obligation Refunding Bonds, Series D of 1997, issued in the initial principal amount of $24,891,772 (collectively, Swap Agreement-I Cash Flows). The second set of cash flows constituted a portion of the debt service payable by the City on its General Obligation Bonds, Series A of 1995, issued in the original principal amount of $12,455,000, its Federally Taxable General Obligation Bonds, Series A1 of 1997, issued in the original principal amount of $8,000,000, its Federally Taxable General Obligation Refunding Bonds, Series E of 1997, issued in the original principal amount of $12,840,000, and its General Obligation Refunding Notes, Series of 1997, issued in the initial principal amount of $26,632,303 (collectively, Swap Agreement-II Cash Flows).

Terms. On February 16, 2000, the City entered into two interest rate swap agreements with JPMorgan Chase Bank (JPMorgan), successor by merger to The Chase Manhattan Bank. Under one interest rate swap agreement (Swap Agreement-I), the City agreed to pay a floating rate on a notional amount equal to the Swap Agreement-I Cash Flows scheduled to be outstanding from time to time, which floating rate was equal to the difference between two floating rates (Floating Rate Option A and Floating Rate Option B), and calculated as follows. Floating Rate Option A was defined as the product of (a) the Bond Market Association Municipal Swap Index (BMA Index) (formerly the PSA Municipal Swap Index) plus 37 basis points and (b) a multiplier equal to 1.42. Floating Rate Option B was defined as the one-month London Interbank Offered Rate (LIBOR) minus a cap rate of 12.00%, and in the event that such amount was less than or equal to zero, the value of Floating Rate Option B would be zero. JPMorgan agreed to pay the City amounts calculated by applying a fixed rate of 6.79% on the notional amount. In connection with the execution and delivery of Swap Agreement-I, JPMorgan paid the City an upfront fee of $410,000. The term of Swap Agreement-I extends to April 1, 2010.

In addition, under the second interest rate swap agreement (Swap Agreement-II), the City agreed to pay a floating rate on a notional amount equal to the Swap Agreement-II Cash Flows scheduled to be outstanding from time to time. The floating rate was equal to the difference between (a) the BMA Index plus 37 basis points and (b) one-month LIBOR minus a cap rate of 12.00%; if this latter rate was less than or equal to zero, the value of such rate would be zero. JPMorgan agreed to pay to the City amounts calculated by applying a fixed rate of 4.96% on such notional amount. In connection with the execution and delivery of Swap Agreement-II, JPMorgan paid to the City an upfront amount of $690,000. The term of Swap Agreement-II extends to September 15, 2019.

By separate confirmations dated February 12, 2001, JPMorgan and the City amended Swap Agreement-I and Swap Agreement-II. Under the amendment to Swap Agreement-I, JPMorgan paid the City $424,016 on February 12, 2001, as consideration for the right to suspend payments by the parties thereunder, effective February 15, 2001. In addition, JPMorgan had the option from February 15, 2001 through April 1, 2004 to restart accruals and payments under Swap Agreement-I. If JPMorgan failed to exercise this option by April 1, 2004, Swap Agreement-I would automatically terminate on that date.

In consideration for a February 12, 2001 payment of $578,282 to the City, JPMorgan similarly suspended accruals and payments under Swap Agreement-II, effective February 15, 2001, while obtaining the option from February 15, 2001 through March 15, 2004 to restart accruals and payments thereunder. Upon failure by JPMorgan to exercise its option by March 15, 2004, Swap Agreement-II would automatically terminate on that date.

On January 28, 2004, JPMorgan paid the City $183,178 to extend from April 1, 2004 to April 1, 2007 the period during which JPMorgan would have the option to restart accruals and payments under Swap Agreement-I. For a payment to the City in the amount of $249,822, also made on January 28, 2004, JPMorgan extended its option to restart accruals and payments under Swap Agreement-II, from March 15, 2004 to March 15, 2007.

Fair value. As of December 31, 2006, Swap Agreements had a negative fair value of $2,820 calculated as a mark-to-market value based on mid-market levels.

Credit risk. The respective fair values of Swap Agreement-I and Swap Agreement-II represented the City's credit exposure to JPMorgan as of December 31, 2006. Should JPMorgan fail to perform according to the terms of Swap Agreement-I or Swap Agreement-II, the City faced no loss potential since the respective fair value of each swap is negative. As of December 31, 2006, JPMorgan was rated Aa2 by Moody's Investors Service and AA- by Standard & Poor's.

Interest rate risk. Each of the Swap Agreement-I and Swap Agreement-II increases the City's exposure to variable interest rates, should JPMorgan exercise its option to resume payments under the respective swaps. As the BMA Index increases, the amount of the City's floating rate payments to JPMorgan on the respective swaps increases.

Termination risk. The City or JPMorgan may terminate Swap Agreement-I or Swap Agreement-II if the other party fails to perform under the terms of the respective agreement. If at the time of termination the applicable swap has a negative fair value, the City would be liable to JPMorgan for that payment. In addition, if JPMorgan fails to exercise its option to restart accruals and payments under either Swap Agreement-I or Swap Agreement-II, the applicable swap would terminate, and neither party would owe the other party a termination payment based on the fair value of the applicable swap at the time of such optional termination.

Component Units

The Harrisburg Authority

Variable Rate Issues and Interest Rate Swaps

In connection with its incurrence of long-term indebtedness, The Harrisburg Authority from time to time has issued several series of variable rate bonds and entered into related interest rate swap and cap agreements with respect to certain of these variable rate issues. A description of the variable rate issues and, where applicable, the related interest rate swap or swaps and cap follows.

2003 Water Revenue Bonds, Series A

Objective of the interest rate swaps. In October 1999, The Harrisburg Authority entered into a contract with Societe Generale, New York Branch (Societe Generale) obligating The Harrisburg Authority to issue on June 11, 2003, its fixed rate, Water Revenue Refunding Bonds, Series A of 2003 in the principal amount of $49,725,000 (2003 Series A Fixed Rate Bonds). Proceeds of the 2003 Series A Fixed Rate Bonds were to be applied to redeem in July 2003 The Harrisburg Authority's 1993 Water Revenue Bonds, Series B, then outstanding. To reduce the amount of debt service to be paid on the 2003 Series A Fixed Rate Bonds, The Harrisburg Authority by agreement reached with Societe Generale on April 12, 2002, terminated its obligation to issue the 2003 Series A Fixed Rate Bonds and agreed to pay Societe Generale a termination payment of $6,175,000. To fund the termination payment and the current refunding of the 1993 Water Revenue Bonds, Series B, The Harrisburg Authority on April 12, 2002 entered into a forward bond purchase agreement to issue its Variable Rate Water Revenue Refunding Bonds, Series A of 2003 (2003 Water Revenue Bonds, Series A) on or about July 10, 2003.

On April 12, 2002, The Harrisburg Authority, in order to lock in fixed borrowing costs for its 2003 Water Revenue Bonds, Series A, also entered into a forward interest swap agreement with Societe Generale; on that date, Societe Generale paid The Harrisburg Authority an upfront payment of $1,415,000. Under the swap agreement, Societe Generale agreed to pay to The Harrisburg Authority (i) amounts calculated at a floating rate per annum based on 67 percent of one-month LIBOR, on a notional amount equal to a specified portion of the scheduled principal amount of the 2003 Water

Revenue Bonds, Series A, and (ii) amounts calculated at a floating rate per annum determined under the Bond Market Association Municipal Swap Index (BMA Index) on a notional amount equal to another specified portion of the scheduled principal amount of the 2003 Water Revenue Bonds, Series A. The Harrisburg Authority is obligated to pay Societe Generale amounts calculated at respective agreed upon fixed rates based upon the separate notional amounts described above, and which fixed rates were determined in April 2002 and were calculated to take into account the upfront payment of $1,415,000 paid by Societe Generale to The Harrisburg Authority. The forward interest rate swap agreement was scheduled to become effective on or about July 10, 2003, the anticipated issue date of the 2003 Water Revenue Bonds, Series A. The purpose of entering into the forward interest rate swap was to hedge against the risk of interest rate changes with respect to the 2003 Water Revenue Bonds, Series A, and to fix its effective borrowing costs with respect to the 2003 Water Revenue Bonds, Series A hedged by the forward interest rate swap agreement. The forward interest rate swap agreement became effective on July 11, 2003, the date on which The Harrisburg Authority issued the 2003 Water Revenue Bonds, Series A, in the principal amount of $56,535,000.

Terms. As described above, the interest rate swap agreement which The Harrisburg Authority entered into with respect to its 2003 Water Revenue Bonds, Series A consists of two separate components, a LIBOR-based swap with $25,275,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (LIBOR Swap) and a BMA-based swap with $25,605,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (BMA Swap). Under the LIBOR Swap, The Harrisburg Authority pays Societe Generale interest on the corresponding notional amount at a fixed rate of 4.710% per annum, and receives from Societe Generale interest on such notional amount at a floating rate equal to 67% of one-month LIBOR. Under the BMA Swap, The Harrisburg Authority pays Societe Generale interest on the corresponding notional amount at a fixed rate of 5.105% per annum, and receives in return interest at a floating rate equal to the BMA Index. Under the LIBOR Swap and the BMA Swap, The Harrisburg Authority has effectively hedged $50,880,000 principal amount of its 2003 Water Revenue Bonds, Series A, while $5,655,000 principal amount of such Bonds remains unhedged. The fixed rates payable by The Harrisburg Authority under the LIBOR Swap and the BMA Swap were determined in April 2002 when The Harrisburg Authority entered into the forward interest rate swap agreement with Societe Generale and take into account Societe Generale's upfront payment of $1,415,000 paid to The Harrisburg Authority in April 2002. The notional amount of each of the LIBOR Swap and the BMA Swap decreases as the outstanding principal amount of the corresponding 2003 Water Revenue Bonds, Series A decreases through mandatory sinking fund redemption.

Fair value. The fixed rates payable by The Harrisburg Authority under the LIBOR Swap and the BMA Swap have been calculated to reflect The Harrisburg Authority's receipt in April 2002 of the $1,415,000 upfront payment made by Societe Generale. As of December 31, 2006, it would cost The Harrisburg Authority $8,724,417 to terminate the LIBOR Swap and the BMA Swap with Societe Generale. Such amount represents the present value difference between the fixed rates which The Harrisburg Authority pays under the LIBOR Swap and the BMA Swap and fixed swap rates as of December 31, 2006.

Credit risk. As of December 31, 2006, The Harrisburg Authority was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, The Harrisburg Authority would be exposed to credit risk in the amount of the swap agreement's fair value. Societe Generale was rated AA by Standard & Poor's and Aa2 by Moody's Investors Service as of December 31, 2006. To mitigate the potential for credit risk, if Societe Generale's credit rating falls below A1/A+, the parties agree to negotiate in good faith a credit support annex to the swap agreement, which would require Societe Generale to collateralize its obligations with a combination of cash, Treasury Securities and Agency Notes.

Basis risk. The LIBOR Swap exposes The Harrisburg Authority to basis risk because The Harrisburg Authority is receiving payments based on 67% of one-month LIBOR, a taxable rate which may be different from The Harrisburg Authority's weekly tax-exempt rate payable on its 2003 Water Revenue Bonds, Series A. The effect of the difference or mismatch between the two rates has been to increase The Harrisburg Authority's intended synthetic rate (4.71 percent) under the LIBOR Swap. As of December 31, 2006, the interest rate on the 2003 Water Revenue Bonds, Series A was 3.96 percent, whereas 67 percent of one-month LIBOR was 3.584 percent.

Termination risk. The Harrisburg Authority or Societe Generale may terminate the swap agreement if the other party defaults under the swap agreement. The swap may be terminated by The Harrisburg Authority if Societe Generale's credit quality rating falls below "BBB" as reported by Standard & Poor's or "Baa2" as reported by Moody's Investors Service. If the swap is terminated, the 2003 Water Revenue Bonds, Series A would no longer be hedged, and The Harrisburg Authority would be obligated to pay the variable rate on such Bonds and be subject to the increased risk of interest rate changes. Also, if at the time of termination the swap has negative fair value, The Harrisburg Authority would be liable to Societe Generale for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of December 31, 2006, debt service requirements of the 2003 Water Revenue Bonds, Series A, and net swap payments, assuming current interest rates and floating rates under the swap agreement remain the same for their term, were as follows. As these rates vary, interest payments on the 2003 Water Revenue Bonds, Series A and net payments under the swap agreement will vary.

Fiscal Year Ending December 31,	2003 Water Revenue Bonds, Series A		Swap Agreement Payments, Net	Total
	Principal	Interest		
2007	$ 150,000	$ 2,227,896	$ 587,164	$ 2,965,060
2008	160,000	2,221,956	585,371	2,967,327
2009	165,000	2,215,620	583,459	2,964,079
2010	175,000	2,209,086	581,487	2,965,573
2011	185,000	2,202,156	579,396	2,966,552
2012-2016	1,085,000	10,892,772	2,861,369	14,839,141
2017-2021	1,415,000	10,652,994	2,789,013	14,857,007
2022-2026	18,965,000	9,992,268	2,589,626	31,546,894
2027-2029	33,960,000	2,883,672	630,755	37,474,427
	$ 56,260,000	$ 45,498,420	$ 11,787,640	$ 113,546,060

Objective of the interest rate swaps. In August 2006, The Harrisburg Authority entered into two Constant Maturity Swaps with Deutsche Bank AG, New York Branch (Deutsche Bank) to enhance the 2003A interest rate swap agreements with the objective to increase the expected cash flows and effectively lower the over all cost of borrowing of the 2003 Water Revenue Bonds, Series A by converting the tenor of the interest rate on the Societe Generale payment leg of each of the underlying swaps from receiving a short-term rate to a long-term rate. The Constant Maturity Swaps become effective on July 15, 2007.

Terms. The Constant Maturity Swaps which The Harrisburg Authority entered into with respect to its 2003 Water Revenue Bonds, Series A, consist of two separate components, a LIBOR-based Constant Maturity Swap with $25,275,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (LIBOR CMS) and a BMA-based Constant Maturity Swap with $25,180,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (BMA CMS). Under the LIBOR CMS, The Harrisburg Authority receives interest on the corresponding notional amount at a floating rate of 60.15% of the ten-year USD-ISDA-Swap Rate (ten-year LIBOR swap rate) and pays Deutsche Bank a floating rate based on 67% of one-month LIBOR. Under the BMA CMS, The Harrisburg Authority receives interest on the corresponding notional amount at a floating rate of 85.44% of USSMQ10 (ten-year BMA swap rate) and pays Deutsche Bank a floating rate based on the BMA Index. The notional amount of each of the LIBOR CMS and BMA CMS decreases as the outstanding principal amount of the corresponding 2003 Water Revenue Bonds, Series A decreases through mandatory sinking fund redemption.

Fair value. As of December 31, 2006, it would cost The Harrisburg Authority $404,306 to terminate the LIBOR CMS and $477,170 to terminate the MBA CMS with Deutsche Bank. Such amount represents the present value difference between the floating rate receipt and floating rate payment as of December 31, 2006.

Credit risk. As of December 31, 2006, The Harrisburg Authority was not exposed to credit risk, because the Constant Maturity Swaps had a negative fair value. However, should interest rates change and the fair value of either of the Constant Maturity Swaps become positive, The Harrisburg Authority would be exposed to credit risk in the amount of the respective swap agreement's fair value. Deutsche Bank was rated AA- by Standard & Poor's and Aa3 by Moody's Investors Service as of December 31, 2006. To mitigate the potential for credit risk, if Deutsche Bank's credit rating falls below A/A2, the parties agree to negotiate in good faith a credit support annex to the Constant Maturity Swap Agreement, which would require Deutsche Bank to collateralize its obligations with a combination of cash, Treasury Securities and Agency Notes.

Termination risk. The Harrisburg Authority or Deutsche Bank may terminate the Constant Maturity Swap Agreement if the other party defaults under the terms of the agreement. If at the time of termination, the Constant Maturity Swaps have negative fair values, The Harrisburg Authority would be liable to Deutsche Bank for a payment equal to the swap's fair value.

Yield Curve Risk. The Constant Maturity Swaps expose The Harrisburg Authority to yield curve risk should the following occur: (i) 67% of one-month LIBOR minus 60.15% of the ten-year USD-ISDA-Swap rate become positive and/or (ii) the BMA Index minus 85.44% of the ten-year BMA Swap Rate (USSMQ10) become positive. The negative effects of the yield curve risk are caused by an inversion of the associated yield curve resulting in The Harrisburg Authority paying a higher overall cost of borrowing. As a way to mitigate yield curve risk over the short-term, The Harrisburg Authority executed the transaction based on a forward effective date of July 15, 2007.

Series of 2004, Water Revenue Refunding Bonds

Objective of the interest rate swaps. In August 2004, The Harrisburg Authority issued Series of 2004, Water Revenue Refunding Bonds, in the principal amount of $37,455,000 (2004 Water Revenue Bonds). The Series of 2004 Bonds bear interest at a fixed rates ranging from 1.5% to 5%. In an effort to lower The Harrisburg Authority's net interest cost on the 2004 Water Revenue Bonds, The Harrisburg Authority entered into the 2005 Basis Swap, on the then outstanding bonds, in the notional amount of $37,360,000.

In August 2006, The Harrisburg Authority amended the 2005 Basis Swap with Merrill Lynch with the objective to enhance the 2005 Basis Swap by increasing the expected cash flows on the Basis Swap and effectively lowering the over all cost of borrowing of the 2004 Water Revenue Refunding Bonds. The amendment coverts the tenor of the interest rate on Merrill Lynch's payment leg of the Basis Swap from a short-term rate to a long-term rate.

Terms. Under the 2005 Basis Swap, The Harrisburg Authority periodically pays an amount to Merrill Lynch equal to interest on an amount corresponding to the then outstanding aggregate principal amount of the 2004 Water Revenue Bonds computed on the basis of the then applicable BMA Municipal Swap Index (BMA Index) and Merrill Lynch periodically pays an amount to The Harrisburg Authority equal to interest on the Notional Amount computed on the basis of 50 basis points plus 67% of the monthly LIBOR Index. The notional amount of the 2005 Basis Swap decreases as the outstanding principal amount of the corresponding 2004 Water Revenue Bonds decreases through maturing principal.

The 2006 amendment coverts The Harrisburg Authority's receipt rate from 67% of one-month LIBOR plus a spread of 50 basis points to 69% of the five-year USD-ISDA-Swap Rate (five-year LIBOR Swap Rate). The amendment becomes effective on July 15, 2007.

Fair value. As of December 31, 2006, it would cost The Harrisburg Authority $98,191 to terminate the 2005 Basis Swap, as amended, with Merrill Lynch. Such amount represents the present value difference between the floating rate receipt and floating rate payment as of December 31, 2006.

Credit risk. As of December 31, 2006, The Harrisburg Authority was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, The Harrisburg Authority would be exposed to credit risk in the amount of the swap agreement's fair value. Merrill Lynch was rated AA- by Standard & Poor's and Aa3 by Moody's Investors Service as of December 31, 2006. To mitigate the potential for credit risk, if Merrill Lynch's credit rating falls below A2/A, the parties agree to negotiate in good faith a credit support annex to the swap agreement, which would require Merrill Lynch to collateralize its obligations with a combination of cash, Treasury Securities and Agency Notes.

Basis risk. The amended 2005 Basis Swap exposes The Harrisburg Authority to basis risk because The Harrisburg Authority is receiving payments based on 50 basis points plus 67% of one-month LIBOR up to July 15, 2007 and 69% of the five-year LIBOR Swap Rate from July 15, 2007 to the Termination Date of July 15, 2023 while making payments to Merrill Lynch based on the BMA index. The Harrisburg Authority is receiving payments based on a taxable rate which may be different from the amount The Harrisburg Authority pays to Merrill Lynch, which is based on the BMA Index, a tax-exempt rate. As of December 31, 2006, the interest rate The Harrisburg Authority was paying under the 2005 Basis Swap was 3.91 percent, where as the interest The Harrisburg Authority was receiving at 50 basis points plus 67 percent of one-month LIBOR was 4.06566 percent.

Termination risk. The Harrisburg Authority or Merrill Lynch may terminate the swap agreement if the other party defaults under the swap agreement. The swap may be terminated by The Harrisburg Authority if Merrill Lynch's credit quality rating falls below "A-" as reported by Standard & Poor's or "A3" as reported by Moody's Investors Service. If at the time of termination the swap has negative fair value, The Harrisburg Authority would be liable to Merrill Lunch for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of December 31, 2006, debt service requirements of the 2004 Water Revenue Bonds and net swap payments, assuming current interest rates and floating rates under the swap agreement remain the same for their term, were as follows. As these rates vary, net payments under the 2005 Basis Swap agreement on the 2004 Water Revenue Bonds will vary.

Fiscal Year Ending December 31,	2004 Water Revenue Bonds Principal	Interest	Swap Agreement Payments, Net	Total
2007	$ 105,000	$ 1,838,828	$ 104,961	$ 2,048,789
2008	110,000	1,836,412	104,666	2,051,078
2009	125,000	1,833,498	104,356	2,062,854
2010	125,000	1,829,748	104,004	2,058,752
2011	125,000	1,825,060	103,652	2,053,712
2012-2016	745,000	9,052,052	512,511	10,309,563
2017-2021	24,510,000	7,193,150	405,479	32,108,629
2022-2023	11,415,000	785,000	44,227	12,244,227
	$ 37,260,000	$ 26,193,748	$ 1,483,856	$ 64,937,604

2003 Guaranteed Resource Recovery Revenue Bonds, Series D1 and D2

Objective of the interest rate swaps. The Harrisburg Authority's asset/liability strategy is to have a combination of fixed and variable-rate debt. On December 30, 2003, The Harrisburg Authority issued its $96,480,000 Guaranteed Resource Recovery Facility Revenue Bonds, Series D of 2003 (2003 Resource Recovery Bonds, Series D) consisting of $31,480,000 Subseries D-1 (2003 D-1 Bonds) and $65,000,000 Subseries D-2 (2003 D-2 Bonds). The 2003 D-1 Bonds initially bear interest at a fixed rate of 4.00% to December 1, 2008, and the 2003 D-2 Bonds at a 5.00% fixed rate to December 1, 2013. After the expiration of these respective initial rate periods, the 2003 D-1 and D-2 Bonds are subject to conversion to different interest rates for different interest rate periods. To convert the interest rate on the 2003 D-1 and 2003 D-2 Bonds to a synthetic variable rate, The Harrisburg Authority entered into fixed-to-floating interest rate swaps, thereby achieving a variable rate while eliminating the need for a liquidity facility and annual remarketing services, and avoiding basis risk associated with the weekly remarketing of its variable rate debt, had it issued the 2003 D-1 Bonds and 2003 D-2 Bonds as weekly floating rate bonds.

Terms. With respect to its 2003 Resource Recovery Bonds, Series D, The Harrisburg Authority entered into an interest rate swap agreement with Royal Bank of Canada (RBC), which swap agreement consists of two components: (i) a swap with the outstanding principal amount of the 2003 D-1 Bonds to December 1, 2008 as the notional amount (D-1 Swap) and (ii) a swap with the outstanding principal amount of the 2003 D-2 Bonds to December 1, 2013 as the notional amount (D-2 Swap). Under the D-1 Swap, scheduled to terminate on December 1, 2008, The Harrisburg Authority pays RBC floating amounts calculated by applying a floating rate per annum determined by reference to the BMA Index, and The Harrisburg Authority receives fixed amounts calculated by applying a fixed rate of 2.66% per annum on the notional amount under the D-1 Swap. Under the D-2 Swap, scheduled to terminate on December 1, 2013, The Harrisburg Authority pays interest on the notional amount under the D-2 Swap at a floating rate determined by reference to the BMA Index, and receives interest on such notional amount at a rate of 3.37% per annum.

The D-1 Swap contains an embedded interest rate cap, providing that the floating rate to be paid by The Harrisburg Authority shall not exceed 12% to June 1, 2006, and shall not exceed 6% from June 1, 2006 to the D-1 Swap termination date of December 1, 2008. The D-2 Swap contains a similar embedded cap, capping at 12% the floating rate to be paid by The Harrisburg Authority to June 1, 2006, and providing a 6% cap from June 1, 2006 to December 1, 2013, the termination date of the D-2 Swap. The Harrisburg Authority also entered into an interest rate cap agreement (D-1/D-2 Cap) with RBC, which was to become effective on December 1, 2008. The D-1/D-2 Cap provided that RBC would pay the excess, if any, between the BMA 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 BMA and 6%. The Harrisburg Authority received $1,106,000 as a result of this amendment.

On August 31, 2005, The Harrisburg Authority elected to supplement the D-1 and D-2 Swaps in order to effectively fix the interest rate on its obligations through the final maturity date of the 2003D Bonds scheduled to be outstanding from time to time (initially $96,480,000). The new agreement (2005 Swap), which The Harrisburg Authority entered into with RBC, with a notional amount equal to the principal amount of the 2003D Bonds, $96,480,000, consists of a variable to fixed interest rate swap. The 2005 Swap provides, effective June 1, 2006 and continuing until December 1, 2033, The Harrisburg Authority pay a fixed rate not exceeding 3.35% and (i) receive from June 1, 2006 to May 31, 2008 the same BMA-based variable rate and (ii) receive from June 1, 2008 to December 1, 2033 a LIBOR-based variable rate equal to 68% of one month LIBOR.

On April 28, 2006, The Harrisburg Authority terminated the portion of the 2005 Swap from June 1, 2011 through December 21, 2033. Under the revised agreement, effective June 1, 2006, The Harrisburg Authority pays a fixed rate not exceeding 3.35% through June 1, 2011 and (i) receives BMA-based variable rate through June 1, 2008 and (ii) receives 68% of one-month LIBOR from June 1, 2008 to June 1, 2011. As a result of the partial termination, The Harrisburg Authority received $4,027,000.

Fair value. As of December 31, 2006, it would cost The Harrisburg Authority $1,408,432 to terminate the D-1 and D-2 Swaps. The fixed rates payable under the D-1 and D-2 Swaps were compared with the current fixed rates that could be achieved in the marketplace should the D-1 and D-2 Swaps be terminated. The fixed-rate bond component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value, because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the established market value of the fixed component from the established market value of the variable component (the par value of the bond).

As of December 31, 2006, it would cost The Harrisburg Authority $5,620,487 to terminate the D-1 and D-2 embedded interest rate caps (Embedded D-1/D-2 Caps) and the D-1/D-2 Cap. The Harrisburg Authority is obligated to make semi-annual payments of $284,616 beginning December 1, 2006 to and including December 1, 2033 for a total obligation of $11,707,282 as payment for the D-1/D-2 Cap.

As of December 31, 2006, it would cost the Counterparty (RBC) $288,266 to terminate the 2005 Swap.

Credit risk. As of December 31, 2006, The Harrisburg Authority was not exposed to credit risk on the D-1 and D-2 Swaps, the Embedded D-1/D-2 Caps, or the D-1/D-2 Cap, because they had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, The Harrisburg Authority would be exposed to credit risk in the amount of the swap agreement's fair value. The Harrisburg Authority is exposed to credit risk on the 2005 Swap in the amount of the swap agreement's fair value. As of December 31, 2006, RBC was rated Aa2 by Moody's Investors Service and AA- by Standard & Poor's. To mitigate credit risk, if RBC's rating falls below A3 by Moody's Investors Service or A- by Standard & Poor's, the D-1 and D-2 Swaps and the 2005 Swap will terminate.

Interest rate risk. The Harrisburg Authority has interest rate risk after June 1, 2011 because the 2005 Swap has been terminated from that date to the final maturity of the 2003 Resource Recovery Bonds, Series D. The Harrisburg Authority has no interest rate risk with regard to the 2003 Resource Recovery Bonds, Series D prior to June 1, 2011.

Termination risk. The Harrisburg Authority or RBC may terminate the D-1 and D-2 Swaps if the other party defaults under the D-1 and D-2 Swaps. In addition, The Harrisburg Authority may terminate the D-1 and D-2 Swaps agreement without cause at any time on 20 days notice, at fair market value. If at the time of termination the D-1 and D-2 Swaps have a negative fair value, The Harrisburg Authority would be liable to RBC for that payment.

Swap payments and associated debt. Using interest rates as of December 31, 2006, principal and interest requirements of the 2003 D-1 Bonds and 2003 D-2 Bonds fixed-rate debt and net swap payments through the swap termination dates were as follows. As rates set forth in the D-1 and D-2 Swaps agreement vary, net swap payments will vary.

Fiscal Year Ending December 31,	D-1 Bonds Principal	D-1 Bonds Interest	Interest Rate Swaps, Net	Total
2007	$ -	$ 1,259,200	$ 393,500 *	$ 1,652,700
2008	-	1,259,200	393,500	1,652,700
	$ -	$ 2,518,400	$ 787,000	$ 3,305,400

*Computed: (3.91%-2.66%) x $31,480,000

Fiscal Year Ending December 31,	D-2 Bonds Principal	D-2 Bonds Interest	Interest Rate Swaps, Net		Total
2007	$ -	$ 3,250,000	$ 351,000	*	$ 3,601,000
2008	-	3,250,000	351,000		3,601,000
2009	-	3,250,000	351,000		3,601,000
2010	-	3,250,000	351,000		3,601,000
2011	-	3,250,000	351,000		3,601,000
2012-2013	-	6,500,000	702,000		7,202,000
	$ -	$ 22,750,000	$ 2,457,000		$ 25,207,000

*Computed: (3.91%-3.37%) x $65,000,000

2003 Guaranteed Resource Recovery Revenue Notes, Series B

These Notes bear interest at a fixed rate of 3.70 percent through June 15, 2010. Thereafter, it is expected that the Notes will bear interest at a tax-exempt weekly rate equal to the BMA index plus 75 basis points on each date of determination. The debt service schedule uses a rate of 5.5% for debt service requirements subsequent to June 15, 2010.

2002 Water Revenue Bonds, Series B

These Bonds bear interest at a tax-exempt weekly rate, 3.96 percent at December 31, 2006.

2002 Water Revenue Bonds, Series C

These Bonds bear interest at a taxable weekly rate, 5.42 percent at December 31, 2006.

2002 Guaranteed Resource Recovery Revenue Notes, Series A

These Notes bore interest at an initially fixed term rate of 2.95 percent through October 31, 2004. For the period November 1, 2004 through October 31, 2006, the Notes bore interest at a fixed term rate of 3.09 percent. Thereafter, they bore interest at a fixed rate of 5.72 percent for the life of the issue.

1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 6.1875 percent at December 31, 2006.

Harrisburg Parking Authority

Objective of the interest rate swap. HPA's asset/liability strategy is to have a combination of fixed-rate and variable-rate debt. On October 7, 1998, HPA issued its $25,800,000, aggregate principal amount, Series I Bonds. In the summer of 1999, HPA began to explore and consider a restructuring of the Series I Bonds, either on a fixed-rate basis by the issuance of its fixed rate $29,400,000, aggregate principal amount, Series J Bonds or on a variable-rate basis by entering into an interest rate swap agreement with a notional amount equal to the principal amount of the Series I Bonds outstanding from time to time. Because of the then-existing market conditions, HPA determined in September 2000 to pursue the latter option, and to convert the interest rate on the Series I Bonds to a synthetic variable rate by entering into a fixed-to-floating interest rate swap.

Terms. On October 12, 2000, HPA entered into the aforementioned interest rate swap agreement (Series I Swap) with Bank of America, N.A. (BofA), and in connection therewith, BofA paid HPA an upfront payment of $560,000. Under the Series I Swap, HPA agreed to pay BofA floating amounts calculated by applying a floating rate per annum determined by reference to the Bond Market Association Municipal Swap Index (BMA Index), plus 134 basis points (1.34%), on a notional amount equal to the principal amount of the Series I Bonds scheduled to be outstanding from time to time. BofA agreed to pay HPA fixed amounts equal to the scheduled interest due on the Series I Bonds from March 1, 2001 through September 1, 2019, inclusive. The Series I Swap was scheduled to terminate on September 1, 2019. On October 12, 2000, HPA also entered into an interest rate cap agreement (Series I Cap) with Morgan Guaranty Trust Company of New York (Morgan Stanley). As consideration for the Series I Cap, HPA paid Morgan Stanley $560,000. The Series I Cap provided that Morgan Stanley would pay the excess, if any, between (i) floating amounts equal to 67% of the one month London Interbank Offered Rate (LIBOR) and (ii) 8.00% - the swap spread of 134 basis points, or 6.66%, on a notional amount equal to the scheduled principal amount of the Series I Bonds outstanding from September 1, 2001 through and including September 1, 2019.

On September 19, 2001, in light of the then current market conditions, HPA issued the Series J Bonds, proceeds of which were applied to advance refund the outstanding Series I Bonds. To reflect the refunding, BofA and HPA amended the Series I Swap (as so amended, the Series J Swap). Amendments included substitution of the scheduled outstanding principal amount of the Series J Bonds as the notional amount under the Series J Swap, and the agreement by BofA to pay HPA fixed amounts equal to the scheduled interest due on the Series J Bonds from March 1, 2002 through September 1, 2019, inclusive. HPA agreed to pay BofA floating amounts calculated by applying a floating rate per annum determined by reference to the BMA Index, plus 31.5 basis points (0.315%).

In addition, under the Series J Swap, BofA had the right to suspend payments by the parties thereunder until, but including, September 1, 2007 (Suspension Period). During the Suspension Period, BofA also had the option, which option expired on September 1, 2004, to restart payments under the Series J Swap during the Suspension Period. On September 19, 2001, BofA exercised its right to suspend payments during the Suspension Period, and as consideration therefore, agreed to pay HPA six semiannual installments of $180,000 each (for a total of $1.08 million), payable on March 1, 2002 through September 1, 2004, inclusive. Finally, BofA has the right to terminate the Series J Swap on any March 1 or September 1, beginning September 1, 2007. The Series J swap creates a synthetic variable rate of BMA plus 0.315%, or 4.225% as of December 31, 2006. Starting in 2003, the notional amount of the swap declines as the scheduled outstanding principal amount of the Series J Bonds declines.

On October 12, 2004, JPMorgan Chase Bank (successor in interest to Morgan Guaranty) and HPA entered into an amendment to the Series I Cap (as so amended, the Series J Cap) to substitute the scheduled outstanding principal amount of the Series J Bonds as the notional amount under the Series J Cap, and to amend the cap rate to 7.685%. As consideration for these amendments, JPMorgan Chase Bank paid HPA $27,000.

Fair value. As of December 31, 2006, the swap had a negative fair value of $103,641, calculated using the par-value method: the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate bond component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the established market value of the fixed component from the established market value of the variable component (the par value of the bond).

The value of the Series J Cap at December 31, 2006 was $18,342.

Counterparty risk. As of December 31, 2006, HPA was not exposed to counterparty risk, because the swap had a negative fair value with respect to HPA. However, should interest rates change and the fair value of the swap becomes positive, HPA would be exposed to counterparty risk in the amount of the swap's fair value.

Credit risk. As of December 31, 2006, BofA, as counterparty to the Series J Swap, was rated "Aa1" by Moodys Investors Service (Moodys), "AA" by Standard & Poor's (S&P) and "AA-" by Fitch Ratings (Fitch). To mitigate credit risk, if the counterparty's rating of its unsecured, unsubordinated debt falls below BBB-/Baa3, the counterparty will assign its obligations under the swap to a party whose unsecured, unsubordinated debt are rated at least BBB-/Baa3, or the fair value of the swap will be fully collateralized by the counterparty with cash, United States treasury obligations or specified United States government agency obligations. Such collateral would be posted with a third-party custodian.

As of December 31, 2006, JPMorgan Chase Bank, as counterparty to the Series J Cap, was rated "Aa2" by Moodys and "AA-" by S&P. Under the Series J Cap, if the counterparty's long term, unsecured and unsubordinated indebtedness of JPMorgan Chase Bank as counterparty shall cease to be rated at least "Baa3" by Moody's or "BBB-" by S&P, the counterparty's obligations are required to be collateralized with cash, United States Treasury Obligations or specified United States government agency obligations.

Interest rate risk. The swap increases HPA's exposure to variable interest rates. As the BMA index increases, the amount of HPA's floating rate payments owed to the counterparty on the swap increases. To mitigate its interest rate risk, HPA has entered into the Series J Cap.

Termination risk. HPA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract, which would result in a termination payment payable by the party with respect to whom the swap has a negative fair value. In addition, the counterparty at its option may terminate the swap agreement each March 1 and September 1, commencing September 1, 2007. Upon such optional termination, neither party would owe the other a termination payment based on the fair value of the swap at the time of such optional termination.

Year Ended December 31	Principal	Interest	Interest Rate Swaps, Net*	Total
2007	$ 230,000	$ 1,401,764	$ (92,588)	$ 1,539,176
2008	275,000	1,393,369	(186,498)	1,481,871
2009	280,000	1,383,056	(187,804)	1,475,252
2010	660,000	1,372,136	(188,714)	1,843,422
2011	690,000	1,345,736	(190,199)	1,845,537
2012-2016	4,045,000	6,252,052	(941,649)	9,355,403
2017-2021	17,780,000	3,981,374	(463,699)	21,297,675
2022	4,835,000	241,750	-	5,076,750
Total	$ 28,795,000	$ 17,371,237	$ (2,251,151)	$ 43,915,086

*Computed: 4.225% x principal-scheduled amounts

15. TAX ANTICIPATION NOTE OF 2006

In November 2006, the City borrowed $7,000,000 in the form of a Tax and Revenue Anticipation Note of 2006, bearing interest at an annual rate of 4.65% to cover cash shortfalls until such time as the Revenue Bonds, Series of 2006 could be issued. Total interest paid during the year was $40,723. The entire balance of the note was paid in full by the City in December of 2006.

Tax anticipation note transactions for the year ended December 31, 2006 were as follows:

Outstanding at December 31, 2005	$ -
New borrowings	7,000,000
Repayments	(7,000,000)
Outstanding at December 31, 2006	$ -

16. PENSION PLAN

Plan Description

The City has four defined benefit pension plans. Two of the plans, Non-uniformed Employees' Plans A and B, are controlled by provisions of Ordinance-Bill No. 49-1984, adopted pursuant to Act 15. On January 2, 2002, the assets of Plans A and B were combined, but the requirements for eligibility and benefits remain separate. The Combined Firefighters' Plan is controlled by provisions of Ordinance-Bill No. 44-2002. For these plans, the City contributes to the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer Public Employees Retirement System (PERS). The remaining plan, the Combined Police Pension Plan, was established January 1, 1999 under Ordinance-Bill No. 44-1998. 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. The benefits provided by the Combined Police plan are calculated at 50% of the average monthly salary plus 2.5% of the average monthly compensation for each complete year of service over 20 years. In no case may the benefit exceed 62.5% of the average monthly compensation.

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

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

Funding Policy

Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's 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 6.5% 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 municipality 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. Since 1996, the State's allocation exceeded the City's statutory funding requirement. Therefore, the City reflects no employer contributions to its pension plans during 2006. 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.

The City had been participating in Level III of the State Act 205 Pension Plan Recovery Program, utilizing the 15-year delayed implementation of funding standard provision and amortizing the unfunded actuarial accrual liabilities under its pension plans established at January 1, 1985, over 40 years on the basis of level percentage of future payroll amortization. Prior to 1996, the allocation of general municipal pension system state aid the City received under Act 205 was based upon the City's costs of its pension plans since this amount was less than the amount determined under the unit value calculation.

In an effort to increase the amount of general municipal pension system state aid received by the City for its pension plans, the City passed a resolution in December 1995, to rescind its prior election to amortize the unfunded actuarial accrued liabilities of its plans established at January 1, 1985, over 40 years using level percentage of payroll amortization, and began amortizing these amounts over 30 years using level dollar amortization. The January 1, 1996 actuarial valuation of the pension plan was prepared on the basis of 30-year level dollar amortization. The 1996 State aid received by the City was based upon the January 1, 1995 actuarial valuation reports which reflected 40-year level percentage of payroll amortization. The 1997 State aid received by the City was based upon the January 1, 1996 actuarial valuation reports using 30-year level dollar amortization.

Also, the City contributed $60,626 in 1995 in addition to its statutory funding requirement, or MMO payments, in order to satisfy the full MMO for each plan in 1995 without regard to the 15-year phase-in provision. This allowed the City to determine the MMO's for its plans for 1996 without utilizing the delayed implementation of funding standard provision which required that the City make a contribution in 1996 to each plan which was at least equal to the contribution made by the City to each plan during 1995. This reduced the total MMO for each of the City's "A" plans beginning in 1996.

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.

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' Plan A	Non-Uniformed Employees' Plan B	Firefighters' Combined	Police Officers' Combined
Actuarial valuation date	1/1/05	1/1/05	1/1/05	1/1/05
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	11 years	11 years	13 years	12 years
Asset valuation method	Fair value	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	4.7%	4.7%	4.7%	5.0%

Annual Required Contribution and Net Pension Obligation

The City's annual pension cost and net pension obligation to the Plans at December 31, 2006 are as follows:

	Non-Uniformed Employees' Plan A	Non-Uniformed Employees' Plan B	Firefighters' Combined	Police Officers' Combined
Annual required contribution	$ -	$ -	$ -	$ 512,593
Contributions made	-	-	-	512,593
Change in net pension obligation	-	-	-	-
Net pension obligation – beginning of year	-	-	-	-
Net pension obligation – December 31, 2006	$ -	$ -	$ -	$ -

Three Year Trend Information

Non-Uniformed Employees – Plan A	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2004	$ -	- %	$ -
December 31, 2005	-	-	-
December 31, 2006	-	-	-

Non-Uniformed Employees – Plan B	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2004	$ -	- %	$ -
December 31, 2005	-	-	-
December 31, 2006	-	-	-

Firefighters' Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2004	$ 107,728	100%	$ -
December 31, 2005	-	-	-
December 31, 2006	-	-	-

Police Officers' – Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2004	$ 285,823	- %	$ -
December 31, 2005	1,303,069	100	-
December 31, 2006	512,593	100	-

The annual required contribution for the current year was determined as part of the January 1, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions for the Non-Uniformed Employees' Plan and Combined Firefighters' Plan include (a) a 6.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.70% per year. The actuarial assumptions for the combined Police Pension Fund include (a) an 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% per year. The assumptions do not include postretirement benefit increases, which are funded by State appropriation when granted. The actuarial value is determined using market values determined by the trustee.

17. SEGMENT INFORMATION

The Harrisburg Authority supports two separate segments. The Water Segment accounts for the provision of basic water service to customers of the Harrisburg Water System. The Resource Recovery Segment accounts for the activities at the Harrisburg Resource Recovery and Steam Generating Facility (Resource Recovery Facility), which converts waste into energy. Selected segment information as of and for the year ended December 31, 2006, is as follows:

CONDENSED STATEMENT OF NET ASSETS	Water Fund	Resource Recovery Fund
Assets		
Current assets		
Other current assets	$ 4,360,623	$ 2,883,089
Due from (to) other funds	588,782	(1,206,606)
Total current assets	4,949,405	1,676,483
Restricted assets	30,068,544	25,818,003
Capital assets	72,848,567	108,201,798
Other noncurrent assets	6,353,239	10,398,093
Total assets	114,219,755	146,094,377
Liabilities		
Current liabilities		
Other current liabilities	1,982,752	951,444
Due to the City of Harrisburg	346,294	6,140,566
Total current liabilities	2,329,046	7,092,010
Liabilities payable from restricted assets	3,911,633	3,162,860
Noncurrent liabilities	136,177,642	221,652,702
Due to the City of Harrisburg	367,315	115,451
Total liabilities	142,785,636	232,023,023
Net assets		
Invested in capital assets, net of related debt	(34,012,448)	(80,826,060)
Restricted	3,193,523	749,378
Unrestricted	2,253,044	(5,892,232)
Total net assets	$ (28,565,881)	$ (85,968,914)

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

	Water Fund	Resource Recovery Fund
Operating revenues	$ 16,959,998	$ 9,838,746
Operating expenses		
Operating	8,404,962	13,392,137
Administration	200,000	207,000
Depreciation	2,171,436	2,384,052
Total operating expenses	10,776,398	15,983,189
Operating income (loss)	6,183,600	(6,144,443)
Nonoperating revenues (expenses)		
Investment income	1,030,271	2,006,006
Miscellaneous expense	(173,987)	(427,776)
Interest expense	(8,840,093)	(10,462,179)
Amortization of bond issuance costs	(491,008)	(820,539)
Total nonoperating expenses	(8,474,817)	(9,704,488)
Loss before capital contribution and special item	(2,291,217)	(15,848,931)
Capital contribution	-	3,815,635
Special item	-	4,027,000
Change in net assets	(2,291,217)	(8,006,296)
Net assets - January 1, 2006	(26,274,664)	(77,962,618)
Net assets - December 31, 2006	$ (28,565,881)	$ (85,968,914)

CONDENSED STATEMENT OF CASH FLOWS

	Water Fund	Resource Recovery Fund
Net cash provided by (used in) operating activities	$ 6,960,328	$ (846,229)
Net cash provided by investing activities	1,655,425	21,030,949
Net cash used in capital and related financing activities	(7,728,007)	(20,334,881)
Net increase (decrease) in cash and cash equivalents	887,746	(150,161)
Cash and cash equivalents, January 1, 2006	3,576,232	529,230
Cash and cash equivalents, December 31, 2006	$ 4,463,978	$ 379,069

18. ACCUMULATED DEFICITS

The Authority, a component unit, has an accumulated deficit of $5,746,002. The deficit resulted from losses on the extinguishment of debt in the amount of $2,549,981 and $992,836 in 1994 and 1993, respectively. This loss is essentially the cost of carrying old bonds during the escrow period, and is increased by cumulative net loss of $2,203,185.

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, 2006. 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, of if other monies set aside for such purposes are insufficient, the City of Harrisburg will be required to pay principal 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 of Dauphin has provided a secondary guarantee of the Resource Recovery Facility Revenue Bonds, Series D and E of 2003 collectively in the maximum aggregate principal amount not to exceed $113,000,000 by entering into a County Bond Guaranty Agreement with The Harrisburg Authority and the trustee for such bonds. The Resource Recovery segment has incurred substantial accumulated losses, which have caused the segment to experience cash flow difficulties.

The Water and Resource Recovery segments of The Harrisburg Authority have accumulated deficits at December 31, 2006 of $28,565,881 and $85,968,914, respectively. The deficits are primarily due to The Harrisburg Authority not charging enough to cover depreciation expense incurred since acquisition and not funding amortization of bond discounts, deferred bond issuance costs and deferred losses on refundings. Management anticipates that the deficits will be reduced in the Water segment through future profitability improvements.

The waste incinerator, operated as a component of the Resource Recovery Facility of The Harrisburg Authority, as required by the Environmental Protection Agency, was temporarily closed so that The Harrisburg Authority could undertake a modernization program. A significant financing was completed in December 2003 to fund the costs of the project. Additionally, the Resource Recovery Fund has experienced significant operating losses, has an accumulated deficit of $85,968,914 at December 31, 2006, and is in violation of certain covenants under the trust indentures. The Harrisburg Authority has issued a notice of material event with respect to certain of the Resource Recovery Facility bonds. Many of the above items are due to delays and incompletion of the facility as originally anticipated.

The Harrisburg Authority has developed a recovery plan for the Resource Recovery Facility which requires completion of construction of the facilities to bring the three burners on line and up to operating efficiently. The Harrisburg Authority has engaged Covanta Harrisburg, Inc. (Covanta) to manage and operate the Facility and provide professional services. Included in Covanta's Agreement with The Harrisburg Authority is a construction management agreement to oversee the completion of construction. In addition, the plan includes increased disposal fees and tipping fees and infusion of capital for construction and working capital.

The project will be funded by a loan from Covanta to pay for the construction and a working capital loan from others to cover costs and debt service during the construction phase. Repayment of the loans will be from revenue generated from the facility when all three burners are operating or from City guarantees to cover any revenue short falls. The funding plan is subject to City of Harrisburg and Dauphin County guarantees. The Harrisburg Authority has presented the plan to the City and County for approval.

Due to delays in completing construction in early 2006 that resulted in a revenue shortfall, the project has not met debt covenant coverage requirements. The covenant requirements will be closely monitored during the construction phase and following completion of construction.

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, 2006.

During 1996, the City of Harrisburg acquired all the outstanding stock of the Harrisburg Civic Baseball Club, Incorporated (Senators) for approximately $7,000,000. This acquisition resulted in the City's ownership of the franchise rights of the Harrisburg Senators, an AA minor league baseball team, operated and managed by the Washington Nationals, formerly the Montreal Expos. During the year ended December 31, 2005, the contract with the Washington Nationals was extended through the 2010 Major League Baseball season. The activity related to the Senators is accounted for in the Harrisburg Senators Enterprise Fund and resulted in negative net assets of $2,287,293 caused mainly by the amortization of the franchise fee. In 2007, the City announced the sale of the Harrisburg Senators franchise to Senators Partners, LLC of Northbrook, Illinois for $13.25 million. The sale is to take effect at the end of the current baseball season and includes an agreement to keep the franchise in Harrisburg for at least 29 years. Sales proceeds paid at closing will be used by the City to pay the Senator's Revenue Bonds Series A-1. Future rent payments received from Senators Partners, LLC will be used by the City to make required debt service payments on the Series A-2 bonds.

The Redevelopment Authority net asset (deficit) at December 31, 2006 is related to the 1998 Series A and B bond issuances. Since no asset is recorded related to these debt issuances, the total debt outstanding reduces unrestricted net assets. The outstanding debt on these issuances is $36,666,716. These debt issuances reduced the governmental activities net assets from a positive $3,812,130 to the deficit balance of $32,854,586. The City of Harrisburg 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.

Funds sufficient to provide for the Redevelopment Authority's deficits are to be made from future activities according to management.

19. 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 are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

Construction Commitments

Primary Government

The City has contractual commitments for construction, engineering and licensing related to the City properties of approximately $3,025,282.

Component Units

The Harrisburg Authority

At the time of the issuance of the Resource Recovery Facility Revenue Bonds, Series D, E, and F of 2003, The Harrisburg Authority entered into a Professional Services Agreement in order to provide a plan for improving the Resource Recovery Facility to comply with the Federal emission requirements. The agreement required a deferred payment of $910,730, which had been paid by The Harrisburg Authority on December 31, 2003. Additionally, the agreement requires $9,767,559 for development fees, legal fees, design expenses and consulting fees during the final development phase, the final design phase, the construction phase and the start-up testing phase.

In October 2004 and December 2004, the Professional Services Agreement was amended to modify the scope of work to be performed by separate contractors. Amendment No. 2 to the Professional Services Agreement dated December 22, 2004, changes the aggregated cost of work performed by the separate contractor to an amount not to exceed $11,941,992.

At the time of the issuance of the Resource Recovery Facility Revenue Bonds, Series D, E, and F of 2003, The Harrisburg Authority entered into an Agreement for Sale and Installation of Equipment for the Retrofit Project in the amount of $45,777,957. The Agreement was amended in October 2004 and again in December 2004 for changes to the contract price.

Thereafter, The Harrisburg Authority and original contractor entered into multiple amendments to the Agreement and other related contract documents to permit the original contractor to raise sufficient funds to complete the Project and fulfill its contractual obligations to The Harrisburg Authority.

The agreements provided for completion of the units by specified target dates. The original contractor did not meet its obligations to complete the units. Effective December 31, 2006, the original contractor terminated performance under the Professional Services Agreement and the Agreement for Sale and Installation of Equipment. The Harrisburg Authority entered into an Administrative Services and Interim Operation and Management Agreement (Interim Agreement) with a Covanta for operation and management of the Resource Recovery Facility effective January 2, 2007 through March 31, 2007. Covanta was to provide all day-to-day administrative services, provide a Construction Plan and coordination of all construction, start-up performance testing, operation and maintenance services for the Facility. The Harrisburg Authority deposited $100,000 with Covanta, to be used to pay for the first arising reimbursable expenses under the Agreement. On the 15th and 30th day of each month, The Harrisburg Authority is to pay Covanta 1/24th of the annual amount set forth in the estimated operating budget. Each month, the Covanta is to reconcile the actual reimburseable expenses to the payments made by The Harrisburg Authority. For all reimburseable expenses incurred during the month in excess of such payments, Covanta is to submit an invoice for such excess by the 10th day of the following month, which is to be paid by The Harrisburg Authority within 30 days. Reimbursable expenses are defined in the agreement. The Harrisburg Authority also pays 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 July 31, 2007.

The Harrisburg Authority is considering entering 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 the substantially the same as the Interim Agreement, except that the management fee is $875,000 per month, escalated annually each calendar year. As of June 2007, The Harrisburg Authority owes Covanta approximately $3.8 million for reimbursable expenses and management fees.

On December 31, 2003, The Harrisburg Authority entered into the Non Exclusive Technology Sub-Licensing Agreement and Technology Purchase Agreement with the original contractor. 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 in consideration for providing the $25 million necessary to complete the project.

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. Payments under the Amended Purchase Agreement have been deferred under a forbearance agreement, but could result in substantial claims.

There are various claims of subcontractors or material supplies of the original contractor against The Harrisburg Authority for non payment. The exact number of unpaid contractors of the original contactor is not known nor is the total amount of money allegedly owed, but it is believed that there are over a dozen subcontractors and/or material suppliers and the amount asserted if owed would be in excess of five million dollars.

Harrisburg Parking Authority

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

Material Event Notice

On June 1, 2006, the City received a proposed adverse determination from the Internal Revenue Service determining that the interest on the General Obligation Refunding Bonds, Series D of 1997 (Series D Bonds), is not excludable from gross income of the holders thereof for federal income tax purposes. This represented a material event under the provisions of the Series D Bonds. As a result of the final determination, the City settled with the Internal Revenue Service in the amount of $500,000. The City paid the settlement from contributions by professional firms which participated in the sale and structuring of the Series D Bonds. As a result of this settlement, the City complies with its covenant to maintain the exclusion of interest from gross income of the holders of the Series D Bonds.

Downtown Coordinated Parking Fund

Parking revenue generated from seven parking garages, on-street parking meters and City-owned surface lots, net of expenses, are deposited to the Downtown Coordinated Parking Fund (CPF). The "Cooperation Agreement for Downtown Coordinated Parking System," dated June 27, 1984, as amended and restated on December 3, 1991, as further amended on March 16, 1994, requires the Harrisburg Parking Authority (HPA) to deposit, at least quarterly, the new revenues from the garages, parking meters, city lots and any unrestricted administrative fund balance into the Coordinated Parking Fund. The CPF currently secures the HPA Series N Bonds of 2003. Any excess fund balance is transferred to the City of Harrisburg annually. During the year, the City received a refund of $3,524,893 representing excess amounts deposited into the system for 2006.

Guarantees

The City is contingently liable under various agreements which guarantee debt of entities not included in the primary government's financial statements aggregating $379,774,901 at December 31, 2006, and maturing at various dates through 2034. Of the $379,774,901, $371,902,990 is for guarantees of component unit debt.

The City guaranteed a line-of-credit on behalf of the National Civil War Museum. The maximum amount available under the line-of credit is $250,000. Borrowings on the line-of-credit are payable on demand, but in no event beyond December 31, 2006.

Capital Area Transit (CAT) entered into an agreement to receive federal matching funds for the purchase of 30 new replacement buses and for the enhancement of its service, through the addition of new bus routes and expansion of existing routes. CAT authorized and issued its Revolving Revenue Note of 2003 (CAT 2003 Note) in the amount of $1,400,000. As an inducement to CAT to undertake the authorization and issuance of the CAT 2003 Note, the City of Harrisburg, Cumberland County and Dauphin County agreed to make certain annual payments to CAT through December 31, 2011. These payments are to be utilized to pay the debt service on the CAT 2003 Note. The City of Harrisburg agreed to pay $243,168 to CAT on an annual basis.

The Harrisburg Authority guaranteed a line-of-credit on behalf of the National Civil War Museum. The maximum amount available under the line-of-credit is $500,000. As required by the agreement, $250,000 has been placed in a separate account and this amount is included on the Statement of Net Assets as restricted cash and cash equivalents.

In 2006, the Redevelopment Authority authorized the financing of the $30 million Hall of Fame project. This is a 25 year bond with the debt service to be paid from the revenues of the project. The City is guarantor of the bonds, which were not issued as of December 31, 2006.

Postretirement Benefits

The City provides postretirement healthcare benefits to all retirees. The benefit provisions and the City's obligation to pay those benefits are established under the labor contracts in effect at the time of the employees' retirement. Benefits paid to Non-Uniform and Police and Fire retirees are 50% and 100% of claims respectively. Benefit costs paid to 322 retirees for the year ended December 31, 2006 were approximately $4,340,366. The City pays costs related to postretirement benefits when due.

Landfill Closure and Postclosure 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 estimated total current cost of closure and postclosure case costs is $1,670,206. This estimate is based on an agreement with the Commonwealth of Pennsylvania pursuant to state regulations and is subject to change with inflation, deflation, technology, or applicable laws and regulations. The Harrisburg Authority has accrued $1,511,746 for landfill closure and postclosure care costs as of December 31, 2006, which represents the use of 91% of the estimated capacity of the disposal area. Through the year ended December 31, 2006, The Harrisburg Authority incurred $1,491,565 in engineering fees related to the landfill closure. Based on the annual usage at December 31, 2006, the estimated remaining life of the landfill is approximately two years.

The Harrisburg Authority also is required by state regulations and its permit to make quarterly payments of $30,014 to the Consolidated Closure Trust for ten years. The Harrisburg Authority is in compliance with those requirements and, as of December 31, 2006, cash and investments of $789,646 are held for closure and postclosure care expenses. Those funds are reported as restricted assets on the Statement of Net Assets.

Tax Lien Management Program

On February 28, 2005, the City amended its bulk sale of Real Estate Tax Liens to include the 2004 liens. This transaction amended the maximum advance amount from $1,531,880 to $2,557,902 from the sale of $3,009,296 face amount of liens. The purchaser in the transaction is the Harrisburg Redevelopment Authority. As previously disclosed, there are two contingencies the City realizes upon entering into this transaction. First, in the effort to minimize the expenses to place a value on each lien, the City agrees in subsequent years to re-purchase unredeemed liens after four years if the purchaser has not satisfied their financing obligations. This contingency should only occur if there is a significant overall reduction in redemptions, or if a natural disaster destroyed a substantial amount of improvements on properties with Real Estate Tax Liens. Submitting additional new Real Estate Tax Liens to the purchaser in lieu of an actual re-purchase can satisfy this contingency. The second contingency the City has, is an option to re-purchase any unredeemed Real Estate Tax Liens once the Harrisburg Redevelopment Authority has satisfied their financing commitment. This allows the City to receive all additional proceeds from redemptions in excess of the amount advanced at the closing of the transaction.

20. 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.

Component Units

The Harrisburg Authority

Resource Recovery Facility

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, 2006.

On May 25, 2007, The Harrisburg Authority issued a notice of material event with respect to The Harrisburg Authority's Series D-1, D-2, E, and F Bonds of 2003. The Resource Recovery Facility Retrofit Debt Service Account did not have sufficient funds to pay the scheduled interest payment due on the Series D-1, D-2, E, and F Bonds on June 1, 2007, because The Harrisburg Authority had not made the required monthly deposits into its Retrofit Debt Service Account. Pursuant to terms of the trust indenture and the City Bond Guaranty, the Trustee notified The Harrisburg Authority and the City of such deficiency in the Retrofit Debt Service Account. Accordingly, the City transferred approximately $1.438 million to The Harrisburg Authority for The Harrisburg Authority to make the appropriate deposit to the Trustee to address the deficiency. Additionally, the City transferred approximately $230,000 to pay swap and cap fees related to the aforementioned debt issues due on June 1, 2007. Pursuant the Reimbursement Agreement, The Harrisburg Authority is required to repay the amounts paid by the City under the guarantee. The Resource Recovery Facility Retrofit Debt Service Account did not have sufficient funds to pay the scheduled interest payment due on the Series A, B, or C Bonds of 2008 or the 1998 Bonds on September 1, 2007, because The Harrisburg Authority had not made the required monthly deposits into its Retrofit Debt Service Account. On August 23, 2007, the City transferred approximately $1.787 million to The Harrisburg Authority for The Harrisburg Authority to make the appropriate deposit to the Trustee to address the deficiency.

Under the trust indentures, The Harrisburg Authority is required to maintain certain minimum balances in the Resource Recovery operating reserve fund. At December 31, 2006, The Harrisburg Authority's balance in the Resource Recovery operating reserve fund was $211 and the reserve requirement was $2,155,356. The trust indenture states that if the balance in the Resource Recovery operating reserve fund becomes deficient, The Harrisburg Authority is to restore the balance with twelve substantially equal installments. There has been no replenishment of the Resource Recovery operating reserve fund through the date of this report.

The Resource Recovery Facility's 2007 budget was approved by the Board of Directors in January 2007. As required under the trust indenture, the budget is required to be approved 30 days prior to the end of the calendar year. Additionally, the 2007 consulting engineers report, which is due, per the trust indenture, 90 days prior to the end of the calendar year, has not been received by The Harrisburg Authority. The trust indenture requires that all construction be performed in an efficient and economical manner. Management has represented that this was not done throughout the term of the Resource Recovery Facility project, as noted in the balance of this footnote. Finally, management has not instituted a system to calculate the rate covenant requirement noted earlier.

Water Fund

Under the trust indenture, The Harrisburg Authority is required to maintain certain minimum balances in the Water operating reserve fund. At December 31, 2006, The Harrisburg Authority's balance in the Water operating reserve fund was $651,281 and the reserve requirement was $672,980. The trust indenture states that if the balance in the Water operating reserve fund becomes deficient, The Harrisburg Authority is to restore the balance with 12 equal installments. There has been no replenishment of the Water operating reserve fund through the date of this report.

The Water Facility's 2007 budget was approved by the Board of Directors in January 2007. As required under the trust indenture, the budget is required to be approved 30 days prior to the end of the calendar year. Finally, management has not instituted a system to calculate the rate covenant requirement.

21. LITIGATION

The City is involved in several lawsuits arising in the normal course of business. Management believes that none of the litigation outstanding against the City will have a material adverse effect on the financial position of the City at December 31, 2006.

The Harrisburg Authority is involved in a claim which alleges that The Harrisburg Authority is responsible for the allocation of certain costs attributable to relocation of The Harrisburg Authority's water lines. The plaintiff's case is based upon a 1941 contract with the City of Harrisburg. A claim was filed before the Court of Common Pleas of Dauphin County seeking to enforce the 1941 contract. A motion for summary judgment was filed on behalf of The Harrisburg Authority, but was not successful, and all appeals on this issue have been exhausted. Absent settlement, the case will return to the Court of Common Pleas of Dauphin County. The amount at issue is approximately $460,000.

The Redevelopment Authority filed suit against a tenant of the Transportation Center for non-payment of rent. The tenant filed a counterclaim for damages due to the Redevelopment Authority taking possession of a portion of the Transportation Center from the lessee. The outcome of this claim and counterclaim can not be determined; therefore, no liability, if any, as a result of the outcome of this claim has been reflected in the financial statements.

22. TRANSACTIONS WITH COMPONENT UNIT

In accordance with the respective Articles 5 of the Second Supplemental Agreement of Lease, as amended by the Third Supplemental Agreement of Lease and the Collection System Lease between The Harrisburg Authority and the City of Harrisburg, Pennsylvania, the City is, at the end of each lease year, required to accumulate amounts in the sewer revenue accounts, after withdrawals for operating expense obligations, until the balance is such that the reserve shall equal the sum of (1) one-half of the lease rental due under the next lease year, and (2) one-half of the annual operating expenses as estimated by the consulting engineers, for the next succeeding lease year.

The Harrisburg Authority entered into management agreements with the City to operate The Harrisburg Authority's Water System and Resource Recovery Facility. The Resource Recovery Facility's management agreement with the City of Harrisburg was terminated effective January 2, 2007 and The Harrisburg Authority entered into an agreement with a new management agent. Unreimbursed operating expenses paid by the City for the Resource Recovery Facility at December 31, 2006, amounted to $6,119,838. Because the amount does not meet the available criteria utilized by modified accrual funds, this amount has been expensed in the General Fund. Future recoveries of the unreimbursed expenses will be recognized as revenue when received.

23. SPECIAL ITEM

The Harrisburg Authority terminated a portion of a swap agreement. As a result of the partial termination, The Harrisburg Authority received $4,027,000, which has been treated as a special item on the Statement of Activities.

24. SUBSEQUENT EVENTS

In February 2007, the Redevelopment Authority authorized the purchase of the 2007 real estate tax liens from the City of Harrisburg School District in an amount not to exceed $6.7 million.

On February 6, 2007, the City guaranteed a line-of-credit on behalf of the National Civil War Museum. The maximum amount available under the line-of-credit is $250,000. Borrowings on the line-of-credit are payable on demand, but in no event beyond December 31, 2007.

In August 2006, the Authority entered into the Seventh Amendment to the Cooperation Agreement for Downtown Coordinated Parking System. This agreement authorizes the issuance and sale of one or more series of guaranteed parking revenue bonds in the aggregate principal amount of $17,500,000, or such lesser amount as shall be necessary to finance the costs of the Project, which bonds shall be designated Harrisburg Parking Authority Guaranteed Parking Revenue Bonds – Series R of 2006. The Series R of 2006 bonds were issued in January 2007.

In March 2007, the Authority entered into the Ninth Amendment to the Cooperation Agreement for Downtown Coordinated Parking System. This agreement authorizes the issuance and sale of a series of guaranteed parking revenue bonds in the aggregate principal amount of $15,000,000, or such lesser amount, as shall be necessary to finance the costs of the Project, which shall be designated Guaranteed Parking Revenue Bonds, Series S of 2007. The Series S Revenue Bonds will be used to refund HPA's outstanding Guaranteed Parking Revenue Bonds, Series P(1) of 2005, fund necessary reserves, and pay a guarantee fee and other costs and expenses of issuing bonds to finance the costs thereof. Harrisburg City Council approved an ordinance on April 3, 2007 authorizing the guarantee of the Series S of 2007 bonds. The Series S Revenue Bonds have not been issued as of the auditor's report date.

The Authority and the City are considering a long-term concession of a portion of the Authority's parking assets. In July 2007, the Authority entered into an agreement with a consultant, for a period of 12 months, to develop and implement a request for qualifications; develop various financial and commercial scenarios; develop, revise and further refine a financial model; assist with managing the work of the third party advisors to the Authority with respect to this project; advise on corporate governance and structure; assist in drafting a Confidential Information Memorandum; assist with market sounding and discussions with potential proposers; advised on value and control factors; develop and implement on behalf of the Authority a Request for Proposals and solicit binding proposals; assess the value of the proposals and assist the Authority in selecting the winning proposer; assist in closing a transaction; and assist the Authority in establishing an annuity account to meet the annual cash flow requirements.

During August 2007, Harrisburg City Council approved the guarantee of The Harrisburg Authority's Resource Recovery Facility Subordinate Revenue Notes, Series of 2007, in the amount of $11,577,670 and lease rental debt in the maximum amount of $25,500,000 subject to various conditions. Neither of these debt issuances has been issued as of the auditor's report date.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE
BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2006
REQUIRED SUPPLEMENTARY INFORMATION

	Budget		Variance of Original with Final Budget Positive (Negative)	Actual Amounts	Variance of Actual with Final Budget Positive (Negative)
	Original Amounts	Final Amounts			
Revenues					
Taxes	$ 24,115,665	$ 24,115,665	$ -	$ 24,051,473	$ (64,192)
Licenses and permits	479,000	479,000	-	506,113	27,113
Intergovernmental revenue	7,450,000	7,450,000	-	7,413,756	(36,244)
Departmental earnings	22,199,658	22,199,658	-	16,747,409	(5,452,249)
Fines and forfeits	2,264,160	2,264,160	-	1,682,258	(581,902)
Investment income	183,010	183,010	-	253,690	70,680
Miscellaneous	1,180,260	3,373,591	2,193,331	2,427,545	(946,046)
Total revenues	57,871,753	60,065,084	2,193,331	53,082,244	(6,982,840)
Expenditures					
General government					
Elected and appointed offices					
City Council	476,596	370,296	106,300	347,620	22,676
Mayor	455,863	455,863	-	447,802	8,061
City Controller	240,600	240,600	-	232,873	7,727
City Treasurer	719,305	669,305	50,000	649,403	19,902
City Solicitor	424,521	485,821	(61,300)	381,200	104,621
Office of City Engineer	1,478,949	1,453,949	25,000	1,371,883	82,066
Human Relations Commission	191,418	161,418	30,000	150,567	10,851
Mayor's Office of Economic Development	659,704	615,704	44,000	589,583	26,121
Total elected and appointed offices	4,646,956	4,452,956	194,000	4,170,931	282,025
Office of administration					
Administration	3,939,592	3,746,392	193,200	3,559,314	187,078
General expenditures	3,191,382	5,386,213	(2,194,831)	2,959,642	2,426,571
Total general government	11,777,930	13,585,561	(1,807,631)	10,689,887	2,895,674
Building and housing development	1,229,112	1,134,112	95,000	1,102,708	31,404
Public safety	27,785,884	29,177,584	(1,391,700)	28,527,102	650,482
Public works	6,345,555	5,710,555	635,000	5,410,301	300,254
Parks and recreation	3,130,463	2,928,463	202,000	2,956,734	(28,271)
Incinerator	-	-	-	6,119,838	(6,119,838)
Total expenditures	50,268,944	52,536,275	(2,267,331)	54,806,570	(2,270,295)
Excess of revenues over (under) expenditures before other financing sources (uses)	7,602,809	7,528,809	(74,000)	(1,724,326)	(9,253,135)
Other financing sources (uses)					
Proceeds from the issuance of debt	-	-	-	7,200,000	7,200,000
Transfers in	1,249,124	1,249,124	-	1,013,519	(235,605)
Transfers out	(8,851,933)	(8,777,933)	74,000	(8,776,981)	952
Total other financing sources (uses)	(7,602,809)	(7,528,809)	74,000	(563,462)	6,965,347
Net change in fund balance	-	-	-	(2,287,788)	(2,287,788)
Fund balances - beginning of year, budgetary basis	-	-	-	(151,802)	(151,802)
Fund balances - end of year, budgetary basis	$ -	$ -	$ -	$ (2,439,590)	$ (2,439,590)

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

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 bond indenture provisions. 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 2006 budget for governmental funds. The budget for 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 Residual Equity Transfer	Fund Balance, End of Year
Budgetary basis	$ (151,802)	$ 53,082,244	$(54,806,570)	$ (563,462)	$ (2,439,590)
Taxes receivable	4,590,903	1,131,994	-	-	5,722,897
Accounts receivable	701,684	303,166	(816,533)	-	188,317
Other assets	138,752	-	(31,823)	-	106,929
Accounts payable, net of items vouchered	(1,700,653)	(62,645)	(3,352,402)	-	(5,115,700)
Accrued liabilities	(1,136,845)	-	1,030,926	-	(105,919)
Advances and amounts due to other funds and component units	(833,822)	-	5,541,642	-	4,707,820
Deferred revenue	(3,363,054)	(1,287,851)	(6,119,838)	-	(10,770,743)
Other	5,494,112	1,279,556	1,674,156	(35,979)	8,411,845
GAAP basis	$ 3,739,275	$ 54,446,464	$(56,880,442)	$ (599,441)	$ 705,856

2. BUDGET TO ACTUAL COMPARISONS

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

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

	Appropriation	Expenditures
Parks and recreation	$ 2,928,463	$ 2,956,734
Incinerator	$ -	$ 6,119,838

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund and issuance of the Lease Revenue Bonds, Series of 2006.

Schedule of Funding Progress 01/01/95-01/01/05

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)
01/01/95	$ 19,274,052	$ 23,714,886	$ 4,440,834	81.20%	$ 14,503,002	30.60%
01/01/96	26,770,732 (2)	25,442,689	(1,328,043)	105.20	14,837,644	(8.90)
01/01/97	30,465,751	27,447,774	(3,017,977)	110.90	15,125,782	(19.90)
01/01/98	34,019,246	28,867,727	(5,151,519)	117.80	15,636,652	(32.90)
01/01/99	39,353,200	29,978,847	(9,374,353)	131.20	16,583,243	(56.50)
01/01/00	45,531,632	32,927,232	(12,604,400)	138.20	17,016,237	(74.00)
01/01/01	51,841,303	36,252,370	(15,588,933)	143.00	18,441,260	(84.50)
01/01/02	54,063,426	37,487,414	(16,576,012)	144.20	18,399,410	(90.00)
01/01/03	56,946,711	44,367,335	(12,579,376)	128.35	19,970,077	(62.90)
01/01/05	63,053,150	52,154,704	(10,898,446)	120.90	17,639,572	(61.78)

Schedule of Required Employer Contributions and Other Contributing Entities 1997-2006

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis For ARC	(g) Employer Contribution	(h) State Aid	Percentage Contributed [(g+h) /f]
1997	$ 454,256 (3)	01/01/95	$ - (4)	$ 384,563	84.60%
1998	483,839	01/01/96	147,169 (5)	410,327	115.20
1999	331,115	01/01/97	-	331,115	100.00
2000	267,206	01/01/98	-	267,206	100.00
2001	-	01/01/99	-	-	-
2002	-	01/01/00	-	-	-
2003	-	01/01/01	-	-	-
2004	-	01/01/02	-	-	-
2005	-	01/01/03	-	-	-
2006	-	01/01/04	-	-	-

(1) 1997-2006 – 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) On December 28, 1995, in connection with the issuance of Federally Taxable General Obligation bonds, Series A and B of 1995, the City deposited $5,900,000 to materially satisfy the unfunded actuarial accrued liability for the Non-Uniformed Employee's Pension Plan "A". Additionally, the employer contribution includes $9,835 in excess of the City's statutory funding requirement to satisfy the full minimum municipal obligation or ARC, without regard to the 15-year phase-in provision of Act 205 as amended.

(3) As amended.

(4) 1997, 1999-2000 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

(5) Includes a $73,657 contribution in excess of the City's statutory funding requirement to satisfy a 1995-96 audit subsequent event finding due to an employee contribution rate assumption error in determining the 1997 minimum municipal obligation.

Schedule of Funding Progress 01/01/95-01/01/05

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)
01/01/95	$ 11,254,213	$ 23,435,403	$ 12,181,190	48.02%	$ 3,872,452	314.56%
01/01/96	24,525,663 (2)	23,642,933	(882,730)	103.73	3,859,094	(22.87)
01/01/97	28,010,066	25,124,396	(2,885,670)	111.49	4,159,387	(69.38)
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	(228.28)
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)

Schedule of Required Employer Contributions and Other Contributing Entities 1997-2006

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	(h) State Aid	Percentage Contributed [(g+h) /f]
1997	$ 402,640	01/01/95	$ - (3)	$ 402,640	100.00%
1998	393,524	01/01/96	-	393,524	100.00
1999	223,568	01/01/97	-	223,568	100.00
2000	167,966	01/01/98	-	167,966	100.00
2001	188,199	01/01/99	-	188,199	100.00
2002	145,716	01/01/00	-	145,716	100.00
2003	107,728	01/01/01	-	107,728	100.00
2004	-	01/01/02	-	-	-
2005	-	01/01/03	-	-	-
2006	-	01/01/04	-	-	-

(1) 1997-2006 – 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) On December 28, 1995, in connection with the issuance of Federally Taxable General Obligation bonds, Series A and B of 1995, the City deposited $12,000,000 to satisfy the unfunded actuarial accrued liability for the Firefighter's Pension Plan "A". Additionally, the employer contribution includes $13,050 in excess of the City's statutory funding requirement to satisfy the full minimum municipal obligation or ARC, without regard to the 15-year phase-in provision of Act 205 as amended.

(3) 1997-2003 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

Schedule of Funding Progress 01/01/95-01/01/05

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)
01/01/95	$ 15,173,218	$ 31,622,366	$ 16,449,148	47.98%	$ 6,991,670	235.27%
01/01/96	33,462,010 (2)	33,081,005	(381,005)	101.15	7,162,027	(5.32)
01/01/97	38,558,258	35,147,819	(3,410,439)	109.70	7,436,274	(45.86)
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)	111.20	9,206,031	(67.30)

Schedule of Required Employer Contributions and Other Contributing Entities 1997-2006

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	(h) State Aid	Percentage Contributed [(g+h) /f]
1997	$ 699,373	01/01/95	$ - (3)	$ 699,373	100.00%
1998	731,496	01/01/96	-	731,496	100.00
1999	466,435	01/01/97	-	466,435	100.00
2000	469,959	01/01/98	-	469,959	100.00
2001	310,040	01/01/99	-	310,040	100.00
2002	-	01/01/00	-	-	-
2003	-	01/01/01	-	-	-
2004	285,823	01/01/02	-	285,823	100.00
2005	1,303,069	01/01/03	-	1,303,069	100.00
2006	512,593	01/01/04	-	512,593	100.00

(1) 1997-2006 – 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) On December 28, 1995, in connection with the issuance of Federally Taxable General Obligation bonds, Series A and B of 1995, the City deposited $15,950,085 to materially satisfy the unfunded actuarial accrued liability for the Police Officer's Pension Plan. Also includes a $37,741 contribution in excess of the City's statutory funding requirement to satisfy the full minimum municipal obligation or ARC, without regard to the 15-year phase-in provision of Act 205 as amended.

(3) 1997-2001 and 2004-2006 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

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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 designated for improvements to specific parks and properties in the City.

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	Special Revenue		
	State Liquid Fuels Tax Fund	Parks and Property Improvement Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash	$ 6,373	$ 292,362	$ 298,735
Investments	300,427	361,006	661,433
Total assets	$ 306,800	$ 653,368	$ 960,168
LIABILITIES AND FUND BALANCE			
Accounts payable	$ 65,188	$ 30,079	$ 95,267
Due to other funds	-	510,387	510,387
Total liabilities	65,188	540,466	605,654
Fund balance			
Reserved			
Encumbrances	26,142	-	26,142
Unreserved undesignated	215,470	112,902	328,372
Total fund balance	241,612	112,902	354,514
Total liabilities and fund balance	$ 306,800	$ 653,368	$ 960,168

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2006

	Special Revenue		
	State Liquid Fuels Tax Fund	Parks and Property Improvement Fund	Total Nonmajor Governmental Funds
Revenues			
Intergovernmental revenue	$ 846,057	$ -	$ 846,057
Department earnings and program revenue	-	740	740
Investment income	24,282	-	24,282
Total revenues	870,339	740	871,079
Expenditures			
Current			
General government	-	13,001	13,001
Public works	736,052	-	736,052
Total expenditures	736,052	13,001	749,053
Excess of revenues over (under) expenditures	134,287	(12,261)	122,026
Other financing sources (uses)			
Transfers out	(64,063)	-	(64,063)
Total other financing sources (uses)	(64,063)	-	(64,063)
Net change in fund balance	70,224	(12,261)	57,963
Fund balance - beginning of year	171,388	125,163	296,551
Fund balance - end of year	$ 241,612	$ 112,902	$ 354,514

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2006

	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	$ 839,774	$ 839,774	$ -	$ 846,057	$ 6,283	$ -	$ -	$ -	$ -	$ -
Investment income	6,200	6,200	-	24,282	18,082	1,000	1,000	-	2,169	1,169
Total revenues	845,974	845,974	-	870,339	24,365	1,000	1,000	-	2,169	1,169
Expenditures										
Public works	792,494	792,494	-	743,809	48,685	-	-	-	-	-
Debt service	-	-	-	-	-	8,916,996	8,916,996	-	8,854,585	62,411
Total expenditures	792,494	792,494	-	743,809	48,685	8,916,996	8,916,996	-	8,854,585	62,411
Excess of revenues over (under) expenditures before other financing sources (uses)	53,480	53,480	-	126,530	73,050	(8,915,996)	(8,915,996)	-	(8,852,416)	63,580
Other financing sources (uses)										
Transfers in	-	-	-	-	-	8,915,996	8,915,996	-	8,841,044	(74,952)
Transfers out	(64,063)	(64,063)	-	(64,063)	-	-	-	-	-	-
Total other financing sources (uses)	(64,063)	(64,063)	-	(64,063)	-	8,915,996	8,915,996	-	8,841,044	(74,952)
Net change in fund balance	(10,583)	(10,583)	-	62,467	73,050	-	-	-	(11,372)	(11,372)
Fund balance - beginning of year, budgetary basis	10,583	10,583	-	200,227	189,644	-	-	-	72,134	72,134
Fund balance - end of year, budgetary basis	$ -	$ -	$ -	$ 262,694	$ 262,694	$ -	$ -	$ -	$ 60,762	$ 60,762

Explanation of differences between budget basis and GAAP:

	State Liquid Fuels Tax Fund	Debt Service Fund
Net change in fund balance - budgetary basis	$ 62,467	$ (11,372)
Accrued expenditures - December 31, 2005	10,899	-
Accrued expenditures - December 31, 2006	(3,142)	-
Net change in fund balance - GAAP basis	$ 70,224	$ (11,372)

Agency Funds

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

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

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

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS
DECEMBER 31, 2006

	School Tax Collection	Payroll and Other Escrow Liabilities	Pass-Through Grants	Total Agency Funds
ASSETS				
Cash	$ 403,629	$ 314,927	$ 110,120	$ 828,676
Investments, at fair value	-	-	1,596,528	1,596,528
Total assets	403,629	314,927	1,706,648	2,425,204
LIABILITIES				
Due to other governments	403,629	-	-	403,629
Escrow liabilities	-	314,927	1,706,648	2,021,575
Total liabilities	$ 403,629	$ 314,927	$ 1,706,648	$ 2,425,204

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2006

	Beginning of Year	Additions	Deductions	End of Year
School Tax Collection				
Assets				
Cash	$ 332,629	$ 33,501,270	$ 33,430,270	$ 403,629
Liabilities				
Due to other governments	$ 332,629	$ 33,501,270	$ 33,430,270	$ 403,629
Payroll and Other Escrow Liabilities				
Assets				
Cash	$ 313,474	$ 37,595,952	$ 37,594,499	$ 314,927
Liabilities				
Escrow liabilities	$ 313,474	$ 37,595,952	$ 37,594,499	$ 314,927
Pass-Through Grants				
Assets				
Cash	$ 110,030	$ 90	$ -	$ 110,120
Investments	1,822,614	62,824	288,910	1,596,528
Total assets	$ 1,932,644	$ 62,914	$ 288,910	$ 1,706,648
Liabilities				
Escrow liabilities	$ 1,932,644	$ 62,914	$ 288,910	$ 1,706,648
Total Agency Funds				
Assets				
Cash	$ 756,133	$ 71,097,312	$ 71,024,769	$ 828,676
Investments	1,822,614	62,824	288,910	1,596,528
Total assets	$ 2,578,747	$ 71,160,136	$ 71,313,679	$ 2,425,204
Liabilities				
Due to other governments	$ 332,629	$ 33,501,270	$ 33,430,270	$ 403,629
Escrow liabilities	2,246,118	37,658,866	37,883,409	2,021,575
Total liabilities	$ 2,578,747	$ 71,160,136	$ 71,313,679	$ 2,425,204

CITY OF HARRISBURG, PENNSYLVANIA

FEDERAL AWARD PROGRAMS IN
ACCORDANCE WITH OMB CIRCULAR A-133

YEAR ENDED DECEMBER 31, 2006

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MAHER DUESSEL
CERTIFIED PUBLIC ACCOUNTANTS

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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 Stephen R. Reed, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania, as of and for the year ended December 31, 2006, which collectively comprise the City of Harrisburg's basic financial statements and have issued our report thereon dated October 1, 2007. 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. We did not audit the financial statements of the Redevelopment Authority of the City of Harrisburg. The financial statements of The Harrisburg Authority and the Harrisburg Parking Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Harrisburg's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Harrisburg's financial statements that is more than inconsequential will not be prevented or detected by the City of Harrisburg's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding 2006-01, 2006-02, and 2006-03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Harrisburg's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2006-02 and 2006-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harrisburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We also noted certain matters that we have reported to management of the City of Harrisburg, Pennsylvania, in a separate letter dated October 1, 2007.

* * * * * * * * *

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

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

Maher Duessel

Harrisburg, Pennsylvania
October 1, 2007

MAHER DUESSEL
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Stephen R. Reed, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania

Compliance

We have audited the compliance of the City of Harrisburg, Pennsylvania with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 "Compliance Supplement"* that are applicable to each of its major federal programs for the year ended December 31, 2006. The City of Harrisburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Harrisburg's management. Our responsibility is to express an opinion on the City of Harrisburg's compliance based on our audit.

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

As described in Finding 2006-04, 2006-05 and 2006-08 in the accompanying schedule of findings and questioned costs, the City of Harrisburg did not comply with certain A-133 reporting requirements that are applicable to its COPS Grant program, Local Law Enforcement Block Grants, and Community Development Block Grants. Compliance with such requirements, is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

As described in Findings 2006-06, 2006-09, and 2006-10 in the accompanying schedule of findings and questioned costs, the City of Harrisburg did not comply with certain requirements regarding allowable/unallowable costs, cost principles, and period of availability that are applicable to its Local Law Enforcement Block Grants, Community Development Block Grants, Home Improvement Partnership Program, and Economic Development Initiative Special Project. Compliance with such requirements is necessary, in our opinion, for the City of Harrisburg, to comply with requirements applicable to those programs.

As described in Finding 2006-07 in the accompanying schedule of findings and questioned costs, the City of Harrisburg did not comply with certain A-133 special tests and provisions requirements that are applicable to its COPS Grant program. Compliance with such requirements, is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding three paragraphs, the City of Harrisburg complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2006-04, 2006-05, 2006-06, 2006-07, 2006-08, 2006-09, and 2006-10 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Findings 2006-04, 2006-05, 2006-06, 2006-07, 2006-08, 2006-09, and 2006-10 to be material weaknesses.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, as of and for the year ended December 31, 2006, and have issued our report thereon dated October 1, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrisburg's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

Maher Duessel

Harrisburg, Pennsylvania
October 1, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cash Received	Federal Expenditures
U.S. Department of Health and Human Services:				
Pass-Through Programs from Pennsylvania Department of Health:				
Lead Based Paint Hazard	93.197	ME-03205	$ 112,644	$ 201,595
Pass-Through Programs from Pennsylvania Department of Community and Economic Development:				
Social Services Block Grant	93.585	C000016742	433,725	-
Total U.S. Department of Health and Human Services			546,369	201,595
U.S. Department of Housing and Urban Development:				
CDBG Entitlement and Small Cities Cluster				
Community Development Block Grant Entitlement Program (Section 108)	14.218	B-98-MC-42-0007	1,088	1,088
Community Development Block Grant Entitlement Program	14.218	B-02-MC-42-0007	58,330	58,330
Community Development Block Grant Entitlement Program	14.218	B-03-MC-42-0007	85,524	85,524
Community Development Block Grant Entitlement Program	14.218	B-04-MC-42-0007	558,585	558,585
Community Development Block Grant Entitlement Program (Section 108)	14.218	B-04-MC-42-0007	3,795,000	18,662
Community Development Block Grant Entitlement Program	14.218	B-05-MC-42-0007	1,551,383	1,551,383
Community Development Block Grant Entitlement Program	14.218	B-06-MC-42-0007	145,496	105,776
Total CDBG Entitlement and Small Cities Cluster			6,195,406	2,379,348
Community Development Block Grant – Lead Base Abatement Program	14.900	PALHB-0241-03	1,096,253	995,074
Emergency Shelter Grant	14.231	S-04-MC-42-0004	4,073	4,073
Emergency Shelter Grant	14.231	S-05-MC-42-0004	84,751	84,751
Emergency Shelter Grant	14.231	S-06-MC-42-0007	624	8,503
Total Emergency Shelter Grant			89,448	97,327

(continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cash Received	Federal Expenditures
U.S. Department of Housing and Urban Development (Cont'd):				
Home Investment Partnerships Program	14.239	M-01-MC-42-0201	108,408	108,408
Home Investment Partnerships Program	14.239	M-02-MC-42-0201	504,885	504,885
Home Investment Partnerships Program	14.239	M-03-MC-42-0201	15,992	15,992
Home Investment Partnerships Program	14.239	M-04-MC-42-0201	118,749	118,749
Home Investment Partnerships Program	14.239	M-05-MC-42-0201	234,590	234,590
Home Investment Partnerships Program	14.239	M-06-MC-42-0201	61,699	21,887
Total HOME Program			1,044,323	1,004,511
Economic Development Initiative - Special Project	14.251	B-05-SP-PA-0946	216,504	216,064
Total U.S. Department of Housing and Urban Development			8,641,934	4,692,324
Federal Emergency Management Agency/Department of Homeland Security:				
National Urban Search and Rescue Response System	97.025	EMW-2004-CA-0328	130,470	114,743
National Urban Search and Rescue Response System	97.025	EMW-2004-CA-0229	927,424	873,317
National Urban Search and Rescue Response System	97.025	EMW-2005-CA-0240	505,693	578,027
National Urban Search and Rescue Response System	97.025	EMW-2006-CA-0229	-	117,587
Subtotal Direct Programs			1,563,587	1,683,674
Pass-Through Programs from Pennsylvania Emergency Management Agency:				
Federal Emergency Management Agency Grant	97.036	FEMA-1557-DR-PA	-	229,094
Urban Search and Rescue Response Team	97.067	PEMA-2005-HSGP	156,240	226,199
Subtotal Pass-Through Programs			156,240	455,293
Total Federal Emergency Management Agency/Department of Homeland Security			1,719,827	2,138,967

(continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cash Received	Federal Expenditures
U.S. Department of Justice:				
Equitable Sharing	16.000	N/A	8,587	12,779
Local Law Enforcement Block Grant	16.592	2004-LBBX-1219	-	14,312
COPS Grants	16.710	2003-UM-WX-0100	180,000	195,000
Gang Resistance Education and Training Program	16.737	2006-JV-FX-0117	-	28,441
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-BX-0800	30,000	30,000
Subtotal Direct Programs			218,587	280,532
Pass-Through Programs from Pennsylvania Commission on Crime and Delinquency:				
Drug Control and System Improvement Program	16.579	2003-DS-04-13215-2	2,830	-
Drug Control and System Improvement Program	16.579	2004-DS-04-13215-3	1,036	843
Drug Control and System Improvement Program	16.579	2004-DS-16-13149-3	23,288	13,983
Subtotal Pass-Through Programs			27,154	14,826
Total U.S. Department of Justice			245,741	295,358
U.S. Department of Transportation:				
Pass-Through Programs from Pennsylvania Department of Transportation:				
Highway Planning and Construction Cluster				
Surface Transportation Program	20.205	Q23-X085-130	242,899	217,832
Surface Transportation Program	20.205	X085-134-Q23	121,728	127,497
Highway Planning and Construction	20.205	X085-153-Q10	171,507	184,743
Highway Planning and Construction	20.205	T085-115-Q220	1,000,000	999,476
Highway Planning and Construction	20.205	X085-192-L400	-	46,386
Highway Planning and Construction	20.205	X085-153-Q10	596,030	596,030
Highway Planning and Construction	20.205	X085-186-H400	835,990	863,044
Total Highway Planning and Construction Cluster			2,968,154	3,035,008

(continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cash Received	Federal Expenditures
U.S. Department of Transportation (cont'd):				
Pass-Through Programs from the North Central Highway Safety Network, Inc.:				
State and Community Highway Safety Program	20.602	J2 07-02-1	21,950	21,950
State and Community Highway Safety Program	20.602	SE 07-01-1	11,965	11,965
Subtotal Pass-Through Programs			33,915	33,915
Total U.S. Department of Transportation			3,002,069	3,068,923
U.S. Department of General Services Administration:				
Pass-Through Programs from Pennsylvania Department of General Services:				
Federal Surplus Property	39.003	23-6002010	8,887	8,887
Total U.S. Department of General Services Administration			8,887	8,887
Total Expenditure of Federal Awards			$ 14,164,827	$ 10,406,054

See accompanying notes to Schedule of Expenditures of Federal Awards.

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity 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, 2006. Cash received, as presented in the Schedule, represents cash received by the City during the year ended December 31, 2006 and is presented to facilitate reconciliations by grantor agencies.

3. SECTION 108 LOANS

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

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

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

The composition of promissory notes outstanding under Section 108 at December 31, 2006 is as follows:

Date of Notice	Amount of Note	Interest Rate	Required Interest Payments	Principal Balance December 31, 2006	2006 Principal Payments
May 13, 2000	$ 4,205,000	7.02%	Semi-annually, February and August 1	$ 3,210,000	$ 165,000
September 14, 2006	$ 3,795,000	5.34%	Semi-annually, February and August 1	3,795,000	-
				$ 7,005,000	$ 165,000

Section 108 loans changed during the year as follows:

Beginning of Year	Additions	Payments	End of Year
$ 3,375,000	$ 3,795,000	$ 165,000	$ 7,005,000
$ 3,375,000	$ 3,795,000	$ 165,000	$ 7,005,000

Prior Year Findings

Financial Statement Findings

Finding 2005-01

Condition: The City had entered into reimbursement agreements to provide public safety services to other entities. This finding was a material weakness stating that no invoices for the reimbursement of certain public safety services were prepared or submitted for expenses incurred during the year.

Recommendation: The auditor recommended that the City bill the other entities for the salaries and benefits of the public safety officers and reemphasize the need to invoice the other entities in a timely fashion.

Current Status: The excess salaries and benefits have been billed to the other entities by the Police Bureau Financial Development Officer. No similar findings were noted for the year ended December 31, 2006.

Federal Award Findings and Questioned Costs

Department of Justice

Finding 2005-02: Local Law Enforcement Block Grants, CFDA 16.592

Condition: Four of the eight Financial Status Reports (FSRs) maintained in the grant files indicated no signature of the authorized certifying official.

Recommendation: The auditor recommended that the Police Bureau Financial Development Officer should be reminded that copies of the signed FSRs should be maintained in the file.

Current Status: Online submissions of the quarterly FSRs were permitted by the grantor agency. No similar findings were noted for the year ended December 31, 2006.

Finding 2005-03: COPS Grants, CFDA 16.710 and Local Law Enforcement Block Grants, CFDA 16.592

Condition: Financial Status Reports (FSRs) and the annual programmatic report were not filed timely in accordance with requirements of the grants and the FSRs were not accurate.

Recommendation: The auditor recommended that the Police Bureau Financial Development Officer, who is responsible for preparing the FSRs and annual programmatic report, should establish a system to be reminded of the deadlines associated with each grant and ensure that applicable deadlines are met. Additionally, the City official responsible for review of the FSRs should review them for accuracy prior to their submission to the funding agency.

Current Status: Similar findings related to timeliness of filing of the FSRs, as well as accuracy of the FSRs were noted during the 2006 audit. Refer to Finding 2006-05 in the Schedule of Findings and Questioned Costs.

Finding 2005-04: Public Assistance Grant, CFDA 97.036

Condition: Straight-time salaries for police officers were charged to the Public Assistance Grant.

Recommendation: The auditor recommended that the Police Bureau Financial Development Officer, who is responsible for preparation and submission of allowable costs, establish a system to review the allowability of all costs prior to submission for reimbursement.

Current Status: No funds were required to be returned as a result of the finding. All projects under this grant have been closed and final payment under this grant was authorized by the grantor agency.

Part I. Summary of Auditor's Results

Financial Statements

An unqualified auditor's report on the financial statements was issued.

Internal control over financial reporting

Material weakness(es) identified?	X Yes	___ No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	X Yes	___ No
Noncompliance material to financial statements noted?	___ Yes	X No

Federal Awards
Internal control over major programs

Material weakness(es) identified?	X Yes	___ No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ Yes	X No
An unqualified auditor's report on compliance for major programs was issued.	___ Yes	X No
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	X Yes	___ No

CFDA Number(s)	Name of Major Federal Program or Cluster
14.218	Community Development Block Grant/Entitlement Grants
14.239	Home Investment Partnerships Program
14.251	Economic Development Initiative – Special Project
16.710	COPS Grants
20.205	Highway Planning and Construction Project Cluster

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

Auditee qualified as low-risk auditee? ___ Yes X No

Part II

Financial Statement Findings

Control Deficiency: Significant Deficiency

Finding 2006-01: Calculating "S" Account Billings

Condition: The "S" Accounts are accounts for outside municipalities that utilize the City's sewer system. During the audit, it was noted that the billings for fourth quarter 2006 usage for both Paxtang and Penbrook were not billed until April 2007.

Criteria: Outside municipalities are billed quarterly for their usage of the City's sewer system. Generation of billings is dependent on receiving the usage from the municipality.

Effect: The City did not receive payment for services rendered in a timely manner.

Cause: Per discussions with management, it was determined that information needed to be obtained from an outside source and transmitted to the City in order for the City to calculate the bill for these municipalities.

Recommendation: We recommend that efforts be made to contact these outside sources to obtain the information in a more timely manner so that the City can better manage the process for the preparation of the bills and the collection of the receipts from these outside municipalities.

Management's Response: The City agrees and will increase resources in order to bill in a timely manner.

Control Deficiency: Material Weaknesses

Finding 2006-02: Monitoring and Reconciliation of Loans Receivable

Condition: For the DBHD loans, administered by DBHD, we noted the following items:

- Consistent with prior year, 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 the Portfolio will not automatically accrue interest on the outstanding balance. This yearly accrued interest would have to be manually calculated and entered as a separate component of the loan.
- Loan balances per Portfolio are not reconciled to the general ledger balances recorded in Pentamation.

For the MOED loans, administered by MOED, we noted the following items:

- Disbursements for new loans per Portfolio did not reconcile to amounts disbursed per the general ledger for the General Fund and the State Grants Fund.
- Principal and interest payments for Enterprise Community loans are all posted to program revenue rather than the principal portion against the loan receivable and the interest portion to interest income.
- Payments from loan recipients were inconsistently recorded in the general ledger for the General Fund and the State Grants Fund.
- Loan balances per Portfolio were not reconciled to the general ledger for the General Fund or the State Grants Fund.

Criteria: Subsidiary ledgers should support the amounts reported on the general ledger system and be reconciled periodically.

Effect: The City's trial balances are misstated throughout the year.

Cause: Because of turnover in both the DBHD and the Mayor's Office of Economic Development (MOED), timely reconciliations have not been prepared by either department.

Recommendation: With respect to the DBHD loans, we recommend that:

- Procedures are established to include the accrued interest on construction projects in Portfolio.
- Procedures be established to reconcile all outstanding loan balances to the general ledger balances recorded in Pentamation.

With respect to the MOED loans, we recommend that:

- All documentation for new loans or amendments to existing loans be contained in the loan file.
- All payments received on loans be applied to the appropriate fund in which the loan balance is maintained.
- Reconciliations of the loan balances in Portfolio to the loan receivable general ledger balance of the state grants and general funds be prepared on at least a quarterly basis.

Management's Response: The City agrees. Unfortunately, due to turnover within the DBGD and MOED, timely reconciliations were note prepared. The software company has been contacted and will provide additional training on the use of the Portfolio system.

Finding 2006-03: Financial Reporting

Condition: During the audit process, various material adjustments were proposed to the City's records by the auditors. These audit adjustments were necessary to correct the City's recording of workers' compensation cash, agency fund cash, debt related trust fund cash, amounts due between funds and with component units, grant over-expenditures, deferred revenue, utility receivables, accrued interest expense, and workers' compensation liabilities.

Criteria: The City should have the ability to produce its financial statements in accordance with generally accepted accounting principles applicable to governmental entities ("GAAP").

Effect: If an entity relies upon its auditors to assist them in producing GAAP financial statements, the auditor is required to communicate a significant deficiency or material weakness related to financial reporting.

Recommendation: We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can eliminate the financial reporting deficiencies noted above.

Management's Response: The City agrees and will increase resources in order to have all entries recorded in a timely manner.

Part III

Federal Award Findings and Questioned Costs

2006-04: Schedule of Expenditures of Federal Awards, Department of Justice, COPS, CFDA 16.710

Condition: The City was unable to provide an accurate and complete summary of federal expenditures for the year ended December 31, 2006 relative to the police grants.

Criteria: The City should have in place an internal control system relative to federal awards that is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations. In addition, an internal controls system pertaining to the compliance requirements for federal programs should provide reasonable assurance that transactions are properly recorded and accounted for to: 1) permit the preparation of reliable financial statements and federal reports; 2) maintain accountability over assets; and 3) demonstrate compliance with laws, regulations, and other compliance requirements. OMB Circular A-133, Section .310 states that the auditee shall prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. The schedule is required to include, at a minimum: 1) individual federal programs by federal agency; 2) the name of the pass-through entity and the identifying number assigned by the pass-through entity; and 3) the total federal awards expended for each individual federal program.

Effect: The Schedule of Expenditures of Federal Awards provided for the audit was not accurate or complete relative to the police grants..

Cause: Because the position of Police Bureau Financial Development Officer was not filled with a full-time employee, procedures in place to ensure that all federal awards are being monitored were not followed.

Recommendation: The City should consider replacing the part-time consultant within the police department, with a full-time grants administrator. Additionally the City may want to consider a Central Grants Administrator position. One person should be designated with the responsibility of oversight of all federal grants. However, personnel within other departments should be cross-trained to perform duties associated with the grants, should the Central Grants Administrator become unable to perform the duties.

Grantee Response: The City agrees. The City has implemented procedures to ensure that all department and office directors are aware of the grant documentation required in order to aide in developing a complete and accurate Schedule of Expenditures of Federal Awards.

2006-05, Department of Justice, COPS Grants, CFDA 16.710 and Local Law Enforcement Block Grants, CFDA 16.592

Condition: Financial Status Reports (FSRs) were not filed timely in accordance with requirements of the grants and the FSRs were not accurate.

Criteria: According to Part III, Chapter 11 of the Department of Justice, Office of Justice Program Financial Guide 2006, quarterly FSRs are required to be filed no later than 45 days after the last day of each calendar quarter.

Effect: There is potential for loss of grant funding as a result of untimely, inaccurate filing of FSRs.

Cause: Because the position of Police Bureau Financial Development Officer was not filled with a full-time employee, procedures in place to ensure that accurate reports were filed within the required timeframe were not followed.

Population and Items Tested: A sample of eight FSRs was selected for testing. Four of the FSRs were not filed timely and five were inaccurate.

Recommendation: The Police Bureau Financial Development Officer or Police Bureau consultant, who is responsible for preparing the FSRs, should establish a system to be reminded of the deadlines associated with each grant and ensure that the applicable deadlines are met. Additionally, the Police Bureau should designate a management-level employee to review all FSRs for clerical accuracy and timeliness of filing prior to their electronic filing. Evidence of this review should be maintained in the grant files..

Grantee Response: The City agrees. Unfortunately, due to turnover in this position over the past three years, there has been a lack of consistency and accuracy in the preparation of FSRs. The City received no notifications from the Department of Justice indicating rejections of grant documents or loss of grant award revenue due to untimely filing. The Bureau of Police will establish a system to ensure that applicable grant deadlines are met and that the reports are accurate.

2006-06, Department of Justice, Local Law Enforcement Block Grants, CFDA 16.592

Condition: Expenses were incurred and paid for subsequent to the expiration date of the grant.

Criteria: According to Part III, Chapter 16 of the Department of Justice, Office of Justice Program Financial Guide 2006, any costs incurred either before the start of the project period or after the expiration date of the project period are not allowable.

Effect: There is potential for loss of grant funding as a result of submission of unallowable costs.

Cause: Because the position of Police Bureau Financial Development Officer was not filled with a full-time employee, procedures in place to ensure that expenses were incurred prior to the expiration of the grant period were not followed.

Questioned Costs: Expenses incurred subsequent to the expiration of the Local Law Enforcement Block Grant amounted to $19,812.

Recommendation: The Police Bureau Financial Development Officer or Police Bureau consultant, who is responsible for preparation and submission of allowable costs, should establish a system to review the expiration dates of grants to ensure that allowable costs are incurred prior to the expiration date of the grant and that the period of availability is met. Such a system may include a monthly status report indicating grant award end dates, programmatic and financial reporting deadlines, and grant balances remaining to be drawn.

Grantee Response: The City agrees. Unfortunately, due to turnover in this position over the past three years, there has been a lack of consistency in the preparation of reimbursement documents and the monitoring of grant terms. A system will be established to ensure that only allowable costs are submitted for reimbursement.

2006-07, Department of Justice, COPS Grants, CFDA 16.710

Condition: The complement of sworn officers required to be maintained throughout the life of the COPS grant was not met at any point during the year.

Criteria: According to correspondence received from the Department of Justice, Office of Community Oriented Policing Services, a nonsupplanting requirement applies to all COPS police hiring grantees throughout their three-year grant programs. The requirement ensures that COPS funds are not used to supplant or replace local funding which otherwise would have been spent on law enforcement purposes. The requirement further states that the police officers hired under a COPS grant must be in addition to, and not instead of, the normal and planned hiring by a police department. The COPS office expects grant recipients to hire new officers at a level consistent with recent historical practice and to take positive steps to fill all vacancies resulting from attrition. These steps must be taken in addition to hiring the officers funded with a COPS grant.

Effect: There is potential to have to repay COPS funds. There is also the potential for a suspension and/or termination of the COPS grant awards at issue, and/or a bar from receiving new COPS grant awards.

Cause: There were no procedures in place to ensure that the complement was being met.

Questioned Costs: The federal share of outlays charged to the grant amounted to $195,000.

Recommendation: The Police Bureau Financial Development Officer or Police Bureau consultant, who is responsible for the monitoring of grant requirements, should establish a system to ensure that all provisions of the grant are being met and that immediate contact with the grantor agency is made when questions arise regarding specific grant requirements.

Grantee Response: The City agrees. However the Bureau of Police has contacted the Department of Justice to obtain an amendment to the requirement. The Chief of Police is working with the Department of Justice to try to obtain approval of a reduction in force due to mitigating circumstances experienced by the Bureau.

2006-08, Department of Housing and Urban Development, Community Development Block Grant, CDFA 14.218

Condition: Federal Cash Transaction Reports were not filed timely in accordance with the requirements of the grant.

Criteria: Pursuant to CFR Title 24, Part 85, Subpart 85, Section 85.4, Financial Reporting, the Department of Housing and Urban Development (HUD) requires that a Federal Cash Transaction Report (HUD Form 272-I) be completed on a quarterly basis and filed within 15 working days of the end of each calendar quarter.

Effect: There is potential for loss of future grant funding and not being able to draw down funds in the IDIS system as a result of untimely filing of the Federal Cash Transaction Reports.

Cause: Because of turnover in the Director of Housing and Building Development and Fiscal Officer positions, procedures in place to ensure that the reports were filed within the required timeframe were not followed.

Population and Items Tested: All four of the quarterly Federal Cash Transaction Reports were selected for testing. Two of the reports were not filed timely.

Recommendation: The Fiscal Officer or City employee responsible for preparing the Federal Cash Transaction Report should establish a system to be reminded of the deadlines and ensure that they are met.

Grantee Response: The City agrees. Unfortunately, due to turnover in the positions noted, there has been a lack of consistency in the preparation of the Federal Cash Transaction Reports. The new Deputy Director of Housing has established a system to ensure that applicable grant deadlines are met.

2006-09, Department of Housing and Urban Development, Community Development Block Grant, CDFA 14.218 and Home Investment Partnerships Program, CFDA 14.239

Condition: Payroll distributions recorded for CDBG and HOME do not reflect an after-the-fact distribution of the actual activity of each employee. Payroll distributions are based on budgeted amounts that are updated at the beginning of each program year. Budget estimates determined before the services are performed do not qualify as support for charges to federal awards.

Criteria: Pursuant to OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* budget estimates or other distribution percentages determined before services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: 1) the governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; 2) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and 3) budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Effect: There is a potential for loss of grant funding as a result of not adhering to applicable cost principles.

Cause: Because of turnover in the Director of Building and Housing Development position, the Department employee responsible for monitoring payroll costs charged to the grants, was not aware of this requirement.

Recommendation: The City should establish a system to adjust (at least quarterly) for differences between the actual time spent on the programs and the budgeted costs being charged to the programs.

Grantee Response: The City agrees. The new Deputy Director of Housing has implemented timekeeping procedures within the Department to easily enable a quarterly reconciliation process as budgeted amounts are continuing to be used for interim accounting purposes. Procedures will also be implemented to ensure an annual adjustment to amounts recorded in the financial reporting system.

2006-10, Department of Housing and Urban Development, Economic Development Initiative Special Project, CFDA 14.251

Condition: Expenses for a period prior to the enactment of the Consolidated Appropriations Act of 2005 were charged to the grant.

Criteria: Pursuant to the Consolidated Appropriations Act of 2005, EDI funds provided for projects shall not be used for reimbursement of expenses incurred prior to enactment of the Act on December 8, 2004.

Effect: There is potential to have to repay grant funding as a result of the submission of unallowable costs.

Cause: Because of turnover in the Director of Building and Housing Development position, procedures in place to ensure that only eligible expenses were submitted to the funding agency were not followed.

Questioned Costs: Expenses incurred prior to the enactment of the Act totaled $45,459.

Recommendation: The Department employee designated with responsibility for the monitoring of grant requirements, should establish a system to ensure that all provisions of the grant are being met and that immediate contact with the grantor agency is made when questions arise regarding specific grant requirements.

Grantee Response: The City agrees. Procedures will be implemented to ensure that the grant requirements are monitored closely by department personnel.