

CITY OF HARRISBURG, PENNSYLVANIA

**FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION**

YEAR ENDED DECEMBER 31, 2007

**WITH
INDEPENDENT AUDITOR'S REPORT**

MAHER DUESSEL

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HARRISBURG

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CITY OF HARRISBURG

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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, 2007, 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 1.42 percent, 20.93 percent, and 5.59 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, as of December 31, 2007, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Honorable Stephen R. Reed, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report
Page Two

The Management's Discussion and Analysis, budgetary comparison information, and pension plan information on pages 3 through 14 and 109 through 114 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City 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
December 29, 2008

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 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, 2007. 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, 2007 and 2006, exceeded its liabilities by \$53,319,004 and \$42,275,517, respectively.
 - Invested in capital assets, net of related debt, in the amount of \$68,791,001 and \$75,155,792 for the years ending December 31, 2007 and 2006, 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 \$5,686,099 and \$2,138,921 for the years ending December 31, 2007 and 2006, respectively.
 - Unrestricted net assets, which are assets not restricted for any particular purpose, were (\$21,158,096) and (\$35,019,196) for the years ending December 31, 2007 and 2006, respectively.
- At December 31, 2007 and 2006, the fund balance of the City of Harrisburg's governmental funds was \$18,060,228 and \$4,690,689, respectively.
- The City's total net assets increased by \$11,043,487. This is due primarily to the sale of the Harrisburg Senators minor league baseball franchise and a 1.5 mill real estate tax increase, netted against valuation adjustments related to certain City artifacts.
- The fund balance of the governmental funds increased by \$13,369,539 for the year ended December 31, 2007, primarily due to the issuance of a capital lease in the amount of approximately \$8.3 million and a 1.5 mill real estate tax increase.

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, which was sold by the City to a private owner during 2007. 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.

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007

Government-wide Financial Analysis

CITY OF HARRISBURG
CONDENSED STATEMENT OF NET ASSETS
DECEMBER 31, 2007 AND 2006

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 41,989,882	\$ 34,141,702	\$ 23,407,354	\$ 25,899,693	\$ 65,397,236	\$ 60,041,395
Capital assets	112,225,754	122,346,233	44,402,315	44,510,818	156,628,069	166,857,051
Total assets	<u>154,215,636</u>	<u>156,487,935</u>	<u>67,809,669</u>	<u>70,410,511</u>	<u>222,025,305</u>	<u>226,898,446</u>
Current and other liabilities	24,657,198	32,635,722	2,417,531	2,900,439	27,074,729	35,536,161
Noncurrent liabilities	121,741,521	117,380,121	19,890,051	31,706,647	141,631,572	149,086,768
Total liabilities	<u>146,398,719</u>	<u>150,015,843</u>	<u>22,307,582</u>	<u>34,607,086</u>	<u>168,706,301</u>	<u>184,622,929</u>
Net assets:						
Invested in capital assets, net of related debt	34,134,373	44,681,389	34,656,628	30,474,403	68,791,001	75,155,792
Restricted	545,748	464,077	5,140,351	1,674,844	5,686,099	2,138,921
Unrestricted	(26,863,204)	(38,673,374)	5,705,108	3,654,178	(21,158,096)	(35,019,196)
Total net assets	<u>\$ 7,816,917</u>	<u>\$ 6,472,092</u>	<u>\$ 45,502,087</u>	<u>\$ 35,803,425</u>	<u>\$ 53,319,004</u>	<u>\$ 42,275,517</u>

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 \$53,319,004 and \$42,275,517 for years ending December 31, 2007 and 2006, respectively.

The largest portion of City of Harrisburg's net assets (129% for 2007 and 178% for 2006) 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.

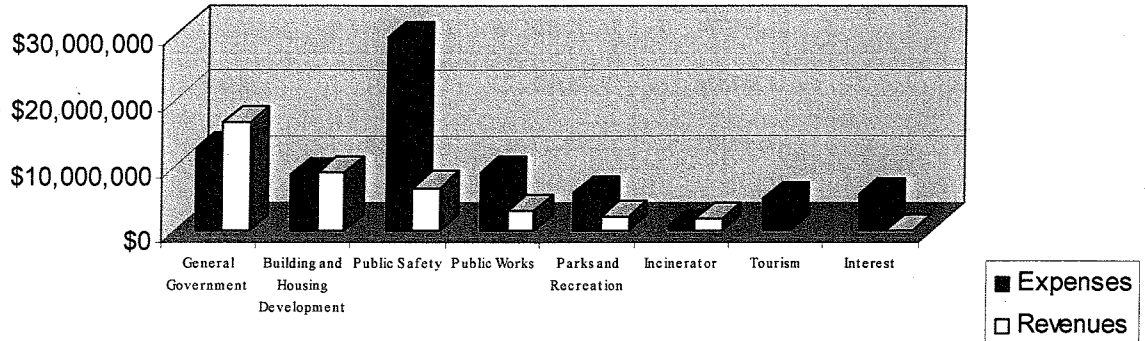
The City of Harrisburg's unrestricted net asset balances of (\$21,158,096) and (\$35,019,196), respectively, for the years ending December 31, 2007 and 2006 result from the recording of unfunded pension liability bonds, General Obligation Bonds, Series A and B of 1995, in the amount of \$10,559,266 and \$13,515,233, respectively; and vested compensated absences in the amount of \$8,800,332 and \$9,340,904, respectively. Additionally, during the year ended December 31, 2007 and 2006, the City had incurred approximately \$714,171 and \$6,119,838, respectively, of unreimbursed operating expenses of The Harrisburg Authority's Resource Recovery Facility.

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007

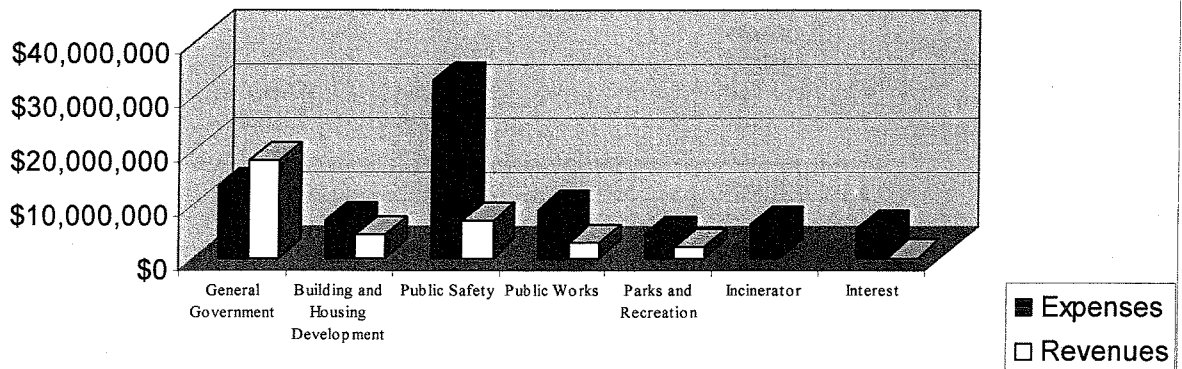
CITY OF HARRISBURG
CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Changes for services	\$ 25,500,774	\$ 23,372,150	\$ 27,167,086	\$ 17,583,142	\$ 52,667,860	\$ 40,955,292
Operating grants and contributions	11,837,574	7,199,902	104,607	86,856	11,942,181	7,286,758
Capital grants and contributions	2,368,927	3,329,257	1,665,268	657,537	4,034,195	3,986,794
General revenues:						
Taxes	28,651,155	25,647,506	-	-	28,651,155	25,647,506
Grants and contributions not restricted to specific functions	6,886,276	6,354,219	-	-	6,886,276	6,354,219
Other	750,284	584,035	688,223	806,672	1,438,507	1,390,707
Total revenues	<u>75,994,990</u>	<u>66,487,069</u>	<u>29,625,184</u>	<u>19,134,207</u>	<u>105,620,174</u>	<u>85,621,276</u>
Expenses						
General government	12,673,605	13,031,646	-	-	12,673,605	13,031,646
Building and housing development	8,549,637	6,882,911	-	-	8,549,637	6,882,911
Public safety	29,181,612	32,619,877	-	-	29,181,612	32,619,877
Public works	8,952,746	8,909,731	-	-	8,952,746	8,909,731
Parks and recreation	5,797,490	4,324,052	-	-	5,797,490	4,324,052
Incinerator	714,171	6,119,838	-	-	714,171	6,119,838
Tourism	4,835,059	-	-	-	4,835,059	-
Interest on long-term debt	5,682,610	5,333,204	-	-	5,682,610	5,333,204
Sewer	-	-	13,532,864	13,835,359	13,532,864	13,835,359
Sanitation	-	-	3,085,391	2,917,043	3,085,391	2,917,043
Harrisburg Senators	-	-	1,571,502	1,914,398	1,571,502	1,914,398
Total expenses	<u>76,386,930</u>	<u>77,221,259</u>	<u>18,189,757</u>	<u>18,666,800</u>	<u>94,576,687</u>	<u>95,888,059</u>
Change in net assets before transfers	(391,940)	(10,734,190)	11,435,427	467,407	11,043,487	(10,266,783)
Transfers	1,736,765	(1,149,476)	(1,736,765)	1,149,476	-	-
Change in net assets	1,344,825	(11,883,666)	9,698,662	1,616,883	11,043,487	(10,266,783)
Net assets January 1,	6,472,092	18,355,758	35,803,425	34,186,542	42,275,517	52,542,300
Net assets, December 31	<u>\$ 7,816,917</u>	<u>\$ 6,472,092</u>	<u>\$ 45,502,087</u>	<u>\$ 35,803,425</u>	<u>\$ 53,319,004</u>	<u>\$ 42,275,517</u>

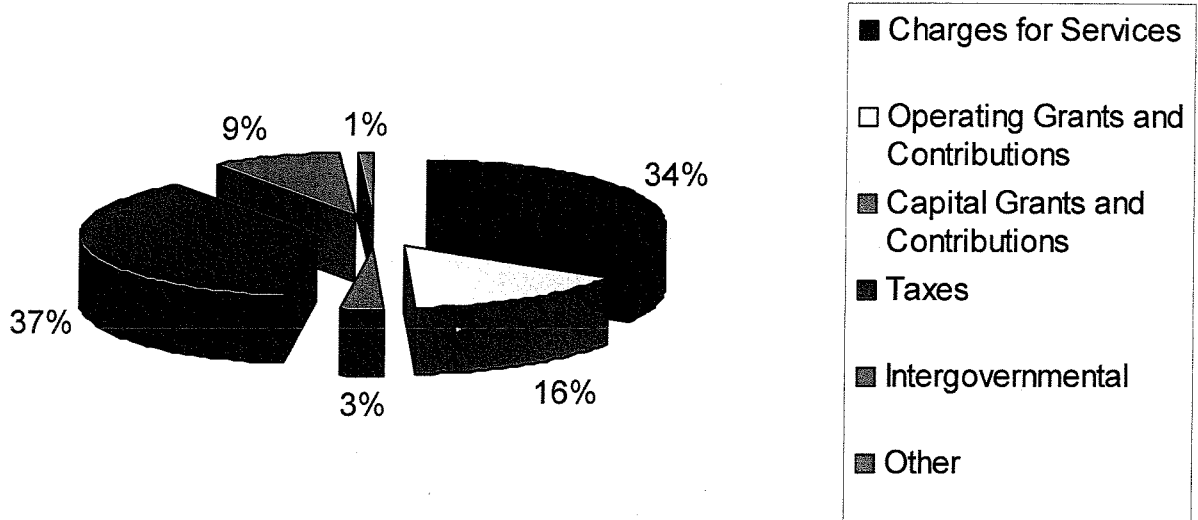
Expenses and Program Revenues - Governmental Activities - 2007



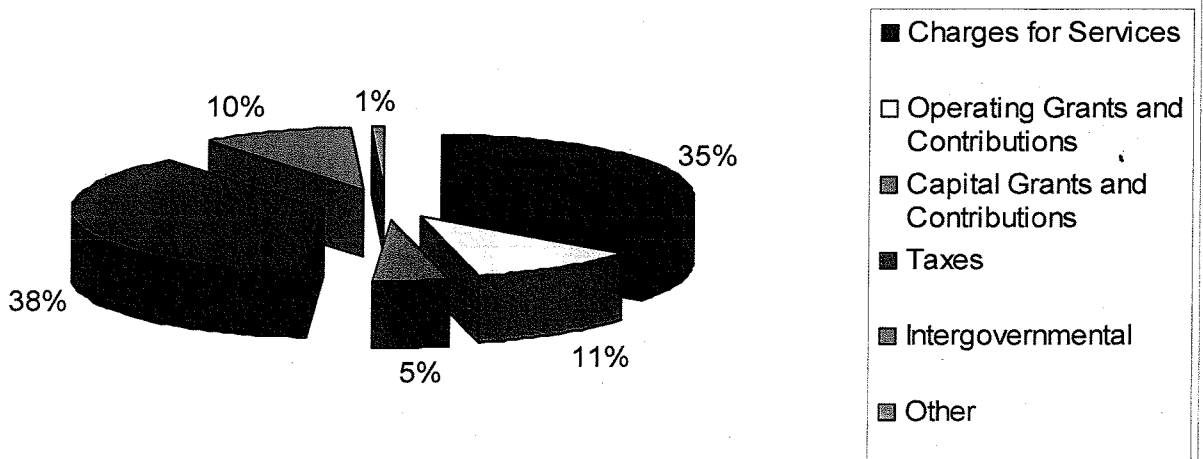
Expenses and Program Revenues - Governmental Activities - 2006



Revenues by Source - Governmental Activities - 2007

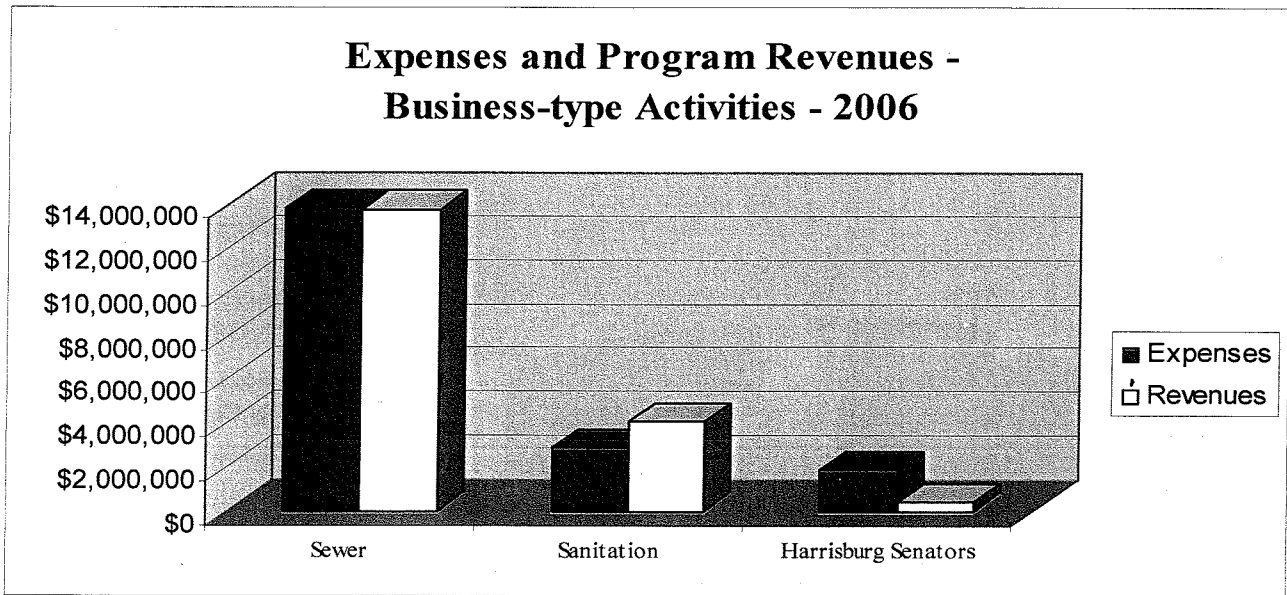
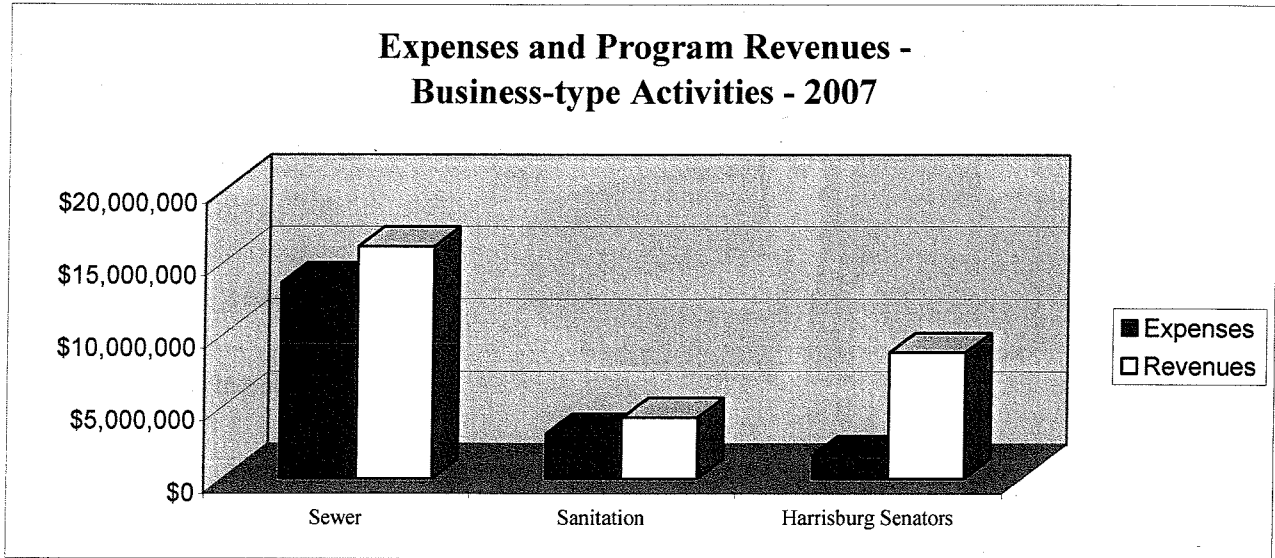


Revenues by Source - Governmental Activities - 2006



Governmental Activities Net assets for governmental activities increased by \$1,344,825 for the year ending December 31, 2007. The basic factors for the change in net assets were a 1.5 mill real estate tax increase which, under the full accrual basis of accounting, resulted in approximately \$2.7 million of additional tax revenue and approximately \$4.8 million in valuation adjustments related to certain City artifacts.

Net assets for governmental activities decreased by \$11,883,666 for the year ending December 31, 2006. The basic factor for the change in the 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.



Business-Type Activities Net assets for business-type activities increased by \$9,698,662 and \$1,616,883 for the years ending December 31, 2007 and 2006, respectively. The basic factor for the change in net assets during the year ending December 31, 2007, was primarily due to the sale of the Harrisburg Senators minor league baseball franchise resulting in a gain of approximately \$8.5 million. The basic factor for the change in net assets for the year ended 2006 was the sewer and sanitation rate increases.

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 \$18,060,228, an increase of \$13,369,539 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 increased by \$13,566,201 for the year ending December 31, 2007, or 1,922%, from the prior year. The basic factor for the change in the net assets is the issuance of a capital lease in the amount of approximately \$8.3 million to purchase vehicles and equipment, and a 1.5 mill real estate tax increase which, under the modified accrual basis of accounting, resulted in approximately \$3.2 million of additional tax revenue.

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 \$1,918,688 for the year ending December 31, 2007, or 3,335%, from the prior year. This is primarily due to \$500,000 of guarantee fees on behalf of a Harrisburg Parking Authority bond issue and a portion of the sale of the Harrisburg Senators minor league baseball franchise, to be used for 2008 debt service. The Fund Balance of the Capital Projects Fund decreased by \$2,081,626 for the year ending December 31, 2007, or -58%, from the prior year. This was due primarily to the write-off of prior year's ticket revenue due from the Harrisburg Civic Baseball Club.

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%, 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 -17%, from the prior year. The Fund Balance of the Capital Projects Fund decreased by \$80,923 for the year ending December 31, 2006, or -2%, from the prior year.

2. **General Fund Budgetary Highlights** On a budgetary basis, the General Fund's actual revenues were \$3,664,230 more than the final budgeted amounts. This was primarily attributed to \$1.8 million of unanticipated tax revenue and \$2.8 million of unanticipated receipts from The Harrisburg Authority's Resource Recovery Facility. The General Fund's actual expenditures were \$3,785,152 less than the final budgeted amounts. This was primarily due to \$2.9 million of savings in General Expenses from

Hotel Tax expenditures in the Capital Projects Fund that were not transferred to the General Fund in the amount of \$571,000 and \$1.65 million of budgeted loan repayments to the City's Grants Fund and Sewer Fund that were never paid.

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, 2007 amounts to \$112,225,754 and \$44,402,315 (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:

- Certain historical artifacts with a cost at December 31, 2007 of approximately \$7.8 million have been removed from capital assets and reported as assets held for sale due to the City determining the proceeds from the sale of such artifacts should be used to pay down existing debt.
- The City retired and replaced its existing mainframe.
- Infrastructure increased by approximately \$2.4 million due primarily to the \$1.8 million of street improvements to the 6th, 13th, and 17th Street Corridor.

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

- The Senators franchise fee and related accumulated amortization were removed from capital assets due to the sale of the Harrisburg Senators minor league franchise.
- Construction-in-progress and buildings increased by approximately \$1.4 million and \$336,000 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 a capital lease in the amount of approximately \$8.7 million to be used to fund the purchase of vehicles and equipment.

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, approximately 49% of all real estate in the City is exempt from paying any type of taxes under state law. The number of properties achieving tax-exemption

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007

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 2008 costs:

- (a) Health care rate increases are projected to be approximately 8.7% for 2008.
- (b) Fuel and energy costs have reached their highest levels in U.S. history and the City has experienced higher expenses for both. The average 2007 retail cost for all grades and formulations of gasoline was \$2.84 per gallon. Fuel prices for 2008 are expected to increase as much as 17% during 2008.
- (c) 2008 heating and electricity costs are budgeted to increase 17% over 2007 actual costs.
- (d) Significant decreases in the value of the stock market are expected to have a negative impact on the City's minimum municipal obligation for the three defined benefit pension plans.
- (e) Increased costs associated with stray animals delivered to the Humane Society shelter have been passed along to the City resulting in a \$160,000 increased allocation to the shelter for 2008.
- (f) Salaries for the City's police officers are budgeted to increase approximately 3.5%.

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) 43 full-time positions were eliminated in the 2008 Proposed Budget.
- (b) Aggressive medical bill repricing in the Workers' Compensation Program is expected to save the City hundreds of thousands of dollars during 2008.
- (c) The changing of the administrative fee structure for the handling of dental insurance coverage from a percentage of claims to a per-employee per month cost, is expected to result in \$28,000 savings for 2008.
- (d) During 2008, 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 expanded terrorism coverage at a 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 \$150,000.

During 2008, the City issued 4.1% General Obligation Pennsylvania Infrastructure Bank Note in the amount of \$2.4 million to resurface various streets within the City.

During 2008, the City used proceeds from the 2007 sale of the Harrisburg Senators baseball franchise and proceeds from the 2007 sale of artifacts to make a \$1.9 million principal pay-down on the City's \$7.2 million revenue bonds, which were issued to finance the lease payments of the McCormick Public Service Center.

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.

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CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Assets					
Cash and cash equivalents	\$ 12,672,799	\$ 3,469,690	\$ 16,142,489	\$ 11,473,774	\$ 27,616,263
Investments, at fair value	1,854,683	1,025,790	2,880,473	-	2,880,473
Receivables, net of allowance for uncollectible accounts					
Taxes	6,550,290	-	6,550,290	-	6,550,290
Accounts	267,435	3,759,548	4,026,983	4,561,488	8,588,471
Loans	8,332,140	-	8,332,140	-	8,332,140
Other	518,777	-	518,777	77,909	596,686
Internal balances	(433,432)	433,432	-	-	-
Due from component unit	1,706,621	-	1,706,621	-	1,706,621
Due from primary government	-	-	-	2,705,656	2,705,656
Assets held for sale	2,271,635	-	2,271,635	-	2,271,635
Other assets	214,369	921,672	1,136,041	284,246	1,420,287
Restricted assets					
Cash and cash equivalents	296,713	2,159	298,872	-	298,872
Cash with fiscal agents	-	-	-	3,012,982	3,012,982
Investments, at fair value	7,737,852	13,795,063	21,532,915	105,876,667	127,409,582
Accrued interest receivable	-	-	-	217,347	217,347
Future lease rentals receivable from primary government	-	-	-	6,219,694	6,219,694
Capital assets, not being depreciated	25,167,271	5,110,848	30,278,119	14,654,145	44,932,264
Capital assets, less accumulated depreciation and amortization	87,058,483	39,291,467	126,349,950	234,275,680	360,625,630
Equitable ownership interest	-	-	-	7,050,000	7,050,000
Deferred charges, net of accumulated amortization	-	-	-	23,321,020	23,321,020
Total assets	154,215,636	67,809,669	222,025,305	413,730,608	635,755,913

(continued)

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Liabilities					
Accounts payable and other current liabilities	3,189,449	99,338	3,288,787	1,583,584	4,872,371
Matured bond coupons	20,097	-	20,097	-	20,097
Accrued liabilities	3,636,591	198,411	3,835,002	-	3,835,002
Due to primary government	-	-	-	1,696,621	1,696,621
Due to component unit	595,874	2,119,782	2,715,656	-	2,715,656
Unearned revenue	17,215,187	-	17,215,187	358,771	17,573,958
Liabilities payable from restricted assets	-	-	-	9,717,579	9,717,579
Noncurrent liabilities:					
Due within one year	10,578,527	4,063,017	14,641,544	9,461,773	24,103,317
Due in more than one year	111,162,994	15,827,034	126,990,028	547,341,658	674,331,686
Deferred revenue	-	-	-	4,941,511	4,941,511
Accrued landfill closure and postclosure liability	-	-	-	2,322,996	2,322,996
Total liabilities	146,398,719	22,307,582	168,706,301	577,424,493	746,130,794
Net assets					
Invested in capital assets, net of related debt	34,134,373	34,656,628	68,791,001	(145,533,824)	(76,742,823)
Restricted for:					
Highways and streets	206,409	-	206,409	-	206,409
Culture and recreation	274,574	-	274,574	-	274,574
Debt service	-	753,271	753,271	19,326,788	20,080,059
Capital projects	-	4,387,080	4,387,080	1,285,103	5,672,183
Guarantee agreement	-	-	-	284,801	284,801
Water operations	-	-	-	7,270,269	7,270,269
Resource recovery operations	-	-	-	1,812,533	1,812,533
Other	64,765	-	64,765	-	64,765
Unrestricted	(26,863,204)	5,705,108	(21,158,096)	(48,139,555)	(69,297,651)
Total net assets	\$ 7,816,917	\$ 45,502,087	\$ 53,319,004	\$(163,693,885)	\$(110,374,881)

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 12,673,605	\$ 14,153,412	\$ 448,741	\$ 2,022,468
Building and housing development	8,549,637	2,191,924	6,770,216	-
Public safety	29,181,612	4,635,158	1,992,350	-
Public works	8,952,746	2,295,614	874,421	-
Parks and recreation	5,797,490	181,970	1,751,846	346,459
Incinerator	714,171	2,042,696	-	-
Tourism	4,835,059	-	-	-
Interest on long-term debt	5,682,610	-	-	-
Total governmental activities	76,386,930	25,500,774	11,837,574	2,368,927
Business-type activities				
Sewer	13,532,864	14,359,821	-	1,665,268
Sanitation	3,085,391	4,103,601	104,607	-
Harrisburg Senators	1,571,502	8,703,664	-	-
Total business-type activities	18,189,757	27,167,086	104,607	1,665,268
Total primary government	\$ 94,576,687	\$ 52,667,860	\$ 11,942,181	\$ 4,034,195
Component units				
The Harrisburg Authority	\$ 59,679,641	\$ 32,535,098	\$ -	\$ -
Harrisburg Parking Authority	14,530,377	12,647,300	-	-
Coordinated Parking Fund	6,728,925	6,450,243	-	-
Redevelopment Authority	4,838,275	1,252,486	475,589	866,410
Total component units	\$ 85,777,218	\$ 52,885,127	\$ 475,589	\$ 866,410

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

Total general revenues, transfers, and special item

Change in net assets
 Net assets - January 1, 2007

Net assets - December 31, 2007

Net (Expense) Revenue and Changes in Net Assets				
Governmental Activities	Primary Government		Component Units	Total
	Business-type Activities	Total		
\$ 3,951,016	\$ -	\$ 3,951,016	\$ -	\$ 3,951,016
412,503	-	412,503	-	412,503
(22,554,104)	-	(22,554,104)	-	(22,554,104)
(5,782,711)	-	(5,782,711)	-	(5,782,711)
(3,517,215)	-	(3,517,215)	-	(3,517,215)
1,328,525	-	1,328,525	-	1,328,525
(4,835,059)	-	(4,835,059)	-	(4,835,059)
(5,682,610)	-	(5,682,610)	-	(5,682,610)
<u>(36,679,655)</u>	<u>-</u>	<u>(36,679,655)</u>	<u>-</u>	<u>(36,679,655)</u>
-	2,492,225	2,492,225	-	2,492,225
-	1,122,817	1,122,817	-	1,122,817
-	7,132,162	7,132,162	-	7,132,162
<u>-</u>	<u>10,747,204</u>	<u>10,747,204</u>	<u>-</u>	<u>10,747,204</u>
<u>(36,679,655)</u>	<u>10,747,204</u>	<u>(25,932,451)</u>	<u>-</u>	<u>(25,932,451)</u>
-	-	-	(27,144,543)	(27,144,543)
-	-	-	(1,883,077)	(1,883,077)
-	-	-	(278,682)	(278,682)
-	-	-	(2,243,790)	(2,243,790)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,550,092)</u>	<u>(31,550,092)</u>
16,684,189	-	16,684,189	-	16,684,189
843,295	-	843,295	-	843,295
2,865,835	-	2,865,835	-	2,865,835
1,557	-	1,557	-	1,557
3,605,141	-	3,605,141	-	3,605,141
3,653,993	-	3,653,993	-	3,653,993
476,585	-	476,585	-	476,585
35,585	-	35,585	-	35,585
484,975	-	484,975	-	484,975
6,886,276	-	6,886,276	-	6,886,276
-	-	-	788,936	788,936
750,284	688,223	1,438,507	6,232,649	7,671,156
1,736,765	(1,736,765)	-	-	-
<u>38,024,480</u>	<u>(1,048,542)</u>	<u>36,975,938</u>	<u>7,021,585</u>	<u>43,997,523</u>
1,344,825	9,698,662	11,043,487	(24,528,507)	(13,485,020)
6,472,092	35,803,425	42,275,517	(139,165,378)	(96,889,861)
<u>\$ 7,816,917</u>	<u>\$ 45,502,087</u>	<u>\$ 53,319,004</u>	<u>\$ (163,693,885)</u>	<u>\$ (110,374,881)</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Grant Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Assets						
Cash and cash equivalents	\$ 4,649,395	\$ 5,474,659	\$ 1,995,963	\$ 218,943	\$ 333,839	\$ 12,672,799
Investments, at fair value	950,264	226,593	348	36,294	641,184	1,854,683
Receivables, net of allowance for uncollectible accounts						
Taxes	6,493,460	-	-	56,830	-	6,550,290
Accounts receivable	267,435	-	-	-	-	267,435
Loans receivable	2,679,158	7,137,095	-	67,200	-	9,883,453
Other receivable	292,742	-	-	226,035	-	518,777
Due from other funds	761,731	685,564	-	185,998	-	1,633,293
Advances and amounts due from component units	1,224,071	-	-	482,550	-	1,706,621
Other assets	107,951	966	-	5,620	-	114,537
Restricted assets						
Cash and cash equivalents	64,765	-	-	231,948	-	296,713
Investments, at fair value	7,737,852	-	-	-	-	7,737,852
Total assets	<u>\$ 25,228,824</u>	<u>\$ 13,524,877</u>	<u>\$ 1,996,311</u>	<u>\$ 1,511,418</u>	<u>\$ 975,023</u>	<u>\$ 43,236,453</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 1,061,924	\$ 2,012,956	\$ -	\$ 7,578	\$ 106,991	\$ 3,189,449
Accrued liabilities	1,125,738	16,062	-	-	-	1,141,800
Matured bond coupons payable	-	-	20,097	-	-	20,097
Due to other funds	1,674,367	356,246	-	12,673	547,242	2,590,528
Advances and amounts due to component units	595,874	-	-	-	-	595,874
Deferred revenue	6,498,864	11,139,613	-	-	-	17,638,477
Total liabilities	<u>10,956,767</u>	<u>13,524,877</u>	<u>20,097</u>	<u>20,251</u>	<u>654,233</u>	<u>25,176,225</u>
Fund balances						
Reserved						
Encumbrances	31,241	-	-	2,119,178	-	2,150,419
Debt service	-	-	1,976,214	-	-	1,976,214
Capital projects	7,737,852	-	-	-	-	7,737,852
Workers' compensation	134,585	-	-	-	-	134,585
Revolving loan program	2,505,447	-	-	-	-	2,505,447
Unreserved, reported in						
General fund	3,862,932	-	-	-	-	3,862,932
Capital projects fund	-	-	-	(628,011)	-	(628,011)
Special revenue funds	-	-	-	-	320,790	320,790
Total fund balances	<u>14,272,057</u>	<u>-</u>	<u>1,976,214</u>	<u>1,491,167</u>	<u>320,790</u>	<u>18,060,228</u>
Total liabilities and fund balances	<u>\$ 25,228,824</u>	<u>\$ 13,524,877</u>	<u>\$ 1,996,311</u>	<u>\$ 1,511,418</u>	<u>\$ 975,023</u>	<u>\$ 43,236,453</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Fund balances - total governmental funds		\$ 18,060,228
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	222,822,986	
Less accumulated depreciation	<u>(110,597,232)</u>	112,225,754
Artifacts held for sale by the City are not financial resources and, therefore, are not reported in the governmental funds.		2,271,635
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		5,582,732
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.		(6,610,923)
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	(2,922,837)	
Bonds payable	(52,081,318)	
Notes payable	(47,109,546)	
Capital leases payable	(11,244,437)	
Compensated absences	(8,383,383)	
Litigation settlement	(461,501)	
Accrued interest payable	<u>(1,509,487)</u>	<u>(123,712,509)</u>
Net assets of governmental activities		<u>\$ 7,816,917</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2007

	General	Grant Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 27,297,475	\$ -	\$ -	\$ -	\$ -	\$ 27,297,475
Licenses and permits	510,735	-	-	-	-	510,735
Intergovernmental revenue	8,191,861	10,770,599	-	-	874,421	19,836,881
Department earnings and program revenue	18,156,103	383,684	-	763,731	4,724	19,308,242
Fines and forfeits	1,974,002	-	-	-	-	1,974,002
Investment income	424,893	245,894	12,697	13,771	26,765	724,020
Miscellaneous	4,217,030	472,131	500,000	-	-	5,189,161
Total revenues	60,772,099	11,872,308	512,697	777,502	905,910	74,840,516
Expenditures						
Current						
General government	11,947,260	2,321,186	-	-	3,245	14,271,691
Building and housing development	1,161,175	7,413,966	-	16,800	-	8,591,941
Public safety	26,793,171	1,516,495	-	-	-	28,309,666
Public works	5,304,816	-	-	-	871,717	6,176,533
Parks and recreation	3,640,181	71,221	-	1,521,483	-	5,232,885
Incinerator	714,171	-	-	-	-	714,171
Tourism	-	-	-	571,251	-	571,251
Capital outlay						
Other	-	-	-	1,425	-	1,425
Debt service						
Principal retirements	862,644	175,000	6,703,891	252,636	-	7,994,171
Interest and fiscal charges	103,344	374,440	449,716	-	-	927,500
Total expenditures	50,526,762	11,872,308	7,153,607	2,363,595	874,962	72,791,234
Excess of revenues over (under) expenditures	10,245,337	-	(6,640,910)	(1,586,093)	30,948	2,049,282
Other financing sources (uses)						
Proceeds from the issuance of debt	8,275,085	-	-	-	-	8,275,085
Proceeds from the sale of assets	1,308,407	-	-	-	-	1,308,407
Transfers in	1,366,615	-	8,559,598	-	-	9,926,213
Transfers out	(7,629,243)	-	-	(495,533)	(64,672)	(8,189,448)
Total other financing sources (uses)	3,320,864	-	8,559,598	(495,533)	(64,672)	11,320,257
Net change in fund balances	13,566,201	-	1,918,688	(2,081,626)	(33,724)	13,369,539
Fund balances - beginning of year	705,856	-	57,526	3,572,793	354,514	4,690,689
Fund balances - end of year	<u>\$ 14,272,057</u>	<u>\$ -</u>	<u>\$ 1,976,214</u>	<u>\$ 1,491,167</u>	<u>\$ 320,790</u>	<u>\$ 18,060,228</u>

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, 2007

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

Net change in fund balances - total governmental funds \$ 13,369,539

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	3,646,110	
Depreciation expense	<u>(5,919,872)</u>	(2,273,762)

In the statement of activities, only the loss on sale of capital assets is reported. However, in governmental funds, the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balance by the net book value of the cost of assets sold. (3,069)

In the statement of activities, only the loss on sale of artifacts held for sale is reported. However, in governmental funds, the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balance by the net book value of the cost of assets sold. Additionally, the artifacts held for sale are to be reported at estimated market value. The adjustment to estimated market value affects only the statement of activities.

Net book value of artifacts sold	(1,616,200)	
Adjustment to estimated market value	<u>(3,955,813)</u>	(5,572,013)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 486,931

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.

Guarantee fee	(500,000)	
Amortization	<u>664,997</u>	164,997

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.

Debt issued or incurred	(8,275,085)	
Principal repayments	<u>7,994,172</u>	(280,913)

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	249,296	
Compensated absences	420,430	
Accrued litigation settlement	(461,501)	
Accrued interest	11,771	
Amortization of bond issuance costs	(16,668)	
Amortization of bond discounts	<u>(4,750,213)</u>	<u>(4,546,885)</u>

Change in net assets of governmental activities \$ 1,344,825

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2007

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Total Proprietary Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,955,734	\$ 513,956	\$ -	\$ 3,469,690
Investments, at fair value	731,253	294,537	-	1,025,790
Receivables, net of allowance for uncollectible accounts				
Accounts receivable	3,314,578	444,970	-	3,759,548
Due from other funds	515,000	-	-	515,000
Prepaid expenses and other assets	634,588	1,834	285,250	921,672
Total current assets	<u>8,151,153</u>	<u>1,255,297</u>	<u>285,250</u>	<u>9,691,700</u>
Long-term assets				
Restricted assets				
Cash and cash equivalents	-	-	2,159	2,159
Investments, at fair value	-	473,300	13,321,763	13,795,063
Capital assets, not being depreciated	2,196,929	-	2,913,919	5,110,848
Capital assets, less accumulated depreciation and amortization	<u>38,765,026</u>	<u>302,122</u>	<u>224,319</u>	<u>39,291,467</u>
Total long-term assets	<u>40,961,955</u>	<u>775,422</u>	<u>16,462,160</u>	<u>58,199,537</u>
Total assets	<u>49,113,108</u>	<u>2,030,719</u>	<u>16,747,410</u>	<u>67,891,237</u>
LIABILITIES				
Current liabilities				
Accounts payable	90,147	9,191	-	99,338
Accrued expenses	43,570	24,248	130,593	198,411
Due to other funds	37,119	44,449	-	81,568
Amounts due to component units	2,119,782	-	-	2,119,782
Current portion of future lease rentals payable to component unit	1,727,402	-	-	1,727,402
Current portion of workers' compensation	45,436	112,415	-	157,851
Current portion of general obligation bonds payable	45,483	-	1,700,000	1,745,483
Current portion of lease rental bonds payable	-	-	220,000	220,000
Current portion of capitalized lease obligations	-	194,155	-	194,155
Current portion of vested compensated absences	12,706	5,420	-	18,126
Total current liabilities	<u>4,121,645</u>	<u>389,878</u>	<u>2,050,593</u>	<u>6,562,116</u>
Long-term liabilities				
Workers' compensation	142,551	352,684	-	495,235
General obligation bonds payable	86,725	-	1,180,000	1,266,725
Lease rental bonds payable	-	-	8,507,059	8,507,059
Capitalized lease obligations	-	666,900	-	666,900
Vested compensated absences	279,564	119,259	-	398,823
Future lease rentals payable to component unit	4,492,292	-	-	4,492,292
Total long-term liabilities	<u>5,001,132</u>	<u>1,138,843</u>	<u>9,687,059</u>	<u>15,827,034</u>
Total liabilities	<u>9,122,777</u>	<u>1,528,721</u>	<u>11,737,652</u>	<u>22,389,150</u>
NET ASSETS				
Invested in capital assets, net of related debt	34,742,261	(85,633)	-	34,656,628
Restricted				
Debt service	-	-	753,271	753,271
Capital projects	-	-	4,387,080	4,387,080
Unrestricted	<u>5,248,070</u>	<u>587,631</u>	<u>(130,593)</u>	<u>5,705,108</u>
Total net assets	<u>\$ 39,990,331</u>	<u>\$ 501,998</u>	<u>\$ 5,009,758</u>	<u>\$ 45,502,087</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2007

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Total Proprietary Funds
Operating revenues				
Charges for service	\$ 14,356,721	\$ 4,092,101	\$ 254,254	\$ 18,703,076
Operating expenses				
Salaries and wages	1,836,972	854,852	-	2,691,824
Fringe benefits	464,918	672,537	-	1,137,455
Communications	19,264	6,675	-	25,939
Professional fees	200,667	4,677	-	205,344
Utilities	1,683,366	1,495	-	1,684,861
Insurance	308,327	44,184	-	352,511
Maintenance and repairs	262,823	133,800	-	396,623
Contracted services	5,518,243	979,082	-	6,497,325
Supplies	628,302	160,989	-	789,291
Depreciation	1,822,893	207,920	37,387	2,068,200
Total operating expenses	12,745,775	3,066,211	37,387	15,849,373
Operating income	1,610,946	1,025,890	216,867	2,853,703
Nonoperating revenues (expenses)				
State subsidy	141,254	104,607	-	245,861
Investment income	130,575	22,609	535,039	688,223
Interest expense	(785,337)	(19,180)	(1,233,252)	(2,037,769)
Gain on disposal of capital assets	3,100	11,500	8,449,410	8,464,010
Amortization of bond issue costs and franchise fees	(1,752)	-	(300,863)	(302,615)
Total nonoperating revenues (expenses)	(512,160)	119,536	7,450,334	7,057,710
Income (loss) before contributions and transfers	1,098,786	1,145,426	7,667,201	9,911,413
Capital contribution	1,524,014	-	-	1,524,014
Transfers in	-	-	495,533	495,533
Transfers out	-	(1,366,615)	(865,683)	(2,232,298)
Change in net assets	2,622,800	(221,189)	7,297,051	9,698,662
Net assets - beginning of year	37,367,531	723,187	(2,287,293)	35,803,425
Net assets - end of year	\$ 39,990,331	\$ 501,998	\$ 5,009,758	\$ 45,502,087

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, 2007

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Total Proprietary Funds
Cash flows from operating activities				
Received from user charges	\$ 13,937,426	\$ 4,127,844	\$ 254,254	\$ 18,319,524
Payments to employees for services	(1,941,940)	(870,026)	-	(2,811,966)
Payments for fringe benefits	(464,918)	(672,537)	-	(1,137,455)
Payments to suppliers for goods and services	(9,006,540)	(1,154,996)	-	(10,161,536)
Net cash provided by operating activities	<u>2,524,028</u>	<u>1,430,285</u>	<u>254,254</u>	<u>4,208,567</u>
Cash flows from noncapital financing activities				
Transfers out	-	(1,366,615)	(865,683)	(2,232,298)
State subsidy	-	104,607	-	104,607
(Payment) repayment of advances from other funds	658,238	24,505	(254,254)	428,489
Net cash provided by (used in) noncapital financing activities	<u>658,238</u>	<u>(1,237,503)</u>	<u>(1,119,937)</u>	<u>(1,699,202)</u>
Cash flows from capital and related financing activities				
Proceeds from sale of capital assets	3,100	11,500	11,815,000	11,829,600
Proceeds from issuance of capital lease	-	473,300	-	473,300
Acquisition and construction of capital assets	(177,821)	-	-	(177,821)
Interest paid	-	(19,180)	(1,293,115)	(1,312,295)
Lease, bond and note payments	(2,261,084)	(129,011)	(10,800,000)	(13,190,095)
Net cash provided by (used in) capital and related financing activities	<u>(2,435,805)</u>	<u>336,609</u>	<u>(278,115)</u>	<u>(2,377,311)</u>
Cash flows from investing activities				
Sales (purchases) of investments	(10,750)	(480,356)	(9,751,414)	(10,242,520)
Investment income received	56,331	22,609	646,233	725,173
Net cash provided by (used in) investing activities	<u>45,581</u>	<u>(457,747)</u>	<u>(9,105,181)</u>	<u>(9,517,347)</u>
Net increase (decrease) in cash and cash equivalents	792,042	71,644	(10,248,979)	(9,385,293)
Cash and cash equivalents (including restricted cash) - beginning of year	<u>2,163,692</u>	<u>442,312</u>	<u>10,251,138</u>	<u>12,857,142</u>
Cash and cash equivalents (including restricted assets) - end of year	<u>\$ 2,955,734</u>	<u>\$ 513,956</u>	<u>\$ 2,159</u>	<u>\$ 3,471,849</u>

(continued)

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2007

	Sewer Fund	Sanitation Fund	Harrisburg Senators Fund	Total Proprietary Funds
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 1,610,946	\$ 1,025,890	\$ 216,867	\$ 2,853,703
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	1,822,893	207,920	37,387	2,068,200
Provision for uncollectible accounts	530,664	3,767	-	534,431
Changes in assets and liabilities				
Accounts receivable	(949,959)	31,976	-	(917,983)
Other assets	(93,958)	(777)	-	(94,735)
Direct financing lease	119,602	-	-	119,602
Vested compensated absences	(104,968)	(15,174)	-	(120,142)
Workers' compensation	(155,028)	169,168	-	14,140
Accounts payable and other accrued costs	(256,164)	7,515	-	(248,649)
Net cash provided by operating activities	<u>\$ 2,524,028</u>	<u>\$ 1,430,285</u>	<u>\$ 254,254</u>	<u>\$ 4,208,567</u>
Noncash investing, capital and financing activities				
Amortization of deferred bond issuance costs and bond discount and franchise fees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 309,894</u>	<u>\$ 309,894</u>
Capital assets purchased by The Harrisburg Authority on behalf of the Sewer Fund	<u>\$ 1,781,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,781,876</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2007

	<u>Police Pension Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 751,093
Receivables		
Due from other funds	523,803	-
Interest and dividends	29,050	-
Total receivables	<u>552,853</u>	<u>-</u>
Investments, at fair value		
Money market funds	2,688,317	
Fixed income funds	26,025,090	-
Equity funds	24,727,061	-
Balanced funds	45,806	-
Common stocks	15,310,558	-
U.S. Government agency obligations - STRIPS	-	1,138,542
U.S. Government obligations - STRIPS	-	291,783
Total investments	<u>68,796,832</u>	<u>1,430,325</u>
Total assets	<u>69,349,685</u>	<u>2,181,418</u>
LIABILITIES		
Due to other governments	-	267,983
Escrow liabilities	-	1,913,435
Total liabilities	<u>-</u>	<u>\$ 2,181,418</u>
NET ASSETS		
Net assets held in trust for police pension benefits (a summary of funding progress is presented on page 114)	<u>\$ 69,349,685</u>	

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, 2007

Additions	
Contributions	
Employee	\$ 471,015
Employer	523,803
	<hr/>
Total contributions	994,818
	<hr/>
Investment income	
Interest and dividend income	3,741,986
Net depreciation in fair value of investments	(295,074)
	<hr/>
Total investment earnings	3,446,912
Less investment expense	(273,797)
	<hr/>
Net investment income	3,173,115
	<hr/>
Total additions	4,167,933
	<hr/>
Deductions	
Pension benefits	3,621,615
Administrative expenses	54,456
	<hr/>
Total deductions	3,676,071
	<hr/>
Change in net assets	491,862
Net assets held in trust for pension benefits - January 1	68,857,823
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Net assets held in trust for pension benefits - December 31	\$ 69,349,685
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The accompanying notes are an integral
part of the these financial statements.

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CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF FUNDS
COMPONENT UNITS

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 nine parking garages containing approximately 7,375 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 (Fund) 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 of the City of Harrisburg

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.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET ASSETS - COMPONENT UNITS
DECEMBER 31, 2007

	The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total Component Units
ASSETS					
Current assets					
Cash and cash equivalents	\$ 4,855,519	\$ 3,603,116	\$ 1,523,915	\$ 1,491,224	\$11,473,774
Accounts receivable, net of allowance for uncollectible	4,259,003	171,097	-	131,388	4,561,488
Other receivables	10,000	-	-	67,909	77,909
Advances and amounts due from primary government	417,147	-	325,500	-	742,647
Prepaid expenses and other assets	133,330	150,916	-	-	284,246
Current portion of direct financing lease	1,727,402	-	-	-	1,727,402
Total current assets	<u>11,402,401</u>	<u>3,925,129</u>	<u>1,849,415</u>	<u>1,690,521</u>	<u>18,867,466</u>
Restricted assets					
Cash with fiscal agents	2,689,858	13	-	323,111	3,012,982
Investments	85,478,436	20,398,231	-	-	105,876,667
Accrued interest receivable	217,347	-	-	-	217,347
Total restricted assets	<u>88,385,641</u>	<u>20,398,244</u>	<u>-</u>	<u>323,111</u>	<u>109,106,996</u>
Advances to primary government	1,963,009	-	-	-	1,963,009
Future lease rentals receivable from primary government	4,492,292	-	-	-	4,492,292
Capital assets, not being depreciated	3,616,130	7,184,250	-	3,853,765	14,654,145
Capital assets, less accumulated depreciation	173,476,477	60,799,203	-	-	234,275,680
Equitable ownership interest	-	7,050,000	-	-	7,050,000
Deferred charges, net of accumulated amortization	16,759,857	6,561,163	-	-	23,321,020
Total assets	<u>300,095,807</u>	<u>105,917,989</u>	<u>1,849,415</u>	<u>5,867,397</u>	<u>413,730,608</u>

(continued)

	The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total Component Units
LIABILITIES					
Current liabilities (payable from current assets)					
Accounts payable and accrued liabilities	152,072	1,263,989	2,330	165,193	1,583,584
Advances and amounts due to primary government	906,655	(10,000)	-	-	896,655
Advances and amounts due to component unit	-	(1,515,135)	1,515,135	-	-
Deferred revenue	-	358,771	-	-	358,771
Current portion of bonds payable	-	2,175,000	-	-	2,175,000
Total current liabilities (payable from current assets)	<u>1,058,727</u>	<u>2,272,625</u>	<u>1,517,465</u>	<u>165,193</u>	<u>5,014,010</u>
Current liabilities (payable from restricted assets)					
Accounts payable	1,498,746	1,198,396	-	-	2,697,142
Accrued bond interest payable	5,243,381	1,185,671	-	-	6,429,052
Deferred revenue	-	87,063	-	504,322	591,385
Current portion of revenue bonds payable	5,920,000	-	-	-	5,920,000
Current portion of revenue notes payable	866,773	-	-	500,000	1,366,773
Total current liabilities (payable from restricted assets)	<u>13,528,900</u>	<u>2,471,130</u>	<u>-</u>	<u>1,004,322</u>	<u>17,004,352</u>
Noncurrent liabilities					
Revenue bonds payable, net of discount	299,820,358	106,727,390	-	38,795,145	445,342,893
Revenue notes payable, net of discount	101,827,933	-	-	-	101,827,933
Due to other governments	-	-	-	170,832	170,832
Due to primary government	799,966	-	-	-	799,966
Deferred revenue	4,592,209	349,302	-	-	4,941,511
Accrued landfill closure and postclosure care liability	2,322,996	-	-	-	2,322,996
Total liabilities	<u>423,951,089</u>	<u>111,820,447</u>	<u>1,517,465</u>	<u>40,135,492</u>	<u>577,424,493</u>
NET ASSETS					
Net assets					
Invested in capital asset, net of related debt	(138,008,981)	(11,378,608)	-	3,853,765	(145,533,824)
Restricted					
Debt service	19,326,788	-	-	-	19,326,788
Construction	1,285,103	-	-	-	1,285,103
Guarantee agreement	284,801	-	-	-	284,801
Water operations	7,270,269	-	-	-	7,270,269
Resource recovery operations	1,812,533	-	-	-	1,812,533
Unrestricted	<u>(15,825,795)</u>	<u>5,476,150</u>	<u>331,950</u>	<u>(38,121,860)</u>	<u>(48,139,555)</u>
Total net assets	<u>\$ (123,855,282)</u>	<u>\$ (5,902,458)</u>	<u>\$ 331,950</u>	<u>\$ (34,268,095)</u>	<u>\$ (163,693,885)</u>

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

CITY OF HARRISBURG
STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2007

	Program Revenues			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
The Harrisburg Authority	\$ 59,679,641	\$ 32,535,098	\$ -	\$ -
Harrisburg Parking Authority	14,530,377	12,647,300	-	-
Coordinated Parking Fund	6,728,925	6,450,243	-	-
Redevelopment Authority	4,838,275	1,252,486	475,589	866,410
Total component units	\$ 85,777,218	\$ 52,885,127	\$ 475,589	\$ 866,410

General revenues
 Space rental income
 Miscellaneous income
 Unrestricted investment earnings

Total general revenues and special items

Change in net assets

Net assets - January 1, 2007

Net assets - December 31, 2007

Net (Expense) Revenue and
Changes in Net Assets

The Harrisburg Authority	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total
\$ (27,144,543)	\$ -	\$ -	\$ -	\$ (27,144,543)
-	(1,883,077)	-	-	(1,883,077)
-	-	(278,682)	-	(278,682)
-	-	-	(2,243,790)	(2,243,790)
<u>(27,144,543)</u>	<u>(1,883,077)</u>	<u>(278,682)</u>	<u>(2,243,790)</u>	<u>(31,550,092)</u>
-	-	-	754,914	754,914
-	-	-	34,022	34,022
4,434,938	1,726,621	29,745	41,345	6,232,649
<u>4,434,938</u>	<u>1,726,621</u>	<u>29,745</u>	<u>830,281</u>	<u>7,021,585</u>
(22,709,605)	(156,456)	(248,937)	(1,413,509)	(24,528,507)
<u>(101,145,677)</u>	<u>(5,746,002)</u>	<u>580,887</u>	<u>(32,854,586)</u>	<u>(139,165,378)</u>
<u>\$ (123,855,282)</u>	<u>\$ (5,902,458)</u>	<u>\$ 331,950</u>	<u>\$ (34,268,095)</u>	<u>\$ (163,693,885)</u>

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

Blended Component Units

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

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

City of Harrisburg Leasing Authority

The City of Harrisburg Leasing Authority was formed pursuant to the Municipal Authority Act in 1986 for the purpose of acquiring and leasing facilities and equipment to the City. The five-member Board of Directors is appointed by the Mayor. The Authority's only financial transaction is the financing of City projects. There was no activity during the year ended December 31, 2007.

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 City Council. The Harrisburg Authority has purchased the water system and incinerator facility from the City and contracts with the City to manage the water system. The contract requires that the Mayor prepare an operating expenses budget for adoption by the City Council, with final approval by the Authority with the inclusion of such operating expenses in the Authority's annual budget. The Authority incurred \$9,035,264 in expenses under this agreement in 2007. 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 has contracted with an outside vendor to manage the incinerator facility. The Authority has financed the sewer system for the City with a lease revenue bond transaction for which the City pledged all sewer system revenues to secure the 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 nine parking garages containing approximately 7,375 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.

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Harrisburg School District

In May 2000, the General Assembly of the Commonwealth passed Act 16 of 2000, entitled the Education Empowerment Act (“Act 16”), which was signed by the Governor. Soon after passage of Act 16, the 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, 2007:

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	\$ 3,702,440
Capital Assets, Net	\$ 26,783,735
Total Assets	\$ 30,572,351
Net Assets	\$ 27,432,474
Operating Revenue	\$ 6,066,595
Operating Loss	\$ (12,528,712)
Change in Net Assets	\$ 6,035,297
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	Harrisburg Human Relations Commission
Planning Commission	Harrisburg Mayor's Commission on Literacy
Private Industry Council	License and Tax Appeals
Tri-County Regional Planning Commission	Electrical Code Advisory and Licensing
Emergency Planning Committee	Building Code Board of Appeals
Board of Health	Housing Code Board of Appeals
Historical and Architectural Review Board	Civil Service Board
Plumbing Board	Zoning Hearing Board
Harrisburg Economic Development Corporation	Revolving Loan Review Committee
Downtown Improvement District, Inc.	Harris Com, Inc.
Harrisburg Civic Baseball Club	
Susquehanna Area Regional Airport Authority	

The amounts the City appropriated to these organizations during the year ended December 31, 2007 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, 2007, were \$182,019. During the year ended December 31, 2007, the City provided funding to pay off the organization's letter of credit in the amount of \$250,000 plus interest of \$1,560.

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.

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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, formerly 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. *Assets Held for Sale*

Assets held for sale consist of certain historical artifacts which City Council has authorized to be sold. The City carries its assets held for sale at estimated fair value. The fair value of the City's assets held

for sale are valued at extrapolated appraisal cost, actual subsequent sales values, and estimated realizable values.

I. *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 \$2,534,451 at December 31, 2007. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Artifacts, totaling \$18,649,000, have been recorded at cost in the governmental activities column of the government-wide financial statements.

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

J. *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.

K. *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

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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, 2007, the unamortized deferred costs of refunding recorded by The Harrisburg Authority and the Harrisburg Parking Authority were \$24,969,795 and \$4,693,267, respectively.

L. 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.

M. 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.

N. 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, 2007, the date of the most recent actuarial valuation, the actuarial value of assets exceeded the actuarial accrued pension liability in the amount of \$9,001,535.

O. 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.

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

In the government-wide financial statements and proprietary fund types in the fund financial statements, the liability for outstanding claims is reported in the applicable 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 \$2,922,837 and \$653,086 in the governmental activities and business-type activities, respectively, at December 31, 2007. 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	2007	2006
Beginning – January 1	\$ 3,172,133	\$ 638,946	\$ 3,811,079	\$ 2,994,110
Current year claims and changes in estimates	876,712	177,723	1,054,435	2,063,515
Claim payments	<u>(1,126,008)</u>	<u>(163,583)</u>	<u>(1,289,591)</u>	<u>(1,246,546)</u>
Ending - December 31	<u>\$ 2,922,837</u>	<u>\$ 653,086</u>	<u>\$ 3,575,923</u>	<u>\$ 3,811,079</u>

P. *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.

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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 2007.

Q. *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, 2007 in the proprietary funds. The subsequent year's appropriations provide authority to complete the transactions as expenditures. Encumbrances outstanding at December 31, 2007 consisted of \$6,196,162 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.

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Encumbrances outstanding which are reflected on the governmental funds balance sheet at December 31, 2007, by fund type, are presented below:

General	\$ 31,241
Capital Projects	<u>2,119,178</u>
	<u>\$ 2,150,419</u>

R. *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.

S. *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.

T. *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, 2007, non-recourse debt issues outstanding of The Harrisburg Authority totaled \$148,541,935 including \$2,880,000 on behalf of the City. As of December 31, 2007, non-recourse debt issues of the Redevelopment Authority totaled approximately \$114,577,000 including approximately \$18,700,000 on behalf of the City.

U. *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, 2007, 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, 2007, the deposits of the City of Harrisburg, including component units were as follows:

Reconciliation to statement of net assets:

Governmental activities	
Unrestricted	\$ 12,672,799
Restricted	296,713
Business-type activities	
Unrestricted	3,469,690
Restricted	2,159
Fiduciary funds - agency fund	<u>751,093</u>
 Total primary government	 <u>\$ 17,192,454</u>
 Component units	
Unrestricted	\$ 11,473,774
Restricted cash	<u>3,012,982</u>
 Total component units	 <u>\$ 14,486,756</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City has no policy, other than as presented above, that further limits its custodial credit deposit risk. As of December 31, 2007, the City's book balance was \$17,192,454 and the bank balance was \$19,510,453. Of the bank balance, \$468,842 was covered by federal depository insurance and \$18,898,952 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the

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authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits. The remaining bank balance of \$142,659 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 Authority adheres to state statutes, prudent business practices, and the applicable trust indentures, which are more restrictive than existing state statutes. Deposits are maintained in demand deposits and certificates of deposit.

The deposits of The Harrisburg Authority at December 31, 2007, were as follows:

Cash and cash equivalents	
Unrestricted	\$ 4,855,519
Restricted under trust indentures and guarantee agreements	<u>2,689,858</u>
	<u>\$ 7,545,377</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Harrisburg Authority does not have a deposit policy for custodial credit risk. As of December 31, 2007, The Harrisburg Authority's book balance was \$7,545,377 and the bank balance was \$7,766,253. Of the bank balance, \$208,129 was covered by federal depository insurance and \$7,558,124 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits.

Harrisburg Parking Authority and Coordinated Parking Fund

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

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.

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

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

Redevelopment Authority

Custodial Credit Risk. As of December 31, 2007, the Redevelopment Authority's cash and restricted cash balances were \$1,814,335 and its bank balances were \$1,936,043. Of those bank balances, \$1,736,050 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, 2007, the investments of the City of Harrisburg were as follows:

Primary Government	
Unrestricted Investments	
Money market funds	\$ 1,138,642
External investment pool	<u>1,741,831</u>
Total unrestricted investments	<u>2,880,473</u>
Restricted investments	
Money market funds	<u>21,532,915</u>
Total restricted investments	<u>21,532,915</u>
Fiduciary funds	
Money market funds	2,688,317
U.S. Government agency obligations – STRIPS	1,138,542
U.S. Government obligations	291,783
Fixed income funds	26,025,090
Equity funds	24,727,061
Common stock	15,310,558
Balanced funds	<u>45,806</u>
Total fiduciary funds	<u>70,227,157</u>
Total primary government	<u>\$ 94,640,545</u>

CITY OF HARRISBURG, PENNSYLVANIA
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Component Units	
Restricted investments	
Money market funds	\$73,088,304
Commercial paper	5,235,985
U.S. Government agency obligations	15,565,552
U.S. Government obligations	997,312
Municipal bonds	<u>10,989,514</u>
Total component units restricted investments	<u>\$105,876,667</u>

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

Primary Government

Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The City has no policy, other than as presented above, that further limits its custodial credit investment risk. Of the City's total investments of \$94,640,545, \$24,705,171 was held by the counterparty's trust department or agent not in the City's name.

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

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. At December 31, 2007, there were no investments that represent more than 5 percent of the City's total investments.

Credit risk. The City does not have a formal policy relating to credit risk of investments. The City's money market and fixed income investments had the following level of exposure to credit risk as of December 31, 2007:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$21,532,915	AAA
Money market funds	\$ 3,826,959	Unrated
External investment pool	\$ 1,741,831	AAA
U.S. Government Agency Obligations	\$ 1,138,542	AAA
Fixed income fund	\$13,092,483	AA+
Fixed income fund	\$12,932,607	AA

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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	Investment Maturity (in Years)			
	Fair Value	Less than 1	1-5	6-10
Money market funds	\$ 25,359,874	\$ 25,359,874	\$ -	\$ -
External investment pool	1,741,831	1,741,831	-	-
U.S. Government agency obligations	1,138,542	-	1,138,542	-
U.S. Government obligations	291,783	291,783	-	-
Fixed income funds	26,025,090	-	-	26,025,090
Total	<u>\$ 54,557,120</u>	<u>\$ 27,393,488</u>	<u>\$ 1,138,542</u>	<u>\$ 26,025,090</u>

Workers' Compensation

In accordance with the provisions of the Pennsylvania Workers' Compensation Act, the City has secured an exemption from the necessity of insuring its workers' compensation liability and has elected to maintain a separate fund to provide a reserve for claimants entitled to benefits. Since inception, a total of \$600,000 has been deposited in a bank trust account through December 31, 2007. Interest of \$1,488,642 has been earned on the deposits and claims of \$700,000 have been paid from the trust account from inception through December 31, 2007. 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 \$1,138,642 at December 31, 2007, of which \$134,585 is included in the General Fund, \$728,412 is included in the Sewer Fund and \$275,645 is included in the Sanitation Fund as investments at December 31, 2007.

Component Units

The Harrisburg Authority

The restricted investments of the Authority at December 31, 2007, were as follows:

Money market funds	\$ 58,051,697
U.S. Government agency obligations	15,565,552
U.S. Government obligations	871,673
Municipal bonds	<u>10,989,514</u>
Total	<u>\$ 85,478,436</u>

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.

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

	<u>Fair Value</u>	<u>% of Total</u>
Resolution Funding Corporation - STRIPS	\$ 7,609,321	8.90%
Federal National Mortgage Association	7,292,232	8.53%
General Obligation Pension Bonds - Illinois State	6,119,127	7.16%

Credit Risk. The Harrisburg Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Harrisburg Authority's fixed income investments had the following level of exposure to credit risk as of December 31, 2007:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 58,051,697	AAA
U.S. Government agency obligations - STRIPS	7,609,321	AAA
U.S. Government agency obligations	7,956,231	AAA
Municipal bonds	10,989,514	AA

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:

	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
Money market funds	\$ 58,051,697	\$ 58,051,697	\$ -	\$ -	\$ -
U.S. government agency obligations	15,565,552	4,091,147	5,921,394	-	5,553,011
U.S. government obligations	871,673	871,673	-	-	-
Municipal bonds	10,989,514	-	-	2,033,465	8,956,049
Total	<u>\$ 85,478,436</u>	<u>\$ 63,014,517</u>	<u>\$ 5,921,394</u>	<u>\$ 2,033,465</u>	<u>\$ 14,509,060</u>

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, 2007, 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, repurchase agreements with financial institutions having assets in excess of \$500,000,000, direct obligations of the U.S. Government, or as permitted in the individual trust indentures.

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

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

	Fair Value	% of Total
Restricted:		
Commercial paper:		
UBS Financial	\$ 4,439,930	21.77%

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

	Fair Value	Rating
Restricted:		
Money market funds	\$ 15,036,607	AAA
Commercial paper	\$ 796,055	AAA
Commercial paper	\$ 4,439,930	AA-

Interest rate risk. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2007, the Authority's money market and fixed income investments have an average maturity of less than one year.

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 2007 is as follows:

January 1, 2007	- lien date
January 31, 2007	- original levy date
January 31 – March 31, 2007	- 2% discount period
April 1 – May 31, 2007	- face payment period
June 1 – December 31, 2007	- 10% penalty period
January 1, 2008	- turned over to County for collection

The City is permitted by the Third Class City Code to levy real estate taxes up to 25 mills on every dollar of assessed valuation for general City purposes. However, under an order of court dated December 20, 1982, the City was authorized to exceed the statutory general millage rate, up to a maximum of 30 mills.

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The real property tax imposed by the City in 2007 was 4.78 mills on improvements and 28.67 mills on land. Both land and improvements are assessed at 100% of market value, with an effective combined equivalent single millage rate of 10.1047 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, 2007, is as follows:

<u>Primary Government</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 761,731	\$ 1,674,367
Grant Programs Fund	685,564	356,246
Capital Projects Fund	185,998	12,673
Nonmajor governmental funds	-	547,242
Total governmental funds	<u>1,633,293</u>	<u>2,590,528</u>
Sewer Fund	515,000	37,119
Sanitation Fund	-	44,449
Total proprietary funds	<u>515,000</u>	<u>81,568</u>
Police Pension Trust Fund	<u>523,803</u>	-
Total primary government	<u><u>\$ 2,672,096</u></u>	<u><u>\$ 2,672,096</u></u>

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

<u>Component Units</u>	<u>Due from Primary Government/ Component Units</u>	<u>Due to Component Units/ Primary Government</u>	<u>Advances to Primary Government/ Component Units</u>	<u>Advances from Component Units/ Primary Government</u>
Primary Government				
General Fund	\$ 1,224,071	\$ -	\$ -	\$ 595,874
Capital Projects Fund	482,550	-	-	-
Sewer Fund	-	-	-	6,219,694
Component Units	<u>-</u>	<u>1,706,621</u>	<u>6,815,568</u>	<u>-</u>
Total	<u><u>\$ 1,706,621</u></u>	<u><u>\$ 1,706,621</u></u>	<u><u>\$ 6,815,568</u></u>	<u><u>\$ 6,815,568</u></u>

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The composition of interfund transfers for the year ended December 31, 2007, is as follows:

<u>Primary Government</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,366,615	\$ 7,629,243
Debt Service Fund	8,559,598	-
Capital Projects Fund	-	495,533
Nonmajor governmental funds	-	64,672
Total governmental funds	<u>9,926,213</u>	<u>8,189,448</u>
Sanitation Fund	-	1,366,615
Harrisburg Senators Fund	495,533	865,683
Total proprietary funds	<u>495,533</u>	<u>2,232,298</u>
Total primary government	<u>\$ 10,421,746</u>	<u>\$ 10,421,746</u>

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

5. INTERGOVERNMENTAL REVENUE, RECEIVABLES, AND PAYABLES

The General Fund intergovernmental revenue for the year ended December 31, 2007, is as follows:

Commonwealth of Pennsylvania, Pension System Aid	\$ 2,881,276
Harrisburg Parking Authority, excess parking revenue	4,005,000
Commonwealth of Pennsylvania, Capital fire protection	1,270,000
Utilities payments in lieu of taxes from other governments	35,585
	<u>\$ 8,191,861</u>

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

Grant Programs Fund	
Community Development Block Grant	\$ 3,823,300
Lead Based Paint Grant	629,310
HOME Program	254,201
Redevelopment Assistance Grant	982,132
Economic Development Initiative Grant	988,104
Federal Emergency Management Agency grants	1,035,183
Capital improvement grants	2,321,186
Other state/federal grants	737,183
	<u>\$ 10,770,599</u>

The Grant Programs Fund had deferred revenue of \$4,002,518 at December 31, 2007, representing payments received in advance for various grant programs. The remaining deferred revenues of \$7,137,095 represent deferred loans receivable.

6. RESTRICTED ASSETS

Revenue Bond and General Obligation Note Proceeds

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

7. ASSETS HELD FOR SALE

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

The cost of the artifacts to be sold amounted to \$7,843,648. At December 31, 2007, the City has sold artifacts with an approximate cost of \$1.6 million. The proceeds of the sale, through December 31, 2007, amounted to approximately \$1.3 million. Subsequent sales, during the year ended December 31, 2008, resulted in artifacts with an approximate cost of \$448,000 yielding approximately \$362,000 in proceeds.

Additionally, artifacts bought by the City from a certain vendor have been deemed to be inauthentic. The City is currently pursuing damages against this vendor. Such artifacts had a cost value of approximately \$2.1 million. An appraisal of a portion of the artifacts was extrapolated to the entire population purchased from this vendor. This extrapolation resulted in decreasing the estimated fair value of these artifacts to \$73,000.

Finally, the City has determined, through consultation with industry experts, that the remaining artifacts have a value of approximately 50% of the remaining cost. This valuation resulted in a decrease in the estimated fair value of the remaining artifacts in the amount of approximately \$1.8 million.

CITY OF HARRISBURG, PENNSYLVANIA
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8. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, 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	\$ 41,700	\$ -	\$ 6,518,271
Artifacts	26,492,648	-	(7,843,648)	18,649,000
Total capital assets, not being depreciated	<u>32,969,219</u>	<u>41,700</u>	<u>(7,843,648)</u>	<u>25,167,271</u>
Capital assets, being depreciated				
Buildings	63,994,252	18,280	-	64,012,532
Improvements	15,994,398	304,759	-	16,299,157
Equipment and furniture	27,297,271	856,017	(1,476,572)	26,676,716
Infrastructure	88,241,956	2,425,354	-	90,667,310
Total capital assets, being depreciated	<u>195,527,877</u>	<u>3,604,410</u>	<u>(1,476,572)</u>	<u>197,655,715</u>
Less accumulated depreciation for:				
Buildings	(23,558,454)	(1,589,209)	-	(25,147,663)
Improvements	(5,019,668)	(371,264)	-	(5,390,932)
Equipment and furniture	(24,948,357)	(1,074,889)	1,473,503	(24,549,743)
Infrastructure	(52,624,384)	(2,884,510)	-	(55,508,894)
Total accumulated depreciation	<u>(106,150,863)</u>	<u>(5,919,872)</u>	<u>1,473,503</u>	<u>(110,597,232)</u>
Total capital assets, being depreciated, net	<u>89,377,014</u>	<u>(2,315,462)</u>	<u>(3,069)</u>	<u>87,058,483</u>
Governmental activities, capital assets, net	<u>\$ 122,346,233</u>	<u>\$ (2,273,762)</u>	<u>\$ (7,846,717)</u>	<u>\$ 112,225,754</u>

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	Beginning of Year	Additions	Retirements and Dispositions	End of Year
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 361,421	\$ -	\$ -	\$ 361,421
Construction in progress	3,304,103	1,445,324	-	4,749,427
Total capital assets, not being depreciated	<u>3,665,524</u>	<u>1,445,324</u>	<u>-</u>	<u>5,110,848</u>
Capital assets, being depreciated				
Buildings	34,925,800	336,549	-	35,262,349
Improvements	2,685,962	-	-	2,685,962
Equipment and furniture	40,103,031	177,823	(209,788)	40,071,066
Infrastructure	13,790,448	-	-	13,790,448
Senator's franchise fee	7,067,061	-	(7,067,061)	-
Total capital assets, being depreciated	<u>98,572,302</u>	<u>514,372</u>	<u>(7,276,849)</u>	<u>91,809,825</u>
Less accumulated depreciation for:				
Buildings	(16,834,890)	(740,713)	-	(17,575,603)
Improvements	(694,991)	(28,286)	-	(723,277)
Equipment and furniture	(27,202,027)	(1,164,803)	209,788	(28,157,042)
Infrastructure	(5,928,039)	(134,397)	-	(6,062,436)
Senator's franchise fee	(3,710,208)	(265,014)	3,975,222	-
Total accumulated depreciation	<u>(54,370,155)</u>	<u>(2,333,213)</u>	<u>4,185,010</u>	<u>(52,518,358)</u>
Total capital assets, being depreciated, net	<u>44,202,147</u>	<u>(1,818,841)</u>	<u>(3,091,839)</u>	<u>39,291,467</u>
Business-type activities, capital assets, net	<u>\$ 47,867,671</u>	<u>\$ (373,517)</u>	<u>\$ (3,091,839)</u>	<u>\$ 44,402,315</u>

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

Governmental activities:	
General government	\$ 1,350,845
Building and housing development	99,515
Public safety	1,070,937
Public works	2,796,862
Parks and recreation	601,713
Total depreciation expense - governmental activities	<u>\$ 5,919,872</u>
Business-type activities:	
Sewer	\$ 1,822,893
Sanitation	207,920
Harrisburg Senators	302,400
Total depreciation expenses - business-type activities	<u>\$ 2,333,213</u>

CITY OF HARRISBURG, PENNSYLVANIA
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Component Units

	Beginning of Year	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
<i>The Harrisburg Authority:</i>				
Capital assets, not being depreciated:				
Artifacts	\$ 354,790	\$ -	\$ (2,925)	\$ 351,865
Construction in progress	3,264,265	-	-	3,264,265
Total capital assets, not being depreciated	3,619,055	-	(2,925)	3,616,130
Capital assets, being depreciated:				
Land improvements	1,223,614	-	-	1,223,614
Buildings and improvements	116,169,543	587,869	-	116,757,412
Furniture and fixtures	325,852	2,223	-	328,075
Machinery and equipment	98,156,291	1,524,556	-	99,680,847
Total capital assets, being depreciated	215,875,300	2,114,648	-	217,989,948
Less accumulated depreciation	(38,089,200)	(6,424,271)	-	(44,513,471)
Total capital assets, being depreciated, net	177,786,100	(4,309,623)	-	173,476,477
The Harrisburg Authority, capital assets, net	\$ 181,405,155	\$ (4,309,623)	\$ (2,925)	\$ 177,092,607
	Beginning of Year	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
<i>Harrisburg Parking Authority:</i>				
Capital assets, not being depreciated:				
Land	\$ 6,959,764	\$ -	\$ (20,552)	\$ 6,939,212
Construction in progress	8,058,446	8,835,135	(16,648,543)	245,038
Total capital assets, not being depreciated	15,018,210	8,835,135	(16,669,095)	7,184,250
Capital assets, being depreciated:				
Land improvements	127,922	-	-	127,922
Buildings and improvements	69,038,035	16,459,371	-	85,497,406
Furniture and fixtures	308,965	13,326	-	322,291
Machinery and equipment	2,199,356	19,096	-	2,218,452
Total capital assets being depreciated	71,674,278	16,491,793	-	88,166,071
Less accumulated depreciation	(24,619,141)	(2,747,727)	-	(27,366,868)
Total capital assets, being depreciated, net	47,055,137	13,744,066	-	60,799,203
Harrisburg Parking Authority, capital assets, net	\$ 62,073,347	\$ 22,579,201	\$ (16,669,095)	\$ 67,983,453

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	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	\$ 989,296	\$ -	\$ 3,853,765
Harrisburg Redevelopment Authority, capital assets, net	<u>\$ 2,862,469</u>	<u>\$ 989,296</u>	<u>\$ -</u>	<u>\$ 3,853,765</u>

9. LONG-TERM LIABILITIES

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

Primary Government

	Beginning of Year	Additions	Accretion	Retirements	End of Year	Current Portion
Governmental activities:						
Workers' compensation claims	\$ 3,172,133	\$ 876,712	\$ -	\$ (1,126,008)	\$ 2,922,837	\$ 706,450
Bonds payable (Note 10)	54,680,766	-	2,628,552	(5,228,000)	52,081,318	5,689,756
Notes payable (Note 12)	46,638,776	-	2,121,660	(1,650,890)	47,109,546	1,610,211
Capitalized lease obligations (Note 13)	4,084,633	8,275,085	-	(1,115,281)	11,244,437	2,207,661
Vested compensated absences	8,803,813	3,369,459	-	(3,789,889)	8,383,383	364,449
Governmental activity Long-term liabilities	<u>\$ 117,380,121</u>	<u>\$ 12,521,256</u>	<u>\$ 4,750,212</u>	<u>\$ (12,910,068)</u>	<u>\$ 121,741,521</u>	<u>\$ 10,578,527</u>

	Beginning of Year	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
Business-type activities:						
Workers' compensation claims	\$ 638,946	\$ 177,723	\$ -	\$ (163,583)	\$ 653,086	\$ 157,851
Bonds payable (Note 10)	22,504,988	-	19,082	(10,784,803)	11,739,267	1,965,483
Capitalized lease obligations (Note 13)	516,766	473,300	-	(129,012)	861,055	194,155
Vested compensated absences	537,091	313,251	-	(433,393)	416,949	18,126
Lease rental payable (Note 13)	7,508,856	-	-	(1,289,162)	6,219,694	1,727,402
Business-type activity Long-term liabilities	<u>\$ 31,706,647</u>	<u>\$ 964,274</u>	<u>\$ 19,082</u>	<u>\$ (12,799,953)</u>	<u>\$ 19,890,051</u>	<u>\$ 4,063,017</u>

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

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

	Beginning of Year	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
The Harrisburg Authority:						
Bonds payable (Note 10)	\$ 329,540,000	\$ -	\$ -	\$ (4,370,000)	\$ 325,170,000	\$ 5,920,000
Notes payable (Note 12)	72,635,707	34,685,000	-	(819,635)	106,501,072	866,773
Total bonds and notes payable	402,175,707	34,685,000	-	(5,189,635)	431,671,072	6,786,773
Less:						
Deferred loss on refunding	(28,191,669)	-	3,221,874	-	(24,969,795)	-
Unamortized premium	5,731,071	(4,690,192)	692,908	-	1,733,787	-
The Harrisburg Authority Long-term liabilities	<u>\$ 379,715,109</u>	<u>\$ 29,994,808</u>	<u>\$ 3,914,782</u>	<u>\$ (5,134,531)</u>	<u>\$ 408,435,064</u>	<u>\$ 6,786,773</u>
Harrisburg Parking Authority:						
Bonds payable (Note 10)	\$ 95,705,000	\$ 36,855,000	\$ -	\$ (19,730,000)	\$ 112,830,000	\$ 2,175,000
Less:						
Deferred loss on refunding	(3,225,381)	(1,783,734)	315,848	-	(4,693,267)	-
Unamortized premium (discount)	1,128,491	(266,107)	(120,753)	24,026	765,657	-
Harrisburg Parking Authority Long-term liabilities	<u>\$ 93,608,110</u>	<u>\$ 34,805,159</u>	<u>\$ 195,095</u>	<u>\$ (19,705,974)</u>	<u>\$ 108,902,390</u>	<u>\$ 2,175,000</u>
Redevelopment Authority:						
Bonds payable (Note 10)	\$ 93,590,000	\$ -	\$ -	\$ -	\$ 93,590,000	\$ -
Notes payable (Note 12)	500,000	-	-	-	500,000	500,000
Due to other governments	170,832	-	-	-	170,832	30,000
Total long-term liabilities	94,260,832	-	-	-	94,260,832	530,000
Less:						
Unamortized discount	(56,923,284)	-	2,128,429	-	(54,794,855)	-
Redevelopment Authority Long-term liabilities	<u>\$ 37,337,548</u>	<u>\$ -</u>	<u>\$ 2,128,429</u>	<u>\$ -</u>	<u>\$ 39,465,977</u>	<u>\$ 530,000</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
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10. BONDS PAYABLE

Bonds payable at December 31, 2007 are as follows:

	Primary Government		Total Primary Government
	Governmental Activities	Business-type Activities	
Bonds payable	\$ 52,081,318	\$ 11,802,207	\$ 63,883,525
Unamortized discount	-	(62,940)	(62,940)
Total bonds payable	\$ 52,081,318	\$ 11,739,267	\$ 63,820,585

	Component Units			Total Component Units
	The Harrisburg Authority	Harrisburg Parking Authority	Redevelopment Authority	
Bonds payable	\$ 325,170,000	\$ 112,830,000	\$ 93,590,000	\$ 531,590,000
Deferred loss on refunding	(24,969,795)	(4,693,267)	-	(29,663,062)
Unamortized premium (discount)	5,540,153	765,657	(54,794,855)	(48,489,045)
Total bonds payable	\$ 305,740,358	\$ 108,902,390	\$ 38,795,145	\$ 453,437,893

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	\$ 10,427,059	\$ 132,207	\$ 10,559,266
Series A-1 of 1997	-	2,880,000	2,880,000
Series D of 1997	34,454,259	-	34,454,259
Total general obligation bonds	44,881,318	3,012,207	47,893,525
Revenue Bonds			
Senators Revenue Bonds			
Series A-2 of 2005	-	8,790,000	8,790,000
Less: Unamortized discount	-	(62,940)	(62,940)
Lease Revenue Bonds			
Series of 2006	7,200,000	-	7,200,000
Total revenue bonds	7,200,000	8,727,060	15,927,060
Total bonds payable	\$ 52,081,318	\$ 11,739,267	\$ 63,820,585

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

	The Harrisburg Authority	Harrisburg Parking Authority	Redevelopment Authority	Total Component Units
Revenue Bonds				
Water Revenue Bonds				
Series A of 2004	\$ 37,155,000	\$ -	\$ -	\$ 37,155,000
Water Revenue Bonds				
Series A of 2003	56,110,000	-	-	56,110,000
Water Revenue Bonds				
Series A, B, C, and D of 2002	48,825,000	-	-	48,825,000
Water Revenue Bonds				
Series A of 2001	5,250,000	-	-	5,250,000
Sewer Revenue Refunding				
Series of 1992	8,655,000	-	-	8,655,000
Sewer Revenue Bonds,				
Second and Third Series of 1989	8,655,000	-	-	8,655,000
Sewer Revenue Refunding Bonds				
Series of 1984	1,695,000	-	-	1,695,000
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	11,270,000	-	-	11,270,000
Office and Parking Revenue Bonds				
Series K of 2000	-	11,800,000	-	11,800,000
Series J of 2001	-	28,565,000	-	28,565,000
Series N of 2003	-	5,820,000	-	5,820,000
Series O of 2003	-	13,160,000	-	13,160,000
Series P of 2005	-	16,630,000	-	16,630,000
Series R of 2007	-	16,965,000	-	16,965,000
Series T of 2007	-	19,890,000	-	19,890,000
Guaranteed Revenue Bonds				
Series A and B of 1998	-	-	93,590,000	93,590,000
Less: Deferred loss on refunding and unamortized premium (discount)	<u>(19,429,642)</u>	<u>(3,927,610)</u>	<u>(54,794,855)</u>	<u>(78,152,107)</u>
Total bonds payable	<u>\$ 305,740,358</u>	<u>\$108,902,390</u>	<u>\$ 38,795,145</u>	<u>\$ 453,437,893</u>

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

Management believes that the City has complied in all material respects with the terms of its respective debt agreements.

CITY OF HARRISBURG, PENNSYLVANIA
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The composition of bonds outstanding included in the primary government at December 31, 2007 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 \$3,325,980 to \$3,690,806 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.	\$ 10,559,266
7.72%-7.75%, Federally Taxable General Obligation Bonds, Series A-1 of 1997, dated January 5, 1998, principal payable in annual installments of \$1,180,000 to \$1,700,000 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.	2,880,000
5.05%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of \$733,498 to \$3,330,817 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.	34,454,259

Revenue Bonds

4.07%-5.29%, Senator's Revenue Bonds, Series A-2 of 2005, dated January 2005 Series A-2 matures at various amounts from 2006 through 2030, issued to renovate the baseball stadium.	8,790,000
6.95%-7.50%, Revenue Bonds, Series of 2006, dated December 2006, principal payable in annual installments of \$630,000 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.	<u>7,200,000</u>

Total primary government bonds payable	63,883,525
Less: unamortized discount	<u>(62,940)</u>
Net primary government bonds payable	<u><u>\$ 63,820,585</u></u>

CITY OF HARRISBURG, PENNSYLVANIA
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The composition of bonds outstanding included in the component units at December 31, 2007 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.	\$ 37,155,000
3.70% - 4.10%, Water Revenue Bonds, Series A of 2003 dated July 2003. Series A matures at various amounts from 2005 through 2029.	56,110,000
3.47% - 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.	5,250,000
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.	8,655,000
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.	8,655,000
9.75% - 10.5%, Sewer Revenue Refunding Bonds, Series of 1984 consisting of compound interest bonds which mature on January 1, 2008.	1,695,000
4.45% - 6.25%, Resource Recovery Revenue Bonds, Series A, D, E and F of 2003. Series A mature at various amounts from 2018 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.	<u>11,270,000</u>
Total The Harrisburg Authority	325,170,000
Less: deferred loss on refunding and unamortized premium	<u>(19,429,642)</u>
Net The Harrisburg Authority	<u>\$ 305,740,358</u>

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Harrisburg Parking Authority	
Revenue Bonds	
Variable rate, Series K Bonds, dated June 1, 2000, consisting of term bonds maturing December 2023 and December 2024. The interest rate varies approximately at SIFMA and was 3.48% at December 31, 2007.	\$ 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.	28,565,000
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.	5,820,000
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.	13,160,000
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
3.60% - 5.00%, Series R Bonds, dated January 11, 2007, consisting of serial bonds maturing from May 15, 2010 to May 15, 2036 in annual installments of various amounts.	16,965,000
3.50% - 4.50%, Series T Bonds, dated December 15, 2007, consisting of serial bonds maturing from May 15, 2009 to May 15, 2030 in annual installments of various amounts.	<u>19,890,000</u>
Total Harrisburg Parking Authority	112,830,000
Less: Deferred loss on refunding and unamortized premium	<u>(3,927,610)</u>
Net Harrisburg Parking Authority	<u>\$ 108,902,390</u>
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	<u>(54,794,855)</u>
Net Redevelopment Authority	<u>\$ 38,795,145</u>
Total component unit bonds payable	<u>\$ 453,437,893</u>

The Harrisburg Authority

The Harrisburg Authority has entered into seven derivative product agreements, which consist of debt service forward delivery agreements with a financial intermediary that result in a forward swap of interest earned on amounts placed in debt service sinking fund and swap agreements. In exchange for cash payments to The Harrisburg Authority at the inception of the agreements totaling approximately \$4,038,000, at December 31, 2007, 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 \$2,603,147 at December 31, 2007, is being amortized over the respective life of each agreement under a method that approximates the interest method.

On December 15, 2007, The Harrisburg Authority issued Guaranteed Resource Recovery Facility Limited Obligation Notes, Series C and D of 2007 (collectively, Series of 2007 Notes) with a maturity value of \$23,920,000 and \$10,765,000, respectively. These Series of 2007 Notes do not bear current interest, but accrete interest as capital appreciation notes. The proceeds of the Series C Notes are to be used to finance (i) certain working capital needs of the Resource Recovery Facility pending the completion of the Retrofit Completion Project, including refinancing of the Series A of 2007 Note issued to Covanta; (ii) the payment of debt service due in 2008 on certain outstanding tax-exempt debt of The Harrisburg Authority relating to the Facility and (iii) the payment of costs of financing the Series C Notes. The proceeds of the Series D Notes are to be used to reimburse moneys advanced and to provide for debt service due in 2008 on certain outstanding taxable debt of The Harrisburg Authority relating to the Facility, including debt service on the 2003E Bonds and the payment of costs of financing the Series D Notes. The City has guaranteed payment of the maturity value of the Series of 2007 Notes and for such purpose the City has pledged its full faith, credit and taxing power. Additionally, the County of Dauphin has guaranteed payment of the maturity value of the Series of 2007 Notes in the event of the failure of the City to make payment under the City Guaranty Agreement and for such purpose the County has pledged its full faith, credit and taxing power.

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

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method that approximates the interest method. Amortization for the year ended December 31, 2007, totaled \$53,664.

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. Except as discussed in Note 20, management believes that the Authority was in compliance with such covenants at December 31, 2007.

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

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

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Authority completed the current refunding to extend the life of the debt. The total debt service payments increased by \$3,751,970 through the year 2030 and resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$1,122,968.

The annual requirements to amortize all bonds outstanding as of December 31, 2007, using interest rates in effect at December 31, 2007 for variable rate issues, are as follows:

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Primary Government						
2008	\$ 6,850,239	\$ 402,452	\$ 805,000	\$ 918,305	\$ 7,655,239	\$ 1,320,757
2009	6,369,921	621,528	855,000	883,283	7,224,921	1,504,811
2010	5,444,347	945,653	910,000	842,587	6,354,347	1,788,240
2011	3,705,678	789,322	975,000	779,205	4,680,678	1,568,527
2012	3,516,939	983,061	1,045,000	710,887	4,561,939	1,693,948
2013-2017	14,926,186	7,553,814	5,275,000	2,380,252	20,201,186	9,934,066
2018-2022	7,097,696	6,622,302	1,890,000	1,367,436	8,987,696	7,989,738
2023-2027	-	-	2,435,000	809,443	2,435,000	809,443
2028-2030	-	-	1,800,000	146,004	1,800,000	146,004
	47,911,006	17,918,132	15,990,000	8,837,402	63,901,006	26,755,534
Less unamortized discount	(17,481)	-	(62,940)	-	(80,421)	-
Primary Government, net	<u>\$ 47,923,525</u>	<u>\$ 17,918,132</u>	<u>\$ 15,927,060</u>	<u>\$ 8,837,402</u>	<u>\$ 63,820,585</u>	<u>\$ 26,755,534</u>
The Harrisburg Authority						
2008	\$ -	\$ -	\$ 5,920,000	\$ 15,561,121	\$ 5,920,000	\$ 15,561,121
2009	-	-	7,005,000	15,192,749	7,005,000	15,192,749
2010	-	-	9,415,000	15,030,505	9,415,000	15,030,505
2011	-	-	9,675,000	14,627,343	9,675,000	14,627,343
2012	-	-	10,070,000	14,246,392	10,070,000	14,246,392
2013-2017	-	-	46,745,000	61,561,825	46,745,000	61,561,825
2018-2022	-	-	69,600,000	47,861,801	69,600,000	47,861,801
2023-2027	-	-	83,475,000	28,888,265	83,475,000	28,888,265
2028-2032	-	-	68,210,000	9,838,748	68,210,000	9,838,748
2033-2034	-	-	15,055,000	1,155,280	15,055,000	1,155,280
	-	-	325,170,000	223,964,029	325,170,000	223,964,029
Less deferred loss on refunding and unamortized premium	-	-	(19,429,642)	-	(19,429,642)	-
The Harrisburg Authority, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$305,740,358</u>	<u>\$233,964,029</u>	<u>\$305,740,358</u>	<u>\$233,964,029</u>
Harrisburg Parking Authority						
2008	\$ -	\$ -	\$ 2,175,000	\$ 4,968,553	\$ 2,175,000	\$ 4,968,553
2009	-	-	2,865,000	4,960,899	2,865,000	4,960,899
2010	-	-	3,710,000	4,854,424	3,710,000	4,854,424
2011	-	-	3,525,000	4,717,572	3,525,000	4,717,572
2012	-	-	3,665,000	4,581,479	3,665,000	4,581,479
2013-2017	-	-	22,245,000	20,379,195	22,245,000	20,379,195
2018-2022	-	-	30,475,000	14,757,595	30,475,000	14,757,595
2023-2027	-	-	32,965,000	7,179,415	32,965,000	7,179,415
2028-2032	-	-	8,145,000	1,706,288	8,145,000	1,706,288
2033-2036	-	-	3,060,000	210,600	3,060,000	210,600
	-	-	112,830,000	68,316,020	112,830,000	68,316,020
Less deferred loss on refunding and unamortized premium	-	-	(3,927,610)	-	(3,927,610)	-
Harrisburg Parking Authority, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$108,902,390</u>	<u>\$ 68,316,020</u>	<u>\$108,902,390</u>	<u>\$ 68,316,020</u>

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Redevelopment Authority						
2013-2017	\$ -	\$ -	\$ 11,060,000	\$ -	\$ 11,060,000	\$ -
2018-2022	-	-	37,300,000	-	37,300,000	-
2023-2027	-	-	26,630,000	-	26,630,000	-
2028-2032	-	-	11,250,000	-	11,250,000	-
2033	-	-	7,350,000	-	7,350,000	-
			<u>93,590,000</u>		<u>93,590,000</u>	
Less unamortized discount	-	-	(54,794,855)	-	(54,794,855)	-
Redevelopment Authority, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,795,145</u>	<u>\$ -</u>	<u>\$ 38,795,145</u>	<u>\$ -</u>
Total	<u>\$ 47,923,525</u>	<u>\$ 17,918,132</u>	<u>\$469,364,953</u>	<u>\$311,117,451</u>	<u>\$ 517,258,478</u>	<u>\$329,035,583</u>

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, 2007, the following bonds outstanding are considered defeased:

City of Harrisburg	
General Obligation Bonds, Series A of 1995	\$ 35,415,000
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	18,930,000
Resource Recovery Revenue Bonds, Series B of 1998	7,825,000
Resource Recovery Revenue Bonds, Series C of 1998	3,485,000
Seventh Street Office & Parking Revenue Bonds, Series A of 1998	13,400,000
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	3,250,000
Harrisburg Parking Authority	
Guaranteed Parking Revenue Bonds, Series 2001 Bonds	<u>17,090,000</u>
	<u>\$ 117,785,000</u>

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

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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, 2007 is as follows:

5.53% - 6.56%, Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of \$185,000 to \$335,000, through August 1, 2019, to be serviced through general revenues of the City.	\$ 3,035,000
4.96% - 5.77%, Section 108 Note, dated September 14, 2006, interest payable semiannually and principal payable in annual installments of \$210,000 to \$225,000, through August 1, 2026, to be serviced through general revenues of the City.	<u>3,795,000</u>
	<u>6,830,000</u>

The composition of notes payable included in the primary government at December 31, 2007 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 \$1,363,096 to \$3,553,650 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.	39,887,609
1.59% - 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.	<u>391,937</u>
	<u>40,279,546</u>
Total primary government notes payable	<u>\$ 47,109,546</u>

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The composition of notes payable included in the component units at December 31, 2007 is as follows:

The Harrisburg Authority

1.536% - 5.4375%, The Harrisburg Authority, 1998 Guaranteed Sewer Revenue Notes, Series A and B, payable through 2018, to finance projects related to the sewer collection system. \$ 2,116,072

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. 16,330,000

3.70%-5.0%, The Harrisburg Authority, 2003 Guaranteed Resource Recovery Notes, Series B and C payable beginning 2025 through 2034, to advance refund a portion of the 1998 Series A Bonds, all of the outstanding 1998 Series B and C Bonds, all of the outstanding 2000 Series A and B Notes. 53,370,000

4.50%, The Harrisburg Authority, 2007 Guaranteed Resource Recovery Limited Obligation Notes, Series C payable beginning in 2010, to fund the working capital component of the Retrofit Completion Project. 23,920,000

6.0%, The Harrisburg Authority, 2007 Guaranteed Resource Recovery Limited Obligation Notes, Series D payable in 2010, to fund the Reimbursement Project. 10,765,000

106,501,072

Add: Unamortized discount (3,806,366)

Net The Harrisburg Authority \$ 102,694,706

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 \$ 103,194,706

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The annual requirements to amortize all notes payable outstanding as of December 31, 2007, using interest rates in effect at December 31, 2007 for variable rate issues, are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
Primary Government		
2008	\$ 1,610,211	\$ 468,713
2009	1,988,763	546,831
2010	2,446,966	689,182
2011	3,937,839	1,082,924
2012	3,762,358	1,232,078
2013-2017	16,334,088	8,192,247
2018-2022	16,174,321	15,536,140
2023-2026	855,000	123,918
	<u>\$ 47,109,546</u>	<u>\$ 27,872,032</u>
Component Units:		
	<u>The Harrisburg Authority</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 866,773	\$ 3,333,178
2009	914,983	3,282,364
2010	35,648,253	3,231,429
2011	1,021,597	3,294,118
2012	1,080,014	3,239,271
2013-2017	6,394,452	15,209,199
2018-2022	7,205,000	13,310,844
2023-2027	12,620,000	11,594,155
2028-2032	27,750,000	7,218,785
2033-2034	13,000,000	983,000
	106,501,072	64,696,343
Add: unamortized discount	<u>(3,806,366)</u>	<u>-</u>
	<u>\$ 102,694,706</u>	<u>\$ 64,696,343</u>
	<u>Redevelopment Authority</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 500,000	\$ 18,806

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
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	1,855,496	60,000	1,915,496
Total minimum lease payments	7,432,381	\$ 240,000	\$ 7,672,381
Less amount representing interest	(1,212,687)		
Present value of net minimum lease payments	6,219,694		
Current portion	1,727,402		
Long-term portion	\$ 4,492,292		

The net book value of equipment held under capital leases included in capital assets was \$14,838,787 at December 31, 2007. Capital improvements to these systems under the lease agreements were \$1,781,876 during 2007.

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, 2007 and, accordingly, no additional payment was due.

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Capitalized Lease Obligations

The City leased certain equipment under long-term lease agreements which were classified as capital leases. During the year ended December 31, 2004, the City refinanced all of the then existing capital leases into a consolidated master capital lease. Additional capital leases were issued during the years ended December 31, 2005 and 2007. As of December 31, 2007, the governmental activities and the business-type activities included equipment and furniture under capital leases had a net book value of \$3,055,876 and \$267,791, respectively. The future minimum payments under capital leases and the present value of the minimum lease payments at December 31, 2007 are as follows:

Year ending December 31,	Governmental Activities	Business-type Activities	Total
2008	\$ 2,608,857	\$ 226,004	\$ 2,834,861
2009	2,584,794	187,065	2,771,859
2010	2,195,962	165,952	2,361,914
2011	1,831,641	146,420	1,978,061
2012	1,537,049	130,794	1,667,843
2013	730,599	41,786	772,385
2014	730,598	41,785	772,383
2015	125,962	7,205	133,167
2016	125,963	7,204	133,167
2017	125,938	7,223	133,161
Total minimum lease payments	12,597,363	961,438	13,558,801
Less amount representing interest	<u>(1,352,926)</u>	<u>(100,383)</u>	<u>(1,453,309)</u>
Present value of future minimum lease payments	<u>\$ 11,244,437</u>	<u>\$ 861,055</u>	<u>\$ 12,105,492</u>

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 2013 are as follows:

Lease year ending December 31,	
2008	\$ 715,418
2009	650,491
2010	565,698
2011	511,089
2012	487,199
2013	<u>414,025</u>
Total minimum lease payments	<u>\$ 3,343,920</u>

Operating Lease

The Redevelopment Authority leases space from a commercial rail company through 2013. The minimum lease payments for the term of the lease are as follows:

<u>Lease year ending December 31,</u>	
2008	\$ 134,838
2009	134,838
2010	134,838
2011	134,838
2012	134,838
2013	<u>134,838</u>
Total minimum lease payments	<u>\$ 809,028</u>

The lease is adjusted annually on January 1 for the National Consumer Price Index. The above amounts do not reflect the annual CPI increase. Management does not anticipate a significant increase in the above amounts. Total rental expenses for the year ended December 31, 2007 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.

As JPMorgan did not exercise their option before March 15, 2007, Swap Agreement-I and Swap Agreement-II are terminated as of December 31, 2007.

Component Units

The Harrisburg Authority

Variable Rate Issues and Interest Rate Swaps

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

2003 Water Revenue Bonds, Series A

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

On April 12, 2002, The Harrisburg Authority, in order to lock in fixed borrowing costs for its 2003 Water Revenue Bonds, Series A, also entered into a forward interest swap agreement with Societe Generale; on that date, Societe Generale paid The Harrisburg Authority an upfront payment of \$1,415,000. Under the swap agreement, Societe Generale agreed to pay to The Harrisburg Authority (i) amounts calculated at a floating rate per annum based on 67 percent of one-month LIBOR, on a notional amount equal to a specified portion of the scheduled principal amount of the 2003 Water Revenue Bonds, Series A, and (ii) amounts calculated at a floating rate per annum determined under the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA Index) on a notional amount equal to another specified portion of the scheduled principal amount of the 2003 Water Revenue Bonds, Series A. The Harrisburg Authority is obligated to pay Societe Generale amounts calculated at respective agreed upon fixed rates based upon the separate notional amounts described above, and which fixed rates were determined in April 2002 and were calculated to take into account the upfront payment of \$1,415,000 paid by Societe Generale to The Harrisburg Authority. The forward interest rate swap agreement was scheduled to become effective on or about July 10, 2003, the anticipated issue date of the 2003 Water Revenue Bonds, Series A. The purpose of entering into the forward interest rate swap was to hedge against the risk of interest rate changes with respect to the 2003 Water Revenue Bonds, Series A, and to fix its effective borrowing costs with respect to the 2003 Water Revenue Bonds, Series A hedged by the forward interest rate swap agreement. The forward interest rate swap agreement became effective on July 11, 2003, the date on which The Harrisburg Authority issued the 2003 Water Revenue Bonds, Series A, in the principal amount of \$56,535,000.

Terms. As described above, the interest rate swap agreement which The Harrisburg Authority entered into with respect to its 2003 Water Revenue Bonds, Series A 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 SIFMA-based swap with \$25,605,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional amount (SIFMA Swap). Under the LIBOR Swap, The Harrisburg Authority 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 SIFMA 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 SIFMA Index. Under the LIBOR Swap and the SIFMA 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 SIFMA Swap were determined in April 2002 when The Harrisburg Authority entered into the forward interest rate swap agreement with Societe Generale and take into account Societe Generale's upfront payment of \$1,415,000 paid to The Harrisburg Authority in April 2002. The notional amount of each of the LIBOR Swap and the SIFMA Swap 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 SIFMA 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, 2007, it would cost The Harrisburg Authority \$8,987,734 to terminate the LIBOR Swap and the SIFMA Swap with Societe Generale. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

Credit risk. As of December 31, 2007, 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, 2007. 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, 2007, the interest rate on the 2003 Water Revenue Bonds, Series A was 3.57 percent, whereas 67 percent of one-month LIBOR was 3.08 percent.

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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, 2007, 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		
2008	\$ 160,000	\$ 2,003,127	\$ 835,760	\$ 2,998,887
2009	165,000	1,997,415	833,064	2,995,479
2010	175,000	1,991,525	830,284	2,996,809
2011	185,000	1,985,277	827,336	2,997,613
2012	195,000	1,978,673	824,218	2,997,891
2013-2017	1,145,000	9,781,265	4,068,182	14,994,447
2018-2022	1,490,000	9,553,321	3,960,598	15,003,919
2023-2027	28,160,000	8,331,128	3,383,742	39,874,870
2028-2029	24,435,000	1,387,302	448,496	26,270,798
	<u>\$ 56,110,000</u>	<u>\$ 39,009,033</u>	<u>\$ 16,011,680</u>	<u>\$ 111,130,713</u>

Subsequent Event. Both the LIBOR Swap and the SIFMA Swap were terminated with the issuance of The Harrisburg Authority's Water Revenue Refunding Bonds, Series of 2008, issued on August 22, 2008.

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 became 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 SIFMA-based Constant Maturity Swap with \$25,180,000 of outstanding principal amount of 2003 Water Revenue Bonds, Series A as the notional

amount (SIFMA CMS). Under the LIBOR CMS, The Harrisburg Authority receives interest on the corresponding notional amount at a floating rate of 60.15% of the ten-year USD-ISDA-Swap Rate (ten-year LIBOR swap rate) and pays Deutsche Bank a floating rate based on 67% of one-month LIBOR. Under the SIFMA CMS, The Harrisburg Authority receives interest on the corresponding notional amount at a floating rate of 85.44% of USSMQ10 (ten-year SIFMA swap rate) and pays Deutsche Bank a floating rate based on the SIFMA Index. The notional amount of each of the LIBOR CMS and SIFMA 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, 2007, it would cost the Counterparty \$192,903 to terminate the LIBOR CMS and \$20,000 to terminate the SIFMA CMS with Deutsche Bank. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps. Where applicable, future payments are adjusted taking into account volatilities, time, and other variables.

Credit risk. As of December 31, 2007, The Harrisburg Authority was 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 Aa1 by Moody's Investors Service as of December 31, 2007. 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 SIFMA Index minus 85.44% of the ten-year SIFMA Swap Rate (USSMQ10) become positive. The negative effects of the yield curve risk are caused by an inversion of the associated yield curve resulting in The Harrisburg Authority paying a higher overall cost of borrowing.

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Swap payments and associated debt. Using rates as of December 31, 2007, 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 swap agreement will vary.

Fiscal Year Ending December 31,	Swap Agreement Payments, Net
2008	\$ 201,696
2009	200,848
2010	199,974
2011	199,046
2012	198,066
2013-2017	973,686
2018-2022	939,845
2023-2027	758,398
2028-2029	74,395
	\$ 3,745,954

Subsequent Event. Both the LIBOR CMS and the SIFMA CMS were transferred to The Harrisburg Authority's Water Revenue Refunding Bonds, Series of 2008, issued on August 22, 2008. As of December 15, 2008, it would cost The Harrisburg Authority \$136,622 to terminate the LIBOR CMS and it would cost the Counterparty \$302,124 to terminate the SIFMA CMS with Deutsche Bank. Effective November 17, 2008, both the LIBOR CMS and SIFMA CMS were suspended until January 15, 2011. For executing these suspensions, The Harrisburg Authority received a total of \$1.25 million from Deutsche Bank.

Deutsche Bank was rated AA- by Standard & Poor's and Aa1 by Moody's Investors Service as of December 15, 2008.

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 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 overall cost of borrowing of the 2004 Water Revenue Refunding Bonds. The amendment converts 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 SIFMA Municipal Swap Index (SIFMA Index) and Merrill Lynch periodically pays an amount to The Harrisburg

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

Fair value. As of December 31, 2007, it would cost the Counterparty \$616,620 to terminate the 2005 Basis Swap, as amended, with Merrill Lynch. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

Credit risk. As of December 31, 2007, The Harrisburg Authority was exposed to credit risk in the amount of the swap agreement's fair value. Merrill Lynch was rated A+ by Standard & Poor's and A1 by Moody's Investors Service as of December 31, 2007. 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 Authority is receiving payments based on 69% of the five-year LIBOR Swap Rate from July 15, 2007 to the Termination Date of July 15, 2023 while making payments to Merrill Lynch based on the SIFMA index. The Harrisburg Authority is receiving payments based on a taxable rate which may be different from the amount The Harrisburg Authority pays to Merrill Lynch, which is based on the SIFMA Index, a tax-exempt rate. As of December 31, 2007, the interest rate The Harrisburg Authority was paying under the 2005 Basis Swap was 3.42 percent, where as the interest The Harrisburg Authority was receiving at 69% of the five-year LIBOR Swap Rate was 2.90 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 Authority would be liable to Merrill Lynch for a payment equal to the swap's fair value.

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Swap payments and associated debt. Using rates as of December 31, 2007, 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		Swap Agreement Payments, Net	Total
	Principal	Interest		
2008	\$ 110,000	\$ 1,836,412	\$ 193,206	\$ 2,139,618
2009	125,000	1,833,498	192,634	2,151,132
2010	125,000	1,829,748	191,984	2,146,732
2011	125,000	1,825,060	191,334	2,141,394
2012	135,000	1,820,872	190,684	2,146,556
2013-2017	995,000	9,023,580	942,188	10,960,768
2018-2022	31,255,000	5,971,500	621,036	37,847,536
2023	4,285,000	214,250	22,282	4,521,532
	<u>\$ 37,155,000</u>	<u>\$ 24,354,920</u>	<u>\$ 2,545,348</u>	<u>\$ 64,055,268</u>

Subsequent Event. As of December 15, 2008, it would cost The Harrisburg Authority \$1,405,037 to terminate the 2005 Basis Swap, as amended, with Merrill Lynch.

Merrill Lynch was rated A by Standard & Poor's and A2 by Moody's Investors Service as of December 15, 2008.

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 SIFMA

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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 SIFMA 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 SIFMA Index and 6% on a notional amount equal to the scheduled principal amount of the D-1 Bonds and the D-2 Bonds outstanding after December 1, 2008 and December 1, 2013, respectively. In May 2004, The Harrisburg Authority and RBC amended the D-1/D-2 Cap to provide for RBC to pay the excess between 68% of LIBOR and 6%, rather than the excess between SIFMA and 6%. The Harrisburg Authority received \$1,106,000 as a result of this amendment.

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

On April 28, 2006, The Harrisburg Authority terminated the portion of the 2005 Swap from June 1, 2011 through December 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 SIFMA-based variable rate through June 1, 2008 and (ii) receives 68% of one-month LIBOR from June 1, 2008 to June 1, 2011. As a result of the partial termination, The Harrisburg Authority received \$4,027,000.

Fair value. As of December 31, 2007, it would cost The Harrisburg Authority \$111,431 to terminate the D-1 Swap and the embedded D-1 Cap and it would cost the Counterparty \$215,746 to terminate the D-2 Swap and the embedded D-2 Cap. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

As of December 31, 2007, it would cost The Harrisburg Authority \$5,576,740 to terminate the D-1/D-2 Cap. The Harrisburg Authority is obligated to make semi-annual payments of \$284,616 beginning

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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, 2007, it would cost The Harrisburg Authority \$2,018,246 to terminate the 2005 Swap.

Credit risk. As of December 31, 2007, The Harrisburg Authority was not exposed to credit risk on the D-1 Swap, the Embedded D-1 Cap, the D-1/D-2 Cap, or the 2005 Swap, because they had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, The Harrisburg Authority would be exposed to credit risk in the amount of the swap agreement's fair value. The Harrisburg Authority is exposed to credit risk on the D-2 Swap and the embedded D-2 Cap in the amount of the swap agreement's fair value. As of December 31, 2007, RBC was rated Aaa by Moody's Investors Service and AA- by Standard & Poor's. To mitigate credit risk, if RBC's rating falls below A3 by Moody's Investors Service or A- by Standard & Poor's, the D-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.

Basis Risk. After June 30, 2008, the Authority is subject to basis risk, because the interest on the variable rate arm of the 2005 Swap is based on one month LIBOR and the variable rate interest rate on the D-2 Swap is based on SIFMA. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the Authority's calculated payment, and as a result, cost savings or synthetic interest rates may not be realized.

Swap payments and associated debt. Using interest rates as of December 31, 2007, 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.

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Fiscal Year Ending December 31,	D-1 Bonds			2005		Total
	Principal	Interest	D-1 Swap *	Swap **		
2008	\$ -	\$ 1,259,200	\$ 239,248	\$ 23,925	\$ 1,522,373	
2009	-	1,023,100	-	69,886	1,092,986	
2010	-	1,023,100	-	69,886	1,092,986	
2011	-	1,023,100	-	34,943	1,058,043	
	<u>\$ -</u>	<u>\$ 4,328,500</u>	<u>\$ 239,248</u>	<u>\$ 198,640</u>	<u>\$ 4,766,388</u>	

*Computed: (3.42%-2.66%) x \$31,480,000

**Computed: (3.35%-3.42%) x \$31,480,000 through June 1, 2008 and
(4.60%-3.128%) x \$31,480,000 through June 1, 2011

Fiscal Year Ending December 31,	D-2 Bonds			2005		Total
	Principal	Interest	D-2 Swap *	Swap **		
2008	\$ -	\$ 3,250,000	\$ 32,500	\$ 49,400	\$ 3,331,900	
2009	-	3,250,000	32,500	144,300	3,426,800	
2010	-	3,250,000	32,500	144,300	3,426,800	
2011	-	3,250,000	32,500	72,150	3,354,650	
2012	-	3,250,000	32,500	-	3,282,500	
2013	-	3,250,000	32,500	-	3,282,500	
	<u>\$ -</u>	<u>\$ 19,500,000</u>	<u>\$ 195,000</u>	<u>\$ 410,150</u>	<u>\$ 20,105,150</u>	

*Computed: (3.42%-3.37%) x \$65,000,000

**Computed: (3.35%-3.42%) x \$65,000,000 through June 1, 2008 and
(4.60%-3.128%) x \$65,000,000 through June 1, 2011

Subsequent Event. As of December 15, 2008, it would cost the Counterparty \$4,433,889 to terminate the D-2 Swap and the embedded D-2 Cap. As of December 15, 2008, it would cost The Harrisburg Authority \$6,173,352 to terminate the D-1/D-2 Cap. As of December 15, 2008, it would cost The Harrisburg Authority \$5,127,054 to terminate the 2005 Swap.

As of December 15, 2008, RBC was rated Aaa by Moody's Investors Service and AA- by Standard & Poor's.

2003 Guaranteed Resource Recovery Revenue Notes, Series B

These Notes bear interest at a fixed rate of 3.70 percent through June 15, 2010. Thereafter, it is expected that the Notes will bear interest at a tax-exempt weekly rate equal to the SIFMA index plus 75 basis points on each date of determination. The debt service schedule uses a rate of 4.1% 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, 3.47 percent at December 31, 2007.

2002 Water Revenue Bonds, Series C

These Bonds bear interest at a taxable weekly rate, 5.11 percent at December 31, 2007.

1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 5.4375 percent at December 31, 2007.

15. SHORT-TERM DEBT

Until such time as the Guaranteed Resource Recovery Facility Limited Obligation Notes, Series C and D of 2007, were issued, The Harrisburg Authority borrowed, on a short-term basis, from the City and the County of Dauphin. The amounts borrowed were used to pay June, November, and December 2007 debt service payments, swap and cap fees, and advance moneys to the operator of the Resource Recovery Facility. The borrowings were repaid from the proceeds of the Guaranteed Resource Recovery Facility Limited Obligation Notes, Series C and D of 2007, as follows:

	Beginning Balance at January 1, 2007	Additions	Reductions	Ending Balance at December 31, 2007
City of Harrisburg	\$ -	\$ 4,306,098	\$ (4,306,098)	\$ -
County of Dauphin	-	5,350,000	(5,350,000)	-
	<u>\$ -</u>	<u>\$ 9,656,098</u>	<u>\$ (9,656,098)</u>	<u>\$ -</u>

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 6.0% is applied to the non-uniformed and fire employees accounts. Employees' accumulated contributions plus interest (if applicable) will be returned upon termination or death if no other benefits are payable under the plan. The plans are also eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the 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. 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.

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Actuarial Assumptions

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

	Non-Uniformed Employees'		Firefighters'	Police Officers'
	Plan A	Plan B	Combined	Combined
Actuarial valuation date	1/1/07	1/1/07	1/1/07	1/1/07
Actuarial cost method	Entry age Normal	Entry age normal	Entry age normal	Entry age Normal
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed	Level dollar, Closed
Remaining amortization period	14 years	14 years	11 years	13 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	4.5%	4.5%	4.5%	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, 2007 are as follows:

	Non-Uniformed Employees'		Firefighters'	Police Officers'
	Plan A	Plan B	Combined	Combined
Annual required contribution	\$ -	\$ -	\$ -	\$ 523,803
Contributions made	-	-	-	523,803
Change in net pension obligation	-	-	-	-
Net pension obligation – beginning of year	-	-	-	-
Net pension obligation – end of year	\$ -	\$ -	\$ -	\$ -

Three Year Trend Information

Non-Uniformed Employees – Plan A	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2005	\$ -	- %	\$ -
December 31, 2006	-	-	-
December 31, 2007	-	-	-

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Non-Uniformed Employees – Plan B	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2005	\$ -	- %	\$ -
December 31, 2006	-	-	-
December 31, 2007	-	-	-
Firefighters' Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2005	\$ -	- %	\$ -
December 31, 2006	-	-	-
December 31, 2007	-	-	-
Police Officers' – Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2005	\$ 1,303,069	100 %	\$ -
December 31, 2006	512,593	100	-
December 31, 2007	523,803	100	-

The annual required contribution for the current year was determined as part of the January 1, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions for the Non-Uniformed Employees' Plan and Combined Firefighters' Plan include (a) a 6.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.50% per year. The actuarial assumptions for the combined Police Pension Fund include (a) an 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% per year. The assumptions do not include postretirement benefit increases, which are funded by State appropriation when granted. The actuarial value is determined using market values determined by the trustee.

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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, 2007, is as follows:

CONDENSED STATEMENT OF NET ASSETS	Water Fund	Resource Recovery Fund
Assets		
Current assets		
Other current assets	\$ 6,101,652	\$ 2,377,494
Due from (to) other funds	1,230,996	(1,955,820)
Due from the City of Harrisburg	260,374	-
Total current assets	7,593,022	421,674
Restricted assets	31,123,619	36,147,984
Capital assets	70,677,978	106,062,764
Other noncurrent assets	5,870,578	10,802,005
Total assets	115,265,197	153,434,427
Liabilities		
Current liabilities		
Other current liabilities	1,842,681	886,169
Due to the City of Harrisburg	163,675	742,980
Total current liabilities	2,006,356	1,629,149
Liabilities payable from restricted assets	3,945,315	4,225,702
Noncurrent liabilities	137,257,366	254,092,109
Due to the City of Harrisburg	713,324	86,642
Total liabilities	143,922,361	260,033,602
Net assets		
Invested in capital assets, net of related debt	(35,927,433)	(102,433,413)
Restricted	2,396,928	1,812,533
Unrestricted	4,873,341	(5,978,295)
Total net assets	\$ (28,657,164)	\$ (106,599,175)

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

	Water Fund	Resource Recovery Fund
Operating revenues	\$ 18,374,190	\$ 12,788,862
Operating expenses		
Operating	8,835,264	17,555,272
Administration	200,000	207,000
Depreciation	2,170,589	4,253,682
Total operating expenses	11,205,853	22,015,954
Operating income (loss)	7,168,337	(9,227,092)
Nonoperating revenues (expenses)		
Investment income	2,020,830	1,193,550
Miscellaneous expense	(220,239)	(222,421)
Interest expense	(8,577,550)	(12,555,540)
Amortization of bond issuance costs	(482,661)	(818,758)
Total nonoperating expenses	(7,259,620)	(12,403,169)
Loss before transfers	(91,283)	(21,630,261)
Transfer in	-	1,000,000
Change in net assets	(91,283)	(20,630,261)
Net assets - January 1, 2007	(28,565,881)	(85,968,914)
Net assets - December 31, 2007	\$ (28,657,164)	\$ (106,599,175)

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided by (used in) operating activities	\$ 8,115,768	\$ (5,170,300)
Net cash used in investing activities	(108,042)	(9,201,706)
Net cash provided by (used in) capital and related financing activities	(7,075,810)	14,901,479
Net increase in cash and cash equivalents	931,916	529,473
Cash and cash equivalents, January 1, 2007	4,463,980	379,069
Cash and cash equivalents, December 31, 2007	\$ 5,395,896	\$ 908,542

18. ACCUMULATED DEFICITS

The Authority, a component unit, has an accumulated deficit of \$5,902,458. 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 \$2,359,641.

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, 2007. If the facility fails to generate sufficient revenues to pay debt service on the Resource Recovery Facility Revenue Bonds, Series A, D, E, and F of 2003, the Resource Recovery Facility Revenue Notes, Series B and C of 2003, the Resource Recovery Facility Subordinate Variable Rate Revenue Notes, Series A of 2002 or the Resource Recovery Facility Revenue Bonds, Series A of 1998, or ceases revenue generating operations, or if other monies set aside for such purposes are insufficient, the City will be required to pay principal 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 guaranty 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 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, 2007 of \$28,565,197 and \$106,599,175, 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 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 \$106,599,175 at December 31, 2007, and is in violation of certain covenants under the trust indentures. The Authority has issued multiple notices of material events with respect to certain bonds of the Resource Recovery Facility. Many of the above items were due to delays and incompleteness of the facility 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 to provide professional services. Included in Covanta's Agreement with The Harrisburg Authority is a construction management agreement to oversee the completion of construction. The 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's plan was presented and approved by the City and County in November 2007.

Due to delays in completing construction in 2007 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.

The Harrisburg Authority authorized a \$25,500,000 loan with Covanta to pay for the Retrofit Project, used to fix design flaws. At December 31, 2007, no funds have been drawn down under this loan by The Harrisburg Authority. This loan is guaranteed by the City.

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, 2007.

The Redevelopment Authority net asset (deficit) at December 31, 2007 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 \$38,795,145. These debt issuances reduced the governmental activities net assets from a positive \$673,285 to the deficit balance of \$38,121,860. 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 Transportation Center deficits are to be made from future activities according to management. In addition, a reservation of fund balance has been made in the Redevelopment Authority's General Fund in the amount of \$215,659. The reservation in the amount of \$323,111 in the Redevelopment Authority's Transportation Center Fund is assets held from a debt issuance to be used for construction expenses or repayment of debt.

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.

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In August 2001, the City received a \$9.5 million matching grant commitment from the Commonwealth of Pennsylvania towards the construction of The National Sports Hall of Fame on City Island. The projected \$31 million, 60,000 square foot hall of fame is planned to focus on athletes, coaches and administrators from throughout the country for their on and off the field contributions in all sports and at all levels, while promoting the preservation of material, culture and sources of information relevant to athletes and athletic events throughout the United States, especially the Commonwealth of Pennsylvania. As part of its match for the grant, the City has overseen the incorporation of a Section 501(c)3 nonprofit corporation to supervise the design and engineering efforts for the hall of fame. Plans for ground breaking and construction have been put on hold until such time as the City's matching share has been realized.

Construction Commitments

Primary Government

The City has contractual commitments for construction, engineering and licensing related to the City properties of approximately \$1,448,912.

Component Units

The Harrisburg Authority

The Harrisburg Authority entered into an Administrative Services and Interim Operation and Maintenance Agreement (Interim Agreement) with a Covanta for operation and management of the Resource Recovery Facility effective January 2, 2007 through March 31, 2007. During the interim agreement period, Covanta provided all day-to-day administrative services, provided a Construction Plan and coordinated all construction, start-up performance testing, operation and maintenance services for the Facility. The Harrisburg Authority deposited \$100,000 with Covanta, which was used to pay for the first arising reimbursable expenses under the Agreement. On the 15th and 30th day of each month, The Harrisburg Authority paid Covanta 1/24th of the annual amount set forth in the estimated operating budget. Each month, Covanta reconciled the actual reimburseable expenses to the payments made by the Authority. For all reimburseable expenses incurred during the month in excess of such payments, Covanta submitted an invoice for such excess by the 10th day of the following month, which was to be paid by the Authority within 30 days. Reimbursable expenses are defined in the agreement. The Harrisburg Authority also paid an administrative service charge to Covanta in the amount of 11% of reimbursable expenses. The Interim Agreement was extended, on a month to month basis, through January 31, 2008.

The Harrisburg Authority entered into a Management and Professional Services Agreement with Covanta to provide construction and operations management services for a period of ten years and the Retrofit Completion work. The terms and conditions of this agreement are substantially the same as the Interim Agreement, except that the management fee is \$875,000 per month, escalated annually each calendar year. As of December 2008, Covanta has asserted a claim against The Harrisburg Authority for approximately \$1.3 million for reimbursable expenses and management fees, a substantial portion of which was incurred during the year ended December 31, 2008.

Harrisburg Parking Authority

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

On February 25, 2005, the Authority executed an agreement with PSEA, whereby the Authority agreed to acquire PSEA property in order to construct the South Street Garage. The consideration for the PSEA real property is the long-term parking rights in sixty-four parking spaces, which have a final determination value of \$13,750 per parking space upon the completion of the parking garage. The initial option period to acquire these parking rights commenced on the date the South Street Garage was completed and made available for use by PSEA and expires on the fifth anniversary of such date. In addition to this option, the Authority also agreed to lease to PSEA up to eighty-nine parking spaces at the South Street Garage. At its option, PSEA may extinguish the discounted lease rate at the River Street Garage, on some or all of its discounted leased spaces, in exchange for the remaining term of the discount as per the agreement between PSEA and the Authority dated August 25, 1999. When all sixty spaces at the River Street Garage for which PSEA has a right to a discount has been extinguished, no further discounts will accrue or be available to PSEA. All rights to discounts will expire based upon the expiration of the term of discount available to PSEA at the River Street Garage. The period of the agreement is for twenty-five years. In March 2008, PSEA exercised this option and acquired sixty parking rights at \$13,750 each, totaling \$825,000.

On January 11, 2007, the Authority entered into an agreement with Harrisburg University of Science and Technology (University), whereby the Authority intends to purchase a condominium unit in a building to be constructed by the University. The condominium unit will consist of seven floors of parking facilities which will include approximately 392 parking spaces. The total purchase price of this unit is \$14,000,000, which was financed through the issuance of the Guaranteed Parking Revenue Bonds, Series R of 2007. The agreement required an earnest money deposit in the amount of \$100,000 payable upon execution of the agreement and twenty-four equal monthly payments of \$579,167, commencing January 2007. As of December 31, 2007, \$7,050,000 represents the Authority's portion of equitable ownership interest in the property. The remaining payments totaling \$6,950,000 will be paid to the University on a monthly basis during 2008, with the final payment scheduled for December 2008. The University's estimated completion date of this project is December 31, 2008.

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

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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, 2007, \$1,198,396 was included in accounts payable. The commitment remaining on the contracts at December 31, 2007, was approximately \$1,200,000.

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 \$4,005,000 representing excess amounts deposited into the system for 2007.

Guarantees

The City is contingently liable under various agreements which guarantee debt of entities not included in the primary government's financial statements aggregating \$440,316,890 at December 31, 2007, and maturing at various dates through 2034. Of the \$440,316,890, \$432,961,025 is for guarantees of component unit debt.

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, 2007.

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 325 retirees for the year ended December 31, 2007 were approximately \$3,497,544. 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 original estimated total cost of closure and postclosure care costs was \$1,670,206, based on an agreement with the Commonwealth of Pennsylvania pursuant to state regulations and was subject to change with inflation, deflation, technology, or applicable laws and regulations. During 2007, under the original closure and post closure agreement, The Harrisburg Authority was required by state regulations and its permit to make quarterly payments of \$30,014 to the Consolidated Closure Trust. The Authority was in compliance with those requirements as of December 31, 2007.

On December 31, 2007, the original consolidated trust was terminated and a new account was established. At that time, The Harrisburg Authority estimated the closure and postclosure costs to be \$1,442,617. A variable rate promissory note (Line of Credit) was entered into with a financial institution for \$1,442,617. The line of credit supports the Letter of Credit #1805 issued to the Pennsylvania Department of Environmental Protection. On May 5, 2008, this promissory note was amended to \$2,355,713 based on a revised closure and postclosure cost estimate.

The Harrisburg Authority has accrued \$2,322,996 for landfill closure and postclosure care costs as of December 31, 2007, which represents the use of 98.6% of the estimated capacity of the disposal area. Based on the annual usage at December 31, 2007, the estimated remaining life of the landfill is approximately nine months. Under the new closure and post closure agreement, The Harrisburg Authority is required by state regulations and its permit to make quarterly payments of \$170,000 to the Consolidated Closure Trust. The Harrisburg Authority is in compliance with those requirements.

In an effort to extend the life of the landfill, in April 2008, The Harrisburg Authority began mining the ash to recover ferrous and nonferrous metals contained in the ash residue. Beginning in August 2008, the ash from the processed metal was removed from the landfill and taken offsite. This resulted in reduced ash volume thereby further extending the life of the landfill area. To maintain continued ash disposal operations, a plan was prepared to extend the site life of the landfill until an expansion can be permitted and constructed. It is expected to take four years to complete the permitting and initial construction process. During that four year period, mining and off-site disposal of processed ash will continue as well as off-site transportation of ash generated by the facility.

As of December 31, 2007, cash and investments of \$943,289 are held for closure and postclosure care expenses. Those funds are reported as restricted assets on the Statement of Net Assets.

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, 2007.

On June 7, 2007, The Harrisburg Authority issued a notice of material event with respect to the 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. 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.

On September 11, 2007, The Harrisburg Authority issued a notice of material event with respect to the Authority's Series A of 1998 and Series A, B, and C of 2003. The Resource Recovery Facility Debt Service Accounts did not have sufficient funds to pay the scheduled principal and interest payments due on the Series A of 1998 and Series A, B, and C of 2003 Bonds on September 1, 2007. 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 \$1.787 million to The Harrisburg Authority for The Harrisburg Authority to make the appropriate deposit to the Trustee to address the deficiency.

On February 22, 2008, The Harrisburg Authority issued a notice of material event with respect to the Authority's Series A of 2002. The Resource Recovery Facility Debt Service Accounts did not have sufficient funds to pay the scheduled interest payments due on the Series A of 2002 Notes on November 1, 2007. 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 \$600,000 to The Harrisburg Authority for The Harrisburg Authority to make the appropriate deposit to the Trustee to address the deficiency.

Additionally, during May 2007, the City transferred approximately \$230,000 to The Harrisburg Authority to pay swap and cap fees related Series D-1 and D-2 Bonds due on June 1, 2007. Pursuant the Reimbursement Agreement, The Harrisburg Authority paid the City for amounts advanced under the guarantee.

Additionally, under the continuing disclosure undertaking, The Harrisburg Authority has covenanted to file its secondary market disclosures within 270 days of the end of their fiscal year. Additionally, the various trust indentures require The Harrisburg Authority to submit its audited financial statements to the trustee within 180 days. The financial statements were not completed by either date.

Under the trust indentures, The Harrisburg Authority is required to maintain certain minimum balances in the Resource Recovery operating reserve fund. At December 31, 2007, The Harrisburg Authority's balance in the Resource Recovery operating reserve fund was \$218 and the reserve requirement was

\$2,271,333. The trust indenture states that if the balance in the Resource Recovery operating reserve fund becomes deficient, The Harrisburg Authority is to restore the balance with twelve substantially equal installments. There has been no replenishment of the Resource Recovery operating reserve fund through the date of this report.

The Resource Recovery Facility's 2007 and 2008 budgets were approved by the Board of Directors in January 2007 and December 2008, respectively. As required under the trust indentures, the budgets are required to be approved 30 days prior to the end of the calendar year. Additionally, the 2007 adopted budget did not include administrative expenses of the Waste Management Facility Manager as required under the trust indentures. Additionally, the 2007 and 2008 consulting engineers reports, which are due, per the trust indenture, 90 days prior to the end of the calendar year, have not been received by the Authority. 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, 2007, The Harrisburg Authority's balance in the Water operating reserve fund was \$696,074 and the reserve requirement was \$835,548. 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. In March, 2008, \$400,000 was deposited into the Water operating reserve fund to replenish the balance.

The Water Facility's 2007 and 2008 budgets were approved by the Board of Directors in January 2007 and March 2008, respectively. 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.

Harrisburg Parking Authority

The Authority's trust indentures require the Authority to deposit amounts into the Series N and Series O Rebate Account annually, on or before the day which is 30 days after the close of each Bond Year for any moneys owed. The Authority made the payments into the Rebate Accounts, but not within the required time period.

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, 2007.

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.

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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 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:

Base Fee - For each calendar quarter ending prior to January 1, 2026, The Harrisburg Authority will pay to Licensor/Seller, on or prior to the first business day of the immediately following calendar quarter (base fee) an amount equal to:

- For calendar quarters ending March 31, 2006 and June 30, 2006, \$500,000;
- For each calendar quarter thereafter prior to the calendar quarter during which the \$25 million is repaid, \$750,000; and
- For each calendar quarter following the calendar quarter during which the \$25 million has been repaid occurs and prior to the calendar quarter in which the Purchase Date occurs, \$.50 per ton of waste processed through each Combustion Unit during the applicable calendar quarter.

Supplemental Fee - For each calendar year ending on or after December 31, 2006 and prior to the repayment of the \$25 million, The Harrisburg Authority will pay to CIT, an amount equal to 95% of the excess revenues (defined as funds available after the payment of facility expenses defined as actual expenses incurred by The Harrisburg Authority in the operation, maintenance and ownership of the Facility: such expenses to include all operating and debt service expenses and mandated governmental fees and costs, and payments required to be made from the revenue fund into the following trust funds: the debt service fund, the debt service reserve fund, the operating reserve fund, the renewal and replacement fund and any other specified funds into which mandatory deposits or transfers are required under the terms of the existing authority indenture documents, but excluding the surplus fund and the redemption fund and disregarding amounts paid into and disbursed out of the purchase and remarketing fund).

During the year ended December 31, 2006, The Harrisburg Authority paid the base fee of \$2.5 million to CIT under the Amended Purchase Agreement. There were no supplemental fees due for the year ended December 31, 2006. There were no payments made under this agreement in 2007.

CIT is asserting that, pursuant to one of the many agreements signed on or about January 11, 2006, the Authority is required to repay this obligation because of the ensuing bankruptcy of Barlow. CIT has given notice of default and intention to institute suit in November, whereupon The Harrisburg Authority filed a complaint with the Dauphin County Court for declaratory judgment alleging, among other things, that the agreements upon which CIT was asserting its claims constituted ultra vires acts of The Harrisburg Authority, based upon its lack of power to guaranty a debt of its contractor, as well as the fact that it had already paid for the full cost of construction, including the license fee for Barlow's technology. Additionally, there were several other defenses presented, including a lack of consideration for the agreements.

The declaratory judgment action was filed in January of 2008, in the Court of Common Pleas of Dauphin County. CIT and Aireal filed an Answer with Counterclaim, as well as a Motion to Transfer the case to the U.S. District Court for the Middle District of Pennsylvania. The case is presently in federal court in an extended discovery phase where there are literally hundreds of thousands of documents that need to be examined prior to depositions commencing.

The management of The Harrisburg Authority has responded to the litigation by authorizing counsel to contest the counterclaim vigorously, and also to pursue vigorously the declaratory judgment that would void and invalidate the agreements upon which CIT relies.

The Harrisburg Authority believe it has a reasonable and valid basis upon which to defend against the claims of CIT and Aireal, as well as reasonable and valid basis, in the event of an adverse verdict in favor of CIT, to successfully pursue a claim for reimbursement or indemnification from the professionals who negligently advised it on the transactions.

There are two claims of subcontractors or material suppliers of the original contractor against The Harrisburg Authority for non-payment. The amount asserted, if owed, would be approximately \$650,000 dollars.

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. Additionally, after the required reserve balance is attained, the City is required to pay any excess funds to The Harrisburg Authority within 190 days after the end of the year. The City may withdraw funds from the reserve account to satisfy lease payments as required by the Collection System Lease agreement. The City's required reserves in excess of funds available at December 31, 2007 were \$3,567,804.

23. SUBSEQUENT EVENTS

During February 2008, the City issued a general obligation Note in the principal amount of \$2,400,000 to be used for sundry purposes.

The Police Pension Plan's funds are invested in various types of financial instruments. This diversification of the investment portfolio serves to assist in mitigating the various types of risks associated with different types of financial instruments. Due to the level of risk associated with certain

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investments, it is at least reasonably possible that changes in the values of investments could occur in the near term and that such a change could materially affect the amount reported on the statement of fiduciary net assets.

Subsequent to year-end, the Plan experienced a significant decline in market value due to changing market conditions. Through November 30, 2008, the Plan's market value decreased by \$16.1 million. The City is aware of these declines, and will continue to closely monitor these changes in market value.

In February 2008, the Redevelopment Authority authorized the purchase of the 2008 real estate tax liens from the City of Harrisburg School District in an amount not to exceed \$6.7 million.

The City repurchased the remaining outstanding 2005 tax liens of the City back from the Redevelopment Authority.

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.

On August 22, 2008, The Harrisburg Authority issued Water Revenue Refunding Bonds, Series of 2008 (2008 Bonds) in the amount of \$69,420,000. The proceeds of the 2008 Bonds, together with available monies, will be applied to: (i) currently refund the outstanding balance of The Harrisburg Authority's Variable Rate Water Revenue Refunding Bonds, Series A of 2003, (ii) fund a swap termination payment payable to Societe Generale pursuant to an outstanding interest rate swap agreement on the 2003 Water Revenue Bonds, Series A (previously referred to as the LIBOR Swap and the SIFMA Swap), (iii) fund a deposit to the 2008 Debt Service Reserve Fund Account, and (iv) pay the costs and expenses associated with the issuance of the 2008 bonds.

On December 1, 2008, The Harrisburg Authority remarketed and converted \$31,280,000 Guaranteed Resource Recovery Facility Revenue Bonds, Subseries D-1 of 2003, to a long-term rate period of December 1, 2008 to December 1, 2010 with a coupon rate of 6.75% with a yield rate of 5.5% and a price of 102.337%.

The Harrisburg Authority's 2002 Water Revenue Bonds, Series B and C, are insured by FSA and have liquidity through Dexia Credit Local. The credit ratings of both FSA and Dexia have been downgraded, resulting in some owners of the 2002 Water Revenue Bonds, Series B and C, putting the bonds to the Trustee. RBC as the remarketing agent for such bonds, has not been able to remarket all of the put bonds to new purchasers. Such unremarketed bonds have been tendered to Dexia Credit Local and are being held as bank bonds. The bank bonds as of December 17, 2008 amount to \$16,985,000 of the Series B and \$125,000 of the Series C, bearing interest at prime plus 1%.

Because a portion of The Harrisburg Authority's debt service is at a variable rate and because of the spread between the SIFMA and LIBOR index is greater than at December 31, 2007, The Harrisburg Authority has incurred greater interest costs during 2008, than originally anticipated.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

The Harrisburg Authority is a party to several debt service forward delivery agreements with Lehman Brothers Special Financing, Inc. (Lehman special Financing) in connection with certain bonds or notes relating to The Harrisburg Authority's Water System and Resource Recovery Facility. In the fall of 2008, Lehman Special Financing filed for bankruptcy protection under the U. S. Bankruptcy Code. As of the date hereof, neither The Harrisburg Authority not Lehman Special Financing has terminated the outstanding debt service forward delivery agreements.

The Harrisburg Authority invests in various types of financial instruments. This diversification of investments serves to assist in mitigating the various types of risks associated with different types of financial instruments. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near term and that such a change could materially affect the amount reported on the Statement of Net Assets.

Subsequent to year-end, The Harrisburg Authority experienced a significant decline in market value due to changing market conditions. Through November 30, 2008, the market value of The Harrisburg Authority's investments decreased by approximately \$1.6 million. The Authority is aware of these declines, and will continue to closely monitor these changes in market value.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE
BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2007
REQUIRED SUPPLEMENTARY INFORMATION

	Budget		Variance of Original with Final Budget Positive (Negative)	Actual Amounts	Variance of Actual with Final Budget Positive (Negative)
	Original Amounts	Final Amounts			
Revenues					
Taxes	\$ 26,100,700	\$ 26,100,700	\$ -	\$ 27,875,123	\$ 1,774,423
Licenses and permits	512,000	512,000	-	514,184	2,184
Intergovernmental revenue	7,961,800	7,961,800	-	8,191,860	230,060
Departmental earnings	18,968,183	18,968,183	-	17,752,496	(1,215,687)
Fines and forfeits	2,030,000	2,030,000	-	1,957,069	(72,931)
Investment income	175,400	175,400	-	316,828	141,428
Miscellaneous	694,600	694,600	-	3,499,353	2,804,753
Total revenues	56,442,683	56,442,683	-	60,106,913	3,664,230
Expenditures					
General government					
Elected and appointed offices					
City Council	489,085	672,524	(183,439)	672,524	-
Mayor	470,791	470,791	-	452,858	17,933
City Controller	245,918	245,918	-	237,341	8,577
City Treasurer	760,119	630,176	129,943	630,176	-
City Solicitor	346,796	346,796	-	332,617	14,179
Office of City Engineer	1,753,765	1,949,375	(195,610)	1,736,446	212,929
Human Relations Commission	204,376	163,192	41,184	158,097	5,095
Mayor's Office of Economic Development	509,293	496,983	12,310	489,398	7,585
Total elected and appointed offices	4,780,143	4,975,755	(195,612)	4,709,457	266,298
Office of administration					
Administration	3,432,639	3,331,465	101,174	3,036,257	295,208
General expenditures	5,661,199	7,153,469	(1,492,270)	4,280,757	2,872,712
Total general government	13,873,981	15,460,689	(1,586,708)	12,026,471	3,434,218
Building and housing development	1,029,949	1,030,452	(503)	937,369	93,083
Public safety	29,249,723	27,620,128	1,629,595	26,844,918	775,210
Public works	5,981,999	5,422,674	559,325	5,387,010	35,664
Parks and recreation	2,900,332	2,900,332	-	2,739,184	161,148
Incinerator	-	-	-	714,171	(714,171)
Total expenditures	53,035,984	52,434,275	601,709	48,649,123	3,785,152
Excess of revenues over (under) expenditures before other financing sources (uses)	3,406,699	4,008,408	601,709	11,457,790	7,449,382
Other financing sources (uses)					
Proceeds from the issuance of debt	-	-	-	8,275,085	8,275,085
Proceeds from the sale of assets	800,000	800,000	-	-	(800,000)
Transfers in	1,515,628	1,515,628	-	1,366,615	(149,013)
Transfers out	(5,722,327)	(6,324,036)	(601,709)	(6,324,036)	-
Total other financing sources (uses)	(3,406,699)	(4,008,408)	(601,709)	3,317,664	7,326,072
Net change in fund balance	-	-	-	14,775,454	14,775,454
Fund balances - beginning of year, budgetary basis	-	-	-	(2,439,590)	(2,439,590)
Fund balances - end of year, budgetary basis	\$ -	\$ -	\$ -	\$ 12,335,864	\$ 12,335,864

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON
SCHEDULE
DECEMBER 31, 2007
REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETARY DATA

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

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

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 2007 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.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON
SCHEDULE
DECEMBER 31, 2007
REQUIRED SUPPLEMENTARY INFORMATION

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

	Fund Balance, Beginning of Year	Revenues	Expenditures	Financing Sources (Uses) and Residual Equity Transfer	Fund Balance, End of Year
Budgetary basis	\$ (2,439,590)	\$ 60,106,913	\$(48,649,123)	\$ 3,320,864	\$ 12,335,864
Taxes receivable	5,722,897	770,563	-	-	6,493,460
Accounts receivable	188,317	(58,545)	137,663	-	267,435
Other assets	106,929	-	1,022	-	107,951
Accounts payable, net of items vouchered	(5,115,700)	108,842	5,881,766	-	874,908
Accrued liabilities	(105,919)	-	(659,675)	-	(765,594)
Advances and amounts due to other funds and component units	4,707,820	-	(4,982,259)	-	(274,439)
Deferred revenue	(10,770,743)	(1,357,188)	2,160,800	-	(9,967,131)
Other	8,411,845	1,201,514	(4,416,956)	3,200	5,199,603
GAAP basis	<u>\$ 705,856</u>	<u>\$ 60,772,099</u>	<u>\$(56,880,442)</u>	<u>\$ 3,320,864</u>	<u>\$ 14,272,057</u>

2. BUDGET TO ACTUAL COMPARISONS

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

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

	<u>Appropriation</u>	<u>Expenditures</u>
Incinerator	\$ -	\$ 714,171

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund.

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

Schedule of Funding Progress 01/01/96-01/01/07

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)
01/01/96	\$ 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)
01/01/07	67,814,104	55,904,700	(11,909,404)	121.30	16,465,482	(72.33)

Schedule of Required Employer Contributions and Other Contributing Entities 1998-2007

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]
1998	\$ 483,839	01/01/96	\$ 147,169 (4)	\$ 410,327	115.20%
1999	331,115	01/01/97	- (3)	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	-	-	-
2007	-	01/01/05	-	-	-

- (1) 1998-2007 – 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) 1999-2000 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.
- (4) 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.

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

Schedule of Funding Progress 01/01/96-01/01/07

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)
01/01/96	\$ 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)
01/01/07	60,115,728	50,833,300	(9,282,429)	118.26	5,091,469	(182.31)

Schedule of Required Employer Contributions and Other Contributing Entities 1998-2007

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]
1998	\$ 393,524	01/01/96	\$ - (3)	\$ 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	-	-	-
2007	-	01/01/05	-	-	-

- (1) 1998-2007 – 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) 1998-2003 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

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

Schedule of Funding Progress 01/01/96-01/01/07

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)
01/01/96	\$ 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)
01/01/07	68,876,536	59,874,001	(9,001,535)	115.00	9,138,604	(98.50)

Schedule of Required Employer Contributions and Other Contributing Entities 1998-2007

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]
1998	\$ 731,496	01/01/96	\$ - (3)	\$ 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	01/01/05	-	512,593	100.00
2007	523,803	01/01/07	523,803	-	100.00

- (1) 1998-2007 – 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) 1998-2001 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**

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF FUNDS
NONMAJOR GOVERNMENTAL FUNDS

State Liquid Fuels Tax Fund

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

Parks and Property Improvement Fund

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

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	Special Revenue		Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Parks and Property Improvement Fund	
ASSETS			
Cash	\$ 23,722	\$ 310,117	\$ 333,839
Investments	261,396	379,788	641,184
Total assets	<u>\$ 285,118</u>	<u>\$ 689,905</u>	<u>\$ 975,023</u>
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 78,709	\$ 28,282	\$ 106,991
Due to other funds	-	547,242	547,242
Total liabilities	<u>78,709</u>	<u>575,524</u>	<u>654,233</u>
Fund balance			
Unreserved undesignated	<u>206,409</u>	<u>114,381</u>	<u>320,790</u>
Total fund balance	<u>206,409</u>	<u>114,381</u>	<u>320,790</u>
Total liabilities and fund balance	<u>\$ 285,118</u>	<u>\$ 689,905</u>	<u>\$ 975,023</u>

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2007

	Special Revenue		Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Parks and Property Improvement Fund	
Revenues			
Intergovernmental revenue	\$ 874,421	\$ -	\$ 874,421
Department earnings and program revenue	-	4,724	4,724
Investment income	26,765	-	26,765
Total revenues	<u>901,186</u>	<u>4,724</u>	<u>905,910</u>
Expenditures			
Current			
General government	-	3,245	3,245
Public works	871,717	-	871,717
Total expenditures	<u>871,717</u>	<u>3,245</u>	<u>874,962</u>
Excess of revenues over (under) expenditures	<u>29,469</u>	<u>1,479</u>	<u>30,948</u>
Other financing sources (uses)			
Transfers out	<u>(64,672)</u>	<u>-</u>	<u>(64,672)</u>
Total other financing sources (uses)	<u>(64,672)</u>	<u>-</u>	<u>(64,672)</u>
Net change in fund balance	(35,203)	1,479	(33,724)
Fund balance - beginning of year	<u>241,612</u>	<u>112,902</u>	<u>354,514</u>
Fund balance - end of year	<u>\$ 206,409</u>	<u>\$ 114,381</u>	<u>\$ 320,790</u>

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2007

	Nonmajor Fund			Major Fund		
	State Liquid Fuels Tax Fund			Debt Service Fund		
	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)
Revenues						
Intergovernmental revenue	\$ 872,147	\$ 874,421	\$ 2,274	\$ -	\$ -	\$ -
Investment income	14,500	19,470	4,970	1,000	1,000	11,329
Miscellaneous	-	-	-	925,000	925,000	(425,000)
Total revenues	886,647	891,617	4,970	926,000	926,000	(413,671)
Expenditures						
Public works	844,575	849,545	(4,970)	-	-	-
Debt service	-	-	-	7,561,531	9,287,556	(1,726,025)
Total expenditures	844,575	849,545	(4,970)	7,561,531	9,287,556	(1,726,025)
Excess of revenues over (under) expenditures before other financing sources (uses)	42,072	42,072	-	(6,635,531)	(8,361,556)	(1,726,025)
Other financing sources (uses)						
Proceeds from the sale of assets	-	-	-	848,532	2,574,557	1,726,025
Transfers in	-	-	-	5,786,999	5,786,999	-
Transfers out	(64,672)	(64,672)	-	-	-	-
Total other financing sources (uses)	(64,672)	(64,672)	-	6,635,531	8,361,556	1,726,025
Net change in fund balance	(22,600)	(22,600)	-	-	-	-
Fund balance - beginning of year, budgetary basis	22,600	22,600	240,094	-	-	60,762
Fund balance - end of year, budgetary basis	\$ -	\$ -	\$ 249,663	\$ -	\$ -	\$ 1,979,450
Explanation of differences between budget basis and GAAP:						
Net change in fund balance - budgetary basis			\$ (13,031)			\$ 1,918,688
Accrued expenditures - December 31, 2006			3,142			-
Accrued expenditures - December 31, 2007			(25,314)			-
Net change in fund balance - GAAP basis			\$ (35,203)			\$ 1,918,688

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF FUNDS
AGENCY FUNDS

Agency Funds

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

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

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

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS
DECEMBER 31, 2007

	<u>School Tax Collection</u>	<u>Payroll and Other Escrow Liabilities</u>	<u>Pass- Through Grants</u>	<u>Total Agency Funds</u>
ASSETS				
Cash	\$ 267,983	\$ 373,263	\$ 109,847	\$ 751,093
Investments, at fair value	-	-	1,430,325	1,430,325
Total assets	<u>267,983</u>	<u>373,263</u>	<u>1,540,172</u>	<u>2,181,418</u>
LIABILITIES				
Due to other governments	267,983	-	-	267,983
Escrow liabilities	-	373,263	1,540,172	1,913,435
Total liabilities	<u>\$ 267,983</u>	<u>\$ 373,263</u>	<u>\$ 1,540,172</u>	<u>\$ 2,181,418</u>

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2007

	Beginning of Year	Additions	Deductions	End of Year
School Tax Collection				
Assets				
Cash	\$ 403,629	\$ 33,884,918	\$ 34,020,564	\$ 267,983
Liabilities				
Due to other governments	\$ 403,629	\$ 33,884,918	\$ 34,020,564	\$ 267,983
Payroll and Other Escrow Liabilities				
Assets				
Cash	\$ 314,927	\$ 34,050,809	\$ 33,992,473	\$ 373,263
Liabilities				
Escrow liabilities	\$ 314,927	\$ 34,050,809	\$ 33,992,473	\$ 373,263
Pass-Through Grants				
Assets				
Cash	\$ 110,120	\$ -	\$ 273	\$ 109,847
Investments	1,596,528	128,070	294,273	1,430,325
Total assets	\$ 1,706,648	\$ 128,070	\$ 294,546	\$ 1,540,172
Liabilities				
Escrow liabilities	\$ 1,706,648	\$ 128,070	\$ 294,546	\$ 1,540,172
Total Agency Funds				
Assets				
Cash	\$ 828,676	\$ 67,935,727	\$ 68,013,310	\$ 751,093
Investments	1,596,528	128,070	294,273	1,430,325
Total assets	\$ 2,425,204	\$ 68,063,797	\$ 68,307,583	\$ 2,181,418
Liabilities				
Due to other governments	\$ 403,629	\$ 33,884,918	\$ 34,020,564	\$ 267,983
Escrow liabilities	2,021,575	34,178,879	34,287,019	1,913,435
Total liabilities	\$ 2,425,204	\$ 68,063,797	\$ 68,307,583	\$ 2,181,418

CITY OF HARRISBURG, PENNSYLVANIA

FEDERAL AWARD PROGRAMS IN
ACCORDANCE WITH OMB CIRCULAR A-133

YEAR ENDED DECEMBER 31, 2007

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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, 2007, which collectively comprise the City of Harrisburg's basic financial statements and have issued our report thereon dated December 29, 2008. 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 2007-01, 2007-02, 2007-03, 2007-04, and 2007-05, to be significant deficiencies in internal control over financial reporting.

The Honorable Stephen R. Reed, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters

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 2007-01, 2007-02, 2007-03, 2007-04, and 2007-05 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 December 29, 2008.

* * * * *

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
December 29, 2008

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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, 2007. 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 2007-06 in the accompanying schedule of findings and questioned costs, the City did not comply with certain HUD monitoring requirements that are applicable to its Section 108 Loan Guarantee Assistance 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 paragraph, the City 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, 2007.

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

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 a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2007-06 to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2007-05 to be a material weakness.

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, 2007, and have issued our report thereon dated December 29, 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 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

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
December 29, 2008

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 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	\$ 90,889	\$ 62,873
Lead Based Paint Hazard	93.197	4100034430	43,964	-
Total U.S. Department of Health and Human Services			134,853	62,873
U.S. Department of Housing and Urban Development:				
Community Development Block Grant-Lead Base Abatement Program	14.900	PALHB-0241-03	422,285	566,421
CDBG Entitlement and Small Cities Cluster Community Development Block Grant Entitlement Program	14.218	B-02-MC-42-0007	467,305	467,305
Community Development Block Grant Entitlement Program	14.218	B-03-MC-42-0007	136,613	136,613
Community Development Block Grant Entitlement Program	14.218	B-04-MC-42-0007	86,568	86,568
Community Development Block Grant Entitlement Program (Section 108)	14.218	B-05-MC-42-0007	260,480	260,480
Community Development Block Grant Entitlement Program	14.218	B-06-MC-42-0007	1,843,439	1,843,439
Community Development Block Grant Entitlement Program	14.218	B-07-MC-42-0007	136,428	236,161
Total CDBG Entitlement and Small Cities Cluster			2,930,833	3,030,566
Section 108 Loan Guarantee Assistance	14.248	B-04-MC-42-0007	-	1,532,651
Emergency Shelter Grant	14.231	S-05-MC-42-0004	3,959	3,959
Emergency Shelter Grant	14.231	S-06-MC-42-0004	83,519	83,519
Emergency Shelter Grant	14.231	S-07-MC-42-0007	17,189	8,686
Total Emergency Shelter Grant			104,667	96,164

(continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 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 Housing and Urban Development (Cont'd):				
Home Investment Partnerships Program	14.239	M-01-MC-42-0201	5,917	5,917
Home Investment Partnerships Program	14.239	M-02-MC-42-0201	1,444	1,444
Home Investment Partnerships Program	14.239	M-03-MC-42-0201	9,600	9,600
Home Investment Partnerships Program	14.239	M-04-MC-42-0201	43,935	43,935
Home Investment Partnerships Program	14.239	M-05-MC-42-0201	8,871	8,871
Home Investment Partnerships Program	14.239	M-06-MC-42-0201	103,056	103,056
Home Investment Partnerships Program	14.239	M-07-MC-42-0201	50,349	27,598
Total HOME Program			223,172	200,421
Economic Development Initiative - Special Project	14.251	E-95-ED-42-0062	988,104	988,104
Total U.S. Department of Housing and Urban Development			4,669,061	6,414,327
Federal Emergency Management Agency/Department of Homeland Security:				
National Urban Search and Rescue Response System	97.025	EMW-2004-CA-0229	43,997	30,281
National Urban Search and Rescue Response System	97.025	EMW-2005-CA-0240	211,962	173,480
National Urban Search and Rescue Response System	97.025	EMW-2006-CA-0229	597,915	480,328
National Urban Search and Rescue Response System	97.025	EMW-2007-CA-0177	177,728	287,216
Subtotal Direct Programs			1,031,602	971,305
Pass-Through Programs from Pennsylvania Emergency Management Agency:				
Federal Emergency Management Agency Grant	97.036	FEMA-1557-DR-PA	38,883	-
Urban Search and Rescue Response Team	97.067	PEMA-2005-HSGP	146,820	50,939
Subtotal Pass-Through Programs			185,703	50,939
Total Federal Emergency Management Agency/Department of Homeland Security			1,217,305	1,022,244

(continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 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 Justice:				
Equitable Sharing	16.000	N/A	16,933	4,700
COPS Grants	16.710	2003-UM-WX-0100	120,000	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-BX-0800	30,161	-
Subtotal Direct Programs			<u>167,094</u>	<u>4,700</u>
Total U.S. Department of Justice			<u>167,094</u>	<u>4,781</u>
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	30,763	22,882
Surface Transportation Program	20.205	X085-134-Q23	140,817	125,849
Highway Planning and Construction	20.205	X085-153-Q10	129,435	104,201
Highway Planning and Construction	20.205	X085-192-L400	1,543,741	1,819,240
Highway Planning and Construction	20.205	X085-186-H400	47,874	20,820
Total Highway Planning and Construction Cluster			<u>1,892,630</u>	<u>2,092,992</u>
Pass-Through Programs from the North Central Highway Safety Network, Inc.:				
State and Community Highway Safety Program	20.602	J2 07-02-1	24,995	24,995
State and Community Highway Safety Program	20.602	SE 07-01-1	29,580	29,580
Subtotal Pass-Through Programs			<u>54,575</u>	<u>54,575</u>
Total U.S. Department of Transportation			<u>1,947,205</u>	<u>2,147,567</u>
U.S. Department of General Services Administration:				
Pass-Through Programs from Pennsylvania				
Department of General Services:				
Federal Surplus Property	39.003	23-6002010	11,223	11,223
Total U.S. Department of General Services Administration			<u>11,223</u>	<u>11,223</u>
Total Expenditure of Federal Awards			<u>\$ 8,146,741</u>	<u>\$ 9,662,934</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

2. BASIS OF ACCOUNTING

Generally, expenditures are recognized in the Schedule on the modified accrual basis of accounting. Federal expenditures under loan programs consist of loans disbursed during the year ended December 31, 2007. Cash received, as presented in the Schedule, represents cash received by the City during the year ended December 31, 2007 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, 2007 is as follows:

<u>Date of Notice</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Required Interest Payments</u>	<u>Principal Balance December 31, 2007</u>	<u>2007 Principal Payments</u>
May 13, 2000	\$ 4,205,000	5.53%-6.56%	Semi-annually, February and August 1	\$ 3,035,000	\$ 175,000
September 14, 2006	\$ 3,795,000	4.96%-5.77%	Semi-annually, February and August 1	3,795,000	-
				<u>\$ 6,830,000</u>	<u>\$ 175,000</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Section 108 loans changed during the year as follows:

<u>Beginning of Year</u>	<u>Additions</u>	<u>Payments</u>	<u>End of Year</u>
\$ 7,005,000	\$ -	\$ 175,000	\$ 6,830,000
<u>\$ 7,005,000</u>	<u>\$ -</u>	<u>\$ 175,000</u>	<u>\$ 6,830,000</u>

4. CONTINGENCIES

The Housing and Urban Development (HUD) Grant Funds were required to be deposited into a separate, identifiable, custodial "Guaranteed Loan Funds Account". The contract required that all funds in the Guaranteed Loan Funds Account be withdrawn and disbursed by the City for approved activities by September 30, 2008. The City is holding the remaining Section 108 Guaranteed Funds in a separate account.

Effective May 2008, the North Cameron Street Project, funded through HUD, has been suspended due to allegations of improper financial management by the subgrantee. The ultimate outcome of this matter is subject to significant uncertainty.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2007

Prior Year Findings

Financial Statement Findings

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. The outside municipalities are billed quarterly for their usage of the City’s sewer system. Generation of the billings is dependent on receiving the usage from the municipality.

Recommendation: Efforts should be made to contact the 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 the outside municipalities.

Current Status: These municipalities were billed timely during 2007. However, the Harrisburg Incinerator was not billed timely. See current year Finding 2007-03.

Finding 2006-02: Monitoring and Reconciliation of Loans Receivable

Condition: For the DBHD loans, administered by DBHD, the following was noted:

- Consistent with the 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, the following was noted:

- Disbursements for new loans per Portfolio did not reconcile to amounts 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 principal portion against 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 State Grants Fund.
- Loan balances per Portfolio were not reconciled to the general ledger for the General Fund or the State Grants Fund.

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

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

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2007

- 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.

Current Status: No reconciliations were performed during the year ended December 31, 2007. See current year finding 2007-01.

Finding 2006-03: Financial Reporting

Condition: During the audit process, various material adjustments were proposed to the City's records by the auditors. These 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.

Recommendation: Management should review the transactions and evaluate whether measures could be taken by management to ensure elimination of the financial reporting deficiencies noted.

Current Status: Various material adjustments were proposed to the City's records for the year ended December 31, 2007. See current year finding 2007-04.

Federal Award Findings and Questioned Costs

Department of Justice

Finding 2006-04: Schedule of Expenditures of Federal Awards, 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.

Recommendation: The City should consider replacing the part-time consultant within the police department with a full-time grants administrator. Additionally, it was recommended that the City may want to consider a Central Grants Administrator position.

Current Status: Minimal federal expenditures were incurred relative to the police grants for the year ended December 31, 2007. A summary of these federal expenditures was provided for the audit.

Finding 2006-05: 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.

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. It was also recommended that the Police Bureau designate a management-level employee to review all FSRs for clerical accuracy and timeliness of filing prior to electronic filing. Evidence of this review should be maintained in the grant files.

Current Status: Various FSRs were not filed timely in 2007. The grantor agencies were aware of the late filings. Minimal federal expenditures were incurred during the year ended December 31, 2007. The reports appeared clerically accurate when compared to information in the general ledger.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2007

Finding 2006-06: Local Law Enforcement Block Grants, CFDA 16.592

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

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 could include a monthly status report indicating grant award end dates, programmatic and financial reporting deadlines, and grant balances remaining to be drawn.

Current Status: Management did not provide sufficient information to the auditors to support a comment on the current status of this finding. No expenditures incurred under this grant for the year ended December 31, 2007. See current year finding 2007-05.

Finding 2006-07: 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.

Recommendation: The Police Bureau Financial Development Officer, or Police Bureau consultant, who is responsible for monitoring 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.

Current Status: Management did not provide sufficient information to the auditors to support a comment on the current status of this finding. The City was not at the required compliment of sworn officers at any time during the year ended December 31, 2007. Therefore, no funds were expended under this grant. See current year finding 2007-05.

Department of Housing and Urban Development

Finding 2006-08: Community Development Block Grant, CFDA 14.218

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

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.

Current Status: DBHD management has established a system to ensure that deadlines are met.

Finding 2006-09: Community Development Block Grant, CFDA 14.218 and Home Investment Partnerships Program, CFDA 14.239

Condition: Payroll distributions recorded for CDBG and HOME did 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.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2007

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

Current Status: DBHD management has implemented procedures to ensure that actual time is monitored. Should significant variances occur between actual and budgeted amounts, an adjustment will be made in the general ledger to accurately reflect activity.

Finding 2006-10: Economic Development Initiative Special Project, CFDA 14.251

Condition: 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.

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.

Current Status: DBHD management has indicated that HUD was provided with the closeout report for this grant, as well as a copy of the prior year financial statements. No correspondence was received from the grantor agency relative to this finding. No money was required to be returned to HUD.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2007

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? Yes X No

CFDA Number(s)	Name of Major Federal Program or Cluster
14.218	Community Development Block Grant/Entitlement Program
14.239	Home Investment Partnerships Program
14.248	Section 108 Loan Guarantee Assistance
14.251	Economic Development Initiative – Special Project

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

Auditee qualified as low-risk auditee? Yes X No

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2007

Part II

Financial Statement Findings

Control Deficiency: Material Weakness

Finding 2007-01: Monitoring and Reconciliation of Loans Receivable

Condition: For the Department of Building and Housing Development (DBHD) loans, administered by DBHD, we noted the following items:

- Consistent with prior years, DBHD loan construction projects are not set up to earn interest at the percentage and for the terms as shown in their loan agreements. Per discussion with management, it has been determined that 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. New loans were issued in 2007, however, there was no change in the DBHD loan receivable general ledger balance from the prior year ending balance. In addition, payments on loans are recorded as program income throughout the year and no entry was made at year end to reduce the receivable balance. Finally, two loans written off as of December 31, 2006 remained on the December 31, 2007 Portfolio Trial Balance.

For the Mayor's Office of Economic Development (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, State Grants Fund, and CDBG 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.
- Payments were held and deposited months after payment was received from the loan recipient.
- Loan documents for new loans issued during 2007 were not completed.
- During the audit process, adjustments were proposed to the City's records by the auditors to reflect write offs recorded in Portfolio, but not in the general ledger.

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: Reconciliations are not being performed.

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

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

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2007

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.

Views of Responsible Officials: The City agrees. The 2009 budget includes additional funding for staff within the Bureau of Financial Management. It is anticipated that these positions will address loan reconciliations.

Finding 2007-02: Utility Billing

Condition: The Harrisburg Authority's incinerator was not billed for water, sewer or sewer maintenance, from August 2007 through the beginning of 2008, until early 2008.

Criteria: The incinerator is to be billed monthly for their usage of the City's water and sewer systems.

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 the incinerator and transmitted to the City in order for the City to calculate the bill for the incinerator.

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

Views of Responsible Officials: The City agrees and has instituted a procedure with the manager of the incinerator.

Finding 2007-03: Artifact Cost

Condition: Throughout 2007 and 2008, the City sold historical artifacts through auction. However, the City was unable to verify the original cost of many of the items sold and held for sale.

Criteria: In order to accurately report the gains and losses on sales of the artifacts, the City needs to know the original cost.

Effect: The City was unable to provide actual cost for a significant number of artifacts sold and used estimates, based on extrapolated cost to sales for those items that it could locate, to assign a cost to the balance of the items sold.

Cause: The City hired an independent entity to catalog the cost of the artifacts. At times, the artifacts were logged into the catalog system in lots, rather than as individual pieces. Additionally, descriptions used in the sale did not match descriptions used in the catalog system.

Recommendation: We recommend that the City continue in their efforts to identify the cost of the artifacts held for sale.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2007

Views of Responsible Officials: The City agrees. The City will be performing an appraisal on the remaining artifacts to be sold.

Finding 2007-04: Financial Reporting

Condition: During the audit process, various material adjustments were proposed to the City's records by the auditors. These audit adjustments were necessary to correct the City's recording of agency fund cash, deferred revenue, artifact sales and adjustment to fair value, and the Senator's sale.

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

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

Views of Responsible Officials: The City agrees. The 2009 budget includes additional funding for staff within the Bureau of Financial Management. It is anticipated that these positions will address all financial reporting issues.

Finding 2007-05: Police Grants Management

Condition: During the audit process, the Police Bureau consultant was unable to provide documentation on prior audit findings. Additionally, the Police Bureau consultant was unable to provide timely information on current grants.

Criteria: The City should have the ability to document resolution to audit findings and provide timely documentation with respect to police grants.

Effect: Although findings similar to the prior year were not noted, it was because these grants did not incur expenditures in the current year.

Recommendation: The Police Bureau Financial Development Officer, or Police Bureau consultant, who is responsible for monitoring grant requirements, should establish a system to ensure that all documentation is maintained and that prior audit findings are resolved.

Views of Responsible Officials: The City agrees. The 2009 budget includes additional funding for staff within the Bureau of Financial Management. It is anticipated that these positions will address all grant related issues.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2007

Part III

Federal Award Findings and Questioned Costs

Finding 2007-05: Section 108 Loan Guarantee Assistance - Loan Recipient Noncompliance with Loan Agreement

Condition: The loan recipient did not provide the City with all records with respect to matters covered by the Loan Agreement between the City and the loan recipient. Such records include proof of payment to contractors. Additionally, the loan recipient has made no principal payments on the loan.

Criteria: The Loan Agreement between the City and the loan recipient indicates that the loan recipient's records with respect to any matters covered by the Agreement shall be made available to the City, its designees, or the Federal Government, at any time during normal business hours, as often as the City deems necessary, to audit, examine, and copy. Additionally, the Loan Agreement requires the loan recipient to make monthly payments of principal and interest, beginning in September 2008.

Questioned Costs: The total funds drawn by the loan recipient, but for which the loan recipient could not substantiate payments to contractors, totaled \$711,597.

Cause of Condition: The loan recipient did not provide the City with all records with respect to matters covered by the Loan Agreement.

Effect: The City cannot conclude whether contractors were paid for work performed. The City is required to make principal payments under the HUD Section 108 loan beginning in August 2009. If the loan recipient does not make the payments required under the Loan Agreement, the City may find it necessary to use other City funds to make required debt service payments.

Recommendation: The City should continue to pursue enforcement of the terms of the Loan Agreement with the loan recipient.

Views of Responsible Officials: The City agrees and will continue to pursue the collection of required documentation from the loan recipient under the terms of the agreement.