

# **City of Harrisburg, Pennsylvania**

## Financial Statements and Supplementary Information

Year Ended December 31, 2014 with  
Independent Auditor's Reports

**MaherDuessel**  
Certified Public Accountants

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# CITY OF HARRISBURG

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Eric R. Papenfuse, Mayor  
and Honorable Members of City Council  
City of Harrisburg, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Harrisburg, Pennsylvania (City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the Harrisburg Parking Authority and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

#### *Change in Accounting Principle*

As discussed in Notes 1 and 2, the City and its component units have adopted Governmental Accounting Standards Board (GASB) Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*," during the year ended December 31, 2014. Our opinion is not modified with respect to this matter.

#### *Change in Reporting Entity*

During the year ended December 31, 2014, the City determined that Capital Region Water, formerly considered a component unit of the City, no longer qualifies as a component unit. Therefore, the December 31, 2014 financial statements do not reflect the financial position or changes in financial position of Capital Region Water in the aggregate discretely presented component unit opinion unit. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), budgetary comparison information, and pension plan and other post-employment benefit plan information on pages 4 through 14, 93 through 95, and 96 through 102, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules are presented for purposes of additional analysis and are

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

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Maher Duessel*

Harrisburg, Pennsylvania  
September 23, 2015

**CITY OF HARRISBURG, PENNSYLVANIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2014**

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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, 2014. 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 as of December 31, 2014 exceeded liabilities by \$4,402,954, whereas at the end of 2013 liabilities exceeded assets by \$2,997,112; this favorable change represents an increase in net position of \$7,400,066 for 2014. One of the most significant factors comprising this overall increase in assets over liabilities pertains to the City being financially enabled in 2014 to significantly pay-down its General Obligation debt associated with the Refunding Bonds, Series D of 1997 and Refunding Notes, Series F of 1997. Related to these total debt payments of \$8,670,000, portions totaling \$1 million still required payment by the City's bond insurer under an applicable insurance policy agreement, but the net amount of \$7,670,000 represents a notable achieved debt reduction of its kind for the first time in several years.
  - Net investment in capital assets, in the amount of \$52,758,218 and \$50,896,017 as of December 31, 2014 and 2013, respectively, represents all capital assets including infrastructure.
  - Restricted net position with external restrictions imposed by creditors or laws or regulations of other governments amounted to \$13,832,722 and \$13,760,400 as of December 31, 2014 and 2013, respectively.
  - Unrestricted net position, which is net position not restricted for any particular purpose, amounts to (\$62,187,986) and (\$67,653,529) as of December 31, 2014 and 2013 (restated), respectively.
- Most notably above for unrestricted net position, the favorable change of \$5,465,543 over the prior year is comprised of several factors applicable to both governmental and business-type activities. For governmental activities, overall City tax revenue increased for 2014 including an approximate \$1.5 million increase in business privilege taxes which is attributed to the City no longer remitting 50% of its parking tax collections to the Harrisburg Parking Authority. For business-type activities, the City's Incinerator (Disposal) Fund experienced a significant positive change in net position approximating \$4.1 million during 2014.
- With respect to comparative financial information presented within this analysis, 2013 governmental activities have been restated to reflect an overstatement of prior year earned income tax revenue amounting to \$774,680 along with the noted (see Note 2) effect of implementing GASB Statement No. 70 resulting in a \$13.3 million restatement of net position, applicable to reflecting the financial guarantee liability associated with the Series A of 1998 Revenue Bonds issued by the Redevelopment Authority of the City of Harrisburg.

### **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, and other supplementary information. The basic financial

statements can be further classified into the following three types: government-wide financial statements, fund financial statements, and notes to the financial statements.

1. **Government-Wide Financial Statements** The government-wide financial statements provide a summary of the City of Harrisburg's financial condition in a similar fashion to the private business sector. The focus of these statements is the economic resources measurement and full accrual basis of accounting.

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

The Statement of Activities presents information on how net position changed during the year. All changes are recorded as soon as the change occurs even though cash may not be received yet; cash flow may even occur in a later fiscal year, such as uncollected taxes and vacation leave earned, but not used. The Statement of Net Position and the Statement of Activities distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The City of Harrisburg's governmental activities are comprised of general government, community and economic development, public safety (police and fire), public works, environment, tourism, and interest on long-term debt. The business-type activities of the City include the Harrisburg Senators, Incinerator (Disposal), and Sanitation 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.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented by the two in order to better understand the long-term impact of near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City of Harrisburg reports three major governmental funds: (1) the General Fund, which accounts for all financial resources of the general government except those accounted for in another fund; (2) the Grants Programs Fund, which accounts for the revenues and expenditures of federal, state, and other grant programs including the Community Development Block Grant

Entitlement Program; and (3) the Debt Service Fund, which accounts for the accumulation of resources, which are principally transfers from other funds, for the payment of general long-term obligation principal, interest, and related costs. Data from all the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in supplementary information.

- b. **Proprietary Funds** The City's proprietary funds are all classified as enterprise funds. They are used to account for the operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the expenses of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or when the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and/or other purposes.

The City of Harrisburg reports three major enterprise funds: (1) the Harrisburg Senators Fund, which accounts for the revenues and expenses associated with the payment of debt on the financing of a new stadium of the Harrisburg Senators, a AA minor league baseball franchise formerly owned by the City; (2) the Incinerator (Disposal) Fund, which accounts for the collection and remittance of incinerator/resource recovery disposal fees billed by the City of Harrisburg and remitted to the Lancaster County Solid Waste Management Authority for its provision of solid waste incineration services to the residents and commercial and industrial establishments of the City; and (3) the Sanitation Fund, which accounts for the revenues and expenses associated with the provision of refuse collection services to the residents and commercial establishments of the City.

- c. **Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City's fiduciary funds are all classified as trust and agency funds. Fiduciary fund financial statements report similarly to proprietary funds.
3. **Notes to the Basic Financial Statements** The Notes give additional information that is necessary to understand fully the data provided in the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.
  4. **Other Information** The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund, in required supplementary information, to demonstrate compliance with this budget. In addition, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. The combining statements referred to earlier in connection with non-major governmental funds and agency funds are presented immediately following the required supplementary information.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2014**

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**Government-wide Financial Analysis**

**CITY OF HARRISBURG**  
**CONDENSED STATEMENT OF NET POSITION**  
**DECEMBER 31, 2014 AND 2013**

	Governmental Activities		Business-type Activities		Totals	
	2014	2013 (restated)	2014	2013	2014	2013 (restated)
Current and other assets	\$ 74,315,715	\$ 74,880,372	\$ 12,917,375	\$ 7,392,176	\$ 87,233,090	\$ 82,272,548
Capital assets	95,667,013	100,220,687	32,799,632	33,768,584	128,466,645	133,989,271
Total assets	169,982,728	175,101,059	45,717,007	41,160,760	215,699,735	216,261,819
Current and other liabilities	27,586,664	30,806,340	1,010,316	293,069	28,596,980	31,099,409
Noncurrent liabilities	173,963,770	179,103,720	8,736,031	9,055,802	182,699,801	188,159,522
Total liabilities	201,550,434	209,910,060	9,746,347	9,348,871	211,296,781	219,258,931
Net position:						
Net investment in capital assets	26,922,301	24,665,069	25,835,917	26,230,948	52,758,218	50,896,017
Restricted	13,174,481	13,102,159	658,241	658,241	13,832,722	13,760,400
Unrestricted	(71,664,488)	(72,576,229)	9,476,502	4,922,700	(62,187,986)	(67,653,529)
Total net position	\$ (31,567,706)	\$ (34,809,001)	\$ 35,970,660	\$ 31,811,889	\$ 4,402,954	\$ (2,997,112)

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. As of December 31, 2014, the City's assets exceeded liabilities by \$4,402,954 and as of December 31, 2013, the City's liabilities exceeded assets by \$2,997,112 resulting in a favorable \$7,400,066 change in net position during 2014.

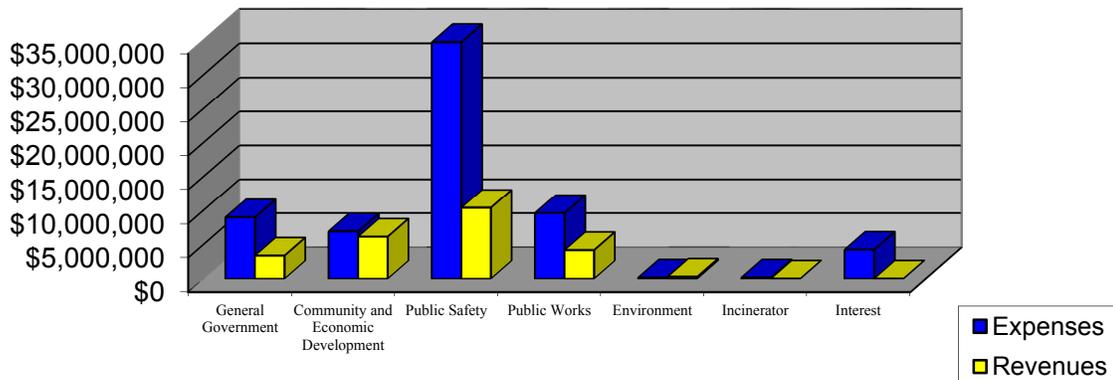
The largest portion of City of Harrisburg's net position is the City's investment in capital assets (i.e., land, archives, building, land and building improvements, equipment and furniture, infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used 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 the resources needed to repay this debt must come from other sources as these fixed assets cannot be used to liquidate these debt obligations.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2014**

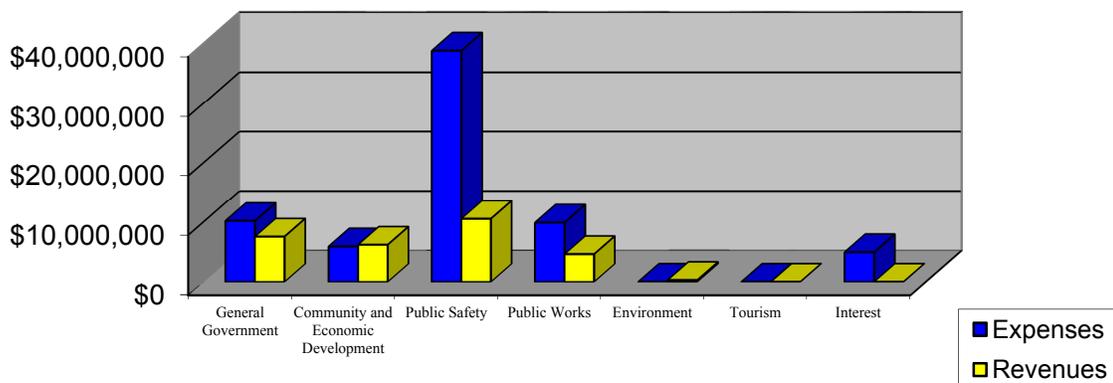
**CITY OF HARRISBURG**  
**CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

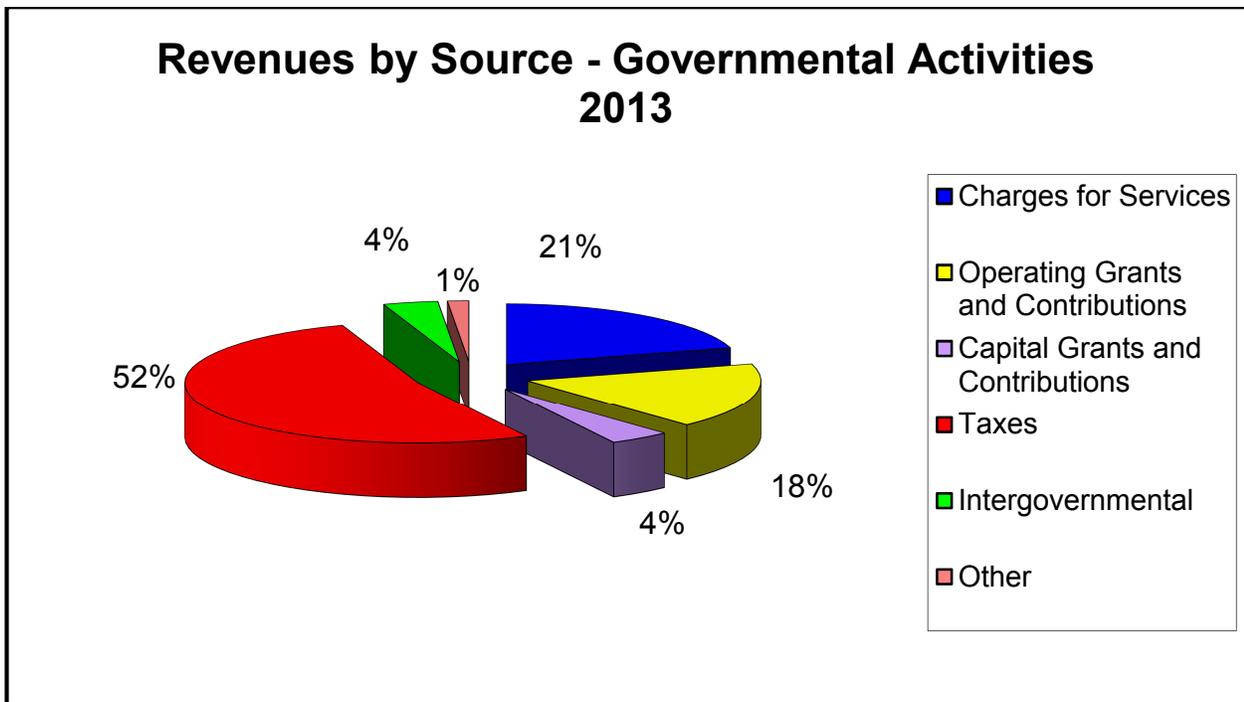
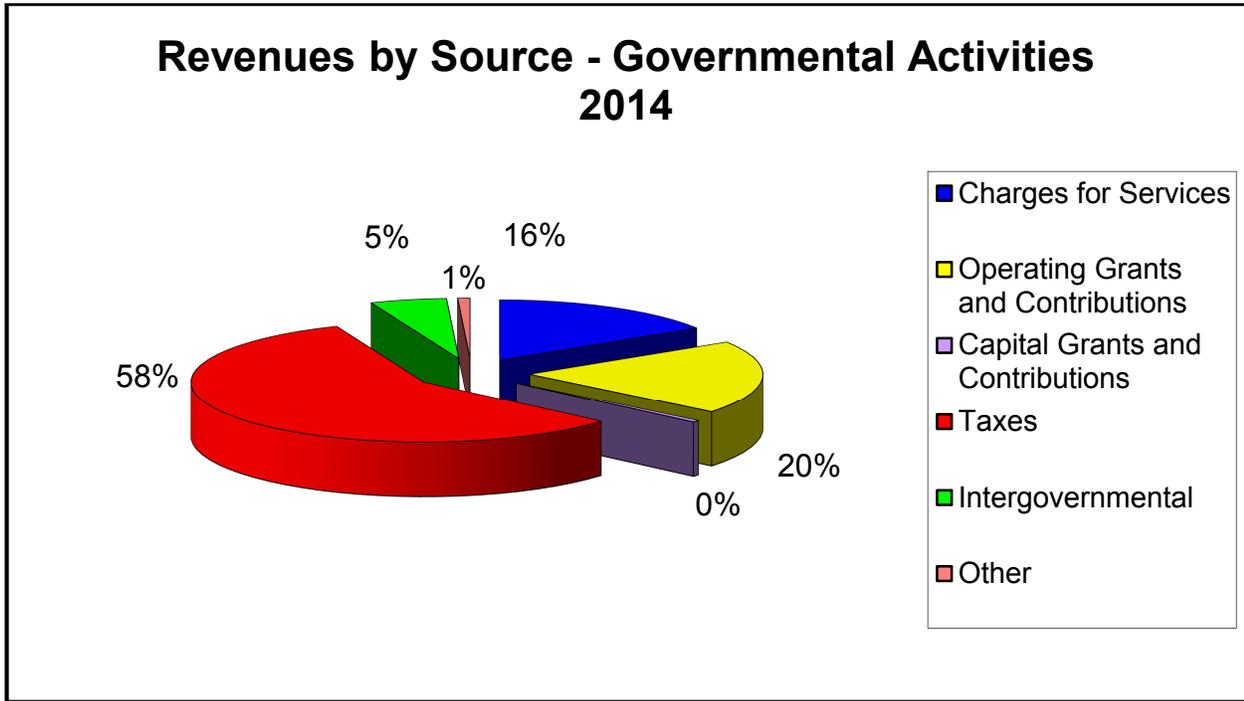
	Governmental Activities		Business-type Activities		Totals	
	2014	2013 (restated)	2014	2013	2014	2013 (restated)
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 10,714,191	\$ 14,108,570	\$ 14,169,934	\$ 21,477,382	\$ 24,884,125	\$ 35,585,952
Operating grants and contributions	13,214,573	12,092,005	-	106,051	13,214,573	12,198,056
Capital grants and contributions	347,311	2,912,221	-	315,242	347,311	3,227,463
General revenues:						
Taxes	38,463,632	35,283,229	-	-	38,463,632	35,283,229
Grants and contributions not restricted to specific functions	3,538,398	2,609,214	-	-	3,538,398	2,609,214
Other	567,928	1,016,154	3,809	20,213	571,737	1,036,367
<b>Total revenues</b>	<b>66,846,033</b>	<b>68,021,393</b>	<b>14,173,743</b>	<b>21,918,888</b>	<b>81,019,776</b>	<b>89,940,281</b>
<b>Expenses</b>						
General government	8,962,050	10,163,508	-	-	8,962,050	10,163,508
Community/Economic development	6,906,424	5,897,356	-	-	6,906,424	5,897,356
Public safety	34,720,194	38,805,882	-	-	34,720,194	38,805,882
Public works	9,593,222	9,882,691	-	-	9,593,222	9,882,691
Incinerator	157,733	-	-	-	157,733	-
Environment	159,205	-	-	-	159,205	-
Tourism	-	3,256	-	-	-	3,256
Interest on long-term debt	4,217,747	4,937,270	-	-	4,217,747	4,937,270
Sewer	-	-	-	8,745,389	-	8,745,389
Sanitation	-	-	1,916,478	3,169,601	1,916,478	3,169,601
Harrisburg Senators	-	-	1,309,197	1,365,436	1,309,197	1,365,436
Incinerator (Disposal)	-	-	5,677,460	5,820,527	5,677,460	5,820,527
<b>Total expenses</b>	<b>64,716,575</b>	<b>69,689,963</b>	<b>8,903,135</b>	<b>19,100,953</b>	<b>73,619,710</b>	<b>88,790,916</b>
Change in net position before transfers and special items	2,129,458	(1,668,570)	5,270,608	2,817,935	7,400,066	1,149,365
Transfers	1,111,837	559,694	(1,111,837)	(559,694)	-	-
Special items-including culmination of the Harrisburg Strong Plan	-	335,393,766	-	(48,840,470)	-	286,553,296
Change in net position	3,241,295	334,284,890	4,158,771	(46,582,229)	7,400,066	287,702,661
Net position, January 1	(34,809,001)	(355,767,885)	31,811,889	78,394,118	(2,997,112)	(277,373,767)
Restatement - effect of implementing GASB Statement No. 70 (see Note 2)	-	(13,326,006)	-	-	-	(13,326,006)
<b>Net position, December 31</b>	<b>\$ (31,567,706)</b>	<b>\$ (34,809,001)</b>	<b>\$ 35,970,660</b>	<b>\$ 31,811,889</b>	<b>\$ 4,402,954</b>	<b>\$ (2,997,112)</b>

### Expenses and Program Revenues Governmental Activities - 2014



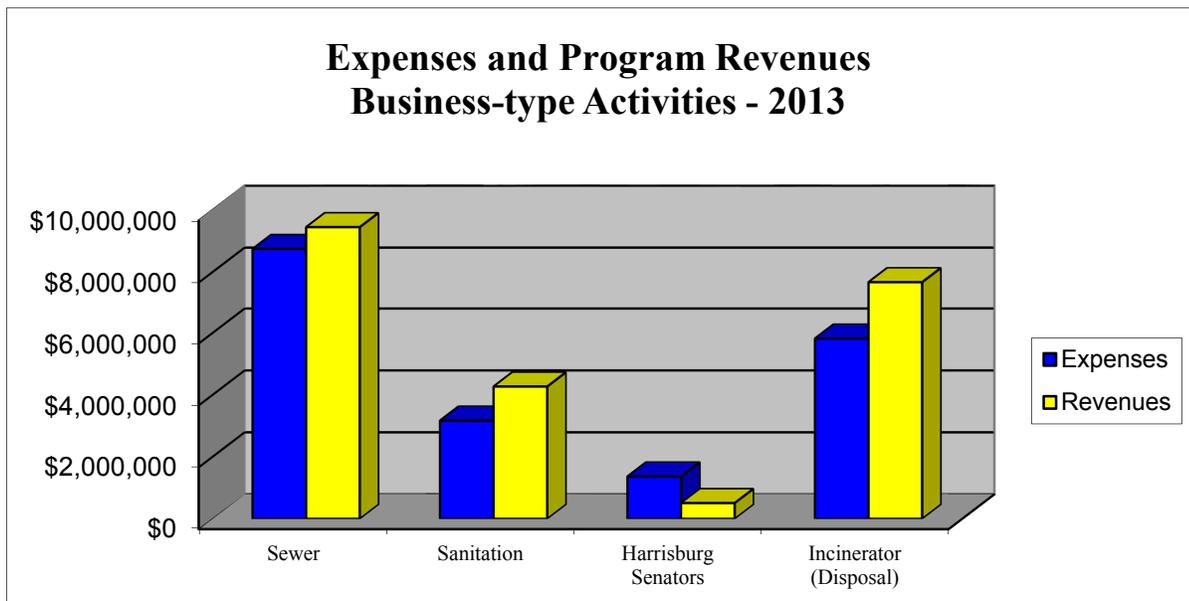
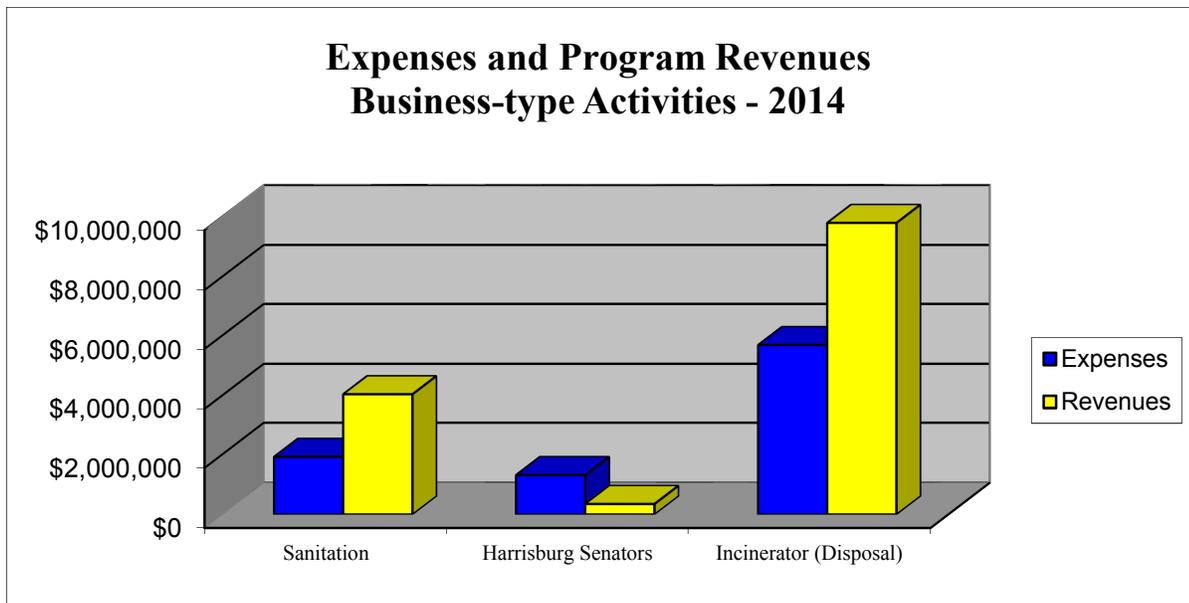
### Expenses and Program Revenues Governmental Activities - 2013





**Governmental Activities:** Focusing on program/general revenues and expenses, it is noted for 2014 total revenues exceeded total expenses producing an increase in net position before transfers of \$2.1 million, whereas for 2013 total expenses exceeded total revenues by \$1.7 million resulting in a favorable comparative change of \$3.8 million for 2014. This favorable change is comprised of several factors affecting both revenue

and expense as follows: For revenues, charges for services decreased \$3.4 million mainly due to less amortization of debt guarantee fees resulting from prior year defeasance of the debt associated with Capital Region Water and the Harrisburg Parking Authority; capital grants and contributions decreased \$2.5 million mostly due to substantial completion occurring in 2013 for the Federal funded Seventh Street widening project; tax revenue increased \$3.2 million for various categories with a significant increase in business privilege taxes, mainly due to the City no longer remitting 50% of its parking tax collections to the Harrisburg Parking Authority; and other grants and contributions increased by approximately \$1 million mostly due to the new parking system ground lease created from the late 2013 monetization of City parking system assets. For expenses, general government decreased \$1.2 million mostly due to salaries and wages being affected by several retirements occurring in 2013; and public safety decreased \$4.1 million mainly due to the 2014 other post-employment benefits liability adjustment being significantly lower than that for 2013.



**Business-Type Activities:** Focusing on program revenues and expenses it is noted for 2014 total revenues exceeded total expenses producing an increase in net position before transfers of \$5.3 million, whereas for 2013 the increase in net position before transfers amounted to \$2.8 million resulting in a favorable comparative change of \$2.5 million for 2014. This favorable change is comprised of several factors affecting both revenue and expense as follows: For revenues, charges for services decreased \$7.3 million largely attributed to the prior year transfer of Sewer Fund operations and ownership to Capital Region Water. For expenses, the sewer line item decreased \$8.7 million again as a result of the aforementioned transfer of the Sewer Fund; and the sanitation line item decreased \$1.2 million which is attributed to less in general administrative charges being distributed to the General Fund as a result of concerns over conserving cash for the Sanitation Fund.

### **Financial Analysis of the City's Funds**

**Governmental Funds** The focus of the City of Harrisburg's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Harrisburg's financing requirements. In particular, unassigned 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 2014, the City of Harrisburg's governmental funds reported combined ending fund balances of \$29,737,671, an increase of \$4,724,490 over the prior year.

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery, and most of the above referenced increase in fund balance is attributable to the General Fund's fund balance which increased \$4.1 million during 2014. In correlation, the General Fund's total revenues for 2014 also increased \$4.1 million as a result of realized increases in collected property taxes due to improved economic stability, in real estate transfer taxes due to some larger properties being sold, and in parking tax collections due to the City no longer remitting 50% of such collections to the Harrisburg Parking Authority.

The Grant Programs Fund generally does not report a fund balance. In this fund, revenue is recognized only when allowable expenditures are incurred and the legal and contractual requirements of the individual programs are met. The fund balance of the Debt Service Fund decreased to approximately \$100,000 representing remaining, residual auction proceeds still available from the sale of a historic artifacts collection. The fund balance of Other Governmental Funds experienced an increase of approximately \$800,000 from additional cash becoming available in the Capital Projects Fund, as a result of the General Fund not fully accessing a whole year's worth of 2014 hotel tax deposit revenue.

### **General Fund Budgetary Highlights**

On a budgetary (non-GAAP) basis, the General Fund's actual amounts for 2014 resulted in a positive net change in fund balance of approximately \$4.8 million, compared to essentially a break-even final budget for the fiscal year; this favorable variance is summarized here with several involved factors. Total revenues being over budget by \$2.7 million was mainly attributed to the following two line items: (1) taxes resulted in being over budget by \$1 million due to realized increases in collected property taxes, real estate transfer taxes, and parking taxes; and (2) miscellaneous revenues were over budget by \$1.6 million due to unanticipated receipts of medical stop loss recovery payments, payments in lieu of taxes, and medical prescription rebate payments. Total expenditures being under budget by \$3.8 million was mainly attributed to the following three items: (1)

total savings occurring in the total general government line item by approximately \$600,000 reflects the City's continued efforts to reduce costs as much as possible in accordance with the Harrisburg Strong Plan under Act 47 (Pennsylvania's Municipalities Financial Recovery Act of 1987); (2) public safety expenditures were under budget by \$1.2 million due to lower personnel and workers compensation costs occurring for both Bureaus of Police and Fire (\$1 million and \$200,000, respectively); and (3) public works expenditures were also notably under budget by \$1.8 million due to less than anticipated needs occurring for specific public works (\$700,000 – streets and roads), city services (\$564,000 – snow control, traffic control, and capital motor equipment), and vehicle maintenance center (\$585,000 – repairs, parts and supplies, and motor fuels). Total other financing uses being over budget by \$1.7 million was attributed to the following item: (1) the City was financially enabled in 2014 to significantly pay-down previously missed debt payments from prior years relative to assets under capital lease and of an infrastructure nature. The accounting for such pay-downs occurred by directly reducing the involved liability accounts in lieu of utilizing the applicable expenditure accounts, thus creating the need here to reflect the approximate \$1.6 million in additional amounts beyond budget for 2014.

### **Capital Asset and Debt Administration**

1. **Capital assets** The City's capital assets for its governmental activities and business-type activities as of December 31, 2014 amount to \$95,667,013 and \$32,799,632 (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:

- A significant portion of the total capital additions for 2014 included \$464,086 in engineering design and construction costs associated with the City's multi-street paving project.

No significant capital asset events occurred during the current year for business-type activities.

Additional information on the City's capital assets can be found beginning on page 60 of this report.

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

Additional information on the City's long-term debt can be found beginning on page 62 of this report.

### **Economic Factors**

Arguably, one of the most significant factors affecting financial position is the City's ongoing efforts to achieve a healthy budget free from previous burdening structural deficit conditions as it continues to further manage existing debt service requirements.

Additionally, the most significant unfunded mandate affecting the City is the liberal allowance for tax-exemption existing in Pennsylvania. What was already a broadly-accommodating state law was further

loosened several years ago by additional state legislative action. Today, approximately 49% of all real estate in the City is exempt from paying any type of taxes under state law. The number of properties achieving tax-exemption increases by the year. Some of the tax exempt-properties are among the greatest generators of demand for City services, and what results is a continuing inequitable and unfair burden on Harrisburg placing a higher tax rate on those who do pay property taxes.

Some of the factors affecting our costs are matters over which a local government has little control. Others are only marginally controllable. The following are a number of circumstances that will impact future costs:

- (a) Health care costs have been on the rise and each year the City projects these costs to remain substantial; however due to turnover and vacant positions in recent years, these costs have somewhat stabilized or have even become lower. As the City looks to become more fully staffed, there will be a related increase in such costs.
- (b) Salaries for the City's Police, Firefighter, and Non-Uniformed unions were negotiated for no increases in both years 2013 and 2014; for both years 2015 and 2016, a 1% increase in salaries and wages is to occur for each of these unions.
- (c) Pension benefits and OPEB obligations of the primary government are also considered here, as these liabilities have experienced continuous increases in recent years.
- (d) The Harrisburg Strong Plan provides for the agreed-to settlement of reimbursable amounts owed to several suburban municipalities in accordance with a negotiated compromise of the involved claim, and reimbursement to the City's bond insurer for advances made on the City's behalf involving the 1997 Series General Obligation Refunding Bonds and Notes. These related repayments have been scheduled to occur over multiple years beginning in 2013 through fiscal year 2032.

### **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 the City's Bureau of Financial Management, The Rev. Dr. Martin Luther King Jr., City Government Center, 10 North Second Street, Suite 303, Harrisburg, PA 17101. You may also find more information regarding the City of Harrisburg at our website [www.harrisburgpa.gov](http://www.harrisburgpa.gov).

**CITY OF HARRISBURG, PENNSYLVANIA**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2014**

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
<b>Assets</b>					
Cash and cash equivalents	\$ 16,811,458	\$ 6,556,319	\$ 23,367,777	\$ 2,054,496	\$ 25,422,273
Investments, at fair value	5,157,703	279,267	5,436,970	-	5,436,970
Receivables, net of allowance for uncollectible accounts					
Taxes	12,090,230	-	12,090,230	-	12,090,230
Accounts	-	3,032,226	3,032,226	244,166	3,276,392
Loans	955,439	-	955,439	264,835	1,220,274
Notes	6,580,863	-	6,580,863	-	6,580,863
Benefit trust distribution	-	-	-	404,792	404,792
Other	3,321,947	1,285,466	4,607,413	-	4,607,413
Internal balances	314,081	(314,081)	-	-	-
Due from City's agency fund	202,153	-	202,153	-	202,153
Due from component unit	73,442	-	73,442	-	73,442
Other assets	329,649	67,778	397,427	26,840	424,267
Restricted assets					
Cash and cash equivalents	24,078,830	2,159	24,080,989	-	24,080,989
Investments, at fair value	-	658,241	658,241	3,365,455	4,023,696
Security deposit	-	1,350,000	1,350,000	100,000	1,450,000
Right to building	-	-	-	20,369,411	20,369,411
Net pension asset	4,399,920	-	4,399,920	-	4,399,920
Capital assets, not being depreciated	25,830,596	-	25,830,596	30,000	25,860,596
Capital assets, less accumulated depreciation and amortization	69,836,417	32,799,632	102,636,049	12,465,746	115,101,795
<b>Total assets</b>	<b>169,982,728</b>	<b>45,717,007</b>	<b>215,699,735</b>	<b>39,325,741</b>	<b>255,025,476</b>

(continued)

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
<b>Liabilities</b>					
Accounts payable and other current liabilities	5,455,063	954,687	6,409,750	293,840	6,703,590
Matured bond coupons	20,097	-	20,097	-	20,097
Accrued liabilities	4,465,225	55,629	4,520,854	64,912	4,585,766
Accrued termination benefits	-	-	-	258,590	258,590
Due to primary government	-	-	-	73,442	73,442
Due to other entities	12,342,568	-	12,342,568	-	12,342,568
Unearned revenue	5,303,711	-	5,303,711	-	5,303,711
Noncurrent liabilities:					
Due within one year	12,243,802	350,825	12,594,627	339,695	12,934,322
Due in more than one year	75,423,291	6,974,453	82,397,744	59,260,933	141,658,677
Other post-employment benefits	71,980,093	1,410,753	73,390,846	-	73,390,846
Liability under guarantee	14,316,584	-	14,316,584	-	14,316,584
<b>Total liabilities</b>	<b>201,550,434</b>	<b>9,746,347</b>	<b>211,296,781</b>	<b>60,291,412</b>	<b>271,588,193</b>
<b>Net position</b>					
Net investment in capital assets	26,922,301	25,835,917	52,758,218	11,385,226	64,143,444
Restricted for:					
Revolving loan program	713,412	-	713,412	250,000	963,412
Environment	462,541	-	462,541	-	462,541
Public works	500,580	-	500,580	-	500,580
Community and economic development	114,972	-	114,972	-	114,972
Tourism	1,085,299	-	1,085,299	-	1,085,299
Debt service	-	658,241	658,241	3,365,455	4,023,696
Growth funds	10,230,581	-	10,230,581	-	10,230,581
Other	67,096	-	67,096	-	67,096
Insurer agreement	-	-	-	1,171,139	1,171,139
Unrestricted	(71,664,488)	9,476,502	(62,187,986)	(37,137,491)	(99,325,477)
<b>Total net position</b>	<b>\$ (31,567,706)</b>	<b>\$ 35,970,660</b>	<b>\$ 4,402,954</b>	<b>\$ (20,965,671)</b>	<b>\$ (16,562,717)</b>

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 8,962,050	\$ 3,336,259	\$ -	\$ 17,932
Community and economic development	6,906,424	492,080	5,628,287	-
Public safety	34,720,194	3,729,313	6,592,715	36,034
Public works	9,593,222	2,871,146	993,571	293,345
Environment	159,205	285,393	-	-
Incinerator	157,733	-	-	-
Interest on long-term debt	4,217,747	-	-	-
Total governmental activities	<u>64,716,575</u>	<u>10,714,191</u>	<u>13,214,573</u>	<u>347,311</u>
Business-type activities				
Harrisburg Senators	1,309,197	345,558	-	-
Incinerator	5,677,460	9,789,279	-	-
Sanitation	1,916,478	4,035,097	-	-
Total business-type activities	<u>8,903,135</u>	<u>14,169,934</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 73,619,710</u>	<u>\$ 24,884,125</u>	<u>\$ 13,214,573</u>	<u>\$ 347,311</u>
Component units				
Harrisburg Parking Authority	\$ 2,188,836	\$ 1,330,792	\$ -	\$ -
Redevelopment Authority	5,204,783	1,457,626	90,612	33,333
Total component units	<u>\$ 7,393,619</u>	<u>\$ 2,788,418</u>	<u>\$ 90,612</u>	<u>\$ 33,333</u>

General revenues  
Property taxes  
Real estate transfer taxes  
Local services taxes  
Earned income taxes  
Business privilege taxes  
Franchise taxes  
Public utility realty taxes  
Payments in lieu of taxes  
Grants and contributions not restricted to specific functions  
Other income  
Unrestricted investment earnings  
Transfers - internal activities  
Total general revenues and transfers  
Change in net position  
Net position - January 1, 2014 - restated  
Net position - December 31, 2014

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Units	Total
Governmental Activities	Business-type Activities	Total		
\$ (5,607,859)	\$ -	\$ (5,607,859)	\$ -	\$ (5,607,859)
(786,057)	-	(786,057)	-	(786,057)
(24,362,132)	-	(24,362,132)	-	(24,362,132)
(5,435,160)	-	(5,435,160)	-	(5,435,160)
126,188	-	126,188	-	126,188
(157,733)	-	(157,733)	-	(157,733)
(4,217,747)	-	(4,217,747)	-	(4,217,747)
<u>(40,440,500)</u>	<u>-</u>	<u>(40,440,500)</u>	<u>-</u>	<u>(40,440,500)</u>
-	(963,639)	(963,639)	-	(963,639)
-	4,111,819	4,111,819	-	4,111,819
-	2,118,619	2,118,619	-	2,118,619
<u>-</u>	<u>5,266,799</u>	<u>5,266,799</u>	<u>-</u>	<u>5,266,799</u>
<u>(40,440,500)</u>	<u>5,266,799</u>	<u>(35,173,701)</u>	<u>-</u>	<u>(35,173,701)</u>
-	-	-	(858,044)	(858,044)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,623,212)</u>	<u>(3,623,212)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,481,256)</u>	<u>(4,481,256)</u>
17,879,236	-	17,879,236	-	17,879,236
842,215	-	842,215	-	842,215
2,101,956	-	2,101,956	-	2,101,956
9,950,837	-	9,950,837	-	9,950,837
6,088,309	-	6,088,309	-	6,088,309
549,778	-	549,778	-	549,778
39,469	-	39,469	-	39,469
1,011,832	-	1,011,832	-	1,011,832
3,538,398	-	3,538,398	-	3,538,398
26,104	-	26,104	518,125	544,229
541,824	3,809	545,633	177,015	722,648
<u>1,111,837</u>	<u>(1,111,837)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>43,681,795</u>	<u>(1,108,028)</u>	<u>42,573,767</u>	<u>695,140</u>	<u>43,268,907</u>
3,241,295	4,158,771	7,400,066	(3,786,116)	3,613,950
<u>(34,809,001)</u>	<u>31,811,889</u>	<u>(2,997,112)</u>	<u>(17,179,555)</u>	<u>(20,176,667)</u>
<u>\$ (31,567,706)</u>	<u>\$ 35,970,660</u>	<u>\$ 4,402,954</u>	<u>\$ (20,965,671)</u>	<u>\$ (16,562,717)</u>

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2014**

	<u>General</u>	<u>Grant Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Assets					
Cash and cash equivalents	\$ 12,601,819	\$ 3,453,797	\$ 19,474	\$ 736,368	\$ 16,811,458
Investments, at fair value	1,200,810	1,715,170	109,049	2,132,674	5,157,703
Receivables, net of allowance for uncollectible accounts					
Taxes	12,007,999	-	-	82,231	12,090,230
Loans	713,412	242,027	-	-	955,439
Notes	6,580,863	-	-	-	6,580,863
Other	2,756,115	430,609	-	135,223	3,321,947
Due from other funds	3,129,195	720,351	-	309,205	4,158,751
Due from component unit	73,442	-	-	-	73,442
Other assets	329,649	-	-	-	329,649
Restricted assets					
Cash and cash equivalents	22,797,978	-	-	1,280,852	24,078,830
Total assets	<u>\$ 62,191,282</u>	<u>\$ 6,561,954</u>	<u>\$ 128,523</u>	<u>\$ 4,676,553</u>	<u>\$ 73,558,312</u>

(Continued)

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>					
Liabilities					
Accounts payable	\$ 4,167,090	\$ 972,349	\$ -	\$ 315,624	\$ 5,455,063
Accrued liabilities	384,511	6,156	-	589	391,256
Due to other entities	12,342,568	-	-	-	12,342,568
Compensated absences	289,679	-	-	-	289,679
Matured bond coupons payable	-	-	20,097	-	20,097
Due to other funds	797,813	1,351,617	-	1,493,087	3,642,517
Unearned revenue	118,636	4,231,832	-	-	4,350,468
Total liabilities	<u>18,100,297</u>	<u>6,561,954</u>	<u>20,097</u>	<u>1,809,300</u>	<u>26,491,648</u>
Deferred inflows of resources					
Unavailable revenue - taxes	9,692,461	-	-	-	9,692,461
Unavailable revenue - notes receivable	6,580,863	-	-	-	6,580,863
Unavailable revenue - component unit	1,055,669	-	-	-	1,055,669
Total deferred inflows of resources	<u>17,328,993</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,328,993</u>
Fund balance					
Nonspendable	329,649	-	-	-	329,649
Restricted for					
Revolving loan program	713,412	-	-	-	713,412
Environment	-	-	-	462,541	462,541
Public works	-	-	-	500,580	500,580
Community and economic development	-	-	-	114,972	114,972
Tourism	-	-	-	1,085,299	1,085,299
Other	67,096	-	-	-	67,096
Capital projects	-	-	-	703,861	703,861
Growth funds	10,230,581	-	-	-	10,230,581
Assigned for					
Debt service	-	-	108,426	-	108,426
2015 budget	286,405	-	-	-	286,405
Public works	403,868	-	-	-	403,868
Encumbrances					
General government	1,250	-	-	-	1,250
Public works	80,958	-	-	-	80,958
Public safety	695	-	-	-	695
Unassigned	14,648,078	-	-	-	14,648,078
Total fund balance	<u>26,761,992</u>	<u>-</u>	<u>108,426</u>	<u>2,867,253</u>	<u>29,737,671</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 62,191,282</u>	<u>\$ 6,561,954</u>	<u>\$ 128,523</u>	<u>\$ 4,676,553</u>	<u>\$ 73,558,312</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 POSITION**  
**DECEMBER 31, 2014**

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Fund balance - total governmental funds		\$ 29,737,671
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets	248,059,629	
Less accumulated depreciation	<u>(152,392,616)</u>	95,667,013
Receivables that are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds.		17,328,993
Net pension asset		4,399,920
Guarantee fees are reported on the statement of net position for governmental activities and amortized over the life of the guarantee period, but are available to pay current-period expenditures and, therefore, are not reported in the funds.		(953,243)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Workers' compensation	(3,754,573)	
Bonds payable	(22,691,899)	
Notes payable	(37,740,413)	
Capital leases payable	(331,891)	
Compensated absences	(5,198,947)	
Compensated absences due and payable at December 31, 2014	289,679	
Claims and judgments	(878,719)	
Due to bond insurer	(12,724,370)	
Settlement with suburban municipalities	(5,225,000)	
Liability under guarantee	(14,316,584)	
Other post-employment benefits	(71,980,093)	
Accrued interest payable	<u>(3,195,250)</u>	<u>(177,748,060)</u>
Net position of governmental activities		<u>\$ (31,567,706)</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, 2014**

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 37,111,849	\$ -	\$ -	\$ -	\$ 37,111,849
Licenses and permits	587,194	-	-	-	587,194
Intergovernmental revenue	4,310,408	10,410,405	-	989,930	15,710,743
Department earnings and program revenue	6,680,649	279,902	-	1,308,351	8,268,902
Fines and forfeits	862,340	-	-	-	862,340
Investment income	1,000,473	1,171	17	668	1,002,329
Miscellaneous	2,602,283	-	15,628	-	2,617,911
<b>Total revenues</b>	<b>53,155,196</b>	<b>10,691,478</b>	<b>15,645</b>	<b>2,298,949</b>	<b>66,161,268</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	7,756,090	7,855	-	-	7,763,945
Community and economic development	1,072,871	4,031,444	-	-	5,104,315
Public safety	30,743,090	439,025	-	-	31,182,115
Public works	6,670,581	56,804	-	749,568	7,476,953
Environment	-	-	-	159,205	159,205
<b>Debt service</b>					
Principal retirements	1,500,000	465,000	9,625,847	71,327	11,662,174
Interest and fiscal charges	984	157,397	67,631	-	226,012
<b>Total expenditures</b>	<b>47,743,616</b>	<b>5,157,525</b>	<b>9,693,478</b>	<b>980,100</b>	<b>63,574,719</b>
<b>Excess of revenues over (under) expenditures</b>	<b>5,411,580</b>	<b>5,533,953</b>	<b>(9,677,833)</b>	<b>1,318,849</b>	<b>2,586,549</b>
<b>Other financing sources (uses)</b>					
Sale of general capital assets	25,000	-	1,104	-	26,104
Debt issuance	1,000,000	-	-	-	1,000,000
Transfers in	7,444,613	-	9,779,391	-	17,224,004
Transfers out	(9,779,391)	(5,533,953)	(271,201)	(527,622)	(16,112,167)
<b>Total other financing sources (uses)</b>	<b>(1,309,778)</b>	<b>(5,533,953)</b>	<b>9,509,294</b>	<b>(527,622)</b>	<b>2,137,941</b>
<b>Net change in fund balances</b>	<b>4,101,802</b>	<b>-</b>	<b>(168,539)</b>	<b>791,227</b>	<b>4,724,490</b>
<b>Fund balances - beginning of year - restated</b>	<b>22,660,190</b>	<b>-</b>	<b>276,965</b>	<b>2,076,026</b>	<b>25,013,181</b>
<b>Fund balances - end of year</b>	<b>\$ 26,761,992</b>	<b>\$ -</b>	<b>\$ 108,426</b>	<b>\$ 2,867,253</b>	<b>\$ 29,737,671</b>

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2014**

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

Net change in fund balance - total governmental funds		\$ 4,724,490
<p>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.</p>		
Capital outlays	760,287	
Depreciation expense	<u>(5,313,961)</u>	(4,553,674)
Change in net pension asset		236,907
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		228,210
<p>Governmental funds report guarantee fees as revenues when received. However, in the statement of activities, the fees are amortized over the guarantee period and reported as investment income.</p>		
Amortization		121,177
<p>The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>		
Issuance		(1,000,000)
Principal repayments		10,162,173
<p>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.</p>		
Workers' compensation	170,700	
Compensated absences	593,643	
Claims and judgments	(395,586)	
Other post-employment benefits	(3,564,432)	
Settlement with suburban municipalities	1,500,000	
Accrued interest	(761,039)	
Amortization of liability under guarantee	(990,578)	
Amortization of bond discounts	<u>(3,230,696)</u>	<u>(6,677,988)</u>
Change in net position of governmental activities		<u>\$ 3,241,295</u>

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**DECEMBER 31, 2014**

	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ -	\$ 4,995,891	\$ 1,560,428	\$ 6,556,319
Investments, at fair value	-	-	279,267	279,267
Receivables, net of allowance for uncollectible accounts				
Accounts	-	2,563,580	468,646	3,032,226
Other	-	1,285,466	-	1,285,466
Due from other funds	78,386	545,777	-	624,163
Prepaid expenses and other assets	62,889	-	4,889	67,778
Total current assets	<u>141,275</u>	<u>9,390,714</u>	<u>2,313,230</u>	<u>11,845,219</u>
Long-term assets				
Restricted assets				
Cash and cash equivalents	2,159	-	-	2,159
Investments, at fair value	658,241	-	-	658,241
Security deposit	-	-	1,350,000	1,350,000
Capital assets, less accumulated depreciation and amortization	32,764,703	-	34,929	32,799,632
Total long-term assets	<u>33,425,103</u>	<u>-</u>	<u>1,384,929</u>	<u>34,810,032</u>
Total assets	<u>33,566,378</u>	<u>9,390,714</u>	<u>3,698,159</u>	<u>46,655,251</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	-	873,520	81,167	954,687
Accrued liabilities	45,607	-	10,022	55,629
Due to other funds	-	141,385	796,859	938,244
Current portion of workers' compensation	-	-	28,243	28,243
Current portion of lease rental bonds payable	295,000	-	-	295,000
Current portion of capitalized lease obligations	-	-	8,006	8,006
Current portion of vested compensated absences	-	-	19,576	19,576
Total current liabilities	<u>340,607</u>	<u>1,014,905</u>	<u>943,873</u>	<u>2,299,385</u>
Long-term liabilities				
Workers' compensation	-	-	96,395	96,395
Lease rental bonds payable	6,725,972	-	-	6,725,972
Capitalized lease obligations	-	-	15,282	15,282
Vested compensated absences	-	-	136,804	136,804
Other post-employment benefits	-	-	1,410,753	1,410,753
Total long-term liabilities	<u>6,725,972</u>	<u>-</u>	<u>1,659,234</u>	<u>8,385,206</u>
Total liabilities	<u>7,066,579</u>	<u>1,014,905</u>	<u>2,603,107</u>	<u>10,684,591</u>
<b>NET POSITION</b>				
Net investment in capital assets	25,824,276	-	11,641	25,835,917
Restricted				
Debt service	658,241	-	-	658,241
Unrestricted	17,282	8,375,809	1,083,411	9,476,502
Total net position	<u>\$ 26,499,799</u>	<u>\$ 8,375,809</u>	<u>\$ 1,095,052</u>	<u>\$ 35,970,660</u>

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2014**

	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Operating revenues				
Charges for service	\$ 345,558	\$ 9,789,279	\$ 4,035,097	\$ 14,169,934
Operating expenses				
Salaries and wages	-	-	799,621	799,621
Fringe benefits	-	-	542,831	542,831
Communications	-	-	1,920	1,920
Professional fees	-	-	8,391	8,391
Insurance	-	-	53,726	53,726
Maintenance and repairs	-	2,122	187,516	189,638
Contracted services	-	5,675,338	62,107	5,737,445
Supplies	-	-	220,015	220,015
Depreciation and amortization	928,601	-	40,351	968,952
Total operating expenses	928,601	5,677,460	1,916,478	8,522,539
Operating income (loss)	(583,043)	4,111,819	2,118,619	5,647,395
Nonoperating revenues (expenses)				
Investment income	42	2,345	1,422	3,809
Interest expense	(373,624)	-	-	(373,624)
Amortization of bond issue costs	(6,972)	-	-	(6,972)
Total nonoperating revenues (expenses)	(380,554)	2,345	1,422	(376,787)
Income (loss) before transfers	(963,597)	4,114,164	2,120,041	5,270,608
Transfers in	271,201	-	-	271,201
Transfers out	-	-	(1,383,038)	(1,383,038)
Change in net position	(692,396)	4,114,164	737,003	4,158,771
Net position - beginning of year	27,192,195	4,261,645	358,049	31,811,889
Net position - end of year	\$ 26,499,799	\$ 8,375,809	\$ 1,095,052	\$ 35,970,660

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, 2014**

	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Cash flows from operating activities				
Received from user charges	\$ 345,558	\$ 9,932,607	\$ 3,480,219	\$ 13,758,384
Payments to employees for services	-	-	(813,593)	(813,593)
Payments for fringe benefits	-	-	(406,388)	(406,388)
Payments to suppliers for goods and services	-	(4,939,083)	(641,586)	(5,580,669)
Net cash provided by operating activities	345,558	4,993,524	1,618,652	6,957,734
Cash flows from noncapital financing activities				
Transfers in	271,201	-	-	271,201
Transfers out	-	-	(1,383,038)	(1,383,038)
Net cash provided by (used in) noncapital financing activities	271,201	-	(1,383,038)	(1,111,837)
Cash flows from capital and related financing activities				
State subsidy	34,180	-	106,051	140,231
Interest paid	(371,518)	-	-	(371,518)
Lease, bond and note payments	(280,000)	-	(66,188)	(346,188)
Net cash provided by (used in) capital and related financing activities	(617,338)	-	39,863	(577,475)
Cash flows from investing activities				
Sales of investments	538	-	1,027,621	1,028,159
Investment income	41	2,345	1,422	3,808
Net cash provided by investing activities	579	2,345	1,029,043	1,031,967
Net increase in cash and cash equivalents	-	4,995,869	1,304,520	6,300,389
Cash and cash equivalents (including restricted cash) - beginning of year	2,159	22	255,908	258,089
Cash and cash equivalents (including restricted assets) - end of year	\$ 2,159	\$ 4,995,891	\$ 1,560,428	\$ 6,558,478

(continued)

**CITY OF HARRISBURG, PENNSYLVANIA**  
**STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)**  
**YEAR ENDED DECEMBER 31, 2014**

	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (583,043)	\$ 4,111,819	\$ 2,118,619	\$ 5,647,395
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	928,601	-	40,351	968,952
Provision for uncollectible accounts	-	382,191	37,320	419,511
Changes in assets and liabilities				
Accounts receivable	-	(471,615)	5,740	(465,875)
Other receivables	-	175,203	35,946	211,149
Due from/to other funds	-	57,549	(633,884)	(576,335)
Other assets	-	-	11,379	11,379
Vested compensated absences	-	-	(13,972)	(13,972)
Other post-employment benefits	-	-	136,443	136,443
Workers' compensation	-	-	(99,826)	(99,826)
Accounts payable and other accrued costs	-	738,377	(19,464)	718,913
Net cash provided by operating activities	<u>\$ 345,558</u>	<u>\$ 4,993,524</u>	<u>\$ 1,618,652</u>	<u>\$ 6,957,734</u>
Noncash investing, capital, and financing activities				
Amortization of bond discount	<u>\$ 6,972</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,972</u>

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**DECEMBER 31, 2014**

	<u>Police Pension Trust Fund</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 1,475,802
Receivables		
Plan member contribution receivable	25,221	-
Interest and dividends	35,144	-
Total receivables	<u>60,365</u>	<u>-</u>
Investments, at fair value		
Money market funds	1,283,800	-
Certificates of deposit	1,439,367	-
Fixed income funds	19,293,463	-
U.S. Government obligations	448,440	-
U.S. Government agency obligations	1,122,923	-
Corporate bonds	2,374,349	-
Municipal bonds	96,327	-
Equity funds	47,626,083	-
Common stocks	1,492,130	-
Total investments	<u>75,176,882</u>	<u>-</u>
Total assets	<u>75,237,247</u>	<u>1,475,802</u>
<b>LIABILITIES</b>		
Due to other governments	-	214,152
Due to City's General Fund	-	202,153
Due to others	-	348,709
Escrow liabilities	-	710,788
Total liabilities	<u>-</u>	<u>\$ 1,475,802</u>
<b>NET POSITION</b>		
Restricted for police pension benefits	<u>\$ 75,237,247</u>	

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - POLICE PENSION TRUST FUND**  
**YEAR ENDED DECEMBER 31, 2014**

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Additions	
Contributions	
Plan member	\$ 478,549
Employer	2,424,298
	<hr/>
Total contributions	2,902,847
	<hr/>
Investment income	
Interest and dividend income	2,087,634
Net appreciation in fair value of investments	2,238,617
	<hr/>
Total investment income	4,326,251
Less investment expense	(243,548)
	<hr/>
Net investment income	4,082,703
	<hr/>
Total additions	6,985,550
	<hr/>
Deductions	
Pension benefits	5,351,314
Administrative expenses	58,924
	<hr/>
Total deductions	5,410,238
	<hr/>
Change in net position	1,575,312
Net position - beginning of year	73,661,935
	<hr/>
Net position - end of year	\$ 75,237,247
	<hr/> <hr/>

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**DESCRIPTION OF COMPONENT UNITS**  
**YEAR ENDED DECEMBER 31, 2014**

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**Harrisburg Parking Authority**

On December 23, 2013, the Harrisburg Parking Authority Component Unit entered into an Asset Transfer Agreement for the City of Harrisburg Parking System for a majority of its parking facilities, meters, and lots. Subsequent to December 23, 2013, the Harrisburg Parking Authority maintains an operating interest in the City Island Garage and certain parking lots. Although Harrisburg Parking Authority maintains an operating interest in the City Island Garage as of December 31, 2014, the Asset Transfer Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

**Redevelopment Authority of the City of Harrisburg (Redevelopment Authority)**

The Redevelopment Authority of the City of Harrisburg Component Unit is incorporated under the provisions of the Commonwealth of Pennsylvania Urban Development Act Number 385 of May 24, 1945, as amended, for the purpose of providing redevelopment and other related activities within the City.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**STATEMENT OF NET POSITION - COMPONENT UNITS**  
**DECEMBER 31, 2014**

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<b>ASSETS</b>	Harrisburg Parking Authority	Redevelopment Authority	Total Component Units
Current assets			
Cash and cash equivalents	\$ 1,120,864	\$ 933,632	\$ 2,054,496
Receivables, net of allowance for uncollectible accounts			
Accounts	101,072	143,094	244,166
Loans	-	264,835	264,835
Benefit trust distribution	404,792	-	404,792
Prepaid expenses and other assets	26,840	-	26,840
Total current assets	<u>1,653,568</u>	<u>1,341,561</u>	<u>2,995,129</u>
Restricted assets			
Investments	-	3,365,455	3,365,455
Total restricted assets	<u>-</u>	<u>3,365,455</u>	<u>3,365,455</u>
Right to building	-	20,369,411	20,369,411
Capital assets, not being depreciated	-	30,000	30,000
Capital assets, less accumulated depreciation	4,711,703	7,754,043	12,465,746
Deposits	100,000	-	100,000
Total assets	<u>6,465,271</u>	<u>32,860,470</u>	<u>39,325,741</u>

(continued)

	Harrisburg Parking Authority	Redevelopment Authority	Total Component Units
<b>LIABILITIES</b>			
Current liabilities (payable from current assets)			
Accounts payable and accrued liabilities	201,345	92,495	293,840
Due to primary government	73,442	-	73,442
Accrued interest payable	-	64,912	64,912
Accrued termination benefits	258,590	-	258,590
Total current liabilities (payable from current assets)	<u>533,377</u>	<u>157,407</u>	<u>690,784</u>
Current liabilities (payable from restricted assets)			
Current portion of revenue notes payable	-	339,695	339,695
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>339,695</u>	<u>339,695</u>
Noncurrent liabilities			
Revenue bonds payable, net of discount	-	58,318,429	58,318,429
Revenue notes payable, net of discount	-	771,672	771,672
Due to other governments	-	170,832	170,832
Total liabilities	<u>533,377</u>	<u>59,758,035</u>	<u>60,291,412</u>
<b>NET POSITION</b>			
Net position			
Net investment in capital assets	4,711,703	6,673,523	11,385,226
Restricted			
Revolving loan program	-	250,000	250,000
Debt service	-	3,365,455	3,365,455
Insurer agreement	1,171,139	-	1,171,139
Unrestricted	<u>49,052</u>	<u>(37,186,543)</u>	<u>(37,137,491)</u>
Total net position	<u>\$ 5,931,894</u>	<u>\$ (26,897,565)</u>	<u>\$ (20,965,671)</u>

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

**CITY OF HARRISBURG**  
**STATEMENT OF ACTIVITIES - COMPONENT UNITS**  
**YEAR ENDED DECEMBER 31, 2014**

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	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Harrisburg Parking Authority	\$ 2,188,836	\$ 1,330,792	\$ -	\$ -
Redevelopment Authority	<u>5,204,783</u>	<u>1,457,626</u>	<u>90,612</u>	<u>33,333</u>
Total component units	<u>\$ 7,393,619</u>	<u>\$ 2,788,418</u>	<u>\$ 90,612</u>	<u>\$ 33,333</u>

General revenues  
Miscellaneous income  
Unrestricted investment earnings

Total general revenues

Change in net position

Net position - January 1, 2014

Net position - December 31, 2014

Net (Expense) Revenue and  
Changes in Net Position

Harrisburg Parking Authority	Redevelopment Authority	Total
\$ (858,044)	\$ -	\$ (858,044)
<u>-</u>	<u>(3,623,212)</u>	<u>(3,623,212)</u>
<u>(858,044)</u>	<u>(3,623,212)</u>	<u>(4,481,256)</u>
473,492	44,633	518,125
<u>-</u>	<u>177,015</u>	<u>177,015</u>
<u>473,492</u>	<u>221,648</u>	<u>695,140</u>
(384,552)	(3,401,564)	(3,786,116)
<u>6,316,446</u>	<u>(23,496,001)</u>	<u>(17,179,555)</u>
<u>\$ 5,931,894</u>	<u>\$ (26,897,565)</u>	<u>\$ (20,965,671)</u>

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

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Harrisburg, Pennsylvania (City) was founded by John Harris II in 1785, established as a borough in 1791 and incorporated as a City on March 19, 1860. The City operates as a Mayor-Council form of government and provides all municipal services to its residents.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies:

### **A. Reporting Entity**

The City used guidance contained in governmental accounting standards to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, etc.) within its reporting entity. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organization's governing body and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City, as defined below:
  - **Impose its Will** – If the City can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
  - **Financial Benefit or Burden** – Exists if the City (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the City.

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

#### *Blended Component Units*

Some component units, despite being legally separate from the primary government (City), are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component unit reported in this way is the City of Harrisburg Leasing Authority.

**City of Harrisburg Leasing Authority**

The City of Harrisburg Leasing Authority was formed pursuant to the Municipal Authority Act in 1986 for the purpose of acquiring and leasing facilities and equipment to the City. The five-member Board of Directors is appointed by the Mayor. The City of Harrisburg Leasing Authority's only financial transaction is the financing of City projects. There was no activity during the year ended December 31, 2014.

*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:

- Harrisburg Parking Authority
- Redevelopment Authority of the City of Harrisburg

**Harrisburg Parking Authority**

The Harrisburg Parking Authority (Authority) was incorporated in 1972 under the Pennsylvania Parking Authority Law of 1947. The Authority is an agency of the Commonwealth of Pennsylvania, which owns and operates parking facilities in the City. The five-member Board of Directors is appointed by the Mayor and members can be removed from the Board at will.

On December 23, 2013, the Authority entered into an Asset Transfer Agreement for the City of Harrisburg Parking System (Agreement) for a majority of its parking facilities, meters, and lots. Subsequent to the asset transfer date of December 23, 2013, the Authority maintained an operating interest in the City Island Garage and certain parking lots. Although the Authority maintains an operating interest in the City Island garage as of December 31, 2014, the Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

**Redevelopment Authority of the City of Harrisburg**

The Redevelopment Authority of the City of Harrisburg (Redevelopment Authority) was established in 1949 pursuant to the Urban Redevelopment Act of 1945 (Public Law – 991). The Redevelopment Authority is administered by a five-member Board of Directors, all of whom are appointed by the Mayor. The Redevelopment Authority provides a broad range of urban renewal and maintenance programs within the City. The Redevelopment Authority also coordinates efforts to improve the economic vitality, the housing stock, and overall living conditions within the City. The City guarantees some debt of the Redevelopment Authority projects.

*Potential Component Units Excluded*

**Capital Region Water**

Capital Region Water (CRW) was incorporated in 1957 under the provisions of the Municipal Authority Act. CRW is administered by a five-member Board of Directors, all of whom are appointed by the Mayor and confirmed by City Council.

The purpose of CRW is, among other things, to engage in public works projects relating to the ownership and operation of the water system and wastewater treatment and conveyance systems. CRW also maintains responsibility for winding down certain administrative, contractual, and minor operating activities of the previously owned resource recovery facility. The City has no financial accountability over CRW's operations.

CRW operates and reports on a calendar year.

**City of Harrisburg Housing Authority**

The City of Harrisburg Housing Authority (Housing Authority) was established in 1937 pursuant to the Housing Authorities Law to promote the availability of safe and sanitary dwelling accommodations at affordable rents to families of low income. The Housing Authority is administered by a five-member Board of Directors, all of whom are appointed by the Mayor.

The Housing Authority operates low rent subsidized housing projects established within the City. The Housing Authority manages the acquisition of federal and state funds for the construction of and/or improvements to low income properties and reviews programs with the landlords to ensure compliance with various rules and regulations. The City has no financial accountability over the Housing Authority's operations.

The Housing Authority operates and reports on a calendar year.

**Harristown Development Corporation**

The Harristown Development Corporation (HDC) was incorporated under the Nonprofit Corporation Law of Pennsylvania in 1974, and owns and operates several facilities within the City. HDC is governed by a 17-member Board of Directors (Board) selected by a nominating committee of the Board. City officials do not serve on the Board or nominating committee. The City does guarantee the debt of an HDC project, but there is no indication of financial accountability.

The HDC operates and reports on a calendar year.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**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, 2014:

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	\$ 3,915,309
Capital Assets, Net	\$ 24,627,678
Total Assets	\$ 28,618,902
Net Position	\$ 24,703,593
Operating Revenue	\$ 6,943,554
Operating Loss	\$ (15,996,285)
Change in Net Position	\$ (3,392,127)
City Contribution to Operations	\$ 299,761

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

The amounts the City appropriated to these organizations during the year ended December 31, 2014 were immaterial to the basic financial statements.

The City owns the National Civil War Museum and the related artifacts (collectively, the facilities). During 2001, the City entered into an agreement to lease the facilities to a not-for-profit organization (organization) for \$1 per year. After five years, the City can notify the organization that it would like to renegotiate the rent payment based on the organization's ability to pay. As of December 31, 2014, there has been no further negotiation.

**B. *Government-Wide and Fund Financial Statements***

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Real estate, earned income, local services, mercantile, franchise, and hotel taxes, intergovernmental revenue, departmental earnings, and investment income are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other governmental fund revenues are recorded as cash is received because they are generally not measurable until actually received. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as expenditures in the year when the items are purchased. Expenditures for claims, judgments, compensated absences, contingent liabilities, and employer

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pension and other post-employment benefit contributions are reported to the extent that they mature each period.

The City reports unavailable revenue on its governmental fund balance sheet. Unavailable revenues arise when a potential revenue does not meet the “measurable” and “available” criteria for recognition in the current period. Unearned revenues 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 unavailable or unearned revenue is removed from the governmental fund balance sheet and revenue is recognized.

The City reports the following major governmental funds:

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

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

**Debt Service Fund** – Accounts for the accumulation of resources, which are principally transfers from other funds, for the payment of general long-term obligation principal, interest, and related costs.

The City reports the following major proprietary funds:

**Harrisburg Senators Fund** - Accounts for the revenues and expenses associated with the payment of debt on the financing of a new stadium of the Harrisburg Senators, a minor league franchise formerly owned by the City.

**Incinerator Fund** - Accounts for the collection and remittance of incinerator/resource recovery disposal fees billed by the City and remitted to Lancaster County Solid Waste Management Authority, for its provision of solid waste incineration services to the residents and commercial and industrial establishments of the City.

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

In addition, the City reports the following fund types:

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

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

Component units are accounted for as follows:

The discretely presented component units are accounted for as enterprise funds. As such, they account for the activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Services from such activities are provided to outside parties.

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

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

When both restricted and unrestricted resources are available for use, it is the City and its component units practice to use restricted resources first, then unrestricted resources as they are needed.

**D. *Cash and Cash Equivalents***

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

**E. *Investments***

With the exception of investment contracts, which are at contract value, the City and its component units carry their investments at fair value. The fair value of the investments is based upon values provided by external investment managers and quoted market price.

**F. *Allowance for Uncollectible Accounts***

The allowance for uncollectible accounts is based upon historical ratios established according to experience and other factors which in the judgment of City officials deserve recognition in estimating possible losses. Management believes that they have adequately provided for future probable losses.

**G. *Loans Receivable***

The City has loans receivable issued from the City's Department of Building and Housing Development (DBHD) in the amount of \$866,217 and the Mayor's Office of Equal Economic Opportunity (MOEEO) in the amount of \$2,206,470, net of allowances for uncollectible accounts of \$656,992 and \$1,460,256, respectively. The balance of loans receivable that is reported in the General Fund, net of allowance for uncollectible accounts, is presented as restricted fund balance. The balance of the loans receivable that is reported in the Grant Programs Fund, net of allowance for uncollectible accounts, is presented as unearned revenue. DBHD loans in the amount of \$1,163,962 with accrued interest of \$2,210,181 and an allowance of \$2,849,277, which resulted in a net amount of \$524,867,

were written off during the year ended December 31, 2014. Write-offs are determined based on events of loan default, bankruptcy, or negotiated settlement with the City.

The Redevelopment Authority's loans receivable consists of loans made to various entities for redevelopment projects within the City. The loans vary in term and require full payment of principal and interest at the end of the loan term. As of December 31, 2014, there was \$264,835 of loans receivable.

In June 2003, the Redevelopment Authority received two Up-Front Grants in the amount of \$10.6 million from the United States Department of Housing and Urban Development for the Governor's Square (formerly McClay Street) redevelopment project within the City. The grant funds were loaned to developers for use in connection with a low-income housing project. The loans vary in term and require full payment of principal and interest at the end of the loan term. By their nature, the likelihood that these loans will be collected is remote and, as a result, the loans are completely offset with an allowance for uncollectible accounts at December 31, 2014.

#### **H. *Interfund Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due to/from other funds" on the balance sheet or statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### **I. *Security Deposit***

At December 31, 2014, the Sanitation Fund has presented a security deposit in the amount of \$1.35 million. This amount represents the deposit amount for the City's obligations to the owner of the resource recovery facility under the Municipal Waste Disposal Agreement. The amount has been deposited pursuant to the Second Addendum to Assignment, Amendment, and Restatement of the Disposal Agreement.

#### **J. *Right to Building***

In 1998, the Redevelopment Authority purchased the right, title, and interest in and to certain portions of the Strawberry Square Site located in the City. The Redevelopment Authority is not entitled to any ownership of the buildings until 2016. The future right to the building is valued on the statement of net position at amortized cost. No amortization was required to be recorded through December 31, 2014.

#### **K. *Capital Assets***

##### *Primary Government*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, dams, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as

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assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Assets acquired prior to 1982 have been valued by applying an inflation index to current replacement cost to determine estimated historical costs. The cost of such assets amounted to \$2,447,811 at December 31, 2014. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Artifacts, totaling \$18,649,000, have been recorded at cost in the governmental activities column of the government-wide financial statements and are not being depreciated.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

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

*Component Units*

Harrisburg Parking Authority

The Authority's capital assets in service and construction in progress are stated on the basis of cost. Capital assets are defined by the Authority as assets with an initial, individual cost of \$10,000 for land, buildings, and related improvements, or \$1,000 for furniture and equipment purposes, and an estimated useful life in excess of three years. Maintenance and repairs, which do not significantly extend the value or life of capital assets, are expensed as incurred.

The Authority's depreciation expense is computed using the straight-line method over the estimated useful asset life of thirty years. Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest costs incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Redevelopment Authority of the City of Harrisburg

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

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

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

**L. *Vested Compensated Absences***

*Primary Government*

Vested compensated absences represent vested portions of accumulated unpaid vacation, sick pay and other employee benefit amounts. It is the City’s policy to permit employees to accumulate a limited amount of earned but unused vacation, sick pay and other employee benefit amounts, which will be paid to employees upon separation from City service. All vested compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

*Component Unit*

*Redevelopment Authority of the City of Harrisburg*

The Redevelopment Authority’s employees are granted vacation benefits in varying amounts depending on the number of years of service. Employees may accumulate up to 37.5 hours of vacation leave, which may be carried over to subsequent years. Sick leave benefits accrue up to a maximum of 675 hours, but can only be used as sick time and not taken in pay. Sick leave accumulated in excess of 675 hours may be converted, at the discretion of the Executive Director, to vacation time. The conversion of sick leave to vacation leave will occur on the ratio of three (3) hours excess sick leave to one (1) hour vacation leave. The vacation leave accrued in this manner may be carried over to the new calendar year in addition to the maximum vacation leave carryover otherwise permitted. The liability related to compensated absences is reported in the statement of net position.

**M. *Long-term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts are amortized over the life of the related obligation using the effective interest method. Debt is reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

**N. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for 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 are recorded when purchase orders are issued, but are not considered expenditures until liabilities for payment are incurred. Encumbrances outstanding at year-end for unfilled obligations of the current year budget are reappropriated in the succeeding year. The City reports encumbrances in its governmental funds as assigned fund balance, if the individual fund's fund balance is not presented as restricted. The General Fund had encumbrances of \$82,903 relating to contract services and operating materials and supplies. Encumbrance accounting is used in proprietary fund types as a tool for budgetary control, but is not reported on the statement of net position. There are no encumbrances for the proprietary funds at December 31, 2014.

**O. Fund Equity and Net Position**

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

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

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

**Unrestricted Net Position** – This category represents the net position of the City, that is not restricted for any project or other purpose.

Sometimes the City and its component units will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

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

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

**Assigned** – This category represents intentions of the City to use funds for specific purposes.

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

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any component of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, assigned fund balance is applied first. Unassigned fund balance is applied last.

**P. 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, 2013, the date of the most recent actuarial valuation, the actuarial accrued pension liability exceeded the actuarial value of assets in the Combined Police Pension Plan in the amount of \$13,526,580. However, the actuarial value of assets exceeded the actuarial accrued pension liability in the Non-uniformed and Fire Pension Plans in the amounts of \$21,788,396 and \$10,008,099, respectively.

**Q. Risk Management**

*Primary Government*

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

The City is self-insured for workers' compensation. As a self-insurer, the City is required to fund an already established trust fund, dollar for dollar, once the City has passed a total liability threshold 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 \$750,000 for each uniformed workers' compensation claim and \$650,000 for each non-uniformed workers' compensation claim and has purchased commercial coverage for claims in excess of coverage.

In the government-wide financial statements and proprietary fund types in the fund financial statements, the liability for outstanding claims is reported in the applicable statement of net position. A liability for these amounts is reported in governmental funds only if they have matured. The accrued cost for unpaid claims was \$3,754,573 and \$124,638 in the governmental activities and business-type activities, respectively, at December 31, 2014. These claims liabilities are discounted to present value

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at a discount rate of 5% and are based on the requirements of governmental accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Change in the claims' liability amounts were as follows:

	Governmental Activities	Business-type Activities	2014	2013
Beginning - January 1	\$ 3,925,273	\$ 224,464	\$ 4,149,737	\$ 4,568,897
Current year claims and changes in estimates	442,779	(38,031)	404,748	1,292,694
Claim payments	(613,479)	(61,795)	(675,274)	(1,711,854)
Ending - December 31	<u>\$ 3,754,573</u>	<u>\$ 124,638</u>	<u>\$ 3,879,211</u>	<u>\$ 4,149,737</u>

*Component Units*

The City's discretely presented component units are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in 2014. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

**R. 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), Host Municipality Fees Fund (nonmajor governmental fund), Sanitation Fund, and Incinerator Fund. Annual budgets are adopted by ordinances passed by City Council. The City has established the following procedures relating to the preparation and adoption of the annual budget.

1. During August, budget preparation packages are prepared and submitted to the department heads/bureau chiefs for use in developing financial projections for their expenditures for the ensuing year.
2. The budget staff reviews the department heads'/bureau chiefs' expenditure projections and submits a first draft to the Business Administrator. Subsequent to the Business Administrator's review, the draft and recommendations are forwarded to the Mayor.
3. During September, departmental review forms are prepared and submitted to all department heads/bureau chiefs for use in developing financial projections for anticipated revenues for the ensuing year. The Budget staff conducts public hearings to review the department's budget requests.
4. Mayoral hearings are then held during October with each department to discuss their budgets as submitted and allow them to substantiate projected expenditures.
5. After hearings, the budget staff again reviews the projections and presents to the Business Administrator options as to the most viable method of financing them.

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6. A second draft is then given to the Mayor with the balanced budget prepared as a result of meetings held between the Mayor, the Business Administrator, and the budget staff.
7. On the fourth Tuesday of November, the final Mayoral recommended budget is presented to City Council.
8. Council holds Budget and Finance Committee meetings to substantiate the proposed budget and arrive at any amendments to the budget.
9. By December 31, the budget, as amended by Council, is legally enacted through the passage of an ordinance.

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

The Business Administrator may authorize transfers up to \$20,000 between line-items within a department or office. However, no transfers shall be permitted into or within any personnel line-items to augment any individual wage or salary allocation previously established by City Council for any position without City Council approval, except to accommodate payments to employees as required under applicable laws or collective bargaining agreements. City Council approval is required for transfers in excess of \$20,000 along budget line-items. In the absence of budgeted financing, City Council may approve a supplemental appropriation from unappropriated fund balances; or from a new, unanticipated and unbudgeted revenue source(s) received during the course of the budget year. Therefore, the legal level of control is the line-item level. There were supplemental appropriations enacted during 2014.

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

**S. *Use of Estimates***

Management of the City and its discretely presented component units have made a number of estimates and assumptions relating to the reporting of assets, liabilities, and deferred inflows of resources, 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 Redevelopment Authority participates in various bond issues for which it has limited liability. Acting solely in an agency capacity, the Redevelopment Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although the Redevelopment Authority is a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the Redevelopment Authority in the case of default. As such, the corresponding debt is not reflected on the balance sheet of the Redevelopment Authority. As

of December 31, 2014, non-recourse debt issues of the Redevelopment Authority totaled approximately \$21,100,000 including approximately \$7,055,000 on behalf of the City.

**U. *Adoption of Accounting Principles***

The City has adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *“Financial Reporting for Pension Plans.”* This Statement enhances note disclosures and required supplementary information (RSI) for the City’s single-employer defined benefit pension plan.

The City and the Redevelopment Authority have adopted GASB Statement No. 70, *“Accounting and Financial Reporting for Nonexchange Financial Guarantees.”* This Statement improves accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. As a result of this Statement, beginning net position has been restated, as further disclosed in Note 2, to recognize a liability for the guarantee of the applicable portion of the Redevelopment Authority’s debt. In addition, note disclosures have been enhanced.

**V. *Pending Changes in Accounting Principles***

In June 2012, the GASB issued Statement No. 68, *“Accounting and Financial Reporting for Pensions.”* In addition, in November 2013, the GASB issued Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date.”* These Statements revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of these Statements are effective for the City’s December 31, 2015 financial statements.

In February 2015, the GASB issued Statement No. 72, *“Fair Value Measurement and Application.”* This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of GASB Statement No. 72 are effective for the City’s December 31, 2016 financial statements.

In June 2015, the GASB issued Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”* This Statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by Statements No. 67 and 68). The provisions of GASB Statement No. 73 are effective for the City’s December 31, 2016 financial statements – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the City’s December 31, 2017 financial statements.

In June 2015, the GASB issued Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.”* This Statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This Statement replaces Statement No. 43. The provisions of GASB Statement No. 74 are effective for the City’s December 31, 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”* This Statement addressed reporting by governments that provide OPEB to their employees and for governments that finances OPEB for employees of other governments. This Statement replaces the requirements of Statement No. 45. The provisions of GASB Statement No. 75 are effective for the City’s December 31, 2018 financial statements.

In June 2015, the GASB issued Statement No. 76, *“Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”* This Statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55. The provisions of Statement No. 76 are effective for the City’s December 31, 2016 financial statements.

In August 2015, the GASB issued Statement No. 77, *“Tax Abatement Disclosures.”* This Statement enhances disclosures of information about the nature and magnitude of tax abatements. The provisions of Statement No. 77 are effective for the City’s December 31, 2016 financial statements.

The effect of these Statements has not yet been determined.

## **2. RESTATEMENT**

### *Primary Government*

On December 19, 1998, the Redevelopment Authority issued Federally Taxable Guaranteed Revenue Bonds, Series A of 1998, in the face amount of \$41,680,000, and Series B of 1998, in the face amount of \$51,910,000. The Series A and Series B Bonds of 1998 are capital appreciation bonds (collectively, the Series A and Series B Bonds of 1998). The Series A and Series B Bonds of 1998 mature through 2033 and 2025, respectively, and the accreted values at December 31, 2014 are \$20,382,564 and \$37,935,865, respectively.

The City extended a nonexchange financial guarantee to the Redevelopment Authority for the Series A and Series B Bonds of 1998. The City’s legal authority and limits for extending guarantees and the types of obligations guaranteed is pursuant to the provisions of the Pennsylvania local Government Unit Debt Act. If sufficient revenues are not generated to pay the debt service on the Series A or Series B Bonds of 1998, any shortfalls in funds will be paid for by the City. In accordance with the Reimbursement Agreement between the City and the Redevelopment Authority, the Redevelopment Authority is required to reimburse the City for amounts paid by the City under the guarantee. Interest will accrue on amounts owed by the Redevelopment Authority at a rate of 8% annually. As of December 31, 2014, no amounts were paid by the City to the Redevelopment Authority under either of the guarantees. The City does to expect to recover any payments it makes on the Redevelopment Authority’s debt.

During the year ended December 31, 2014, the City adopted the provisions of GASB Statement No. 70, which requires the accrual of debt on the guaranteeing entity to the extent it is more likely than not that the guaranteeing entity will be required to pay under the guarantee. As a result, the City has recognized a liability for an amount that is the City’s best estimate of the discounted present value of the future outflows the City expects to incur as a result of the guarantee of the Series A of 1998 Bonds.

In addition, during the year ended December 31, 2013, the City received and deposited \$774,680 of earned income tax revenue as of December 31, 2013. However, the City also recorded the same amount as earned income tax receivable at December 31, 2013, thereby double recording the revenue.

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The effects of the implementation of GASB Statement No. 70 and the double recording of the earned income tax revenue on the General Fund and governmental activities are as follows:

	General	Governmental Activities
Fund balance/Net position, originally stated	\$ 23,434,870	\$ (20,708,315)
Implementation of GASB 70	-	(13,326,006)
Earned income revenue adjustment	(774,680)	(774,680)
Fund balance/Net position, restated	<u>\$ 22,660,190</u>	<u>\$ (34,809,001)</u>

Activity for the liability under guarantee for the year ended December 31, 2014 is as follows:

Beginning - January 1	\$ 13,326,006
Increases	990,578
Decreases	-
Ending - December 31	<u>\$ 14,316,584</u>

### **3. DEPOSITS AND INVESTMENTS**

#### *Primary Government*

The deposit and investment policy of the City adheres to state statutes and prudent business practices. City deposits must be held in insured, federally regulated banks or financial institutions and must be fully collateralized in accordance with state statutes. Permissible investments include direct obligations of the U.S. Treasury and U.S. Governmental agencies; certificates of deposit issued by insured banks, bank and trust companies, and savings and loan associations; repurchase agreements not to exceed 30 days, secured by U.S. Government obligations with collateral to be delivered to a third-party custodian; shares of registered investment companies whose portfolios consist solely of government securities; general obligation bonds of any state, Pennsylvania subdivisions, or any of its agencies or instrumentalities backed by the full faith and credit of the issuing entity and having the highest rating of a recognized bond rating agency; and pooled funds of public agencies of the Commonwealth of Pennsylvania. Any investment authorized by 20 Pa. C.S. Ch. 73 (relating to fiduciary investments) is an authorized investment for any pension or retirement fund. This policy is in accordance with applicable Pennsylvania statutes. There were no deposit or investment transactions that were in violation of either state statutes or the policy of the City at December 31, 2014, 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.

During the year ended December 31, 2013, the City received proceeds from the leasing of certain of the Harrisburg Parking Authority assets. Certain of the proceeds, held at December 31, 2014, are maintained in a segregated bank account restricted for the following purposes: \$3.7 million to fund a

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yet to be established other post-employment benefit trust fund; \$6.15 million to fund a yet to be established entity that will focus on economic development in the City; \$6.15 million to fund a yet to be established entity that will focus on infrastructure improvements in the City; and \$6.7 million to fund a City growth fund.

***Deposits***

At December 31, 2014, the deposits of the City of Harrisburg, including component units, were as follows:

Reconciliation to statement of net position:

Governmental activities	
Unrestricted	\$ 16,811,458
Restricted	24,078,830
Business-type activities	
Unrestricted	6,556,319
Restricted	2,159
Fiduciary funds - agency fund	<u>1,475,802</u>
Total primary government	<u>\$ 48,924,568</u>
Component units	
Unrestricted	<u>\$ 2,054,496</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, 2014, the City's book balance was \$48,924,568 and the bank balance was \$35,010,374. Of the bank balance, \$820,207 was covered by federal depository insurance and \$34,103,782 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits. The remaining bank balance of \$86,385 was invested in an external investment pool with the Pennsylvania Local Government Investment Trust (PLGIT). PLGIT separately issues audited financial statements which are available to the public. The fair value of the City's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania is the formal external regulatory oversight for the external investment pool. At December 31, 2014, PLGIT carried a AAA rating and had an average maturity of less than one year.

***Component units***

***Harrisburg Parking Authority***

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

***Custodial credit risk.*** At December 31, 2014, the Authority's cash deposits have a book and bank balance of \$1,120,864 and \$1,138,017, respectively. Of the bank balance, \$124,995 was covered by federal depository insurance. The remaining \$1,013,022 was invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST). INVEST issues audited financial

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statements that are available to the public. The fair value of the Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool. At December 31, 2014, INVEST carried a AAA rating and had an average weighted maturity of less than one year.

*Redevelopment Authority of the City of Harrisburg*

**Custodial Credit Risk.** The Redevelopment Authority does not have a deposit policy for custodial credit risk. As of December 31, 2014, the Redevelopment Authority's book balance was \$933,632 and the bank balance was \$957,723. Of the bank balance, \$500,013 was covered by federal depository insurance. The remaining balance of \$457,710 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

**Investments**

At December 31, 2014, the investments of the City were as follows:

Primary Government	
Unrestricted investments	
Money market funds	\$ 1,155,187
External investment pool	4,281,783
Total unrestricted investments	<u>5,436,970</u>
Restricted investments	
Money market funds	<u>658,241</u>
Total restricted investments	<u>658,241</u>
Fiduciary funds	
Money market funds	1,283,800
Certificates of deposit	1,439,367
Fixed income funds	19,293,463
U.S. Government obligations	448,440
U.S. Government agency obligations	1,122,923
Corporate bonds	2,374,349
Municipal bonds	96,327
Equity funds	47,626,083
Common stocks	1,492,130
Total fiduciary funds	<u>75,176,882</u>
Total primary government	<u>\$ 81,272,093</u>
Component Units	
Restricted investments	
Money market funds	\$ 33,477
External investment pool	847
Investment contracts	<u>3,331,131</u>
Total restricted investments	<u>3,365,455</u>
Total component units	<u>\$ 3,365,455</u>

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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 \$81,272,093, \$6,095,211 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, 2014, there were no investments that represent more than five percent of the City’s total investments.

**Credit risk.** The City does not have a formal policy relating to credit risk of investments. The City’s money market, external investment pool, and fixed income investments had the following level of exposure to credit risk as of December 31, 2014:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 1,942,041	AAA
Money market funds	\$ 1,155,187	Unrated
External investment pool	\$ 4,281,783	AAA
Fixed income funds	\$ 11,197,598	AA
Fixed income funds	\$ 3,212,504	A
Fixed income funds	\$ 2,440,418	BB
Fixed income funds	\$ 2,442,943	B
U.S. Government agency obligations	\$ 1,122,923	AA+
Corporate bonds	\$ 112,264	Unrated
Corporate bonds	\$ 256,668	AAA
Corporate bonds	\$ 69,849	AA+
Corporate bonds	\$ 319,145	AA-
Corporate bonds	\$ 268,694	AA
Corporate bonds	\$ 396,787	A+
Corporate bonds	\$ 419,578	A
Corporate bonds	\$ 405,716	A-
Corporate bonds	\$ 125,648	BBB+
Municipal bonds	\$ 61,036	AA
Municipal bonds	\$ 35,291	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	Fair Value	Investment Maturities			
		2015	2016-2020	2021-2025	2026 and beyond
Money market funds	\$ 3,097,228	\$ 3,097,228	\$ -	\$ -	\$ -
External investment pool	4,281,783	4,281,783	-	-	-
Certificates of deposit	1,439,367	98,032	1,341,335	-	-
Fixed income funds	19,293,463	-	2,442,943	16,850,520	-
U.S. Government obligations	448,440	-	101,090	218,476	128,874
U.S. Government agency obligations	1,122,923	-	-	314,797	808,126
Corporate bonds	2,374,349	-	946,467	867,013	560,869
Municipal bonds	96,327	-	35,291	-	61,036
<b>Total</b>	<b>\$ 32,153,880</b>	<b>\$ 7,477,043</b>	<b>\$ 4,867,126</b>	<b>\$ 18,250,806</b>	<b>\$ 1,558,905</b>

**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, 2014. Interest of \$1,505,187 has been earned on the deposits and claims of \$700,000 have been paid from the trust account from inception through December 31, 2014. 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 \$1,155,187 at December 31, 2014, of which \$145,157 is included in the General Fund, \$732,201 is included in the General Fund as due to CRW, and \$277,829 is included in the Sanitation Fund as investments at December 31, 2014.

*Component Units*

Redevelopment Authority of the City of Harrisburg

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

The fair (contract) value of the investments of the Redevelopment Authority at December 31, 2014 was as follows:

Investments	Fair (Contract) Value
Money market funds	\$ 33,477
External investment pool	847
Guaranteed investment contracts	3,331,131
<b>Total investments</b>	<b>\$ 3,365,455</b>

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

**Custodial Credit Risk.** The Redevelopment Authority does not have an investment policy for custodial credit risk. At December 31, 2014, the Redevelopment Authority was not exposed to custodial credit risk, because the investments held by the Redevelopment Authority are not evidenced by securities in book entry or paper form.

**Concentration of Credit Risk.** The Redevelopment Authority places no limit on the amount the Redevelopment Authority may invest in any one issuer. At December 31, 2014, more than 5 percent of the Redevelopment Authority's investments were held with the following issuer:

Issuer	Contract Value	Percentage
Guaranteed investment contracts		
Bank of America - 5.3%	\$ 3,331,131	98.98%

**Credit Risk.** The Redevelopment Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Redevelopment Authority's investments had the following level of exposure to credit risk as of December 31, 2014:

	Fair (Contract) Value	Rating
Money market funds	\$ 33,477	AAA
External investment pool	847	AAA
Guaranteed investment contracts	3,331,131	Unrated

**Interest Rate Risk.** The Redevelopment Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the Redevelopment Authority's investments and their related average maturities as of December 31, 2014:

	Fair (Contract) Value	Investment Maturities		
		2015	2016-2020	2025 and beyond
Money market funds	\$ 33,477	\$ 33,477	\$ -	\$ -
External investment pool	847	847	-	-
Guaranteed investment contracts	3,331,131	-	1,486,626	1,844,505
<b>Total</b>	<b>\$ 3,365,455</b>	<b>\$ 34,324</b>	<b>\$ 1,486,626</b>	<b>\$ 1,844,505</b>

#### **4. PROPERTY TAXES**

Based upon assessed valuations provided by the County, the City bills and collects its own property taxes. Delinquent accounts are turned over to the County, which collects the taxes on behalf of the City. The schedule for property taxes levied for 2014 is as follows:

January 1, 2014	- lien date
January 31, 2014	- original levy date
January 31 – March 31, 2014	- 2% discount period
April 1 – May 31, 2014	- face payment period
June 1 – December 31, 2014	- 10% penalty period
January 1, 2015	- turned over to County for collection

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

The real property tax imposed by the City in 2014 was 5.16 mills on improvements and 30.97 mills on land. Both land and improvements are assessed at 100% of market value, with an effective combined equivalent single millage rate of 10.8779 mills.

Property taxes are recorded as of the date levied. Amounts not collected within sixty days after the end of the year are reported as unavailable 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%.

#### **5. NOTES RECEIVABLE**

On December 23, 2013, the Authority entered into an Agreement dated December 1, 2013 with Pennsylvania Economic Development Financing Agency (PEDFA). Under the Agreement, the Authority agreed to lease, for a period of approximately forty years, certain parking facilities, meters, and lots for an upfront acquisition price of approximately \$267 million, plus four notes receivable, with a present value of approximately \$12 million. At closing on December 23, 2013, at the request of the City, the Authority assigned the notes receivable to the City, County, and Bond Insurer. Any surplus revenues (as defined in the Agreement), are to be paid on the notes receivable, with 75% going to the Bond Insurer and the County and 25% going to the City, until such time as the Bond Insurer and the County are made whole and then all amounts going to the City. The present value of the City's notes, discounted at 5.833 percent over forty years, in the amount of approximately \$6.6 million, is presented as notes receivable on the Governmental Activities statement of net position and General Fund balance sheet. The General Fund balance sheet also presents this amount as unavailable revenue.

#### **6. BENEFIT TRUST DISTRIBUTION**

Those Authority employees who were laid off as a result of the Agreement and met certain criteria were offered a severance package including health insurance and supplemental unemployment benefits through June 30, 2015. The cost of these benefits was reported as accrued termination benefits at

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December 31, 2013. The Authority established a trust for each type of benefit during the year ended December 31, 2014. All proceeds remaining in the trust after payment of benefits are to be returned to the Authority. At December 31, 2014, it is anticipated that \$404,792 will be returned to the Authority and has been reported as benefit trust distribution receivable at December 31, 2014.

**7. INTERFUND BALANCES AND TRANSFERS**

The composition of interfund balances at December 31, 2014 is as follows:

<u>Primary Government</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 3,129,195	\$ 797,813
Grant Programs Fund	720,351	1,351,617
Nonmajor governmental funds	309,205	1,493,087
Total governmental funds	<u>4,158,751</u>	<u>3,642,517</u>
Harrisburg Senators Fund	78,386	-
Incinerator Fund	545,777	141,385
Sanitation Fund	-	796,859
Total proprietary funds	<u>624,163</u>	<u>938,244</u>
Agency Fund	-	202,153
Total primary government	<u><u>\$ 4,782,914</u></u>	<u><u>\$ 4,782,914</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.

The composition of interfund transfers for the year ended December 31, 2014 is as follows:

<u>Primary Government</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 7,444,613	\$ 9,779,391
Grant Programs Fund	-	5,533,953
Debt Service Fund	9,779,391	271,201
Nonmajor governmental funds	-	527,622
Total governmental funds	<u>17,224,004</u>	<u>16,112,167</u>
Harrisburg Senators Fund	271,201	-
Sanitation Fund	-	1,383,038
Total proprietary funds	<u>271,201</u>	<u>1,383,038</u>
Total primary government	<u><u>\$ 17,495,205</u></u>	<u><u>\$ 17,495,205</u></u>

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

**8. INTERGOVERNMENTAL REVENUE**

The General Fund intergovernmental revenue for the year ended December 31, 2014 is as follows:

Commonwealth of Pennsylvania, Pension System Aid	\$ 2,438,398
Commonwealth of Pennsylvania, Capital fire protection	496,000
Commonwealth of Pennsylvania, Department of Transportation	236,541
Utilities payments in lieu of taxes from other governments	39,469
Harrisburg Parking Authority	1,100,000
	<u>\$ 4,310,408</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	\$ 2,079,482
Lead Based Paint Grant	770,292
HOME Program	895,854
Section 108 Program	359,596
Federal and Pennsylvania Emergency Management Agency	446,856
Federal and state capital projects	95,952
Public Safety Partnership and Community Policing grants	176,770
Emergency Solutions Grant	249,870
Staffing for Adequate Fire and Emergency Response	811,868
Pennsylvania Department of Community and Economic Development	4,504,000
Other state/federal grants	19,865
	<u>\$ 10,410,405</u>

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**9. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2014 is as follows:

*Primary Government*

	Beginning of Year	Additions	Retirements and Dispositions	End of Year
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 7,144,863	\$ -	\$ -	\$ 7,144,863
Construction in progress	36,733	-	-	36,733
Artifacts	18,649,000	-	-	18,649,000
Total capital assets, not being depreciated	<u>25,830,596</u>	<u>-</u>	<u>-</u>	<u>25,830,596</u>
Capital assets, being depreciated				
Buildings	65,282,314	127,675	-	65,409,989
Improvements	24,498,264	518,811	-	25,017,075
Equipment and furniture	34,587,594	113,801	(69,133)	34,632,262
Infrastructure	97,169,707	-	-	97,169,707
Total capital assets, being depreciated	<u>221,537,879</u>	<u>760,287</u>	<u>(69,133)</u>	<u>222,229,033</u>
Less accumulated depreciation for				
Buildings	(34,780,102)	(1,694,937)	-	(36,475,039)
Improvements	(7,727,646)	(467,469)	-	(8,195,115)
Equipment and furniture	(32,747,510)	(636,179)	69,133	(33,314,556)
Infrastructure	(71,892,530)	(2,515,376)	-	(74,407,906)
Total accumulated depreciation	<u>(147,147,788)</u>	<u>(5,313,961)</u>	<u>69,133</u>	<u>(152,392,616)</u>
Total capital assets, being depreciated, net	<u>74,390,091</u>	<u>(4,553,674)</u>	<u>-</u>	<u>69,836,417</u>
Governmental activities, capital assets, net	<u>\$ 100,220,687</u>	<u>\$ (4,553,674)</u>	<u>\$ -</u>	<u>\$ 95,667,013</u>
	Beginning of Year	Additions	Retirements and Dispositions	End of Year
<b>Business-type activities</b>				
Capital assets, being depreciated				
Buildings	\$ 37,704,816	\$ -	\$ -	\$ 37,704,816
Equipment and furniture	3,379,687	-	-	3,379,687
Total capital assets, being depreciated	<u>41,084,503</u>	<u>-</u>	<u>-</u>	<u>41,084,503</u>
Less accumulated depreciation for				
Buildings	(4,011,509)	(928,601)	-	(4,940,110)
Equipment and furniture	(3,304,410)	(40,351)	-	(3,344,761)
Total accumulated depreciation	<u>(7,315,919)</u>	<u>(968,952)</u>	<u>-</u>	<u>(8,284,871)</u>
Business-type activities, capital assets, net	<u>\$ 33,768,584</u>	<u>\$ (968,952)</u>	<u>\$ -</u>	<u>\$ 32,799,632</u>

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

Governmental activities:	
General government	\$ 1,649,718
Community and economic development	703,508
Public safety	590,975
Public works	<u>2,369,760</u>
Total depreciation expense - governmental activities	<u>\$ 5,313,961</u>
Business-type activities:	
Harrisburg Senators	\$ 928,601
Sanitation	<u>40,351</u>
Total depreciation expense - business-type activities	<u>\$ 968,952</u>

*Component Units*

	Beginning of Year	Additions	Retirements	End of Year
Harrisburg Parking Authority				
Buildings and improvements	\$ 7,999,997	\$ -	\$ -	\$ 7,999,997
Less accumulated depreciation	<u>(3,083,335)</u>	<u>(204,959)</u>	<u>-</u>	<u>(3,288,294)</u>
Harrisburg Parking Authority, capital assets, net	<u>\$ 4,916,662</u>	<u>\$ (204,959)</u>	<u>\$ -</u>	<u>\$ 4,711,703</u>
	Beginning of Year	Additions	Retirements	End of Year
Redevelopment Authority of the City of Harrisburg				
Capital assets, not being depreciated				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Total capital assets, not being depreciated	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
Capital assets, being depreciated				
Buildings	2,093,040	-	-	2,093,040
Leasehold improvements	<u>6,861,227</u>	<u>-</u>	<u>-</u>	<u>6,861,227</u>
Total capital assets being depreciated	<u>8,954,267</u>	<u>-</u>	<u>-</u>	<u>8,954,267</u>
Less accumulated depreciation for				
Buildings	(235,467)	(52,326)	-	(287,793)
Leasehold improvements	<u>(740,900)</u>	<u>(171,531)</u>	<u>-</u>	<u>(912,431)</u>
Total accumulated depreciation	<u>(976,367)</u>	<u>(223,857)</u>	<u>-</u>	<u>(1,200,224)</u>
Total capital assets being depreciated, net	<u>7,977,900</u>	<u>(223,857)</u>	<u>-</u>	<u>7,754,043</u>
Redevelopment Authority of the City of Harrisburg, capital assets, net	<u>\$ 8,007,900</u>	<u>\$ (223,857)</u>	<u>\$ -</u>	<u>\$ 7,784,043</u>

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**10. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2014 is as follows:

*Primary Government*

	Beginning of Year	Additions	Accretion	Retirements/ Settlements	End of Year	Current Portion
Governmental activities:						
Workers' compensation claims	\$ 3,925,273	\$ 442,779	\$ -	\$ (613,479)	\$ 3,754,573	\$ 850,786
Bonds payable (Note 11)	25,921,225	-	1,358,123	(4,587,449)	22,691,899	4,327,599
Notes payable (Note 13)	41,120,600	-	1,872,573	(5,252,760)	37,740,413	4,752,737
Capital lease obligations (Note 15)	2,308,342	-	-	(1,976,451)	331,891	139,985
Vested compensated absences	5,626,613	3,442,572	-	(3,870,238)	5,198,947	672,695
Due to bond insurer (Note 14)	11,735,000	1,000,000	-	(10,630)	12,724,370	-
Settlement with suburban municipalities (Note 16)	6,725,000	-	-	(1,500,000)	5,225,000	1,500,000
Governmental activities Long-term liabilities	<u>\$ 97,362,053</u>	<u>\$ 4,885,351</u>	<u>\$ 3,230,696</u>	<u>\$ (17,811,007)</u>	<u>\$ 87,667,093</u>	<u>\$ 12,243,802</u>
	Beginning of Year	Additions	Amortization	Retirements/ Settlements	End of Year	Current Portion
Business-type activities:						
Workers' compensation claims	\$ 224,464	\$ (38,031)	\$ -	\$ (61,795)	\$ 124,638	\$ 28,243
Bonds payable (Note 11)	7,297,200	-	3,772	(280,000)	7,020,972	295,000
Capital lease obligations (Note 15)	89,476	-	-	(66,188)	23,288	8,006
Vested compensated absences	170,352	66,642	-	(80,614)	156,380	19,576
Business-type activities Long-term liabilities	<u>\$ 7,781,492</u>	<u>\$ 28,611</u>	<u>\$ 3,772</u>	<u>\$ (488,597)</u>	<u>\$ 7,325,278</u>	<u>\$ 350,825</u>

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

In February 2014, City Council approved a tax anticipation note in the amount of \$2,000,000, bearing interest at an annual rate of 3.76%, and maturing on June 30, 2014. The City did not draw against this note.

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*Component Units*

	Beginning of Year	Additions	Amortization	Retirements	End of Year	Current Portion
Redevelopment Authority of the City of Harrisburg:						
Bonds payable (Note 11)	\$ 93,590,000	\$ -	\$ -	\$ -	\$ 93,590,000	\$ -
Notes payable (Note 13)	1,172,016	-	-	(60,649)	1,111,367	339,695
Due to other governments	170,832	-	-	-	170,832	-
Total long-term liabilities	94,932,848	-	-	(60,649)	94,872,199	339,695
Less:						
Unamortized discount	(38,581,846)	-	3,310,275	-	(35,271,571)	-
Redevelopment Authority of the City of Harrisburg Long-term liabilities	<u>\$ 56,351,002</u>	<u>\$ -</u>	<u>\$ 3,310,275</u>	<u>\$ (60,649)</u>	<u>\$ 59,600,628</u>	<u>\$ 339,695</u>

**11. BONDS PAYABLE**

Bonds payable at December 31, 2014 are as follows:

	Primary Government		Total Primary Government
	Governmental Activities	Business-type Activities	
Bonds payable	\$ 22,691,899	\$ 7,055,000	\$ 29,746,899
Unamortized discount	-	(34,028)	(34,028)
Total bonds payable	<u>\$ 22,691,899</u>	<u>\$ 7,020,972</u>	<u>\$ 29,712,871</u>
	Component Unit		
	Redevelopment Authority		
Bonds payable	\$ 93,590,000		
Unamortized discount	(35,271,571)		
Total bonds payable	<u>\$ 58,318,429</u>		

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Bonds payable are accounted for in the following activities:

	Governmental Activities	Business-type Activities	Total Primary Government
General Obligation Bonds			
Series D of 1997	\$ 22,691,899	\$ -	\$ 22,691,899
Total general obligation bonds	<u>22,691,899</u>	<u>-</u>	<u>22,691,899</u>
Revenue Bonds			
Senators Revenue Bonds			
Series A-2 of 2005	-	7,055,000	7,055,000
Less: Unamortized discount	<u>-</u>	<u>(34,028)</u>	<u>(34,028)</u>
Total revenue bonds	<u>-</u>	<u>7,020,972</u>	<u>7,020,972</u>
Total bonds payable	<u>\$ 22,691,899</u>	<u>\$ 7,020,972</u>	<u>\$ 29,712,871</u>

Bonds payable are accounted for in the Redevelopment Authority:

Guaranteed Revenue Bonds, Series A and B of 1998	\$ 93,590,000
Less: Unamortized discount	<u>(35,271,571)</u>
Total bonds payable	<u>\$ 58,318,429</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. During December 31, 2014, the City was not in compliance with such covenants. See Note 23 for further information on the City's compliance.

The composition of bonds outstanding included in the primary government at December 31, 2014 is as follows:

General Obligation Bonds

5.45%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of \$1,072,369 to \$4,327,599 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. \$ 22,691,899

Revenue Bonds

4.83%-5.29%, Senators Revenue Bonds, Series A-2 of 2005, dated January 2005 Series A-2 matures at various amounts from 2006 through 2030, issued to renovate the baseball stadium. 7,055,000

Total primary government bonds payable 29,746,899

Less: unamortized discount (34,028)

Net primary government bonds payable \$ 29,712,871



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included in the City’s financial statements. At December 31, 2014, the following bonds outstanding are considered defeased:

City of Harrisburg	
General Obligation Bonds, Series A of 1995	\$ 19,675,000
Harrisburg Parking Authority	
Parking Revenue Bonds, Series P of 2005	4,110,000
Parking Revenue Bonds, Series R of 2007	15,130,000
Parking Revenue Bonds, Series T of 2007	15,860,000
Parking Revenue Bonds, Series U-1 of 2011	7,885,000
	<u>\$ 62,660,000</u>

**13. NOTES PAYABLE**

The City entered into various promissory notes under Section 108 of the Housing and Community Development Act of 1974 (Public Law 93-383), as amended. The proceeds from the notes were to administer acquisition, relocation, clearance, rehabilitation, and disposal of City properties. These notes do not have continuing compliance requirements.

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

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

The composition of promissory notes outstanding under Section 108 (included in governmental activities) at December 31, 2014 is as follows:

Variable based on 90-day LIBOR plus 20 basis points (.45% at December 31, 2014), Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of \$270,000 to \$335,000, through August 1, 2019, to be serviced through general revenues of the City.	\$ 1,505,000
4.99%-5.77%, Section 108 Note, dated September 14, 2006, interest payable semiannually and principal payable in annual installments of \$210,000 to \$225,000, through August 1, 2026, to be serviced through general revenues of the City.	<u>2,535,000</u>
	<u>4,040,000</u>

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The composition of notes payable included in the primary government at December 31, 2014 is as follows:

5.45%-5.52%, General Obligation Refunding Notes, Series F of 1997, dated December 31, 1997, principal payable in annual installments of \$3,223,190 to \$5,195,412 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.	32,622,815
4.13%, Pennsylvania Infrastructure bank loan, principal payable through March 26, 2018, to be serviced through general revenues of the City, used to fund City street resurfacing projects.	<u>1,077,598</u>
	<u>33,700,413</u>
Total primary government notes payable	<u><u>\$ 37,740,413</u></u>

The composition of notes payable of the Redevelopment Authority at December 31, 2014 is as follows:

3.75%, 2000 Infrastructure Bank Loan, for bridge financing of the Transportation Center improvements until grant money is received and is payable in annual installments through December 31, 2009. However, the final principal payment has not been paid as of December 31, 2014, as the Redevelopment Authority is seeking loan forgiveness.	\$ 271,427
2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is to be forgiven over a fifteen-year period, given that certain compliance requirements are met.	316,668
4.83% for the first three years and variable based on the prime rate thereafter (3.25% at December 31, 2014), 2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is payable through December 10, 2026.	<u>523,272</u>
Total Redevelopment Authority of the City of Harrisburg	<u><u>\$ 1,111,367</u></u>

The annual requirements to amortize all notes payable outstanding as of December 31, 2014, using interest rates in effect at December 31, 2014 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		
2015	\$ 4,752,737	\$ 345,369
2016	4,566,907	534,271
2017	4,405,731	713,413
2018	4,218,871	882,772
2019	3,768,190	1,037,965
2020-2024	15,592,977	6,969,968
2025-2026	435,000	38,018
	<u><u>\$ 37,740,413</u></u>	<u><u>\$ 10,521,776</u></u>

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<u>Year Ending December 31,</u>	Redevelopment Authority of the City of Harrisburg	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 339,695	\$ 68,628
2016	69,421	14,720
2017	70,611	13,530
2018	71,841	12,300
2019	73,111	11,030
2020-2024	369,465	34,577
2025-2026	117,223	3,361
	<u>\$ 1,111,367</u>	<u>\$ 158,146</u>

**14. DUE TO BOND INSURER**

At times during 2013, the City's bond insurer made payments to bondholders on behalf of the City. These amounts and the accrued interest were reported as due to the bond insurer in the City's General Fund, because they were due and payable. During the year ended December 31, 2013, the City and the bond insurer entered into an agreement to restructure the amounts due to the bond insurer. Under the agreement, the City's is obligated to reimburse the bond insurer for payments made pursuant to the insurance policy at an interest rate of 6.75% per annum compounded semi-annually. In return, the bond insurer has agreed to forebear from exercising its rights and remedies under the Bonds, the Ordinance and other applicable law. During the year ended December 31, 2014, the bond insurer paid \$1 million to bondholders on behalf of the City. The balance due to bond insurer at December 31, 2014 was \$12,724,370.

Under the agreement, repayment is based on a schedule that includes future drawdowns. As such, no repayment schedule is available for amounts due at December 31, 2014. However, principal payments are not scheduled to begin until 2023.

**15. LEASES**

***Capitalized Lease Obligations***

*Primary Government*

The City leased certain equipment under long-term lease agreements which were classified as capital leases. Capital leases were issued during the years ended December 31, 2005, 2007, and 2009. As of December 31, 2014, the governmental activities and the business-type activities included equipment and furniture under capital leases with a net book value of \$1,340,094 and \$42,827, respectively.

The future minimum payments under capital leases and the minimum lease payments at December 31, 2014 are as follows:

<u>Lease year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2015	\$ 139,985	\$ 8,006	\$ 147,991
2016	111,988	6,405	118,393
2017	79,918	8,877	88,795
Total minimum lease payments	<u>\$ 331,891</u>	<u>\$ 23,288</u>	<u>\$ 355,179</u>

*Component Units*

***Transportation Center Lease Income***

The Redevelopment Authority leases space and parking to a commercial rail company and other tenants with lease ending dates varying through 2019. Additionally, the Redevelopment Authority leases space to a non-profit corporation with a lease ending date of 2015. These leases are noncancellable operating leases.

Minimum rentals on noncancellable leases through 2019 are as follows:

<u>Lease year ending December 31,</u>	
2015	\$ 532,009
2016	124,457
2017	81,823
2018	14,812
2019	<u>12,112</u>
Total minimum lease payments	<u>\$ 765,213</u>

***Operating Lease***

The Redevelopment Authority leased space from the National Railroad Passenger Corporation (Amtrak) through 2013. The lease was amended on June 27, 2013 to extend the term through July 14, 2014. The lease was amended again on July 10, 2014 to extend the term through September 30, 2014. The lease was amended again on September 30, 2014 to extend the term through September 30, 2015. The minimum lease payments for the remaining term of the lease are \$98,732 for the year ended December 31, 2015.

The lease is adjusted annually on January 1 for the National Consumer Price Index. The above amount does not reflect the annual CPI increase. Management does not anticipate a significant increase in the above amount. Total rental expenses for the year ended December 31, 2014 approximated \$132,437.

**16. SETTLEMENT WITH SUBURBAN MUNICIPALITIES**

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

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<u>Year Ending December 31,</u>	
2015	\$ 1,500,000
2016	1,500,000
2017	1,000,000
2018	1,000,000
2019	225,000
	<u>\$ 5,225,000</u>

**17. PENSION PLAN**

*Primary Government*

***Plan Description and Administration***

The City has four defined benefit pension plans. Two of the plans, Non-uniformed Employees' Plans A and B, are controlled by provisions of Ordinance-Bill No. 49-1984, adopted pursuant to Act 15. On January 2, 2002, the assets of Plans A and B were combined, but the requirements for eligibility and benefits remain separate. The Combined Firefighters' Plan is controlled by provisions of Ordinance-Bill No. 44-2002. For these plans, the City contributes to the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer Public Employees Retirement System (PERS). The remaining plan, the Combined Police Pension Plan, was established January 1, 1999 under Ordinance-Ordinance No. 21 of 1998 and is controlled by the provisions of Ordinance No. 5 of 2001, as amended. This ordinance withdrew the Police Officers' Plan A and Police Officers' Plan B from PMRS, and established an amended and restated pension plan for police officers of the City. The Combined Police Pension Plan is a single-employer pension plan and is controlled by a separate independent board of trustees.

The plans have been established to cover substantially all full-time employees. Employees become eligible for participation in a plan immediately upon employment and become fully vested after 20 years of service for City A plans, 10 years for City B and Combined Firefighters' Plans and 20 years for the Combined Police Pension Plan. The plans have been established by City ordinance in accordance with the authority for municipal contributions required by Act 205-1984 (Act 205) of the Pennsylvania legislature, as amended by Act 189-1990. The plans require covered employees to contribute a percentage of total compensation.

PMRS issues a separate Comprehensive Annual Financial Report (CAFR), which may be obtained by writing to the 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 Combined Police Pension Plan is governed by the City of Harrisburg Police Pension Board, which consists of three persons appointed by the City, three persons appointed by the representatives of the Members' collective bargaining unit, and a neutral person appointed by a majority of the first six

representatives. The City of Harrisburg Police Pension Board is responsible for the management of The Combined Police Pension Plan assets, appointment of the Combined Police Pension Plan trustee or custodian, and selection of investment advisors and managers.

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the Combined Police Pension Plan and funded through investment earnings.

### ***Benefit Provisions***

The benefits provided by the plans differ by employment group and are based upon average compensation and length of service. Normal benefits are calculated at 2.5% per year of credited service multiplied by the final average annual salary for the Non-uniformed Employees' A and Combined Firefighters' plan. In no case may the benefit exceed 50% of the final average annual salary. The benefits provided by the Non-uniformed Employees' B plan are calculated at 2.0% per year of credited service multiplied by the final average annual salary. In no case may the benefit exceed 75% of the final average annual salary. For members who complete 20 or more years of service, the benefits provided by the Combined Police Pension plan are calculated at 50% of the participant's average monthly compensation, plus an incremental pension equal to 2.5% of the average monthly compensation for each complete year of service in excess of 20 years, up to a maximum of 65% of average monthly compensation for participants who complete 26 years of service. An additional 5% of average compensation is added to participants who complete 27 years of service, up to a maximum monthly pension of 70% of average monthly compensation. Effective September 2013, the benefit provisions of the Combined Police Pension plan were changed to decrease the maximum monthly pension to 50% of average monthly compensation for new hires. The Combined Police Pension plan defines average monthly compensation as the final annualized basic compensation rate, including longevity payments, or the average monthly compensation, including longevity payments, received during the last five years of employment, if higher.

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

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

Benefits and refunds of the Combined Police Pension Plan are recognized when due and payable in accordance with the terms of the plan.

### ***Contributions***

Act 205 of the Commonwealth (Act 205) requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's bi-annual actuarial valuation.

Contributions by the City are determined under the entry age normal method. Unfunded past service liability is amortized over the average future service of active participants.

Employee contributions to the plan are based on a percentage of compensation. Non-uniformed employees are required to contribute 4.0-6.0% and 5% of annual compensation for plans A and B. Fire and police employees contribute 5% of annual compensation plus \$1 per month. An interest rate of 5.5% is applied to the non-uniformed and fire employees' accounts. Employees' accumulated

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contributions plus interest (if applicable) will be returned upon termination or death if no other benefits are payable under the plan. The plans are also eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the City in accordance with Act 205.

The Commonwealth of Pennsylvania allocates foreign fire and casualty insurance premium collections to aid individual municipalities. The monies received must be contributed to the pension plans or used to pay debt service on unfunded pension liability bonds. Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the annually required contribution. State aid received in excess of the City's statutory funding requirement was deposited into the Combined Police Pension plan. The City contributed \$2,424,298 to the Combined Police Pension Plan for the year ended December 31, 2014.

Contributions to the Combined Police Pension Plan are recognized when due as required by Act 205.

***Combined Police Pension Plan Membership***

At December 31, 2014, Combined Police Pension Plan membership consisted of the following:

Active members	139
Inactive members or beneficiaries currently receiving benefits	201
Inactive members entitled to but not yet receiving benefits	-
	<u>340</u>

***Combined Police Pension Plan Net Pension Liability***

The components of the net pension liability of the Combined Police Pension Plan at December 31, 2014 were as follows:

Total pension liability	\$ 83,767,036
Plan fiduciary net position	<u>(75,237,247)</u>
Net pension liability	<u>\$ 8,529,789</u>
Plan fiduciary net position as a percentage of the total pension liability	89.82%

The net pension liability was measured as of December 31, 2014 and was determined by rolling forward liabilities from the January 1, 2013 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year ends.

*Actuarial Assumptions* - The January 1, 2013 actuarial valuation for the Combined Police Pension Plan used the entry age normal actuarial cost method and UP1984 mortality table. The actuarial assumptions include: a) 8.00% investment rate of return, b) a projected salary increase of 5.00%, c)

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3.00% inflation rate, d) level dollar closed amortization method, and e) 11-year remaining amortization period. These assumptions were applied to all periods included in the measurement of total pension liability.

*Investment Policy* - The Combined Police Pension Plan’s policy in regard to the allocation of invested assets is established and may be amended by the Board. The City of Harrisburg Police Pension Board seeks to achieve long-term growth of the Combined Police Pension Plan’s assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the Combined Police Pension Plan’s current and long-term pension obligations.

*Long-Term Expected Rate of Return* - The long-term expected rate of return on the Combined Police Pension Plan’s investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the Combined Police Pension Plan as of December 31, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	47.0%	7.0%
International equity	18.0%	6.0%
Fixed income	33.0%	2.5%
Cash	2.0%	0.0%
	100.0%	

*Rate of Return* - The money-weighted rate of return expresses investment performance, net of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2014, the annual money-weighted rate of return on Combined Police Pension Plan investments, net of investment expense, was 6.05%.

*Discount Rate* – The discount rate used to measure the total pension liability as of December 31, 2014 was 8.00% for the Combined Police Pension Plan. The Combined Police Pension Plan’s fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability Changes in the Discount Rate* – The following presents the net pension liability of the Combined Police Pension Plan calculated using the discount rate described above, as well as what the Combined Police Pension Plan’s net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rate:

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 17,441,935	\$ 8,529,789	\$ 943,454

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***Additional Employer Disclosures Required by GASB Statements No. 27 and 50***

The information below is with regard to employer pension activity for the year ended December 31, 2014. Costs and contributions were based upon actuarial valuation performed January 1, 2013, as required by Act 205.

The plan assumptions under Act 205 are as follows:

	Non-Uniformed Employees'		Firefighters'	Police Officers'
	Plan A	Plan B	Combined	Combined
Actuarial valuation date	1/1/13	1/1/13	1/1/13	1/1/13
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	13.76 years	13.76 years	2 years	11 years
Inflation rate	Fair value	Fair value	Fair value	*
Actuarial assumptions				
Investment rate of return	5.5% net of expenses	5.5% net of expenses	5.5% net of expenses	8.0% net of expenses
Projected salary increases	4.1%	4.1%	4.1%	5.0%

\* - Each year, the investment gain (excess of actual investment income including realized and unrealized appreciation over expected investment income) or loss is recognized over a five-year period. In no event is the actuarial value of assets allowed to be greater than 120% or less than 80% of market value.

The City's annual pension cost and net pension obligation (asset) to the Plans at December 31, 2014 are as follows:

	Non-Uniformed Employees'		Firefighters'	Police Officers'
	Plan A	Plan B	Combined	Combined
Annual required contribution (MMO)	\$ -	\$ -	\$ -	\$ 2,034,070
Interest on net pension obligation (asset)	-	-	-	(333,041)
Adjustment to annual required contribution	-	-	-	486,362
Annual pension cost	-	-	-	2,187,391
Contribution made	-	-	-	(2,424,298)
Increase in net pension obligation (asset)	-	-	-	(236,907)
Net pension obligation (asset), beginning	-	-	834	(4,163,013)
Net pension obligation (asset), ending	\$ -	\$ -	\$ 834	\$ (4,399,920)

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The City's annual pension cost, percentage of the annual pension costs contributed, and net pension asset for the past three years is as follows:

<u>Non-Uniformed Employees' – Plan A</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2012	\$ -	- %	\$ -
December 31, 2013	-	-	-
December 31, 2014	-	-	-

<u>Non-Uniformed Employees' – Plan B</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2012	\$ -	- %	\$ -
December 31, 2013	-	-	-
December 31, 2014	-	-	-

<u>Firefighters' Combined</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2012	\$ -	- %	\$ 834
December 31, 2013	-	-	834
December 31, 2014	-	-	834

<u>Police Officers' – Combined</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
December 31, 2012	\$ 1,626,734	100+	\$ (3,857,144)
December 31, 2013	2,288,883	100+	(4,163,013)
December 31, 2014	2,187,391	100+	(4,399,920)

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The funded status of the City's pension funds as of January 1, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>Non-Uniformed Employees':</b>						
1/1/2013	\$ 82,670,233	\$ 60,881,837	\$ (21,788,396)	135.79%	\$ 11,313,848	-192.58%
<b>Firefighters'</b>						
1/1/2013	\$ 73,407,165	\$ 63,399,066	\$ (10,008,099)	115.79%	\$ 4,800,309	-208.49%
<b>Police Officers':</b>						
1/1/2013	\$ 64,795,960	\$ 78,322,540	\$ 13,526,580	82.73%	\$ 10,061,424	134.44%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**18. OTHER POST-EMPLOYMENT BENEFITS**

***Plan Descriptions***

In addition to the pension benefits described in Note 17, the City provides certain post-employment healthcare benefits to its retirees through one single-employer, defined benefit other post-employment benefit (OPEB) plan. However, within this one plan, there are four groups of employees with different types of benefits. A separate financial statement is not issued for the plan.

Police

Section 9 of the Basic Labor Agreement between the City of Harrisburg and the Fraternal Order of Police, Capital City Lodge No. 12, effective January 1, 2004, establishes retiree's eligibility for post-retirement life insurance and medical benefits.

*Retired prior to December 31, 1991:*

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The City would pay the cost of coverage for the retiree, including spouse and dependents, from retirement until the retiree's Medicare eligibility. If retiree dies, coverage for spouse and dependents continues until the spouse reaches Medicare eligibility. Currently, two retirees have been "grandfathered" and the City continues to pay for coverage after Medicare age.

*Retire between January 1, 1992 and September 18, 2013:*

Eligibility: Any officer that is eligible for the Police Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the

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amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree, including spouse and dependents.

*Retire after September 19, 2013 and hired prior to September 18, 2013:*

Eligibility: Any officer that is eligible for the Police Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. Retirees and their dependents shall not be eligible for post-retirement health care if the retiree or dependent has available health care coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree less a percentage of the retiree's pension ranging from 2% to 5% until the retiree reaches Medicare age. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$250 to \$350 for a Medicare Supplement Plan.

*Hired after September 18, 2013:* Not eligible for post-retirement health benefits.

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

#### Firefighters

Article 14, Section 2a and 2b and Article 15 of the Collective Bargaining Agreement between Local Union No. 428 of the International Association of Firefighters (AFL-CIO), effective January 1, 2006, establishes retiree's eligible for post-retirement medical and life insurance benefits, respectively.

*Retired prior to December 31, 1986:*

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The retiree would pay the cost of coverage for the retiree and his or her spouse. If the retiree dies, the spouse may continue coverage. In such case, the spouse would pay for the full cost of coverage.

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

Eligibility: Any firefighter that is eligible for the Fire Pension Plan A or Plan B benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The City would pay the cost of coverage for the retiree. The retiree must pay for any additional coverage for his or her spouse and dependents. Upon reaching age 65, the City will provide supplemental coverage, major medical, and prescription unless prescription is provided

by another agency. This benefit is for the retired firefighter only. If the retiree dies, the spouse may continue coverage, in which case the spouse would pay for the full cost of coverage.

*Retire between January 1, 1993 and April 22, 2014:*

Eligibility: Any firefighter that is eligible for the Fire Pension Plan A or Plan B benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree, including spouse through Medicare eligibility. Once Medicare eligible, the City will reimburse the retiree for the Medicare Part B premium. If the retiree dies, the City continues full coverage for the spouse and eligible dependents. If the firefighter dies in the line of duty, the City continues full coverage for the spouse and eligible dependents.

*Retire after April 23, 2014 and hired prior to April 22, 2014:*

Eligibility: Any firefighter that is eligible for the Fire Pension Plan A or Plan B benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. Retirees and their dependents shall not be eligible for post-retirement health care if the retiree or dependent has available health care coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost. The City would pay the cost of coverage for medical, prescription drug, dental, and vision for the retiree less a percentage of the retiree's pension ranging from 2% to 5% until the retiree reaches Medicare age with certain exceptions. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$250 to \$350 for a Medicare Supplement Plan. If the retiree dies, the City continues full coverage for the spouse and eligible dependents. If the firefighter dies in the line of duty, the City continues full coverage for the spouse and eligible dependents.

*Hired after April 23, 2014:* Not eligible for post-retirement health benefits.

Non-uniformed management employees:

An inter-office memo, distributed by the Mayor to City management employees, establishes retirees' eligibility for post-employment medical benefits.

*Retire prior to August 4, 2002:*

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The retiree would pay the full cost of coverage for the retiree and his or her spouse. If the retiree dies, the spouse may continue coverage. In such case, the spouse and any eligible dependents would pay for the full cost of coverage. Currently, one retiree has been "grandfathered" and the City continues to pay the cost of full coverage.

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

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

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical and prescription drug for the retiree and spouse. The retiree would pay for any additional coverage for eligible dependents. Retiree would pay for dental and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the City would pay the full medical and prescription drug premium for the spouse and the spouse would pay for coverage for any eligible dependents. Currently, there are two retirees and one active employee that are covered under the Police contract.

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

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

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. The City would pay the cost of coverage for medical coverage for the retiree. The retiree would pay for any additional coverage for spouse and any eligible dependents. Retiree would pay for prescription drug, dental, and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay the full cost of coverage.

Non-uniformed union employees:

Articles X, XI, and XII of the Collective Bargaining Agreement between the City and the Local 521 American Federation of State, County and Municipal Employees District Council 90, effective January 1, 2007, establish retirees' eligibility for post-retirement life insurance and medical benefits.

*Retire prior to December 31, 1996:*

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The retiree would pay the cost of coverage for the retiree and his or her spouse and eligible dependents. If the retiree dies, the spouse may continue coverage. In such case, the spouse and any eligible dependents would pay for the full cost of coverage.

*Retire between January 1, 1997 and December 31, 2001:*

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay fifty percent of the medical premium for single coverage. The retiree would pay the remaining fifty percent of the premium for single coverage. For any coverage other than single coverage, the retiree would pay the difference. Retiree would pay full premiums for prescription drug, dental, and vision. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

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*Retired between January 1, 2002 and May 30 2007, except between January 1, 2004 and April 30, 2004:*

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay sixty percent of the medical premium for single coverage. The retiree would pay the remaining forty percent of the premium for single coverage. For any coverage other than single coverage, the retiree would pay the difference. Retiree would pay full premiums for prescription drug, dental, and vision. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

*Retired between January 1, 2004 and April 30, 2004:*

Benefits: The health care coverage currently includes medical, prescription drugs, dental, and vision. The City would pay the cost of the medical coverage for the retiree. Retiree would pay for additional premiums for coverage for his or her spouse and eligible dependents. The City would pay for seventy-five percent of the coverage for prescription drug for the retiree. Retiree would pay for the remaining twenty-five percent of the coverage for prescription drug and for any additional coverage for his or her spouse and any eligible dependents. Retiree must pay for full coverage for dental and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

*Retire between June 1, 2007 and September 18, 2013:*

Eligibility: Non-uniformed union employee must be eligible for the Non-Uniformed Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision, and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. If the retiree has attained age 60 and completed 20 years of service, the City pays 100% of medical premium for single coverage. The City would pay the full cost single coverage for medical or a percentage thereof based on the retiree's age and years of service. If retiree is disabled after completion of 20 years of service, attained age 55 and completed 20 years of service, or attained age 65 and completed 15 years of service, the City would pay 60% of premium for single coverage. Otherwise, retiree would pay for full cost of coverage. For any coverage other than single, the retiree would pay the difference in the premiums. Retirees would pay for prescription drug, dental, and vision coverage. If retiree dies, full coverage for spouse and eligible dependents continues. In such case, the spouse and eligible dependents would pay for the full cost of coverage.

*Retire between September 19, 2013 and December 31, 2014:*

Eligibility: Non-uniformed union employee must be eligible for the Non-Uniformed Pension Plan benefits and satisfy the Rule of 85 Window requirements as of December 31, 2013.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. If the retiree has attained age

55 as of December 31, 2013, the City pays full medical premiums for single coverage until the retiree reaches Medicare age. If the retiree has not attained age 55 as of December 31, 2013, the City pays 60% of the medical premium for single coverage until the retiree reaches Medicare age. For any coverage other than single, the retiree must pay any difference between premiums. The retiree must pay the full premium of prescription drug, dental, and vision coverage. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$250 to \$350 for a Medicare Supplement Plan.

*Retire after September 19, 2013 and hired prior to September 18, 2013 (not under the Rule of 85 Window):*

Eligibility: Non-uniformed union employee must be eligible for the Non-Uniformed Pension Plan benefits.

Benefits: The health care coverage currently includes medical, prescription drugs, dental, vision (under the same plans as active employees which may be modified to the extent that coverage is modified for active employees), and life insurance. The City would pay the full premium for paid-up life insurance in the amount of \$5,000 for the retiree only. If retiree has attained age 60 and completed 20 years of service, the retiree shall pay an amount equal to the amount which the employee would pay for individual coverage as of the date of retirement. The City pays 60% of the cost of health insurance for employees retiring on or after January 1, 2002 with 20 or more years of service or at least 15 years of service at age 65. Upon reaching Medicare eligibility, the retiree shall be eligible only for Medicare supplement reimbursement schedule. Otherwise, the retiree would pay 100% of the medical premium for single coverage. For any coverage other than single, the retiree must pay any difference between the premiums. Retirees must pay full premium for prescription drug, dental, and vision coverage. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$250 to \$350 for a Medicare Supplement Plan. Retirees and their dependents shall not be eligible for post-retirement health care if the retiree or dependent has available health care coverage elsewhere at a reasonably comparable benefit level and at the same or lower cost.

*Hired after September 18, 2013:* Not eligible for post-retirement health benefits.

#### ***Funding Policy and Annual OPEB Costs***

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2014, the City contributed \$5,375,266 to the OPEB Plan.

The City has opted to not fully fund the OPEB contributions and will continue to fund the annual OPEB costs on a pay-as-you-go basis.

The City pays the cost of coverage for the police, fire, non-uniform management and non-uniform union retirees (including dependents) based on the various criteria described above.

The City's annual OPEB costs are calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new estimate are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

***Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2014
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5.0%
Amortization period	30 year open period
Healthcare cost trend rate	6.5% in 2014, decreasing by .5% per year to 5.5% in 2016, rates gradually decrease from 5.3% in 2017 to 4.2% in 2089

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***Annual OPEB Cost and Net OPEB Obligation***

The City's annual OPEB costs and net OPEB obligations to the Plan for the year ended December 31, 2014 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 9,941,508	\$ 275,085	\$ 10,216,593
Interest on net OPEB obligation	3,057,039	73,873	3,130,912
Adjustment to ARC	(4,170,583)	(100,781)	(4,271,364)
Annual OPEB cost	8,827,964	248,177	9,076,141
Contribution made	(5,263,532)	(111,734)	(5,375,266)
Change in Net OPEB Obligation	3,564,432	136,443	3,700,875
Net OPEB Obligation, beginning	68,415,661	1,274,310	69,689,971
Net OPEB Obligation, ending	<u>\$ 71,980,093</u>	<u>\$ 1,410,753</u>	<u>\$ 73,390,846</u>

During the year ended December 31, 2013, sewer operations were transferred to CRW and the sewer fund was eliminated. While the City still retains the OPEB liability for sewer retirees, through the shared services agreement, CRW has agreed to reimburse the City for these costs. Therefore, the OPEB liability for sewer retirees has been transferred to governmental activities, with a related amount due from CRW.

***Three-Year Trend Information***

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2014	\$ 9,076,141	59.22%	\$ 73,390,846
2013	15,255,164	31.42%	69,689,971
2012	14,855,366	30.13%	59,248,224

***Funded Status and Schedule of Funding Progress***

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2014	\$ -	\$ 133,006,585	\$ 133,006,585	0.00%	\$ 18,893,017	704.00%

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**19. ACCUMULATED DEFICITS**

*Redevelopment Authority of the City of Harrisburg*

The Redevelopment Authority's net position (deficit) at December 31, 2014 is related to the 1998 Series A and B bond issuances. Since the right to building is recorded at amortized cost and the debt includes appreciation, the total debt outstanding, less the asset's amortized cost, reduces net position. The outstanding debt on these issuances is \$58,318,429 and the amortized cost of the right to building is \$20,369,411. These balances reduced the Redevelopment Authority's net position from a positive \$11,051,453 to the deficit balance of \$26,897,565. The City guarantees the payment of those bond issuances. In addition, the Redevelopment Authority will gain title to certain buildings in the year 2016 in relation to the issuance of these bonds. See Note 2 regarding the City's guarantee obligation.

**20. FINANCIAL RECOVERY PLAN**

For several years, the City had been exploring various options to close its structural budget gap and address its Resource Recovery Facility debt issue. In 2008, the City applied for and was awarded a \$100,000 Pennsylvania Department of Community and Economic Development Act 47 Early Intervention Program Grant to develop a Management and Financial Audit and Five-Year Financial Plan. During 2009, the City hired a national management consulting firm to conduct a thorough review of the City's finances and operations and to develop the Plan. An Emergency Financial Plan and Five-Year Plan (Plan) was issued in March 2010 and implementation immediately began. Due to City Council's failure to adopt the Plan, the Administration filed a Petition for Determination of Municipal Financial Distress on October 1, 2010 under Pennsylvania's Municipalities Financial Recovery Act of 1987 (Act 47). The City was accepted into the Act 47 program on December 15, 2010. The Act 47 program allowed the City to obtain assistance from the Commonwealth of Pennsylvania in developing a new financial recovery plan. A Municipal Financial Recovery Act Recovery Plan (Recovery Plan) was submitted by the Act 47 coordinator to the City on June 13, 2011. City Council rejected the Recovery Plan in July 2011. Immediately thereafter, and pursuant to Act 47, the Mayor became the Act 47 coordinator. As such, she developed her own Plan and submitted it to City Council on August 2, 2011. City Council rejected this second Plan on August 31, 2011. The Mayor submitted an amended version of her Plan to City Council, but Council rejected this amended Plan on September 13, 2011.

Pennsylvania's governor signed legislation on October 20, 2011 authorizing the State to declare a fiscal emergency in Harrisburg. On November 18, 2011, a Receiver was appointed under this legislation to implement a preliminary Recovery Plan and take control of the City's finances. The Receiver unveiled his Recovery Plan for the City on February 6, 2012. The full Recovery Plan and subsequent status reports related thereto can be viewed at [http://community.newpa.com/download/local\\_government/act\\_47/harrisburg\\_city\\_dauphin\\_county/harrisburg\\_strong\\_plan\\_\(aug\\_2013\)/harrisburg-strong-plan.pdf](http://community.newpa.com/download/local_government/act_47/harrisburg_city_dauphin_county/harrisburg_strong_plan_(aug_2013)/harrisburg-strong-plan.pdf). The Recovery Plan was approved by the Commonwealth Court on March 9, 2012.

In the Recovery Plan, the Receiver indicated that the City's financial distress is a very complicated problem. He further indicated that it cannot be solved easily or quickly. He identified three primary challenges to be addressed in connection with the fiscal recovery of the City: first, the extraordinary amount of debt related to CRW's Resource Recovery Facility (Incinerator) which the City guaranteed; second, the City's structural budget deficit (the amount by which the City's operating expenditures consistently exceed its revenues); and third, filling of the Business Administrator/Chief of Staff position (termed Chief Operating Officer in the Plan) which had been vacant since January 2011, to

lead and manage the entire staff and oversee the implementation of the Receiver's Recovery Plan Initiatives.

To address the burden of the Incinerator debt, the Receiver called for the possible sale and/or long-term lease of the Incinerator and separate parking facilities owned and operated by the Authority. The Recovery Plan also assumed the potential for so called "stranded debt" (the amount of debt remaining after the proceeds of the sale or lease of assets was applied to the Incinerator debt) and set forth contributions to be made by various stakeholders. Since the contributions required from stakeholders could not be determined until the value of the assets was known, CRW and the Authority were directed to participate in a Request for Qualifications and Proposals (RFQ&P) process to determine interested parties with respect to two sets of assets: the Incinerator and parking facilities. Unrelated to the Incinerator debt problem, CRW was also directed to undertake an RFQ&P process for management and operation of its water and wastewater assets.

With these processes, the Receiver, with the advice of the relevant entity, would then be in a position to negotiate with one or more offerors, and ultimately with the various stakeholders regarding any stranded debt or other issues related to the asset transactions. Both entities have since undertaken these processes. The Receiver was authorized under Act 47 to proceed with all transactions related to the assets of the City and the entities, and to cause the sale, lease, conveyance, assignment or other use or disposition of those assets.

To address the City's structural budget deficit, an annual gap in excess of \$11 million as estimated by the Receiver, the Recovery Plan called for a combination of concessions from the labor unions, an increase in the resident Earned income Tax (EIT), service efficiencies, and additional revenues from fees and outside sources. During October 2012, City Council approved a 1% increase in the EIT effective January 1, 2013, and an Act 47 grant funded fee study was completed, with certain of the study's proposed fee increases being considered for approval by City Council in 2013.

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

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

The ultimate outcome of the City's Harrisburg Strong Plan is subject to significant uncertainty. As of March 1, 2014, the City is no longer in receivership.

## 21. ASSET TRANSFER AGREEMENT

### *Harrisburg Parking Authority*

On December 23, 2013, the Authority entered into an Agreement dated December 1, 2013 with PEDFA. Under the Agreement, the Authority agreed to lease, for a period of approximately forty years, certain parking facilities, meters, and lots for an upfront acquisition price of approximately \$267 million, plus four notes receivable, with a present value of approximately \$12 million. At closing on December 23, 2013, at the request of the City, the Authority assigned the notes receivable to the City, County, and Bond Insurer. Any surplus revenues (as defined in the Agreement), are to be paid on the notes receivable, with 75% going to the Bond Insurer and the County and 25% going to the City, until such time as the Bond Insurer and the County are made whole and then all amounts going to the City.

Because the lease qualified as a capital lease, all capital assets were removed from the Authority's financial statements as of the closing date. At the end of forty years, all capital assets are to be returned to the Authority (or the City if the Authority is not in existence) along with any capital reserve monies (funded by PEDFA through an extensive formula in the PEDFA indenture) for deferred maintenance. In accordance with an agreement with the Bond Insurer, any amounts received after the transfer of the assets by the Authority in respect of its ownership of the parking assets transferred, in excess of reserves agreed upon by the Authority and the Bond Insurer, are to be promptly paid to the Bond Insurer. Within 30 days following June 30, 2015, any surplus amount held and received by the Authority after closing of the transfer of assets is to be promptly paid to the Bond Insurer.

## 22. COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services.

### Federal and State

Under the terms of federal and state grants, periodic audits and compliance reviews are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits and compliance reviews could lead to reimbursement to the grantor agencies.

### Construction Commitments

#### *Primary Government*

The City has a contractual commitment for paving projects of approximately \$404,000.

### Rentals

In accordance with the Agreement, as disclosed in Note 21, the City receives monthly rent payments from PEDFA based upon the flow of funds. As a result of this, investment income for the year ended December 31, 2014 amounted to \$900,000, of which \$60,088 is recorded as an other receivable as December 31, 2014.

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Contingent upon the available funds in accordance with the Agreement, as disclosed in Note 21, the following amounts are to be received by the City in future years:

Period ending December 31,	Rent
2015	\$ 1,367,000
2016	1,833,010
2017	1,798,000
2018	1,762,331
2019	2,241,682
2020-2024	5,433,940
2025-2029	5,837,819
2030-2034	6,306,026
2035-2039	6,848,808
2040-2044	7,478,040
2045-2049	8,207,491
2050-2053	<u>7,168,674</u>
Total	<u>\$ 56,282,821</u>

**Transfer and Transition Agreement and Shared Services Agreement**

In November 2013, the City and CRW entered into a transfer agreement related to the Sewer Collection System (transfer agreement) and a transition agreement related to the Water, Wastewater, and Stormwater Systems (transition agreement). In conjunction with the transfer and transition agreements, the City and CRW entered into a shared services agreement whereby the City agreed to perform certain services with respect to and for the benefit of the water system and combined sewer system and CRW agreed to perform certain services with respect to and for the benefit of the City's sanitation fund, Green Infrastructure Projects, and other initiatives. The services performed by the City under the shared services agreement relate to payment processing services, information technology services, operations and revenue services, and public works services. The services performed by CRW under the shared services agreement include revenue billing and collection functions for the City's sanitation fund including the implementation of a lockbox system. Each of these services, including the term of the services, is detailed in a shared services schedule incorporated into the shared services agreement.

The City and CRW, in advance of performing the services, are to prepare a budget for the total cost of the services and the total cost is to be agreed upon by both parties. Within 60 days after the end of the term of each shared service, the City and CRW are to reconcile the actual costs of providing the services to the budgeted costs. Payments due to either the City or CRW are payable within 30 days of the finalization of the reconciliation. During the year ended December 31, 2014, the City and CRW were billed based on budgeted expenditures and certain receivables and payables have been recorded based on these budgeted amounts. A reconciliation based on actual cost incurred is still being negotiated and any changes will be made prospectively.

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*Component Units*

***Harrisburg Parking Authority***

In accordance with the Agreement, as disclosed in Note 21, the Authority receives monthly rent payments from PEDFA based upon the flow of funds. During the year ended December 31, 2013, the Authority entered into the 2013 Harrisburg Downtown Parking Cooperation Agreement with the City and Harristown Development Corporation, of which the Authority directs these monthly rent payments received from PEDFA directly to the City. As a result of this, charges for services and corresponding expenses for the year ended December 31, 2014 amounted to \$1,100,000, of which \$73,442 is recorded as charges for services and due to the City as December 31, 2014.

Contingent upon the available funds in accordance with the Agreement, as disclosed in Note 21, the following amounts are to be received by the Authority and then disbursed to the City in future years:

Period ending December 31,	Rent
2015	\$ 1,133,000
2016	1,166,990
2017	1,202,000
2018	1,238,060
2019	1,275,201
2020-2024	6,973,325
2025-2029	8,083,994
2030-2034	9,371,564
2035-2039	10,864,213
2040-2044	12,594,599
2045-2049	14,600,593
2050-2053	13,337,847
Total	<u>\$ 81,841,386</u>

**Guarantees**

The City is contingently liable under various agreements which guarantee debt of entities not included in the primary government's financial statements aggregating \$60,020,594 at December 31, 2014, and maturing at various dates through 2033. Of the \$60,020,594, \$58,318,429 is for guarantees of component unit debt. Information regarding the component unit debt guarantees is discussed in Note 2.

The City also guarantees the HDC Lease Revenue Bonds, Series of 1992, which have a balance at December 31, 2014 of \$1,702,165. Principal payments are due through 2016. As of December 31, 2014, no amounts were paid by the City to HDC under the guarantee. With respect to the recovery of payments under the guarantee, if any, the matter is being evaluated in relation to the forbearance agreement executed in 2015 relating to the Verizon Tower build out.

## **23. COMPLIANCE**

### *Primary Government*

Management of the City believes that the City has complied, in all material respects, with all applicable finance related legal and contractual provisions including applicable covenants of bond indentures, except as noted below.

Under the continuing disclosure undertaking, the City has covenanted to file its secondary market disclosures within 270 days of the end of their fiscal year. The December 31, 2013 financial statements were not completed by this date.

Through its notices of failure to provide annual financial information as required filed with EMMA on September 30, 2014, the City stated that it had not filed its comprehensive annual financial report for the fiscal year ended December 31, 2013.

The City has issued multiple notices of material events with EMMA with respect to its inability to make required debt service payments with respect to the City's General Obligation Refunding Bonds and Notes, Series D and F of 1997 for the years ended December 31, 2012, 2013, 2014, and 2015.

The City's single audit is required to be filed with the Federal Audit Clearinghouse by each September 30, following their year-end. The City did not file its single audit for the year ended December 31, 2013 by the required date.

## **24. LITIGATION**

The City and its component units are involved in several lawsuits. Management of each entity believes that none of the litigation outstanding against the City or its component units will have a material adverse effect on the financial position of the City or its component units at December 31, 2014. The City has accrued for such cases that it believes are estimable and probable.

### *Primary Government*

A number of contractors that provided construction services to the developer of the Capital View Commerce Center (CVCC Project) have asserted claims against the City and a financial institution (Bank), both of which were involved in financing for the CVCC Project. Plaintiff contractors claim that they have not been paid by the developer of the CVCC Project and that, on a variety of legal theories, they are entitled to payment directly by the City and the Bank. The City has asserted preliminary objections to the contractors' claims, including that the Court lacks jurisdiction and that the claims asserted by the plaintiff contractors have no legal merit. The City's preliminary objections have been briefed and argued to the Court, which has not indicated when it will render its decision. At this point, the City is unable to state whether an outcome unfavorable to the City is either probable or remote, nor is the City able to estimate the amount or range of loss, if any, in the event of an unfavorable outcome.

A paving contractor that performed a major street paving project for the City in 2008 is seeking damages in the form of a price escalation clause that they allege was incorporated into the contract. The City has taken the position that the contractor was bound to the prices included in their bid, and that there was no price escalation clause in the contract. The City has responded to the plaintiff's requests for discovery. The plaintiff filed a motion for summary judgment, to which the City filed a response.

The Court ruled in the City's favor denying the plaintiff's motion for summary judgment by Order of Court dated May 19, 2011. Because of the bankruptcy filing of City Council in October 2011, and subsequently due to the confirmation of a Receiver, the contractor and the City agreed to a temporary stay in this case until September 2012. Since September, the plaintiff has made no attempt to lift the stay. The City has and will continue to vigorously defend this lawsuit and believes it is reasonably possible that the City will prevail. This case amounts to approximately \$250,000.

The United States Environmental Protection Agency (EPA) had issued an order against the City under the Clean Water Act requiring the City to provide certain information in response to EPA inquiries into the issues involving what were the City's combined sewer overflows and its municipal separate storm water system program. The EPA considered the City to be in violation of the Clean Water Act and other regulatory mandates. The City, CRW, the EPA, and the Pennsylvania Department of Environmental Protection have entered into a Partial Settlement Agreement of those claims, which has been lodged in the U.S. District Court for the Middle District of Pennsylvania, wherein the City is not required to pay any federal or state fines or penalties.

An extraordinary series of holes in the street and on the private property of homeowners suddenly appeared in the City starting in February 2014. Issues of liability for a utility collapse/water main break versus other causes of these events are the subject on ongoing expert reviews and analysis. Present estimates place the costs of repairs of the street and the underlying fissures in a range of \$500,000 to \$4 million, with the lesser sum representing the cost of short-term remediation only and additional studies still awaiting completion.

The City cannot presently estimate its actual risks, though one homeowner forwarded a notice of claim for unspecified damages, while issues of liability are still reviewed. The City has undertaken remedial measures and also is part of a joint process seeking federal and state funds to address longer term solutions. While there is no immediate fiscal exposure, the situation is being monitored by the City for additional sinkhole activity.

## **25. SUBSEQUENT EVENTS**

A settlement agreement was entered into on January 30, 2015 between the City, Assured Guaranty Municipal Corporation (AGM), and the Redevelopment Authority related to certain portions of Strawberry Square Site located in the City (Verizon Building) and subject to the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

The Redevelopment Authority is entitled to ownership of the Verizon Building after expiration of the lease with Verizon, which terminates on February 29, 2016. Upon expiration of the lease with Verizon, the HDC agrees to lease the Verizon Building from the Redevelopment Authority pursuant to a lease agreement entered into on January 30, 2015. HDC also entered into another agreement with the Department of General Services of the Commonwealth of Pennsylvania (DGS) to sublease the Verizon Building (DGS lease). The term of the DGS lease commences March 1, 2016, the day after the expiration of the Verizon Lease, and expires by its terms on February 28, 2033. The rentals obtained from the DGS lease and paid by HDC to the Redevelopment Authority are expected to pay a portion of the payment due on the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998. As further discussed in Note 2, the City has guaranteed payment of the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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

In January 2015, City Council approved a tax anticipation note in the amount of \$4,500,000, bearing interest at the New York Prime rate plus .75%, not to exceed 5.75% in any year, and maturing on June 30, 2015. The City has not drawn against this note as of the date of this report.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HARRISBURG, PENNSYLVANIA**  
**BUDGETARY COMPARISON SCHEDULE**  
**BUDGETARY (NON-GAAP) BASIS - GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2014**  
**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	\$ 36,042,886	\$ 37,527,043	\$ 1,484,157	\$ 38,533,140	\$ 1,006,097
Licenses and permits	570,000	570,000	-	584,134	14,134
Intergovernmental revenue	3,076,627	3,463,627	387,000	3,665,528	201,901
Departmental earnings	8,587,728	8,656,728	69,000	8,285,186	(371,542)
Fines and forfeits	2,023,000	2,023,000	-	2,228,810	205,810
Investment income	106,768	106,768	-	159,672	52,904
Miscellaneous	917,458	917,458	-	2,536,688	1,619,230
<b>Total revenues</b>	<b>51,324,467</b>	<b>53,264,624</b>	<b>1,940,157</b>	<b>55,993,158</b>	<b>2,728,534</b>
Expenditures					
General government					
Elected and appointed offices					
City Council	486,095	459,095	27,000	399,071	60,024
Mayor	314,287	314,287	-	298,609	15,678
City Controller	153,433	116,432	37,001	102,254	14,178
City Treasurer	365,302	365,302	-	295,828	69,474
City Solicitor	555,543	491,543	64,000	417,306	74,237
<b>Total elected and appointed offices</b>	<b>1,874,660</b>	<b>1,746,659</b>	<b>128,001</b>	<b>1,513,068</b>	<b>233,591</b>
Office of administration					
Administration	2,881,226	2,402,548	478,678	2,187,275	215,273
General expenditures	10,200,328	14,401,163	(4,200,835)	14,220,426	180,737
<b>Total general government</b>	<b>14,956,214</b>	<b>18,550,370</b>	<b>(3,594,156)</b>	<b>17,920,769</b>	<b>629,601</b>
Community and economic development	787,676	671,676	116,000	581,673	90,003
Public safety	25,183,233	24,024,234	1,158,999	22,777,774	1,246,460
Public works	7,816,793	7,453,793	363,000	5,606,193	1,847,600
<b>Total expenditures</b>	<b>48,743,916</b>	<b>50,700,073</b>	<b>(1,956,157)</b>	<b>46,886,409</b>	<b>3,813,664</b>
Excess of revenues over (under) expenditures before other financing sources (uses)	2,580,551	2,564,551	(16,000)	9,106,749	6,542,198
Other financing sources (uses)					
Sale of general capital assets	-	-	-	25,000	25,000
Transfers in	6,253,261	6,269,261	16,000	6,153,261	(116,000)
Transfers out	(8,831,177)	(8,831,177)	-	(10,512,746)	(1,681,569)
<b>Total other financing sources (uses)</b>	<b>(2,577,916)</b>	<b>(2,561,916)</b>	<b>16,000</b>	<b>(4,334,485)</b>	<b>(1,772,569)</b>
<b>Net change in fund balance</b>	<b>2,635</b>	<b>2,635</b>	<b>-</b>	<b>4,772,264</b>	<b>4,769,629</b>
Fund balance - beginning of year, budgetary basis	-	-	-	32,029,143	32,029,143
<b>Fund balance - end of year, budgetary basis</b>	<b>\$ 2,635</b>	<b>\$ 2,635</b>	<b>\$ -</b>	<b>\$ 36,801,407</b>	<b>\$ 36,798,772</b>

**CITY OF HARRISBURG, PENNSYLVANIA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON  
SCHEDULE**

YEAR ENDED DECEMBER 31, 2014

**REQUIRED SUPPLEMENTARY INFORMATION**

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**1. BUDGETARY DATA**

Annual budgets are legally adopted for the General Fund, Debt Service Fund, State Liquid Fuels Tax Fund (nonmajor governmental fund), Host Municipality Fees Fund (nonmajor governmental fund), Sanitation Fund, and Incinerator Fund. 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 debt provisions and supplemental appropriations of City Council. Controls over spending in the Parks and Property Improvement Fund (a nonmajor fund) is achieved by the use of internal spending limits.

The actual results of operations presented in accordance with accounting principles generally accepted in the United States of America differ from the budgetary basis used in preparation of the 2014 budget for governmental funds. The budget for the General Fund was prepared on a cash basis with respect to revenues and on an item voucher basis with respect to expenditures. For the purpose of preparing the Budgetary Comparison Schedule – Budgetary (Non-GAAP) Basis – General Fund, the actual results of operations have been presented on a budgetary basis consistent with the City’s budgeted revenues and expenditures.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON**  
**SCHEDULE**  
**YEAR ENDED DECEMBER 31, 2014**  
**REQUIRED SUPPLEMENTARY INFORMATION**

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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 Special Items	Fund Balance, End of Year
Budgetary basis	\$ 32,029,143	\$ 55,993,158	\$ (46,886,409)	\$ (4,334,485)	\$ 36,801,407
Taxes receivable	13,243,816	(1,235,817)	-	-	12,007,999
Other assets	594,786	-	(517,898)	-	76,888
Accounts payable, net of items vouchered	126,729	(333,059)	692,172	-	485,842
Accrued liabilities	(11,655,128)	(34,876)	(1,005,399)	-	(12,695,403)
Advances and amounts due to other funds and component units	(1,842,015)	(538,581)	783,711	1,826,213	229,328
Unearned and unavailable revenue	(13,644,094)	(93,365)	-	-	(13,737,459)
Other	3,806,953	(602,264)	(809,793)	1,198,494	3,593,390
GAAP basis	<u>\$ 22,660,190</u>	<u>\$ 53,155,196</u>	<u>\$ (47,743,616)</u>	<u>\$ (1,309,778)</u>	<u>\$ 26,761,992</u>

**2. BUDGET TO ACTUAL COMPARISONS**

The General Fund's budget comparison is presented in the Required Supplementary Information section. The State Liquid Fuels Tax Fund (a nonmajor fund), major debt service fund, and Host Municipality Fees Fund (nonmajor 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.

**3. COMPLIANCE**

Because the legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within this document, the City has prepared a separate budgetary report to demonstrate compliance at the line item level. However, there were two instances where the City' exceeded the budgeted expenditure amount on a line item level.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY**  
**AND RELATED RATIOS - COMBINED POLICE OFFICERS' PENSION PLAN**  
**YEAR ENDED DECEMBER 31, 2014**  
**REQUIRED SUPPLEMENTARY INFORMATION**

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<b>Total Pension Liability:</b>	
Service cost	\$ 1,542,107
Interest	6,403,162
Benefit payments, including refunds of member contributions	(5,351,314)
	<hr/>
<b>Net Changes in Total Pension Liability</b>	2,593,955
<b>Total Pension Liability - Beginning</b>	81,173,081
	<hr/>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 83,767,036</u>
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 2,424,298
Contributions - plan member	478,549
Net investment income	4,082,703
Benefit payments, including refunds of member contributions	(5,351,314)
Administrative expense	(58,924)
	<hr/>
<b>Net Change in Plan Fiduciary Net Position</b>	1,575,312
<b>Plan Fiduciary Net Position - Beginning</b>	73,661,935
	<hr/>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 75,237,247</u>
<b>Net Pension Liability - Ending (a-b)</b>	<u>\$ 8,529,789</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<u>89.82%</u>
<b>Covered Employee Payroll</b>	<u>\$ 9,363,263</u>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	91.10%

**CITY OF HARRISBURG, PENNSYLVANIA**  
**SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS -**  
**COMBINED POLICE OFFICERS' PENSION PLAN**  
**YEAR ENDED DECEMBER 31, 2014**  
**REQUIRED SUPPLEMENTARY INFORMATION**

<u>Schedule of City Contributions</u>	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution under Act 205	\$ 2,034,070	\$ 2,146,827	\$ 1,517,751	\$ 1,551,579	\$ 314,094	\$ 275,869	\$ 285,274	\$ 523,803	\$ 512,593	\$ 1,303,069
Contributions in relation to the actuarially determined contributions	2,424,298	2,594,752	2,524,734	4,510,723	314,094	275,869	285,274	523,803	512,593	1,303,069
Contribution deficiency (excess)	\$ (390,228)	\$ (447,925)	\$ (1,006,983)	\$ (2,959,144)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 9,363,263	\$ 10,240,017	\$ 10,358,429	\$ 10,250,723	\$ 9,650,596	\$ 9,524,752	\$ 9,137,927	\$ 9,453,063	\$ 9,417,427	\$ 9,566,523
Contributions as a percentage of covered employee payroll	25.89%	25.34%	24.37%	44.00%	3.25%	2.90%	3.12%	5.54%	5.44%	13.62%
<u>Investment Returns</u>										
Annual money-weighted rate of return, net of investment expense	6.05%	15.30%								

**CITY OF HARRISBURG, PENNSYLVANIA**  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – COMBINED POLICE OFFICERS’**  
**PENSION PLAN**  
**YEAR ENDED DECEMBER 31, 2014**  
**REQUIRED SUPPLEMENTARY INFORMATION**

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**1. ACTUARIAL METHODS AND ASSUMPTIONS**

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Methods and assumptions used to determine contribution rates required under Act 205 for the years ended December 31, 2014 are as follows:

Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	11 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Underlying inflation rate	3.0%
UP 1984 mortality table	

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

Schedule of Funding Progress 01/01/99-01/01/13

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)
01/01/99	\$39,353,200	\$29,978,847	\$ (9,374,353)	131.27 %	\$ 16,583,243	(56.53) %
01/01/00	45,531,632	32,927,232	(12,604,400)	138.28	17,016,237	(74.07)
01/01/01	51,841,303	36,252,370	(15,588,933)	143.00	18,441,260	(84.53)
01/01/02	54,063,426	37,487,414	(16,576,012)	144.22	18,399,410	(90.09)
01/01/03	56,946,711	44,367,335	(12,579,376)	128.35	19,970,077	(62.99)
01/01/05	63,053,150	52,154,704	(10,898,446)	120.90	17,639,572	(61.78)
01/01/07	67,814,104	55,904,700	(11,909,404)	121.30	16,465,482	(72.33)
01/01/09	72,842,581	53,764,888	(19,077,693)	135.48	14,132,981	(134.99)
01/01/11	77,363,937	55,795,290	(21,568,647)	138.66	12,786,819	(168.68)
01/01/13	82,670,233	60,881,837	(21,788,396)	135.79	11,313,848	(192.58)

Schedule of Required Employer Contributions and Other Contributing Entities 2005-2014

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	(h) State Aid	Percentage Contribution [(g+h)/f]
2005	\$ -	01/01/03	\$ -	\$ -	- %
2006	-	01/01/03	-	-	-
2007	-	01/01/05	-	-	-
2008	-	01/01/05	-	-	-
2009	-	01/01/07	-	-	-
2010	-	01/01/07	-	-	-
2011	-	01/01/09	-	-	-
2012	-	01/01/09	-	-	-
2013	-	01/01/11	-	-	-
2014	-	01/01/11	-	-	-

(1) 2005-2014 – 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.

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

Schedule of Funding Progress 01/01/99-01/01/13

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)
01/01/99	\$35,998,739	\$27,297,560	\$ (8,701,179)	131.88 %	\$ 4,246,322	(204.91) %
01/01/00	41,417,147	27,847,384	(13,569,763)	148.73	4,223,595	(321.28)
01/01/01	46,998,856	30,136,310	(16,862,546)	155.95	4,711,683	(357.89)
01/01/02	49,385,139	37,980,915	(11,404,224)	130.03	5,001,240	(228.03)
01/01/03	52,137,632	39,968,500	(12,169,132)	130.45	4,898,162	(248.44)
01/01/05	61,270,530	50,101,540	(11,168,990)	122.29	5,251,910	(212.67)
01/01/07	60,115,728	50,833,300	(9,282,428)	118.26	5,091,469	(182.31)
01/01/09	65,332,550	53,322,794	(12,009,756)	122.52	5,691,628	(211.01)
01/01/11	68,266,174	55,064,548	(13,201,626)	123.97	5,279,457	(250.06)
01/01/13	73,407,165	63,399,066	(10,008,099)	115.79	4,800,309	(208.49)

Schedule of Required Employer Contributions and Other Contributing Entities 2005-2014

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	(h) State Aid	Percentage Contribution [(g+h)/f]
2005	\$ -	01/01/03	\$ -	\$ -	- %
2006	-	01/01/03	-	-	-
2007	-	01/01/05	-	-	-
2008	-	01/01/05	-	-	-
2009	834	01/01/07	-	-	-
2010	-	01/01/07	-	-	-
2011	-	01/01/09	-	-	-
2012	-	01/01/09	-	-	-
2013	-	01/01/11	-	-	-
2014	-	01/01/11	-	-	-

(1) 2005-2014 – 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.

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

Schedule of Funding Progress 01/01/99-01/01/13

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)
01/01/99	\$49,828,312	\$39,413,195	\$ (10,415,117)	126.43 %	\$ 8,272,417	(125.90) %
01/01/00	57,143,147	36,876,195	(20,266,952)	154.96	7,968,452	(254.34)
01/01/01	57,189,470	39,086,593	(18,102,877)	146.31	8,008,858	(226.04)
01/01/02	55,690,061	47,122,954	(8,567,107)	118.18	8,210,921	(104.34)
01/01/03	48,588,557	50,541,728	1,953,171	96.14	9,007,242	21.68
01/01/05	61,438,353	55,244,375	(6,193,978)	111.21	9,206,031	(67.28)
01/01/07	68,875,536	59,874,001	(9,001,535)	115.03	9,138,604	(98.50)
01/01/09	63,959,386	65,951,752	1,992,366	96.98	9,626,150	20.70
01/01/11	63,759,040	72,302,610	8,543,570	88.18	10,398,023	82.17
01/01/13	64,795,960	78,322,540	13,526,580	82.73	10,061,424	134.44

Schedule of Required Employer Contributions and Other Contributing Entities 2005-2014

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	(h) State Aid	Percentage Contribution [(g+h)/f]
2005	\$ 1,303,069	01/01/03	\$ -	(2) \$ 1,303,069	100.00 %
2006	512,593	01/01/05	-	512,593	100.00
2007	523,803	01/01/05	523,803	-	100.00
2008	285,274	01/01/07	285,274	-	100.00
2009	275,869	01/01/07	275,869	-	100.00
2010	314,094	01/01/07	314,094	-	100.00
2011	1,551,579	01/01/09	-	4,510,723	100.00
2012	1,517,751	01/01/09	-	2,524,734	100.00
2013	2,146,827	01/01/11	-	2,594,752	100.00
2014	2,034,070	01/01/11	-	2,424,298	100.00

- (1) 2005-2014 – 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) 2005-2006 and 2011-2014 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**OTHER POST-EMPLOYMENT BENEFIT PLAN**  
**REQUIRED SUPPLEMENTARY INFORMATION**

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Schedule of Funding Progress 01/01/08-01/01/14

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (FAAL) (b-a)	(d) Funded Ratio (a/b)	(e) Covered Payroll	UAAL as a Percentage of Covered Payroll (c/e)
01/01/08	\$ -	\$ 184,123,955	\$ 184,123,955	0.00 %	\$ 29,200,000	630.56 %
01/01/10	-	177,796,013	177,796,013	0.00	28,435,550	625.26
01/01/12	*	148,055,171	148,055,171	0.00	23,361,420	633.76
01/01/14	-	133,006,585	133,006,585	0.00	18,893,017	704.00

\* - revised for removal of active sewer employees from the City's employee base and revision of policies during the year ended December 31, 2013

Schedule of Required Employer Contributions 2008-2014

Year Ended December 31	(f) Annual Required Contribution (ARC)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	Percentage Contribution (g/f)
2008	\$ 17,836,610	01/01/08	\$ 4,533,440	25.42%
2009	17,840,403	01/01/08	4,982,199	27.93%
2010	16,475,883	01/01/10	4,257,094	25.84%
2011	16,445,618	01/01/10	4,697,333	28.56%
2012	15,654,748	01/01/12	4,476,131	28.59%
2013	16,194,677	01/01/12	4,783,417	29.54%
2014	10,216,593	01/01/14	5,375,266	52.61%

**SUPPLEMENTARY INFORMATION  
COMBINING AND INDIVIDUAL NONMAJOR FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

**CITY OF HARRISBURG, PENNSYLVANIA**  
DESCRIPTION OF FUNDS  
NONMAJOR GOVERNMENTAL FUNDS

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**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.

**Host Municipality Fees Fund**

The Host Municipality Fees Fund is used to account for \$1 per ton of municipal waste processed inside the host municipality limits. The fee is restricted for environmental related purposes.

**Parks and Property Improvement Fund**

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

**Capital Projects Fund**

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2014**

	Special Revenue				Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund	Capital Projects	
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 436,197	\$ 9,704	\$ 290,467	\$ 736,368
Investments, at fair value	603,074	-	734,451	795,149	2,132,674
Receivables, net of allowance for uncollectible accounts					
Taxes	-	-	-	82,231	82,231
Other	-	110,182	-	25,041	135,223
Due from other funds	3,130	-	77	305,998	309,205
Restricted assets					
Cash and cash equivalents	-	-	-	1,280,852	1,280,852
<b>Total assets</b>	<b>\$ 606,204</b>	<b>\$ 546,379</b>	<b>\$ 744,232</b>	<b>\$ 2,779,738</b>	<b>\$ 4,676,553</b>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities					
Accounts payable	\$ 105,624	\$ 83,249	\$ 36,643	\$ 90,108	\$ 315,624
Accrued liabilities	-	589	-	-	589
Due to other funds	-	-	592,617	900,470	1,493,087
<b>Total liabilities</b>	<b>105,624</b>	<b>83,838</b>	<b>629,260</b>	<b>990,578</b>	<b>1,809,300</b>
Fund balance					
Restricted for					
Environment	-	462,541	-	-	462,541
Public works	500,580	-	-	-	500,580
Community and economic development	-	-	114,972	-	114,972
Tourism	-	-	-	1,085,299	1,085,299
Capital projects	-	-	-	703,861	703,861
<b>Total fund balance</b>	<b>500,580</b>	<b>462,541</b>	<b>114,972</b>	<b>1,789,160</b>	<b>2,867,253</b>
<b>Total liabilities and fund balance</b>	<b>\$ 606,204</b>	<b>\$ 546,379</b>	<b>\$ 744,232</b>	<b>\$ 2,779,738</b>	<b>\$ 4,676,553</b>

**CITY OF HARRISBURG, PENNSYLVANIA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2014**

	Special Revenue				Total Nonmajor Governmental Funds
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund	Capital Projects	
Revenues					
Intergovernmental revenue	\$ 985,774	\$ -	\$ -	\$ 4,156	\$ 989,930
Department earnings and program revenue	-	326,046	-	982,305	1,308,351
Investment income	348	-	-	320	668
Total revenues	986,122	326,046	-	986,781	2,298,949
Expenditures					
Current					
Public works	749,568	-	-	-	749,568
Environment	-	159,205	-	-	159,205
Debt service					
Principal retirements	-	-	-	71,327	71,327
Total expenditures	749,568	159,205	-	71,327	980,100
Excess of revenues over (under) expenditures	236,554	166,841	-	915,454	1,318,849
Other financing sources (uses)					
Transfers out	-	-	-	(527,622)	(527,622)
Total other financing sources (uses)	-	-	-	(527,622)	(527,622)
Net change in fund balances	236,554	166,841	-	387,832	791,227
Fund balances - beginning of year	264,026	295,700	114,972	1,401,328	2,076,026
Fund balances - end of year	\$ 500,580	\$ 462,541	\$ 114,972	\$ 1,789,160	\$ 2,867,253

**CITY OF HARRISBURG, PENNSYLVANIA**  
**BUDGETARY COMPARISON SCHEDULES**  
**BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2014**

	Nonmajor Fund					Major Fund				
	State Liquid Fuels Tax Fund					Debt Service Fund				
	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)	Actual	Variance of Actual with Final Budget Positive (Negative)	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)	Actual	Variance of Actual with Final Budget Positive (Negative)
Revenues										
Intergovernmental revenue	\$ 901,105	\$ 901,105	\$ -	\$ 985,774	\$ 84,669	\$ -	\$ -	\$ -	\$ -	\$ -
Investment income	295	295	-	348	53	93,340	473,077	379,737	488,723	15,646
Total revenues	901,400	901,400	-	986,122	84,722	93,340	473,077	379,737	488,723	15,646
Expenditures										
Public works	901,400	901,400	-	809,675	91,725	-	-	-	-	-
Debt service	-	-	-	-	-	9,019,117	9,387,617	(368,500)	9,344,417	43,200
Total expenditures	901,400	901,400	-	809,675	91,725	9,019,117	9,387,617	(368,500)	9,344,417	43,200
Excess of revenues over (under) expenditures before other financing sources (uses)	-	-	-	176,447	176,447	(8,925,777)	(8,914,540)	11,237	(8,855,694)	58,846
Other financing sources (uses)										
Sale of general capital assets	-	-	-	-	-	94,600	94,600	-	190,886	96,286
Transfers in	-	-	-	-	-	8,831,177	8,831,177	-	10,512,746	1,681,569
Total other financing sources (uses)	-	-	-	-	-	8,925,777	8,925,777	-	10,703,632	1,777,855
Net change in fund balance	-	-	-	176,447	176,447	-	11,237	11,237	1,847,938	1,836,701
Fund balance - beginning of year, budgetary basis	-	-	-	448,341	448,341	-	-	-	(1,736,276)	(1,736,276)
Fund balance - end of year, budgetary basis	\$ -	\$ -	\$ -	\$ 624,788	\$ 624,788	\$ -	\$ 11,237	\$ 11,237	\$ 111,662	\$ 100,425
Explanation of differences between budget basis and GAAP:										
Net change in fund balance - budgetary basis				\$ 176,447					\$ 1,847,938	
Accrued expenditures - December 31, 2013				163,233					-	
Accrued expenditures - December 31, 2014				(103,126)					-	
Accrued revenues - December 31, 2013				-					(2,016,477)	
Net change in fund balance - GAAP basis				\$ 236,554					\$ (168,539)	

**CITY OF HARRISBURG, PENNSYLVANIA**  
**BUDGETARY COMPARISON SCHEDULES**  
**BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2014**

	Nonmajor Fund				
	Host Municipality Fees Fund				
	Original Budget	Final Budget	Variance of Original with Final Budget Positive (Negative)	Actual	Variance of Actual with Final Budget Positive (Negative)
Revenues					
Department earnings and program revenue	\$ 422,572	\$ 422,572	\$ -	\$ 278,993	\$ (143,579)
Total revenues	<u>422,572</u>	<u>422,572</u>	<u>-</u>	<u>278,993</u>	<u>(143,579)</u>
Expenditures					
Environment	26,094	421,594	(395,500)	158,616	262,978
Total expenditures	<u>26,094</u>	<u>421,594</u>	<u>(395,500)</u>	<u>158,616</u>	<u>262,978</u>
Net change in fund balance	396,478	978	(395,500)	120,377	119,399
Fund balance - beginning of year, budgetary basis	<u>-</u>	<u>-</u>	<u>-</u>	<u>232,571</u>	<u>232,571</u>
Fund balance - end of year, budgetary basis	<u>\$ 396,478</u>	<u>\$ 978</u>	<u>\$ (395,500)</u>	<u>\$ 352,948</u>	<u>\$ 351,970</u>
Explanation of differences between budget basis and GAAP:					
Net change in fund balance - budgetary basis				\$ 120,377	
Accrued expenditures - December 31, 2014				(589)	
Accrued revenues - December 31, 2013				(63,129)	
Accrued revenues - December 31, 2014				<u>110,182</u>	
Net change in fund balance - GAAP basis				<u>\$ 166,841</u>	

**CITY OF HARRISBURG, PENNSYLVANIA**  
DESCRIPTION OF FUNDS  
AGENCY FUNDS

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**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.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS**  
**DECEMBER 31, 2014**

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	<u>School Tax Collection</u>	<u>Payroll and Other Escrow Liabilities</u>	<u>Total Agency Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 214,152	\$ 1,261,650	\$ 1,475,802
Total assets	<u>214,152</u>	<u>1,261,650</u>	<u>1,475,802</u>
<b>LIABILITIES</b>			
Due to other governments	214,152	-	214,152
Due to City's General Fund	-	202,153	202,153
Due to others	-	348,709	348,709
Escrow liabilities	-	710,788	710,788
Total liabilities	<u>\$ 214,152</u>	<u>\$ 1,261,650</u>	<u>\$ 1,475,802</u>

**CITY OF HARRISBURG, PENNSYLVANIA**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS**  
**YEAR ENDED DECEMBER 31, 2014**

	Beginning of Year	Additions	Deductions	End of Year
<b>School Tax Collection</b>				
Assets				
Cash and cash equivalents	\$ 695,351	\$ 38,591,898	\$ 39,073,097	\$ 214,152
Liabilities				
Due to other governments	\$ 695,351	\$ 38,591,898	\$ 39,073,097	\$ 214,152
<b>Payroll and Other Escrow Liabilities</b>				
Assets				
Cash and cash equivalents	\$ 1,701,845	\$ 26,358,566	\$ 26,798,761	\$ 1,261,650
Liabilities				
Due to City's General Fund	\$ 202,153	\$ -	\$ -	\$ 202,153
Due to others	928,810	874,024	1,454,125	348,709
Escrow liabilities	570,882	25,484,542	25,344,636	710,788
Total liabilities	\$ 1,701,845	\$ 26,358,566	\$ 26,798,761	\$ 1,261,650
<b>Total Agency Funds</b>				
Assets				
Cash and cash equivalents	\$ 2,397,196	\$ 64,950,464	\$ 65,871,858	\$ 1,475,802
Liabilities				
Due to other governments	\$ 695,351	\$ 38,591,898	\$ 39,073,097	\$ 214,152
Due to City's General Fund	202,153	-	-	202,153
Due to others	928,810	874,024	1,454,125	348,709
Escrow liabilities	570,882	25,484,542	25,344,636	710,788
Total liabilities	\$ 2,397,196	\$ 64,950,464	\$ 65,871,858	\$ 1,475,802

## **City of Harrisburg, Pennsylvania**

Federal Award Programs Required by  
OMB Circular A-133

Year Ended December 31, 2014

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 Eric R. Papenfuse, 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 (City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 23, 2015. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Harrisburg Parking Authority and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Harrisburg Parking Authority and the Redevelopment Authority of the City of Harrisburg.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-001, 2014-002, 2014-004, 2014-005, 2014-006, and 2014-007 to be material weaknesses.

The Honorable Eric R. Papenfuse, 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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-003 and 2014-006.

### **City's Responses to Findings**

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

### **Purpose of this Report**

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

*Mahe Duessel*

Harrisburg, Pennsylvania  
September 23, 2015

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

The Honorable Eric R. Papenfuse, Mayor  
and Honorable Members of City Council  
City of Harrisburg, Pennsylvania

**Report on Compliance for Each Major Federal Program**

We have audited the City of Harrisburg, Pennsylvania's (City) compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

The Honorable Eric R. Papenfuse, Mayor  
and Honorable Members of City Council  
City of Harrisburg, Pennsylvania  
Independent Auditor's Report on Compliance  
for Each Major Program

***Basis for Qualified Opinion on Certain Major Federal Programs***

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

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2014-008	14.218 14.239 14.900 97.083	Community Development Block Grants/ Entitlement Grants Home Investment Partnerships Program Lead-Based Paint Hazard Control Program Staffing for Adequate Fire and Emergency Response	Cash Management
2014-009	14.218 14.900 97.083	Community Development Block Grants/ Entitlement Program Lead-Based Paint Hazard Control Program Staffing for Adequate Fire and Emergency Response	Reporting
2014-010	14.218 14.239	Community Development Block Grants/ Entitlement Program Home Investment Partnerships Program	Subrecipient Monitoring
2014-011	14.218	Community Development Block Grants/ Entitlement Program	Program Income
2014-012	14.900	Lead-Based Paint Hazard Control Program	Matching
2014-013	97.083	Staffing for Adequate Fire and Emergency Response	Allowability

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

***Qualified Opinion on Certain Major Federal Programs***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grants/Entitlement Grants, Home Investment Partnerships Program, Lead-Based Hazard Control Program, and Staffing for Adequate Fire and Emergency Response for the year ended December 31, 2014.

***Unmodified Opinion on the Other Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2014.

The Honorable Eric R. Papenfuse, Mayor  
and Honorable Members of City Council  
City of Harrisburg, Pennsylvania  
Independent Auditor’s Report on Compliance  
for Each Major Program

***Other Matters***

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

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2014-008	20.205	Highway Planning and Construction	Cash Management
2014-009	16.710	Public Safety Partnership and Community Policing Grants - ARRA	Reporting

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

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

**Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned

The Honorable Eric R. Papenfuse, Mayor  
and Honorable Members of City Council  
City of Harrisburg, Pennsylvania  
Independent Auditor's Report on Compliance  
for Each Major Program

costs as Findings 2014-008, 2014-009, 2014-010, 2014-011, 2014-012, and 2014-013 to be material weaknesses.

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

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

*Mahe Duessel*

Harrisburg, Pennsylvania  
September 23, 2015

**CITY OF HARRISBURG, PENNSYLVANIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grants/Entitlement Grants				
	D	14.218	N/A	\$ 2,343,600
Emergency Solutions Grant Program	D	14.231	N/A	249,870
Home Investment Partnerships Program	D	14.239	N/A	912,301
Lead-Based Paint Hazard Control Program	D	14.900	N/A	<u>770,292</u>
Total U.S. Department of Housing and Urban Development				<u>4,276,063</u>
U.S. Department of Interior				
Historic Preservation Fund Grants-in-Aid	I	15.904	4100061720	<u>15,000</u>
U.S. Department of Justice				
Bulletproof Vest Partnership Program	D	16.607	N/A	18,159
Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories	D	16.738	N/A	3,659
Public Safety Partnership and Community Policing Grants - ARRA	D	16.710	N/A	<u>176,770</u>
Total U.S. Department of Justice				<u>198,588</u>
U.S. Department of Transportation				
Passed through the Pennsylvania Department of Transportation:				
Highway Planning and Construction	I	20.205	089595	<u>56,804</u>
U.S. Department of Homeland Security - Federal Emergency Management Agency				
Passed through the Pennsylvania Emergency Management Agency:				
Disaster Grants - Public Assistance	I	97.036	N/A	334,762
Assistance to Firefighters Grant	D	97.044	N/A	8,156
Staffing for Adequate Fire and Emergency Response	D	97.083	N/A	<u>811,868</u>
Total U.S. Department of Homeland Security - Federal Emergency Management Agency				<u>1,154,786</u>
Total Expenditures of Federal Awards				<u><u>\$ 5,701,241</u></u>

**CITY OF HARRISBURG, PENNSYLVANIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2014**

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**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, 2014.

**3. SECTION 108 LOANS**

The City entered into various promissory notes under Section 108 of the Housing and Community Development Act of 1974 (Public Law 93-383), as amended. The proceeds from the notes were to administer acquisition, relocation, clearance, rehabilitation, and disposition of City properties. These notes do not have continuing compliance requirements.

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

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

The composition of promissory notes outstanding under Section 108 at December 31, 2014 is as follows:

<u>Date of Notice</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Required Interest Payment</u>	<u>Principal Balance December 31, 2014</u>	<u>2014 Principal Payments</u>
May 13, 2000	\$ 3,960,000	Variable *	Semi-annually, February and August 1st	\$ 1,505,000	\$ 255,000
September 14, 2006	\$ 3,795,000	4.99%- 5.77%	Semi-annually, February and August 1st	2,535,000	210,000
				<u>\$ 4,040,000</u>	<u>\$ 465,000</u>

\* - Based on 90-day LIBOR plus 20 basis points (.45% at December 31, 2014)

**CITY OF HARRISBURG, PENNSYLVANIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2014**

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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>
<u>\$ 4,505,000</u>	<u>\$ -</u>	<u>\$ 465,000</u>	<u>\$ 4,040,000</u>

**4. CONTINGENCIES**

Certain Housing and Urban Development (HUD) Grant Funds were required to be deposited into a separate, identifiable, custodial “Guaranteed Loan Funds Account.” The contract required that all funds in the Guaranteed Loan Funds Account be withdrawn and disbursed by the City for approved activities by September 30, 2008. Effective May 2008, the North Cameron Street Project, funded through HUD, was suspended due to allegations of improper financial management by the subgrantee. The ultimate outcome of this matter is subject to significant uncertainty. At December 31, 2014, the City is holding the remaining Section 108 Guaranteed Funds, in the amount of \$359,325, in a separate account and using the funds to pay down the outstanding loan balance.

**CITY OF HARRISBURG, PENNSYLVANIA**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2014

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**Prior Year Findings**

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

*Control Deficiency: Material Weakness*

**Finding 2013-01: Monitoring and Reconciliation of Loans Receivable**

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

- Consistent with prior years, DBHD loan construction projects are not set up to earn interest at the percentage and for the terms as shown in their loan agreements. Per discussion with management, it has been determined that Portfolio (the City's loan management system) does have the ability to automatically accrue interest on the outstanding balance. However, management has decided not to utilize this feature, as these construction project loans function as deferred grants in which a portion of the loan balance is forgiven each year and full payment of principal plus accrued interest is only due in the event of default.
- Loan balances per Portfolio are not reconciled to the general ledger balances recorded in Pentamation, the City's accounting system.

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

- Loan balances per Portfolio were not reconciled to the general ledger balances recorded in Pentamation for the General Fund or the State Grants Fund.
- No written policies and procedures manual exists for the issuance of loans, formal notification of disapproval, assessing late fees, processing change orders, and processing of payments.

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

- Procedures be established to include the accrued interest on construction projects in Portfolio.
- Procedures be established to reconcile all outstanding loan balances in Portfolio to the Pentamation loan receivable general ledger balances on at least a quarterly basis.

With respect to the MOEEO loans, we recommend that:

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

*Current Status:* DBHD loan balances per Portfolio are being reconciled to the general ledger balances recorded in Pentamation. See current year Finding 2014-001 for a repeat of the balance of the comment.

**CITY OF HARRISBURG, PENNSYLVANIA**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2014

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**Finding 2013-02: Financial Reporting and Debt Compliance**

*Condition:* During the audit process, various material adjustments were proposed to the City's records by the auditors. These audit adjustments were necessary to correct the City's recording of transactions related to the Harrisburg Parking Authority lease proceeds, transactions related to the guarantee agreements with Capital Region Water (CRW), the County and the Bond Insurer, recording of grant revenue, receivables (utility, taxes and other) and related allowances, due to other funds and due to other governments, capital assets, accounts payable, worker's compensation reserves, other post-employment benefits, lease payable, debt, and closing of the Sewer Fund.

Additionally, the City defaulted on its 1997 Series D Bonds and F Notes during the year ended December 31, 2013. Payments on the debt were made by the bond insurer under the insurance agreement per the trust indenture. Also, the City also did not make the required principal and interest payments on its Pennsylvania Infrastructure Bank (PIB) loans or the principal and interest payments on its 2007 capital lease.

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

*Current Status:* See current year Findings 2014-002 and 2014-003.

**Finding 2013-03: Segregation of Duties**

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

- Q and S account utility billings are not reviewed and approved.
- Payments for MOEEO and DBHD loans are received directly by DBHD staff and recorded in the Portfolio system.
- Payments for building permits are received directly by the Bureau of Codes staff and the checks are not restrictively endorsed.
- Information Technology (IT) staff have control over multiple IT functions.

*Recommendation:* With respect to the Q and S account billings, we recommend that the City follow its policy that the Operation and Revenue Billing Clerk prepare the billings for review by the Director of Operations and Revenue prior to mailing. With respect to the MOEEO and DBHD loans and building permit receipts, we recommend that all receipts go directly to the City Treasurer's office, as a central depository, and copies of check and/or a receipt be provided to DBHD and the Bureau of Codes for recording in the appropriate system or authorization of the permit. With respect to IT staffing, we recommend that the information technology operations, librarian, systems analyst, programming, network, and administrative functions be performed by separate employees to ensure that no one person has control over multiple information technology functions.

*Current Status:* Q and S account utility billings are no longer being prepared by the City. See current year Finding 2014-004 for a repeat of the balance of the comment.

**Finding 2013-04: Reconciling Subsidiary Reports**

*Condition:* The City had not reconciled the amounts reported in Pentamation to the subsidiary reports for the Q and S accounts (utility billing accounts) or accounts payable.

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

- All Q and S account balances be reconciled to Pentamation at year-end.

**CITY OF HARRISBURG, PENNSYLVANIA**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2014

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- Cut-off procedures be established to ensure that all disbursements are reported in the appropriate periods.

*Current Status:* S and Q account balances are no longer reported in Pentamation. The balance of this finding was corrected during the year ended December 31, 2014.

**Finding 2013-05: Reconciling Bank Accounts**

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

- The payroll bank statements were received by the City Treasurer's office and then forwarded to the Controller's office and Finance Department.
- Although the monthly reconciliations were prepared for all other accounts, they did not reflect any adjustments related to the 2009, 2010, 2011, or 2012 audits.
- Monthly reconciliations for the year ended December 31, 2013 were not provided to the Controller's office for review until July 2014.

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

*Current Status:* See current year Finding 2014-005.

**Finding 2013-06: Schedule of Expenditures of Federal Awards**

*Condition:* For the year ended December 31, 2013, the City provided a summary schedule of federal expenditures; however, the schedule was not materially accurate. Material adjustments were made to the Public Safety Partnership and Community Policing, Highway Planning and Construction, and Staffing for Adequate Fire and Emergency Response grants to accurately report expenditures of federal funds for the year ended December 31, 2013.

*Recommendation:* We recommend that the City implement procedures to ensure that all federal expenditures are included on the schedule of expenditures of federal awards.

*Current Status:* See current year Finding 2014-006.

III – Findings and questioned costs for federal awards.

*Control Deficiency: Material Weakness*

**Finding 2013-07: Cash Management**

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900); U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA #20.205)

**CITY OF HARRISBURG, PENNSYLVANIA**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2014

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

During the audit, three out of four reimbursement requests selected for testing related to the Lead-Based Paint Hazard Control Program contained invoices for allowable costs that were not paid within ten calendar days of the date of HUD's remittance.

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

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

*Current Status:* See current year Finding 2014-008.

**Finding 2013-08: Preparing Required Reports**

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900); U.S. Department of Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710); U.S. Department of Homeland Security - Staffing for Adequate Fire and Emergency Response (CFDA #97.083)

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

The City did not report accurate information on the Section 1512 ARRA Reports for any of the four quarters selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA.

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

The City did not report accurate information on the Federal Financial Reports for both of the semiannual reports selected for testing related to the Staffing for Adequate Fire and Emergency Response (SAFER) Program.

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

*Current Status:* See current year Finding 2014-009.

**CITY OF HARRISBURG, PENNSYLVANIA**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2014

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**Finding 2013-09: Federal Funding Accountability and Transparency Act (FFATA) Reporting**

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

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

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

*Current Status:* No discrepancies were noted regarding Federal Funding Accountability and Transparency Act (FFATA) reporting during the December 31, 2014 audit.

**Finding 2013-10: Subrecipient Monitoring**

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

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

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

*Current Status:* See current year Finding 2014-010.

**Finding 2013-11: Program Income**

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

*Condition:* During the audit, the City reported program income received during 2012 in the Integrated Disbursement and Information System (IDIS) in 2013 related to several loan repayments originally funded by the Community Development Block Grants/Entitlement Grants Program, the Home Investment Partnerships Program, and the Lead-Based Paint Hazard Control Program. The City did not expend the program income received during 2013 for eligible activities prior to drawing down additional funds.

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

*Current Status:* Program income was properly reported and immaterial for both CFDA #14.239 and CFDA #14.900 during the year ended December 31, 2014. See current year Finding 2014-011 with respect to CFDA #14.218.

**CITY OF HARRISBURG, PENNSYLVANIA**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2014

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**Finding 2013-12: Allowability**

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

*Condition:* During the audit, five out of the fifteen disbursements selected for testing did not contain evidence of review and approval for allowability prior to payment. All disbursements selected for testing contained invoices for allowable costs.

*Recommendation:* The City should establish controls to ensure that all invoices are reviewed and approved for allowability prior to payment.

*Current Status:* No discrepancies were noted regarding allowability during the December 31, 2014 audit.

**Finding 2013-13: Review of Integrated Disbursement and Information System (IDIS)**

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

*Condition:* An unauthorized disbursement of funds was performed in IDIS.

*Recommendation:* The City should establish controls to ensure that all disbursements of funds from IDIS are approved and reconciled to the City's general ledger system.

*Current Status:* No unauthorized disbursements were noted through review of IDIS during the December 31, 2014 audit.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2014**

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I. Summary of Audit Results

1. Type of auditor’s report issued: Unmodified

2. Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified that are not considered to be material weakness (es)?

yes  none reported

3. Noncompliance material to financial statements noted?  yes  no

4. Internal control over major programs:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified that are not considered to be material weakness (es)?

yes  none reported

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

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

7. Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program
14.900	Lead-Based Paint Hazard Control Program
97.036	Disaster Grants – Public Assistance
97.083	Staffing for Adequate Fire and Emergency Response

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

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2014**

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

*Control Deficiency: Material Weakness*

**Finding 2014-001: Monitoring and Reconciliation of Loans Receivable**

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

- Consistent with prior years, DBHD loan construction projects are not set up to earn interest at the percentage and for the terms as shown in their loan agreements. Per discussion with management, it has been determined that Portfolio (the City's loan management system) does have the ability to automatically accrue interest on the outstanding balance. However, management has decided not to utilize this feature, as these construction project loans function as deferred grants in which a portion of the loan balance is forgiven each year and full payment of principal plus accrued interest is only due in the event of default.
- During testing of the loans outstanding for DBHD, it was noted that a loan receivable was recorded for a loan that is no longer collectible. During the year ended December 31, 2014, the property was foreclosed. The City was not the senior lienholder position for the property and the Sheriff's Deed was given to another lienholder. This resulted in the discharge of the City's lien. Due to the discharge of the lien, the City should have written-off the loan during the year ended December 31, 2014. The net amount of the loan was \$524,867.

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

- Loan balances per Portfolio were not reconciled to the general ledger balances recorded in Pentamation, the City's accounting system.
- No written policies and procedures manual exists for the issuance of loans, formal notification of disapproval, assessing late fees, processing change orders, and processing of payments.

*Criteria:* The City should review all loans to ensure that the loans are fully collectible. If a qualifying event is noted, the City should review the loan in order to see if collectability has changed. Also, subsidiary ledgers should support the amounts reported in Pentamation and be reconciled periodically.

*Effect:* The outstanding loan balance for the DBHD loans was overstated by \$524,867 and the City's trial balances are misstated throughout the year.

*Cause:* The City does not periodically review outstanding loans for collectability and reconciliations are not being performed.

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

- Procedures be established to include the accrued interest on construction projects in Portfolio.
- Procedures be established to review all outstanding loans on at least an annual basis to ensure that all outstanding loans are collectible.

**CITY OF HARRISBURG, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2014**

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With respect to the MOEEO loans, we recommend that:

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

*Views of Responsible Officials:* DBHD will develop and implement procedures to monitor loan balances for both HOME and CDBG loan receivables in collaboration with the Bureau of Financial Management. Reconciliation of loan balances to the general ledger will be done on a quarterly basis.

Additionally, DBHD will write off the loan receivable made to Sylvan Heights in calendar year 1997. The write off will take place before December 31st, 2015.

**Finding 2014-002: 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 transactions related to the net present value of the notes receivable related to the Harrisburg Parking Authority lease proceeds, amounts due to Capital Region Water (CRW) under the shared services agreement and the transition agreement, recording of grant revenue, receivables (utility, taxes, and other) and related allowances and write-offs, due to other funds and due to other governments, and accounts payable. In addition, the General Fund and Governmental Activities financial statements were required to be restated because earned income tax revenue of \$774,680 was recorded twice for the year ended December 31, 2013.

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

*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. The fund balance of the General Fund and the net position of the Governmental Activities were overstated by \$774,680 for the year ended December 31, 2013 as a result of the double recording of the earned income tax revenue.

*Cause:* The City does not have adequate staffing to produce GAAP financial statements.

*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 as noted above.

*Views of Responsible Officials:* The City concurs and as the financial situation of the City firms and allows its human capital capacity to increase, proper procedures will be implemented in order to address those differences in an appropriate and actionable timeframe.

**Finding 2014-003: Debt Compliance**

*Condition:* The City did not pay amounts due on its General Obligation Refunding Bonds, Series D of 1997 and General Obligation Refunding Notes, Series F of 1997 during the year ended December 31, 2014. Payments on the debt were made by the bond insurer under the insurance agreement per the trust indenture and in accordance with the AMBAC settlement agreement.

**CITY OF HARRISBURG, PENNSYLVANIA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2014

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*Cause:* Cash flow difficulties have prevented the City from making its required principal and interest payments.

*Recommendation:* We recommend that management review these transactions and evaluate whether measures can be taken by management to ensure that it can meet the City's future debt obligations.

*Views of Responsible Officials:* The City concurs and intends to comply as soon as the financial situation of the City firms. The AMBAC settlement agreement was constructed as such in order to give the City fiscal flexibility as it emerged from State Receivership and continues to endeavor to emerge from its Act 47 designation.

**Finding 2014-004: Segregation of Duties**

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

- Payments for MOEEO and DBHD loans are received directly by DBHD staff and recorded in the Portfolio system.
- Payments for building permits are received directly by the Bureau of Codes staff and the checks are not restrictively endorsed.
- Information Technology (IT) staff have control over multiple IT functions.

*Criteria:* In order to ensure that all transactions of the City are recorded and reported properly, the City needs to establish proper segregation of duties.

*Effect:* Opportunities exist for undetected intentional or unintentional errors in the City's processes.

*Cause:* The City does not have adequate staffing involved in each of the processes for appropriate segregation of duties.

*Recommendation:* With respect to the MOEEO and DBHD loans, we recommend that the City work within the DBHD to properly segregate duties. With respect to building permit receipts, we recommend that all receipts go directly to the City Treasurer's office, as a central depository, and copies of check and/or a receipt be provided to the Bureau of Codes for recording in the appropriate system or authorization of the permit. With respect to IT staffing, we recommend that the information technology operations, librarian, systems analyst, programming, network, and administrative functions be performed by separate employees to ensure that no one person has control over multiple information technology functions.

*Views of Responsible Officials:* The City agrees. A formalized policy which identifies specific work tasks as it relates to the handling, processing, posting of loan receivables to PORTFOL, and transmittal of loan receivables to the Office of the Treasurer will be developed and implemented between the three (3) staff members within DBHD who are tasked with accounts receivable administration.

With respect to the Bureau of Codes and the IT functions, the City concurs and once staffing returns to stable levels, proper procedures and protocols will be developed and implemented in order to address these issues in an appropriate and actionable timeframe

**Finding 2014-005: Reconciling Bank Accounts**

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

**CITY OF HARRISBURG, PENNSYLVANIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2014**

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- The payroll bank statements were received by the City Treasurer's office and then forwarded to the Controller's office and Finance Department.
- Monthly reconciliations for the year ended December 31, 2014 were not prepared timely or provided to the Controller's office timely for review.
- Although the monthly reconciliations were prepared, they did not reflect any adjustments related to the 2009, 2010, 2011, 2012, or 2013 audits.
- Bank reconciliations included transactions that were not appropriately reflected in the general ledger system including transfers related to credit card and automated clearinghouse transaction that had not been transferred to the appropriate funds/entities.

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

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

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

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

*Views of Responsible Officials:* The City concurs and once staffing returns to stable levels, proper procedures will be implemented in order to rectify in an appropriate and actionable timeframe, upon agreement between all administration departments and elected officials involved.

**Finding 2014-006: Schedule of Expenditures of Federal Awards**

*Condition:* For the year ended December 31, 2014, the City provided a summary schedule of federal expenditures; however, the schedule was not materially accurate. Material adjustments were made to the Community Development Block Grants/Entitlement grants to accurately report expenditures of federal funds for the year ended December 31, 2014.

*Criteria:* The Office of Management and Budget (OMB) Circular A-133 requires the auditee to prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements, which includes all federal awards expended during the year.

*Cause:* The City does not have adequate procedures in place to ensure that the schedule of expenditures of federal awards includes all federal money that was expended during the year.

*Effect:* The City did not accurately report all federal awards expended during the year on the schedule of expenditures of federal awards.

*Recommendation:* We recommend that the City implement procedures to ensure that all federal expenditures are included on the schedule of expenditures of federal awards.

*Views of Responsible Officials:* The City concurs and is currently working on developing an actionable solution with the Commonwealth of Pennsylvania, the Accounting Office, and the Grants Office.

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**Finding 2014-007: Recording and Reconciliation of Shared Services Revenue and Expense**

*Condition:* The City incurred certain revenues and expenditures under the Shared Service Agreement between the CRW. We noted the following items:

- Shared service expenditures were netted with revenue on certain invoices and, therefore, did not follow the City's voucher process.
- Per the shared services agreement, within 60 days after the end of each term, the parties are required to reconcile the actual costs for providing services to CRW to the costs in the budget provided pursuant to the shared services schedule. The City and CRW are to then reduce or increase the payments for the services based on actual costs. No such reconciliation occurred for the year ended December 31, 2014.
- Per the shared services agreement, budgeted expenditures are to be invoiced in advance for the month in which they are incurred; time and material expenditures are to be invoiced after costs are incurred; and other expenses are to be invoiced monthly. During testing of the shared services revenue and expenditures, it was noted that invoices to CRW for services provided in January through June 2014 were not billed until July 2014, and shared services payments to CRW for January through June 2014 were not paid until July 2014.

*Criteria:* The City should review the shared services agreement and ensure that all items in the agreement are being followed.

*Cause:* The City does not have adequate procedures in place to ensure that all shared services revenue and expenditures are being properly invoiced and that reconciliations to actual expenditures are being performed.

*Effect:* Shared service revenue and expenditures are not being recorded timely or at the appropriate amounts throughout the year and may be misstated.

*Recommendation:* We recommend that procedures be established to record shared services revenue and expenditures at the appropriate amounts, to reconcile budgeted amounts to actual amounts and reduce or increase the subsequent payment based on the reconciliation, and to bill and pay shared services in a timely manner.

*Views of Responsible Officials:* The City concurs and will endeavor to develop timely reconciliation and invoicing procedures once City staffing returns to stable levels and unanticipated administrative and compliance issues with the Shared Services Agreement are resolved.

III – Findings and questioned costs for federal awards.

*Control Deficiency: Material Weakness*

**Finding 2014-008: Cash Management**

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Home Investment Partnerships Program (CFDA #14.239); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900); U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA #20.205); U.S. Department of Homeland Security - Staffing for Adequate Fire and Emergency Response (CFDA #97.083)

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

During the audit, five out of eight reimbursement requests selected for testing related to the Home Investment Partnerships Program contained invoices for allowable costs that were not paid within ten calendar days of the date of HUD's remittance.

During the audit, one out of four reimbursement requests selected for testing related to the Lead-Based Paint Hazard Control Program contained invoices for allowable costs that were not paid within ten calendar days of the date of HUD's remittance.

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

During the audit, the City drew down money from the Department of Homeland Security Integrated Security and Access system for expenses that were not incurred by the City in the amount of \$30,930 for the Staffing for Adequate Fire and Emergency Response.

*Criteria:* The OMB Circular A-133 *Compliance Supplement* states that when funds are received, recipients must follow procedures to minimize the time elapsing between the receipt of federal funds and disbursements to vendors. For audit purposes, ten calendar days was considered reasonable when evaluating the time elapsed between the receipt of federal funds and disbursement to vendors.

The General Reimbursement Agreements for Federal-Aid Highway Projects entered into with the Commonwealth, acting through the Pennsylvania Department of Transportation, requires the City to pay the consultants and contractors within ten calendar days of the date of the Commonwealth's remittance.

The SAFER grant is on a reimbursement basis. The expenses were not incurred prior to being drawn down, the City was advancing itself money rather than being reimbursed.

*Cause:* The City does not have controls in place to ensure that invoices are paid in accordance with the OMB Circular A-133 *Compliance Supplement* or General Reimbursement Agreements for Federal-Aid Projects between the Commonwealth and the City. For the SAFER grant, there was miscommunication between the Grants Manager and the Fire Department on whether or not raises were received by certain firefighters, which led to the additional draw-down of funds that were not expensed.

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

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

*Views of Responsible Officials:* DBHD, in collaboration with the Bureau of Financial Management, has implemented a strategy to ensure that approved accounts payable are paid within ten (10) calendar days of the date of the United States Department of Housing and Urban Development's (HUD) draw down remittance.

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With respect to Highway Planning and Construction and Staffing for Adequate Fire and Emergency Response, the City concurs and is working on developing and implementing appropriate recording and approval procedures

**Finding 2014-009: Preparing Required Reports**

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900); U.S. Department of Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710); U.S. Department of Homeland Security - Staffing for Adequate Fire and Emergency Response (CFDA #97.083)

*Condition:* The City did not report accurate information on the Federal Financial Reports for any of the four quarters selected for testing related to the Community Development Block Grants/Entitlement Grants Program, Lead-Based Paint Hazard Control Program, or the Public Safety Partnership and Community Policing Grants – ARRA Program. The City did not report accurate information on the Federal Financial Reports for both of the semiannual reports selected for testing related to the Staffing for Adequate Fire and Emergency Response (SAFER) Program.

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

The City was unable to provide the quarterly Federal Progress Reports related to the Lead-Based Paint Hazard Control Program.

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

The City is required to submit a PR26 – CDBG Financial Summary Report for the Community Development Block Grants/Entitlement Grants Program. The report should reflect the accurate amount of program income received in the prior and current program years. The Code of Federal Regulations (24 CFR 570.205 and 570.206) requires not more than twenty percent of the total Community Development Block Grants/Entitlement Grants Program, plus twenty percent of the program income received during a program year to be obligated during that year for activities that qualify as planning and administration.

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

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

The data on the Federal Financial Reports for the semi-annual SAFER report was not cumulative and, therefore, did not encompass the total amount of funds expended and received to date.

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The program income on the PR26 - CDBG Financial Summary Report related to the Community Development Block Grant/Entitlement Grants Program for program year 2013 included amounts that related to program year 2012 that should have been reported on the PR26 – CDBG Financial Summary Report for program year 2012.

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

*Views of Responsible Officials:* DBHD will implement new procedures as it relates to the preparation of Federal financial reports and subsequent reconciliation of expenditures to the City of Harrisburg's general ledger. Federal financial reports for all required grant sources (HOME, CDBG, ESG and LEAD) will be prepared on a cumulative expenditure basis in compliance with HUD requirements.

With respect to Public Safety Partnership and Community Policing Grants and Staffing for Adequate Fire and Emergency Response, the City concurs and is working on developing and implementing appropriate recording and approval procedures.

**Finding 2014-010: Subrecipient Monitoring**

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

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

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

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

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

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

*Views of Responsible Officials:* In January of calendar year 2015, DBHD hired a project manager to monitor all subrecipients who receive federal grant dollars. The project manager's role is to ensure that all subrecipients are in compliance with grant award requirements.

**Finding 2014-011: Program Income**

U.S. Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants (CFDA #14.218)

*Condition:* During the audit, the City did not expend the program income received during 2014 for eligible activities prior to drawing down additional entitlement funds.

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

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

*Effect:* The City drew down entitlement funding before completely exhausting all program income in IDIS.

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

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

*Views of Responsible Officials:* DBHD has procedures in place to ensure that all program income that is received is receipted to IDIS and processed for deposit with the Office of the Treasurer.

**Finding 2014-012: Matching**

U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control Program (CFDA #14.900)

*Condition:* During testing of the match for the City of Harrisburg Lead-Based Paint Hazard Control Program (LEAD), it was noted that there were no internal controls in place to ensure that the LEAD match was being met by the City. The City did not start documenting the match for the LEAD grant until 2013, a year after the grant had started. Management reviewed timesheets in order to document the matched amount.

*Criteria:* Per the LEAD agreement between the City and HUD, the City must have adequate internal controls in order to monitor and track matching expenditures related to the LEAD grant.

*Cause:* The City did not have internal controls in place to track grant matching requirements or to ensure that the City was meeting matching requirements as outlined in grant agreements.

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

*Recommendation:* The City should implement procedures to document and track matching requirements.

*Views of Responsible Officials:* The City of Harrisburg agrees. DBHD at the request of Maher Duessel officials did provide a CDBG/LEAD expenditure analysis of Federal dollars committed to approximately 151 homes that received lead abatement.

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**Finding 2014-013: Allowability**

U.S. Department of Homeland Security - Staffing for Adequate Fire and Emergency Response (CFDA #97.083)

*Condition:* The City requested reimbursement for pay rate increases that the City never gave to its firefighters. The City received reimbursement for expenses that were never incurred by the City.

*Criteria:* The OMB Circular A-102 Common Rule requires entities to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

*Cause:* There were no internal controls in place to ensure that all requests were reviewed to ensure that requests only included allowable costs and costs that were actually incurred by the City. The Grants Manager requested additional funds for pay rate increases that were negotiated in the Union contract. However, as the City was under receivership, those raises were not provided and firefighters continued to be paid the same amount for the three years of the grant.

*Effect:* The City requested reimbursement for expenditures in the amount of \$30,930 for expenditures that were not incurred by the City.

*Recommendation:* The City should implement procedures to ensure that requests for reimbursements are being reviewed by individuals knowledgeable of the grant's allowable costs, as well as someone other than the individual submitting the cash request.

*Views of Responsible Officials:* The City concurs and is working on developing and implementing appropriate recording and approval procedures.