

**City of Harrisburg
Police Pension Plan**

Financial Statements and Required
Supplementary Information

Years Ended December 31, 2011 and 2010 with
Independent Auditor's Report

CITY OF HARRISBURG POLICE PENSION PLAN

YEARS ENDED DECEMBER 31, 2011 AND 2010

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Independent Auditor's Report

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Independent Auditor's Report

Police Pension Board
City of Harrisburg Police Pension Plan

We have audited the accompanying statements of plan net assets of the City of Harrisburg Police Pension Plan as of December 31, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the City of Harrisburg Police Pension Board. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the City of Harrisburg Police Pension Plan and do not purport to, and do not, present fairly the financial position of the City of Harrisburg as of December 31, 2011 and 2010, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Harrisburg Police Pension Plan as of December 31, 2011 and 2010, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the schedule of funding progress and schedule of required employer contributions, on page 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maher Duessel

Harrisburg, Pennsylvania
May 3, 2012

CITY OF HARRISBURG POLICE PENSION PLAN

STATEMENTS OF PLAN NET ASSETS

DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Assets		
<hr/>		
Receivables:		
Due from the City of Harrisburg	\$ 1,880,796	\$ -
Interest and dividends	62,340	72,155
	<hr/>	<hr/>
Total receivables	1,943,136	72,155
	<hr/>	<hr/>
Investments, at fair value:		
Money market funds	1,682,482	1,634,112
Fixed income funds	14,256,180	10,583,398
U.S. government obligations	2,141,268	3,024,022
U.S. government agency obligations	3,184,294	2,542,595
Corporate bonds	3,039,937	3,518,571
Equity funds	32,896,385	30,421,507
Common stocks	1,269,392	7,937,918
	<hr/>	<hr/>
Total investments	58,469,938	59,662,123
	<hr/>	<hr/>
Total Assets	60,413,074	59,734,278
	<hr/>	<hr/>
Liabilities		
<hr/>		
Payments due to members	346,465	-
	<hr/>	<hr/>
Net Assets		
<hr/>		
Net assets held in trust for pension benefits	<u>\$ 60,066,609</u>	<u>\$ 59,734,278</u>

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

CITY OF HARRISBURG POLICE PENSION PLAN

STATEMENTS OF CHANGES IN PLAN NET ASSETS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Additions:		
Contributions:		
Plan member	\$ 530,855	\$ 541,802
Employer	4,510,723	314,094
Total contributions	<u>5,041,578</u>	<u>855,896</u>
Investment income:		
Interest and dividend income	1,848,216	1,574,831
Net appreciation (depreciation) in fair value of investments	<u>(2,190,573)</u>	<u>5,399,936</u>
Total investment earnings (losses)	(342,357)	6,974,767
Less investment expense	<u>(228,239)</u>	<u>(177,990)</u>
Net investment income (loss)	<u>(570,596)</u>	<u>6,796,777</u>
Total additions	<u>4,470,982</u>	<u>7,652,673</u>
Deductions:		
Pension benefits	4,073,115	3,686,287
Administrative expenses	<u>65,536</u>	<u>63,023</u>
Total deductions	<u>4,138,651</u>	<u>3,749,310</u>
Increase in Net Assets	332,331	3,903,363
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	<u>59,734,278</u>	<u>55,830,915</u>
End of year	<u>\$ 60,066,609</u>	<u>\$ 59,734,278</u>

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

CITY OF HARRISBURG POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The City of Harrisburg Police Pension Plan (the "Plan") is a single-employer defined benefit pension plan covered by the Municipal Pension Plan Funding Standards and Recovery Act, Act 205-1984 of the Pennsylvania Legislature. The Plan was created by Ordinance No. 21 of 1998 and is controlled by the provisions of Ordinance No. 5 of 2001, as amended. The Plan is governed by the City of Harrisburg Police Pension Board (the "Board"), which consists of three persons appointed by the City of Harrisburg (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 Board is responsible for the management of Plan assets, appointment of the Plan trustee or custodian, and selection of investment advisors and managers.

Plan Membership

The latest actuarial valuation report prepared as of January 1, 2011 (reports are prepared on a biennial basis) disclosed that pension plan membership consisted of:

Active employees	165
Retirees and beneficiaries currently receiving benefits	175
Terminated employees entitled to benefits, but not yet receiving them	2
	<hr/>
	342
	<hr/> <hr/>

Benefit Provisions

All full-time members of the police force are eligible to join the Plan upon employment. Members are eligible for normal retirement after attainment of age 50. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse, or if there is no eligible surviving spouse, to the dependent children under the age of 18, equal to 50% of the amount payable to the member at the time of the member's death.

For members who complete 20 or more years of service, the amount of monthly pension is equal to 50% of the member's average monthly compensation, plus an incremental pension equal to 2.5% of 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 members who complete 26 years of service. An additional 5% of average compensation is added to members who complete 27 years of service, up to a maximum monthly pension of 70% of average monthly compensation.

Average monthly compensation is based upon 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.

CITY OF HARRISBURG POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

A member may continue to work after normal retirement date. The member's pension does not commence until the actual date of retirement and the benefit is equal to the benefit accrued to the late retirement date.

A member who has become disabled in the line of duty is eligible for a disability pension. The disability pension is equal to 50% of average monthly compensation, reduced by any Worker's Compensation benefits received by the member. If an active member who had completed four years of service is disabled outside of the line of duty, the member is eligible for a disability pension equal to 50% of average monthly compensation.

If a member who is eligible for retirement dies prior to retirement, a death benefit is payable to the surviving spouse, or if there is no eligible surviving spouse, to dependent children of the member under the age of 18 equal to 50% of the benefits the member would have been receiving had he been retired at the time of his death.

A member's benefits vest upon completion of 20 years of service. The vested benefit is a deferred monthly pension beginning at normal retirement equal to the benefit accrued to the date of termination.

The benefit accrued at any date, other than the normal retirement date, is calculated by multiplying the projected normal retirement benefit by the ratio, not greater than 1, of the number of years of service to date to 20.

As outlined in Ordinance No. 21 of 1998, as amended by Ordinance No. 5 of 2001, the authority to establish and amend benefit provisions rests with the members' collective bargaining unit and the City's administration. It then must be approved by the Board and ratified and enacted by City Council.

Contributions

During the years ended December 31, 2011 and 2010, Plan members contributed to the Plan at a rate of 5% of compensation, plus \$1 per month. As outlined in Ordinance No. 21 of 1998, as amended, the authority to make amendments to the contribution rates of Plan members rests with the members' collective bargaining unit and the City's administration. It then must be approved by the Board and ratified and enacted by City Council.

The Plan receives annual contributions from the Commonwealth of Pennsylvania in accordance with Act 205 that may be used by the City to meet employer contribution requirements.

Administrative Expenses

Administration costs are financed through investment earnings.

Basis of Accounting

The Plan's policy is to prepare its financial statements on the accrual basis of accounting. Revenues are recognized when earned, and certain expenses and purchases of assets are recognized when the obligation is incurred.

CITY OF HARRISBURG POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Valuation of Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximate fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. All highly liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents.

Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and 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.

2. DEPOSITS AND INVESTMENTS

The deposit and investment policy of the Plan adheres to 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 exceeding 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 saving the highest rating of a recognized bond rating agency; pooled funds of public agencies of the Commonwealth of Pennsylvania; corporate stocks and bonds; real estate; and other investments consistent with sound business practices.

The Plan's investments, at fair value, at December 31, 2011 and 2010 are as follows:

Description	2011	2010
Money market funds	\$ 1,682,482	\$ 1,634,112
Fixed income funds	14,256,180	10,583,398
U.S. government obligations	2,141,268	3,024,022
U.S. government agency obligations	3,184,294	2,542,595
Corporate bonds	3,039,937	3,518,571
Equity funds	32,896,385	30,421,507
Common stocks	1,269,392	7,937,918
	<u>\$ 58,469,938</u>	<u>\$ 59,662,123</u>

Custodial Credit Risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Plan's investment policy does not specifically address custodial credit risk. All of the Plan's investments are held by the broker or dealer, or by its trust department or agent in the Plan's name.

CITY OF HARRISBURG POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Concentration of Credit Risk/Credit Rating. The Plan's investment policy places the following limits on the amount the Plan may invest in any one issuer: 1) Not more than 7% of the total stock portfolio valued at market may be invested in the common stock of any one corporation; 2) Not more than 25% of the total stock portfolio valued at market may be held in any one industry category; 3) Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio; and 4) Cash and short-term instruments maturing in 360 days or less is restricted to a maximum of 10% of the total assets of the Plan.

At December 31, 2011 and 2010, the Plan did not have any investments that exceeded the above concentration policies.

Credit Risk. The Plan's investment policy limits its investment choices to the following Standard & Poor's credit ratings: 1) Cash equivalents must consist of cash instruments having a credit quality rating of A-2 or higher; 2) Short-term corporate obligations must be rated A or better; and 3) Fixed income securities must be rated BBB or better. At December 31, 2011 and 2010, the Plan's investment ratings are as follows:

<u>December 31, 2011</u>	<u>Rating</u>	<u>Fair Value</u>
Money market funds	AAA	\$ 1,682,482
Fixed income funds	*AA	4,307,716
Fixed income funds	*A	8,339,065
Fixed income funds	*B	1,609,399
U.S. government obligations	AA+	2,141,268
U.S. government agency obligations	AA+	3,184,294
Corporate bonds	AAA	265,559
Corporate bonds	AA+	224,775
Corporate bonds	AA	251,517
Corporate bonds	AA-	126,957
Corporate bonds	A+	403,301
Corporate bonds	A	828,227
Corporate bonds	A-	702,290
Corporate bonds	BBB+	148,923
Corporate bonds	Unrated	88,388

*This is a weighted-average quality rating for a mutual fund made up of fixed income securities.

CITY OF HARRISBURG POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

December 31, 2010	Rating	Fair Value
Money market funds	AAA	\$ 1,634,112
Fixed income funds	*AA	10,583,398
U.S. government obligations	AAA	3,024,022
U.S. government agency obligations	AAA	2,542,595
Corporate bonds	AAA	171,151
Corporate bonds	AA+	284,775
Corporate bonds	AA	177,119
Corporate bonds	AA-	122,628
Corporate bonds	A+	512,912
Corporate bonds	A	1,009,107
Corporate bonds	A-	822,612
Corporate bonds	BBB+	305,230
Corporate bonds	BBB	113,037

*This is a weighted-average quality rating for a mutual fund made up of fixed income securities.

Interest rate risk. The Plan's investment policy does not limit 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 Plan's money market fund and fixed income investments and their related average maturities:

Investment Type	Fair Value	Investment Maturities			
		Less than 1 year	1-5 Years	6-10 Years	More than 10 years
December 31, 2011					
Money market funds	\$ 1,682,482	\$ 1,682,482	\$ -	\$ -	\$ -
Fixed income funds	14,256,180	-	4,307,716	9,948,464	-
U.S. government obligations	2,141,268	418,777	1,190,782	81,363	450,346
U.S. government agency obligations	3,184,294	-	113,349	744,854	2,326,091
Corporate bonds	3,039,937	-	871,544	1,129,099	1,039,294
Total	\$ 24,304,161	\$ 2,101,259	\$ 6,483,391	\$11,903,780	\$ 3,815,731

CITY OF HARRISBURG POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Investment Type	Fair Value	Investment Maturities			
		Less than 1 year	1-5 Years	6-10 Years	More than 10 years
December 31, 2010					
Money market funds	\$ 1,634,112	\$ 1,634,112	\$ -	\$ -	\$ -
Fixed income funds	10,583,398	-	-	10,583,398	-
U.S. government obligations	3,024,022	100,046	1,887,131	991,936	44,909
U.S. government agency obligations	2,542,595	-	183,716	1,220,840	1,138,039
Corporate bonds	3,518,571	-	900,108	2,445,965	172,498
Total	\$ 21,302,698	\$ 1,734,158	\$ 2,970,955	\$15,242,139	\$ 1,355,446

3. FUNDED STATUS AND FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2011	\$ 63,759,040	\$ 72,302,610	\$ 8,543,570	88.20%	\$ 10,398,023	82.20%

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.

The actuarial accrued liability was determined as part of an actuarial valuation at January 1, 2011, the most recent filed actuarial valuation report. This report was based upon the entry age normal cost method and the following significant actuarial assumptions:

Amortization method	Level dollar closed
Remaining amortization period	13 years
Asset valuation method	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.
Inflation	Moderate
Interest	8.00%
Salary	5.00%

CITY OF HARRISBURG POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

The following schedule represents the benefit provisions and actuarial assumptions effective January 1, 2011:

Interest	8.00%																				
Salary	5.00%																				
Withdrawal	Selected rates of withdrawal are shown below:																				
	<table><thead><tr><th><u>Age</u></th><th><u>Increase</u></th><th><u>Age</u></th><th><u>Increase</u></th></tr></thead><tbody><tr><td>20</td><td>5.50%</td><td>40</td><td>1.00%</td></tr><tr><td>25</td><td>5.00%</td><td>45</td><td>0.50%</td></tr><tr><td>30</td><td>4.00%</td><td>50+</td><td>0.00%</td></tr><tr><td>35</td><td>2.50%</td><td></td><td></td></tr></tbody></table>	<u>Age</u>	<u>Increase</u>	<u>Age</u>	<u>Increase</u>	20	5.50%	40	1.00%	25	5.00%	45	0.50%	30	4.00%	50+	0.00%	35	2.50%		
<u>Age</u>	<u>Increase</u>	<u>Age</u>	<u>Increase</u>																		
20	5.50%	40	1.00%																		
25	5.00%	45	0.50%																		
30	4.00%	50+	0.00%																		
35	2.50%																				
Mortality	UP 1984 Table with five-year postretirement age setback for females																				
Disability	SOA 1987 Group LTD Table – Males, six month elimination																				
Retirement Age	Latest of age 52, 20 years of service, or age at valuation date																				
Preretirement Death Benefit	Liabilities computed on the assumption that all participants will have spouses of the same age at the date of eligibility for the benefit																				
Interest applied to member contributions	6.5% interest prior to February 28, 1999. No interest after February 28, 1999.																				

4. CONTINGENCIES

The Plan, through the City, is involved in litigation with the Fraternal Order of Police (FOP). The FOP has alleged that the City committed unfair labor practices when it failed to enact an amendment to the Police Pension Plan Ordinance that was agreed to in an amendment to the Basic Labor Agreement between the former mayor and the FOP. The proposed amendment would increase the maximum benefit incrementally to 80% of average monthly compensation for Plan members who retire with 21 to 27 years of credited service. The cost to the Plan would be \$514,000 per year, as estimated by the actuarial cost study.

On September 17, 2010, the unfair labor practices charges were dismissed. The FOP appealed the ruling to the Commonwealth Court, who affirmed the ruling on November 1, 2011. The FOP has since filed a Petition for Allowance of Appeal to the PA Supreme Court, which has not yet decided whether it will hear the appeal.

CITY OF HARRISBURG POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

5. SUBSEQUENT EVENT

The City receives State Aid from the Commonwealth of Pennsylvania in accordance with the Municipal Pension Plan Funding and Recovery Act (Act 205 of 1984). The City received \$1,880,796 of State Aid on September 30, 2011; however, these funds were not deposited to the Plan until March 29, 2012. This has been recorded as a receivable (Due from the City of Harrisburg) on the Statements of Plan Net Assets as of December 31, 2011 and as employer contributions on the Statements of Changes in Plan Net Assets for the year ended December 31, 2011.

**Required Supplementary
Information**

CITY OF HARRISBURG POLICE PENSION PLAN

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b-a)	(d) Funded Ratio (a/b)	(e) Covered Payroll	UAAL as a Percentage of Covered Payroll (c/e)
01/01/98	\$ 43,280,978	\$ 36,683,332	\$ (6,597,646)	117.99%	\$ 7,889,242	(83.63)%
01/01/99	49,828,312	39,413,195	(10,415,117)	126.43%	8,272,417	(125.90)%
01/01/00	57,143,147	36,876,195	(20,266,952)	154.96%	7,968,452	(254.34)%
01/01/01	57,189,470	39,086,593	(18,102,877)	146.31%	8,008,858	(226.00)%
01/01/02	55,690,061	47,122,954	(8,567,107)	118.18%	8,210,921	(104.34)%
01/01/03	48,588,557	50,541,728	1,953,171	96.14%	9,007,242	21.68%
01/01/05	61,438,353	55,244,375	(6,193,978)	111.20%	9,206,031	(67.30)%
01/01/07	68,875,536	59,874,001	(9,001,535)	115.00%	9,138,604	(98.50)%
01/01/09	63,959,386	65,951,752	1,992,366	97.00%	9,626,150	20.70%
01/01/11	63,759,040	72,302,610	8,543,570	88.20%	10,398,023	82.20%

SCHEDULE OF REQUIRED EMPLOYER CONTRIBUTIONS AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	(f) Annual Required Contribution (ARC) (1)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution (2)	Percentage Contributed [(g) / f]
2002	\$ -	01/01/00	\$ -	100.00%
2003	-	01/01/01	-	100.00%
2004	285,823	01/01/02	285,823	100.00%
2005	1,303,069	01/01/03	1,303,069	100.00%
2006	512,593	01/01/05	512,593	100.00%
2007	523,803	01/01/05	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% +

(1) 2004 - 2011 – Total contributions were made in accordance with funding requirements established by Act 205 as amended by Act 189-1990, enacted on December 18, 1990, with implementation effective January 1, 1992.

(2) Includes both contributions from the City of Harrisburg and state aid.