

**City of Harrisburg, Pennsylvania  
Sewer Revenue Trust Fund**

Financial Statements and Supplementary  
Information

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

# CITY OF HARRISBURG, PENNSYLVANIA

## SEWER REVENUE TRUST FUND

YEARS ENDED DECEMBER 31, 2011 AND 2010

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### Independent Auditor's Report

The Honorable Linda D. Thompson, Mayor  
and Honorable Members of City Council  
City of Harrisburg, Pennsylvania

We have audited the accompanying financial statements of the Sewer Revenue Trust Fund (an enterprise fund) of the City of Harrisburg, Pennsylvania (City) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 Sewer Revenue Trust Fund of the City and do not purport to, and do not, present fairly the financial position of the City, as of December 31, 2011 and 2010, and the changes in its financial position and cash flows 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 Sewer Revenue Trust Fund of the City as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Second Supplemental Agreement of Lease, Third Supplemental Agreement of Lease, Fourth Supplemental Agreement of Lease, and Collection System Lease: Reserve Requirement Calculation and Bond Covenant Requirement Calculation are presented for purposes of additional analysis and are not a required part of the financial statements. The Second Supplemental Agreement of Lease, Third Supplemental Agreement of Lease, Fourth Supplemental Agreement of Lease, and Collection System Lease: Reserve Requirement Calculation and Bond Covenant Requirement Calculation 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Maher Duessel*

Harrisburg, Pennsylvania  
May 10, 2013

**City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund**

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Statements of Net Assets

as of December 31, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,348,619	\$ 3,965,385
Investments	736,864	733,171
Accounts receivable, net of allowance for uncollectible accounts of \$2,111,028 in 2011 and \$2,058,084 in 2010	2,979,966	2,928,364
Due from component unit	388,980	380,030
Due from the City of Harrisburg General Fund	1,393,804	515,000
Other assets	1,046,458	654,800
Total current assets	<u>7,894,691</u>	<u>9,176,750</u>
Direct financing lease proceeds receivable from component unit	(718)	449,647
Capital assets, not being depreciated	3,833,769	1,696,031
Capital assets, net of accumulated depreciation of \$56,692,129 in 2011 and \$54,720,020 in 2010	38,498,368	40,419,127
	<u>42,331,419</u>	<u>42,564,805</u>
Total assets	<u>50,226,110</u>	<u>51,741,555</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	697,489	202,692
Accrued expenses	-	70,380
Due to other funds	232,588	143,244
Due to component unit	1,451,614	1,633,406
Current portion of vested compensated absences	14,327	13,600
Current portion of workers' compensation	7,960	36,672
Current portion of future lease rentals payable	79,366	1,769,281
Total current liabilities	<u>2,483,344</u>	<u>3,869,275</u>
Long-term liabilities:		
Vested compensated absences	238,849	267,255
Other post-employment benefits	1,209,847	946,134
Workers' compensation	27,370	106,186
Future lease rentals payable	1,601,761	1,275,988
Total long-term liabilities	<u>3,077,827</u>	<u>2,595,563</u>
Total liabilities	<u>5,561,171</u>	<u>6,464,838</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	40,650,292	39,519,536
Unrestricted	4,014,647	5,757,181
Total net assets	<u>\$ 44,664,939</u>	<u>\$ 45,276,717</u>

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

**City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund**

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Statements of Revenues, Expenses, and Changes in Net Assets  
for the years ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Charges for services	\$ 14,591,775	\$ 14,945,166
Operating expenses:		
Salaries and wages	1,795,561	1,867,791
Fringe benefits	864,702	953,622
Communications	19,237	22,701
Professional fees	126,365	93,176
Utilities	2,418,490	2,103,361
Insurance	381,829	325,924
Maintenance and repairs	388,860	321,636
Contracted services	7,308,864	7,301,968
Supplies	713,566	418,514
Depreciation	1,972,109	1,812,852
Total operating expenses	15,989,583	15,221,545
Operating loss	(1,397,808)	(276,379)
Nonoperating revenue (expenses):		
Grant subsidy	651,473	3,837,436
Investment income	12,556	4,827
Interest expense	(492,446)	(550,435)
Loss on disposal of assets	-	(2,689)
Total nonoperating revenue (expenses)	171,583	3,289,139
Income (loss) before contributions	(1,226,225)	3,012,760
Capital contributions	614,447	625,128
Change in net assets	(611,778)	3,637,888
Net assets - beginning of year	45,276,717	41,638,829
Net assets - end of year	\$ 44,664,939	\$ 45,276,717

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

**City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund**

(an enterprise fund of the City of Harrisburg, Pennsylvania)

## Statements of Cash Flows

for the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Received from user charges	\$ 14,531,223	\$ 14,476,833
Payments to employees for services	(1,823,240)	(1,861,589)
Payments for fringe benefits	(600,989)	(689,436)
Payments to suppliers for goods and services	<u>(11,422,804)</u>	<u>(10,651,132)</u>
Net cash provided by operating activities	<u>684,190</u>	<u>1,274,676</u>
Cash flows from noncapital financing activities:		
Proceeds from (payment of) advances to other City of Harrisburg funds	<u>(789,460)</u>	<u>72,402</u>
Net cash provided by (used in) noncapital financing activities	<u>(789,460)</u>	<u>72,402</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(51,350)	-
Lease and bond payments	<u>(2,469,009)</u>	<u>(2,362,300)</u>
Net cash used in capital and related financing activities	<u>(2,520,359)</u>	<u>(2,362,300)</u>
Cash flows from investing activities:		
Sales (purchases) of investments	(3,693)	1,409
Interest on investments	<u>12,556</u>	<u>4,827</u>
Net cash provided by investing activities	<u>8,863</u>	<u>6,236</u>
Net decrease in cash and cash equivalents	(2,616,766)	(1,008,986)
Cash and cash equivalents - beginning of year	<u>3,965,385</u>	<u>4,974,371</u>
Cash and cash equivalents - end of year	<u>\$ 1,348,619</u>	<u>\$ 3,965,385</u>

(Continued)

**City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund**

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Statements of Cash Flows (continued)

for the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,397,808)	\$ (276,379)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,972,109	1,812,852
Provision for uncollectible accounts	52,944	(238,916)
Changes in assets and liabilities:		
Accounts receivable	(113,496)	(229,417)
Other assets	(391,658)	(85,863)
Direct financing lease	9,176	108,308
Vested compensated absences	(27,679)	6,202
Workers' compensation	(107,528)	43,689
Other post-employment benefits	263,713	264,186
Accounts payable and accrued expenses	424,417	(129,986)
Net cash provided by operating activities	<u>\$ 684,190</u>	<u>\$ 1,274,676</u>
Other cash flow information:		
Cash payments for interest	<u>\$ 492,446</u>	<u>\$ 550,435</u>
Noncash investing, capital, and financing activities:		
Capital assets purchased by The Harrisburg Authority on behalf of the Sewer Revenue Trust Fund	<u>\$ 2,137,738</u>	<u>\$ 5,118,648</u>

(Concluded)

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

## **City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund**

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Notes to Financial Statements

December 31, 2011 and 2010

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

#### **A. *Reporting Entity***

The City of Harrisburg, Pennsylvania (City) Sewer Revenue Trust Fund is used to account for the operating assets and liabilities of the sewage collection system and sewage conveyance and treatment system subleased and leased, respectively, by The Harrisburg Authority (Authority) to the City.

Long-term debt issued to finance capital additions relating to the sewage conveyance and treatment system and to the collection system, related debt sinking funds, and unexpended bond proceeds held in restricted trust accounts are reflected in the accounts of the Authority.

#### **B. *Basis of Accounting***

The accounting records of the Sewer Revenue Trust Fund are maintained on the accrual basis and are accounted for as an enterprise fund.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance, subject to the same limitation. The Sewer Revenue Trust Fund has not elected to follow subsequent private-sector guidance.

Enterprise 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the Sewer Revenue Trust Fund are charges to customers for sales and services. Operating expenses for the Sewer Revenue Trust Fund 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 Sewer Revenue Trust Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

The City maintains the accounts of the Sewer Revenue Trust Fund in sufficient detail to identify accounts receivable, and revenue and expenses of the collection system separately from those of the conveyance and treatment system, as required by the terms of the respective lease agreements with the Authority. Such amounts have been combined for presentation in the Sewer Revenue Trust Fund's financial statements.

## **City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund**

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Notes to Financial Statements

December 31, 2011 and 2010

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### **C. *Cash and Cash Equivalents***

For the purposes of the statements of cash flows, highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

### **D. *Investments***

The Sewer Revenue Trust Fund carries its investments at fair value. The fair value of the investments is based upon values provided by external investment managers and quoted market prices.

### **E. *Allowance for Uncollectible Accounts***

The allowance for uncollectible accounts is based upon historic ratios developed from experience and other such factors which, in the judgment of City officials, deserve recognition in estimating possible losses. During the years ended December 31, 2007 through 2009, the City was to invoice other municipalities that use the City's sewer system at increased rates. However, the increase was not reflected on the invoices until 2010. The City has reported the full retroactive increase as receivable at December 31, 2011 and 2010, but has recorded a 100% allowance on such invoices. Management believes that they have adequately provided for future probable losses.

### **F. *Capital Assets***

Capital assets are carried at cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred and significant renewals and betterments are capitalized.

### **G. *Vested Compensated Absences***

Vested compensated absences represent vested portions of accumulated unpaid vacation, sick pay, and other employee benefit amounts. It is the Sewer Revenue Trust Fund'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.

### **H. *Net Assets***

Net assets are classified in the following categories:

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

## City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund

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Notes to Financial Statements

December 31, 2011 and 2010

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**Unrestricted Net Assets** – This category represents the net assets of the Sewer Revenue Trust Fund, which are not restricted for any project or other purpose.

### I. *Pending Changes in Accounting Principles*

In June 2011, GASB issued Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*” Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this statement are effective for the Sewer Revenue Trust Fund’s 2012 financial statements.

In March 2012, GASB issued Statement No. 65, “*Items Previously Reported as Assets and Liabilities.*” Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for the Sewer Revenue Trust Fund’s 2013 financial statements.

In June 2012, the GASB issued Statements No. 67 and 68, “*Financial Reporting for Pension Plans*” and “*Accounting and Financial Reporting for Pensions.*” 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 Sewer Revenue Trust Fund’s 2014 and 2015 financial statements.

The effect of implementation of these statements has not yet been determined.

## 2. DEPOSITS AND INVESTMENTS

The deposit and investment policy of the Sewer Revenue Trust Fund is restricted by the terms of the Second Supplemental Agreement of Lease, the Third Supplemental Agreement of Lease, the Fourth Supplemental Agreement of Lease, and the Collection System Lease between the City and the Authority. Allowable deposits and investments are limited to direct obligations of the United States of America, shares in portfolios of the Pennsylvania Local Government Investment Trust Program, and/or in savings or time deposits or certificates of deposit fully insured by the Federal Deposit Insurance Corporation, or certificates of deposit fully secured by direct obligations of the United States of America in one or more banks, savings and loan associations, or mutual savings banks (inclusive of the Trustee); such deposits shall be subject to withdrawal upon not more than six months notice or prior to the date upon which such money will be required to be expended, whichever is earlier, and, to the extent not insured, shall be secured continuously by the depository in the manner required by laws of the Commonwealth of Pennsylvania.

The policy is further restricted with respect to the reserve fund, which is comprised of amounts accumulated in the Sewer Revenue accounts, after withdrawals for operating expense obligations, until the balance is such that the reserve shall equal the sum of (1) one-half of the lease rental due under the next lease year and (2) one-half of the annual operating expenses as estimated by the consulting engineers, for the next succeeding lease year. With respect to the reserve fund, investments in direct obligations of the United States of America are limited to those having a

## City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Notes to Financial Statements

December 31, 2011 and 2010

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maturity date or being subject to redemption at the option of the holder either within one year from the date of such investment or prior to the date upon which such money will be required to be expended, whichever is earlier. All cash, cash equivalents, and investments except cash with fiscal agents are restricted pursuant to the reserve requirements.

The Sewer Revenue Trust Fund's deposit and investment policy is in compliance with the terms of the Second Supplemental Agreement of Lease, the Third Supplemental Agreement of Lease, the Fourth Supplemental Agreement of Lease, and the Collection System Lease.

### **A. Deposits**

*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, 2011 and 2010, the Sewer Revenue Trust Fund's book balance was \$1,348,619 and \$3,965,385, respectively, and the bank balance was \$1,314,864 and \$3,919,976, respectively. Of the bank balance at December 31, 2011 and 2010, \$250,000 was covered by federal depository insurance. The remaining balance of \$1,064,864 and \$3,669,976 at December 31, 2011 and 2010, respectively, 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.

### **B. Investments**

The City uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for City 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 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.

The Sewer Revenue Trust Fund pools certain investments with the City. The Sewer Revenue Trust Fund's position in the pooled funds at December 31, 2011 and 2010 was \$736,523 and \$732,830, respectively.

## City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Notes to Financial Statements

December 31, 2011 and 2010

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At December 31, 2011 and 2010, the fair value of the investments of the pooled and non-pooled funds of the City was as follows:

	<u>Fair Value</u>
<u>December 31, 2011</u>	
Investments:	
Money market fund	\$ 1,174,063
External investment pool	<u>341</u>
Total	<u>\$ 1,174,404</u>
Reconciliation to total investments:	
Non-pooled funds	\$ 341
Pooled funds	<u>1,174,063</u>
Total	<u>\$ 1,174,404</u>
 <u>December 31, 2010</u>	
Investments:	
Money market fund	\$ 1,157,935
External investment pool	<u>341</u>
Total	<u>\$ 1,158,276</u>
Reconciliation to total investments:	
Non-pooled funds	\$ 341
Pooled funds	<u>1,157,935</u>
Total	<u>\$ 1,158,276</u>

**Concentration of credit risk.** The City places no limit on the amount it may invest in any one issuer. At December 31, 2011 and 2010, there were no investments that exceeded five percent of the Sewer Revenue Trust Fund's total investments.

## City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Notes to Financial Statements

December 31, 2011 and 2010

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**Credit risk.** The City has no policy, other than presented above, that would further limit the City's investment choices with regard to credit risk. The City's investments had the following level of exposure to credit risk:

	<u>Fair Value</u>	<u>Rating</u>
<u>December 31, 2011</u>		
Money market fund	\$ 1,174,063	Unrated
External investment pool	\$ 341	AAAm
<u>December 31, 2010</u>		
Money market fund	\$ 1,157,935	Unrated
External investment pool	\$ 341	AAAm

**Interest rate risk.** The City's policy is to limit investments to those having a maturity date or being subject to redemption at the option of the holder either within one year from the date of such investment or prior to the date upon which such money will be required to be expended, whichever is earlier. At December 31, 2011 and 2010, the Sewer Revenue Trust Fund's pooled and non-pooled investments all had maturities of less than one year.

### 3. WORKERS' COMPENSATION DEPOSIT

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, 2011. Interest of \$1,524,063 has been earned on deposits and claims of \$700,000 have been paid from the trust account from inception through December 31, 2011. During 2006, the City withdrew \$1.3 million 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 \$1,174,063 at December 31, 2011. The amount of the deposit relating to the Sewer Revenue Trust Fund included in investments totaled \$736,523 and \$732,830 at December 31, 2011 and 2010, respectively.

## City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Notes to Financial Statements

December 31, 2011 and 2010

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### 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 is as follows:

	Beginning of Year	Additions	Retirements and Dispositions	End of Year
Capital assets, not being depreciated:				
Land	\$ 361,421	\$ -	\$ -	\$ 361,421
Construction in progress	1,334,610	2,137,738	-	3,472,348
Total capital assets, not being depreciated	1,696,031	2,137,738	-	3,833,769
Capital assets, being depreciated:				
Buildings	34,701,554	-	-	34,701,554
Improvements	2,685,962	-	-	2,685,962
Equipment and furniture	43,961,183	51,350	-	44,012,533
Infrastructure	13,790,448	-	-	13,790,448
Total capital assets, being depreciated	95,139,147	51,350	-	95,190,497
Less accumulated depreciation for:				
Buildings	(19,148,700)	(611,531)	-	(19,760,231)
Improvements	(808,136)	(26,876)	-	(835,012)
Equipment and furniture	(28,297,831)	(1,199,558)	-	(29,497,389)
Infrastructure	(6,465,353)	(134,144)	-	(6,599,497)
Total accumulated depreciation	(54,720,020)	(1,972,109)	-	(56,692,129)
Total capital assets, being depreciated, net	40,419,127	(1,920,759)	-	38,498,368
Capital assets, net	\$ 42,115,158	\$ 216,979	\$ -	\$ 42,332,137

## City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Notes to Financial Statements

December 31, 2011 and 2010

Capital asset activity for the year ended December 31, 2010 is as follows:

	Beginning of Year	Additions/ Transfer In	Retirements and Dispositions/ Transfers Out	End of Year
Capital assets, not being depreciated:				
Land	\$ 361,421	\$ -	\$ -	\$ 361,421
Construction in progress	3,141,229	4,579,181	(6,385,800)	1,334,610
Total capital assets, not being depreciated	<u>3,502,650</u>	<u>4,579,181</u>	<u>(6,385,800)</u>	<u>1,696,031</u>
Capital assets, being depreciated:				
Buildings	34,701,554	-	-	34,701,554
Improvements	2,685,962	-	-	2,685,962
Equipment and furniture	37,062,810	6,925,267	(26,894)	43,961,183
Infrastructure	13,790,448	-	-	13,790,448
Total capital assets, being depreciated	<u>88,240,774</u>	<u>6,925,267</u>	<u>(26,894)</u>	<u>95,139,147</u>
Less accumulated depreciation for:				
Buildings	(18,516,456)	(632,244)	-	(19,148,700)
Improvements	(779,850)	(28,286)	-	(808,136)
Equipment and furniture	(27,303,971)	(1,018,065)	24,205	(28,297,831)
Infrastructure	(6,331,096)	(134,257)	-	(6,465,353)
Total accumulated depreciation	<u>(52,931,373)</u>	<u>(1,812,852)</u>	<u>24,205</u>	<u>(54,720,020)</u>
Total capital assets, being depreciated, net	<u>35,309,401</u>	<u>5,112,415</u>	<u>(2,689)</u>	<u>40,419,127</u>
Capital assets, net	<u>\$ 38,812,051</u>	<u>\$ 9,691,596</u>	<u>\$ (6,388,489)</u>	<u>\$ 42,115,158</u>

Capital assets at December 31, 2011 and 2010, with estimated lives, are as follows:

	Estimated Life
Buildings	50 - 100 years
Improvements	40 years
Equipment and furniture	5 - 25 years
Infrastructure	50 - 100 years

Depreciation is taken on a straight-line basis over the estimated useful life of the asset and amounted to \$1,972,109 and \$1,812,852 in 2011 and 2010, respectively.

## 5. RISK MANAGEMENT

The Sewer Revenue Trust Fund 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.

## City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund

(an enterprise fund of the City of Harrisburg, Pennsylvania)

Notes to Financial Statements

December 31, 2011 and 2010

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

The Sewer Revenue Trust Fund has recorded a liability for outstanding workers' compensation claims, included with accrued expenses, in the amount of \$35,330 and \$142,858 at December 31, 2011 and 2010, respectively. This claims liability is discounted to present value at a discount rate of 5% and is 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.

Changes in the claims liability amounts in fiscal years 2011 and 2010 were as follows:

	2011	2010
Beginning - January 1	\$ 142,858	\$ 99,169
Current year claims and changes in estimates	(79,843)	51,646
Claim payments	(27,685)	(7,957)
Ending - December 31	35,330	142,858
Current portion	7,960	36,672
Long-term portion	<u>\$ 27,370</u>	<u>\$ 106,186</u>

## 6. COMMITMENTS AND CONTINGENCIES

### *Future Lease Rentals Payable*

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

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

On December 23, 2009, the City entered into a Fourth Supplemental Agreement of Lease pursuant to the issuance of the Authority's 2009 Guaranteed Sewer Revenue Note (2009 Note).

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The Fourth Supplemental Agreement of Lease was entered into providing for rental payments in an amount sufficient to provide for the principal and interest on the 2009 Note issued to finance the construction and acquisition of certain alterations, additions, improvements and extensions to the sewage conveyance and treatment system.

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

<u>Lease year ending December 31,</u>	<u>Basic Lease Rental</u>
2012	\$ 82,728
2013	100,481
2014	100,482
2015	110,714
2016	110,713
2017 - 2021	553,568
2022 - 2026	553,567
2027 - 2030	<u>442,854</u>
Total minimum lease payments	2,055,107
Less amount representing interest	<u>(373,980)</u>
Present value of net minimum lease payments	1,681,127
Current portion	<u>79,366</u>
Long-term portion	<u>\$ 1,601,761</u>

The net book value of equipment held under capital leases included in capital assets was \$19,403,745 and \$18,557,665 at December 31, 2011 and 2010, respectively. Construction of improvements to these systems under the lease agreements was \$2,137,738 and \$5,118,648 during 2011 and 2010, respectively. Capital assets under the lease agreement have been treated as noncash transactions in the Statements of Cash Flows.

The City is required under the terms of the Second, Third, and Fourth Supplemental Agreement of Lease and Collection System Lease to make additional rental payments within 190 days after the end of each year, equal to excess funds in the Sewer Revenue Trust Fund as defined in the respective lease agreements. Funds available were approximately \$4.6 million and \$3.6 million less than the reserve requirement at December 31, 2011 and 2010, respectively; accordingly, no additional payment was due.

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### 7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2011 is as follows:

	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Vested compensated					
absences	\$ 280,855	\$ 107,474	\$ (135,153)	\$ 253,176	\$ 14,327
Workers' compensation	142,858	(79,843)	(27,685)	35,330	7,960
Future lease rentals					
payable	3,045,269	430,629	(1,794,771)	1,681,127	79,366
Total long-term liabilities	<u>\$ 3,468,982</u>	<u>\$ 458,260</u>	<u>\$ (1,957,609)</u>	<u>\$ 1,969,633</u>	<u>\$ 101,653</u>

Long-term liability activity for the year ended December 31, 2010 is as follows:

	Beginning of Year	Additions	Accretion/ Amortization	Retirements	End of Year	Current Portion
Vested compensated						
absences	\$ 274,653	\$ 280,032	\$ -	\$ (273,830)	\$ 280,855	\$ 13,600
Workers' compensation	99,169	51,646	-	(7,957)	142,858	36,672
Future lease rentals						
payable	3,335,910	1,319,653	-	(1,610,294)	3,045,269	1,769,281
Bonds payable	47,559	-	1,628	(49,187)	-	-
Total long-term liabilities	<u>\$ 3,757,291</u>	<u>\$ 1,651,331</u>	<u>\$ 1,628</u>	<u>\$ (1,941,268)</u>	<u>\$ 3,468,982</u>	<u>\$ 1,819,553</u>

On December 28, 1995, the City issued Federally Taxable General Obligation Bonds, Series A of 1995 and Federally Taxable General Obligation Bonds, Series B of 1995 in the aggregate principal amount of \$35,734,416 (plus accrued interest of \$16,495, less original issue and underwriters' discounts of \$543,380) with interest rates ranging from 5.60% to 6.84% to fund the City's unfunded actuarial accrued pension liability and a reserve for the payment of the principal amortization component of the City's 1996 Minimum Municipal Obligation (MMO) payment required under Act 205. The net proceeds of \$33,892,502 (after payment of \$735,452 in issuance costs and a deposit of \$579,577 to the MMO escrow fund) were paid to the Pennsylvania Municipal Retirement System to fund the actuarial accrued pension liability. On December 30, 1997, the City issued \$12,840,000 of Federally Taxable General Obligation Bonds, Series E of 1997, with interest rates ranging from 6.35% to 6.42% to advance refund \$10,760,249 (\$9,402,812 in principal and \$1,357,437 of accumulated interest) of General Obligation, Series A and B of 1995, with interest rates ranging from 5.65% to 7.24%. The net proceeds of \$12,661,384 (after payment of \$178,616 in underwriting fees, insurance, and other issuance costs) were deposited in escrow to defease the Series A and B of 1995 bonds maturing on April 1, 1998 as well as those maturing on April 1, 2011 through April 1, 2019.

The final annual installment on these bonds of \$3,539,892 was due April 1, 2010 and was serviced through general revenues of the City and through sewer operating revenues. The bonds were allocated proportionately between the City's governmental activities and the Sewer Revenue

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Trust Fund based upon the related unfunded actuarial accrued pension liability. The bonds were fully redeemed during the year ended December 31, 2010.

### 8. OTHER POST-EMPLOYMENT BENEFITS

#### *Plan Description*

In addition to the pension benefits described in Note 9, 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; police, firefighters, non-uniformed management, and non-uniformed union. A separate financial statement is not issued for the plan.

#### 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, four retirees have been "grandfathered" and the City continues to pay the cost of full coverage.

#### *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.

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*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-employment 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.

*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

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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 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 after June 1, 2007:*

Eligibility: Non-uniform union employee must be eligible for the Non-Uniform 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 full cost single coverage or a percentage thereof based on the retiree's age and years of service. Otherwise, the retiree would pay the 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.

A retiree may suspend coverage under the plan if the retiree and/or spouse become covered under the plan of another employer. Coverage may be reinstated only upon proof of the termination of coverage under the other employer's plan.

### ***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, 2011, the City and the Sewer Revenue Trust Fund contributed \$4,697,333 and \$81,459 to the OPEB Plan, respectively. For the year ended December 31, 2010, the City and the Sewer Revenue Trust Fund contributed \$4,257,094 and \$71,899 to the OPEB Plan, respectively.

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 would pay the cost of coverage for the non-uniform management and non-uniform union retirees (including dependents) based on the various criteria described above.

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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.

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	1/1/2010
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	7.5% in 2010, decreasing by .05% per year to 5.5% in 2014, rates gradually decrease from 5.3% in 2015 to 4.2% in 2099

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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, 2011 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 15,848,879	\$ 596,739	\$ 16,445,618
Interest on OPEB obligation	1,613,500	79,275	1,692,775
Adjustment to ARC	(2,201,228)	(108,151)	(2,309,379)
Annual OPEB cost	15,261,151	567,863	15,829,014
Contribution made	(4,563,320)	(134,013)	(4,697,333)
Change in Net OPEB Obligation	10,697,831	433,850	11,131,681
Net OPEB Obligation, beginning	36,111,027	1,626,281	37,737,308
Net OPEB Obligation, ending	\$ 46,808,858	\$ 2,060,131	\$ 48,868,989

The City's annual OPEB costs and net OPEB obligations to the Plan for the year ended December 31, 2010 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 15,891,424	\$ 584,460	\$ 16,475,884
Interest on OPEB obligation	1,108,351	57,712	1,166,063
Adjustment to ARC	(1,512,076)	(78,735)	(1,590,811)
Annual OPEB cost	15,487,699	563,437	16,051,136
Contribution made	(4,136,557)	(120,537)	(4,257,094)
Change in Net OPEB Obligation	11,351,142	442,900	11,794,042
Net OPEB Obligation, beginning	24,759,885	1,183,381	25,943,266
Net OPEB Obligation, ending	\$ 36,111,027	\$ 1,626,281	\$ 37,737,308

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### Three-Year Trend Information

<u>Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 15,829,014	29.68%	\$ 48,868,989
2010	16,051,136	26.52%	37,737,308
2009	17,622,295	28.27%	25,943,266

### Funded Status and Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a/c)</u>
1/1/2010	\$ -	\$ 177,796,013	\$ 177,796,013	0.00%	\$ 28,435,550	625.26%

The above information is for the City as a whole. The Sewer Revenue Trust Fund's participation in the City's net OPEB obligation is \$1,209,847 and \$946,134 at December 31, 2011 and 2010, respectively.

## 9. PENSION PLANS

### *Basis of Accounting*

The plan's financial statements are prepared using the accrual basis of accounting. Plan members' contributions are recognized in the period in which the contributions are withheld. Employer contributions are recognized in the period in which the contributions are due.

### *Method Used to Value Investments*

Investments are reported at fair value. The plan's assets with the Pennsylvania Municipal Retirement System (PMRS) are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities.

### *Plan Description*

The Sewer Revenue Trust Fund contributes to the City's Non-uniformed Employees' pension plans with PMRS, an agent multiple-employer Public Employees Retirement System (PERS). On January 2, 2002, the assets of Plans A and B were combined, but the requirements for eligibility and benefits remain separate. Employees become eligible for participation in a plan immediately upon employment and become fully vested after 20 years of service for the City A plan and 10 years for the City B plan. The plans have been established by City ordinance in accordance with

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the authority for municipal contributions required by Act 205-1984 (Act 205) of the Pennsylvania legislature, as amended by Act 189-1990. The plans require covered employees to contribute a percentage of total compensation.

PMRS issues publicly available financial reports that include financial statements and required supplementary information. The PERS report 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.

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 plan. In no case may the benefit exceed 50% of the final average annual salary. The benefits provided by the Non-uniformed Employees' B plan are calculated at 2.0% per year of credited service multiplied by the final average annual salary. In no case may the benefit exceed 75% of the final average annual salary.

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

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

### ***Funding Policy***

Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's 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 contribute 4.0-6.0% and 5.0% of annual compensation for Plans A and B, respectively. An interest rate of 6.0% is applied to the employees' account. Employees' accumulated contributions plus interest (if applicable) will be returned upon termination or death if no other benefits are payable under the plan. The plans are also eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the 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 City's statutory funding requirement was not deposited to the pension plans but was utilized to fund debt service on the City's unfunded pension liability general obligation bonds issued in 1995 in accordance with Act 205 as amended.

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Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the plan and funded through investment earnings. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

***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	\$ 77,363,937	\$ 55,795,290	\$ (21,568,647)	138.66%	\$ 12,786,819	-168.68%

***Annual Pension Cost and Net Pension Obligation***

The City's annual non-uniformed employees' pension cost and net pension obligation to the Plans at December 31, 2011 and 2010 are as follows:

	2011		2010	
	Plan A	Plan B	Plan A	Plan B
Annual required contribution	\$ -	\$ -	\$ -	\$ -
Contributions made	-	-	-	-
Change in net pension obligation	-	-	-	-
Net pension obligation – beginning of year	-	-	-	-
Net pension obligation – end of year	\$ -	\$ -	\$ -	\$ -

## City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund

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### *Three-Year Trend Information*

Non-uniformed Employees' – Plan A:

<u>Calendar Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
January 1, 2009	\$ -	- %	\$ -
January 1, 2010	\$ -	-	\$ -
January 1, 2011	\$ -	-	\$ -

Non-uniformed Employees' – Plan B:

<u>Calendar Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
January 1, 2009	\$ -	- %	\$ -
January 1, 2010	\$ -	-	\$ -
January 1, 2011	\$ -	-	\$ -

The annual required contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (a) a 6.00% investment rate of return (net of administrative expenses) and (b) projected salary increases on a salary scale. The assumptions do not include postretirement benefit increases, which are funded by State appropriation when granted. The actuarial value of assets is determined using market values determined by the trustee.

## 10. RELATED PARTY TRANSACTION

The City General Fund provides certain administrative and operational services to the Sewer Revenue Trust Fund. Charges to the Sewer Revenue Trust Fund for administrative services and other expenses incurred were \$7,275,386 for the years ended December 31, 2011 and 2010.

## 11. LITIGATION

The United States Environmental Protection Agency (EPA) and Commonwealth of Pennsylvania Department of Environmental Protection have asserted that the City and the Authority may be in violation of certain environmental laws, including the federal Clean Water Act and the Pennsylvania Clean Streams Law. The alleged violations, among other things, relate to the Authority's ownership and the City's operation of a waste water treatment plan, combined sewer overflow structures, and related operations (collectively, the sewer system). As a result of such alleged violations, the City, along with the Authority, may be liable for penalties and/or obligated to undertake improvements to the sewer system. At this time, it is not possible to ascertain the

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costs associated with any such improvements, the scope, if any, of penalties and the breakdown of responsibility for any required improvements between the Authority and the City.

An attorney has been retained by the municipalities with whom the City has an agreement to transport and treat sewage, and from whom the City collects fees for such transportation and treatment. The municipalities allege that the City has 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 claim they are owed approximately \$15 million in reimbursement. Recently, the municipalities have begun to submit fees that are at the previous lower rate. The City expects that resolution of these possible claims will be incorporated into the recovery plan and has not accrued amounts due back to the sewer fund or to the surrounding municipalities for the alleged overcharge. 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.

**SUPPLEMENTARY SCHEDULES**

**SECOND SUPPLEMENTAL AGREEMENT OF LEASE,  
THIRD SUPPLEMENTAL AGREEMENT OF LEASE,  
FOURTH SUPPLEMENTAL AGREEMENT OF LEASE, AND  
COLLECTION SYSTEM LEASE**

**RESERVE REQUIREMENT CALCULATION AND  
BOND COVENANT REQUIREMENT CALCULATION**

**City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund**  
 (an enterprise fund of the City of Harrisburg, Pennsylvania)  
 Second Supplemental Agreement of Lease, Third Supplemental  
 Agreement of Lease, Fourth Supplemental Agreement of Lease,  
 and Collection System Lease  
 December 31, 2011

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In accordance with the respective Articles 5 of the Second Supplemental Agreement of Lease as amended by the Third and Fourth Supplemental Agreement of Lease and the Collection System Lease between The Harrisburg Authority and the City of Harrisburg, Pennsylvania (City), the Sewer Revenue Trust Fund is, at the end of each lease year, required to accumulate amounts in the Sewer Revenue accounts, after withdrawals for operating expense obligations, until the balance is such that the reserve shall equal the sum of (1) one-half of the lease rental due under the next lease year, and (2) one-half of the annual operating expenses as estimated by the consulting engineers, for the next succeeding lease year. Following is a computation of the reserve as of December 31, 2011, which the City is required to accumulate and maintain. Additionally, after the required reserve balance is attained, the City is required to pay any excess funds to The Harrisburg Authority within 190 days after the end of the year. The City may withdraw funds from the reserve account to satisfy lease payments as required by the Collection System Lease agreement.

Cash and investments - December 31, 2011 (1)	\$ 1,348,960
Amount due from the City of Harrisburg - December 31, 2011	1,393,804
Amount pledged by the City for full satisfaction of obligations related to operations in accordance with the lease Sections 5.02 and 5.03:	
Accounts payable	(697,489)
Accrued expenses and other current obligations	(22,287)
Current receivables pledged to satisfy current liabilities	<u>719,776</u>
Total funds available	<u>\$ 2,742,764</u>
Required reserves:	
Operation and maintenance expense reserve:	
Consulting engineers estimated operating costs - \$14,580,915 x 50%	\$ 7,290,458
2012 lease rental payment reserve:	
\$82,728 x 50%	<u>41,364</u>
Total reserve requirement	<u>\$ 7,331,822</u>
Required reserves in excess of funds available at December 31, 2011	<u>\$ (4,589,058)</u>

(1) - Excludes workers' compensation investments of \$736,523

**City of Harrisburg, Pennsylvania Sewer Revenue Trust Fund**  
 (an enterprise fund of the City of Harrisburg, Pennsylvania)  
 Second Supplemental Agreement of Lease, Third Supplemental  
 Agreement of Lease, Fourth Supplemental Agreement of Lease,  
 and Collection System Lease  
 December 31, 2011

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In accordance with the respective Sections 4.04 of the Second Supplemental Agreement of Lease as amended by the Third and Fourth Supplemental Agreement of Lease and the Collection System Lease between The Harrisburg Authority and the City of Harrisburg, Pennsylvania, the following computation is provided to verify if a sewer rate change is required by the agreement:

Total operating expense (2011 cash basis), as defined in the agreement of lease	\$ 13,832,809
Minimum net rentals due - 2012	82,728
Established margin of safety (5% of minimum net rental - 2011)	<u>95,789</u>
Total covenant requirement	14,011,326
Total revenue (2011 cash basis)	14,520,379
Cash and investments - December 31, 2010 (1)	<u>3,965,726</u>
Excess revenue, cash, and investments over covenant requirement (2011 cash basis)	<u><u>\$ 4,474,779</u></u>

(1) - Excludes workers' compensation investments of \$732,830