City of Harrisburg, Pennsylvania

Financial Statements and Supplementary Information

Year Ended December 31, 2013 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, 2013, 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 Capital Region Water, the Harrisburg Parking Authority, the Coordinated Parking Fund, 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, 2013, 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 Note 1 and 28, the City and its component units have adopted GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities"* during the year ended December 31, 2013. Our opinion is not modified with respect to this matter.

Correction of an Error

As discussed in Note 28, Capital Region Water, a discretely presented component unit of the City, has changed its valuation of investment contracts to contract value rather than the market value of the underlying collateral. Our opinion is not modified with respect to this matter.

Change in Activities

As discussed in Note 2, the Harrisburg Parking Authority, a discretely presented component unit of the City, entered into an Asset Transfer Agreement for the City of Harrisburg Parking System for a majority of its parking facilities, meters, and lots. Additionally, the City's sewer fund was an enterprise fund of the City through November 2013. In November, Capital Region Water (CRW) took over operations of the sewer system. CRW had previously reported their sewer segment as a financing segment. Finally, CRW sold its resource recovery segment on December 23, 2013. Our opinion is not modified with respect to these matters.

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, 119 through 121, and 122 through 125, respectively, 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.

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 accompanying 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 November 26, 2014, 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
November 26, 2014

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, 2013. 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, 2013 exceeded liabilities by $11,103,574, whereas at the end of 2012 liabilities exceeded its assets by $277,373,767; this favorable change represents an increase in net position of $288,477,341. The most significant factors comprising this overall increase pertain to various Special Items occurring near the end of 2013 involving the culmination of the Harrisburg Strong Plan including the elimination of various component unit debt formerly guaranteed by the City for Capital Region Water (formerly, The Harrisburg Authority) and the Harrisburg Parking Authority (HPA), the monetization of certain City parking system facilities via a lease agreement entered into by HPA and the Pennsylvania Economic Development Financing Authority, and the transitioning of the Sewer Fund by the City to Capital Region Water (CRW) resulting from the full transfer of operations of the wastewater collection and conveyance systems from the City to CRW.

    - Net investment in capital assets, in the amount of $50,896,017 and $103,347,569 as of December 31, 2013 and 2012, 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 $13,760,400 and $3,241,180 as of December 31, 2013 and 2012, respectively.
    - Unrestricted net position, which is net position not restricted for any particular purpose, amounts to ($53,552,843) and ($383,962,516) as of December 31, 2013 and 2012, respectively.

- The significant overall positive change in fund balance for Governmental Funds is summarized here with several factors. For total revenues, an increase of $5.3 million occurred which is mostly attributed to the City's earned income tax rate being effectively raised from .50% to 1.50%. For total expenditures, an increase to $90.7 million from the prior year total of $83.5 million is mainly attributed to the General Fund's recognition of $10,500,000 in debt service principal retirements, comprised of $4.5 million in suburban municipalities settlement and $6 million in reimbursement to the City's bond insurer pursuant to an applicable insurance policy relative to the 1997 Series General Obligation Refunding Bonds and Notes. For total other financing sources, an increase approximating $5.6 million is attributed to $2.6 million occurring in auction proceeds from the sale of a historic artifacts collection, and $3.8 million in debt issuance being recognized in the General Fund due to applicable amounts advanced by the City's bond insurer relative to bondholders of the 1997 Series General Obligation Refunding Bonds and Notes. Finally, as noted above and in detail per Note 2 to the basic financial statements, various Special Items occurred near the end of 2013, related to the implementation of the Harrisburg Strong Plan under Act 47 (Pennsylvania's Municipalities Financial Recovery Act of 1987), resulting in the General Fund achieving a positive fund balance for the first time in several years.

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, building and housing development, public safety (police and fire), public works, parks and recreation, environment, tourism, and interest on long-term debt. The business-type activities of the City include the Sewer (through November 4, 2013), Sanitation, Harrisburg Senators, and Incinerator (Disposal) Funds.

2. **Fund Financial Statements** A fund is a grouping of related accounts used to control resources that are separated by activity. Fund accounting is used by the City of Harrisburg to monitor and show compliance with budgetary requirements. Funds are either governmental, proprietary, or fiduciary funds.

   a. **Governmental Funds** Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

      The City of Harrisburg reports 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 four major enterprise funds: (1) the Sewer Fund (through November 4, 2013), which accounted for the revenues and expenses associated with the provision of sewage service to the residents and commercial and industrial establishments of the City as well as six municipalities surrounding the City; (2) the 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; (3) 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 (previously to CRW) for its provision of solid waste incineration services to the residents and commercial and industrial establishments of the City; and (4) 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.

Government-wide Financial Analysis

CITY OF HARRISBURG
CONDENSED STATEMENT OF NET POSITION
DECEMBER 31, 2013 AND 2012

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012 (restated)	2013	2012 (restated)
Current and other assets	$ 75,655,052	$ 32,597,219	$ 7,392,176	$ 16,484,879	$ 83,047,228	$ 49,082,098
Capital assets	100,220,687	103,570,405	33,768,584	77,476,194	133,989,271	181,046,599
Total assets	175,875,739	136,167,624	41,160,760	93,961,073	217,036,499	230,128,697
Current and other liabilities	30,806,340	106,331,027	293,069	3,083,808	31,099,409	109,414,835
Noncurrent liabilities	165,777,714	385,604,482	9,055,802	12,483,147	174,833,516	398,087,629
Total liabilities	196,584,054	491,935,509	9,348,871	15,566,955	205,932,925	507,502,464
Net position:						
Net investment in capital assets	24,665,069	34,549,918	26,230,948	68,797,651	50,896,017	103,347,569
Restricted	13,102,159	2,582,918	658,241	658,262	13,760,400	3,241,180
Unrestricted	(58,475,543)	(392,900,721)	4,922,700	8,938,205	(53,552,843)	(383,962,516)
Total net position	$ (20,708,315)	$ (355,767,885)	$ 31,811,889	$ 78,394,118	$ 11,103,574	$ (277,373,767)

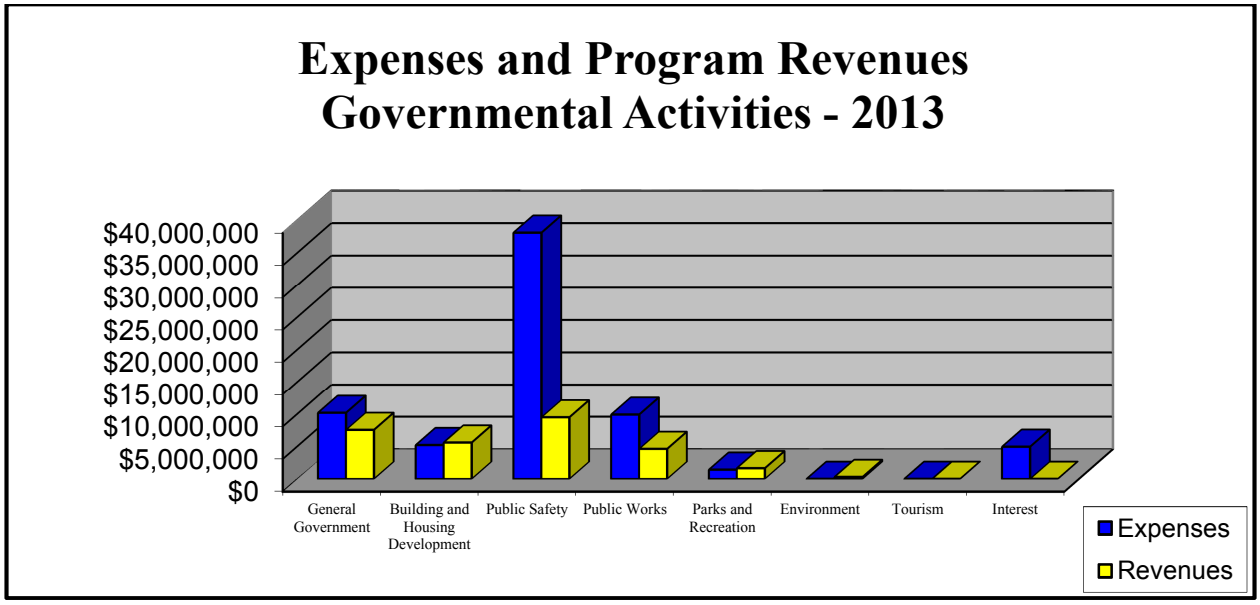
As noted earlier, net position may serve over time as a useful indicator of the government's financial position. As of December 31, 2013, the City's assets exceeded its liabilities by $11,103,574, and as of December 31, 2012, the City's liabilities exceeded its assets by $277,373,767.

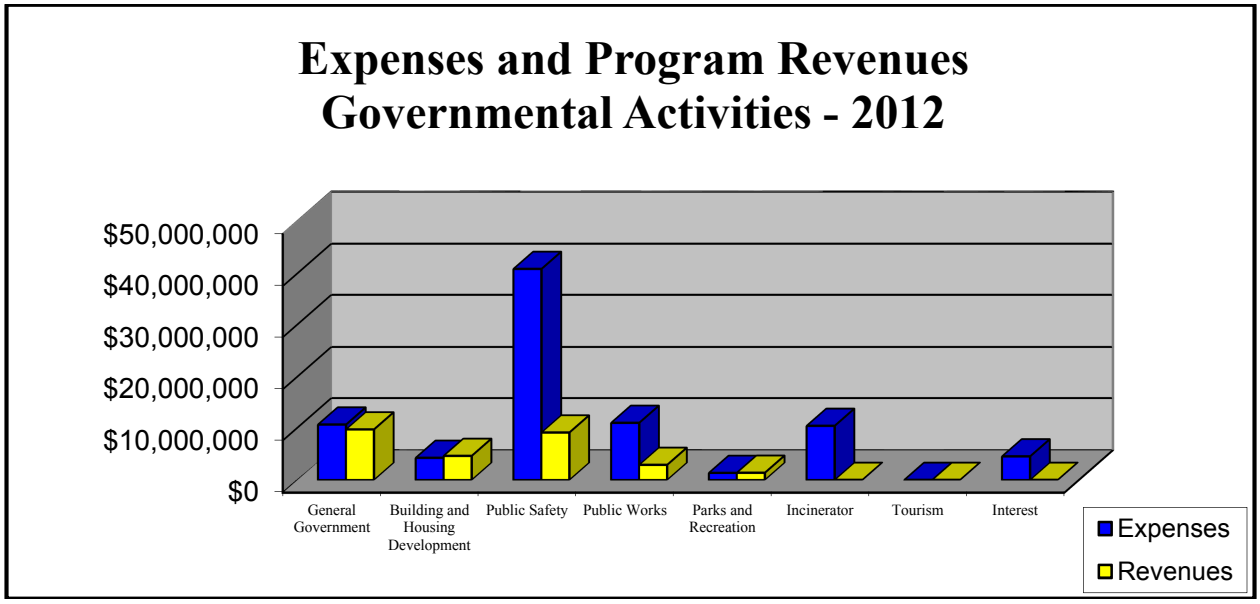
The largest portion of City of Harrisburg's net position is the City's investment in capital assets (i.e., land, archives, building, land and building improvements, equipment and furniture, infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used 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.

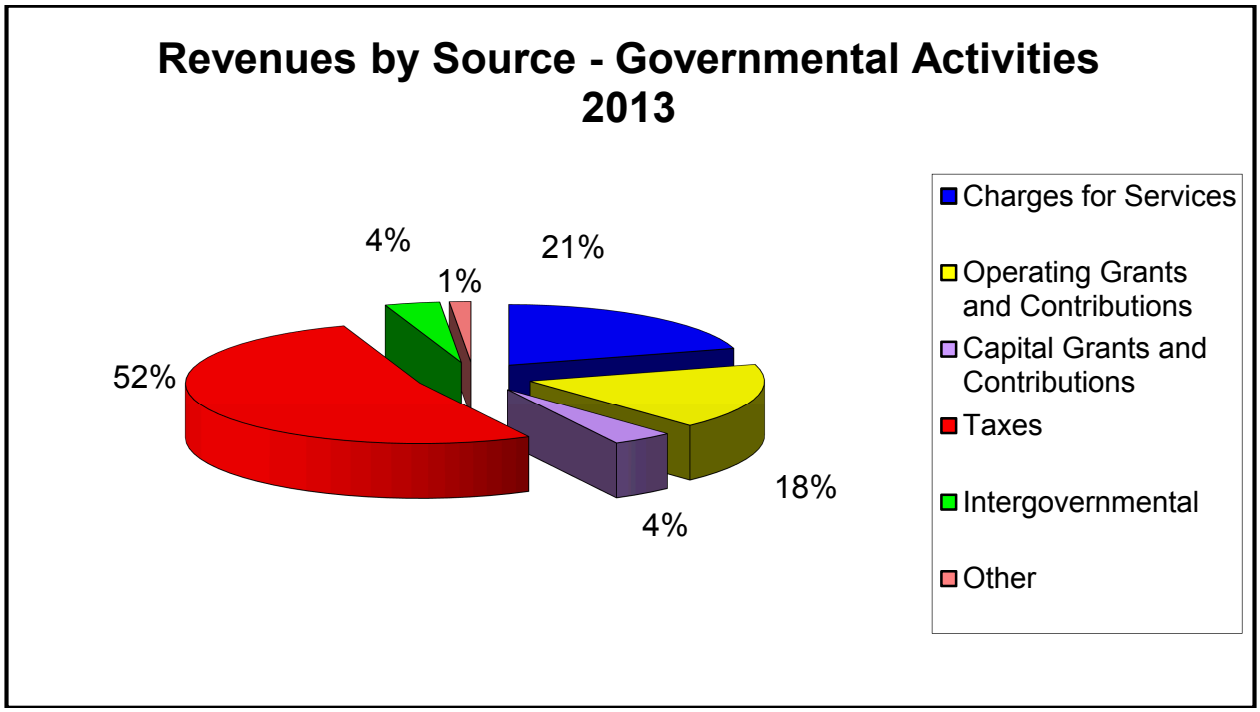
As indicated above for business-type activities, both capital assets and net investment in capital assets significantly decreased by over $40 million during 2013; this decrease is attributed to the transitioning of the Sewer Fund by the City to CRW resulting from an involved transfer agreement between the two entities.

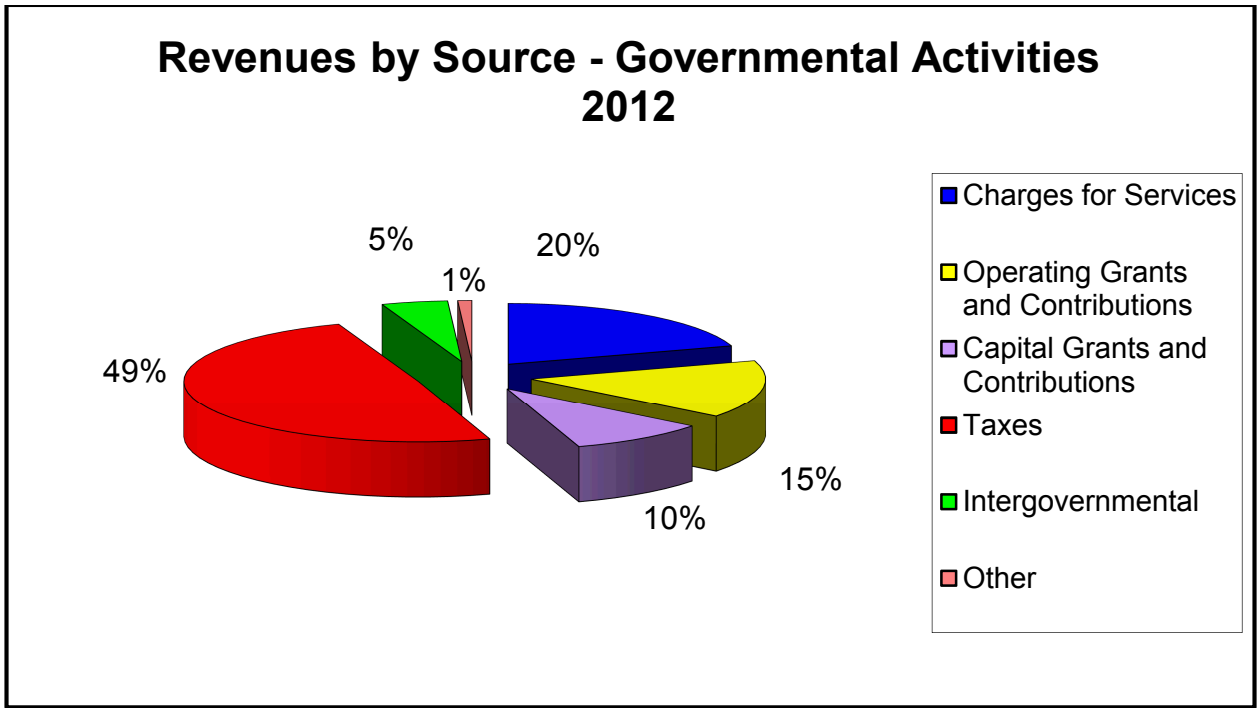
CITY OF HARRISBURG
CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
				(restated)		(restated)
Revenues						
Program revenues:						
Charges for services	$ 14,108,570	$ 12,318,964	$ 21,477,382	$ 23,583,457	$ 35,585,952	$ 35,902,421
Operating grants and contributions	12,092,005	9,476,900	106,051	51,853	12,198,056	9,528,753
Capital grants and contributions	2,912,221	5,819,787	315,242	1,049,542	3,227,463	6,869,329
General revenues:						
Taxes	36,057,909	30,280,393	-	-	36,057,909	30,280,393
Grants and contributions not restricted to specific functions	2,609,214	2,793,634	-	-	2,609,214	2,793,634
Other	1,016,154	593,588	20,213	24,614	1,036,367	618,202
Total revenues	68,796,073	61,283,266	21,918,888	24,709,466	90,714,961	85,992,732
Expenses						
General government	10,163,508	10,819,415	-	-	10,163,508	10,819,415
Building, housing development	5,191,903	4,235,693	-	-	5,191,903	4,235,693
Public safety	38,100,377	40,859,175	-	-	38,100,377	40,859,175
Public works	9,882,691	10,947,141	-	-	9,882,691	10,947,141
Parks and recreation	1,410,958	1,338,934	-	-	1,410,958	1,338,934
Incinerator	-	10,367,451	-	-	-	10,367,451
Tourism	3,256	71	-	-	3,256	71
Interest on long-term debt	4,937,270	4,510,977	-	-	4,937,270	4,510,977
Sewer	-	-	8,745,389	9,863,885	8,745,389	9,863,885
Sanitation	-	-	3,169,601	2,711,335	3,169,601	2,711,335
Harrisburg Senators	-	-	1,365,436	1,396,634	1,365,436	1,396,634
Incinerator	-	-	5,820,527	5,809,063	5,820,527	5,809,063
Total expenses	69,689,963	83,078,857	19,100,953	19,780,917	88,790,916	102,859,774
Change in net position before transfers and special items	(893,890)	(21,795,591)	2,817,935	4,928,549	1,924,045	(16,867,042)
Transfers	559,694	1,469,598	(559,694)	(1,469,598)	-	-
Special items-including culmination of the Harrisburg Strong Plan	335,393,766	(11,225,000)	(48,840,470)	-	286,553,296	(11,225,000)
Change in net position	335,059,570	(31,550,993)	(46,582,229)	3,458,951	288,477,341	(28,092,042)
Net position, January 1 - restated (see Note 28)	(355,767,885)	(324,216,892)	78,394,118	74,935,167	(277,373,767)	(249,281,725)
Net position, December 31	$ (20,708,315)	$ (355,767,885)	$ 31,811,889	$ 78,394,118	$ 11,103,574	$ (277,373,767)


Expenses and Program Revenues
Governmental Activities - 2013
$40,000,000
$35,000,000
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
General Government
Building and Housing Development
Public Safety
Public Works
Parks and Recreation
Environment
Tourism
Interest
Expenses
Revenues

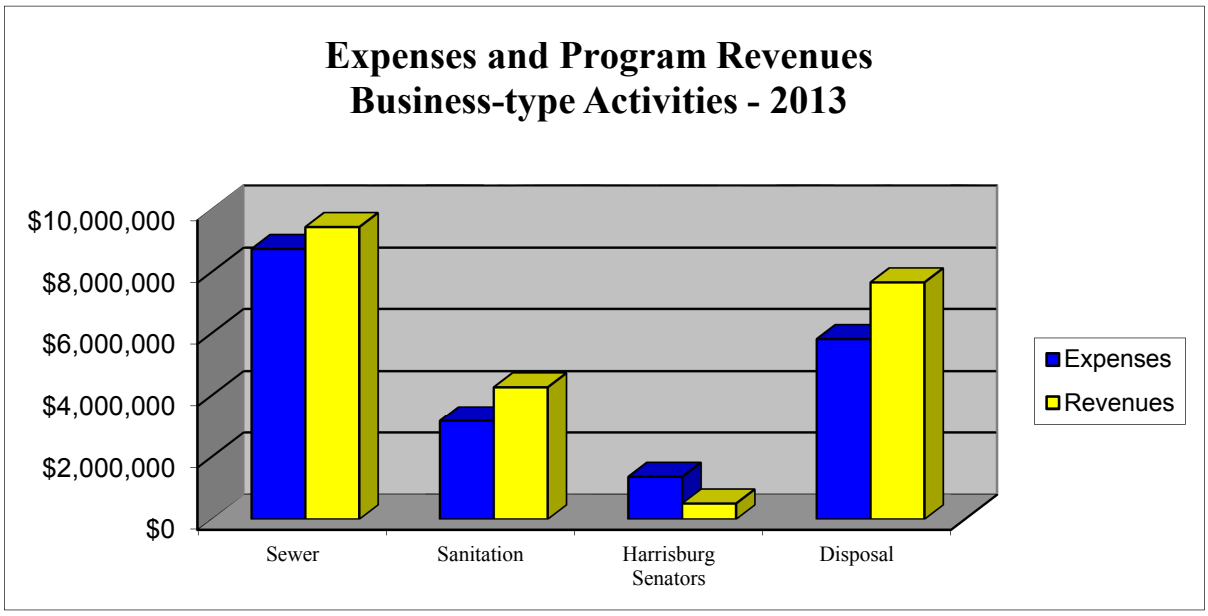

Expenses and Program Revenues
Governmental Activities - 2012
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
General Government
Building and Housing Development
Public Safety
Public Works
Parks and Recreation
Incinerator
Tourism
Interest
Expenses
Revenues

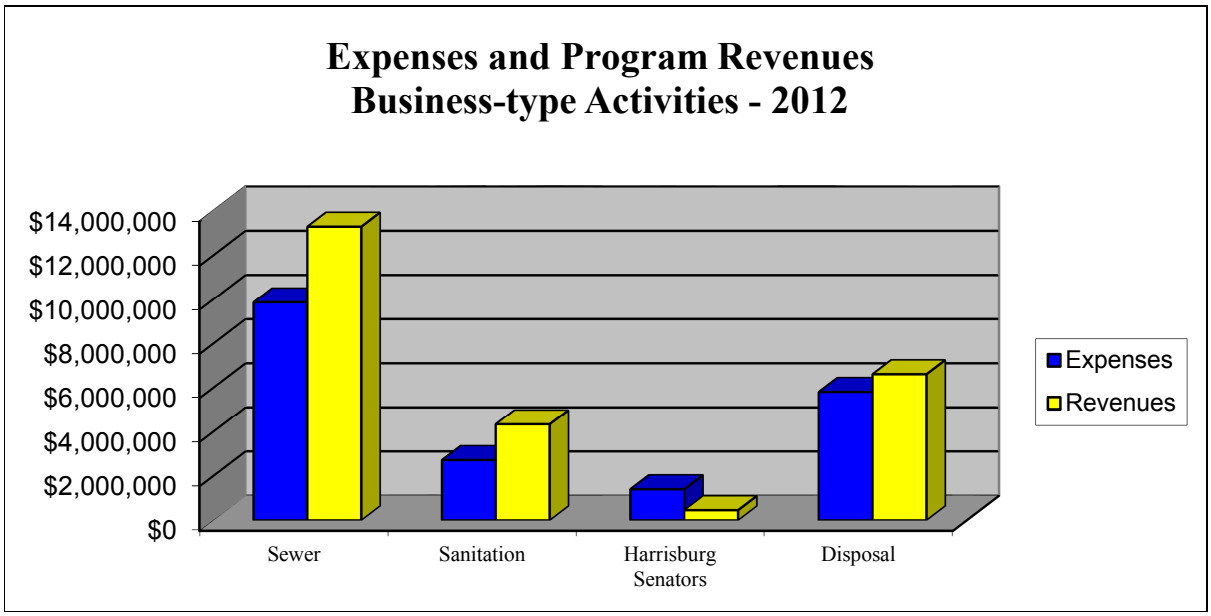




Governmental Activities: For 2013, governmental activities were very balanced in that both total revenues and total expenses approximated $69 million. As referenced earlier under Financial Highlights on page 4, various Special Items occurring near year-end relative to the implementation of the Harrisburg Strong Plan resulted in an additional increase in net position of over $330 million. By comparison with 2012's

governmental activities, it is noted the change in net position before transfers and special items of approximately ($22 million) was very comparable to that of 2011; an additional Special Item of $11,225,000 in total suburban municipalities settlement further increased this resulting negative net position. Total revenues increased to $68.8 million for 2013 compared with the prior year total of $61.3 million; this increase is mostly attributed to the Taxes line item increasing due to the City's earned income tax rate being effectively raised from .50% to 1.50%. Total expenses decreased to $69.7 million for 2013 compared with the prior year total of $83.1 million; this decrease is mainly due to the Incinerator line item decreasing from the results of the sale of the resource recovery facility and related defeasance of involved debt.





Business-Type Activities: For 2013, total revenues compared to the prior year decreased by approximately $2.8 million which can be attributed to the Sewer Fund's charges for services revenue ceasing in early November 2013 due to the transitioning of this Fund over to CRW for its full ownership and operation; total expenses for 2013 and 2012 are very comparable with each year reflecting totals of over $19 million. As referenced earlier under Financial Highlights on page 4, various Special Items occurring near year-end relative to implementation of the Harrisburg Strong Plan resulted in an overall decrease in net position by over $46 million.

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, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of 2013, the City of Harrisburg's governmental funds reported combined ending fund balances of $25,787,861, an increase of $102,202,629 over the prior year.

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund increased by $101,230,756 for the year ended December 31, 2013; as described and referenced in more detail under Financial Highlights on page 4, this significant increase is attributable to several resulting aspects from the implementation of the Harrisburg Strong Plan.

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 increased by over $270,000 due to residual auction proceeds still being available from the sale of a historic artifacts collection. The fund balance of Other Governmental Funds experienced an increase of approximately $1.1 million due to the creation of the Host Municipality Fees Fund (a new Special Revenue Fund) and more cash being available in the Capital Projects Fund as a result of the General Fund not fully accessing a whole year's worth of hotel tax deposit revenue.

General Fund Budgetary Highlights

On a budgetary (non-GAAP) basis, the General Fund's actual amounts for 2013 resulted with a very positive net change in fund balance of approximately $30 million, compared to the negative final budget amount of approximately ($3 million); this $33 million favorable variance is summarized here with several involved factors. Total revenues being under-budget by $4.8 million was mainly attributed to the following three items: (1) taxes collected for real estate, earned income, and business/privilege mercantile were collectively less than budget by $1.6 million due to collection timing issues and general economic conditions; (2) budgeted intergovernmental revenue of $1.4 million was not realized at all from the Coordinated Parking Fund component unit due to HPA not having enough in such needed available operational net profit and to the final occurrence of the Fund being closed in December 2013 with the termination of the involved cooperation agreement; and (3) departmental earnings were lower than budget by $1.3 million due to portions of 2013

appropriated hotel tax deposit revenue and Sanitation Fund administrative service charges being subsequently transferred to the General Fund in 2014, and to vehicle maintenance charges revenue being lower than anticipated in 2013 as a result of a reduction in need for such services throughout the year. Total expenditures being under-budget by $8.6 million was mainly attributed to the following three items: (1) total savings occurring in the total general government line item by $4.4 million or 25% reflects the City's ongoing need to reduce costs as much as possible in accordance with the Harrisburg Strong Plan under Act 47; (2) a noted $2 million in savings for public safety was due to maintained vacancies and early retirements occurring in 2013 for both Bureaus of Police and Fire affecting salaries and benefits, and to the excess portion of pension system state aid not being transferred to the Police Pension Plan until January 2014; and (3) an additionally noted $2 million in savings for public works was due to similar maintained vacancies and early retirements again affecting salaries and benefits, to less need for expenditures of a capital outlay nature, and to less demand by outside entities for fueling services provided by the vehicle maintenance center. Total other financing sources being over-budget by $29.6 million was attributed to the following two items: (1) no anticipated 2013 budget was prepared for the actual receipt of approximately $22.5 million in Harrisburg Strong Plan growth funds relative to the formation and further support of the Harrisburg OPEB Trust, the Harrisburg Strong Economic Development Corp., and the Harrisburg Strong Infrastructure Improvement Corp.; and (2) no transfers occurred from the General Fund to the Debt Service Fund relative to the 1997 Series General Obligation Refunding Bonds and Notes, as the City was unable to achieve any payment of the involved debt service requirements of approximately $8.5 million.

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, 2013 amount to $100,220,687 and $33,768,584 (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:

   - $7.3 million in both construction-in-progress reclassification and additional incurred costs resulted for the Federal funded Seventh Street Widening and School Crosswalk projects.

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

   - Net capital assets have been significantly reduced by over $40 million due to the transitioning in November 2013 of the Sewer Fund by the City over to CRW for its full ownership and operation.

   Additional information on the City's capital assets can be found beginning on page 66 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 69 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; in 2015, 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.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Primary Government				
	Governmental Activities	Business-type Activities	Total	Component Units	Total
Assets					
Cash and cash equivalents	$ 8,153,255	$ 255,930	$ 8,409,185	$ 20,830,229	$ 29,239,414
Investments, at fair value	11,186,651	1,306,888	12,493,539	81,891	12,575,430
Receivables, net of allowance for uncollectible accounts					
Taxes	14,046,984	-	14,046,984	-	14,046,984
Accounts	-	2,985,862	2,985,862	6,395,127	9,380,989
Loans	2,341,120	-	2,341,120	352,550	2,693,670
Notes	6,136,744	-	6,136,744	-	6,136,744
Grants	-	106,051	106,051	120,500	226,551
Other	3,070,250	-	3,070,250	-	3,070,250
Internal balances	898,919	(898,919)	-	-	-
Due from City's agency fund	202,153	-	202,153	-	202,153
Due from component units	969,969	1,539,298	2,509,267	-	2,509,267
Due from primary government	-	-	-	3,442,536	3,442,536
Other assets	594,786	86,128	680,914	872,408	1,553,322
Restricted assets					
Cash and cash equivalents	23,891,208	2,159	23,893,367	-	23,893,367
Cash with fiscal agents	-	-	-	2,850,753	2,850,753
Investments, at fair value	-	658,779	658,779	32,258,146	32,916,925
Security deposit	-	1,350,000	1,350,000	100,000	1,450,000
Prepaid debt insurance costs	-	-	-	335,635	335,635
Right to building	-	-	-	20,369,411	20,369,411
Net pension asset	4,163,013	-	4,163,013	-	4,163,013
Capital assets, not being depreciated	25,830,596	-	25,830,596	8,175,985	34,006,581
Capital assets, less accumulated depreciation and amortization	74,390,091	33,768,584	108,158,675	107,243,222	215,401,897
Total assets	175,875,739	41,160,760	217,036,499	203,428,393	420,464,892
Deferred outflows of resources					
Deferred loss on refunding	-	-	-	11,574,705	11,574,705

(continued)

	Primary Government				
	Governmental Activities	Business-type Activities	Total	Component Units	Total
Liabilities					
Accounts payable and other current liabilities	4,807,475	235,743	5,043,218	2,538,098	7,581,316
Matured bond coupons	20,097	-	20,097	-	20,097
Due to City Police Pension Plan	447,925	-	447,925	-	447,925
Accrued liabilities	3,347,824	51,812	3,399,636	52,755	3,452,391
Accrued termination benefits	-	-	-	1,466,240	1,466,240
Due to primary government	-	-	-	2,509,267	2,509,267
Due to other entities	12,307,692	-	12,307,692	-	12,307,692
Due to component units	3,437,022	5,514	3,442,536	-	3,442,536
Unearned revenue	6,438,305	-	6,438,305	7,100	6,445,405
Liabilities payable from restricted assets	-	-	-	2,940,010	2,940,010
Noncurrent liabilities:					
Due within one year	14,484,200	416,428	14,900,628	6,544,896	21,445,524
Due in more than one year	82,877,853	7,365,064	90,242,917	197,579,148	287,822,065
Other post-employment benefits	68,415,661	1,274,310	69,689,971	-	69,689,971
Unearned revenue	-	-	-	978,232	978,232
Environmental remediation liability	-	-	-	10,636	10,636
Total liabilities	196,584,054	9,348,871	205,932,925	214,626,382	420,559,307
Net position					
Net investment in capital assets	24,665,069	26,230,948	50,896,017	(6,396,654)	44,499,363
Restricted for:					
Revolving loan program	1,093,241	-	1,093,241	-	1,093,241
Environment	295,700	-	295,700	-	295,700
Public works	264,026	-	264,026	-	264,026
Parks and recreation	114,972	-	114,972	-	114,972
Tourism	855,235	-	855,235	-	855,235
Debt service	-	658,241	658,241	3,444,390	4,102,631
Growth funds	10,358,975	-	10,358,975	-	10,358,975
Other	120,010	-	120,010	-	120,010
Guarantee agreement	-	-	-	250,000	250,000
Water operations	-	-	-	19,813,806	19,813,806
Sewer operations	-	-	-	13,803,441	13,803,441
Insurer agreement	-	-	-	1,373,780	1,373,780
Unrestricted	(58,475,543)	4,922,700	(53,552,843)	(31,912,047)	(85,464,890)
Total net position	$ (20,708,315)	$ 31,811,889	$ 11,103,574	$ 376,716	$ 11,480,290

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities				
General government	$ 10,163,508	$ 7,274,749	$ -	$ 256,146
Building and housing development	5,191,903	1,186,535	4,389,529	-
Public safety	38,100,377	3,361,590	5,652,100	452,754
Public works	9,882,691	1,842,993	914,798	1,848,351
Environment	-	295,700	-	-
Parks and recreation	1,410,958	147,003	1,135,578	354,970
Tourism	3,256	-	-	-
Interest on long-term debt	4,937,270	-	-	-
Total governmental activities	69,689,963	14,108,570	12,092,005	2,912,221
Business-type activities				
Sewer	8,745,389	9,137,190	-	313,340
Harrisburg Senators	1,365,436	503,650	-	1,902
Incinerator	5,820,527	7,672,805	-	-
Sanitation	3,169,601	4,163,737	106,051	-
Total business-type activities	19,100,953	21,477,382	106,051	315,242
Total primary government	$ 88,790,916	$ 35,585,952	$ 12,198,056	$ 3,227,463
Component units				
Capital Region Water	$ 62,783,862	$ 43,872,504	$ 105,693	$ -
Harrisburg Parking Authority	14,476,366	14,853,276	-	-
Coordinated Parking Fund	5,572,611	6,788,489	-	-
Redevelopment Authority	4,696,794	1,198,527	225,257	33,333
Total component units	$ 87,529,633	$ 66,712,796	$ 330,950	$ 33,333

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
Special items

Total general revenues, transfers, and special items

Change in net position

Net position - January 1, 2013 - restated

Net position - December 31, 2013

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
$ (2,632,613)	$ -	$ (2,632,613)	$ -	$ (2,632,613)
384,161	-	384,161	-	384,161
(28,633,933)	-	(28,633,933)	-	(28,633,933)
(5,276,549)	-	(5,276,549)	-	(5,276,549)
295,700	-	295,700	-	295,700
226,593	-	226,593	-	226,593
(3,256)	-	(3,256)	-	(3,256)
(4,937,270)	-	(4,937,270)	-	(4,937,270)
(40,577,167)	-	(40,577,167)	-	(40,577,167)
-	705,141	705,141	-	705,141
-	(859,884)	(859,884)	-	(859,884)
-	1,852,278	1,852,278	-	1,852,278
-	1,100,187	1,100,187	-	1,100,187
-	2,797,722	2,797,722	-	2,797,722
(40,577,167)	2,797,722	(37,779,445)	-	(37,779,445)
-	-	-	(18,805,665)	(18,805,665)
-	-	-	376,910	376,910
-	-	-	1,215,878	1,215,878
-	-	-	(3,239,677)	(3,239,677)
-	-	-	(20,452,554)	(20,452,554)
17,496,972	-	17,496,972	-	17,496,972
321,959	-	321,959	-	321,959
2,095,891	-	2,095,891	-	2,095,891
10,658,619	-	10,658,619	-	10,658,619
4,473,456	-	4,473,456	-	4,473,456
546,156	-	546,156	-	546,156
36,557	-	36,557	-	36,557
428,299	-	428,299	-	428,299
2,609,214	-	2,609,214	-	2,609,214
526,866	-	526,866	41,629	568,495
489,288	20,213	509,501	232,525	742,026
559,694	(559,694)	-	-	-
335,393,766	(48,840,470)	286,553,296	302,840,854	589,394,150
375,636,737	(49,379,951)	326,256,786	303,115,008	629,371,794
335,059,570	(46,582,229)	288,477,341	282,662,454	571,139,795
(355,767,885)	78,394,118	(277,373,767)	(282,285,738)	(559,659,505)
$ (20,708,315)	$ 31,811,889	$ 11,103,574	$ 376,716	$ 11,480,290

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

CITY OF HARRISBURG, PENNSYLVANIA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets					
Cash and cash equivalents	$ 6,866,399	$ 1,546,161	$ 8,917	$ (268,222)	$ 8,153,255
Investments, at fair value	5,633,071	3,714,926	5,023	1,833,631	11,186,651
Receivables, net of allowance for uncollectible accounts					
Taxes	14,018,496	-	-	28,488	14,046,984
Loans	1,093,241	1,247,879	-	-	2,341,120
Notes	6,136,744	-	-	-	6,136,744
Other	1,667,216	1,056,784	283,121	63,129	3,070,250
Due from other funds	2,691,293	769,976	1,733,355	309,205	5,503,829
Due from component units	873,601	-	-	96,368	969,969
Other assets	594,786	-	-	-	594,786
Restricted assets					
Cash and cash equivalents	22,786,677	-	-	1,104,531	23,891,208
Total assets	$ 62,361,524	$ 8,335,726	$ 2,030,416	$ 3,167,130	$ 75,894,796

(Continued)

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities					
Accounts payable	$ 3,060,715	$ 1,496,396	$ -	$ 250,364	$ 4,807,475
Accrued liabilities	360,293	1,950	68,237	-	430,480
Notes payable	-	-	369,503	-	369,503
Capital lease obligation	-	-	1,295,614	-	1,295,614
Due to other entities	12,307,692	-	-	-	12,307,692
Compensated absences	123,702	-	-	-	123,702
Matured bond coupons payable	-	-	20,097	-	20,097
Due to other funds	2,531,168	1,120,655	-	750,934	4,402,757
Due to City Police Pension Plan	447,925	-	-	-	447,925
Due to component units	2,875,741	471,475	-	89,806	3,437,022
Unearned revenue	118,635	5,245,250	-	-	5,363,885
Total liabilities	21,825,871	8,335,726	1,753,451	1,091,104	33,006,152
Deferred inflows of resources					
Unavailable revenue - taxes	9,599,096	-	-	-	9,599,096
Unavailable revenue - notes receivable	6,136,744	-	-	-	6,136,744
Unavailable revenue - component unit	1,364,943	-	-	-	1,364,943
Total deferred inflows of resources	17,100,783	-	-	-	17,100,783
Fund balance					
Nonspendable	594,786	-	-	-	594,786
Restricted for					
Revolving loan program	1,093,241	-	-	-	1,093,241
Environment	-	-	-	295,700	295,700
Public works	-	-	-	264,026	264,026
Parks and recreation	-	-	-	114,972	114,972
Tourism	-	-	-	855,235	855,235
Other	120,010	-		-	120,010
Capital projects	-	-	-	546,093	546,093
Growth funds	10,358,975	-	-	-	10,358,975
Assigned for					
Debt service	-	-	276,965	-	276,965
Encumbrances					
General government	221,544	-	-	-	221,544
Public works	482,797	-	-	-	482,797
Public safety	26,643	-	-	-	26,643
Parks and recreation	8,335	-	-	-	8,335
Unassigned	10,528,539	-	-	-	10,528,539
Total fund balance	23,434,870	-	276,965	2,076,026	25,787,861
Total liabilities, deferred inflows of resources, and fund balance	$ 62,361,524	$ 8,335,726	$ 2,030,416	$ 3,167,130	$ 75,894,796

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, 2013

Fund balance - total governmental funds		$ 25,787,861
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	247,368,475	
Less accumulated depreciation	(147,147,788)	100,220,687
Receivables that are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds.		17,100,783
Net pension asset		4,163,013
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.		(1,074,420)
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	(3,925,273)	
Bonds payable	(25,921,225)	
Notes payable	(41,120,600)	
Notes payable due and payable at December 31, 2013	369,503	
Capital leases payable	(2,308,342)	
Capital leases payable due and payable at December 31, 2013	1,295,614	
Compensated absences	(5,626,613)	
Compensated absences due and payable at December 31, 2013	123,702	
Claims and judgments	(483,133)	
Due to bond insurer	(11,735,000)	
Settlement with suburban municipalities	(6,725,000)	
Other post-employment benefits	(68,415,661)	
Accrued interest payable	(2,434,211)	(166,906,239)
Net position of governmental activities		$ (20,708,315)

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, 2013

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 34,575,477	$ -	$ -	$ -	$ 34,575,477
Licenses and permits	576,806	-	-	-	576,806
Intergovernmental revenue	3,141,771	11,592,822	-	926,222	15,660,815
Department earnings and program revenue	7,715,670	64,604	-	1,182,077	8,962,351
Fines and forfeits	1,389,577	-	-	-	1,389,577
Investment income	537,618	1,509	7	435	539,569
Miscellaneous	1,888,788	1,140	204,284	122,500	2,216,712
Total revenues	49,825,707	11,660,075	204,291	2,231,234	63,921,307
Expenditures					
Current					
General government	8,554,176	113,661	-	-	8,667,837
Building and housing development	955,717	3,724,898	-	(2,235)	4,678,380
Public safety	29,168,614	83,422	-	-	29,252,036
Public works	6,151,452	1,848,351	-	648,260	8,648,063
Parks and recreation	458,622	-	-	-	458,622
Tourism	-	-	-	3,256	3,256
Incinerator	15,402,608	-	-	-	15,402,608
Capital outlay	-	-	-	30,006	30,006
Debt service					
Principal retirements	10,500,000	450,000	11,846,936	54,903	22,851,839
Interest and fiscal charges	156,789	289,728	211,648	-	658,165
Total expenditures	71,347,978	6,510,060	12,058,584	734,190	90,650,812
Excess of revenues over (under) expenditures	(21,522,271)	5,150,015	(11,854,293)	1,497,044	(26,729,505)
Other financing sources (uses)					
Sale of general capital assets	-	-	2,606,115	-	2,606,115
Debt issuance	3,865,000	-	-	-	3,865,000
Transfers in	6,661,703	-	9,675,001	-	16,336,704
Transfers out	(9,675,001)	(5,600,646)	(150,802)	(350,561)	(15,777,010)
Total other financing sources (uses)	851,702	(5,600,646)	12,130,314	(350,561)	7,030,809
Net change in fund balances before special items	(20,670,569)	(450,631)	276,021	1,146,483	(19,698,696)
Special items	121,901,325	-	-	-	121,901,325
Net change in fund balances	101,230,756	(450,631)	276,021	1,146,483	102,202,629
Fund balances - beginning of year	(77,795,886)	450,631	944	929,543	(76,414,768)
Fund balances - end of year	$ 23,434,870	$ -	$ 276,965	$ 2,076,026	$ 25,787,861

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, 2013

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - total governmental funds		$ 102,202,629
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	2,880,739	
Depreciation expense	(6,230,457)	(3,349,718)
In the statement of activities, only the gain on the sale of assets held for sale is reported. However, in governmental funds, the proceeds from the sale increase financial resources. Thus, the change differs by the net book value of the capital assets sold.		(1,727,384)
Change in net pension asset		305,869
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		8,297,746
Governmental funds report guarantee fees and swap fees as revenues when received. However, in the statement of activities, the fees are amortized over the guarantee or swap period and reported as investment income.		
Amortization		124,657
Write-off due to defeasance of component unit debt and related agreements		10,057,250
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.		
Issuance		(3,865,000)
Principal repayments		17,580,660
Reclassifcations from due and payable based on restructuring		(12,939,853)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Workers' compensation	268,632	
Compensated absences	852,464	
Claims and judgments	(483,133)	
Other post-employment benefits	(11,555,481)	
Settlement with suburban municipalities	4,500,000	
Contingent liability for component unit debt	229,545,472	
Accrued interest	(1,233,072)	
Amortization of prepaid debt insurance costs	(15,891)	
Amortization of bond discounts	(3,506,277)	218,372,714
Change in net position of governmental activities		$ 335,059,570

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2013

	Sewer Fund	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
ASSETS					
Current assets					
Cash and cash equivalents	$ -	$ -	$ 22	$ 255,908	$ 255,930
Investments, at fair value	-	-	-	1,306,888	1,306,888
Receivables, net of allowance for uncollectible accounts					
Accounts	-	-	2,474,156	511,706	2,985,862
Grants	-	-	-	106,051	106,051
Due from other funds	-	78,386	453,438	-	531,824
Due from component units	-	34,180	1,469,172	35,946	1,539,298
Prepaid expenses and other assets	-	69,860	-	16,268	86,128
Total current assets	-	182,426	4,396,788	2,232,767	6,811,981
Long-term assets					
Restricted assets					
Cash and cash equivalents	-	2,159	-	-	2,159
Investments, at fair value	-	658,779	-	-	658,779
Security deposit	-	-	-	1,350,000	1,350,000
Capital assets, less accumulated depreciation and amortization	-	33,693,304	-	75,280	33,768,584
Total long-term assets	-	34,354,242	-	1,425,280	35,779,522
Total assets	-	34,536,668	4,396,788	3,658,047	42,591,503
LIABILITIES					
Current liabilities					
Accounts payable	-	-	129,629	106,114	235,743
Accrued liabilities	-	47,273	-	4,539	51,812
Due to other funds	-	-	-	1,430,743	1,430,743
Due to component units	-	-	5,514	-	5,514
Current portion of workers' compensation	-	-	-	45,185	45,185
Current portion of lease rental bonds payable	-	280,000	-	-	280,000
Current portion of capitalized lease obligations	-	-	-	68,872	68,872
Current portion of vested compensated absences	-	-	-	22,371	22,371
Total current liabilities	-	327,273	135,143	1,677,824	2,140,240
Long-term liabilities					
Workers' compensation	-	-	-	179,279	179,279
Lease rental bonds payable	-	7,017,200	-	-	7,017,200
Capitalized lease obligations	-	-	-	20,604	20,604
Vested compensated absences	-	-	-	147,981	147,981
Other post-employment benefits	-	-	-	1,274,310	1,274,310
Total long-term liabilities	-	7,017,200	-	1,622,174	8,639,374
Total liabilities	-	7,344,473	135,143	3,299,998	10,779,614
NET POSITION					
Net investment in capital assets	-	26,511,367	-	(280,419)	26,230,948
Restricted					
Debt service	-	658,241	-	-	658,241
Unrestricted	-	22,587	4,261,645	638,468	4,922,700
Total net position	$ -	$ 27,192,195	$ 4,261,645	$ 358,049	$ 31,811,889

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, 2013

	Sewer Fund	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Operating revenues					
Charges for service	$ 9,136,953	$ 503,650	$ 7,672,805	$ 4,163,737	$ 21,477,145
Operating expenses					
Salaries and wages	1,440,664	-	-	817,864	2,258,528
Fringe benefits	633,810	-	-	771,417	1,405,227
Communications	19,547	-	-	2,164	21,711
Professional fees	91,648	-	-	10,341	101,989
Utilities	1,102,297	-	-	-	1,102,297
Insurance	246,586	-	-	46,198	292,784
Maintenance and repairs	1,386,728	-	-	181,411	1,568,139
Contracted services	853,039	-	5,809,871	976,784	7,639,694
Supplies	520,027	-	10,656	211,519	742,202
Depreciation	1,605,517	965,987	-	147,904	2,719,408
Total operating expenses	7,899,863	965,987	5,820,527	3,165,602	17,851,979
Operating income (loss)	1,237,090	(462,337)	1,852,278	998,135	3,625,166
Nonoperating revenues (expenses)					
State subsidy	313,340	1,902	-	106,051	421,293
Investment income	20,637	41	15	(480)	20,213
Interest expense	(845,526)	(392,233)	-	(3,999)	(1,241,758)
Amortization of bond issue costs	-	(7,216)	-	-	(7,216)
Gain on sale of assets	237	-	-	-	237
Total nonoperating revenues (expenses)	(511,312)	(397,506)	15	101,572	(807,231)
Income (loss) before transfer and special item	725,778	(859,843)	1,852,293	1,099,707	2,817,935
Transfers in	-	150,802	-	-	150,802
Transfers out	-	-	-	(710,496)	(710,496)
Special item:					
Termination of lease	(48,840,470)	-	-	-	(48,840,470)
Change in net position	(48,114,692)	(709,041)	1,852,293	389,211	(46,582,229)
Net position - beginning of year - restated	48,114,692	27,901,236	2,409,352	(31,162)	78,394,118
Net position - end of year	$ -	$ 27,192,195	$ 4,261,645	$ 358,049	$ 31,811,889

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, 2013

	Sewer Fund	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Cash flows from operating activities					
Received from user charges	$ 9,426,616	$ 503,650	$ 5,690,883	$ 4,738,382	$20,359,531
Payments to employees for services	(1,484,085)	-	-	(795,885)	(2,279,970)
Payments for fringe benefits	(680,507)	-	-	(473,511)	(1,154,018)
Payments to suppliers for goods and services	(3,616,268)	-	(5,690,898)	(1,491,655)	(10,798,821)
Net cash provided by (used in) operating activities	3,645,756	503,650	(15)	1,977,331	6,126,722
Cash flows from noncapital financing activities					
Transfers in	-	150,802	-	-	150,802
Transfers out	-	-	-	(710,496)	(710,496)
Security deposit	-	-	-	(1,350,000)	(1,350,000)
Proceeds from (repayment of) amounts due to other funds	(4,403,764)	-	-	-	(4,403,764)
Net cash provided by (used in) noncapital financing activities	(4,403,764)	150,802	-	(2,060,496)	(6,313,458)
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(206,194)	(405)	-	-	(206,599)
Proceeds from sale of assets	237	-	-	-	237
Transfers to component unit	(1,708,333)	-	-	-	(1,708,333)
State subsidy	-	4,458	-	-	4,458
Interest paid	-	(389,912)	-	(3,999)	(393,911)
Lease, bond and note payments	(960,466)	(270,000)	-	(60,971)	(1,291,437)
Net cash used in capital and related financing activities	(2,874,756)	(655,859)	-	(64,970)	(3,595,585)
Cash flows from investing activities					
Sales (purchases) of investments	3,094,839	1,366	-	(529,646)	2,566,559
Investment income	20,637	41	15	(480)	20,213
Net cash provided by (used in) investing activities	3,115,476	1,407	15	(530,126)	2,586,772
Net decrease in cash and cash equivalents	(517,288)	-	-	(678,261)	(1,195,549)
Cash and cash equivalents (including restricted cash) - beginning of year	517,288	2,159	22	934,169	1,453,638
Cash and cash equivalents (including restricted assets) - end of year	$ -	$ 2,159	$ 22	$ 255,908	$ 258,089

(continued)

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2013

	Sewer Fund	Harrisburg Senators Fund	Incinerator Fund	Sanitation Fund	Total Proprietary Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ 1,237,090	$ (462,337)	$ 1,852,278	$ 998,135	$ 3,625,166
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation and amortization	1,605,517	965,987	-	147,904	2,719,408
Provision for uncollectible accounts	2,289,675	-	424,841	43,672	2,758,188
Changes in assets and liabilities					
Accounts receivable	(2,000,012)	-	(1,058,492)	(32,444)	(3,090,948)
Due from/to other funds	-	-	(112,858)	563,417	450,559
Due from/to component units	-	-	(1,235,413)	-	(1,235,413)
Other assets	198,598	-	-	248	198,846
Direct financing lease	983,694	-	-	-	983,694
Vested compensated absences	(43,421)	-	-	21,979	(21,442)
Other post-employment benefits	(46,697)	-	-	297,906	251,209
Workers' compensation	(55,359)	-	-	(68,412)	(123,771)
Accounts payable and other accrued costs	(523,329)	-	129,629	4,926	(388,774)
Net cash provided by (used in) operating activities	$ 3,645,756	$ 503,650	$ (15)	$ 1,977,331	$ 6,126,722
Noncash investing, capital, and financing activities					
Amortization of bond discount	$ -	$ 7,216	$ -	$ -	$ 7,216
Capital assets purchased by Capital Region Water on behalf of the Sewer Fund	$ 205,766	$ -	$ -	$ -	$ 205,766

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013

	Police Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 2,397,196
Receivables		
Due from City of Harrisburg	447,925	-
Interest and dividends	35,511	-
Total receivables	483,436	-
Investments, at fair value		
Money market funds	950,219	-
Certificates of deposit	1,541,009	-
Fixed income funds	18,426,520	-
U.S. Government obligations	745,716	-
U.S. Government agency obligations	734,456	-
Corporate bonds	2,071,602	-
Municipal bonds	85,023	-
Equity funds	46,472,471	-
Common stocks	2,151,483	-
Total investments	73,178,499	-
Total assets	73,661,935	2,397,196
LIABILITIES		
Due to other governments	-	695,351
Due to City's General Fund	-	202,153
Due to others	-	928,810
Escrow liabilities	-	570,882
Total liabilities	-	$ 2,397,196
NET POSITION		
Restricted for police pension benefits	$ 73,661,935	

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, 2013

Additions	
Contributions	
Employee	$ 476,137
Employer	2,594,752
Total contributions	3,070,889
Investment income	
Interest and dividend income	2,047,721
Net appreciation in fair value of investments	7,773,711
Total investment income	9,821,432
Less investment expense	(203,522)
Net investment income	9,617,910
Total additions	12,688,799
Deductions	
Pension benefits	4,809,066
Administrative expenses	69,182
Total deductions	4,878,248
Change in net position	7,810,551
Net position - beginning of year	65,851,384
Net position - end of year	$ 73,661,935

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

Capital Region Water

The Capital Region Water (formerly, The Harrisburg Authority) Component Unit is used to account for the revenues and expenses associated with providing water service to residents and commercial and industrial establishments of the City of Harrisburg (City) and several surrounding municipalities; providing municipal solid waste disposal, subsequent sale of incinerator generated steam to local utility, and the production of electricity for in-house use and sale to a public utility. On December 23, 2013, Capital Region Water sold its resource recovery facility. During November and December 2013, Capital Region Water and the City entered into several agreements resulting in the transfer of operations of the sewer fund of the City to Capital Region Water.

Harrisburg Parking Authority

Though December 23, 2013, the Harrisburg Parking Authority Component Unit was used to account for the revenues and expenses associated with the ownership and operation of ten parking garages containing approximately 7,813 spaces in the central business district of the City, in addition to funds it received from on-street parking meter charges and four open lots. On December 23, 2013, the Harrisburg Parking Authority 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.

Coordinated Parking Fund

The Coordinated Parking Fund Component Unit was used to account for the net operating revenues from the components of the coordinated parking system. The components of the coordinated parking system included ten parking garages owned and operated by the Harrisburg Parking Authority, two of the City's surface lots, the City's parking meters, and a portion of the parking tax collected by the City. The Fund was pledged as security for the debt service payments of the Harrisburg Parking Authority Series N and Series R Bonds. The Coordinated Parking Fund closed effective December 23, 2013 and all remaining assets and liabilities were transferred to the Harrisburg Parking Authority.

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, 2013

	Capital Region Water	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total Component Units
ASSETS					
Current assets					
Cash and cash equivalents	$ 16,651,590	$ 3,371,924	$ -	$ 806,715	$ 20,830,229
Investments	22,954	58,937	-	-	81,891
Receivables, net of allowance for uncollectible accounts					
Accounts	5,823,921	383,341	-	187,865	6,395,127
Loans	-	-	-	352,550	352,550
Grants	-	-	-	120,500	120,500
Due from primary government	3,058,017	384,519	-	-	3,442,536
Prepaid expenses and other assets	866,694	5,714	-	-	872,408
Total current assets	26,423,176	4,204,435	-	1,467,630	32,095,241
Restricted assets					
Cash with fiscal agents	2,850,753	-	-	-	2,850,753
Investments	29,063,756	-	-	3,194,390	32,258,146
Total restricted assets	31,914,509	-	-	3,194,390	35,108,899
Prepaid debt insurance costs	335,635	-	-	-	335,635
Right to building	-	-	-	20,369,411	20,369,411
Capital assets, not being depreciated	8,145,985	-	-	30,000	8,175,985
Capital assets, less accumulated depreciation	94,348,660	4,916,662	-	7,977,900	107,243,222
Deposits	-	100,000	-	-	100,000
Total assets	161,167,965	9,221,097	-	33,039,331	203,428,393
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	11,574,705	-	-	-	11,574,705

(continued)

	Capital Region Water	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total Component Units
LIABILITIES					
Current liabilities (payable from current assets)					
Accounts payable and accrued liabilities	1,613,623	844,816	-	79,659	2,538,098
Due to primary government	1,859,307	593,595	-	34,180	2,487,082
Current portion of compensated absences	93,498	-	-	-	93,498
Accrued interest payable	-	-	-	52,755	52,755
Unearned revenue	-	-	-	7,100	7,100
Accrued termination benefits	-	1,466,240	-	-	1,466,240
Total current liabilities (payable from current assets)	3,566,428	2,904,651	-	173,694	6,644,773
Current liabilities (payable from restricted assets)					
Accrued interest payable	2,940,010	-	-	-	2,940,010
Current portion of revenue bonds payable	5,817,000	-	-	-	5,817,000
Current portion of revenue notes payable	295,818	-	-	338,580	634,398
Total current liabilities (payable from restricted assets)	9,052,828	-	-	338,580	9,391,408
Noncurrent liabilities					
Compensated absences	539,531	-	-	-	539,531
Revenue bonds payable, net of discount	138,789,053	-	-	55,008,154	193,797,207
Revenue notes payable, net of discount	2,238,142	-	-	833,436	3,071,578
Due to other governments	-	-	-	170,832	170,832
Due to primary government	22,185	-	-	-	22,185
Unearned revenue	978,232	-	-	-	978,232
Environmental remediation liability	-	-	-	10,636	10,636
Total liabilities	155,186,399	2,904,651	-	56,535,332	214,626,382
NET POSITION					
Net position					
Net investment in capital assets	(18,150,046)	4,916,662	-	6,836,730	(6,396,654)
Restricted					
Debt service	-	-	-	3,444,390	3,444,390
Guarantee agreement	250,000	-	-	-	250,000
Water operations	19,813,806	-	-	-	19,813,806
Sewer operations	13,803,441	-	-	-	13,803,441
Insurer agreement	1,373,780	-	-	-	1,373,780
Unrestricted	465,290	1,399,784	-	(33,777,121)	(31,912,047)
Total net position	$ 17,556,271	$ 6,316,446	$ -	$ (23,496,001)	$ 376,716

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

CITY OF HARRISBURG
STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2013

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Capital Region Water	$ 62,783,862	$ 43,872,504	$ 105,693	$ -
Harrisburg Parking Authority	14,476,366	14,853,276	-	-
Coordinated Parking Fund	5,572,611	6,788,489	-	-
Redevelopment Authority	4,696,794	1,198,527	225,257	33,333
Total component units	$ 87,529,633	$ 66,712,796	$ 330,950	$ 33,333

General revenues
Miscellaneous income
Unrestricted investment earnings
Special items

Total general revenues and special items

Change in net position

Net position - January 1, 2013 - restated

Net position - December 31, 2013

Net (Expense) Revenue and Changes in Net Position				
Capital Region Water	Harrisburg Parking Authority	Coordinated Parking Fund	Redevelopment Authority	Total
$ (18,805,665)	$ -	$ -	$ -	$ (18,805,665)
-	376,910	-	-	376,910
-	-	1,215,878	-	1,215,878
-	-	-	(3,239,677)	(3,239,677)
(18,805,665)	376,910	1,215,878	(3,239,677)	(20,452,554)
-	-	-	41,629	41,629
(134,406)	200,463	-	166,468	232,525
284,028,108	21,883,084	(3,070,338)	-	302,840,854
283,893,702	22,083,547	(3,070,338)	208,097	303,115,008
265,088,037	22,460,457	(1,854,460)	(3,031,580)	282,662,454
(247,531,766)	(16,144,011)	1,854,460	(20,464,421)	(282,285,738)
$ 17,556,271	$ 6,316,446	$ -	$ (23,496,001)	$ 376,716

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, 2013.

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:

- Capital Region Water
- Harrisburg Parking Authority
- Coordinated Parking Fund
- Redevelopment Authority of the City of Harrisburg

Capital Region Water

Capital Region Water (CRW) was incorporated in 1957 under the provisions of the Municipal Authority Act. The entire five-member Board of Directors is appointed by the Mayor and confirmed by City Council. CRW has purchased the water system and incinerator facility from the City and, through November 2013, contracted with the City to manage the water system. With respect to the water system, the contract required that the Mayor prepare an operating expense budget for adoption by the City Council, with final approval by CRW with the inclusion of such operating expenses in CRW's annual budget. CRW incurred $2,216,105 in expenses under this agreement in 2013. Additionally, CRW has annually agreed to adopt Water rates sufficient to pay the operating expenses budget, as approved, as well as administrative and debt service expenses. Through December 2013, CRW had contracted with an outside vendor to manage the incinerator facility. On December 23, 2013, CRW sold its resource recovery facility. CRW had financed the sewer system for the City with lease revenue bonds and notes for which the City pledged all sewer system revenues to secure CRW's bonds and notes. During November and December 2013, CRW and the City entered into several agreements resulting in the transfer of operations of the sewer fund of the City to CRW. As such, all assets, net of liabilities, were transferred to CRW. For those assets or liabilities not transferred as of December 31, 2013, amounts have been reported as due to or due from in the General Fund of the City, as appropriate. Additionally, CRW has annually agreed to adopt Sewer rates sufficient to pay the operating expenses budget, as approved, as well as administrative and debt service expenses.

Harrisburg Parking Authority

The Harrisburg Parking Authority (Authority) was incorporated in 1972 under the Pennsylvania Parking Authority Law of 1947. The five-member Board of Directors is appointed by the Mayor and members can be removed from the Board at will. Prior to December 23, 2013, the Authority owned and operated ten parking garages containing approximately 7,813 spaces in the central business district of the City. In addition to parking charges, the Authority received funds from on-street parking meter charges and four open lots.

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, 2013, the Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

Prior to December 23, 2013, the City received the benefit of excess parking revenues through a Cooperation Agreement with the Authority and the City guaranteed a majority of the Authority's outstanding debt.

Coordinated Parking Fund

The Coordinated Parking Fund (Fund) was established in 1984 through a Cooperation Agreement for the Downtown Coordinated Parking System entered into by the City of Harrisburg, the Redevelopment Authority of the City of Harrisburg, Harristown Development Corporation, the Authority, the Mayor of Harrisburg, and the Harrisburg City Council. The Authority Board, which is appointed by the Mayor and whose members can be removed from the Board at will, administered the Fund on behalf of the City. The Fund closed effective December 23, 2013 and all remaining assets and liabilities were transferred to the Authority.

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

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.

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, 2013:

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	$ 3,364,479
Capital Assets, Net	$ 28,019,805
Total Assets	$ 31,460,199
Net Position	$ 28,095,720
Operating Revenue	$ 7,073,392
Operating Loss	$ (14,758,415)
Change in Net Position	$ (1,165,552)
City Contribution to Operations	$ 272,510

Related Organizations

The City Council and Mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include:

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

The amounts the City appropriated to these organizations during the year ended December 31, 2013 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, 2013, there has been no further negotiation and the organization continues to pay rent of $1 per year.

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 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:

Sewer Fund - Accounts for the revenues and expenses associated with the provision of sewage service to the residents and commercial and industrial establishments of the City as well as six municipalities surrounding the City. During November and December 2013, CRW and the City entered into several agreements resulting in the transfer of operations of the sewer fund to CRW. As such, all assets, net of liabilities, were transferred to CRW. For those assets or liabilities not transferred as of December 31, 2013, amounts have been reported as due to or due from component unit in the General Fund of the City, as appropriate.

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 CRW, or their successor, for their 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 $4,298,502 and the Mayor's Office of Equal Economic Opportunity (MOEEO) in the amount of $2,389,012, net of allowances for uncollectible accounts of $3,101,298 and $1,245,096, 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 $151,267 were written off during the year ended December 31, 2013. Write-offs are determined based on events of loan default, bankruptcy, or negotiated settlement with the City.

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, 2013.

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, 2013, 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, 2013.

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 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, 2013. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Capital Region Water

CRW's capital assets in service and construction in progress are carried at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair value. Costs of studies that directly result in specific projects are capitalized. 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.

Maintenance and repairs, which do not significantly extend the value or life of property, plant, and equipment, are expensed as incurred.

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

Depreciation expense for the Water Segment assets acquired prior to 1992 and for Resource Recovery Segment assets acquired prior to 1997 are calculated using a 2% annual rate. For acquisitions subsequent to these dates, capital assets are depreciated using the straight-line method, over the estimated useful lives, as follows:

Land improvements	25 years
Water mains and related accessories	75 years
Water meter equipment	25 years
Buildings (including Resource Recovery Facility)	50 years
Office equipment	5-15 years
Office furnishings	15 years
Operating equipment	10-50 years
Vehicles	7 years

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 lives ranging from three to 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 market 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. *Unearned Revenue*

CRW's unearned revenue, consisting of monies received from debt service forward delivery agreements, is being amortized to interest income over the respective life of each of the agreements using a method that approximates the interest rate method.

M. *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.

N. *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.

CRW, the Authority, and the Redevelopment Authority follow accounting standards that require the difference between the reacquisition price and the net carrying amount of the defeased debt be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the statement of net position, the amount of the deferred loss on refunding is reported as a deferred outflow of resources. As of December 31, 2013, the unamortized deferred costs of refunding recorded by CRW, the Authority, and the Redevelopment Authority were $11,574,705, $0, and $0, respectively.

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.

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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. 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 $600,000 for each workers' compensation claim and has purchased commercial coverage for claims in excess of coverage.

In the government-wide financial statements and proprietary fund types in the fund financial statements, the liability for outstanding claims is reported in the applicable 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 $3,925,273 and $224,464 in the governmental activities and business-type activities, respectively, at December 31, 2013. These claims liabilities are discounted to present value 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	2013	2012
Beginning - January 1	$ 4,193,905	$ 374,992	$ 4,568,897	$ 3,925,168
Current year claims and changes in estimates	1,369,241	(76,547)	1,292,694	1,811,995
Claim payments	(1,637,873)	(73,981)	(1,711,854)	(1,168,266)
Ending - December 31	$ 3,925,273	$ 224,464	$ 4,149,737	$ 4,568,897

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 2013. 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), Sewer, and Sanitation Funds. Annual budgets are adopted by ordinances passed by City Council. The City has established the following procedures relating to the preparation and adoption of the annual budget.

1. During August, budget preparation packages are prepared and submitted to the department heads/bureau chiefs for use in developing financial projections for their expenditures for the ensuing year.

2. The budget staff reviews the department heads'/bureau chiefs' expenditure projections and submits a first draft to the Business Administrator. Subsequent to the Business Administrator's review, the draft and recommendations are forwarded to the Mayor.

3. During September, departmental review forms are prepared and submitted to all department heads/bureau chiefs for use in developing financial projections for anticipated revenues for the ensuing year. 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.

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 2013.

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

S. *Special Items*

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

T. *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, deferred outflows of resources, 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.

U. *Non-Recourse Debt Issue*

CRW and the Redevelopment Authority participate in various bond issues for which they have limited liability. Acting solely in an agency capacity, CRW and the Redevelopment Authority serve as a financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although CRW and the Redevelopment Authority are a party to the trust indentures with the trustees,

the agreements are structured such that there is no recourse against CRW or the Redevelopment Authority in the case of default. As such, the corresponding debt is not reflected on the balance sheet of CRW or the Redevelopment Authority. As of December 31, 2013, non-recourse debt issues outstanding of CRW totaled $60,225,000. As of December 31, 2013, non-recourse debt issues of the Redevelopment Authority totaled approximately $22,722,000 including approximately $7,427,000 on behalf of the City. See Note 25 regarding a material event notice issued by an entity for which CRW issued non-recourse debt.

V. *Adoption of Accounting Principles*

The City and its discretely presented component units have adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *"Items Previously Reported as Assets and Liabilities."* Statement No. 65 reclassifies certain items that were reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. As a result of this Statement, reclassifications have been made on the Balance Sheet and Statement of Net Position. In addition, beginning net position has been restated to eliminate bond issuance costs from assets. Bond issuance costs previously were expensed over the life of the debt. Under Statement No. 65, bond issuance costs, excluding debt insurance, are fully expensed in the year of issuance.

W. *Pending Changes in Accounting Principles*

In June 2012, GASB issued Statements No. 67 and 68, *"Financial Reporting for Pension Plans,"* and *"Accounting and Financial Reporting for Pensions."* In addition, in November 2013, 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 GASB Statement No. 67 are effective for the City's December 31, 2014 financial statements and GASB Statements No. 68 and No. 71 are effective for the City's December 31, 2015 financial statements.

In January 2013, GASB issued Statement No. 69, *"Government Combinations and Disposals of Government Operations."* Statement No. 69 establishes accounting and reporting standards related to government combinations and disposals of government operations. The provisions of this Statement are effective for the City's December 31, 2014 financial statements.

In April 2013, GASB issued Statement No. 70, *"Accounting and Financial Reporting for Nonexchange Financial Guarantees."* Statement No. 70 improves accounting and financial reporting by governments that extend and receive nonexhange financial guarantees. The provisions of this Statement are effective for the City's December 31, 2014 financial statements.

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

2. SPECIAL ITEMS

Harrisburg Parking Authority

Gain on Lease

On December 23, 2013, the Authority entered into an Agreement dated December 1, 2013 with Pennsylvania Economic Development Financing Authority (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 qualifies as a capital lease, all capital assets have been removed from the Authority's financial statements. 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.

The gain on lease is offset by certain termination benefits, including but not limited to, accrued sick leave, vacation, severance, medical benefits, and supplemental unemployment benefits. Such benefits that remain unpaid as of December 31, 2013 are presented as accrued termination benefits on the statement of net position. The Authority's gain on lease, presented as a special item, amounted to $215,177,096 for the year ended December 31, 2013.

Loss on Extinguishment of Debt

The Authority used proceeds from the capital lease to fund escrow accounts to defease all of its outstanding debt. In a defeasance, the trustee of the escrow account becomes the primary obligor on the refunded debt, meaning that the government is only contingently liable for the debt's repayment. Since governments do not report contingent obligations as liabilities, the defeased debt, as well as the related escrow assets held in trust for its repayment, is removed from the financial statements. The Authority's loss on extinguishment of debt, presented as a special item, amounted to $7,960,299 for the year ended December 31, 2013.

Contribution to the City

Certain proceeds of the capital lease were paid to the City. The City received approximately $164 million in cash. In addition, the City constructively received approximately $12 million (present value) of notes receivable. At the request of the City, the Authority assigned approximately $6 million (present value) of notes receivable to the County and Bond Insurer, and assigned approximately $6 million (present value) of notes receivable to the City. In addition, the Authority had prepaid $7.4 million in lease payments to the City. This prepayment was contributed to the City in conjunction with the Agreement. The Authority's contribution to the City, presented as a special item, amounted to $183,527,489 for the year ended December 31, 2013.

Loss on Management and Operating Rights

The Authority had entered an agreement to assist in the development and operation of the parking facilities at the National Civil War Museum. In conjunction with entering into the Agreement, the Authority forfeited those rights without additional compensation and rights were terminated. The Authority's loss on management and operating rights, presented as a special item, amounted to $1,276,562 for the year ended December 31, 2013.

Termination of Coordinated Parking Fund Agreement

In conjunction with entering into the Agreement, the Authority entered into the 2013 Harrisburg Downtown Parking Cooperation Agreement dated December 1, 2013. As required by the 2013 Harrisburg Downtown Parking Cooperation Agreement, the Authority withdrew all funds from and closed all account, subaccounts, and funds created pursuant to the original Cooperation Agreement effective December 23, 2013 and all funds were consolidated and deposited into a new account held and controlled by the Authority. The gain on the Authority's termination of the Coordinated Parking Fund Agreement, presented as a special item, amounted to $3,070,338 for the year ended December 31, 2013.

Contribution to Harrisburg University

In conjunction with entering into the Agreement, the Authority agreed to pay $3.6 million of the proceeds to the University for release of the trustee's lien on the parking facility, and settlement of all claims asserted against one another. The Authority's contribution to Harrisburg University, presented as a special item, amounted to $3.6 million for the year ended December 31, 2013.

Downtown Coordinated Parking Fund

During the year ended December 31, 2013, the City, Harristown Development Corporation, the Authority, the Mayor of Harrisburg, and Harrisburg City Council entered into the 2013 Harrisburg Downtown Parking Cooperation Agreement. This Agreement terminated the original Cooperation Agreement and closed the Fund. The closing of the Fund resulted in the transfer of all assets and liabilities from the Fund to the Authority effective December 23, 2013 and is presented as a special item.

Primary Government

Contribution from the Authority

As noted above, certain proceeds under the Agreement were contributed to the City. The contributions were restricted to be used as follows: $6 million debt service payment to the City's bond insurer; $4.5 million payment under the Stakeholder agreement (discussed in Note 17); $2.7 million to subsidize the City's General Fund payables; $3.7 million to fund a 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; $6.7 million to fund a City growth fund; and $128.2 million to pay CRW debt related to the resource recovery facility. Additionally, as noted above, the Authority had prepaid $7.4 million in lease payments to the City. This prepayment, which was previously recognized as unearned revenue on the City's government-wide financial statements, has been recognized as a special item conjunction with the Agreement. The Authority's contribution to the City, presented as a special item, amounted to $184 million for the year ended December 31, 2013 in the government-wide financial statements and $170 million for the year ended December 31, 2013 in the General Fund.

Payment on CRW Debt

During the years ended December 31, 2009, 2010, 2011, 2012, and 2013, the City, bond insurer, and County of Dauphin (County) were required to make certain debt service payments on behalf of CRW under various guarantee/insurance agreements. These amounts, in addition to the balance of the debt which remained outstanding at the time, were previously presented as due to the primary government on CRW's statement of net position and as due to the various entities on the City's General Fund balance sheet and the governmental activities statement of net position. In addition, the amounts due to the various entities include accrued interest at various interest rates, dependent upon the applicable agreement. As noted above, $128.2 million was paid to CRW from the proceeds received from the Authority and $5.9 million in notes receivable were assigned to CRW creditors. The difference between amounts accrued prior to the payment and the actual payment, presented as a special item, amounted to $164 million for the year ended December 31, 2013 in the government-wide financial statements and $50 million for the year ended December 31, 2013 in the General Fund.

Amounts Held for Other Entities

At December 31, 2013, the proceeds related to economic development and infrastructure improvements in the amount of $12.3 million have been reported as restricted cash and due to other entities. The amount due from the City to these other entities is presented as a special item for the year ended December 31, 2013 in both the government-wide financial statements and the General Fund.

Debt Restructuring

At times during 2012 and 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. Additionally, during the year ended December 31, 2012, the City did not pay the required debt service on its 2007 capital lease obligation. These delinquent amounts and the accrued interest were reported as a capital lease payable in the City's Debt Service Fund, because they were due and payable. During the year ended December 31, 2013, the City and the entity which provided the capital lease financing entered into an agreement to restructure the amounts due under the capital lease. As such, the payments are no longer due and payable and, because of the difference in basis of accounting between the General Fund and the government-wide financial statements, are reported in the General Fund as a special item in the amount of $14.3 million. The restructurings resulted in a gain to the City of $158 thousand, which is the net effect presented in the government-wide financial statements as a special item.

Transfer and Transition with CRW

During November and December 2013, the City and CRW entered into several agreements resulting in the transfer of operations of the sewer segment (wastewater collection and conveyance systems) to CRW. As such, all assets, net of liabilities, were transferred to CRW, resulting in a special item in the amount of $124 thousand and $48.9 million in the General Fund and Sewer Fund, respectively. For those assets or liabilities not transferred as of December 31, 2013, amounts have been reported as due to or due from CRW in the City's General Fund, as appropriate. The City is currently disputing approximately $1.2 million of the assets reported as due to CRW in the General Fund. The matter regarding a $500,000 item from a 2004 Sewer Fund overcharge funding on administrative fees is under

review and analysis in relation to the complex transfers and related transactions between the City and CRW in late 2013, as well as prior agreements between the parties. With respect to the $700,000 worker's compensation trust fund, the City considers the matter outside the scope of the transfer.

Capital Region Water

Resource Recovery Segment

On December 23, 2013, CRW sold its resource recovery facility for $129.898 million, which after taking into account $8 million released under the Indenture netted $121.898 million. These proceeds, along with funds transferred from the City, cash on hand, and contributions from the bond insurer were used to pay the costs associated with the sale, termination fees associated with the resource recovery segment derivative financial instruments, and the outstanding debt of the facility. This transaction resulted in a gain on the extinguishment of debt of approximately $56.5 million and a gain on the sale of the facility of approximately $16.5 million, which are both presented as special items. In accordance with an agreement with the bond insurer, any proceeds remaining, after all reasonable expenses are paid out of the resource recovery segment, will be paid to the bond insurer.

Sewer Segment

During November and December 2013, CRW and the City entered into several agreements resulting in the transfer of operations of the sewer segment (wastewater collection and conveyance systems) to CRW. As such, all assets, net of liabilities, were transferred to CRW, in the net amount of $49 million, and are presented as a special item. For those assets or liabilities not transferred as of December 31, 2013, amounts have been reported as due to or due from the City, as appropriate. The City is currently disputing approximately $1.2 million of the assets reported as due to CRW. However, CRW believes it has a valid claim to such assets and, as such, has not reported an allowance on the receivable from the City.

Administrative

CRW had entered an agreement with the Authority, where the Authority was to assist in the development and operation of the parking facilities at the National Civil War Museum. In conjunction with the Authority entering into the Agreement on December 23, 2013, the Authority forfeited those rights without additional compensation and rights were terminated.

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, 2013, 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.

As noted previously, the City received proceeds from the leasing of the Authority. Certain of the proceeds, held at December 31, 2013, are maintained in a segregated bank account restricted for the following purposes: $3.7 million to fund a 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, 2013, the deposits of the City of Harrisburg, including component units were as follows:

Reconciliation to statement of net position:	
Governmental activities	
Unrestricted	$ 8,153,255
Restricted	23,891,208
Business-type activities	
Unrestricted	255,930
Restricted	2,159
Fiduciary funds - agency fund	2,397,196
Total primary government	$ 34,699,748
Component units	
Unrestricted	$ 20,830,229
Restricted	2,850,753
Total component units	$ 23,680,982

C*ustodial 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, 2013, the City's book balance was $34,699,748 and the bank balance was $34,501,015. Of the bank balance, $567,078 was covered by federal depository insurance and $33,842,161 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 $91,776 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, 2013, PLGIT carried a AAA rating and had an average maturity of less than one year.

Component units

Capital Region Water

The deposit and investment policy of CRW adheres to state statutes, prudent business practices, and the applicable trust indentures, which are more restrictive than existing state statutes. Deposits are maintained in demand deposits and certificates of deposit.

The deposits of CRW at December 31, 2013 were as follows:

Cash and cash equivalents	
Unrestricted	$ 16,651,590
Restricted under trust indentures and guarantee agreement	2,850,753
	$ 19,502,343

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. CRW does not have a deposit policy for custodial credit risk. As of December 31, 2013, CRW's book balance was $19,502,343 and the bank balance was $19,667,346. Of the bank balance, $523,837 was covered by federal depository insurance and $19,143,509 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.

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. The Authority pools certain of its deposits with the Fund. At December 31, 2013, the pooled account had a book and bank balance of $3,371,924 and $3,186,100, respectively. Of the pooled bank balance, $277,145 was covered by federal depository insurance at December 31, 2013, and $1,200,791 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 $1,708,164 was invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST). INVEST issues audited financial 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, 2013, INVEST carried a AAA rating and had an average weighted maturity of less than one year. At December 31, 2013, the Authority's position in the pool was $3,371,924, and the Fund's position in the pool was $0.

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, 2013, the Redevelopment Authority's book balance was $806,715 and the bank balance was $818,732. Of the bank balance, $490,425 was covered by federal depository insurance. The remaining balance of $328,307 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, 2013, the investments of the City were as follows:

Primary Government	
Unrestricted investments	
Money market funds	$ 1,161,363
External investment pool	11,332,176
Total unrestricted investments	12,493,539
Restricted investments	
Money market funds	658,779
Total restricted investments	658,779
Fiduciary funds	
Money market funds	950,219
Certificates of deposit	1,541,009
Fixed income funds	18,426,520
U.S. Government obligations	745,716
U.S. Government agency obligations	734,456
Corporate bonds	2,071,602
Municipal bonds	85,023
Equity funds	46,472,471
Common stocks	2,151,483
Total fiduciary funds	73,178,499
Total primary government	$ 86,330,817
Component Units	
Unrestricted investments	
Money market funds	$ 81,891
Total unrestricted investments	81,891
Restricted investments	
Money market funds	12,428,388
External investment pool	846
U.S. Government agency obligations	2,812,842
Investment contracts	17,016,070
Total restricted investments	32,258,146
Total component units	$ 32,340,037

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 $86,330,817, $13,152,318 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, 2013, 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, 2013:

	Fair Value	Rating
Money market funds	$ 1,608,998	AAA
Money market funds	$ 1,161,363	Unrated
External investment pools	$ 11,332,176	AAA
Fixed income funds	$ 12,294,614	AA
Fixed income funds	$ 1,529,550	A
Fixed income funds	$ 4,602,356	B
U.S. Government agency obligations	$ 734,456	AA+
Corporate bonds	$ 55,812	Unrated
Corporate bonds	$ 183,398	AAA
Corporate bonds	$ 38,136	AA+
Corporate bonds	$ 235,954	AA-
Corporate bonds	$ 218,415	AA
Corporate bonds	$ 355,553	A+
Corporate bonds	$ 346,936	A
Corporate bonds	$ 428,241	A-
Corporate bonds	$ 209,157	BBB+
Municipal bonds	$ 50,098	AA
Municipal bonds	$ 34,925	AA-

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

		Investment Maturities			
Investment Type	Fair Value	2014	2015-2019	2020-2024	2025 and beyond
Money market funds	$ 2,770,361	$ 2,770,361	$ -	$ -	$ -
External investment pool	11,332,176	11,332,176	-	-	-
Certificates of deposit	1,541,009	-	1,541,009	-	-
Fixed income funds	18,426,520	-	2,435,396	15,991,124	-
U.S. Government obligations	745,716	-	229,216	516,500	-
U.S. Government agency obligations	734,456	-	-	54,401	680,055
Corporate bonds	2,071,602	31,131	895,034	779,670	365,767
Municipal bonds	85,023	-	34,925	-	50,098
Total	$ 37,706,863	$ 14,133,668	$ 5,135,580	$ 17,341,695	$ 1,095,920

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, 2013. Interest of $1,511,363 has been earned on the deposits and claims of $700,000 have been paid from the trust account from inception through December 31, 2013. 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 $1,161,363 at December 31, 2013, of which $149,104 is included in the General Fund, $733,615 is included in the General Fund as due to CRW, and $278,644 is included in the Sanitation Fund as investments at December 31, 2013.

Component Units

Capital Region Water

The investments of CRW at December 31, 2013 were as follows:

Unrestricted	
Money market funds	$ 22,954
Restricted	
Money market funds	12,394,914
U.S. Government agency obligations	2,812,842
Investment contracts	13,856,000
Total	$ 29,086,710

Custodial Credit Risk. CRW does not have a formal investment policy for custodial credit risk. All of CRW's investments are held by the counterparty's trust department or agent not in CRW's name.

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

	Fair (Contract) Value	% of Total
Federal Home Loan Mortgage Corporation	$ 1,878,987	6.46%
Investment contracts - JP Morgan	13,856,000	47.64%

Credit Risk. CRW does not have a formal policy that would limit its investment choices with regard to credit risk. CRW's money market funds and fixed income investments had the following level of exposure to credit risk as of December 31, 2013:

	Fair (Contract) Value	Rating
Money market funds	$ 12,417,868	AAA
U.S. Government agency obligations	2,812,842	AA+
Investment contracts	13,856,000	Unrated

Interest Rate Risk. CRW 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 CRW's money market and fixed income investments and their related average maturities:

		Investment Maturities (in Years)			
	Fair (Contract) Value	Less than 1	1-5	6-10	Greater than 10
Money market funds	$ 12,417,868	$ 12,417,868	$ -	$ -	$ -
U.S. government agency obligations	2,812,842	2,812,842	-	-	-
Investment contracts	13,856,000	-	-	-	13,856,000
Total	$ 29,086,710	$ 15,230,710	$ -	$ -	$ 13,856,000

As further described in Note 2, CRW had several derivative instruments that were accounted for as investments, but were terminated as a result of the sale of the resource recovery facility.

Harrisburg Parking Authority

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

The unrestricted investments of the Authority at December 31, 2013 were as follows:

Money market funds	$ 58,937

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

Concentration of Credit Risk. The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2013, more than 5% of the Authority's investments were not held with any one issuer.

Credit Risk. The Authority does not have a formal policy that would limit its investment choices with regard to credit risk. The Authority's money market funds had a AAA rating as of December 31, 2013.

Interest Rate Risk. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2013, the Authority's money market had an average maturity of less than one year.

Redevelopment Authority of the City of Harrisburg

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

The fair value of the investments of the Redevelopment Authority at December 31, 2013 was as follows:

Investments	Fair (Contract) Value
Money market funds	$ 33,474
External investment pool	846
Guaranteed investment contracts	3,160,070
Total investments	$ 3,194,390

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, 2013, 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, 2013, 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%	$ 3,160,070	98.93%

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, 2013:

	Fair (Contract) Value	Rating
Money market funds	$ 33,474	AAA
External investment pool	846	AAA
Guaranteed investment contracts	3,160,070	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, 2013:

		Investment Maturities		
	Fair (Contract) Value	2014	2015-2019	2024 and beyond
Money market funds	$ 33,474	$ 33,474	$ -	$ -
External investment pool	846	846	-	-
Guaranteed investment contracts	3,160,070	-	1,410,501	1,749,569
Total	$ 3,194,390	$ 34,320	$ 1,410,501	$ 1,749,569

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 2013 is as follows:

January 1, 2013	- lien date
January 31, 2013	- original levy date
January 31 – March 31, 2013	- 2% discount period
April 1 – May 31, 2013	- face payment period
June 1 – December 31, 2013	- 10% penalty period
January 1, 2014	- 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 2013 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 10.8433 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 unearned 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

As discussed in Note 2, 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. The present value of the City's notes, discounted at the 5.833 percent over forty years, in the amount of approximately $6.1 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. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances at December 31, 2013 is as follows:

Primary Government	Due from Other Funds	Due to Other Funds
General Fund	$ 2,691,293	$ 2,531,168
Grant Programs Fund	769,976	1,120,655
Debt Service Fund	1,733,355	-
Nonmajor governmental funds	309,205	750,934
Total governmental funds	5,503,829	4,402,757
Harrisburg Senators Fund	78,386	-
Incinerator Fund	453,438	-
Sanitation Fund	-	1,430,743
Total proprietary funds	531,824	1,430,743
Agency Fund	-	202,153
Total primary government	$ 6,035,653	$ 6,035,653

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

Component Units	Due from Component Units	Due to Primary Government	Due from Primary Government	Due to Component Units
Primary Government				
General Fund	$ 873,601	$ -	$ -	$ 2,875,741
Grant Programs Fund	-	-	-	471,475
Nonmajor governmental funds	96,368	-	-	89,806
Harrisburg Senators Fund	34,180	-	-	-
Incinerator Fund	1,469,172	-	-	5,514
Sanitation Fund	35,946	-	-	-
Component Units	-	2,509,267	3,442,536	-
Total	$ 2,509,267	$ 2,509,267	$ 3,442,536	$ 3,442,536

The composition of interfund transfers for the year ended December 31, 2013 is as follows:

Primary Government	Transfers In	Transfers Out
General Fund	$ 6,661,703	$ 9,675,001
Grant Programs Fund	-	5,600,646
Debt Service Fund	9,675,001	150,802
Nonmajor governmental funds	-	350,561
Total governmental funds	16,336,704	15,777,010
Harrisburg Senators Fund	150,802	-
Sanitation Fund	-	710,496
Total proprietary funds	150,802	710,496
Total primary government	$ 16,487,506	$ 16,487,506

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.

7. INTERGOVERNMENTAL REVENUE

The General Fund intergovernmental revenue for the year ended December 31, 2013 is as follows:

Commonwealth of Pennsylvania, Pension System Aid	$ 2,609,214
Commonwealth of Pennsylvania, Capital fire protection	496,000
Utilities payments in lieu of taxes from other governments	36,557
	$ 3,141,771

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	$ 2,386,061
Lead Based Paint Grant	848,376
HOME Program	676,721
Section 108 Program	370,083
Federal and Pennsylvania Emergency Management Agency	45,683
Federal and state capital projects	1,915,417
Justice Assistance Grant	30,645
COPS grant	122,337
Emergency Solutions Grant	119,004
Staffing for Adequate Fire and Emergency Response	507,492
Pennsylvania Department of Community and Economic Development	4,564,977
Other state/federal grants	6,026
	$ 11,592,822

8. ASSETS HELD FOR SALE

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

The cost of the artifacts to be sold amounted to $7,843,648. The artifacts bought by the City from a certain vendor have been deemed to be inauthentic. Such artifacts had a cost value of approximately $2.1 million. An appraisal of a portion of the artifacts was extrapolated to the entire population purchased from this vendor. This extrapolation resulted in decreasing the estimated fair value of these artifacts to $73,000. During the year ended December 31, 2010, the City entered into an agreement with the aforementioned vendor's estate, which resulted in a $450,000 settlement to the City.

Finally, during the year ended December 31, 2008, the City had determined, through consultation with industry experts, that the remaining artifacts have a value of approximately 40% of the remaining cost. This valuation resulted in a decrease in the estimated fair value of the remaining artifacts in the amount of approximately $2 million during the year ended December 31, 2008.

As of December 31, 2013, the City has sold the aforementioned artifacts. The total proceeds of the sales, through December 31, 2013, amounted to approximately $4.3 million, which approximated the carry value of the artifacts.

9. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 is as follows:

Primary Government

	Beginning of Year	Additions/ Transfers In	Retirements and Dispositions/ Transfers Out	End of Year
Governmental activities				
Capital assets, not being depreciated				
Land	$ 7,144,863	$ -	$ -	$ 7,144,863
Construction in progress	5,494,811	36,733	(5,494,811)	36,733
Artifacts	18,649,000	-	-	18,649,000
Total capital assets, not being depreciated	31,288,674	36,733	(5,494,811)	25,830,596
Capital assets, being depreciated				
Buildings	65,124,314	158,000	-	65,282,314
Improvements	17,046,969	7,451,295	-	24,498,264
Equipment and furniture	34,025,633	729,522	(167,561)	34,587,594
Infrastructure	97,169,707	-	-	97,169,707
Total capital assets, being depreciated	213,366,623	8,338,817	(167,561)	221,537,879
Less accumulated depreciation for				
Buildings	(33,111,036)	(1,669,066)	-	(34,780,102)
Improvements	(7,268,048)	(459,598)	-	(7,727,646)
Equipment and furniture	(31,383,341)	(1,531,730)	167,561	(32,747,510)
Infrastructure	(69,322,467)	(2,570,063)	-	(71,892,530)
Total accumulated depreciation	(141,084,892)	(6,230,457)	167,561	(147,147,788)
Total capital assets, being depreciated, net	72,281,731	2,108,360	-	74,390,091
Governmental activities, capital assets, net	$ 103,570,405	$ 2,145,093	$ (5,494,811)	$ 100,220,687

	Beginning of Year	Additions/ Transfers In	Retirements and Dispositions/ Transfers Out	End of Year
Business-type activities				
Capital assets, not being depreciated				
Land	$ 361,421	$ -	$ (361,421)	$ -
Construction in progress	4,495,722	205,766	(4,701,488)	-
Total capital assets, not being depreciated	4,857,143	205,766	(5,062,909)	-
Capital assets, being depreciated				
Buildings	72,406,365	-	(34,701,549)	37,704,816
Improvements	2,685,962	217,595	(2,903,557)	-
Equipment and furniture	48,533,075	29,846	(45,183,234)	3,379,687
Infrastructure	13,790,448	-	(13,790,448)	-
Total capital assets, being depreciated	137,415,850	247,441	(96,578,788)	41,084,503
Less accumulated depreciation for				
Buildings	(23,412,556)	(1,470,841)	20,871,888	(4,011,509)
Improvements	(864,709)	(28,391)	893,100	-
Equipment and furniture	(33,785,982)	(1,108,509)	31,590,081	(3,304,410)
Infrastructure	(6,733,552)	(111,667)	6,845,219	-
Total accumulated depreciation	(64,796,799)	(2,719,408)	60,200,288	(7,315,919)
Total capital assets, being depreciated, net	72,619,051	(2,471,967)	(36,378,500)	33,768,584
Business-type activities, capital assets, net	$ 77,476,194	$ (2,266,201)	$ (41,441,409)	$ 33,768,584

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

Governmental activities:	
General government	$ 1,706,613
Building and housing development	123,222
Public safety	1,028,298
Public works	2,584,160
Parks and recreation	788,164
Total depreciation expense - governmental activities	$ 6,230,457
Business-type activities:	
Sewer	$ 1,605,517
Harrisburg Senators	965,987
Sanitation	147,904
Total depreciation expense - business-type activities	$ 2,719,408

Component Units

	Beginning of Year	Additions/ Transfers In	Retirements/ Transfers Out	End of Year
Capital Region Water				
Capital assets, not being depreciated				
Artifacts	$ 351,865	$ -	$ (351,865)	$ -
Land	-	361,421	-	361,421
Construction in progress	338,092	7,446,472	-	7,784,564
Total capital assets, not being depreciated	689,957	7,807,893	(351,865)	8,145,985
Capital assets, being depreciated				
Land improvements	2,847,743	320,213	(1,670,351)	1,497,605
Buildings and improvements	130,683,105	34,708,562	(97,850,550)	67,541,117
Furniture and fixtures	663,695	158,236	(458,152)	363,779
Machinery and equipment	115,318,939	63,739,318	(48,185,488)	130,872,769
Total capital assets being depreciated	249,513,482	98,926,329	(148,164,541)	200,275,270
Less accumulated depreciation	(80,262,268)	(67,949,111)	42,284,769	(105,926,610)
Total accumulated depreciation	(80,262,268)	(67,949,111)	42,284,769	(105,926,610)
Total capital assets being depreciated, net	169,251,214	30,977,218	(105,879,772)	94,348,660
Capital Region Water, capital assets, net	$ 169,941,171	$ 38,785,111	$ (106,231,637)	$ 102,494,645

	Beginning of Year	Additions	Retirements	End of Year
Harrisburg Parking Authority				
Capital assets, not being depreciated				
Land	$ 6,939,212	$ -	$ (6,939,212)	$ -
Construction in progress	2,743,724	600,432	(3,344,156)	-
Total capital assets, not being depreciated	9,682,936	600,432	(10,283,368)	-
Capital assets, being depreciated				
Land improvements	127,922	-	(127,922)	-
Buildings and improvements	86,746,402	1,025,140	(79,771,545)	7,999,997
Furniture and fixtures	331,475	-	(331,475)	-
Machinery and equipment	2,448,595	8,449	(2,457,044)	-
Total capital assets being depreciated	89,654,394	1,033,589	(82,687,986)	7,999,997
Less accumulated depreciation	(43,914,404)	(3,475,951)	44,307,020	(3,083,335)
Total accumulated depreciation	(43,914,404)	(3,475,951)	44,307,020	(3,083,335)
Total capital assets being depreciated, net	45,739,990	(2,442,362)	(38,380,966)	4,916,662
Harrisburg Parking Authority, capital assets, net	$ 55,422,926	$ (1,841,930)	$ (48,664,334)	$ 4,916,662

	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	30,000	-	-	30,000
Capital assets, being depreciated				
Buildings	2,093,040	-	-	2,093,040
Leasehold improvements	6,861,227	-	-	6,861,227
Total capital assets being depreciated	8,954,267	-	-	8,954,267
Less accumulated depreciation for				
Buildings	(183,141)	(52,326)		(235,467)
Leasehold improvements	(569,369)	(171,531)	-	(740,900)
Total accumulated depreciation	(752,510)	(223,857)	-	(976,367)
Total capital assets being depreciated, net	8,201,757	(223,857)	-	7,977,900
Redevelopment Authority of the City of Harrisburg, capital assets, net	$ 8,231,757	$ (223,857)	$ -	$ 8,007,900

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2013 is as follows:

Primary Government

	Beginning of Year	Additions	Accretion	Retirements/ Settlements	End of Year	Current Portion
Governmental activities:						
Workers' compensation claims	$ 4,193,905	$ 1,369,241	$ -	$ (1,637,873)	$ 3,925,273	$ 790,157
Bonds payable (Note 11)	31,241,935	-	1,517,989	(6,838,699)	25,921,225	4,422,427
Notes payable (Note 13)	43,752,312	-	1,988,288	(4,620,000)	41,120,600	5,099,479
Capital lease obligations (Note 16)	2,430,303	-	-	(121,961)	2,308,342	1,973,766
Vested compensated absences	6,355,375	3,479,953	-	(4,208,715)	5,626,613	698,371
Contingent liability for component unit debt	229,545,472	-	-	(229,545,472)	-	-
Due to bond insurer (Note 15)	-	17,735,000	-	(6,000,000)	11,735,000	-
Settlement with suburban municipalities (Note 17)	11,225,000	-	-	(4,500,000)	6,725,000	1,500,000
Governmental activities Long-term liabilities	$ 328,744,302	$ 22,584,194	$ 3,506,277	$ (257,472,720)	$ 97,362,053	$ 14,484,200

	Beginning of Year	Additions	Amortization	Retirements/ Settlements	End of Year	Current Portion
Business-type activities:						
Workers' compensation claims	$ 374,992	$ (76,547)	$ -	$ (73,981)	$ 224,464	$ 45,185
Bonds payable (Note 11)	7,563,296	-	3,904	(270,000)	7,297,200	280,000
Capital lease obligations (Note 16)	150,447	-	-	(60,971)	89,476	68,872
Vested compensated absences	409,201	206,530	-	(445,379)	170,352	22,371
Lease rental payable	1,597,167	95,907	-	(1,693,074)	-	-
Business-type activities Long-term liabilities	$ 10,095,103	$ 225,890	$ 3,904	$ (2,543,405)	$ 7,781,492	$ 416,428

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

Component Units

	Beginning of Year	Additions	Amortization	Retirements/ Settlements	End of Year	Current Portion
Capital Region Water						
Loans payable (Note 14)	$ 19,823,500	$ -	$ -	$ (19,823,500)	$ -	$ -
Bonds payable (Note 11)	297,275,000	-	-	(152,146,000)	145,129,000	5,817,000
Notes payable (Note 13)	68,573,924	95,907	-	(66,135,871)	2,533,960	295,818
Capital lease obligation (Note 16)	15,000,000	-	-	(15,000,000)	-	-
Vested compensated absences	-	687,106	-	(54,077)	633,029	93,498
Total long-term liabilities	400,672,424	783,013	-	(253,159,448)	148,295,989	6,206,316
Less:						
Unamortized premium (discount)	5,910,998	-	(614,430)	(5,819,515)	(522,947)	-
Capital Region Water Long-term liabilities	$ 406,583,422	$ 783,013	$ (614,430)	$ (258,978,963)	$ 147,773,042	$ 6,206,316

	Beginning of Year	Additions	Amortization	Retirements/ Settlements	End of Year	Current Portion
Harrisburg Parking Authority:						
Bonds payable	$ 107,535,000	$ -	$ -	$ (107,535,000)	$ -	$ -
Less:						
Unamortized premium	170,040	-	(63,623)	(106,417)	-	-
Harrisburg Parking Authority Long-term liabilities	$ 107,705,040	$ -	$ (63,623)	$ (107,641,417)	$ -	$ -

	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)	1,231,787	-	-	(59,771)	1,172,016	338,580
Due to other governments	170,832	-	-	-	170,832	-
Total long-term liabilities	94,992,619	-	-	(59,771)	94,932,848	338,580
Less:						
Unamortized discount	(41,655,010)	-	3,073,164	-	(38,581,846)	-
Redevelopment Authority of the City of Harrisburg Long-term liabilities	$ 53,337,609	$ -	$ 3,073,164	$ (59,771)	$ 56,351,002	$ 338,580

11. BONDS PAYABLE

Bonds payable at December 31, 2013 are as follows:

	Primary Government		
	Governmental Activities	Business-type Activities	Total Primary Government
Bonds payable	$ 25,921,225	$ 7,335,000	$ 33,256,225
Unamortized discount	-	(37,800)	(37,800)
Total bonds payable	$ 25,921,225	$ 7,297,200	$ 33,218,425

	Component Units		
	Capital Region Water	Redevelopment Authority	Total Component Units
Bonds payable	$ 145,129,000	$ 93,590,000	$ 238,719,000
Unamortized discount	(522,947)	(38,581,846)	(39,104,793)
Total bonds payable	$ 144,606,053	$ 55,008,154	$ 199,614,207

Bonds payable are accounted for in the following activities:

	Governmental Activities	Business-type Activities	Total Primary Government
General Obligation Bonds			
Series D of 1997	$ 25,828,776	$ -	$ 25,828,776
Total general obligation bonds	25,828,776	-	25,828,776
Revenue Bonds			
Senators Revenue Bonds			
Series A-2 of 2005	-	7,335,000	7,335,000
Less: Unamortized discount	-	(37,800)	(37,800)
Lease Revenue Bonds			
Series of 2006	92,449	-	92,449
Total revenue bonds	92,449	7,297,200	7,389,649
Total bonds payable	$ 25,921,225	$ 7,297,200	$ 33,218,425

Bonds payable are accounted for in the following component units:

	Capital Region Water	Redevelopment Authority	Total Component Units
Revenue Bonds:			
Water Revenue Bonds, Series of 2008	$ 69,420,000	$ -	$ 69,420,000
Water Revenue Bonds, Series A of 2004	36,395,000	-	36,395,000
Water Revenue Bonds, Series A, B, and C of 2002	37,249,000	-	37,249,000
Water Revenue Bonds, Series A of 2001	2,065,000	-	2,065,000
Guaranteed Revenue Bonds, Series A and B of 1998	-	93,590,000	93,590,000
Less: Unamortized discount	(522,947)	(38,581,846)	(39,104,793)
Total bonds payable	$ 144,606,053	$ 55,008,154	$ 199,614,207

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, 2013, the City was not in compliance with such covenants. See Note 25 for further information on the City's compliance.

The composition of bonds outstanding included in the primary government at December 31, 2013 is as follows:

General Obligation Bonds	
5.40%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of $1,015,737 to $4,329,978 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.	$ 25,828,776
Revenue Bonds	
4.76%-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.	7,335,000
2.25%, Lease Revenue Bonds, Series of 2006, dated December 2006, principal payable in various installments through May 2015, to be serviced through general revenues of the City and proceeds from the sale of historic artifacts, issued to finance the lease payments of the McCormick Public Service Center.	92,449
Total primary government bonds payable	33,256,225
Less: unamortized discount	(37,800)
Net primary government bonds payable	$ 33,218,425

The composition of bonds outstanding included in the component units at December 31, 2013 is as follows:

Capital Region Water	
Revenue Bonds	
4.88%-5.25%, Water Revenue Bonds, Series of 2008 dated August 2008. Series of 2008 matures at various amounts from 2024 through 2031.	$ 69,420,000
1.5%-5.0%, Water Revenue Bonds, Series A of 2004 dated August 2004. Series A matures at various amounts from 2005 through 2023.	36,395,000
4.25%-5.00%, Water Revenue Bonds, Series A, B, and C of 2002 dated July 3, 2002. Series A matures at various amounts from 2023 through 2029. Series B matures at various amounts from 2011 through 2017. Series C matures from 2013 through 2019.	37,249,000
3.40%-5.75%, Water Revenue Bonds, Series A of 2001, dated May 2001. The bonds mature at various amounts from 2002 through 2015.	2,065,000
Total Capital Region Water	145,129,000
Less: unamortized discount	(522,947)
Capital Region Water	$ 144,606,053

Redevelopment Authority of the City of Harrisburg	
Revenue Bonds	
Guaranteed Revenue Bonds, Series A and B of 1998, dated December 19, 1998, consisting of term bonds maturing from 2016 to 2033 in annual installments of various amounts.	$ 93,590,000
Less: unamortized discount	(38,581,846)
Net Redevelopment Authority of the City of Harrisburg	$ 55,008,154
Total component unit bonds payable	$ 199,614,207

Capital Region Water

CRW had entered into five derivative product agreements, which consist of debt service forward delivery agreements with a financial intermediary that result in a forward swap of interest earned on amounts placed in debt service sinking fund. Four of the five agreements were terminated as a result of the sale of the resource recovery facility, as described in Note 2. With respect to the remaining agreement, in exchange for cash payments to CRW at the inception of the agreements totaling approximately $1.765 million, the financial intermediary has the right, under the debt service forward delivery agreement, to invest the funds on hand in the sinking fund and retain the investment earnings. The amount received was recorded as unearned revenue in CRW's financial statements because the substance of this agreement effectively is to pay CRW currently for interest that normally would be earned in later years. The unearned revenue resulting from this transaction of $978,232 at December 31, 2013 is being amortized over the respective life of the agreement under a method that approximates the interest method.

Harrisburg Parking Authority

In February 2000, the Authority entered into (i) a debt service reserve fund forward purchase agreement with Lehman for investment of monies in the Series F Debt Service Reserve Account securing the Series F Bonds, (ii) a debt service reserve forward delivery agreement with Bank of America, N.A. (BofA) for the investment of monies in the Series G and H Debt Service Reserve Fund securing the Authority's Series G Bonds and Series H Bonds, and (iii) a debt service reserve forward delivery agreement with BofA for the Series I Debt Service Reserve Fund securing the Series I Bonds. The Authority received fees of $68,584, $280,000, and $210,000, respectively, when it entered into the agreements. In September 2001, the Authority refunded the Series I Bonds with its Series J Bonds, and the Series I debt reserve fund agreement was amended to apply to the Series J Debt Service Reserve Account securing the Authority's Series J Bonds. Similarly, the Series G and H debt reserve fund agreement was amended to apply to the Series O Bonds issued to refund or otherwise retire the Series G and H Bonds. In connection with that November 2003 amendment, BofA paid the Authority an additional fee of $252,000. The Series F debt reserve fund agreement was amended in February 2004 to apply to the debt service reserve fund securing the Series N Bonds issued to refund the Series F Bonds. The unearned revenue was being amortized over the respective life of the agreement under a method that approximated the interest method. Amortization for the year ended December 31, 2013 totaled $30,877. As a result of all the Series J Bonds being paid in full and the Series N Bonds being defeased, the remaining balance of unearned revenue associated with the forward purchase agreement approximating $98,000 was recognized as part of the loss on extinguishment of debt, a special item, as of December 31, 2013.

The debt service requirements for Series F Bonds were payable solely from and are secured by a pledge of (1) all the right, title, and interest of the Authority in and to the Fund, (2) all amounts on deposit and investment securities in any fund or account established under the related bond indenture, (3) a guaranty by the City, and (4) a municipal bond insurance policy. Amounts on deposit in the Fund are to be transferred to the Debt Service Fund created under the bond indenture and used to make required debt service payments on the Series F Bonds. These Bonds have been defeased through the issuance of "Harrisburg Parking Authority Guaranteed Parking Revenue Refunding Bonds, Series N of 2003."

Debt service on the Series G and Series H Bonds was payable from certain Capital Replacement Reserve Funds held by the Authority established under the Cooperation Agreement.

The Series G and Series H Bonds were also secured by a pledge of (1) all amounts on deposit and investment securities in any fund established under the related bond indenture, (2) the City's guaranty, and (3) a municipal bond insurance policy. The annual payment of debt service on the Series G and Series H Bonds is subordinated to provision of funds to cover 130% of the debt service on the Authority Series F Bonds. The Series H Bonds have been defeased through the issuance of the Authority "Guaranteed Parking Revenue Bonds, Series O of 2003."

The City had guaranteed the payment of debt service on a majority of the Authority's bonds and notes pursuant to certain Guaranty Agreements. Concurrent with the execution of the Guaranty Agreements, the Authority also executed certain Reimbursement Agreements with the City whereby the Authority agreed to reimburse the City for any payments made by the City under the aforementioned Guaranty Agreements.

Debt Service Requirements

The annual requirements to amortize all bonds outstanding as of December 31, 2013, using interest rates in effect at December 31, 2013 for variable rate issues, are as follows:

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Primary Government						
2014	$ 4,329,978	$ 165,022	$ 372,449	$ 373,156	$ 4,702,427	$ 538,178
2015	4,101,046	393,954	295,000	357,730	4,396,046	751,684
2016	3,885,429	609,571	310,000	343,026	4,195,429	952,597
2017	3,681,145	813,855	325,000	327,403	4,006,145	1,141,258
2018	3,475,702	1,014,298	340,000	310,859	3,815,702	1,325,157
2019-2023	6,355,476	2,874,524	1,990,000	1,267,922	8,345,476	4,142,446
2024-2028	-	-	2,565,000	678,242	2,565,000	678,242
2029-2030	-	-	1,230,000	65,860	1,230,000	65,860
	25,828,776	5,871,224	7,427,449	3,724,198	33,256,225	9,595,422
Less unamortized discount	-	-	(37,800)	-	(37,800)	-
Primary Government, net	$ 25,828,776	$ 5,871,224	$ 7,389,649	$ 3,724,198	$ 33,218,425	$ 9,595,422

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Capital Region Water						
2014	$ -	$ -	$ 5,817,000	$ 7,057,453	$ 5,817,000	$ 7,057,453
2015	-	-	6,617,000	6,799,998	6,617,000	6,799,998
2016	-	-	5,197,000	6,506,569	5,197,000	6,506,569
2017	-	-	5,418,000	6,278,160	5,418,000	6,278,160
2018	-	-	6,499,000	6,146,298	6,499,000	6,146,298
2019-2023	-	-	37,366,000	26,024,612	37,366,000	26,024,612
2024-2028	-	-	43,420,000	15,896,700	43,420,000	15,896,700
2029-2031	-	-	34,795,000	3,981,500	34,795,000	3,981,500
	-	-	145,129,000	78,691,290	145,129,000	78,691,290
Less deferred loss on refunding and unamortized premium	-	-	(522,947)	-	(522,947)	-
Capital Region Water, net	$ -	$ -	$ 144,606,053	$ 78,691,290	$ 144,606,053	$ 78,691,290

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Redevelopment Authority of the City of Harrisburg						
2016	$ -	$ -	$ 3,680,000	$ -	$ 3,680,000	$ -
2017	-	-	7,380,000	-	7,380,000	-
2018	-	-	7,410,000	-	7,410,000	-
2019-2023	-	-	37,430,000	-	37,430,000	-
2024-2028	-	-	21,270,000	-	21,270,000	-
2029-2033	-	-	16,420,000	-	16,420,000	-
	-	-	93,590,000	-	93,590,000	-
Less unamortized discount	-	-	(38,581,846)	-	(38,581,846)	-
Redevelopment Authority of the City of Harrisburg, net	$ -	$ -	$ 55,008,154	$ -	$ 55,008,154	$ -
Total	$ 25,828,776	$ 5,871,224	$ 207,003,856	$ 82,415,488	$ 232,832,632	$ 88,286,712

12. DEFEASANCE OF DEBT

The City and its component units defeased general obligation and other bonds in prior years by placing the proceeds of net bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the City's financial statements. At December 31, 2013, the following bonds outstanding are considered defeased:

City of Harrisburg	
General Obligation Bonds, Series A of 1995	$ 23,610,000
Capital Region Water	
Resource Recovery Revenue Bonds, Series A of 1998	8,520,000
Resource Recovery Revenue Bonds, Series B of 1998	5,100,000
Resource Recovery Revenue Bonds, Series C of 1998	2,280,000
Seventh Street Office & Parking Revenue Bonds, Series A of 1998	7,855,000
Seventh Street Office & Parking Revenue Bonds, Series B of 1998	6,185,000
Resource Recovery Revenue Notes, Series B of 2000	540,000
Harrisburg Parking Authority	
Parking Revenue Bonds, Series N of 2003	2,150,000
Parking Revenue Bonds, Series P of 2005	4,110,000
Parking Revenue Bonds, Series R of 2007	15,525,000
Parking Revenue Bonds, Series T of 2007	16,595,000
Parking Revenue Bonds, Series U-1 of 2011	7,885,000
	$ 100,355,000

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, 2013 is as follows:

5.75%-6.56%, Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of $255,000 to $335,000, through August 1, 2019, to be serviced through general revenues of the City.	$ 1,760,000
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.	2,745,000
	4,505,000

The composition of notes payable included in the primary government at December 31, 2013 is as follows:

5.40%-5.52%, General Obligation Refunding Notes, Series F of 1997, dated December 31, 1997, principal payable in annual installments of $3,052,968 to $4,921,041 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.	34,925,242
1.59%-4.13%, Pennsylvania Infrastructure bank loans, principal payable through March 26, 2018, to be serviced through general revenues of the City, used to fund City street resurfacing projects.	1,690,358
	36,615,600
Total primary government notes payable	$ 41,120,600

The composition of notes payable included in the component units at December 31, 2013 is as follows:

Capital Region Water	
1.536%-3.071%, The Harrisburg Authority, 1998 Guaranteed Sewer Revenue Notes, Series A and B, payable through 2018, to finance projects related to the sewer collection system.	$ 1,047,648
1.27%-2.55%, The Harrisburg Authority, 2009 Guaranteed Sewer Revenue Note, payable through 2031, to finance capital improvements and replacements to the wastewater treatment facility.	1,486,312
Total Capital Region Water	2,533,960
Redevelopment Authority of the City of Harrisburg	
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, 2013, 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.	350,001
4.83% for the first three years and variable based on the prime rate thereafter (3.25% at December 31, 2013), 2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is payable through December 10, 2026.	550,588
Total Redevelopment Authority of the City of Harrisburg	1,172,016
Total component units notes payable	$ 3,705,976

The annual requirements to amortize all notes payable outstanding as of December 31, 2013, using interest rates in effect at December 31, 2013 for variable rate issues, are as follows:

	Governmental Activities	
Year Ending December 31,	Principal	Interest
Primary Government		
2014	$ 5,099,479	$ 540,425
2015	4,542,316	645,789
2016	4,367,550	805,398
2017	4,216,163	955,535
2018	4,038,906	1,095,091
2019-2023	18,211,186	8,921,912
2024-2026	645,000	75,024
	$ 41,120,600	$ 13,039,174

Component Units:

	Capital Region Water	
Year Ending December 31,	Principal	Interest
2014	$ 295,818	$ 43,741
2015	306,063	38,352
2016	305,657	45,845
2017	298,576	45,475
2018	236,777	30,781
2019-2023	414,578	113,458
2024-2028	470,774	57,265
2029-2030	205,717	5,498
	$ 2,533,960	$ 380,415

	Redevelopment Authority of the City of Harrisburg	
Year Ending December 31,	Principal	Interest
2014	$ 338,580	$ 69,743
2015	68,268	15,873
2016	69,421	14,720
2017	70,611	13,530
2018	71,841	12,300
2019-2023	379,122	41,585
2024-2026	174,173	7,382
	$ 1,172,016	$ 175,133

As further discussed in Note 25, the City did not make the payments required under its Pennsylvania Infrastructure bank loans during the year ended December 31, 2013. These missed payments are included in the 2014 maturities noted above.

14. LOANS PAYABLE

During 2007, CRW entered into a First Amendment and Management and Professional Services Agreement with a waste management facility operator (operator). As part of that agreement, the operator agreed to advance the costs incurred in the retrofit completion up to $25,500,000. At December 31, 2013, CRW had drawn down $20,461,000. This loan constituted subordinate debt of CRW pursuant to the provisions of CRW's various debt indentures. No interest accrued until July 1, 2011, at which time simple interest began to accrue at the rate of 4% per annum until July 1, 2012 and at a rate of 8% per annum thereafter. Interest was payable beginning October 1, 2011 and continuing thereafter in quarterly installments due and payable on the first day of each calendar quarter. Principal was to be paid beginning on July 1, 2009 in quarterly installments due and payable on the first day of each calendar quarter based on a 10-year, mortgage-style amortization schedule. This loan was guaranteed by the City. As discussed in Note 2, on December 23, 2013, CRW sold its resource recovery facility and negotiated a settlement with the operator to satisfy the claim for $9.5 million. The settlement resulted in a gain of $13.9 million, which is reflected as a special item.

15. DUE TO BOND INSURER

At times during 2012 and 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. The balance at December 31, 2013 was $11,735,000.

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, 2013. However, principal payments are not scheduled to begin until 2023.

16. 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, 2013, the governmental activities and the business-type activities included equipment and furniture under capital leases with a net book value of $1,668,064 and $83,179, respectively.

The future minimum payments under capital leases and the minimum lease payments at December 31, 2013 are as follows:

Year ending December 31,	Governmental Activities	Business-type Activities	Total
2014	$ 1,973,766	$ 68,872	$ 2,042,638
2015	139,407	8,585	147,992
2016	111,525	6,868	118,393
2017	83,644	5,151	88,795
Total minimum lease payments	$ 2,308,342	$ 89,476	$ 2,397,818

As further discussed in Note 25, the City did not make the payments required under its 2007 capital lease during the year ended December 31, 2013. These missed payments are included in the 2014 maturities noted above.

Component Units

Non-Exclusive Technology Sub-Licensing Agreement and Technology Purchase Agreement

On December 31, 2003, CRW entered into the Non-Exclusive Technology Sub-Licensing Agreement and Technology Purchase Agreement with the original contractor of the Resource Recovery Retrofit. The original contractor granted CRW a license to utilize the Combustion Technology at the Facility. The Sub-License Agreement was to continue in effect until the date on which the Combustion Technology is no longer used at the Facility.

To raise the funds necessary to complete the project, the original contractor sold its Technology License to CIT - Newcourt Capital for $25 million. In turn, CRW and the original contractor entered into a First Amended and Restated Nonexclusive Technology Sublicensing Agreement and Technology Purchase Agreement (Amended Purchase Agreement) granting continued right to CRW to make full use of the Combustion Technology for all intended purposes under the Equipment Agreement, and for no other purpose; provided, that CRW may expand or increase the number of units at the Facility without the consent of the Licensor and without payment of any additional fees. This Amended Purchase Agreement has since been assigned to CIT.

Under the sublicense, CRW was to pay to CIT the following fees:

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

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

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

During the year ended December 31, 2006, CRW paid the base fee of $2.5 million to CIT under the Amended Purchase Agreement. There were no supplemental fees due for the year ended December 31, 2006. As discussed in Note 2, on December 31, 2013, CRW sold its resource recovery facility and negotiated a settlement with CIT to satisfy the claim for $21.5 million. The settlement resulted in a gain of $1.4 million, which is reflected as a special item.

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 2017. 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 2017 are as follows:

Lease year ending December 31,	
2014	$ 643,057
2015	199,568
2016	99,435
2017	56,187
Total minimum lease payments	$ 998,247

Operating Lease

The Redevelopment Authority leases 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 $81,776 for the year ended December 31, 2014.

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, 2013 approximated $120,000.

17. 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.

Year Ending December 31,	
2014	$ 1,500,000
2015	1,500,000
2016	1,500,000
2017	1,000,000
2018	1,000,000
2019	225,000
	$ 6,725,000

18. INTEREST RATE SWAPS

Component Units

Capital Region Water

Variable Rate Issues and Interest Rate Swaps

Derivative Financial Instruments - 2003 Guaranteed Resource Recovery Revenue Bonds, Series D1 and D2

Objective of the interest rate swap. CRW's asset/liability strategy is to have a combination of fixed and variable-rate debt. On December 30, 2003, CRW issued its $96,480,000 Guaranteed Resource Recovery Facility Revenue Bonds, Series D of 2003 (2003 Resource Recovery Bonds, Series D) consisting of $31,480,000 Subseries D-1 (2003 D-1 Bonds) and $65,000,000 Subseries D-2 (2003 D-2 Bonds). The 2003 D-1 Bonds initially bore interest at a fixed rate of 4.00% to December 1, 2008, and the 2003 D-2 Bonds at a 5.00% fixed rate to December 1, 2013. After the expiration of these respective initial rate periods, the 2003 D-1 and D-2 Bonds were subject to conversion to different interest rates for different interest rate periods. On December 1, 2008, CRW remarketed and converted $31,280,000 Guaranteed Resource Recovery Facility Revenue Bonds, Subseries D-1 of 2003, to a long-term rate period of December 1, 2008 to December 1, 2010 with a coupon rate of 6.75%. On December 1, 2010, the Subseries D-1 of 2003 Bonds were remarketed to a fixed rate of 5.25% through December 1, 2013. To convert the interest rate on the 2003 D-1 and 2003 D-2 Bonds to a synthetic variable rate at the time of their issuance in 2003, CRW entered into fixed-to-floating interest rate swaps, thereby achieving a

variable rate while eliminating the need for a liquidity facility and annual remarketing services, and avoiding basis risk associated with the weekly remarketing of its variable rate debt, had it issued the 2003 D-1 Bonds and 2003 D-2 Bonds as weekly floating rate bonds.

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

The D-2 Swap contained an embedded cap, capping at 12% the floating rate to be paid by CRW to June 1, 2006, and providing a 6% cap from June 1, 2006 to December 1, 2013, the termination date of the D-2 Swap. CRW also entered into an interest rate cap agreement (D-1/D-2 Cap) with RBC, which was to become effective on December 1, 2008. The D-1/D-2 Cap provided that RBC would pay the excess, if any, between the SIFMA Index and 6% on a notional amount equal to the scheduled principal amount of the D-1 Bonds and the D-2 Bonds outstanding after December 1, 2008 and December 1, 2013, respectively. In May 2004, CRW and RBC amended the D-1/D-2 Cap to provide for RBC to pay the excess between 68% of LIBOR and 6%, rather than the excess between SIFMA and 6%. CRW received $1,106,000 as a result of this amendment.

Pursuant to the agreements, CRW pays to or receives from the counterparty a net swap payment. For the year ended December 31, 2013, CRW received $1,830,025 with respect to the D-2 Swap and the embedded D-2 Cap. For the year ended December 31, 2013, CRW paid $284,616 for the D-1/D-2 Cap.

The D-2 Swap and D-2 Cap expired by their terms on December 1, 2013. On December 23, 2013, CRW paid $4.875 million to terminate the D-1/D-2 Cap.

Changes in fair value for the year ended December 31, 2013, of ($1,150,904) are recorded as a component of investment income (loss) on the Statement of Activities.

2002 Water Revenue Bonds, Series B

These Bonds bear interest at Dexia Credit Local's prime rate plus 100 basis points, 4.25 percent at December 31, 2013.

2002 Water Revenue Bonds, Series C

These Bonds bear interest at Dexia Credit Local's prime rate plus 100 basis points, 4.25 percent at December 31, 2013.

1998 Guaranteed Sewer Revenue Notes, Series A

These Notes bear interest at a variable rate, 2.4375 percent at December 31, 2013.

19. PENSION PLAN

Primary Government

Plan Description

The City has four defined benefit pension plans. Two of the plans, Non-uniformed Employees' Plans A and B, are controlled by provisions of Ordinance-Bill No. 49-1984, adopted pursuant to Act 15. On January 2, 2002, the assets of Plans A and B were combined, but the requirements for eligibility and benefits remain separate. The Combined Firefighters' Plan is controlled by provisions of Ordinance-Bill No. 44-2002. For these plans, the City contributes to the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer Public Employees Retirement System (PERS). The remaining plan, the Combined Police Pension Plan, was established January 1, 1999 under Ordinance-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 publicly available financial reports that include financial statements and required supplementary information. The PMRS report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

In addition, the City of Harrisburg Police Pension Board issues a separate publicly available financial report that includes financial statements and required supplementary information for the Combined Police Pension Fund. That report may be obtained by writing to the City of Harrisburg Police Pension Board, The Reverend Dr. Martin Luther King, Jr. City Government Center, 10 North Second Street, Harrisburg PA 17101 or by calling 717-255-6507.

The benefits provided by the plans differ by employment group and are based upon average compensation and length of service. Normal benefits are calculated at 2.5% per year of credited service multiplied by the final average annual salary for the Non-uniformed Employees' A and Combined Firefighters' plan. In no case may the benefit exceed 50% of the final average annual salary. The benefits provided by the Non-uniformed Employees' B plan are calculated at 2.0% per year of credited service multiplied by the final average annual salary. In no case may the benefit exceed 75% of the final average annual salary. 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. 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.

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 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 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.

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

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)
Non-Uniformed Employees':						
1/1/2013	$ 82,670,233	$ 60,881,837	$ (21,788,396)	135.79%	$ 11,313,848	-192.58%
Firefighters'						
1/1/2013	$ 73,407,165	$ 63,399,066	$ (10,008,099)	115.79%	$ 4,800,309	-208.49%
Police Officers':						
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.

Actuarial Assumptions

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

	Non-Uniformed Employees'		Firefighters'	Police Officers'
	Plan A	Plan B	Combined	Combined
Actuarial valuation date	1/1/13	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
Asset valuation method	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.

Annual Required Contribution and Net Pension Obligation

The City's annual pension cost and net pension obligation (asset) to the Plans at December 31, 2013 are as follows:

	Non-Uniformed Employees'		Firefighters'	Police Officers'
	Plan A	Plan B	Combined	Combined
Annual required contribution (MMO)	$ -	$ -	$ -	$ 2,146,827
Interest on net pension obligation (asset)	-	-	-	(308,571)
Adjustment to annual required contribution	-	-	-	450,627
Annual pension cost	-	-	-	2,288,883
Contribution made	-	-	-	(2,594,752)
Increase in net pension obligation (asset)	-	-	-	(305,869)
Net pension obligation (asset), beginning	-	-	834	(3,857,144)
Net pension obligation (asset), ending	$ -	$ -	$ 834	$ (4,163,013)

Three-Year Trend Information

Non-Uniformed Employees' – Plan A	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2011	$ -	- %	$ -
December 31, 2012	-	-	-
December 31, 2013	-	-	-

Non-Uniformed Employees' – Plan B	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2011	$ -	- %	$ -
December 31, 2012	-	-	-
December 31, 2013	-	-	-

Firefighters' Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2011	$ -	- %	$ 834
December 31, 2012	-	-	834
December 31, 2013	-	-	834

Police Officers' – Combined	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
December 31, 2011	$ 1,551,579	100+	$ (2,959,144)
December 31, 2012	1,626,734	100+	(3,857,144)
December 31, 2013	2,288,883	100+	(4,163,013)

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 for the Non-Uniformed Employees' Plan and Combined Firefighters' Plan include (a) a 6.0% investment rate of return (net of administrative expenses) and (b) projected salary increases on a salary scale. The actuarial assumptions for the combined Police Pension Fund include (a) an 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% per year. The assumptions do not include postretirement benefit increases, which are funded by State appropriation when granted. The actuarial value is determined using market values determined by the trustee.

Component Unit

Capital Region Water

Plan Description

Pursuant to a transition agreement, water and sewer employees of the City transitioned to CRW during November 2013. Prior to the transition, the water and sewer employees participated in the City's non-uniform defined benefit plan which was administered by Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer Public Employees Retirement System (PERS). As part of the transition, CRW created a spin-off plan that is being separately administered by PMRS. CRW's pension plan is a single-employer defined benefit pension plan controlled by the provisions of Resolution 2013-015 adopted pursuant to Act 15 of 1974. The plan participates in the PMRS who acts as a common investment and administrative agent for municipalities in the Commonwealth of Pennsylvania. PMRS issues a publicly available financial report that includes financial statements and required supplementary information for the PERS. The report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165.

The plan has been established to cover substantially all full-time employees. Employees become eligible for participation in a plan immediately upon employment and become fully vested 10 years.

The benefits provided by the 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. Final average salary is based upon the annual average compensation paid during the highest three years of employment.

The plan provides retirement, disability, and death benefits to plan members and their beneficiaries.

Based on an actuarial calculation, PMRS transferred approximately $1.96 million in cash and investments from the City's pension plan to CRW's plan as of December 31, 2013. During 2014, an

additional $6.55 million was transferred. At December 31, 2013, the funded status of the plan was not available.

Funding Policy and Contributions

All full-time employees are required to contribute five percent of their annual covered salary to the System. CRW's contributions to the System are governed by Act 205, Municipal Pension Plan Funding Standard and Recovery Act, which mandates minimum actuarial funding based upon the System's biennial actuarial valuation.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee, and actuarial services are charged to the plan and funded through investment earnings.

Annual Pension Cost

For the year ended December 31, 2013, CRW's annual pension cost was $0 which was equal to the CRW's required and actual contribution. The net pension obligation at December 31, 2013 was $0.

20. OTHER POST-EMPLOYMENT BENEFITS

Plan Descriptions

In addition to the pension benefits described in Note 19, 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

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 heath 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 after January 1, 1993:

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.

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.

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.

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.

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.

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, 2013, the City contributed $4,783,417 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.

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	1/1/2012
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 2012, decreasing by .05% per year to 5.5% in 2016, rates gradually decrease from 5.3% in 2017 to 4.2% in 2089

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, 2013 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	$ 15,718,517	$ 476,160	$ 16,194,677
Interest on net OPEB obligation	2,544,063	117,564	2,661,627
Adjustment to ARC	(3,470,754)	(160,386)	(3,631,140)
Annual OPEB cost	14,791,826	433,338	15,225,164
Transfer of sewer obligation	1,364,943	(1,364,943)	-
Contribution made	(4,601,288)	(182,129)	(4,783,417)
Change in Net OPEB Obligation	11,555,481	(1,113,734)	10,441,747
Net OPEB Obligation, beginning	56,860,180	2,388,044	59,248,224
Net OPEB Obligation, ending	$ 68,415,661	$ 1,274,310	$ 69,689,971

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. Additionally, the January 1, 2012 actuarial valuation was revised for removal of active sewer employees from the City's employee base and revision of policies during the year ended December 31, 2013, as previously noted.

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2013	$ 15,255,164	31.42%	$ 69,689,971
2012	14,855,366	30.13%	59,248,224
2011	15,829,014	29.68%	48,868,989

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)
1/1/2012	* $ -	$ 148,055,171	$ 148,055,171	0.00%	$ 23,361,420	633.76%

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

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.

21. SEGMENT INFORMATION

CRW supports three separate segments. The Water Segment accounts for the provision of basic water service to customers of the Harrisburg Water System. Through November 4, 2013, the Sewer Segment accounted for the leasing of the wastewater conveyance and treatment system to the City under a direct financing lease. As discussed in Note 2, during November and December 2013, CRW and the City entered into several agreements resulting in the transfer of operations and the remaining assets (net of applicable liabilities) of the Sewer Segment (wastewater collection and coonveyance systems) of the City to CRW. Therefore, from the date of transition through December 31, 2013, the Sewer Segment accounts for the provision of wastewater conveyance and treatment system to the customers of the Harrisburg Wastewater System. Through December 23, 2013, the Resource Recovery Segment accounted for the activities at the Harrisburg Resource Recovery and Steam Generating Facility (resource recovery facility), which converted waste into energy. On December 23, 2013, CRW sold its resource recovery facility. Selected segment information as of and for the year ended December 31, 2013 is as follows:

CONDENSED STATEMENT OF NET POSITION	Water Segment	Sewer Segment	Resource Recovery Segment
Assets			
Current assets			
Other current assets	$ 7,669,369	$ 11,832,394	$ 2,718,695
Due from (to) other funds	714,287	141,723	(466,830)
Due from the City	336,268	2,669,381	-
Total current assets	8,719,924	14,643,498	2,251,865
Restricted assets	31,628,568	35,941	-
Capital assets	62,162,665	40,263,829	-
Other noncurrent assets	335,635	-	-
Total assets	102,846,792	54,943,268	2,251,865
Deferred outflow of resources	11,574,705	-	-
Liabilities			
Current liabilities			
Other current liabilities	565,796	320,454	569,380
Due to the City	1,222,121	328,481	308,705
Total current liabilities	1,787,917	648,935	878,085
Liabilities payable from restricted assets	8,757,010	295,818	-
Noncurrent liabilities	140,024,586	2,429,264	-
Due to the City	22,185	-	-
Total liabilities	150,591,698	3,374,017	878,085
Net position			
Net investment in capital assets	(55,984,007)	37,765,810	-
Restricted	2,564,812	-	1,373,780
Unrestricted	17,248,994	13,803,441	-
Total net position	$ (36,170,201)	$ 51,569,251	$ 1,373,780

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Water Segment	Sewer Segment	Resource Recovery Segment
Operating revenues	$ 15,784,831	$ 2,588,677	$ 23,605,052
Operating expenses			
Operating	3,608,823	1,203,762	20,984,895
Administration	676,555	807,263	318,868
Depreciation	2,106,198	321,104	5,320,887
Total operating expenses	6,391,576	2,332,129	26,624,650
Operating income	9,393,255	256,548	(3,019,598)
Nonoperating revenues (expenses)			
Investment income	891,316	19,149	(1,052,186)
Grant revenue	105,693	-	-
Lease rental income	-	38,890	-
Miscellaneous income (expense)	(272,322)	114,444	(264,198)
Interest expense	(8,654,823)	(46,132)	(16,089,262)
Total nonoperating revenues (expenses)	(7,930,136)	126,351	(17,405,646)
Change in net position before special items and transfers	1,463,119	382,899	(20,425,244)
Transfers in (out)	-	(1,043,840)	1,853,712
Special items	-	48,964,097	233,668,699
Change in net position	1,463,119	48,303,156	215,097,167
Net position - January 1, 2013 - restated	(37,633,320)	3,266,095	(213,723,387)
Net position - December 31, 2013	$ (36,170,201)	$ 51,569,251	$ 1,373,780

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided by operating activities	$ 12,328,285	$ 5,146,231	$ 4,500,827
Net cash provided by (used in) noncapital financing activities	-	133,170	(133,170)
Net cash provided by investing activities	1,665,393	341,376	6,740,048
Net cash provided by (used in) capital and related financing activities	(15,541,829)	95,917	(18,098,837)
Net increase (decrease) in cash and cash equivalents	(1,548,151)	5,716,694	(6,991,132)
Cash and cash equivalents, January 1, 2013	8,993,268	3,310,965	8,627,984
Cash and cash equivalents, December 31, 2013	$ 7,445,117	$ 9,027,659	$ 1,636,852

22. ACCUMULATED DEFICITS

Capital Region Water

If the Resource Recovery Facility failed to generate sufficient revenues to pay debt service on the Resource Recovery Facility Revenue Bonds, Series A, D, E, and F of 2003, the Resource Recovery Facility Revenue Notes, Series B and C of 2003, the Resource Recovery Facility Subordinate Variable Rate Revenue Notes, Series A of 2002, or the Resource Recovery Facility Revenue Bonds, Series A of 1998, or ceased revenue generating operations, or if other monies set aside for such purposes were insufficient, the City was required to pay principal of and interest on such bonds and notes when due pursuant to respective Guaranty Agreements among the City, CRW, and the respective trustees for the bonds and notes. The County had provided a secondary guarantee of the Resource Recovery Facility Revenue Bonds, Series D and E of 2003 collectively in the maximum aggregate principal amount not to exceed $113,000,000 by entering into a County Bond Guaranty Agreement with CRW and the trustee for such bonds. The Resource Recovery segment had incurred substantial accumulated losses, which caused the segment to experience cash flow difficulties.

The Water Segment of CRW has a net position deficit at December 31, 2013 of $36.2 million. The deficit is primarily because CRW has extended the length of its debt service at various times and the costs associated with those extensions exceeding the depreciation expense on the Water System. Management anticipates that the deficit will be reduced through future profitability improvements.

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority's net position (deficit) at December 31, 2013 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 $55,008,154 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 $11,142,742 to the deficit balance of $23,496,001. 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.

23. 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 the Receiver's website at "www.pa.gov/harrisburgreceiver". 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.

As more fully discussed in Note 2, the City began implementation of the various facets of the Harrisburg Strong Plan during the year ended December 31, 2013. However, the ultimate outcome of the City's Harrisburg Strong Plan is subject to significant uncertainty.

24. 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 contractual commitments for construction, engineering, and licensing related to the City properties of approximately $848,461.

Component Units

Capital Region Water

Many of CRW's financings are insured by a bond insurance policy. On February 13, 2013, CRW issued a notice of material event with the Electronic Market Access System (EMMA), established by the Municipal Rulemaking Board, with respect to Moody's January 17, 2013 downgrade of the insurance financial strength rating of Assured Guaranty Municipal Corporation (AGM) from A2 to Aa3. On May 14, 2014, CRW issued a notice of material event with EMMA with respect to Standard & Poor's published research update report dated March 18, 2014, in which it upgraded AGM's financial strength rating to AA from AA-.

CRW has entered into various construction contracts related to the construction of the various facilities. The outstanding commitment under these contracts at December 31, 2013, excluding amounts in accounts payable, was approximately $3.2 million.

CRW and the City both approved a Shared Services Agreement whereby the City agrees to continue to provide certain services to CRW related to the Water and Sewer utilities and CRW agrees to continue provide certain services to the City related to the City Sanitation fund, the billing of which is combined with the water and sewer billings. The payment of for the services is based on cost of services and certain aspects of the services are cancellable, when no longer needed by the party receiving the service(s).

CRW and Lancaster County Solid Waste Management Authority (LCSWMA) have entered into an effluent reuse system agreement, which provides for CRW to complete the remaining portion of the effluent reuse system and, once complete, for LCSWMA to purchase treated effluent from CRW sewer treatment facility for cooling purposes at LCSWMA newly purchased resource recovery facility. The agreement provides a cost savings to LCSWMA due to the less expensive effluent charge compared to potable water. The agreement has a 20-year term and rate based fee provisions (gallons multiplied by the fee rate).

CRW Resource Recovery Facility Forensic Investigation, which reviews matters concerning the financing of the Resource Recovery Facility, was issued on January 12, 2012, and can be found at http://www.hbgauthority.com/news/Forensic%20Investigation/Harrisburg%20Report.pdf. During October and November 2012, the PA Senate Local Government Committee held two public hearings to interview parties named in the forensic investigation to gain a better understanding of the details disclosed therein.

Harrisburg Parking Authority

Pursuant to an Agreement dated as of December 20, 2013, between Assured Guaranty Municipal Corp. (Assured Guaranty) and the Authority, with the joinder of the Receiver for the City (Receiver), any surplus funds or accounts receivable in the accounts of the Authority relating to the assets transferred pursuant to the Agreement (not including rent payable under the lease with PEDFA as part of the transaction or the $500,000 subordinated promissory note from Harrisburg University) existing prior to the close of the transaction, if any, and any amounts recovered by the Receiver prior to the closing of the Parking Transaction relating to the assets transferred in the transaction shall be paid to Assured Guaranty. Except as agreed in writing by Assured Guaranty, any amounts received after closing of the transaction by the Authority in respect of its ownership of the parking assets transferred in the transaction in excess of the reserves agreed upon by the Authority and Assured Guaranty shall be promptly paid to Assured Guaranty.

The financial statements do not include any adjustments as a result of this contingency as the amounts are not reasonably estimable.

Downtown Coordinated Parking Fund

On June 27, 1984, the City, the Redevelopment Authority, Harristown Development Corporation, the Authority, the Mayor of Harrisburg, and Harrisburg City Council entered into the Cooperation Agreement for a Downtown Coordinated Parking System (Cooperation Agreement). The Cooperation Agreement was amended ten times, with the last amendment (confusingly titled the Eleventh Amendment) dated September 14, 2011. All of the amendments coincide with an Authority financing transaction.

The Cooperation Agreement established a coordinated parking system that was managed and operated by the Authority. The components of the coordinated parking system included ten parking garages owned and operated by the Authority (four of the garages are located on land leased by the Authority from the City, and one of the garages is equitably owned by the Authority), two City-owned lots, the parking meters within the City, and a portion of the parking tax collected by the City. The revenues from each component were placed into separate operational accounts established by the Cooperation Agreement, and the operational costs of each component were paid out of the respective account. Additionally, the Reserve Fund was funded from the operational accounts. The Reserve Fund was to be used for replacements or other improvements in any of the Authority garages in accordance with and as identified in the Authority's annual budget.

Following the payment of operational expenses and the funding of the Reserve Fund by the Authority, several subaccounts were funded for the payment of the debt service for the outstanding bonds. Out of the Walnut, Fifth and Chestnut Street Garages Operating Account, the Replacement Reserve Subaccount was funded to pay the debt service of the Series O Bonds; however, the Replacement Reserve Subaccount was only to be funded upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities would meet at least 130% of the debt service requirements of the Series N Bonds. Out of the 2000 Garages/Series I Operating Account, which received the revenue from the River Street Garage and the City Island Garage, the Series I Subaccount was funded to pay the debt service for the Series J, P and R Bonds; however, the Series I Subaccount was only to be funded upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities would meet at least 130% of the debt service requirements of the Series N Bonds and funding requirements of the Replacement Reserve Subaccount. Also, out of the 2000 Garages/Series I Operating Account, the Series K and L Subaccount was funded to pay the debt service for the Series K Bonds; however, the Series K and L Subaccount was only to be funded upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities would meet at least 130% of the debt service requirements of the Series N Bonds and the funding requirements of the Replacement Reserve Subaccount and the Series I Subaccount. Out of the Seventh Street Garage Operating Account, the Series T Subaccount was funded to pay the debt service for the Series T and Series U Bonds; however, the Series T Subaccount was only to be funded upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities would meet at least 130% of the debt service requirements of the Series N Bonds and the funding requirements of the Replacement Reserve Subaccount, the Series I Subaccount, and the Series K and L Subaccount.

Following the funding of the aforementioned subaccounts, to the extent possible from their respective operating accounts, all of the net revenue from the coordinated parking system was deposited into the Fund. To the extent that any subaccount is deficient to pay its debt service obligations, such deficiency was cured by funds from the Fund upon receipt of a certificate from an independent parking consultant confirming that the funds generated or anticipated to be generated by the Authority's garages and other parking facilities would meet at least 130% of the debt service requirements of the Series N Bonds, and the deficiencies were covered in the following priority: (1) Replacement Reserve Subaccount, (2) Series I Subaccount, (3) Series K and L Subaccount, and (4) Series T Subaccount. The debt service for the Series N Bonds was also paid out of the Fund. When the Fund's balance together with amounts expected to be deposited therein was equal to or greater than 130% of the next debt payment for the Series N Bonds, and all other payments were made pursuant to the Cooperation Agreement (including specifically the funding of the subaccounts), the remaining balance, no less than annually, was to be paid to the City.

On December 1, 2013, the City, Harristown Development Corporation, the Authority, the Mayor of Harrisburg, and Harrisburg City Council entered into the 2013 Harrisburg Downtown Parking Cooperation Agreement. This agreement terminated the original Cooperation Agreement and closed the Fund effective December 23, 2013. The agreement also terminated the leases and conveyance of the Walnut Street Garage, Chestnut Street Garage, and Fifth Street Garage. Additionally, the agreement indicated that the City was to pay the Authority the parking tax revenue for the period beginning October 1, 2013 and ending December 23, 2013, upon receipt of all such amounts. The City had no obligation to pay the Authority any parking tax revenues for periods from and after December 24, 2013.

During the year, there were no amounts received by City which represented excess amounts deposited into the system for 2013.

Guarantees

The City is contingently liable under various agreements which guarantee debt of entities not included in the primary government's financial statements aggregating $60,275,791 at December 31, 2013, and maturing at various dates through 2037. Of the $60,275,791, $57,542,114 is for guarantees of component unit debt. City Council failed to adopt funding appropriations in the 2010, 2011, 2012, and 2013 proposed Debt Service Fund budgets to honor CRW's guarantees. The City has filed a notice of material event with EMMA stating that the City does not expect to be able to fulfill its guarantee obligations with respect to the bonds for which the City is guarantor.

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

Landfill Closure and Post-closure Care Costs

State and federal laws and regulations required CRW to properly close and place a final impermeable cover on its Ash Residue Disposal Landfills when they no longer accept waste and to perform certain ongoing maintenance and monitoring activities at the site for up to thirty years after closure. The original estimated total cost of closure and post-closure care costs was $1,670,206, based on an agreement with the Commonwealth of Pennsylvania pursuant to state regulations and was subject to change with inflation, deflation, technology, or applicable laws and regulations. During 2007, under the

original closure and post closure agreement, CRW was required by state regulations and its permit to make quarterly payments of $30,014 to the Consolidated Closure Trust.
On December 31, 2007, the original consolidated trust was terminated and a new account was established. At that time, CRW estimated the closure and post-closure costs to be $1,442,617. A variable rate promissory note (Line of Credit) was entered into with a financial institution for $1,442,617. The Line of Credit supports the Letter of Credit #1805 issued to the Pennsylvania Department of Environmental Protection. On May 5, 2008, this Line of Credit was amended to $2,355,713 based on a revised closure and post-closure cost estimate.

In an effort to extend the life of the landfill, in April 2008, CRW began mining the ash to recover ferrous and nonferrous metals contained in the ash residue. Beginning in August 2008, the ash from the processed metal was removed from the landfill and taken offsite. This resulted in reduced ash volume, thereby further extending the life of the landfill area. To maintain continued ash disposal operations, a plan was prepared to extend the site life of the landfill until an expansion could be permitted and constructed. It was expected to take four years to complete the permitting and initial construction process. During that four-year period, mining and off-site disposal of processed ash continued. During 2009, CRW received a landfill permit extension for another four years. The capacity was to last that long, if CRW continued to remove ash from the landfill for disposal/beneficial use at another landfill, as fast as it is generated at the Harrisburg Resource Recovery Facility.

As discussed in Note 2, the resource recovery facility was sold on December 23, 2013. CRW had accrued $2,994,086 for landfill closure and post-closure care costs at the time of sale, which represents the use of 86.69% of the estimated capacity of the disposal area. Under the new closure and post-closure agreement, CRW was required by state regulations and its permit to make quarterly payments of $170,000 to the Consolidated Closure Trust until fully funded. As part of the sale of the resource recovery facility, the Consolidated Closure Trust was transferred to the purchaser.

Environmental Remediation Liability

The Redevelopment Authority assumed and acquired title to a property which requires environmental remediation. The property was acquired for redevelopment. After the project is complete, the property will be acquired by a local educational institution.

The Redevelopment Authority is required to remediate this property. The Redevelopment Authority has estimated that total project costs will amount to $961,000. The estimate is based on projected remediation costs. The estimate is included in a grant proposal, which was approved by the Department of Environmental Protection.

The $10,636 ending balance of the contamination liability is based on the total estimated project cost, less costs incurred to date. The Redevelopment Authority does not expect to receive insurance recoveries that have the potential to reduce the recorded liability. The estimated liability may potentially change, due to factors such as price increases or changes in technology. The Redevelopment Authority has made significant progress on the project to date and continues work subsequent to year-end.

25. 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 financial statements were not completed by this date.

On February 11, 2010, Moody's downgraded its rating on the City's general obligation bonds again to a rating of B2, with a negative outlook. In a notice of material event, filed by the City with EMMA on March 29, 2011, the City stated its October 2009 downgrade. Through its notices of failure to provide annual financial information as required filed with EMMA on July 15, 2013 and October 10, 2013, the City stated that it had not filed its comprehensive annual financial report for the fiscal year ended December 31, 2012. 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, and 2014.

The City did not pay the required debt service on its Pennsylvania Infrastructure Bank loans during the years ended December 31, 2012 or 2013. Principal and interest payments in the amount of approximately $438,000 were not paid during the years ended December 31, 2012 and 2013. As this amount is due and payable at December 31, 2013, it has been accrued in the fund financial statements.

The City did not pay the required debt service on its 2007 capital lease obligation during the years ended December 31, 2012 or 2013. Principal and interest payments in the amount of approximately $1.3 million were not paid during the year ended December 31, 2012 and 2013. As this amount is due and payable at December 31, 2013, it has been accrued in the fund financial statements.

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 has not filed its single audit for the years ended December 31, 2012 or 2013 by the required dates.

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 $447,925 of State Aid on October 4, 2013; however, these funds were not deposited to the Police Pension Plan until January 3, 2014. This has been recorded as a receivable by the Pension Trust Fund and a payable by the General Fund on the statement of plan net position and balance sheet, respectively, as of December 31, 2013 and as employer contributions on the statement of changes in plan net position for the year ended December 31, 2013.

Component Units

Capital Region Water

Resource Recovery Facility

Through the date of sale, there were deficiencies in the Debt Service Reserve Account, which were to be repaid in not more than 12 substantially equal monthly payments on the first day of the month after the occurrence of such deficiency. CRW had not replenished the Debt Service Reserve Accounts through the date of the sale.

CRW has issued multiple notices of material events with EMMA, all with respect to its inability to make required debt service payments, including draws on debt service reserve funds, under guaranty agreements, and insurance policies with respect to CRW's 1998 Series A, B, and C, Series A Notes of 2002, Series A, B, and C Bonds of 2003, Series D-1, D-2, E, and F Bonds of 2003, and Series C and D Notes of 2007, from 2009 through 2013. These draws were necessary for CRW to make debt service payments under the respective bond issues.

Additionally, the County made payments from 2009 through 2011 under the County Guaranty with respect to the Series D-1 and D-2 Cap agreement and the Series D-1 and D-2 Swap agreement. Beginning in October 2010, the County began making monthly deposits into the Series D, E, and F Debt Service Reserve Funds. These deposits have been used to make subsequent Swap/Cap payments. The City made payments in the amount of $637,500 during July 2009, October 2009, and January 2010 under the guaranty with respect to construction loan from Covanta. As discussed in Note 2, on December 23, 2013, CRW sold its resource recovery facility and negotiated a settlement with Covanta to satisfy the claim for $9.5 million.

Water Segment

On January 18, 2011, CRW issued a notice of material event with EMMA with respect to the Moody's Investor Service (Moody's) downgrade to Ba1 from A1 of CRW's 2008 Water Revenue Bonds. In addition, Moody's has removed CRW's 2008 Water Revenue Bonds from watchlist and a negative outlook has been assigned. On November 15, 2011, Moody's downgraded to Ba3 with negative outlook from Ba1 the rating on CRW's 2008 Water Revenue Bonds and then withdrew the rating. Accordingly, CRW's 2008 Water Revenue Bonds are no longer rated by Moody's.

On July 11, 2012, CRW's Variable Rate Water Revenue Refunding Bonds, Series B of 2002 were purchased by Dexia Credit Local (Dexia), the liquidity facility provider, prior to the expiration of the standby bond purchase agreement, which was not extended. CRW's Variable Rate Water Revenue Refunding Bonds, Series B of 2002 have been subject to special mandatory sinking fund redemption on a level principal basis beginning on January 15, 2013 and on each January 15 and July 15 thereafter until July 15, 2017 and bear interest at Dexia's prime rate, plus 1%.

On July 11, 2012, CRW's Variable Rate Water Revenue Refunding Bonds, Series C of 2002 were purchased by Dexia, the liquidity facility provider, prior to the expiration of the standby bond purchase agreement, which was not extended. CRW's Variable Rate Water Revenue Refunding Bonds, Series C of 2002 have been subject to special mandatory sinking fund redemption on a level principal basis beginning on January 15, 2013 and on each January 15 and July 15 thereafter until July 15, 2019 and bear interest at Dexia's prime rate, plus 1%.

In April 2014, CRW completed, with Amalgamated Bank, a direct purchase of the outstanding Bonds ($15,393,000 in the case of the 2002B Bonds and $6,516,000 in the case of the 2002C Bonds) for a variable rate of interest and for approximately two years. Such direct purchase required CRW to amend its Ninth Supplemental Trust Indenture dated as of July 1, 2002 (Ninth Supplement) between CRW and The Bank of New York Mellon Trust Company, N.A., as successor trustee to J.P. Morgan Trust Company, National Association (Trustee), pursuant to which the 2002 Bonds were issued to allow for a "bank mode" interest rate. The Bonds were remarketed to Amalgamated Bank on April 10, 2014 for a term ending April 10, 2016 and at a variable interest rate which is reset monthly and is based on a LIBOR index rate plus a spread (which spread increases in the second year). During such two-year term, the mandatory sinking fund redemption schedule set forth in the Ninth Supplement for the 2002B Bonds will be maintained, although the amount of 2002B Bonds scheduled to be redeemed on July 15, 2014 will be reduced to $2,798,000 as a result of redemptions while the Bonds were held by the liquidity provider. If the Bonds are still held by Amalgamated Bank on April 10, 2016, then the Bonds will be subject to an accelerated mandatory sinking fund redemption schedule over the following four years.

Harrisburg University

Pursuant to a Trust Indenture dated as of January 1, 2007 (Indenture), CRW issued its University Revenue Bonds, Series of 2007 (The Harrisburg University of Science and Technology Project) in the aggregate principal amount of $87,915,000, comprised of its University Revenue Bonds, Series A of 2007 in the aggregate principal amount of $27,690,000 (Series A Bonds) and its University Revenue Bonds, Series B of 2007 in the aggregate principal amount of $60,225,000 (Series B Bonds, and together with the Harrisburg University Series A Bonds, the Bonds). The Series A Bonds have been paid and are no longer outstanding under the Indenture.

In order to secure the Bonds, CRW assigned to the trustee under the Indenture all of its right, title and interest in and to all funds and accounts established under the Indenture (other than the rebate fund created thereunder) and the pledged revenues, as defined in the Indenture. Further, the performance of the obligations of The Harrisburg University of Science and Technology (University) under a certain Loan Agreement dated as of January 1, 2007 (Loan Agreement) by and between CRW and the University is secured by a certain Open-End Mortgage and Security Agreement dated as of January 1, 2007 (Mortgage). Capitalized terms not defined herein shall have the meanings ascribed to them in the Indenture and Loan Agreement, as applicable.

The Series B Bonds are also secured by the provisions of a certain credit support agreement (Credit Support Agreement) and a guaranty agreement (Guaranty), whereby the County will undertake for a ten-year period (commencing January 1, 2010 and subject to certain earlier rights of termination) to guarantee payment of a portion of the debt service on the Series B Bonds in the maximum amount of $1,500,000 each year over such ten-year period, for a total maximum amount of $15,000,000.

The Series B Bonds were also secured by a certain Standby Letter of Credit issued by Metro Bank, successor to Commerce Bank/Harrisburg, National Association (Letter of Credit Bank), as of January 1, 2007 (Standby Letter of Credit) under and pursuant to a Reimbursement Agreement dated as of January 1, 2007, by and among CRW, the Harrisburg University and the Letter of Credit Bank (Reimbursement Agreement). The Standby Letter of Credit was initially issued in the amount of $3,300,000. The Standby Letter of Credit expired as of September 1, 2011. The Standby Letter of Credit has not been replaced.

During the year ending December 31, 2011 and through September 2014, the University has reported that it has been unable to make the required loan payments and, in some cases, has utilized the County guaranty to pay the required loan payments. The draw on the Guaranty does not constitute an event of default under the Indenture, the Loan Agreement, the Guaranty, the Credit Support Agreement, or any of the other finance documents relative to the Bonds. Under the Credit Support Agreement, in the event that any funds paid by the County to the Trustee are not returned to the County by close of business on the third Business Day following the debt service payment date for which such sums were advanced, the University is required to pay to the County interest on such funds, payable on demand and in any event on the date on which such funds are returned to the County, at a default rate of six (6%) percent, subject, however, to such different or additional terms as may be mutually acceptable to the University and the County.

During the year ended December 31, 2012 and through September 2014, in its multiple Notices of Default, the Trustee asserted that the failure to make the required loan payments constituted an event of default under the Loan Agreement and under the Indenture.

Although CRW is a party to the trust indenture with the University and the Trustee, such agreements are structured such that there is no recourse against CRW in the case of default.

Harrisburg Parking Authority

The Authority bond indentures contain financial and reporting covenants. At times during the years ended December 31, 2010 through December 31, 2013, the Authority was unable to meet Series R Bonds debt covenant requirement 6.05, which states that the Authority shall maintain in the Series R debt Service Reserve Fund moneys and investments with a value equal to the Debt Service Reserve Requirement with respect to the Series R Bonds. The covenant also required any deficiency in the Series R debt Service Reserve Fund to be replenished within 12 months of the Authority‘s receipt of the notification of deficiency.

In November 2010, the Authority received notice that, based upon the City's statements in the Act 47 Petition, the bond insurer concluded that an Event of Default occurred under Section 10.01(c)(ii) of the Indenture as of October 1, 2010 (the date the Act 47 Petition was filed by the City) by declaring in writing its inability to pay when due its debts generally as they become due. The bond insurer informed the trustee that under Section 7.03 of the Indenture, such Event of Default allows the insurer to control all available remedies with respect to the Series J Bonds and directs the trustee to refrain from exercising any remedies or taking any other actions with respect to the Series J Bonds unless and until directed in writing by the insurer. As a result of the Agreement, the Series J Bonds were paid in full as of December 31, 2013.

On July 20, 2012, the Authority issued a material event notice with EMMA stating that on July 10, 2012, The Bank of New York Mellon Trust Company, N.A. (Trustee), as successor trustee with respect to the Authority’s Series J Bonds, the Series O Bonds, the Series P Bonds and the Series R Bonds, provided notice to holders of the Series J Bonds, the Series O Bonds, the Series P Bonds and the Series R Bonds, of the occurrence of an Event of Default. The Trustee found that an Event of Default has occurred by reason of the City’s admitting in writing that it is unable to pay its debts as they generally become due as evidenced by, inter alia, the City’s admission that it was unable to pay, on March 15, 2012, the debt service payment due on certain of its general obligation debt issues which became due and payable on that date. The Authority’s Series J Bonds, the Series O Bonds, the Series P Bonds and the Series R Bonds were either defeased or paid in full during the year ended December 31, 2013.

26. 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, 2013.

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.

On November 3, 2010, the United States Securities and Exchange Commission (SEC) issued a formal order of investigation in the matter of City municipal bonds. This "Order Directing Private Investigation and Designating Officers to Take Testimony" (Formal Order) stated that the SEC has information regarding possible violations, including securities fraud, by certain persons “from at least January 2008 to the present,” of Section 17(a) of the Securities Act and Section 10(b) of the Securities Exchange Act, and Rule 10b-5 thereunder, in connection with the offer, purchase or sale of securities. The effect of the Formal Order was to initiate a "private investigation" under Section 20(a) of the Securities Act and Section 21(a) of the Exchange Act “to determine whether any persons or entities have engaged in, or are about to engage in, any of the reported acts or practices or any acts or practices of similar purport or object" to those reported in the Formal Order. The SEC commenced this private investigation shortly thereafter and has subpoenaed documents from the City and third parties, and has taken the testimony of current and former City officials and employees, and of third parties.

On May 6, 2013, the SEC reported that they accepted a settlement of the charges against the City, which involved the issuance of a cease and desist order, but no financial sanctions against the City. The cease and desist order included disclosure requirements that must be followed going forward. The City has already begun compliance with the Order by enactment of a “Continuing Disclosure Policy Concerning Securities Issued or Guaranteed by the City of Harrisburg.” As long as the City complies with the requirements imposed under the cease and desist order, there will be no penalties as a result of this investigation that materially impact the City’s financial position.

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) has 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 has issued a letter stating that they believe the City is in violation of the Clean Water Act and other regulatory mandates. The City, CRW, and the EPA are parties to a tolling agreement that allowed for the City and CRW to negotiate a resolution of the violations to avoid monetary penalties. The Pennsylvania Department of Environmental Protection participated in the negotiations on the related claims for violations of state environmental statutory and regulatory obligations by the same alleged conduct and omissions.

In November 2013, a transfer of the City's control and interest in the water and sewer systems was consummated, under the framework of the Harrisburg Strong Plan. CRW and the City are parties to a Transfer Agreement, Transition Agreement, Shared Services Agreement, and Intergovernmental Cooperation Agreement, all to facilitate the transfer and ongoing provision of service to the rate base. These agreements have assisted the City in securing a recommendation from the U.S. Department of Justice, the EPA, and DEP for the approval of a proposed Partial Consent Decree that allows the system to be brought into regulatory compliance without the imposition of fines or penalties on the City. The City's Law Bureau anticipates these recommendations to ultimately receive the requisite judicial approval and, thereby, no longer present a material risk to the City.

Component Units

Capital Region Water

During the years ended December 31, 2011 and 2012, CRW conducted a forensic audit of the debt financings related to the Resource Recovery Facility. CRW and other parties are evaluating the results of the forensic audit and any related outcome is subject to significant uncertainty.

The United States Environmental Protection Agency (EPA) and Commonwealth of Pennsylvania Department of Environmental Protection have asserted that CRW and the City 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, occurred when CRW owned and the City operated the combined sewer overflow structures and related operations (collectively, the sewer system). Although the ownership and operation of the sewer system have now been combined under CRW, as a result of such alleged past violations, CRW, along with the City, 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 costs associated with any such improvements, the scope, if any, of penalties and the breakdown of responsibility for any required improvements between CRW and the City.

A legal services firm has filed a writ of summons against both the City and CRW and is believed to involve a claim for legal fees in a lawsuit over the appointment power to the Board of CRW which was resolved in 2009. No formal demand has been made of CRW and the legal services firm has not pursued its claim aside from the writ of summons. CRW would defend this case vigorously and denies owing this legal service firm any amount for legal fees. Further, the statute of limitations on this claim is believed to have passed.

Harrisburg Parking Authority

On January 11, 2007, the Authority entered into an agreement with Harrisburg University of Science and Technology (University), whereby the Authority intended to purchase a condominium unit in a building to be constructed by the University. The condominium unit consisted of seven floors of parking facilities, which includes approximately 392 parking spaces. The total purchase price of this unit was $14,000,000, which was financed through the issuance of the Guaranteed Parking Revenue Bonds, Series R of 2007. The agreement required an earnest money deposit in the amount of $100,000 payable upon execution of the agreement and twenty-four equal monthly payments of $579,167, commencing January 2007. All required payments have been made as of December 31, 2013. The equitable ownership interest was being amortized over the remaining life of the Series R of 2007 Bonds. The Series R of 2007 Bonds were defeased as of December 31, 2013. As a result of the Agreement, the Authority gained ownership of the condominium unit and transferred such ownership interest under this Agreement.

On, January 27, 2010, the Authority filed a material event notice with EMMA. A portion of the funds derived from the Series R Bonds were being used by the Authority to acquire a condominium unit in a building constructed by the University. The condominium unit consisted of seven floors of parking facilities which included approximately 392 parking spaces. Under the parking license, in any year in which revenues from operation of the parking facility failed to meet the Authority's debt service requirements on the Series R Bonds and the operation and maintenance costs of the parking facility, the University is required to pay the difference up to an annual cap (HU Subsidy) to the Authority.

Under the Indenture, the Authority agreed to pay debt service on the Series R Bonds from a debt service account funded, in part, with revenues of the parking facility, including the HU Subsidy and other payments to be made by the University under the parking license. In the event of a shortfall in the debt service account, the Authority agreed to pay debt service from a debt service reserve account.

Despite demand, the University failed to make the first payment of the HU Subsidy on or before November 10, 2009, as required by the parking license. To avoid a draw on the debt service reserve account to make the debt service payment on November 15, 2009, the Authority deposited money from other available funds into the debt service account. During the years ended December 31, 2011 and 2010, the University failed to make any payments of the HU Subsidy, as required by the parking license. The Authority withdrew a total of $523,464 from the Debt Service Reserve Account during the year ended December 31, 2011 in order to make the debt service payment on May 15, 2011. The Authority transferred $574,454 from other available funds in order to make the debt service payment on November 15, 2011. During the year ended December 31, 2012, the University failed to make the payment of the HU Subsidy on or before May 10, 2012, as required by the parking license. As a result, there were insufficient funds in the debt service account to make the debt service payment due May 15, 2012. A total payment of $729,954 was due to the bondholders on May 15, 2012, and such amount was transferred by the Trustee to the debt service account from other available funds of the Authority. The University failed to make the payment of the HU Subsidy on or before November 10, 2012, as required by the parking license. As a result, there were insufficient funds in the debt service account to make the debt service payment due November 15, 2012. A total payment of $358,293 was due to the bondholders on November 15, 2012, and such amount was transferred by the Trustee to the debt service account from other available funds of the Authority. The University failed to make the payment of the HU Subsidy on or before May 10, 2013, as required by the parking license. As a result, there were insufficient funds in the debt service account to make the debt service payment due May 15, 2013.

On March 3, 2010, the Authority commenced a civil action against the University in the Court of Common Pleas of Dauphin County, Pennsylvania. The Authority sought specific performance of an agreement to purchase a parking garage from the University. The Authority also sought reformation of a related contract with the University to which a mistaken exhibit had been attached. The Authority also sued the University for nonpayment of a contractual subsidy obligation in the amount of $778,919, and a rent obligation in the amount of $39,000, both of which obligations continued to accrue. The University countersued the Authority for nonpayment of change orders in the amount of $723,026 and for failing to use its best efforts to lease unused University parking spaces. As a result of the Agreement, the Authority and the University entered into a settlement agreement, dated December 17, 2013. The agreement required the Authority to pay $3.6 million of the proceeds to the University for release of the trustee's lien on the parking facility, and settlement of all claims asserted against one another.

27. SUBSEQUENT EVENTS

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 April 2011, CRW applied for a PennVest loan, in the amount not to exceed $5.7 million for the purpose of financing CRW's water system improvements. As of the date of this report, this loan has not settled.

In March 2014, CRW paid off the Guaranteed Sewer Revenue Note, Series A of 1998.

In March 2014, CRW issued Wastewater System Revenue Note, Series of 2014A (Series of 2014A Note), with a maximum principal amount outstanding at any time of $2 million. The Series of 2014A Note was issued to serve as a revolving line of credit for the payment of and reimbursement to CRW for certain capital expenditures related to the engineering, design, and construction of the advanced wastewater treatment facility.

In July 2014, CRW issued Sewer Revenue Bonds, Series of 2014B, Variable Rate Demand Bonds (Series of 2014B Bonds) in the amount of $29,660,000 to be applied to finance the costs of a project consisting of a portion of the engineering, design, and construction of improvements to CRW's advanced wastewater treatment facility and various expenditures relating to CRW's long-term control plan and CRW's geographic information system project; fund the various reserves, if required; the payment of interest during construction, if required; and the payment of costs of issuance of the Series of 2014B Bonds. The Series of 2014B Bonds are secured by a letter of credit issued by Manufacturers and Traders Trust Company, which expires (unless extended) on July 10, 2017. Upon issuance and prior to the conversion date to a different mode, the Series of 2014B Bonds other than pledged bonds will bear interest at the weekly rate, which will be a variable rate established by the remarking agent. In no event shall the weekly rate for the Series of 2014B Bonds exceed ten percent per annum unless increased in accordance with the terms of the indenture. As set forth in the indenture, the Series of 2014B Bonds may be converted or reconverted to bear interest in a weekly mode, monthly mode, multiannual mode, or bank purchase rate mode or converted to a fixed rate mode.

In order to provide addition funds to complete the advanced wastewater treatment facility project, CRW issued a Sewer Revenue Note, Series of 2014C (Series of 2014C Note) in the amount of $21,500,000. The Series of 2014C Note is interest only for 3 years and amortizes over a period of 10 years. Interest is fixed at 1% for years one through five and 1.275% thereafter.

CRW entered into various construction and professional services contracts in 2014 related to the construction of the various facilities. The commitment under these contracts is approximately $41 million.

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 has not drawn against this loan as of the date of this report.

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. It is anticipated that the City will incur ongoing costs in addressing and monitoring the situation, but that it will secure resources of outside federal, state, and other funding for the City and/or impacted residents. No General Fund revenues are deemed available to remediate the problem and no claims by private landowners are deemed legally viable for the events. CRW may be subject to claims for payment, contribution, or subrogation for the costs of remediation, though the right of the City is still be evaluated.

28. RESTATEMENT

Primary Government

The City adopted GASB Statement No. 65 for the year ended December 31, 2013. As a result, certain bond issuance costs have been eliminated from assets.

The following summarizes restatements made to beginning net position:

	Business-type Activities	Harrisburg Senators Fund
Net position, originally stated	$ 78,506,051	$ 28,013,169
Implementation of GASB 65	(111,933)	(111,933)
Net position, restated	$ 78,394,118	$ 27,901,236

Component Unit

Capital Region Water

CRW adopted GASB Statement No. 65 for the year ended December 31, 2013. As a result, certain bond issuance costs have been eliminated from assets. Net position was also restated to reflect CRW's investment contracts at contract value rather than the market value of the underlying collateral. Had the investments been properly recorded, the change in net position for CRW would have been ($21.0) million for the year ended December 31, 2012, $837 thousand less than originally reported.

The following summarizes restatements made to beginning net position:

Net position, originally stated	$ (238,747,466)
Implementation of GASB 65	(7,150,336)
Restatement for investment valuation	(1,633,964)
Net position, restated	$ (247,531,766)

Harrisburg Parking Authority

The Authority adopted GASB Statement No. 65 for the year ended December 31, 2013. As a result, the beginning net position was decreased by $3,308,172 to eliminate bond issuance costs from assets.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE
BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2013
REQUIRED SUPPLEMENTARY INFORMATION

	Budget		Variance of Original with Final Budget		Variance of Actual with Final Budget
	Original Amounts	Final Amounts	Positive (Negative)	Actual Amounts	Positive (Negative)
Revenues					
Taxes	$ 33,405,864	$ 33,405,864	$ -	$ 31,440,546	$ (1,965,318)
Licenses and permits	578,416	578,416	-	571,658	(6,758)
Intergovernmental revenue	6,083,154	4,627,079	(1,456,075)	3,222,719	(1,404,360)
Departmental earnings	8,698,124	8,698,124	-	7,312,031	(1,386,093)
Fines and forfeits	1,762,137	1,762,137	-	1,302,101	(460,036)
Investment income	127,776	127,776	-	67,457	(60,319)
Miscellaneous	864,793	1,369,118	504,325	1,788,650	419,532
Total revenues	51,520,264	50,568,514	(951,750)	45,705,162	(4,863,352)
Expenditures					
General government					
Elected and appointed offices					
City Council	400,270	400,270	-	307,224	93,046
Mayor	289,639	289,639	-	213,425	76,214
City Controller	195,170	195,170	-	142,914	52,256
City Treasurer	583,296	583,296	-	503,770	79,526
City Solicitor	713,204	713,204	-	456,891	256,313
Total elected and appointed offices	2,181,579	2,181,579	-	1,624,224	557,355
Office of administration					
Administration	2,513,063	2,513,063	-	2,114,155	398,908
General expenditures	7,060,150	13,190,335	(6,130,185)	9,687,347	3,502,988
Total general government	11,754,792	17,884,977	(6,130,185)	13,425,726	4,459,251
Building and housing development	863,197	863,197	-	725,983	137,214
Public safety	25,640,031	26,335,229	(695,198)	24,297,877	2,037,352
Public works	6,732,264	7,542,264	(810,000)	5,575,366	1,966,898
Parks and recreation	409,776	409,776	-	398,428	11,348
Total expenditures	45,400,060	53,035,443	(7,635,383)	44,423,380	8,612,063
Excess of revenues over (under) expenditures before other financing sources (uses)	6,120,204	(2,466,929)	(8,587,133)	1,281,782	3,748,711
Other financing sources (uses)					
Sale of general capital assets	-	-	-	23,866,667	23,866,667
Debt issuance	-	900,000	900,000	-	(900,000)
Transfers in	1,700,000	6,204,000	4,504,000	5,214,496	(989,504)
Transfers out	(10,810,547)	(7,627,414)	3,183,133	(6,616)	7,620,798
Total other financing sources (uses)	(9,110,547)	(523,414)	8,587,133	29,074,547	29,597,961
Net change in fund balance	(2,990,343)	(2,990,343)	-	30,356,329	33,346,672
Fund balance - beginning of year, budgetary basis	-	-	-	1,672,814	1,672,814
Fund balance - end of year, budgetary basis	$ (2,990,343)	$ (2,990,343)	$ -	$ 32,029,143	$ 35,019,486

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), and for the Sewer (net of applicable activity of CRW), and Sanitation Funds. Budgets for governmental funds are prepared on a cash basis with respect to revenues and on an item voucher basis with respect to expenditures. Specific funds exempted from legally adopted budgetary requirements include:

- Grant Programs Fund
- Capital Projects Fund
- Parks and Property Improvement Fund (nonmajor governmental fund)
- Harrisburg Senators Fund
- Incinerator 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 2013 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.

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	$ 1,672,814	$ 45,705,162	$ (44,423,380)	$ 29,074,547	$ 32,029,143
Taxes receivable	10,655,732	3,362,764	-	-	14,018,496
Accounts receivable	145,344	(21,717)	-	(123,627)	-
Other assets	(406,614)	-	1,001,400	-	594,786
Accounts payable, net of items vouchered	126,729	-	-	-	126,729
Accrued liabilities	(78,640,134)	426,092	(20,794,371)	87,353,285	(11,655,128)
Advances and amounts due to other funds and component units	(322,638)	873,733	(1,754,676)	(638,434)	(1,842,015)
Unearned and unavailable revenue	(12,876,088)	(768,006)	-	-	(13,644,094)
Other	1,848,969	247,679	(5,376,951)	7,087,256	3,806,953
GAAP basis	$ (77,795,886)	$ 49,825,707	$ (71,347,978)	$ 122,753,027	$ 23,434,870

2. BUDGET TO ACTUAL COMPARISONS

The General Fund's budget comparison is presented in the Other Required Supplementary Information section. The State Liquid Fuels Tax Fund (a nonmajor fund), 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. The City has not exceeded the budgeted expenditure amounts on a line item level.

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 2004-2013

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]
2004	$ -	01/01/02	$ -	$ -	- %
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	-	-	-

(1) 2004-2013 – 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.

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 2004-2013

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]
2004	$ -	01/01/02	$ -	$ -	- %
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	-	-	-

(1) 2004-2013 – 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.

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 2004-2013

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]
2004	$ 285,823	01/01/02	$ -	(2) $ 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
2012	1,517,751	01/01/09	-	2,524,734	100.00
2013	2,146,827	01/01/11	-	2,594,752	100.00

(1) 2004-2013 – 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) 2004-2006 and 2011-2013 – State aid was sufficient to meet the City's annual required contribution. Therefore, no employer contribution is reflected here.

Schedule of Funding Progress 01/01/08-01/01/12

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

* - 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 2008-2013

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%

SUPPLEMENTARY INFORMATION
COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS AND SCHEDULES

State Liquid Fuels Tax Fund

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

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, 2013

	Special Revenue				
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund	Capital Projects	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	$ 11,816	$ 232,571	$ 104,403	$ (617,012)	$ (268,222)
Investments, at fair value	441,674	-	815,147	576,810	1,833,631
Receivables, net of allowance for uncollectible accounts					
Taxes	-	-	-	28,488	28,488
Other	-	63,129	-	-	63,129
Due from other funds	3,130	-	77	305,998	309,205
Due from component units	-	-	-	96,368	96,368
Restricted assets					
Cash and cash equivalents	-	-	-	1,104,531	1,104,531
Total assets	$ 456,620	$ 295,700	$ 919,627	$ 1,495,183	$ 3,167,130
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	$ 192,594	$ -	$ 53,721	$ 4,049	$ 250,364
Due to other funds	-	-	750,934	-	750,934
Due to component units	-	-	-	89,806	89,806
Total liabilities	192,594	-	804,655	93,855	1,091,104
Fund balance					
Restricted for					
Environment	-	295,700	-	-	295,700
Public works	264,026	-	-	-	264,026
Parks and recreation	-	-	114,972	-	114,972
Tourism	-	-	-	855,235	855,235
Capital projects	-	-	-	546,093	546,093
Total fund balance	264,026	295,700	114,972	1,401,328	2,076,026
Total liabilities and fund balance	$ 456,620	$ 295,700	$ 919,627	$ 1,495,183	$ 3,167,130

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	Special Revenue				
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund	Capital Projects	Total Nonmajor Governmental Funds
Revenues					
Intergovernmental revenue	$ 914,788	$ -	$ -	$ 11,434	$ 926,222
Department earnings and program revenue	-	295,700	-	886,377	1,182,077
Investment income	191	-	-	244	435
Miscellaneous	-	-	-	122,500	122,500
Total revenues	914,979	295,700	-	1,020,555	2,231,234
Expenditures					
Current					
Building and housing development	-	-	-	(2,235)	(2,235)
Public works	648,260	-	-	-	648,260
Tourism	-	-	-	3,256	3,256
Capital outlay	-	-	-	30,006	30,006
Debt service					
Principal retirements	-	-	-	54,903	54,903
Total expenditures	648,260	-	-	85,930	734,190
Excess of revenues over (under) expenditures	266,719	295,700	-	934,625	1,497,044
Other financing sources (uses)					
Transfers out	-	-	-	(350,561)	(350,561)
Total other financing sources (uses)	-	-	-	(350,561)	(350,561)
Net change in fund balances	266,719	295,700	-	584,064	1,146,483
Fund balances - beginning of year	(2,693)	-	114,972	817,264	929,543
Fund balances - end of year	$ 264,026	$ 295,700	$ 114,972	$ 1,401,328	$ 2,076,026

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	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	$ 886,388	$ 886,388	$ -	$ 914,788	$ 28,400	$ -	$ -	$ -	$ -	$ -
Investment income	75	75	-	191	116	458,030	458,030	-	614,600	156,570
Total revenues	886,463	886,463	-	914,979	28,516	458,030	458,030	-	614,600	156,570
Expenditures										
Public works	886,463	886,463	-	840,779	45,684	-	-	-	-	-
Debt service	-	-	-	-	-	92,086,425	94,383,086	(2,296,661)	4,043,035	90,340,051
Total expenditures	886,463	886,463	-	840,779	45,684	92,086,425	94,383,086	(2,296,661)	4,043,035	90,340,051
Excess of revenues over (under) expenditures before other financing sources (uses)	-	-	-	74,200	74,200	(91,628,395)	(93,925,056)	(2,296,661)	(3,428,435)	90,496,621
Other financing sources (uses)										
Sale of general capital assets	-	-	-	-	-	72,152,848	74,449,509	2,296,661	2,416,333	(72,033,176)
Transfers in	-	-	-	-	-	10,810,547	10,810,547	-	6,616	(10,803,931)
Total other financing sources (uses)	-	-	-	-	-	82,963,395	85,260,056	2,296,661	2,422,949	(82,837,107)
Net change in fund balance	-	-	-	74,200	74,200	(8,665,000)	(8,665,000)	-	(1,005,486)	7,659,514
Fund balance - beginning of year, budgetary basis	-	-	-	374,141	374,141	-	-	-	(730,790)	(730,790)
Fund balance - end of year, budgetary basis	$ -	$ -	$ -	$ 448,341	$ 448,341	$ (8,665,000)	$ (8,665,000)	$ -	$ (1,736,276)	$ 6,928,724

Explanation of differences between budget basis and GAAP:

Net change in fund balance - budgetary basis	$ 74,200	$ (1,005,486)
Accrued expenditures - December 31, 2012	355,752	-
Accrued expenditures - December 31, 2013	(163,233)	-
Accrued revenues - December 31, 2012	-	(734,970)
Accrued revenues - December 31, 2013	-	2,016,477
Net change in fund balance - GAAP basis	$ 266,719	$ 276,021

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	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	$ -	$ 232,572	$ 232,572	$ 232,571	$ (1)
Total revenues	-	232,572	232,572	232,571	(1)
Expenditures					
Environment	-	10,000	(10,000)	-	10,000
Total expenditures	-	10,000	(10,000)	-	10,000
Net change in fund balance	-	222,572	222,572	232,571	9,999
Fund balance - beginning of year, budgetary basis	-	-	-	-	-
Fund balance - end of year, budgetary basis	$ -	$ 222,572	$ 222,572	$ 232,571	$ 9,999

Explanation of differences between budget basis and GAAP:

Net change in fund balance - budgetary basis	$ 232,571
Accrued revenues - December 31, 2013	63,129
Net change in fund balance - GAAP basis	$ 295,700

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, 2013

	School Tax Collection	Payroll and Other Escrow Liabilities	Total Agency Funds
ASSETS			
Cash and cash equivalents	$ 695,351	$ 1,701,845	$ 2,397,196
Total assets	695,351	1,701,845	2,397,196
LIABILITIES			
Due to other governments	695,351	-	695,351
Due to City's General Fund	-	202,153	202,153
Due to others	-	928,810	928,810
Escrow liabilities	-	570,882	570,882
Total liabilities	$ 695,351	$ 1,701,845	$ 2,397,196

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2013

	Beginning of Year	Additions	Deductions	End of Year
School Tax Collection				
Assets				
Cash and cash equivalents	$ 426,879	$ 39,037,675	$ 38,769,203	$ 695,351
Liabilities				
Due to other governments	$ 426,879	$ 39,037,675	$ 38,769,203	$ 695,351
Payroll and Other Escrow Liabilities				
Assets				
Cash and cash equivalents	$ 1,890,619	$ 36,327,883	$ 36,516,657	$ 1,701,845
Liabilities				
Due to City's General Fund	$ 202,153	$ -	$ -	$ 202,153
Due to others	1,159,948	929,203	1,160,341	928,810
Escrow liabilities	528,518	35,398,680	35,356,316	570,882
Total liabilities	$ 1,890,619	$ 36,327,883	$ 36,516,657	$ 1,701,845
Total Agency Funds				
Assets				
Cash and cash equivalents	$ 2,317,498	$ 75,365,558	$ 75,285,860	$ 2,397,196
Liabilities				
Due to other governments	$ 426,879	$ 39,037,675	$ 38,769,203	$ 695,351
Due to City's General Fund	202,153	-	-	202,153
Due to others	1,159,948	929,203	1,160,341	928,810
Escrow liabilities	528,518	35,398,680	35,356,316	570,882
Total liabilities	$ 2,317,498	$ 75,365,558	$ 75,285,860	$ 2,397,196

City of Harrisburg, Pennsylvania

Federal Award Programs Required by
OMB Circular A-133

Year Ended December 31, 2013

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, 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 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 26, 2014. The financial statements of the Capital Region Water, the Harrisburg Parking Authority, the Coordinated Parking Fund, and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards*.

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 an 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 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, and 2013-06 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 2013-02 and 2013-06.

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.

Maher Duessel

Harrisburg, Pennsylvania
November 26, 2014

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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 U.S. 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, 2013. 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.

Basis for Qualified Opinion on Each Major Federal Program

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

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2013-07	14.218 14.900 20.205	Community Development Block Grants/ Entitlement Grants Lead-Based Paint Hazard Control Program Highway Planning and Construction	Cash Management
2013-08	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
2013-09	14.218 14.239	Community Development Block Grants/ Entitlement Program Home Investment Partnerships Program	Reporting
2013-10	14.218 14.239	Community Development Block Grants/ Entitlement Program Home Investment Partnerships Program	Subrecipient Monitoring
2013-11	14.218 14.239 14.900	Community Development Block Grants/ Entitlement Program Home Investment Partnerships Program Lead-Based Paint Hazard Control Program	Program Income
2013-12	14.239	Home Investment Partnerships Program	Activities Allowed or Unallowed, Allowable Costs/Cost Principles

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

Qualified Opinion on Each Major Federal Program

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 its major programs for the year ended December 31, 2013.

Other Matters

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

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2013-08	16.710	Public Safety Partnership and Community Policing Grants - ARRA	Reporting

Our opinion on each major federal program is not modified with respect to this matter.

The City's responses to the noncompliance finding 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 costs as Findings 2013-07, 2013-08, 2013-09, 2013-10, 2013-11, 2013-12, and 2013-13 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.

Maher Duessel

Harrisburg, Pennsylvania
November 26, 2014

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2013

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	$ 2,443,180
Emergency Solutions Grant Program	D	14.231	N/A	119,003
Home Investment Partnerships Program	D	14.239	N/A	681,378
Lead-Based Paint Hazard Control Program	D	14.900	N/A	850,129
Total U.S. Department of Housing and Urban Development				4,093,690
U.S. Department of Justice				
Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories	D	16.738	N/A	30,645
Public Safety Partnership and Community Policing Grants - ARRA	D	16.710	N/A	112,211
Total U.S. Department of Justice				142,856
U.S. Department of Transportation				
Passed through the Pennsylvania Department of Transportation:				
Highway Planning and Construction	I	20.205	089595	1,797,569
Highway Planning and Construction	I	20.205	088787	50,782
Total U.S. Department of Transportation				1,848,351
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	197,337
Staffing for Adequate Fire and Emergency Response	D	97.083	N/A	507,492
Total U.S. Department of Homeland Security - Federal Emergency Management Agency				704,829
Total Expenditures of Federal Awards				$ 6,789,726

See accompanying notes to Schedule of Expenditures of Federal Awards.

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the 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, 2013.

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, 2013 is as follows:

Date of Notice	Amount of Note	Interest Rate	Required Interest Payment	Principal Balance December 31, 2013	2013 Principal Payments
May 13, 2000	$ 3,960,000	5.75%-6.56%	Semi-annually, February and August 1st	$ 1,760,000	$ 240,000
September 14, 2006	$ 3,795,000	4.99%-5.77%	Semi-annually, February and August 1st	2,745,000	210,000
				$ 4,505,000	$ 450,000

Section 108 loans changed during the year as follows:

Beginning of Year	Additions	Payments	End of Year
$ 4,955,000	$ -	$ 450,000	$ 4,505,000

4. PENNSYLVANIA DEPARTMENT OF HEALTH

The following represents activity related to federal funding passed through the Pennsylvania Department of Health for the year ended December 31, 2013:

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Accrued (Deferred) Revenue 12/31/2012	Cash Receipts	Federal Expenditures	Accrued (Deferred) Revenue 12/31/2013
Lead-Based Paint Hazard Control	14.900	SAP 4100050064	$ 40,456	$ 40,456	$ -	$ -

5. 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, 2013, the City is holding the remaining Section 108 Guaranteed Funds, in the amount of $718,921, in a separate account and using the funds to pay down the outstanding loan balance.

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 2012-01: 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 and general funds on at least a quarterly basis.
- A written policies and procedures manual be prepared.

Current Status: See current year Finding 2013-01.

Finding 2012-02: Artifact Cost

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

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

Current Status: As of December 31, 2013, the City sold the aforementioned artifacts.

Finding 2012-03: 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 grant revenue, receivables (utility, taxes and other) and related allowances, due to other funds and due to other governments, capital assets, accounts payable, lease payable, and debt.

Additionally, the City defaulted on its 1997 Series D and F bonds during 2012. Payments on the bonds 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 three of its four Pennsylvania Infrastructure Bank (PIB)

Finally, because one of the City's component units has been unable to meet their debt service requirements, the City has been required to pay under certain guarantee agreements. Since the year ended December 31, 2009, and in future periods, the City has been unable to honor its guarantee. Ongoing requirements to honor the guarantee have caused the City to evaluate the potential for reporting the contingency for such debt issues. Audit adjustments were proposed to the City's records for the contingent liability for component unit debt. Because the aforementioned debt is no longer considered self-liquidating under the Debt Act, the City has exceeded its legal debt limit by approximately $114.9 million.

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

Current Status: See current year Finding 2013-02.

Finding 2012-04: Segregation of Duties

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

- Journal entries recorded in the general ledger system are not reviewed and approved.
- 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 journal entries, we recommend that the City follow its policy that all journal entries be entered, posted, and reviewed by a person independent of each process. 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: See current year Finding 2013-03.

Finding 2012-05: 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.
- Cut-off procedures be established to ensure that all disbursements are reported in the appropriate periods.

Current Status: See current year Finding 2013-04.

Finding 2012-06: 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:

- For the bank statement that are received by the City's Treasurer's office, no one is reviewing the statements for unusual items prior to reconciliations
- The bank statements for the Washington Square Escrow Account were not being received or maintained in the City Treasurer's office prior to May 2012. These bank statements were maintained in DBHD and there was no monthly reconciliation performed on this account.
- The payroll accounts were received by the City Treasurer's office and then forwarded to the Finance Department. The bank statements were not reconciled by the Controller's office, City Treasurer's office, or the Finance Department. The Controller's office began reconciling the payroll accounts in July 2012.
- Although the monthly reconciliations were prepared for all other accounts, they did not reflect any adjustments related to the 2009, 2010, or 2011 audits.
- Monthly reconciliations for the year ended December 31, 2012 were not provided to the Controller's office review until May 2013.

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

Current Status: See current year Finding 2013-05.

III – Findings and questioned costs for federal awards.

Control Deficiency: Material Weakness

Finding 2012-07: Cash Management

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA #14.218); U.S. Department of Transportation – Passed through the Pennsylvania Department of Transportation – Highway Planning and Construction (CFDA #20.205); U.S. Department of Housing and Urban Development- Home Investment Partnership Program (CFDA #14.239)

Condition: During the audit, three out of the five 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, all four reimbursement requests selected for testing related to the Home Investment Planning and Construction Program contained invoices for allowable costs that were not paid within ten calendar days of the HUD's remittance

During the audit, three of four 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: No discrepancies were noted regarding cash management with respect to CFDA #14.239 during the December 31, 2013 audit. See current year Finding 2013-07 related to CFDA #14.218 and CFDA #20.205.

Finding 2012-08: Submitting Required Reports

U.S. Department of Housing and Urban Development – Lead-Based Paint Hazard Control (CFDA #14.900); Passed through the Pennsylvania Department of Health – Lead-Based Paint Hazard Control (CFDA #14.900); U.S. Department of Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710); U.S. Department of Housing and Urban Development- Community Development Block Grants/Entitlement Program (CFDA #14.218)

Condition: During the audit, the City did not submit the Section 1512 ARRA Reports within the specified timeframe for two of four quarters selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA.

The City did not submit the Federal Financial Reports within the specified timeframe for two of four quarters related to the Lead-Based Paint Hazard Control Program.

The City did not submit the Annual Performance Report (APR) within the specified timeframe related to the Community Development Block Grants/Entitlement Program.

Recommendation: The City should establish controls to ensure that all required reports are submitted within the appropriate timeframe and documentation is maintained validating the date of submission

Current Status: No discrepancies were noted regarding submitting required reports during the December 31, 2013 audit.

Finding 2012-09: 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 – Homelessness Prevention and Rapid Re-Housing Program – ARRA (CFDA #14.257); U.S. Department of Justice – Public Safety Partnership and Community Policing Grants – ARRA (CFDA #16.710)

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 or the Public Safety Partnership and Community Policing Grants – ARRA.

The City did not report accurate information on the Section 1512 ARRA Reports for two of three quarters selected for testing related to the Homelessness Prevention and Rapid Re-Housing Program – ARRA (HPRP) or for all 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 Annual Performance Report (APR) submitted during 2012 related to the HPRP 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.

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: No reports were prepared for CFDA #14.257 during the December 31, 2013 audit as the grant was completed during the year ended December 31, 2012. See current year Finding 2013-08 related to CFDA #14.218 and CFDA #16.710.

Finding 2012-10: Submitting Section 3 Summary 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 – Home Investment Partnerships Program (CFDA #14.239)

Condition: The City was not able to provide the Section 3 Summary Report (HUD-60002) for the federal funds received from U.S. Department of Housing and Urban Development (HUD) for the Home Investment Partnerships Program. The City did not report complete and accurate information on the Section 3 Summary Report for the Community Development Block Grant Entitlement Grants Program.

Recommendation: The City should establish controls to ensure that all required reports be submitted within the appropriate timeframe and documentation is kept regarding the date of submission.

Current Status: No reports were prepared during the year ended December 31, 2013 due to temporary shutdown of the HUD-60002 reporting system.

Finding 2012-11: 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: See current year Finding 2013-09.

Finding 2012-12: Subrecipient Monitoring

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 – Homelessness Prevention and Rapid Re-Housing Program – ARRA (CFDA #14.257)

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, the Home Investment Partnerships Program, and the Homelessness Prevention and Rapid Re-Housing 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: No expenditures were incurred for CFDA #14.257 during the year ended December 31, 2013, as the grant was completed during the year ended December 31, 2012. See current year Finding 2013-10 related to CFDA #14.218 and CFDA #14.239.

Finding 2012-13: Program Income

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

Condition: During the audit, the City did not report program income received during 2012 in the Integrated Disbursement and Information System (IDIS) 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 2012 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 and the funds received are expended for eligible activities prior to drawing down additional funds.

Current Status: See current year Finding 2013-11.

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:

CFDA Numbers	Name of Federal Program
14.218	Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program
14.900	Lead-Based Paint Hazard Control Program
20.205	Highway Planning and Construction
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

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.

Criteria: Subsidiary ledgers should support the amounts reported in Pentamation and be reconciled periodically.

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

Cause: Reconciliations are not being performed.

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

- Procedures 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.

Views of Responsible Officials: The Department of Community and Economic Development will be hiring a staff accountant/Financial Analyst position to develop and implement procedures to reconcile MOED loan balances in Portfolio. DBHD will no longer be responsible for collecting or monitoring MOED Loans. DBHD loans: The City's Financial Management Department will reconcile bank statements with general ledger entries within one month of the end of the statement period. If any discrepancies are noted, the respective directors of the two departments (DBHD and Fiscal) will meet and discuss and resolve all discrepancies prior to the following statement period. On a monthly basis, Fiscal will provide the DBHD Director with a report highlighting any outstanding checks over 90 days old.

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, 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 and F bonds during the year ended December 31, 2013. Payments on the bonds 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.

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"). The City should comply with the trust indentures for the 1997 series bonds, the loan agreements for the PIB loans, and the capital lease agreements, as it relates to required principal and interest payments.

Effect: If the entity relies upon its auditors to assist them in producing GAAP financial statements, or the entity fails to make the required principal and interest payments required under its debt and lease obligations, the auditor is required to communicate a significant deficiency or material weakness related to financial reporting.

Cause: The City does not have adequate staffing to produce GAAP financial statements and 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 eliminate the financial reporting deficiencies and default on debt obligations, as noted above.

Views of Responsible Officials: The City concurs and, once staffing returns to stable levels, as is expected in fiscal year 2015, proper procedures will be put into place in order to address those differences in an appropriate and actionable timeframe.

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.

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 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.

Views of Responsible Officials: The City agrees. See response to Finding 2013-01. Additionally, DBHD policy provides for the Bureau of Housing Asset Manager to photocopy loan payments for DBHD loan files and to forward loan payments to the City Treasurer's Office for deposit. The DBHD Bureau of Codes policy provides for the Bureau to enter into a database all building permit receipts and to forward building permit receipts to the City Treasurer's Office.

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.

Criteria: Subsidiary ledgers should support the amounts reported in Pentamation and be reconciled periodically.

Effect: The City's trial balances and/or customer billings may be misstated throughout the year.

Cause: Reconciliations are not being performed.

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

- All Q and S account balances be reconciled to Pentamation at year-end.
- Cut-off procedures be established to ensure that all disbursements are reported in the appropriate periods.

Views of Responsible Officials: The City concurs and, once staffing returns to stable levels, as is expected in fiscal year 2015, proper procedures will be put into place in order to rectify in an appropriate and actionable timeframe.

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.

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 reviewed on a timely basis.

Cause: The City did not follow its policy for 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, as is expected in fiscal year 2015, proper procedures will be put into place in order to rectify in an appropriate and actionable timeframe, upon agreement between all administration departments and elected offices involved.

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.

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 in conjunction with the Commonwealth of Pennsylvania, the Accounting office, and the Grants office.

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)

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.

Criteria: 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.

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.

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 has an established invoice payment schedule that is provided to each contractor/vendor annually. The schedule outlines the dates that invoices are due to the City, due to the Department Director for approval, and due to the Bureau of Financial Management for processing. The schedule also identifies the check print dates and the distribution date.

To alleviate the week delay in the distribution of checks, the Bureau of Housing (BOH) has instituted the internal policy that all payment requests (pink sheets) will be marked "HOLD" to allow all checks for contractors to be distributed directly to Housing Staff. Copies of the checks are tagged with receipt labels and contractors/vendors are contacted to come in to sign for each check.

In addition, BOH has implemented internal policy changes to ensure that contractor/vendor invoices are processed and paid in a timely manner.

- BOH staff was instructed to inform all contractors/vendors to submit their invoices and/or payment requests directly to the Deputy Director of BOH.
- An Invoice Tracking Log was created to keep track of invoice processing from receipt-to-payment/check distribution. Each invoice is recorded in the log including the following information:
    - Date of receipt and initials of staff who received the invoice; associated project information (e.g., contractor, address, inspection date, etc.); the responsible Program Manager; date invoices were entered into e-Finance, approved by the Deputy Director of BOH, and the Director of DBHD; date checks are anticipated and actual check date.

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.

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 quarterly Section 1512 ARRA Reports for the Public Safety Partnership and Community Policing Grants – ARRA pursuant to the requirements of the American Recovery and Reinvestment Act of 2009. All data contained in each quarterly report must be cumulative in order to encompass the total amount of funds expended to date.

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 Section 1512 ARRA Report for all four quarters selected for testing related to 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 program income on the PR26 - CDBG Financial Summary Report related to the Community Development Block Grant/Entitlement Grants Program for program year 2012 included amounts that related to program year 2011 that should have been reported on the PR26 – CDBG Financial Summary Report for program year 2011. Planning and administration expenditures exceeded twenty percent of the total Community Development Block Grants/Entitlement Grants Program, plus twenty percent of the program income received during 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: The City has implemented new procedures for the preparation of Federal Financial Reports and reconciliation to the general ledger system. All financial reports will be prepared ahead of the deadline and will be reviewed and approved by a qualified individual other than the preparer.

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).

Criteria: The Federal Funding Accountability and Transparency Act (FFATA) requires that first-tier subawards obligating non-ARRA federal funding of $25,000 or more must be reported in the FSRS by the end of the month following the month in which the reportable action occurred. The effective date for FFATA was October 1, 2010 and recipients are not required to report on subawards made on or after October 1, 2010 that use funds awarded prior to that date.

Cause: The City was unaware of the reporting requirements.

Effect: The City did not comply with the reporting requirements of FFATA. Failure to comply with grant award requirements could jeopardize future funding.

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.

Views of Responsible Officials: DBHD staff was unaware of the FFATA requirements. The FFATA report will be assigned to a staff member for completion and submission within the timeframe required.

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.

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: DBHD BOH staff will ensure that all federally-funded subrecipients are monitored at least annually (including progress reports and site visits) and that monitoring reports are completed and filed.

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.

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 reported program income of $1,290,400, $431,300, and $163,020 related to the Community Development Block Grants/Entitlement Grants Program, the Home Investment Partnerships Program, and the Lead-Based Paint Hazard Control Program, respectively, during 2013 that was received in 2012.

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 BOH has implemented corrective action to ensure that all program income is receipted back to the appropriate federal grant program, allocated to eligible activities, and drawn in compliance with HUD's established "first-in/first-out" policy as it relates to the drawdown of program income prior to drawing grant funds.

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.

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

Cause: The City does not have controls in place to ensure that all invoices are reviewed and approved for allowability prior to payment.

Effect: The lack of review may result in misuse of federal funds.

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

Views of responsible officials: DBHD BOH has implemented new PRINCIPLES FOR DETERMINING COSTS that includes the following to ensure the all invoices are reviewed and approved for allowability prior to payment.

OMB Circular A-87 establishes the following principles and standards for determining whether specific costs are allowable under the HOME and CDBG programs. It is crucial that the City and its subrecipients be able to prove that all of their HOME and/or CDBG funds were used for eligible activities and met one or more of the national objectives.

Allowable Costs

To be allowable, costs must meet the following general criteria:

- Be necessary and reasonable for proper and efficient performance and administration of federal awards;
- Be allocated to the grant;
- Be authorized under State or local law or regulations;
- Conform to any limitations or exclusions set forth in OMB Circular A-87 and other applicable laws and regulations;
- Be consistent with policies, regulations and procedures that apply uniformly to both Federal awards and other activities of the Recipient;
- Costs must not be allowable to, or included as a cost of, any other federally financed program.

Segregation of Duties: Tasks and job responsibilities are assigned so that no one individual has the ability to both make a transactional error (either intentionally or unintentionally) and cover it up. The segregation of duties between the Department of Building and Housing Development (DBHD) and the city's Financial Management Department are such that requests for payment are reviewed by DBHD staff for accuracy, completeness and verification of work performed; upon DBHD approval pay requests are submitted to the Financial Management Department. The latter is also responsible for drawing funds from the U.S. Department of Housing and Urban Development, for verifying receipt of funds, and disbursing funds within required federal timeframes.

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.

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

Cause: The City does not have controls in place to review disbursements from IDIS, compare with approved draws, and reconcile to the City's general ledger system.

Effect: Amounts reported in IDIS did not match approved draws, nor did they reconcile to the City's general ledger system. These discrepancies were not identified until the audit was performed.

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.

Views of responsible officials: DBHD BOH has implemented the following procedure to ensure that all disbursements of funds from IDIS are approved and reconciled to the City's general ledger.

DBHD BOH will submit pay requests to HUD through its Integrated Disbursement Information System (IDIS). Financial Management Department staff are responsible for ensuring that all required expense back-up supporting the reimbursement by the government funds is reviewed and maintained.