

City of Harrisburg, Pennsylvania

Financial Statements and Required
Supplementary Information and
Supplementary Information

Year Ended December 31, 2016 with
Independent Auditor's Reports

MaherDuessel

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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, 2016, 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 did not audit the financial statements of the Harrisburg Downtown Improvement District, Inc., which represent 1 percent, -2 percent, and 10 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Harrisburg Downtown Improvement District, Inc., is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., 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, based on our audit and the reports of other auditors, 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, 2016, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Redevelopment Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 87, "Leases." Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), budgetary comparison information, and historical pension plan and other post-employment benefit plan information on pages i through xii, 85 through 87, and 88 through 95, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary comparison schedules, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
September 25, 2017

This section of the City of Harrisburg's (City) Comprehensive Annual Financial Report (CAFR) presents Management's Discussion and Analysis of the City's financial performance during the year ending December 31, 2016. 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's assets and deferred outflows of resources as of December 31, 2016 exceeded liabilities and deferred inflows of resources by \$24,329,371, whereas at the end of 2015 assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19,821,027. The government-wide change in net position for the current year results in an ending governmental activities net position positively affected by tax revenue which increased over \$5.7 million from the prior year, and an ending business-type activities net position reduced by \$4.2 million as a result of transferring liability balances for a capital lease, other post-employment benefits (OPEB), workers' compensation, and accrued compensated absences to the newly created business-type activity, Neighborhood Services.
 - Net investment in capital assets, in the amount of \$57,789,161 and \$53,049,247 as of December 31, 2016 and 2015, 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 \$26,346,723 and \$35,370,418 as of December 31, 2016 and 2015, respectively.
 - Unrestricted net position, which is net position not restricted for any particular purpose, amounts to (\$59,806,513) and (\$68,598,638) as of December 31, 2016 and 2015, respectively.
- As noted throughout this discussion and analysis, one of the more significant occurrences in 2016 was the increase in the local services tax. Such increase was implemented by the City via ordinance effectively tripling this annual levy amount from \$52 to \$156 for all individuals engaged in occupation within the City's corporate limits. Also, this increase is included under the filing of the Harrisburg Strong Plan as the City continues to be classified as a distressed municipality under the Pennsylvania Municipalities Financial Recovery Act of 1987 (Act 47).
- As part of preliminary budget planning/preparation work for the General Fund, the City advanced the idea of combining the Sanitation and Incinerator (Disposal) Funds, along with the City Services (public works function) portion of the General Fund, into a newly appropriated proprietary fund with the purpose of serving the public community (or neighborhood); thus the creation of the Neighborhood Services Fund for 2016, primarily funded with operating refuse and disposal collections and also relieving a significant budget pressure from the General Fund as to the fiscal management of costs related to City services/public works.

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 basic financial statements.

1. **Government-Wide Financial Statements** The government-wide financial statements provide a summary of the City'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's net position is reported as the difference between combined assets and deferred outflows of resources, and combined liabilities and deferred inflows of resources. 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's governmental activities are comprised of general government, community and economic development, public safety (police and fire), public works, environment, and interest on long-term debt. The business-type activities of the City are accounted for within the Harrisburg Senators Fund and the newly created Neighborhood Services Fund.

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 to monitor and show compliance with budgetary requirements. Funds are either governmental, proprietary, or fiduciary funds.

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

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented by both 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 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 Grant 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 non-major governmental funds are combined into a single aggregated presentation with individual fund data 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 now reports two major enterprise funds: (1) the Harrisburg Senators Fund, which accounts for the revenues and expenses associated with the payment of debt on the financing of a new stadium of the Harrisburg Senators, a AA minor league baseball franchise formerly owned by the City; and (2) the new Neighborhood Services Fund, which includes the revenues and expenses associated with the provision of refuse collection services to the residents and commercial establishments of the City, the collection and remittance of incinerator/resource recovery disposal fees billed by the City of Harrisburg and remitted to the Lancaster County Solid Waste Management Authority for its provision of solid waste incineration services to the residents and commercial and industrial establishments of the City, and the fiscal management of the former City services (public works function) expenditures portion of the General Fund relative to serving the public community.

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

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

Government-wide Financial Analysis

CITY OF HARRISBURG
CONDENSED STATEMENT OF NET POSITION
DECEMBER 31, 2016 AND 2015

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 78,466,607	\$ 80,039,903	\$ 17,147,095	\$ 15,722,323	\$ 95,613,702	\$ 95,762,226
Capital assets, net accum. deprec.	91,253,597	92,273,333	32,499,604	32,096,469	123,753,201	124,369,802
Total assets	169,720,204	172,313,236	49,646,699	47,818,792	219,366,903	220,132,028
Deferred outflows for pensions	17,626,420	13,198,927	890,313	629,344	18,516,733	13,828,271
Current and other liabilities	13,230,693	13,221,750	1,095,760	688,600	14,326,453	13,910,350
Noncurrent liabilities	184,259,199	190,940,922	14,470,929	8,476,320	198,730,128	199,417,242
Total liabilities	197,489,892	204,162,672	15,566,689	9,164,920	213,056,581	213,327,592
Deferred inflows for pensions	497,684	811,680	-	-	497,684	811,680
Net investment in						
capital assets	31,676,658	27,613,046	26,112,503	25,436,201	57,789,161	53,049,247
Restricted	24,561,407	33,087,175	1,785,316	2,283,243	26,346,723	35,370,418
Unrestricted	(66,879,017)	(80,162,410)	7,072,504	11,563,772	(59,806,513)	(68,598,638)
Total net position	\$ (10,640,952)	\$ (19,462,189)	\$ 34,970,323	\$ 39,283,216	\$ 24,329,371	\$ 19,821,027

Net position generally serves over time as a useful indicator of the government's financial position. As noted previously under Financial Highlights, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$24,329,371 as of December 31, 2016. This increase of \$4.5 in overall net position includes an approximate \$9 million increase in governmental activities net position and a \$4.3 million decrease in business-type activities net position. The \$9 million increase in governmental net position results from impacts of tax revenues increasing by \$5.7 million and \$4.2 million in liability transfers occurring (mostly related to a capital lease, OPEB, workers' compensation, and accrued compensated absences) to the new business-type activity, Neighborhood Services; conversely, this \$4.2 million in liabilities transferred to the business-type activity, Neighborhood Services, underlies the aforementioned \$4.3 million decrease in business-type activities net position. Further detailed explanations in 2016 changes in net position for both governmental activities and business-type activities are located at the "Changes in Net Position" schedule within the statistical section of this document beginning at page 110.

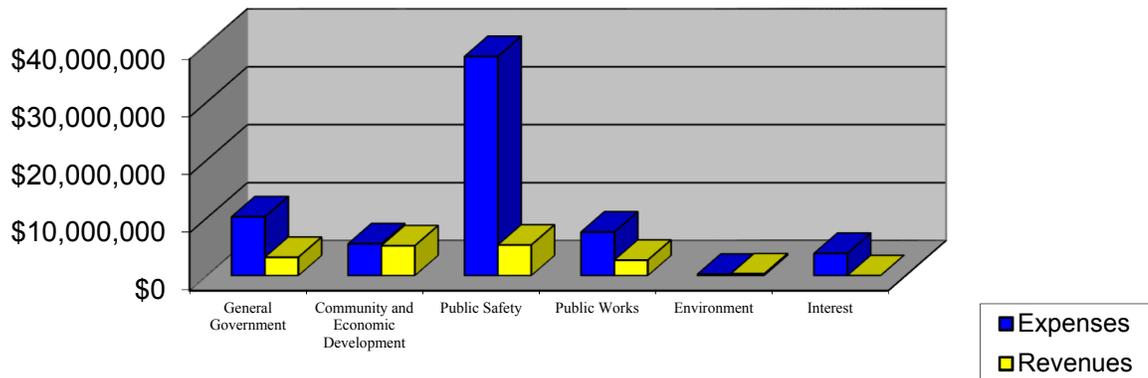
The largest portion of the City's net position is its investment in capital assets (i.e., land, artifacts, building, land and building improvements, equipment and furniture, infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used by the City to provide 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 capital assets cannot be used to liquidate these debt obligations.

CITY OF HARRISBURG, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

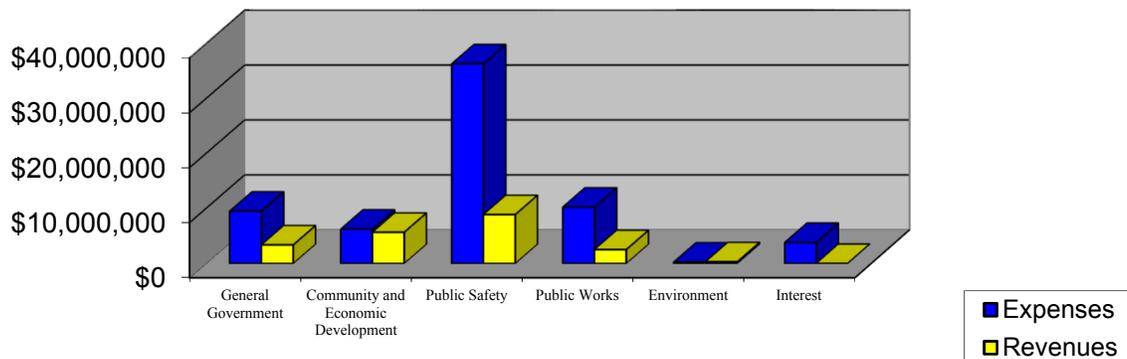
CITY OF HARRISBURG
CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 8,164,063	\$ 8,946,183	\$ 13,675,010	\$ 13,035,650	\$ 21,839,073	\$ 21,981,833
Operating grants and contributions	7,706,809	10,997,750	41,765	46,609	7,748,574	11,044,359
Capital grants and contributions	761,975	736,564	-	-	761,975	736,564
General revenues:						
Taxes	43,292,385	37,540,931	-	-	43,292,385	37,540,931
Grants and contributions not restricted to specific functions	8,216,905	3,358,159	-	-	8,216,905	3,358,159
Other	2,448,766	1,968,356	26,942	2,038	2,475,708	1,970,394
Total revenues	70,590,903	63,547,943	13,743,717	13,084,297	84,334,620	76,632,240
Expenses						
General government	10,194,954	9,490,724	-	-	10,194,954	9,490,724
Community/Economic development	5,509,957	6,229,752	-	-	5,509,957	6,229,752
Public safety	37,862,228	36,322,347	-	-	37,862,228	36,322,347
Public works	7,558,344	10,229,336	-	-	7,558,344	10,229,336
Environment	250,661	249,209	-	-	250,661	249,209
Interest on long-term debt	3,852,512	3,814,480	-	-	3,852,512	3,814,480
Neighborhood services	-	-	13,317,968	-	13,317,968	-
Sanitation	-	-	-	2,612,193	-	2,612,193
Harrisburg Senators	-	-	1,279,652	1,294,895	1,279,652	1,294,895
Incinerator (Disposal)	-	-	-	6,861,088	-	6,861,088
Total expenses	65,228,656	66,335,848	14,597,620	10,768,176	79,826,276	77,104,024
Change in net position before transfers	5,362,247	(2,787,905)	(853,903)	2,316,121	4,508,344	(471,784)
Transfers	3,458,990	1,472,238	(3,458,990)	(1,472,238)	-	-
Change in net position	8,821,237	(1,315,667)	(4,312,893)	843,883	4,508,344	(471,784)
Net position, January 1	(19,462,189)	(18,146,522)	39,283,216	38,439,333	19,821,027	20,292,811
Net position, December 31	\$ (10,640,952)	\$ (19,462,189)	\$ 34,970,323	\$ 39,283,216	\$ 24,329,371	\$ 19,821,027

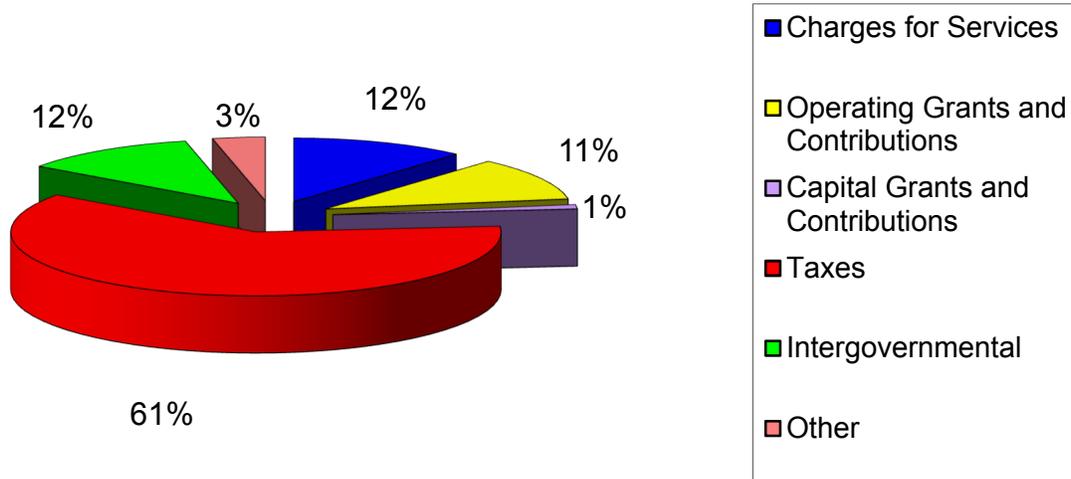
Expenses and Program Revenues Governmental Activities - 2016



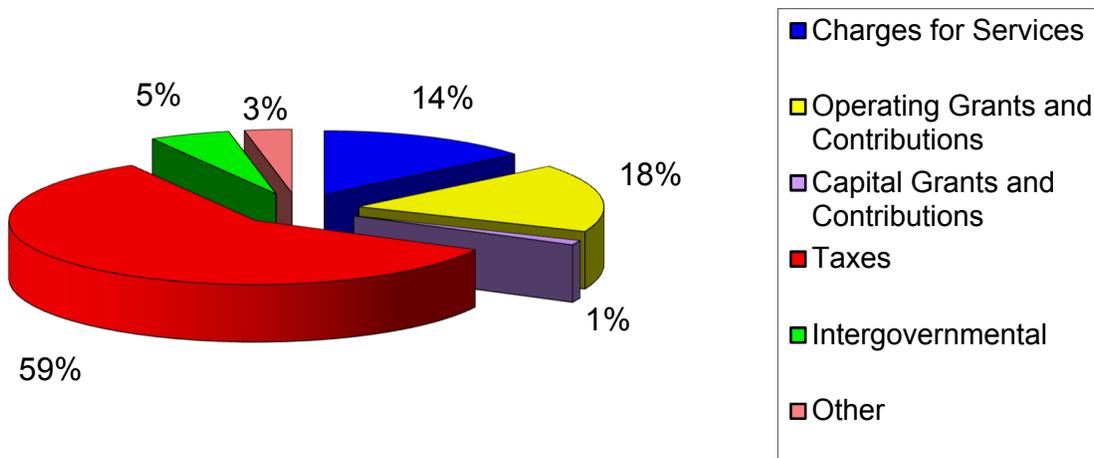
Expenses and Program Revenues Governmental Activities - 2015



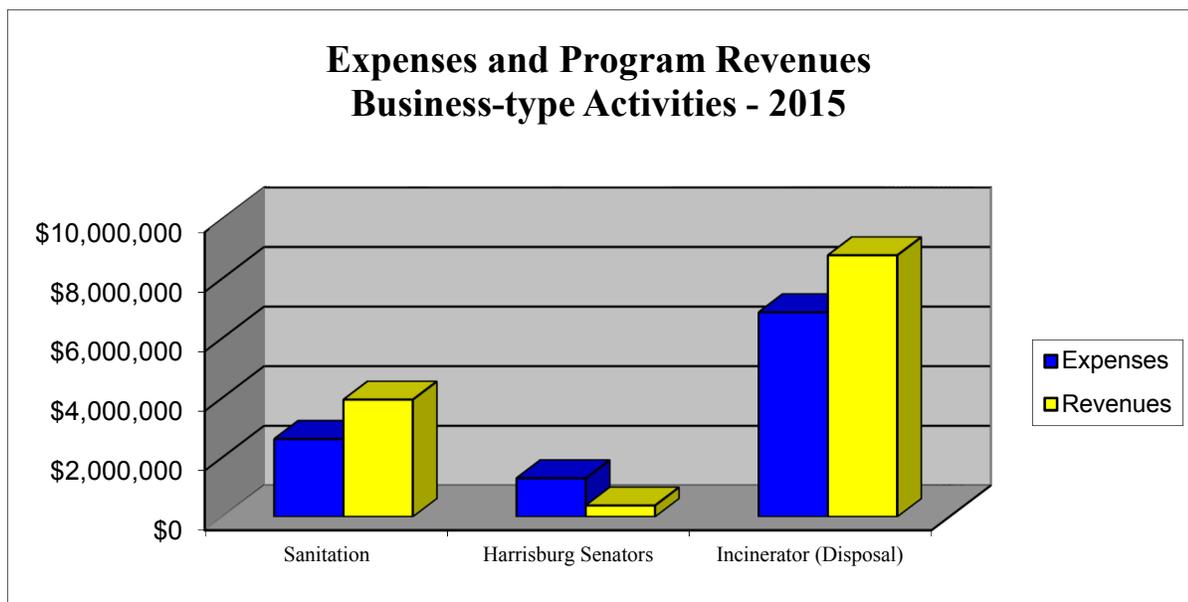
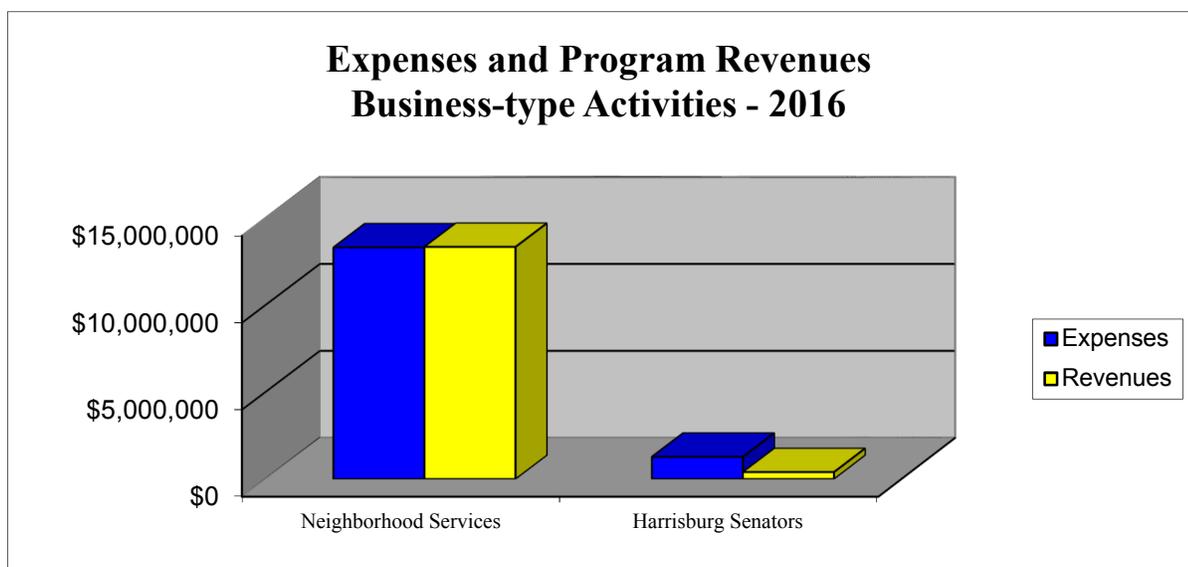
Revenues by Source - Governmental Activities 2016



Revenues by Source - Governmental Activities 2015



Governmental Activities: Change in net position in 2016 for governmental activities amounted to \$8,821,237 compared with a change in net position of (\$1,315,667) occurring for 2015, resulting in an increase of \$10,136,904 for such activity. This positive change includes \$4,047,650 less in program revenues mainly due to less state grant funding received from Pennsylvania Department of Community and Economic Development; \$13,077,362 more in general revenues and transfers mostly attributed to taxes increasing by \$5,751,454, public safety support amounting to \$4,504,000 received as a direct appropriation from the State, and \$4.2 million in transfer to the business-type activity, Neighborhood Services, for establishing liability balances mostly related to a capital lease, OPEB, workers' compensation, and compensated absences; and \$1,107,192 less in total expenses impacted by increased police and fire pension expense of \$1,775,346 offset by \$3.2 million less in City services (public works function) expenses as a result of creation of the business-type activity, Neighborhood Services, for accommodating such former governmental activity expenses.



Business-Type Activities: Change in net position in 2016 for business-type activities amounted to (\$4,312,893) compared with a change in net position of \$843,883 occurring for 2015, resulting in a decrease of \$5,156,776. This negative change includes \$634,516 more in revenue for charges for services as a result of a significant number of commercial customer billing accounts being transitioned to the City from private haulers for refuse and disposal services; \$1,961,848 less in general revenues and transfers mostly attributed to \$4.2 million in transfer from governmental activities for establishing liability balances mostly related to a capital lease, OPEB, workers' compensation, and compensated absences, \$355,613 in transfer from the Federal Grants Fund related to newly awarded disaster assistance grant funding from FEMA, and \$1,749,261 less in interfund transfer support to the General Fund compared with that provided from the business-type activity, Sanitation, in prior year 2015; and \$3,829,444 more in total expenses impacted by \$3.2 million in City services (public works function) expenses as a result of creation of the business-type activity, Neighborhood Services, for accommodating such former governmental activities expenses.

Financial Analysis of the City's Funds

Governmental Funds The focus of the City'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's financing requirements. In particular, unassigned fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year. As of December 31, 2016, the City's governmental funds reported a combined ending fund balance of \$42,205,143 representing an increase change of \$8,811,814 during 2016, whereas for 2015 an increase in fund balance occurred amounting to \$3,655,658.

This approximate \$5.2 million increase in change in fund balance results from total 2016 revenues and net other financing sources increasing \$3,803,057 over the prior year and total public works expenditures decreasing \$1,736,984 over the prior year. One of the more significant factors affecting stronger revenue would be the \$4 million increase in local services tax due to this annual levy being tripled from \$52 to \$156 for all individuals working within the City's corporate limits. The noted decrease in public works expenditures is primarily attributed to the City's creation of the new proprietary Neighborhood Services Fund, which absorbed City services (public works function) expenses formerly accounted for within the General Fund.

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 Other Governmental Funds decreased over the prior year from \$6.2 million down to \$5.6 million, due to a \$400,000 increase in fund balance for the State Liquid Fuels Tax Fund resulting from the impact of a larger funds allocation from Pennsylvania Department of Transportation, and due to a \$1.2 million decrease in fund balance for the Capital Projects Fund resulting from the impact of continued infrastructure outlays for the City's further investment in its streetlight LED conversion/upgrade project.

General Fund Budgetary Highlights

On a budgetary (non-GAAP) basis, the General Fund's actual amounts for 2016 resulted in a positive net change in fund balance of \$12.85 million, resulting in a \$15.1 million favorable variance when compared to final budget amounts for the fiscal year; this favorable variance is summarized with several related factors as follows:

Total revenues being over budget by \$6.7 million is attributed to excess collections of earned income tax revenue receipts by \$343,100, an additional \$496,000 received in capital fire protection revenue from the State due to the timing of its finalized approved fiscal year 2016 budget, an additional \$4,504,000 received in public safety support from the State, again, related to the timing of its approved 2016 budget, \$763,000 in additional receipts from the parking system priority payments from Pennsylvania Economic Development Financing Authority, and \$346,000 more received in the City's allocation of municipal pension system state aid.

Total expenditures being under budget by \$8.9 million resulted from favorable variances for all offices and departments including, as most significantly, \$300,000 related to less in legal fees for the City Solicitor's office, approximately \$675,000 for Administration most related to less consulting, support maintenance, and capital data processing equipment utilized by the Bureau of Information Technology, \$3,060,000 for General expenditures related to less in paid medical cost claims, \$2,041,300 for Police Public safety resulting from position vacancies, reduced workers' compensation claims, and lower training expense, \$565,500 for Fire Public safety resulting from position vacancies, reduced workers' compensation claims, and lower fire station building maintenance expense, \$897,477 for Engineering Public works resulting from less disbursed in professional design/consulting fees, heating and maintenance expenses, and streetlight and streets/roads costs, and \$622,100 for Vehicle Maintenance Center Public works resulting from position vacancies and less disbursed in fuels and lubricants, vehicle parts and supplies, and vehicle equipment repairs.

Total net other financing uses being over budget by approximately \$476,400 is comprised of approximately \$970,000 in unutilized available interfund support from the Neighborhood Services Fund, \$188,303 more in funding from the State Grants Fund in the form of a Section 902 municipal recycling grant, and \$280,392 more in funds transferred from the Federal Grants Fund involving accessing remaining amounts due to the General Fund from the older SAFER (Fire) and COPS (Police) grant programs.

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, 2016 amount to \$91,253,597 and \$32,499,604 (net of accumulated depreciation), respectively. This investment in capital assets includes land, artifacts, buildings, land and building improvements, equipment and furniture, and infrastructure.

Major capital asset events during 2016 included the following:

- Governmental activities: \$4.5 million in capital additions occurred mostly comprised of \$1.1 million in new machinery and equipment, and \$3.3 million for infrastructure including streetlighting system, streets and roads, and bridge upgrades.
- Business-type activities: \$1.4 million in capital additions occurred including additional recycling trucks, two Mack trucks, two wheel loaders, and a new street sweeper.

Additional information on the City's capital assets can be found beginning on page 50 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 53 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 the City placing a higher tax rate on those who do pay property taxes.

Some of the factors affecting the City's costs are matters over which a local government has little control; other factors are only marginally controllable. The following items represent circumstances which 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 and wages for the City's Police (FOP), Firefighter (IAFF), and Non-Uniformed (AFSCME) collective bargaining units were negotiated to 1% increases for fiscal years 2015 and 2016; for fiscal year 2017, a 2% increase in salaries and wages is in effect for IAFF. Changes for both FOP and AFSCME are also expected to occur in 2017 as year 2016 represents the final contract year for each of these applicable basic labor agreements.
- (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, requests for additional information, or complete financial statements for the discretely presented component units 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 302, Harrisburg, PA 17101. You may also find more information regarding the City at our website www.harrisburgpa.gov.

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Assets					
Cash and cash equivalents	\$ 22,597,871	\$ 6,737,724	\$ 29,335,595	\$ 2,099,366	\$ 31,434,961
Investments, at fair value	6,102,262	277,703	6,379,965	-	6,379,965
Receivables, net of allowance for uncollectible accounts					
Taxes	14,285,332	-	14,285,332	-	14,285,332
Accounts	-	3,702,298	3,702,298	207,673	3,909,971
Rent	905,373	-	905,373	751,910	1,657,283
Loans	728,060	-	728,060	219,600	947,660
Lease	-	-	-	6,327,755	6,327,755
Notes	7,566,658	-	7,566,658	-	7,566,658
Grants	-	41,765	41,765	317,368	359,133
Other	3,558,319	1,311,912	4,870,231	-	4,870,231
Internal balances	(20,732)	20,732	-	-	-
Due from City's agency fund	201,759	-	201,759	-	201,759
Due from component unit	751,910	-	751,910	-	751,910
Other assets	12,854	49,738	62,592	14,851	77,443
Restricted assets					
Cash and cash equivalents	11,617,081	1,869,907	13,486,988	-	13,486,988
Investments, at fair value	-	658,241	658,241	2,009,789	2,668,030
Security deposit	-	1,350,000	1,350,000	-	1,350,000
Net pension asset	10,159,860	1,127,075	11,286,935	-	11,286,935
Capital assets, not being depreciated	25,793,863	-	25,793,863	30,000	25,823,863
Capital assets, less accumulated depreciation and amortization	65,459,734	32,499,604	97,959,338	49,389,734	147,349,072
Total assets	169,720,204	49,646,699	219,366,903	61,368,046	280,734,949
Deferred Outflows of Resources					
Deferred outflows of resources for pensions	17,626,420	890,313	18,516,733	-	18,516,733

(continued)

	Primary Government			Component Units	Total
	Governmental Activities	Business-type Activities	Total		
Liabilities					
Accounts payable and other current liabilities	3,070,620	984,909	4,055,529	536,323	4,591,852
Matured bond coupons	20,097	-	20,097	-	20,097
Accrued liabilities	6,000,783	110,851	6,111,634	110,071	6,221,705
Due to primary government	-	-	-	751,910	751,910
Unearned revenue	4,139,193	-	4,139,193	-	4,139,193
Noncurrent liabilities:					
Due within one year	11,656,106	940,063	12,596,169	2,221,549	14,817,718
Due in more than one year	62,480,302	8,924,441	71,404,743	20,992,353	92,397,096
Net pension liability	17,860,075	-	17,860,075	-	17,860,075
Other post-employment benefits	76,535,905	4,606,425	81,142,330	-	81,142,330
Liability under guarantee	15,726,811	-	15,726,811	-	15,726,811
Total liabilities	197,489,892	15,566,689	213,056,581	24,612,206	237,668,787
Deferred Inflows of Resources					
Deferred inflows of resources for pensions	497,684	-	497,684	-	497,684
Deferred lease revenue	-	-	-	63,484,830	63,484,830
Total deferred inflows of resources	497,684	-	497,684	63,484,830	63,982,514
Net position					
Net investment in capital assets	31,676,658	26,112,503	57,789,161	(30,803,730)	26,985,431
Restricted for:					
Revolving loan program	381,913	-	381,913	196,973	578,886
General government	20,136	-	20,136	-	20,136
Environment	456,769	-	456,769	-	456,769
Public works	1,297,551	-	1,297,551	-	1,297,551
Public safety	662,779	-	662,779	-	662,779
Community and economic development	395,030	-	395,030	-	395,030
Blight remediation	-	-	-	237,459	237,459
Tourism	1,153,291	-	1,153,291	-	1,153,291
Debt service	-	658,241	658,241	2,009,789	2,668,030
Growth funds	9,966,744	-	9,966,744	-	9,966,744
Net pension asset	10,159,860	1,127,075	11,286,935	-	11,286,935
Other	67,334	-	67,334	-	67,334
Insurer agreement	-	-	-	312,893	312,893
Unrestricted	(66,879,017)	7,072,504	(59,806,513)	1,317,626	(58,488,887)
Total net position	\$ (10,640,952)	\$ 34,970,323	\$ 24,329,371	\$ (26,728,990)	\$ (2,399,619)

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 10,194,954	\$ 2,791,311	\$ -	\$ 380,727
Community and economic development	5,509,957	451,678	4,715,352	-
Public safety	37,862,228	3,413,670	1,535,720	351,279
Public works	7,558,344	1,191,418	1,455,737	29,969
Environment	250,661	315,986	-	-
Interest on long-term debt	3,852,512	-	-	-
Total governmental activities	<u>65,228,656</u>	<u>8,164,063</u>	<u>7,706,809</u>	<u>761,975</u>
Business-type activities				
Harrisburg Senators	1,279,652	397,595	-	-
Neighborhood services	13,317,968	13,277,415	41,765	-
Total business-type activities	<u>14,597,620</u>	<u>13,675,010</u>	<u>41,765</u>	<u>-</u>
Total primary government	<u>\$ 79,826,276</u>	<u>\$ 21,839,073</u>	<u>\$ 7,748,574</u>	<u>\$ 761,975</u>
Component units				
Harrisburg Parking Authority	\$ 1,650,926	\$ 169,094	\$ -	\$ -
Harrisburg Downtown Improvement District	812,290	635,140	104,772	-
Redevelopment Authority	7,348,380	1,592,109	3,085,836	84,533
Total component units	<u>\$ 9,811,596</u>	<u>\$ 2,396,343</u>	<u>\$ 3,190,608</u>	<u>\$ 84,533</u>

General revenues
Property taxes
Real estate transfer taxes
Local services taxes
Earned income taxes
Business privilege taxes
Franchise taxes
Public utility realty taxes
Payments in lieu of taxes
Grants and contributions not restricted to specific functions
Gain on sale of assets
Other income
Unrestricted investment earnings
Transfers - internal activities
Total general revenues and transfers
Change in net position
Net position - January 1, 2016
Net position - December 31, 2016

Net (Expense) Revenue and
Changes in Net Position

Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
\$ (7,022,916)	\$ -	\$ (7,022,916)	\$ -	\$ (7,022,916)
(342,927)	-	(342,927)	-	(342,927)
(32,561,559)	-	(32,561,559)	-	(32,561,559)
(4,881,220)	-	(4,881,220)	-	(4,881,220)
65,325	-	65,325	-	65,325
(3,852,512)	-	(3,852,512)	-	(3,852,512)
<u>(48,595,809)</u>	<u>-</u>	<u>(48,595,809)</u>	<u>-</u>	<u>(48,595,809)</u>
-	(882,057)	(882,057)	-	(882,057)
-	1,212	1,212	-	1,212
<u>-</u>	<u>(880,845)</u>	<u>(880,845)</u>	<u>-</u>	<u>(880,845)</u>
<u>(48,595,809)</u>	<u>(880,845)</u>	<u>(49,476,654)</u>	<u>-</u>	<u>(49,476,654)</u>
-	-	-	(1,481,832)	(1,481,832)
-	-	-	(72,378)	(72,378)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,585,902)</u>	<u>(2,585,902)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,140,112)</u>	<u>(4,140,112)</u>
17,358,638	-	17,358,638	-	17,358,638
506,260	-	506,260	-	506,260
6,294,598	-	6,294,598	-	6,294,598
11,236,882	-	11,236,882	-	11,236,882
6,537,626	-	6,537,626	-	6,537,626
588,505	-	588,505	-	588,505
41,845	-	41,845	-	41,845
728,031	-	728,031	-	728,031
8,216,905	-	8,216,905	-	8,216,905
10,000	-	10,000	-	10,000
-	-	-	114,676	114,676
2,438,766	26,942	2,465,708	1,287,037	3,752,745
3,458,990	(3,458,990)	-	-	-
<u>57,417,046</u>	<u>(3,432,048)</u>	<u>53,984,998</u>	<u>1,401,713</u>	<u>55,386,711</u>
8,821,237	(4,312,893)	4,508,344	(2,738,399)	1,769,945
<u>(19,462,189)</u>	<u>39,283,216</u>	<u>19,821,027</u>	<u>(23,990,591)</u>	<u>(4,169,564)</u>
<u>\$ (10,640,952)</u>	<u>\$ 34,970,323</u>	<u>\$ 24,329,371</u>	<u>\$ (26,728,990)</u>	<u>\$ (2,399,619)</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	<u>General</u>	<u>Grant Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Assets					
Cash and cash equivalents	\$ 19,255,289	\$ 1,610,896	\$ 8,363	\$ 1,723,323	\$ 22,597,871
Investments, at fair value	1,435,546	1,709,153	32,086	2,925,477	6,102,262
Receivables, net of allowance for uncollectible accounts					
Taxes	14,223,851	-	-	61,481	14,285,332
Rent	905,373	-	-	-	905,373
Loans	381,913	346,147	-	-	728,060
Notes	7,566,658	-	-	-	7,566,658
Other	2,574,197	893,243	-	90,879	3,558,319
Due from other funds	2,061,425	720,679	-	309,614	3,091,718
Due from component unit	751,910	-	-	-	751,910
Other assets	12,854	-	-	-	12,854
Restricted assets					
Cash and cash equivalents	10,034,078	-	-	1,583,003	11,617,081
Total assets	<u>\$ 59,203,094</u>	<u>\$ 5,280,118</u>	<u>\$ 40,449</u>	<u>\$ 6,693,777</u>	<u>\$ 71,217,438</u>

(continued)

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 2,097,064	\$ 557,046	\$ -	\$ 416,510	\$ 3,070,620
Accrued liabilities	536,512	12,329	-	3,013	551,854
Compensated absences	129,233	-	-	-	129,233
Matured bond coupons payable	-	-	20,097	-	20,097
Due to other funds	797,550	1,528,563	-	584,578	2,910,691
Unearned revenue	118,064	3,182,180	-	116,538	3,416,782
Total liabilities	<u>3,678,423</u>	<u>5,280,118</u>	<u>20,097</u>	<u>1,120,639</u>	<u>10,099,277</u>
Deferred inflows of resources					
Unavailable revenue - taxes	9,028,882	-	-	-	9,028,882
Unavailable revenue - notes receivable	7,566,658	-	-	-	7,566,658
Unavailable revenue - component unit	616,032	-	-	-	616,032
Unavailable revenue - other entities	1,701,446	-	-	-	1,701,446
Total deferred inflows of resources	<u>18,913,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,913,018</u>
Fund balance					
Nonspendable	12,854	-	-	-	12,854
Restricted for					
Revolving loan program	381,913	-	-	-	381,913
General government	-	-	-	20,136	20,136
Environment	-	-	-	456,769	456,769
Public works	-	-	-	1,297,551	1,297,551
Public safety	-	-	-	662,779	662,779
Community and economic development	-	-	-	395,030	395,030
Tourism	-	-	-	1,153,291	1,153,291
Other	67,334	-	-	-	67,334
Capital projects	-	-	-	1,587,582	1,587,582
Growth funds	9,966,744	-	-	-	9,966,744
Assigned for					
Debt service	-	-	20,352	-	20,352
2017 budget	4,284,860	-	-	-	4,284,860
Encumbrances					
General government	216,953	-	-	-	216,953
Public works	426,096	-	-	-	426,096
Public safety	82,059	-	-	-	82,059
Unassigned	21,172,840	-	-	-	21,172,840
Total fund balance	<u>36,611,653</u>	<u>-</u>	<u>20,352</u>	<u>5,573,138</u>	<u>42,205,143</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 59,203,094</u>	<u>\$ 5,280,118</u>	<u>\$ 40,449</u>	<u>\$ 6,693,777</u>	<u>\$ 71,217,438</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016

Fund balance - total governmental funds		\$ 42,205,143
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	\$ 252,885,237	
Less accumulated depreciation	<u>(161,631,640)</u>	91,253,597
Receivables that are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds.		18,913,018
Net pension asset, net of related deferred inflows and outflows of resources		27,288,596
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.		(722,411)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Workers' compensation	(2,581,571)	
Bonds payable	(15,895,938)	
Notes payable	(31,262,954)	
Capital leases payable	(2,391,882)	
Compensated absences	(5,100,316)	
Compensated absences due and payable at December 31, 2016	129,233	
Claims and judgments	(675,000)	
Due to bond insurer	(14,678,747)	
Settlement with suburban municipalities	(2,225,000)	
Liability under guarantee	(15,726,811)	
Net pension liability	(17,860,075)	
Other post-employment benefits	(76,535,905)	
Accrued interest payable	<u>(4,773,929)</u>	<u>(189,578,895)</u>
Net position of governmental activities		<u>\$ (10,640,952)</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	General	Grant Programs	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 43,066,627	\$ -	\$ -	\$ -	\$ 43,066,627
Licenses and permits	617,899	-	-	-	617,899
Intergovernmental revenue	8,817,260	4,654,399	-	1,622,054	15,093,713
Department earnings and program revenue	4,949,097	97,894	-	1,453,063	6,500,054
Fines and forfeits	816,614	-	-	-	816,614
Investment income	2,034,069	6,414	44	7,808	2,048,335
Miscellaneous	2,185,555	16,189	7,201	266,033	2,474,978
Total revenues	62,487,121	4,774,896	7,245	3,348,958	70,618,220
Expenditures					
Current					
General government	7,247,133	40,645	-	-	7,287,778
Community and economic development	1,025,669	2,818,553	-	285,006	4,129,228
Public safety	30,387,290	13,561	-	130,667	30,531,518
Public works	4,471,551	378,766	-	865,937	5,716,254
Environment	-	-	-	377,323	377,323
Capital outlay	-	-	-	2,026,008	2,026,008
Debt service					
Principal retirements	1,500,000	495,000	9,817,941	6,902	11,819,843
Interest and fiscal charges	75	144,210	163,166	-	307,451
Total expenditures	44,631,718	3,890,735	9,981,107	3,691,843	62,195,403
Excess of revenues over (under) expenditures	17,855,403	884,161	(9,973,862)	(342,885)	8,422,817
Other financing sources (uses)					
Debt issuance	1,000,000	-	-	-	1,000,000
Transfers in	1,493,623	181	10,217,206	633,616	12,344,626
Transfers out	(10,850,822)	(884,342)	(255,390)	(965,075)	(12,955,629)
Total other financing sources (uses)	(8,357,199)	(884,161)	9,961,816	(331,459)	388,997
Net change in fund balances	9,498,204	-	(12,046)	(674,344)	8,811,814
Fund balances - beginning of year	27,113,449	-	32,398	6,247,482	33,393,329
Fund balances - end of year	\$ 36,611,653	\$ -	\$ 20,352	\$ 5,573,138	\$ 42,205,143

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, 2016**

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

Net change in fund balance - total governmental funds \$ 8,811,814

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	\$ 4,480,959	
Depreciation expense	<u>(5,332,549)</u>	(851,590)

Reorganization of funds resulted in the transfer of long-term items to a proprietary fund. Such items are not presented on the governmental fund balance sheet.

Capital assets	(168,146)	
Capital lease obligations	155,228	
Workers' compensation claims	843,037	
Vested compensated absences	377,226	
Other post-employment benefits	<u>2,862,648</u>	4,069,993

The net pension asset (liability) is recorded as an asset (liability) in the government-wide financial statements, but not in the fund financial statements. This amount represents the change in the net pension asset (liability), net of deferred inflows and outflows of resources.

(5,405,856)

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

(452,168)

Governmental funds report guarantee fees as revenues when received. However, in the statement of activities, the fees are amortized over the guarantee period and reported as investment income.

Amortization		113,403
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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	(1,000,000)	
Principal repayments	10,319,843	
Settlement with suburban municipalities	<u>1,500,000</u>	10,819,843

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	156,137	
Vested compensated absences	(334,516)	
Other post-employment benefits	(4,145,489)	
Accrued interest	(922,565)	
Amortization of liability under guarantee	(415,273)	
Amortization of bond discounts	<u>(2,622,496)</u>	<u>(8,284,202)</u>

Change in net position of governmental activities

\$ 8,821,237

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2016

	Harrisburg Senators Fund	Neighborhood Services Fund	Total Proprietary Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 6,737,724	\$ 6,737,724
Investments, at fair value	-	277,703	277,703
Receivables, net of allowance for uncollectible accounts			
Accounts	-	3,702,298	3,702,298
Grants	-	41,765	41,765
Other	-	1,311,912	1,311,912
Due from other funds	78,386	356,227	434,613
Prepaid expenses and other assets	49,738	-	49,738
Total current assets	<u>128,124</u>	<u>12,427,629</u>	<u>12,555,753</u>
Long-term assets			
Restricted assets			
Cash and cash equivalents	2,159	1,867,748	1,869,907
Investments, at fair value	658,241	-	658,241
Security deposit	-	1,350,000	1,350,000
Net pension asset	-	1,127,075	1,127,075
Capital assets, less accumulated depreciation and amortization	30,907,502	1,592,102	32,499,604
Total long-term assets	<u>31,567,902</u>	<u>5,936,925</u>	<u>37,504,827</u>
Total assets	<u>31,696,026</u>	<u>18,364,554</u>	<u>50,060,580</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources for pension	-	890,313	890,313
LIABILITIES			
Current liabilities			
Accounts payable	-	984,909	984,909
Accrued liabilities	41,931	68,920	110,851
Due to other funds	-	413,881	413,881
Current portion of workers' compensation	-	302,531	302,531
Current portion of lease rental bonds payable	325,000	-	325,000
Current portion of capitalized lease obligations	-	275,623	275,623
Current portion of vested compensated absences	-	36,909	36,909
Total current liabilities	<u>366,931</u>	<u>2,082,773</u>	<u>2,449,704</u>
Long-term liabilities			
Workers' compensation	-	882,008	882,008
Lease rental bonds payable	6,098,087	-	6,098,087
Capitalized lease obligations	-	1,416,087	1,416,087
Vested compensated absences	-	528,259	528,259
Other post-employment benefits	-	4,606,425	4,606,425
Total long-term liabilities	<u>6,098,087</u>	<u>7,432,779</u>	<u>13,530,866</u>
Total liabilities	<u>6,465,018</u>	<u>9,515,552</u>	<u>15,980,570</u>
NET POSITION			
Net investment in capital assets	24,564,960	1,547,543	26,112,503
Restricted			
Debt service	658,241	-	658,241
Net pension asset	-	1,127,075	1,127,075
Unrestricted	7,807	7,064,697	7,072,504
Total net position	<u>\$ 25,231,008</u>	<u>\$ 9,739,315</u>	<u>\$ 34,970,323</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016

	Harrisburg Senators Fund	Neighborhood Services Fund	Total Proprietary Funds
Operating revenues			
Charges for service	\$ 397,595	\$ 13,277,415	\$ 13,675,010
Operating expenses			
Salaries and wages	-	2,780,697	2,780,697
Fringe benefits	-	1,785,968	1,785,968
Communications	-	60,145	60,145
Professional fees	-	11,632	11,632
Utilities	-	359,746	359,746
Insurance	-	70,295	70,295
Maintenance and repairs	-	114,339	114,339
Contracted services	-	7,147,459	7,147,459
Property taxes	-	275,303	275,303
Rent	-	190,795	190,795
Supplies	-	415,451	415,451
Depreciation and amortization	928,601	92,725	1,021,326
Total operating expenses	928,601	13,304,555	14,233,156
Operating loss	(531,006)	(27,140)	(558,146)
Nonoperating revenues (expenses)			
State subsidy	-	41,765	41,765
Investment income	42	26,900	26,942
Interest expense	(344,614)	(13,413)	(358,027)
Amortization of bond issue costs	(6,437)	-	(6,437)
Total nonoperating revenues (expenses)	(351,009)	55,252	(295,757)
Income (loss) before transfers	(882,015)	28,112	(853,903)
Transfers in	255,390	523,759	779,149
Transfers out	-	(4,238,139)	(4,238,139)
Change in net position	(626,625)	(3,686,268)	(4,312,893)
Net position - beginning of year	25,857,633	13,425,583	39,283,216
Net position - end of year	\$ 25,231,008	\$ 9,739,315	\$ 34,970,323

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, 2016

	Harrisburg Senators Fund	Neighborhood Services Fund	Total Proprietary Funds
Cash flows from operating activities			
Received from user charges	\$ 397,595	\$ 12,654,277	\$ 13,051,872
Payments to employees for services	-	(2,731,623)	(2,731,623)
Payments for fringe benefits	-	(1,309,885)	(1,309,885)
Payments to suppliers for goods and services	-	(7,986,595)	(7,986,595)
Net cash provided by operating activities	<u>397,595</u>	<u>626,174</u>	<u>1,023,769</u>
Cash flows from noncapital financing activities			
Transfers in	<u>255,390</u>	<u>355,613</u>	<u>611,003</u>
Net cash provided by noncapital financing activities	<u>255,390</u>	<u>355,613</u>	<u>611,003</u>
Cash flows from capital and related financing activities			
Issuance of capital lease	-	1,647,151	1,647,151
Acquisition and construction of capital assets	-	(1,256,315)	(1,256,315)
Interest paid	(343,027)	(13,413)	(356,440)
Lease, bond and note payments	<u>(310,000)</u>	<u>(121,878)</u>	<u>(431,878)</u>
Net cash provided by (used in) capital and related financing activities	<u>(653,027)</u>	<u>255,545</u>	<u>(397,482)</u>
Cash flows from investing activities			
Sales of investments	-	809	809
Investment income	<u>42</u>	<u>26,845</u>	<u>26,887</u>
Net cash provided by investing activities	<u>42</u>	<u>27,654</u>	<u>27,696</u>
Net increase in cash and cash equivalents	-	1,264,986	1,264,986
Cash and cash equivalents (including restricted cash) - beginning of year	<u>2,159</u>	<u>7,340,486</u>	<u>7,342,645</u>
Cash and cash equivalents (including restricted cash) - end of year	<u>\$ 2,159</u>	<u>\$ 8,605,472</u>	<u>\$ 8,607,631</u>

(continued)

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUNDS (CONT'D)
YEAR ENDED DECEMBER 31, 2016

	Harrisburg Senators Fund	Neighborhood Services Fund	Total Proprietary Funds
Reconciliation of operating loss to net cash provided by operating activities			
Operating loss	\$ (531,006)	\$ (27,140)	\$ (558,146)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	928,601	92,725	1,021,326
Provision for uncollectible accounts	-	717,797	717,797
Changes in assets and liabilities			
Accounts receivable	-	(1,006,122)	(1,006,122)
Deferred outflows of resources for pension	-	(260,969)	(260,969)
Due from/to other funds	-	(334,813)	(334,813)
Net pension asset	-	497,927	497,927
Accounts payable and other accrued costs	-	409,055	409,055
Workers' compensation	-	249,515	249,515
Vested compensated absences	-	49,074	49,074
Other post-employment benefits	-	239,125	239,125
Net cash provided by operating activities	<u>\$ 397,595</u>	<u>\$ 626,174</u>	<u>\$ 1,023,769</u>
Noncash investing, capital, and financing activities			
Amortization of bond discount	<u>\$ 6,437</u>	<u>\$ -</u>	<u>\$ 6,437</u>

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2016

	<u>Police Pension Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 1,176,982
Receivables		
Interest and dividends	47,628	-
Total receivables	<u>47,628</u>	<u>-</u>
Investments, at fair value		
Money market funds	848,233	-
Certificates of deposit	601,181	-
Mutual funds		
Equity	45,379,031	-
Fixed income	19,625,388	-
U.S. Government obligations	1,872,547	-
U.S. Government agency obligations	1,562,684	-
Corporate bonds	3,537,272	-
Municipal bonds	57,205	-
Partnership	<u>1,548,521</u>	<u>-</u>
Total investments	<u>75,032,062</u>	<u>-</u>
Total assets	<u>75,079,690</u>	<u>1,176,982</u>
LIABILITIES		
Due to other governments	-	299,056
Due to City's General Fund	-	201,759
Escrow liabilities	<u>-</u>	<u>676,167</u>
Total liabilities	<u>-</u>	<u>\$ 1,176,982</u>
NET POSITION		
Restricted for police pension benefits	<u>\$ 75,079,690</u>	

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

CITY OF HARRISBURG, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - POLICE PENSION TRUST FUND
YEAR ENDED DECEMBER 31, 2016

Additions	
Contributions	
Plan member	\$ 479,598
Employer	2,906,315
	<hr/>
Total contributions	3,385,913
	<hr/>
Investment income	
Interest and dividend income	1,874,912
Net appreciation in fair value of investments	2,500,339
	<hr/>
Total investment income	4,375,251
Less investment expense	(199,806)
	<hr/>
Net investment income	4,175,445
	<hr/>
Total additions	7,561,358
	<hr/>
Deductions	
Pension benefits	6,008,655
Administrative expenses	53,331
	<hr/>
Total deductions	6,061,986
	<hr/>
Change in net position	1,499,372
Net position - beginning of year	73,580,318
	<hr/>
Net position - end of year	\$ 75,079,690
	<hr/> <hr/>

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

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2016

Harrisburg Parking Authority

On December 23, 2013, the Harrisburg Parking Authority Component Unit entered into an Asset Transfer Agreement for the City of Harrisburg Parking System for a majority of its parking facilities, meters, and lots. Subsequent to December 23, 2013, the Harrisburg Parking Authority maintains an operating interest in the City Island Garage and certain parking lots. Although the Harrisburg Parking Authority maintains an operating interest in the City Island Garage as of December 31, 2016, the Asset Transfer Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

Harrisburg Downtown Improvement District, Inc.

The Harrisburg Downtown Improvement District, Inc., a Pennsylvania non-profit corporation, was formed on April 22, 2004, under provisions of the Neighborhood Improvement District Act, as of December 20, 2000, to provide neighborhood improvement district management association services, overseeing a neighborhood improvement district located in the Downtown Business District of Harrisburg, Pennsylvania. Such services shall include services which improve the ability of commercial establishments to service its consumers, transportation, public relations programs, advertising, district maintenance, security services, and services which improve the ability of property owners to enjoy a safer and more attractive neighborhood.

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority of the City of Harrisburg Component Unit is incorporated under the provisions of the Commonwealth of Pennsylvania Urban Development Act Number 385 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, 2016

ASSETS	Harrisburg Parking Authority	Harrisburg Downtown Improvement District	Redevelopment Authority	Total Component Units
Current assets				
Cash and cash equivalents	\$ 739,587	\$ 392,190	\$ 967,589	\$ 2,099,366
Receivables, net of allowance for uncollectible accounts				
Accounts	15,812	86,860	105,001	207,673
Grants	-	-	317,368	317,368
Rent	751,910	-	-	751,910
Loans	-	-	22,122	22,122
Lease	-	-	477,770	477,770
Prepaid expenses and other assets	7,859	6,992	-	14,851
Total current assets	<u>1,515,168</u>	<u>486,042</u>	<u>1,889,850</u>	<u>3,891,060</u>
Restricted assets				
Investments	-	-	2,009,789	2,009,789
Total restricted assets	<u>-</u>	<u>-</u>	<u>2,009,789</u>	<u>2,009,789</u>
Loans receivable	-	-	197,478	197,478
Lease receivable	-	-	5,849,985	5,849,985
Capital assets, not being depreciated	-	-	30,000	30,000
Capital assets, less accumulated depreciation	4,291,429	126	45,074,986	49,366,541
Project costs, less accumulated amortization	-	23,193	-	23,193
Total assets	<u>5,806,597</u>	<u>509,361</u>	<u>55,052,088</u>	<u>61,368,046</u>

(continued)

	Harrisburg Parking Authority	Harrisburg Downtown Improvement District	Redevelopment Authority	Total Component Units
LIABILITIES				
Current liabilities (payable from current assets)				
Accounts payable and accrued liabilities	96,048	48,189	392,086	536,323
Due to primary government	751,910	-	-	751,910
Accrued interest payable	-	-	90,611	90,611
Total current liabilities (payable from current assets)	<u>847,958</u>	<u>48,189</u>	<u>482,697</u>	<u>1,378,844</u>
Current liabilities (payable from restricted assets)				
Current portion of revenue bonds payable	-	-	1,880,000	1,880,000
Current portion of revenue notes payable	-	-	341,549	341,549
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>-</u>	<u>2,221,549</u>	<u>2,221,549</u>
Noncurrent liabilities				
Compensated absences	-	-	19,460	19,460
Revenue bonds payable, net of discount	-	-	20,174,566	20,174,566
Revenue notes payable, net of discount	-	-	646,955	646,955
Due to other governments	-	-	170,832	170,832
Total liabilities	<u>847,958</u>	<u>48,189</u>	<u>23,716,059</u>	<u>24,612,206</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred lease revenue	-	-	63,484,830	63,484,830
NET POSITION				
Net position				
Net investment in capital assets	4,291,429	-	(35,095,159)	(30,803,730)
Restricted				
Revolving loan program	-	-	196,973	196,973
Debt service	-	-	2,009,789	2,009,789
Insurer agreement	312,893	-	-	312,893
Blight remediation	-	-	237,459	237,459
Unrestricted	<u>354,317</u>	<u>461,172</u>	<u>502,137</u>	<u>1,317,626</u>
Total net position	<u>\$ 4,958,639</u>	<u>\$ 461,172</u>	<u>\$ (32,148,801)</u>	<u>\$ (26,728,990)</u>

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

CITY OF HARRISBURG
STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2016

	Program Revenues			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Harrisburg Parking Authority	\$ 1,650,926	\$ 169,094	\$ -	\$ -
Harrisburg Downtown Improvement District	812,290	635,140	104,772	-
Redevelopment Authority	<u>7,348,380</u>	<u>1,592,109</u>	<u>3,085,836</u>	<u>84,533</u>
Total component units	<u>\$ 9,811,596</u>	<u>\$ 2,396,343</u>	<u>\$ 3,190,608</u>	<u>\$ 84,533</u>

General revenues
 Miscellaneous income
 Unrestricted investment earnings

Total general revenues

Change in net position

Net position - January 1, 2016

Net position - December 31, 2016

Net (Expense) Revenue and
Changes in Net Position

Harrisburg Parking Authority	Harrisburg Downtown Improvement District	Redevelopment Authority	Total
\$ (1,481,832)	\$ -	\$ -	\$ (1,481,832)
-	(72,378)	-	(72,378)
-	-	(2,585,902)	(2,585,902)
<u>(1,481,832)</u>	<u>(72,378)</u>	<u>(2,585,902)</u>	<u>(4,140,112)</u>
-	-	114,676	114,676
1,166,990	1,625	118,422	1,287,037
<u>1,166,990</u>	<u>1,625</u>	<u>233,098</u>	<u>1,401,713</u>
(314,842)	(70,753)	(2,352,804)	(2,738,399)
<u>5,273,481</u>	<u>531,925</u>	<u>(29,795,997)</u>	<u>(23,990,591)</u>
<u>\$ 4,958,639</u>	<u>\$ 461,172</u>	<u>\$ (32,148,801)</u>	<u>\$ (26,728,990)</u>

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

Blended Component Units

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

City of Harrisburg Leasing Authority

The City of Harrisburg Leasing Authority was formed pursuant to the Municipality Authorities 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, 2016.

Discretely Presented Component Units

Component units which are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government. The component units presented in this way are the following:

- Harrisburg Parking Authority
- Harrisburg Downtown Improvement District, Inc.
- Redevelopment Authority of the City of Harrisburg

Harrisburg Parking Authority

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

On December 23, 2013, the Authority entered into an Asset Transfer Agreement for the City of Harrisburg Parking System (Agreement) dated December 1, 2013 with Pennsylvania Economic Development Financing Authority (PEDFA). Under the Agreement, the Authority agreed to lease, for a period of approximately 40 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 request of the City, the Authority assigned the notes receivable to the City, Dauphin County (County), and the bond insurer. Any surplus revenues (as defined in the Agreement), are to be paid on the notes receivable, with 75% going to the bond insurer and the County and 25% going to the City, until such time as the bond insurer and the County are made whole and then all amounts going to the City.

Because the lease qualified as a capital lease, all associated capital assets were removed from the Authority's financial statements as of the closing date. At the end of 40 years, all associated capital assets are to be returned to the Authority (or the City if the Authority is not in existence) along with any capital reserve monies (funded by PEDFA through an extensive formula in the PEDFA indenture) for deferred maintenance. In accordance with an agreement with the bond insurer, any amounts received after the transfer of assets by the Authority in respect of its ownership of the parking assets transferred, in excess of reserves agreed upon by the Authority and the bond insurer, are to be promptly paid to the bond insurer. Within 30 days following June 30, 2015, any surplus amount held and received by the Authority after closing of the transfer of assets is to be promptly paid to the bond insurer. At December 31, 2016, such transfer has not taken place as the Authority and the bond insurer are currently in the settlement process.

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, 2016, the Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

Harrisburg Downtown Improvement District, Inc.

The Harrisburg Downtown Improvement District, Inc. (Corporation) was formed on April 22, 2004 under the provisions of the Neighborhood Improvement District Act, as of December 20, 2000, to provide neighborhood improvement district management association services, overseeing a neighborhood improvement district located in the downtown business district of Harrisburg, Pennsylvania. On September 14, 2004, City Council adopted an ordinance to establish a Neighborhood Improvement District (District) to replace the Harrisburg Downtown Improvement District Authority by providing the same business improvements and administrative services to a larger downtown business district. Effective September 30, 2004, the Harrisburg Downtown Improvement District Authority was terminated and all assets, liabilities, and contractual rights were assumed by the Corporation.

On September 14, 2010, the Corporation was re-authorized by City Council to administer services to the District for a five-year term beginning January 1, 2011 and ending December 31, 2015. On December 15, 2015, the Corporation was re-authorized by City Council for a two-year term beginning January 1, 2016 to administer services to the District. The authorization to administer the District shall automatically terminate on December 31, 2017, unless the governing body of the City legislatively authorizes its continuation.

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.

The Harrisburg Land Bank (Land Bank) is a blended component unit presented in the Redevelopment Authority's financial statements. The Land Bank is governed by seven board members, five of which serve as members of the Redevelopment Authority and two appointed by the Mayor. The Land Bank was created under the Pennsylvania Land Bank Act and its purpose is to deter blight and return vacant property to productive status, thereby enabling the transformation of vacant, blighted, abandoned, and tax-delinquent spaces into vibrant City places.

Potential Component Units Excluded

Capital Region Water

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

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

CRW operates and reports on a calendar year.

City of Harrisburg Housing Authority

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

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

The Housing Authority operates and reports on a calendar year.

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, 2016:

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	\$ 6,210,383
Capital Assets, Net	\$ 20,437,833
Total Assets and Deferred Outflows of Resources	\$ 28,232,699
Net Position	\$ 16,177,516
Operating Revenue	\$ 6,757,029
Operating Loss	\$ (17,421,044)
Change in Net Position	\$ (2,289,496)
City Contribution to Operations	\$ 228,287

Related Organizations

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

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

The amounts the City appropriated to these organizations during the year ended December 31, 2016 were immaterial to the basic financial statements.

The City owns the National Civil War Museum and the related artifacts (collectively, the facilities). In April 2001, the City entered into a lease, license, and operating agreement with the National Civil War Museum to lease the facilities for \$1 per year, to operate and manage the museum, and to license elements of the museum. The term of the agreement continues through January 1, 2031. After the first five years, the City can notify the National Civil War Museum that it would like to renegotiate the rent payment based on the organization's ability to pay. In October 2009, the agreement was amended to extend the term for lease, license, and operations to January 31, 2039. As of December 31, 2016, there has been no further negotiation.

B. *Government-Wide and Fund Financial Statements*

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

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial

statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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 deferred inflow of resources for unavailable revenue and the liability for unearned revenue is removed from the governmental fund balance sheet and revenue is recognized.

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

Neighborhood Services Fund – Created in 2016, this fund accounts for the revenues and expenses associated with the provision of refuse collection and disposal services to residential, commercial, and industrial establishments of the City, as well as Parks and Recreation maintenance services and road repair services, as those are related to the facilitation of refuse collection and disposal services, broadly defined. The Neighborhood Services Fund includes the former Sanitation Fund and Incinerator Fund, as well as the Bureau of City Services, formerly reported in the General Fund.

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.

The cash in the external investment pool is valued at amortized cost, which approximates fair value.

E. *Investments*

The City and its component units carry their investments at fair value. The City and its component units categorize their fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

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 \$961,270 and the Mayor's Office of Equal Economic Opportunity (MOEEO) in the amount of \$1,734,335, net of allowances for uncollectible accounts of \$647,925 and \$1,319,620, 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. Write-offs are determined based on events of loan default, bankruptcy, or negotiated settlement with the City.

The Redevelopment Authority's loans receivable consists of loans made to various entities for redevelopment projects within the City. The loans vary in term and require full payment of principal and interest at the end of the loan term. As of December 31, 2016, there was \$219,600 of loans receivable.

The Redevelopment Authority also received two Up-Front Grants in the amount of \$10.6 million from the United States Department of Housing and Urban Development for a 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 doubtful accounts at December 31, 2016.

H. *Rent Receivable*

Management has assessed the rent receivables referenced in Note 4 for collectability and deemed the amounts to be fully collectable. Rent receipts are applied to the oldest receivables first.

I. *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.”

J. *Security Deposit*

At December 31, 2016, the Neighborhood Services Fund has presented a security deposit in the amount of \$1.35 million. This amount represents the amount set aside to secure 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.

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, 2016. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the City would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

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

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

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

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

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

Component Units

Harrisburg Parking Authority

The Authority's capital assets in service and construction in progress are stated on the basis of cost. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the Authority would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Capital assets are defined by the Authority as assets with an initial, individual cost of \$10,000 for land, buildings, and related improvements, or \$1,000 for furniture and equipment purposes, and an estimated useful life in excess of three years. Maintenance and repairs, which do not significantly extend the value or life of capital assets, are expensed as incurred.

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

Harrisburg Downtown Improvement District, Inc.

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the useful lives of the assets. Management has set a policy using a dollar amount to capitalize expenditures of \$5,000. Leasehold improvements pertain to the design and construction of certain improvements within the Corporation's leased space, which are stated at cost and depreciated over the lease term using the straight-line method of depreciation.

Redevelopment Authority of the City of Harrisburg

All capital assets are capitalized at historical cost at the acquisition date. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the Redevelopment Authority would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. 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	30-40 years
Land improvements	20 years
Furniture and fixtures	10 years
Leasehold improvements	7-10 years
Vehicles	7-10 years
Equipment	5 years

L. *Vested Compensated Absences*

Primary Government

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

Component Unit

Redevelopment Authority of the City of Harrisburg

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

M. *Long-term Obligations*

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

N. *Deferred Inflows and Outflows of Resources for Pensions*

In conjunction with pension accounting requirements, the differences in the City's expected and actual experience, changes of assumptions, the City's contributions subsequent to the measurement date, and the difference between projected and actual earnings on pension plan investments are recorded as deferred inflows or outflows of resources related to pension on the government-wide and proprietary fund financial statements. These amounts are determined based on the actuarial valuations performed for the pension plan. Note 16 presents additional information about the pension plan.

O. *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental and proprietary fund types. Encumbrances are recorded when purchase orders are issued, but are not considered expenditures until liabilities for payment are incurred. Encumbrances outstanding at year-end for unfilled obligations of the current year budget are reappropriated in the succeeding year. The City reports encumbrances in its governmental funds as assigned fund balance, if the individual fund's fund balance is not presented as restricted. The General Fund had encumbrances of \$725,108 relating to contract services, equipment, and operating materials and supplies. Encumbrance accounting is used in proprietary fund types as a tool for budgetary control, but is not reported on the statement of net position. There are no encumbrances for the proprietary funds at December 31, 2016.

P. *Fund Equity and Net Position*

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

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

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

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

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

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

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

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

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

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

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

Q. *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, 2015, 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 \$13,850,341. However, the actuarial value of assets exceeded the actuarial accrued pension liability in the Non-uniformed Employees' and Combined Firefighters' Pension Plans in the amounts of \$15,860,225 and \$8,924,323, respectively.

R. *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.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
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The City is self-insured for workers' compensation. As a self-insurer, the City is required to fund an already established trust fund, dollar for dollar, once the City has passed a total liability threshold 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 \$1,000,000 for any covered paid or volunteer firefighter, \$800,000 for any covered paid or volunteer police officer, and \$650,000 for each non-uniformed workers' compensation claim and has purchased commercial coverage for claims in excess of coverage.

In the government-wide financial statements and proprietary fund types in the fund financial statements, the liability for outstanding claims is reported in the applicable statement of net position. A liability for these amounts is reported in governmental funds only if they have matured. The accrued cost for unpaid claims was \$2,581,571 and \$1,184,539 in the governmental activities and business-type activities, respectively, at December 31, 2016. 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	2016	2015
Beginning - January 1	\$ 3,580,745	\$ 91,987	\$ 3,672,732	\$ 3,879,211
Transfers from (to) Governmental Activities/ Business-type Activities	(843,037)	843,037	-	-
Current year claims and changes in estimates	353,692	330,456	684,148	512,136
Claim payments	(509,829)	(80,941)	(590,770)	(718,615)
Ending - December 31	<u>\$ 2,581,571</u>	<u>\$ 1,184,539</u>	<u>\$ 3,766,110</u>	<u>\$ 3,672,732</u>

Component Units

The City's discretely presented component units are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in 2016. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

S. 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 and Host Municipal Fees Fund (both non-major governmental funds), Neighborhood Services Fund (a proprietary fund), and six Special Revenue Funds (non-major governmental funds). Annual fund budgets are adopted by specific ordinance passed by City Council. The City has established the following procedures relating to the preparation and adoption of the annual budget.

1. During August, the Office of Budget and Analysis allows office/department heads and bureau chiefs, and/or their own budget staff, to enter their subsequent year requested

operating and revenue budgets (requests) into the Pentamation (eFinance) Account System Budget Module (system), including notes.

2. During this process, the Office of Budget and Analysis works on all personnel projections for the subsequent year, and confirms these amounts with office/department heads.
3. After the office/department heads and bureau chiefs have entered their requests into the system, the Mayor shall, not later than the month of November, require all office/department heads and bureau chiefs to submit requests for appropriations for the ensuing budget year, and to appear before the Mayor or the Business Administrator or other officer at public hearings, which shall be held during that month, on the various requests.
4. After the public hearings, the budget staff reviews the office/department heads'/bureau chiefs' expenditure projects 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.
5. Mayoral hearings are then held with each office/department/bureau to discuss their budgets as submitted and allow them to substantiate projected expenditures. During this time, the Mayor will make cuts to the budget as deemed necessary.
6. A second draft is then given to the Mayor with the results of the meeting held between the Mayor, office/department heads/bureau chiefs, and budget staff. The Mayor reviews the budget, with budget staff, and makes additional cuts and revenue enhancements. This process is repeated until a balanced budget is achieved.
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 with office/department heads and bureau chiefs present 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. During the month of January following a municipal election, however, City Council may amend the Budget with proper notice for public inspection of the proposed budget amendment. Any amended budget ordinance must be adopted by City Council before the 16th of February. Within 15 days after the adoption of the budget ordinance, a copy of same must be filed with the Commonwealth of Pennsylvania, Department of Community and Economic Development.

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 specifics represent the legal levels of budgetary control.

The Business Administrator (current finance director) may authorize transfers up to \$20,000 among 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 budgetary 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 budget. Supplemental appropriations were enacted during 2016.

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

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 amounts and disclosures to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

U. *Non-Recourse Debt Issue*

The Redevelopment Authority participates in various bond issues for which it has limited liability. Acting solely in an agency capacity, the Redevelopment Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although the Redevelopment Authority is a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the Redevelopment Authority in the case of default. As such, the corresponding debt is not reflected on the statement of net position of the Redevelopment Authority. As of December 31, 2016, non-recourse debt issues of the Redevelopment Authority totaled approximately \$14.28 million including approximately \$6.45 million on behalf of the City.

V. *Adoption of Governmental Accounting Standards Board (GASB) Statements*

The City has adopted GASB Statement No. 72 "*Fair Value Measurement and Application.*" This Statement addresses accounting and financial reporting issues related to fair value measurements. As a result of implementation of this Statement, the investment disclosures at Note 2 have been enhanced.

The City has adopted GASB Statement No. 79 "*Certain External Investment Pools and Pool Participants.*" This Statement addresses accounting and financial reporting issues for certain external investment pools and pool participants. As a result of implementation of this Statement, the investment disclosures at Note 2 have been enhanced.

The Redevelopment Authority adopted GASB Statement No. 87, "Leases." This Statement improves the accounting and financial reporting for leases. As a result of implementation of this Statement, the lease receivable disclosure at Note 14 has been added.

W. Pending Changes in Accounting Principles

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

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

In January 2016, the GASB issued Statement No. 80, *“Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.”* This Statement amends the blending criteria to include a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of GASB Statement No. 80 are effective for the City’s December 31, 2017 financial statements.

In March 2016, the GASB issued Statement No. 81, *“Irrevocable Split-Interest Agreements.”* This Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of GASB Statement No. 81 are effective for the City’s December 31, 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, *“Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.”* This Statement addresses certain issues that have been raised with respect to previous pension standards. The provisions of GASB Statement No. 82 are effective for the City’s December 31, 2017 financial statements.

In January 2017, the GASB issued Statement No. 84, *“Fiduciary Activities.”* This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of GASB Statement No. 84 are effective for the City’s December 31, 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *“Omnibus 2017.”* This Statement addresses practice issues identified during implementation and application of certain GASB Statements related to a variety of topics, including blending component units, goodwill, fair value measurement and application, and post-employment benefits. The provisions of GASB Statement No. 85 are effective for the City’s December 31, 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *“Certain Debt Extinguishment Issues.”* This Statement improves consistency in accounting and financial reporting for certain debt extinguishments. The provisions of GASB Statement No. 86 are effective for the City’s December 31, 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, “Leases.” This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the City’s December 31, 2020 financial statements.

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

2. DEPOSITS AND INVESTMENTS

Primary Government

The deposit and investment policy of the City adheres to state statutes and prudent business practices. City deposits must be held in insured, federally regulated banks or financial institutions and must be fully collateralized in accordance with state statutes. Permissible investments include direct obligations of the U.S. Treasury and U.S. Governmental agencies; certificates of deposit issued by insured banks, bank and trust companies, and savings and loan associations; short-term commercial paper issued by a public corporation; banker’s acceptance; 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, 2016, nor during the year then ended.

Proceeds from debt and other funds, which are held in bank trust accounts in the City’s name and administered by trustees for payment of revenue bonds and the enterprise fund portion of general long-term debt, are classified as restricted assets since their use is limited by applicable bond indentures.

During the year ended December 31, 2016, the City received approximately \$1.65 million in proceeds related to a capital lease. These proceeds are maintained in a separate bank account and are classified as restricted assets since their use is limited by the provisions of the capital lease.

During the year ended December 31, 2013, the City received proceeds from the leasing of certain of the Authority’s assets. Certain of the proceeds, held at December 31, 2016, 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; and \$6.2 million to fund a City growth fund.

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Deposits

At December 31, 2016, the deposits of the City, including component units, were as follows:

Reconciliation to statement of net position:	
Governmental activities	
Unrestricted	\$ 22,597,871
Restricted	11,617,081
Business-type activities	
Unrestricted	6,737,724
Restricted	1,869,907
Fiduciary funds - agency fund	1,176,982
Total primary government	<u>\$ 43,999,565</u>
Component units	
Unrestricted	<u>\$ 2,099,366</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The City has no policy, other than as presented above, that further limits its custodial credit deposit risk. As of December 31, 2016, the City’s book balance was \$43,999,565 and the bank balance was \$45,352,347. Of the bank balance, \$1,000,000 was covered by federal depository insurance, \$42,678,111 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, and \$1,647,151 was uncollateralized. Of the remaining bank balance of \$27,085 was invested in an external investment pool with the Pennsylvania Local Government Investment Trust (PLGIT).

The City uses PLGIT to ensure safety and maximize efficiency, liquidity, and yield for City funds. PLGIT was created to meet the investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth of Pennsylvania. PLGIT’s investment objective is to seek high current income, consistent with preservation of capital and maintenance of liquidity. PLGIT issues separately audited financial statements that are available to the public. Further information regarding PLGIT and its investment strategies can be found at www.plgit.com. 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 for the external investment pool.

The City is invested in PLGIT-Class shares, which require no minimum balance, no minimum initial investment, and have a one-day minimum investment period. At December 31, 2016, PLGIT carried a AAA rating and had an average maturity of less than one year.

Component units

Harrisburg Parking Authority

The Parking Authority Law limits the Authority to the type of deposits it may make. Authorized types of investments include U.S. Treasury bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, banker’s acceptances, insured or collateralized time deposits, and certificates of deposit.

The Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Authority funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program (INVEST), which separately 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. The Authority is invested in INVEST - Daily Pool, which requires no minimum balance, no minimum initial investments, and has no required investment period.

Custodial Credit Risk. At December 31, 2016, the Authority's cash deposits have a book and bank balance of \$739,587 and \$745,679, respectively. Of the bank balance, \$17,810 was covered by federal depository insurance. The remaining \$727,869 was invested in INVEST. At December 31, 2016, INVEST carried a AAA rating and had an average weighted maturity of less than one year.

Harrisburg Downtown Improvement District, Inc.

Concentrations of Credit Risk. Credit risk is limited to assessments receivable, investments, and cash balances. As of December 31, 2016, the Corporation had \$142,284 and \$203,273 on deposit in each money market account.

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, 2016, the Redevelopment Authority's book balance was \$967,589 and the bank balance was \$973,860. Of the bank balance, \$614,830 was covered by federal depository insurance. The remaining balance of \$359,030 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.

CITY OF HARRISBURG, PENNSYLVANIA
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Investments

At December 31, 2016, the investments of the City were as follows:

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Primary Government				
Unrestricted investments				
Money market funds	\$ 1,143,300	\$ 1,143,300	\$ -	\$ -
External investment pool	5,236,665	5,236,665	-	-
Total unrestricted investments	6,379,965	6,379,965	-	-
Restricted investments				
Money market funds	658,241	658,241	-	-
Total restricted investments	658,241	658,241	-	-
Fiduciary funds				
Money market funds	848,233	848,233	-	-
Certificates of deposit	601,181	601,181	-	-
Mutual funds				
Equities				
Domestic	34,081,032	34,081,032	-	-
International	11,297,999	11,297,999	-	-
Fixed income	19,625,388	19,625,388	-	-
U.S. Government obligations	1,872,547	1,872,547	-	-
U.S. Government agency obligations	1,562,684	1,562,684	-	-
Corporate bonds	3,537,272	-	3,537,272	-
Municipal bonds	57,205	-	57,205	-
Partnership	1,548,521	-	-	1,548,521
Total fiduciary funds	75,032,062	69,889,064	3,594,477	1,548,521
Total primary government	\$ 82,070,268	\$ 76,927,270	\$ 3,594,477	\$ 1,548,521
Component Units				
Restricted investments				
Money market funds				\$ 542,342
External investment pool				850
Certificates of deposit				1,466,597
Total restricted investments				2,009,789
Total component units				\$ 2,009,789

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

Primary Government

Corporate and Municipal Bonds. Certain corporate and municipal bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate and municipal bonds are valued based on yields currently available on comparable securities of issues with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued using a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be

observable, such as credit and liquidity risks. These investments are classified within Level 2 of the valuation hierarchy.

Partnership (Equus Investment Partnership X, L.P.). At December 31, 2016, the City has \$1,548,521 invested in Equus Investment Partnership X, L.P (Partnership). The Partnership invests in and acquires, holds, operates, and disposes of operational real estate through equity interests. The valuation of the Partnership is determined in good faith from information provided by the General Partner of the limited partnership. The fair value of the Partnership is based on valuation methods including, but not limited to, the following: (1) forecast of future net cash flows based on the General Partner's analysis of future earnings from the investment plus anticipated net proceeds from the sale, deposition or resolution of the investment, discounted at a risk-adjusted rate; (2) prevailing market capitalization rates or earnings multiples applied to stabilized income or adjusted earnings from the investment; (3) recent sales of comparable investments; (4) independent third-party appraisals; and (5) sale negotiations and bona fide purchase offers received from independent parties. The discounted cash flow technique is the primary method employed by the General Partner supplemented by one or more of the other valuation techniques described above, as applicable. Two significant unobservable inputs used in the discounted cash flow technique are discount rate and terminal capitalization rate. These unobservable inputs are inter-related. A significant increase in the discount or terminal capitalization rate in isolation would result in a significantly lower fair value measurement. The estimated fair values do not necessarily represent the prices at which the real estate investments would sell, since market prices can only be determined by negotiation between a willing buyer and a willing seller. This investment is classified within Level 3 of the valuation hierarchy.

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 \$82,070,268, \$75,032,062 was held by the broker or dealer or by its trust department or agent, in the name of the City of Harrisburg Police Pension Plan, and \$7,038,206 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. At December 31, 2016, INVEST carried a AAA rating and had an average maturity of less than one year.

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. At December 31, 2016, there were no investments that represent more than five percent of the City's total investments.

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Credit risk. The City does not have a formal policy relating to credit risk of investments. The City's investments had the following level of exposure to credit risk as of December 31, 2016:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 2,649,774	AAA
External investment pool	\$ 5,236,665	AAA
Certificates of deposit	\$ 601,181	AA+
Mutual funds - fixed income	\$ 8,012,837	*AA
Mutual funds - fixed income	\$ 9,122,408	*A
Mutual funds - fixed income	\$ 2,490,143	*BB
U.S. Government obligations	\$ 1,872,547	AA+
U.S. Government agency obligations	\$ 1,562,684	AA+
Corporate bonds	\$ 248,265	AAA
Corporate bonds	\$ 275,847	AA+
Corporate bonds	\$ 304,987	AA
Corporate bonds	\$ 384,626	AA-
Corporate bonds	\$ 324,499	A+
Corporate bonds	\$ 615,100	A
Corporate bonds	\$ 370,318	A-
Corporate bonds	\$ 527,705	BBB+
Corporate bonds	\$ 99,937	BBB
Corporate bonds	\$ 65,617	BBB-
Corporate bonds	\$ 320,371	Unrated
Municipal bonds	\$ 57,205	AA
Partnership	\$ 1,548,521	Unrated

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

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

Investment Type	Fair Value	Investment Maturities			
		2017	2018-2022	2023-2027	2028 and beyond
Money market funds	\$ 2,649,774	\$ 2,649,774	\$ -	\$ -	\$ -
External investment pool	5,236,665	5,236,665	-	-	-
Certificates of deposit	601,181	-	601,181	-	-
Mutual funds - fixed income	19,625,388	-	-	19,625,388	-
U.S. Government obligations	1,872,547	245,988	667,027	613,295	346,237
U.S. Government agency obligations	1,562,684	-	168,989	103,819	1,289,876
Corporate bonds	3,537,272	65,953	1,398,876	1,215,459	856,984
Municipal bonds	57,205	-	-	-	57,205
Total	<u>\$ 35,142,716</u>	<u>\$ 8,198,380</u>	<u>\$ 2,836,073</u>	<u>\$ 21,557,961</u>	<u>\$ 2,550,302</u>

Workers' Compensation

In accordance with the provisions of the Pennsylvania Workers' Compensation Act, the City has secured an exemption from the necessity of insuring its workers' compensation liability and has elected to maintain a separate fund to provide a reserve for claimants entitled to benefits. Since inception, a total of \$600,000 has been deposited in a bank trust account through December 31, 2016. Interest of \$1,493,300 has been earned on the deposits and claims of \$700,000 have been paid from the trust account from inception through December 31, 2016. 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 \$1,143,300 at December 31, 2016, of which \$142,014 is included in the General Fund, \$725,026 is included in the General Fund as due to CRW, and \$276,260 is included in the Neighborhood Services Fund as investments at December 31, 2016.

Component Unit

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, 2016 were as follows:

<u>Investments</u>	<u>Fair Value</u>
Certificates of deposit	\$ 1,466,597
Money market funds	542,342
External investment pool	850
Total investments	<u>\$ 2,009,789</u>

The money market funds are valued using quoted market prices (Level 1 inputs).

The Redevelopment Authority 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.

Custodial Credit Risk. The Redevelopment Authority does not have an investment policy for custodial credit risk. At December 31, 2016, the Redevelopment Authority's certificates of deposit were insured by the Federal Deposit Insurance Corporation. The remaining investments of the Redevelopment Authority were not exposed to custodial credit risk, because those investments 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, 2016, there were no issuers who held more than 5% of the Redevelopment Authority's investments.

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, 2016:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 542,342	AAA
External investment pool	850	AAA

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 Redevelopment Authority’s money market funds and external investment pool have a related average maturity of less than one year as of December 31, 2016.

3. 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 2016 is as follows:

January 1, 2016	- lien date
January 31, 2016	- original levy date
January 31 – March 31, 2016	- 2% discount period
April 1 – May 31, 2016	- face payment period
June 1 – December 31, 2016	- 10% penalty period
January 1, 2017	- 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 2016 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 10.8126 mills.

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

In addition, City taxes may be paid in four installments due on or before January 31, March 31, May 31, and July 31 of the tax year with no discount period allowed. Any delinquent installment is subject to a penalty of 10%.

4. RENT RECEIVABLE

Primary Government

In accordance with the Agreement, as disclosed in Note 1, the City receives monthly rent payments from PEDFA based upon the flow of funds. As a result of this, governmental activities investment earnings for the year ended December 31, 2016 include rent revenue in the amount of \$1,921,037, of which \$905,373 is recorded as rent receivable as December 31, 2016. The receivable is offset with an unavailable revenue in the General Fund, as payments were not received in the City’s availability period.

Contingent upon the available funds in accordance with the Agreement, as disclosed in Note 1, the following amounts are to be received by the City in future years:

Period ending December 31,	Rent
2017	\$ 1,798,000
2018	1,762,331
2019	2,241,682
2020	1,057,258
2021	1,071,587
2022-2026	5,588,367
2027-2031	6,016,843
2032-2036	6,513,563
2037-2041	7,089,402
2042-2046	7,756,952
2047-2051	8,530,828
2052-2053	3,655,998
Total	<u>\$ 53,082,811</u>

Component Unit

Harrisburg Parking Authority

In accordance with the Agreement, as disclosed in Note 1, the Authority receives monthly rent payments from PEDFA based upon the flow of funds. During the year ended December 31, 2013, the Authority entered into the 2013 Harrisburg Downtown Parking Cooperation Agreement with the City and HDC, of which the Authority directs these monthly rent payments received from PEDFA directly to the City. The Authority reports the rent revenue in the year provided for under the Agreement. As a result of this, rent revenue and corresponding transfer to the City for the year ended December 31, 2016 amounted to \$1,166,990, of which \$751,910 is recorded as rent receivable and due to the City as of December 31, 2016. The City has reported a receivable from the Authority. A portion of the receivable is offset with an unavailable revenue in the General Fund, as payments were not received in the City’s availability period.

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Contingent upon the available funds in accordance with the Agreement, as disclosed in Note 1, the following amounts are to be received by the Authority and then disbursed to the City in future years:

Period ending December 31,	Rent
2017	\$ 1,202,000
2018	1,238,060
2019	1,275,201
2020	1,313,458
2021	1,352,861
2022-2026	7,398,000
2027-2031	8,576,309
2032-2036	9,942,293
2037-2041	11,525,843
2042-2046	13,361,610
2047-2051	15,489,769
2052-2053	6,865,992
Total	<u>\$ 79,541,396</u>

In November 2016, the Authority's Board approved to file suit against PEDFA for failure to pay rent and City payments and failure to deliver an annual budget. PEDFA has asserted that there are ambiguities in the Agreement as to whether accrued rent from prior years has to be paid, and as to the level of the waterfall at which accrued rent within the current year has to be paid. The Authority disputes that there is any ambiguity in the Agreement. The Authority contends that it is entitled to immediate release of the withheld rent and payment of accrued and unpaid rent for all years as funds become available in accordance with the waterfall, as defined in the Agreement.

5. NOTES RECEIVABLE

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 5.833 percent over forty years, in the amount of approximately \$7.6 million, is presented as notes receivable on the Governmental Activities statement of net position and General Fund balance sheet. The General Fund balance sheet also presents this amount as unavailable revenue.

6. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances at December 31, 2016 is as follows:

<u>Primary Government</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 2,061,425	\$ 797,550
Grant Programs Fund	720,679	1,528,563
Nonmajor governmental funds	309,614	584,578
Total governmental funds	<u>3,091,718</u>	<u>2,910,691</u>
Harrisburg Senators Fund	78,386	-
Neighborhood Services Fund	356,227	413,881
Total proprietary funds	<u>434,613</u>	<u>413,881</u>
Agency Fund	-	201,759
Total primary government	<u><u>\$ 3,526,331</u></u>	<u><u>\$ 3,526,331</u></u>

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

The composition of interfund transfers for the year ended December 31, 2016 is as follows:

<u>Primary Government</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,493,623	\$ 10,850,822
Grant Programs Fund	181	884,342
Debt Service Fund	10,217,206	255,390
Nonmajor governmental funds	633,616	965,075
Total governmental funds	<u>12,344,626</u>	<u>12,955,629</u>
Harrisburg Senators Fund	255,390	-
Neighborhood Services Fund	523,759	4,238,139
Total proprietary funds	<u>779,149</u>	<u>4,238,139</u>
Accrual Fund	4,069,993	-
Total primary government	<u><u>\$ 17,193,768</u></u>	<u><u>\$ 17,193,768</u></u>

Interfund transfers were made primarily to fund debt service, to move excess cash per budgeted transfers, to provide for capital project fund expenditures, to reimburse for other funds for grant related expenditures, and to transfer the certain capital lease obligations and the associated capital assets, vested compensated absences, workers' compensation claims, and OPEB liability balances for the Bureau of City Services from governmental activities to the Neighborhood Services Fund.

7. INTERGOVERNMENTAL REVENUE

The General Fund intergovernmental revenue for the year ended December 31, 2016 is as follows:

Commonwealth of Pennsylvania, Pension System Aid	\$ 2,545,914
Commonwealth of Pennsylvania, Capital fire protection	5,000,000
Utilities payments in lieu of taxes from other governments	41,845
Harrisburg Parking Authority	<u>1,229,501</u>
	<u><u>\$ 8,817,260</u></u>

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

Grant Programs Fund	
Community Development Block Grant	\$ 2,109,281
Lead Based Paint Grant	527,343
HOME Program	468,785
Emergency Solutions Grant	221,918
Federal and Pennsylvania Emergency Management Agency	500,495
State capital projects	621,275
Public Safety Partnership and Community Policing grants	152,858
Highway Planning and Construction Grant	29,969
Other federal grants	<u>22,475</u>
	<u><u>\$ 4,654,399</u></u>

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8. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 is as follows:

Primary Government

	Beginning of Year	Additions/ Transfers	Retirements and Dispositions/ Transfers	End of Year
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 7,144,863	\$ -	\$ -	\$ 7,144,863
Artifacts	18,649,000	-	-	18,649,000
Total capital assets, not being depreciated	<u>25,793,863</u>	<u>-</u>	<u>-</u>	<u>25,793,863</u>
Capital assets, being depreciated				
Buildings	64,767,464	78,797	-	64,846,261
Improvements	24,915,687	1,961	-	24,917,648
Equipment and furniture	34,086,636	1,139,314	(256,580)	34,969,370
Infrastructure	99,097,208	3,260,887	-	102,358,095
Total capital assets, being depreciated	<u>222,866,995</u>	<u>4,480,959</u>	<u>(256,580)</u>	<u>227,091,374</u>
Less accumulated depreciation for				
Buildings	(38,178,982)	(1,706,186)	-	(39,885,168)
Improvements	(8,664,146)	(396,408)	-	(9,060,554)
Equipment and furniture	(32,590,108)	(543,122)	88,434	(33,044,796)
Infrastructure	(76,954,289)	(2,686,833)	-	(79,641,122)
Total accumulated depreciation	<u>(156,387,525)</u>	<u>(5,332,549)</u>	<u>88,434</u>	<u>(161,631,640)</u>
Total capital assets, being depreciated, net	<u>66,479,470</u>	<u>(851,590)</u>	<u>(168,146)</u>	<u>65,459,734</u>
Governmental activities, capital assets, net	<u>\$ 92,273,333</u>	<u>\$ (851,590)</u>	<u>\$ (168,146)</u>	<u>\$ 91,253,597</u>

	Beginning of Year	Additions/ Transfers	Retirements and Dispositions/ Transfers	End of Year
Business-type activities				
Capital assets, being depreciated				
Buildings	\$ 37,704,816	\$ -	\$ -	\$ 37,704,816
Equipment and furniture	3,627,587	1,441,204	-	5,068,791
Total capital assets, being depreciated	<u>41,332,403</u>	<u>1,441,204</u>	<u>-</u>	<u>42,773,607</u>
Less accumulated depreciation for				
Buildings	(5,868,710)	(928,601)	-	(6,797,311)
Equipment and furniture	(3,367,224)	(109,468)	-	(3,476,692)
Total accumulated depreciation	<u>(9,235,934)</u>	<u>(1,038,069)</u>	<u>-</u>	<u>(10,274,003)</u>
Business-type activities, capital assets, net	<u>\$ 32,096,469</u>	<u>\$ 403,135</u>	<u>\$ -</u>	<u>\$ 32,499,604</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Depreciation and amortization expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 1,643,343
Community and economic development	668,338
Public safety	677,977
Public works	<u>2,342,891</u>
Total depreciation expense - governmental activities	<u>\$ 5,332,549</u>
Business-type activities:	
Harrisburg Senators	\$ 928,601
Neighborhood Services	<u>92,725</u>
Total depreciation expense - business-type activities	<u>\$ 1,021,326</u>

During 2016, capital assets of \$184,889, with accumulated depreciation of \$16,743 were transferred from governmental activities to business-type activities.

Component Units

	Beginning of Year	Additions	Retirements	End of Year
Harrisburg Parking Authority				
Buildings and improvements	\$ 7,999,997	\$ -	\$ -	\$ 7,999,997
Less accumulated depreciation	<u>(3,500,157)</u>	<u>(208,411)</u>	<u>-</u>	<u>(3,708,568)</u>
Harrisburg Parking Authority, capital assets, net	<u>\$ 4,499,840</u>	<u>\$ (208,411)</u>	<u>\$ -</u>	<u>\$ 4,291,429</u>

CITY OF HARRISBURG, PENNSYLVANIA
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	Beginning of Year	Additions	Retirements	End of Year
Harrisburg Downtown Improvement District, Inc.				
Capital assets, being depreciated				
Leasehold improvements	\$ 30,000	\$ -	\$ -	\$ 30,000
Visitor information center equipment	6,897	-	-	6,897
Marketing and office equipment	57,335	-	-	57,335
Total capital assets, being depreciated	94,232	-	-	94,232
Less accumulated depreciated for				
Property, equipment, and leasehold improvements	(91,895)	(2,211)	-	(94,106)
Total accumulated depreciation	(91,895)	(2,211)	-	(94,106)
Total capital assets, being depreciated, net	2,337	(2,211)	-	126
Project costs, being amortized				
Plaza improvement project costs	39,908	-	-	39,908
DID territory improvement project costs	44,687	-	-	44,687
Total project costs, being amortized	84,595	-	-	84,595
Less accumulated amortization for				
Project costs	(55,762)	(5,640)	-	(61,402)
Total accumulated amortization	(55,762)	(5,640)	-	(61,402)
Total project costs, being amortized, net	28,833	(5,640)	-	23,193
Harrisburg Downtown Improvement District, Inc. capital assets and project costs, net	<u>\$ 31,170</u>	<u>\$ (7,851)</u>	<u>\$ -</u>	<u>\$ 23,319</u>
	Beginning of Year	Additions	Retirements	End of Year
Redevelopment Authority of the City of Harrisburg				
Capital assets, not being depreciated				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Total capital assets, not being depreciated	30,000	-	-	30,000
Capital assets, being depreciated				
Buildings	2,093,040	-	-	2,093,040
Buildings - leased	-	38,847,761	-	38,847,761
Leasehold improvements	6,861,227	-	-	6,861,227
Total capital assets being depreciated	8,954,267	38,847,761	-	47,802,028
Less accumulated depreciation for				
Buildings	(340,119)	(52,326)	-	(392,445)
Buildings - leased	-	(1,079,104)	-	(1,079,104)
Leasehold improvements	(1,083,962)	(171,531)	-	(1,255,493)
Total accumulated depreciation	(1,424,081)	(1,302,961)	-	(2,727,042)
Total capital assets being depreciated, net	7,530,186	37,544,800	-	45,074,986
Redevelopment Authority of the City of Harrisburg, capital assets, net	<u>\$ 7,560,186</u>	<u>\$ 37,544,800</u>	<u>\$ -</u>	<u>\$ 45,104,986</u>

CITY OF HARRISBURG, PENNSYLVANIA
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9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2016 is as follows:

Primary Government

	Beginning of Year	Additions	Transfers	Accretion	Retirements/ Settlements	End of Year	Current Portion
Governmental activities:							
Workers' compensation claims	\$ 3,580,745	\$ 353,692	\$ (843,037)	\$ -	\$ (509,829)	\$ 2,581,571	\$ 659,333
Bonds payable (Note 10)	19,384,564	-	-	1,006,374	(4,495,000)	15,895,938	4,325,533
Notes payable (Note 12)	34,580,572	-	-	1,616,122	(4,933,740)	31,262,954	4,816,859
Capital lease obligations (Note 14)	3,420,351	-	(155,228)	-	(873,241)	2,391,882	392,063
Vested compensated absences	5,292,047	3,436,939	(377,226)	-	(3,251,444)	5,100,316	462,318
Due to bond insurer (Note 13)	13,696,609	1,000,000	-	-	(17,862)	14,678,747	-
Settlement with suburban municipalities (Note 15)	3,725,000	-	-	-	(1,500,000)	2,225,000	1,000,000
Governmental activities Long-term liabilities	\$ 83,679,888	\$ 4,790,631	\$ (1,375,491)	\$ 2,622,496	\$ (15,581,116)	\$ 74,136,408	\$ 11,656,106
	Beginning of Year	Additions	Transfers	Amortization	Retirements/ Settlements	End of Year	Current Portion
Business-type activities:							
Workers' compensation claims	\$ 91,987	\$ 330,456	\$ 843,037	\$ -	\$ (80,941)	\$ 1,184,539	\$ 302,531
Bonds payable (Note 10)	6,729,604	-	-	3,483	(310,000)	6,423,087	325,000
Capital lease obligations (Note 14)	11,209	1,647,151	155,228	-	(121,878)	1,691,710	275,623
Vested compensated absences	138,868	324,294	377,226	-	(275,220)	565,168	36,909
Business-type activities Long-term liabilities	\$ 6,971,668	\$ 2,301,901	\$ 1,375,491	\$ 3,483	\$ (788,039)	\$ 9,864,504	\$ 940,063

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

In December 2015, City Council approved a tax anticipation note in the amount of \$4,500,000, bearing interest at a fixed rate of 1.86 percent, and maturing on June 30, 2016. The City did not draw against this note.

CITY OF HARRISBURG, PENNSYLVANIA
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Component Units

	Beginning of Year	Additions	Amortization	Retirements	End of Year	Current Portion
Redevelopment Authority of the City of Harrisburg:						
Bonds payable (Note 10)	\$ 93,590,000	\$ -	\$ -	\$ (52,840,000)	\$ 40,750,000	\$ 1,880,000
Notes payable (Note 12)	1,049,802	-	-	(61,298)	988,504	341,549
Due to other governments	170,832	-	-	-	170,832	-
Total long-term liabilities	94,810,634	-	-	(52,901,298)	41,909,336	2,221,549
Less:						
Unamortized discount	(31,864,755)	-	4,348,243	8,821,078	(18,695,434)	-
Redevelopment Authority of the City of Harrisburg Long-term liabilities	<u>\$ 62,945,879</u>	<u>\$ -</u>	<u>\$ 4,348,243</u>	<u>\$ (44,080,220)</u>	<u>\$ 23,213,902</u>	<u>\$ 2,221,549</u>

10. BONDS PAYABLE

Bonds payable at December 31, 2016 are as follows:

	Primary Government		Total Primary Government
	Governmental Activities	Business-type Activities	
Bonds payable	\$ 15,895,938	\$ 6,450,000	\$ 22,345,938
Unamortized discount	-	(26,913)	(26,913)
Total bonds payable	<u>\$ 15,895,938</u>	<u>\$ 6,423,087</u>	<u>\$ 22,319,025</u>
	Component Unit		
	Redevelopment Authority		
Bonds payable	\$ 40,750,000		
Unamortized discount	(18,695,434)		
Total bonds payable	<u>\$ 22,054,566</u>		

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

	Governmental Activities	Business-type Activities	Total Primary Government
General Obligation Bonds			
Series D of 1997	\$ 15,895,938	\$ -	\$ 15,895,938
Total general obligation bonds	<u>15,895,938</u>	<u>-</u>	<u>15,895,938</u>
Revenue Bonds			
Senators Revenue Bonds			
Series A-2 of 2005	-	6,450,000	6,450,000
Less: Unamortized discount	<u>-</u>	<u>(26,913)</u>	<u>(26,913)</u>
Total revenue bonds	<u>-</u>	<u>6,423,087</u>	<u>6,423,087</u>
Total bonds payable	<u>\$ 15,895,938</u>	<u>\$ 6,423,087</u>	<u>\$ 22,319,025</u>

Bonds payable are accounted for in the Redevelopment Authority:

Guaranteed Revenue Bonds, Series A of 1998	\$ 40,750,000
Less: Unamortized discount	<u>(18,695,434)</u>
Total bonds payable	<u>\$ 22,054,566</u>

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

If sufficient revenues are not generated to pay the debt service on the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998, any shortfalls in funds will be paid for by the City. In accordance with the Reimbursement Agreement between the City and the Redevelopment Authority, the Redevelopment Authority is required to reimburse the City for amounts paid by the City under the guarantee. Interest will accrue on amounts owed by the Redevelopment Authority at a rate of 8% annually. As of December 31, 2016, no amounts were paid by the City to the Redevelopment Authority under the guarantee. The City paid \$500,000 to the Redevelopment Authority in April 2017 to be used toward the May 2017 principal payment of the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998. Based on anticipated deficits of future cash flows, the City has accrued the present value of future anticipated payments under the guarantee in the amount of approximately \$15.7 million at December 31, 2016.

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 the year ended December 31, 2016, the City was not in compliance with such covenants. See Note 21 for further information on the City's compliance.

CITY OF HARRISBURG, PENNSYLVANIA
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The composition of bonds outstanding included in the primary government at December 31, 2016 is as follows:

General Obligation Bonds

5.45%-5.52%, General Obligation Refunding Bonds, Series D of 1997, dated December 30, 1997, principal payable in semi-annual installments of \$1,195,285 to \$4,325,533 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. \$ 15,895,938

Revenue Bonds

4.95%-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. 6,450,000

Total primary government bonds payable 22,345,938

Less: unamortized discount (26,913)

Net primary government bonds payable \$ 22,319,025

The composition of bonds outstanding of the Redevelopment Authority at December 31, 2016 is as follows:

Revenue Bonds

Guaranteed Revenue Bonds, Series A of 1998, dated December 19, 1998, consisting of term bonds maturing from 2017 to 2033 in annual installments of various amounts. \$ 40,750,000

Less: unamortized discount (18,695,434)

Net Redevelopment Authority of the City of Harrisburg \$ 22,054,566

Debt Service Requirements

The annual requirements to amortize all bonds outstanding as of December 31, 2016, using interest rates in effect at December 31, 2016 for variable rate issues, are as follows:

	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Primary Government						
2017	\$ 4,325,533	\$ 169,467	\$ 325,000	\$ 327,403	\$ 4,650,533	\$ 496,870
2018	4,090,079	399,921	340,000	310,859	4,430,079	710,780
2019	3,877,269	617,731	360,000	293,287	4,237,269	911,018
2020	1,195,285	289,715	375,000	274,690	1,570,285	564,405
2021	1,199,608	375,392	395,000	254,895	1,594,608	630,287
2022-2026	1,208,164	466,836	2,315,000	933,645	3,523,164	1,400,481
2027-2030	-	-	2,340,000	255,507	2,340,000	255,507
	<u>15,895,938</u>	<u>2,319,062</u>	<u>6,450,000</u>	<u>2,650,286</u>	<u>22,345,938</u>	<u>4,969,348</u>
Less unamortized discount	-	-	(26,913)	-	(26,913)	-
Primary Government, net	<u><u>\$ 15,895,938</u></u>	<u><u>\$ 2,319,062</u></u>	<u><u>\$ 6,423,087</u></u>	<u><u>\$ 2,650,286</u></u>	<u><u>\$ 22,319,025</u></u>	<u><u>\$ 4,969,348</u></u>

CITY OF HARRISBURG, PENNSYLVANIA
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	General Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Redevelopment Authority of the City of Harrisburg						
2017	\$ -	\$ -	\$ 1,880,000	\$ -	\$ 1,880,000	\$ -
2018	-	-	1,910,000	-	1,910,000	-
2019	-	-	1,930,000	-	1,930,000	-
2020	-	-	1,960,000	-	1,960,000	-
2021	-	-	1,990,000	-	1,990,000	-
2022-2026	-	-	10,330,000	-	10,330,000	-
2027-2031	-	-	11,080,000	-	11,080,000	-
2032-2033	-	-	9,670,000	-	9,670,000	-
	-	-	40,750,000	-	40,750,000	-
Less unamortized discount	-	-	(18,695,434)	-	(18,695,434)	-
Redevelopment Authority of the City of Harrisburg, net	\$ -	\$ -	\$ 22,054,566	\$ -	\$ 22,054,566	\$ -
Total	\$ 15,895,938	\$ 2,319,062	\$ 28,477,653	\$ 2,650,286	\$ 44,373,591	\$ 4,969,348

11. DEFEASANCE OF DEBT

The City and its component units defeased general obligation and other bonds in prior years by placing the proceeds of net bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the City's financial statements. At December 31, 2016, the following bonds outstanding are considered defeased:

City of Harrisburg	
General Obligation Bonds, Series A of 1995	\$ 11,805,000
Harrisburg Parking Authority	
Parking Revenue Bonds, Series T of 2007	14,310,000
Parking Revenue Bonds, Series U-1 of 2011	7,490,000
	<u>\$ 33,605,000</u>

12. 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.

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The composition of promissory notes outstanding under Section 108 (included in governmental activities) at December 31, 2016 is as follows:

Variable based on 90-day LIBOR plus 20 basis points (1.2% at December 31, 2016), Section 108 Note, dated May 13, 2000, interest payable semiannually and principal payable in annual installments of \$300,000 to \$335,000, through August 1, 2019, to be serviced through general revenues of the City.	\$ 950,000
4.99%-5.77%, Section 108 Note, dated September 14, 2006, interest payable semiannually and principal payable in annual installments of \$210,000 to \$225,000, through August 1, 2026, to be serviced through general revenues of the City.	<u>2,115,000</u>
	<u>3,065,000</u>

The composition of notes payable included in the primary government at December 31, 2016 is as follows:

5.45%-5.52%, General Obligation Refunding Notes, Series F of 1997, dated December 31, 1997, principal payable in annual installments of \$3,592,634 to \$5,790,917 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.	27,637,388
4.13%, Pennsylvania Infrastructure bank loan, principal payable through March 26, 2018, to be serviced through general revenues of the City, used to fund City street resurfacing projects.	<u>560,566</u>
	<u>28,197,954</u>
Total primary government notes payable	<u>\$ 31,262,954</u>

The composition of notes payable of the Redevelopment Authority at December 31, 2016 is as follows:

3.75%, 2000 Infrastructure Bank Loan, for bridge financing of the Transportation Center improvements until grant money is received and is payable in annual installments through December 31, 2009. However, the final principal payment has not been paid as of December 31, 2016, 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.	250,000
4.83% for the first three years and variable based on the prime rate thereafter (3.75% at December 31, 2016), 2008 loan agreement, for financing construction of Susquehanna Harbor Safe Haven and is payable through December 10, 2026.	<u>467,075</u>
Total Redevelopment Authority of the City of Harrisburg	<u>\$ 988,504</u>

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The annual requirements to amortize all notes payable outstanding as of December 31, 2016, using interest rates in effect at December 31, 2016 for variable rate issues, are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
Primary Government		
2017	\$ 4,816,859	\$ 311,997
2018	4,609,491	500,446
2019	4,137,634	674,071
2020	6,000,917	1,468,045
2021	5,597,064	1,745,328
2022-2026	6,100,989	2,123,622
	<u>\$ 31,262,954</u>	<u>\$ 6,823,509</u>

<u>Year Ending December 31,</u>	<u>Redevelopment Authority of the City of Harrisburg</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 341,549	\$ 106,405
2018	71,526	14,391
2019	72,983	12,934
2020	74,495	11,421
2021	76,066	9,850
2022-2026	351,885	23,517
	<u>\$ 988,504</u>	<u>\$ 178,518</u>

13. DUE TO BOND INSURER

At times during 2013, the City's bond insurer made payments to bondholders on behalf of the City. These amounts and the accrued interest were reported as due to the bond insurer in the City's General Fund, because they were due and payable. During the year ended December 31, 2013, the City and the bond insurer entered into an agreement to restructure the amounts due to the bond insurer. Under the agreement, the City's is obligated to reimburse the bond insurer for payments made pursuant to the insurance policy at an interest rate of 6.10% per annum compounded semi-annually. In return, the bond insurer has agreed to forebear from exercising its rights and remedies under the Bonds, the Ordinance, and other applicable law. During the year ended December 31, 2016, the bond insurer paid \$1 million to bondholders on behalf of the City. The balance due to bond insurer at December 31, 2016 was \$14,678,747.

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, 2016. However, principal payments are not scheduled to begin until 2023.

14. 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, 2007, 2015, and 2016. As of December 31, 2016, the governmental activities and business-type activities included equipment and furniture under capital leases with a net book value of \$3,612,408 and \$166,252, respectively. Restricted assets of the Neighborhood Services Fund and the Capital Projects Fund include approximately \$1.6 million and \$213,000, respectively, in capital lease proceeds held by the City pending disbursement.

The future minimum payments under capital leases and the minimum lease payments at December 31, 2016 are as follows:

<u>Lease year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2017	\$ 470,131	\$ 311,134	\$ 781,265
2018	386,140	394,992	781,132
2019	386,140	393,177	779,317
2020	386,139	360,610	746,749
2021	386,140	354,809	740,949
2022-2023	<u>675,744</u>	<u>-</u>	<u>675,744</u>
Total commitment under capital lease	2,690,434	1,814,722	4,505,156
Less amount representing interest	<u>(298,552)</u>	<u>(123,012)</u>	<u>(421,564)</u>
Present value of future minimum lease payments	<u>\$ 2,391,882</u>	<u>\$ 1,691,710</u>	<u>\$ 4,083,592</u>

Component Units

Transportation Center Lease Income

The Redevelopment Authority leases space and parking to a commercial rail company and other tenants with lease ending dates varying through 2019. Additionally, the Redevelopment Authority leases space to a non-profit corporation with a lease ending date of June 30, 2018. These leases are noncancellable operating leases.

Minimum rentals on noncancellable leases through 2019 are as follows:

<u>Lease year ending December 31,</u>	
2017	\$ 327,869
2018	180,031
2019	<u>12,112</u>
Total minimum lease payments	<u>\$ 520,012</u>

Strawberry Square Lease

The Redevelopment Authority received ownership of the Verizon Building after expiration of the lease with Verizon, which terminated on February 29, 2016. Upon expiration of the lease with Verizon, HDC leased the Verizon Building from the Redevelopment Authority pursuant to a lease agreement entered into on January 30, 2015. HDC also entered into another agreement with the Department of General Services of the Commonwealth of Pennsylvania (DGS) to sublease the Verizon Building (DGS lease).

The term of the DGS lease, associated with the SO3 Tower of Strawberry Square, commenced March 1, 2016, the day after the expiration of the Verizon Lease, and expires by its terms on February 28, 2033. For the period from March 1, 2016 to March 31, 2025, monthly installments are due to the Redevelopment Authority in the amount of \$50,000 per month. For the period April 1, 2025 to February 28, 2033, monthly installments are due to the Redevelopment Authority in the amount of \$62,500 per month. These rentals obtained from the DGS lease and paid by HDC to the Redevelopment Authority are expected to pay a portion of the payments due on the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998.

The term of the DGS lease, associated with the SO1 and SO2 Towers of Strawberry Square, commenced March 1, 2016, the day after the expiration of the Verizon Lease, and expires by its terms on April 1, 2025. The rentals, obtained from the DGS lease and paid by HDC to the Redevelopment Authority, were expected to pay a portion of the payments due on the Federally Taxable Guaranteed Revenue Bonds, Series B of 1998. However, the lease rentals were paid up-front through the Commonwealth of Pennsylvania's issuance of the Certificates of Participation, Series 2016 on December 15, 2016.

The deferred lease revenue in the amount of \$63,484,830 at December 31, 2016 will be reduced annually by the amount of rental income revenue recognized over the term of the lease.

During the year ended December 31, 2016, the Redevelopment Authority received \$500,000 of rental income.

The present value of the future minimum lease payments at December 31, 2016 is as follows:

Year Ending December 31,	Amount
2017	\$ 477,770
2018	541,100
2019	506,430
2020	473,550
2021	442,860
2022-2026	1,950,662
2027-2031	1,639,450
2032-2033	295,933
Total	<u>\$ 6,327,755</u>

15. 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.

<u>Year Ending December 31,</u>	
2017	\$ 1,000,000
2018	1,000,000
2019	<u>225,000</u>
	<u>\$ 2,225,000</u>

16. PENSION PLANS

Primary Government

Plan Description and Administration

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

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

PMRS issues a separate Comprehensive Annual Financial Report (CAFR), which may be obtained by writing to the Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

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

The Combined Police Pension Plan is governed by the City of Harrisburg Police Pension Board, which consists of three persons appointed by the City, three persons appointed by the representatives of the Members' collective bargaining unit, and a neutral person appointed by a majority of the first six representatives. The City of Harrisburg Police Pension Board is responsible for the management of the Combined Police Pension Plan assets, appointment of the Combined Police Pension Plan trustee or custodian, and selection of investment advisors and managers.

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

Benefit Provisions

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act (Act 205), grants the authority to establish and amend the benefit terms of the Non-uniformed Employees' Plan A and B and Combined Firefighters' Plan to City Council. As outlined in Ordinance No. 21 of 1998, as amended by Ordinance No. 5 of 2001, the authority to establish and amend benefit provisions of the Combined Police Pension plan rests with the participants' collective bargaining unit and the City's administration. It then must be approved by the Board of the Combined Police Pension Plan and ratified and enacted by City Council.

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 participants of the Combined Police Pension Plan, participants are eligible for normal retirement after attainment of age 50. For participants of the Combined Police Pension Plan hired after September 2013, participants are eligible for normal retirement after attainment of age 50 and completion of 20 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 monthly compensation is added to participants who complete 27 years of service, up to a maximum monthly pension of 70% of average monthly compensation. Effective September 2013, the benefit provisions of the Combined Police Pension Plan for new hires were changed to decrease the maximum monthly pension to 50% of average monthly compensation plus an incremental pension equal to 1/40th of the pension for each

complete year of service in excess of 20 years and before age 65, up to a maximum of \$100 per additional month. 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.

Contributions

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. There are no active employees of the Non-uniformed plan A at December 31, 2016. Non-uniformed employees are required to contribute 5% of annual compensation for plan B, currently reduced to 4%. 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. As outlined in Ordinance No. 21 of 1998, as amended, the authority to make amendments to the contribution rate of the Combined Police Pension Plan participants rests with the participants' collective bargaining unit and the City's administration. It then must be approved by the Board of the Combined Police Pension Plan and ratified and enacted by City Council. 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. During the year ended December 31, 2015, the City made a contribution of \$358,000 to the Combined Firefighters' Pension Plan. The MMO for the year ended December 31, 2015 was \$358,000. During the year ended December 31, 2016, the City made a contribution of \$280,858 to the Combined Firefighters' Pension Plan. The 2016 contribution is reported as a deferred outflow of resources at December 31, 2016. The City contributed \$2,906,315 to the Combined Police Pension Plan for the year ended December 31, 2016.

Contributions are recognized when due as required by Act 205.

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Plan Membership

Membership related to the Non-uniform Employees' and Combined Firefighters' Plans at December 31, 2014 and membership related to the Combined Police Plan at December 31, 2016 consisted of the following:

	Non-Uniformed Employees'	Combined Firefighters'	Combined Police
Active members	138	75	131
Inactive members or beneficiaries currently receiving benefits	217	130	212
Inactive members entitled to but not yet receiving benefits	32	1	1
	<u>387</u>	<u>206</u>	<u>344</u>

Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of the City for the year ended December 31, 2016 were as follows:

Non-uniformed Employees' Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 60,344,065	\$ 74,232,967	\$ (13,888,902)
Changes for the year:			
Service cost	737,701	-	737,701
Interest	3,244,391	-	3,244,391
Changes of assumptions	335,514	-	335,514
Contributions - member	-	388,780	(388,780)
Investment income	-	(414,677)	414,677
Benefit payments, including refunds	(4,242,451)	(4,242,451)	-
Administrative expenses	-	(176,532)	176,532
Net changes	<u>75,155</u>	<u>(4,444,880)</u>	<u>4,520,035</u>
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	<u>\$ 60,419,220</u>	<u>\$ 69,788,087</u>	<u>\$ (9,368,867)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>115.5%</u>

The net pension asset of the Non-uniformed Employees' Pension Plan is allocated between the governmental activities and the business-type activities in the amounts of \$8,241,792 and \$1,127,075, respectively, at December 31, 2016.

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Combined Firefighters' Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 66,237,962	\$ 73,117,624	\$ (6,879,662)
Changes for the year:			
Service cost	1,253,437	-	1,253,437
Interest	3,611,615	-	3,611,615
Changes of assumptions	(60,658)	-	(60,658)
Contributions - employer	-	358,000	(358,000)
Contributions - member	-	250,526	(250,526)
Investment income	-	(595,792)	595,792
Benefit payments, including refunds	(3,700,881)	(3,700,881)	-
Administrative expenses	-	(169,934)	169,934
Net changes	<u>1,103,513</u>	<u>(3,858,081)</u>	<u>4,961,594</u>
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	<u>\$ 67,341,475</u>	<u>\$ 69,259,543</u>	<u>\$ (1,918,068)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>102.8%</u>

Combined Police Pension Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 90,276,750	\$ 73,580,318	\$ 16,696,432
Changes for the year:			
Service cost	1,564,700	-	1,564,700
Interest	7,106,970	-	7,106,970
Contributions - employer	-	2,906,315	(2,906,315)
Contributions - member	-	479,598	(479,598)
Investment income	-	4,175,445	(4,175,445)
Benefit payments, including refunds	(6,008,655)	(6,008,655)	-
Administrative expenses	-	(53,331)	53,331
Net changes	<u>2,663,015</u>	<u>1,499,372</u>	<u>1,163,643</u>
Balances at December 31, 2016	<u>\$ 92,939,765</u>	<u>\$ 75,079,690</u>	<u>\$ 17,860,075</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>80.8%</u>

Actuarial Assumptions

The total pension liability for the Non-uniformed Employees' Pension Plan and the Combined Firefighters' Pension Plan was determined by an actuarial valuation performed on January 1, 2015, with liabilities measured at December 31, 2015, using the following actuarial assumptions, applied to all periods in the measurement:

	<u>Non-uniformed Employees' and Combined Firefighters'</u>
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	2.8% - 7.05% *
* includes inflation rate of 3%	
Cost-of-living adjustment	2.8%

Actuarial assumptions based on PMRS Experience Study for the period
January 1, 2009 to December 31, 2013

Pre-retirement mortality	Males: RP 2000 Male Non-Annuitant table projected 15 years with Scale AA Females: RP 2000 Female Non-Annuitant table projected 15 years with Scale AA and then set back 5 years
Post-retirement mortality	Males: RP 2000 Male Annuitant table projected 5 years with Scale AA Females: RP 2000 Female Annuitant table projected 10 years with Scale AA

For the Combined Police Pension Plan, the total pension liability was measured as of December 31, 2016 and was determined by rolling forward liabilities from the January 1, 2015 actuarial valuation. Based upon an actuarial valuation performed as of January 1, 2015, the mortality table was updated from the UP 1984 Annuity Mortality table to the RP-2000 Table for Males and Female.

The actuarial assumptions for the January 1, 2015 actuarial valuation for the Combined Police Pension Plan include: a) mortality rates based on the RP-2000 Table for Males and Females; b) 8.00% investment rate of return, c) projected salary increase of 5.00%, d) 3.00% inflation rate, e) level dollar closed amortization method, and f) 11-year remaining amortization period.

Changes in Actuarial Assumptions – The actuarial assumptions for the Non-uniformed Employees' Pension Plan and the Combined Firefighters' Pension Plan noted above were used for the prior measurement date of December 31, 2014 except for: (1) projected salary increases were 3.0% through 8.3%, (2) the PMRS Experience Study was for the period January 1, 2005 to December 31, 2008, (3) the pre-retirement mortality table for males was RP 2000 with one year setback and for females was RP 2000 with five year set back, and (4) the post-retirement mortality table for males and females was RP 2000 Sex-Distinct Mortality Table. These assumption changes increased the total pension liability by \$335,514 for the Non-uniformed Employees' Pension Plan and decreased the total pension liability by \$60,658 for the Combined Firefighters' Pension Plan.

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

Long-Term Expected Rate of Return – The PMRS System’s (System) long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole, and at different levels of probability or confidence. There are four steps to this method used by the System and an in-depth description of the process, including the anticipated rate of return by asset class, can be found at www.pMrs.state.pa.us. Based on the four-part analysis, the PMRS Board established the System’s long-term expected rate of return at 7.5%. The rationale for the difference between the System’s long-term expected rate of return and the discount rate can be found at www.pMrs.state.pa.us.

The long-term expected rate of return on the Combined Police Pension Plan’s investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for the Combined Police Pension Plan as of December 31, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	47.0%	5.5% - 7.5%
International equity	18.0%	4.5% - 6.5%
Fixed income	33.0%	1.0% - 3.0%
Cash	2.0%	0.0% - 1.0%
	<u>100.0%</u>	

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2016, the annual money-weighted rate of return on Combined Police Pension Plan investments, net of investment expense, was 6.08%.

Discount Rate – The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities’ total pension liability as of December 31, 2015 was 5.5%. The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System’s long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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The discount rate used to measure the total pension liability as of December 31, 2016 was 8.00% for the Combined Police Pension Plan. The Combined Police Pension Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset) Changes in the Discount Rate – The following presents the net pension liability (asset) of the Plans, calculated using the discount rate described above, as well as what the Plan's net pension liability (asset) would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Non-uniformed Employees'	\$ (2,396,604)	\$ (9,368,867)	\$ (15,275,097)
Combined Firefighters'	\$ 6,480,470	\$ (1,918,068)	\$ (8,895,677)

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Combined Police	\$ 27,797,541	\$ 17,860,075	\$ 9,426,096

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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the City recognized pension expense of \$8,529,445 in the governmental activities and \$300,542 in the business-type activities. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Deferred Outflows of Resources:</u>		
Differences between expected and actual experience	\$ 3,195,133	\$ 420,406
City contributions subsequent to measurement date	280,858	-
Changes of assumptions	2,925,900	30,272
Net difference between projected and actual earnings on pension plan investments	<u>11,224,529</u>	<u>439,635</u>
Total deferred outflows of resources	<u>\$ 17,626,420</u>	<u>\$ 890,313</u>
<u>Deferred Inflows of Resources:</u>		
Differences between expected and actual experience	\$ 452,191	\$ -
Changes of assumptions	<u>45,493</u>	<u>-</u>
Total deferred inflows of resources	<u>\$ 497,684</u>	<u>\$ -</u>

The differences in the City's expected and actual experience and changes of assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between the projected and actual earnings on the pension plan investments is recognized over five years. City contributions subsequent to the measurement date will be recorded as a reduction to the pension liability during the year ending December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2017	\$ 5,476,584	\$ 331,233
2018	5,476,583	331,233
2019	3,879,015	121,029
2020	<u>2,015,696</u>	<u>106,818</u>
	<u>\$ 16,847,878</u>	<u>\$ 890,313</u>

17. OTHER POST-EMPLOYMENT BENEFITS

Plan Descriptions

In addition to the pension benefits described in Note 16, the City provides certain post-employment healthcare benefits to its retirees through one single-employer, defined 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 Combined 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 Combined Police Pension Plan benefits

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

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

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

Firefighters

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

Retired prior to December 31, 1986:

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

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

Eligibility: Any firefighter that is eligible for the Combined Firefighters' Pension Plan benefits

Benefits: The health care coverage currently includes medical, prescription drugs, dental and vision. The City would pay the cost of coverage for the retiree. The retiree must pay for any additional coverage for his or her spouse and dependents. Upon reaching age 65, the City will provide supplemental coverage, major medical, and prescription unless prescription is provided by another agency. This benefit is for the retired firefighter only. If the retiree dies, the spouse may continue coverage, in which case the spouse would pay for the full cost of coverage.

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

Eligibility: Any firefighter that is eligible for the Combined Firefighters' 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 through Medicare eligibility. Once Medicare eligible, the City will reimburse the retiree for the Medicare Part B premium. If the retiree dies, the City continues full coverage for the spouse and eligible dependents. If the firefighter dies in the line of duty, the City continues full coverage for the spouse and eligible dependents.

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

Eligibility: Any firefighter that is eligible for the Combined Firefighters' 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 with certain exceptions. Upon reaching Medicare age, the City will reimburse a maximum monthly amount ranging from \$250 to \$350 for a Medicare Supplement Plan. If the retiree dies, the City continues full coverage for the spouse and eligible dependents. If the firefighter dies in the line of duty, the City continues full coverage for the spouse and eligible dependents. Currently, four retirees have been "grandfathered" and the City continues to pay for coverage.

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

Non-uniformed management employees:

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

Retire prior to August 4, 2002:

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

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 Employees' 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 Employees' 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 Employees' 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 Employees' 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 Employees' Pension Plan benefits.

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

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

Funding Policy and Annual OPEB Costs

The City's contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2016, the City contributed \$6,110,202 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 estimates are made about the future.

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	1/1/2016
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5.0%
Amortization period	30 year open period
Healthcare cost trend rate	6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020, rates gradually decrease from 5.4% in 2021 to 3.8% in 2075

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, 2016 were as follows:

	Governmental Activities	Business-type Activities	Total
Annual required contribution	\$ 11,112,527	\$ 641,093	\$ 11,753,620
Interest on net OPEB obligation	3,244,925	210,901	3,455,826
Adjustment to ARC	(4,426,908)	(287,722)	(4,714,630)
Annual OPEB cost	9,930,544	564,272	10,494,816
Contribution made	(5,785,055)	(325,147)	(6,110,202)
Change in Net OPEB Obligation	4,145,489	239,125	4,384,614
Net OPEB Obligation, beginning	75,253,064	1,504,652	76,757,716
Transfers	(2,862,648)	2,862,648	-
Net OPEB Obligation, ending	<u>\$ 76,535,905</u>	<u>\$ 4,606,425</u>	<u>\$ 81,142,330</u>

During the year ended December 31, 2013, sewer operations were transferred to CRW and the sewer fund was eliminated. While the City still retains the OPEB liability for sewer retirees, through the shared services agreement, CRW has agreed to reimburse the City for these costs.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

Therefore, the OPEB liability for sewer retirees has been transferred to governmental activities, with a related amount due from CRW.

On January 1, 2016, the Bureau of City Services was transferred from governmental activities to business-type activities.

Three-Year Trend Information

<u>Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 10,494,816	58.22%	\$ 81,142,330
2015	9,020,316	62.67%	76,757,716
2014	9,076,141	59.22%	73,390,846

Funded Status and Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
1/1/2016	\$ -	\$ 155,120,287	\$ 155,120,287	0.00%	\$ 18,398,262	843.12%

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.

18. ACCUMULATED DEFICITS

Redevelopment Authority of the City of Harrisburg

The Redevelopment Authority's net position (deficit) at December 31, 2016 is related to the Federally Taxable Guaranteed Revenue Bonds, Series A of 1998 bond issuance and the deferred lease revenue. The deferred lease revenue will be reduced annually by the amount of rental income revenue recognized over the term of the lease. The City guarantees the payment of the bond issuance.

19. FINANCIAL RECOVERY PLAN

For several years, the City had been exploring various options to close its structural budget gap and address its Resource Recovery Facility debt issue. In 2008, the City applied for and was awarded a \$100,000 Pennsylvania Department of Community and Economic Development Act 47 Early Intervention Program Grant to develop a Management and Financial Audit and Five-Year Financial Plan. During 2009, the City hired a national management consulting firm to conduct a thorough review of the City's finances and operations and to develop the Plan. An Emergency Financial Plan and Five-Year Plan (Plan) was issued in March 2010 and

implementation immediately began. Due to City Council's failure to adopt the Plan, the Administration filed a Petition for Determination of Municipal Financial Distress on October 1, 2010 under Pennsylvania's Municipalities Financial Recovery Act of 1987 (Act 47). The City was accepted into the Act 47 program on December 15, 2010. The Act 47 program allowed the City to obtain assistance from the Commonwealth of Pennsylvania in developing a new financial recovery plan. A Municipal Financial Recovery Act Recovery Plan (Recovery Plan) was submitted by the Act 47 coordinator to the City on June 13, 2011. City Council rejected the Recovery Plan in July 2011. Immediately thereafter, and pursuant to Act 47, the Mayor became the Act 47 coordinator. As such, she developed her own Plan and submitted it to City Council on August 2, 2011. City Council rejected this second Plan on August 31, 2011. The Mayor submitted an amended version of her Plan to City Council, but Council rejected this amended Plan on September 13, 2011.

Pennsylvania's governor signed legislation on October 20, 2011 authorizing the State to declare a fiscal emergency in Harrisburg. On November 18, 2011, a Receiver was appointed under this legislation to implement a preliminary Recovery Plan and take control of the City's finances. The Receiver unveiled his Recovery Plan for the City on February 6, 2012. The full Recovery Plan and subsequent status reports related thereto can be viewed at <http://dced.pa.gov/download/harrisburg-strong-plan-pdf/?wpdmdl=57498>. The Recovery Plan was approved by the Commonwealth Court on March 9, 2012.

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

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

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

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

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

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

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

20. 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

At December 31, 2016, the City has a contractual commitment for projects of approximately \$1,582,963.

Transfer and Transition Agreement and Shared Services Agreement

In November 2013, the City and CRW entered into a transfer agreement related to the Sewer Collection System (transfer agreement) and a transition agreement related to the Water, Wastewater, and Stormwater Systems (transition agreement). In conjunction with the transfer and transition agreements, the City and CRW entered into a shared services agreement whereby

the City agreed to perform certain services with respect to and for the benefit of the water system and combined sewer system and CRW agreed to perform certain services with respect to and for the benefit of the City's Neighborhood Services Fund, Green Infrastructure Projects, and other initiatives. The services performed by the City under the shared services agreement relate to payment processing services, information technology services, operations and revenue services, and public works services. The services performed by CRW under the shared services agreement include revenue billing and collection functions for the City's Neighborhood Services Fund including the implementation of a lockbox system. As of April 2015, CRW opened their own office for billing and collections and no longer used any of the City's information technology services or operations and revenue services. Each of these services, including the term of the services, is detailed in a shared services schedule incorporated into the shared services agreement.

The City and CRW, in advance of performing the services, are to prepare a budget for the total cost of the services and the total cost is to be agreed upon by both parties. Within 60 days after the end of the term of each shared service, the City and CRW are to reconcile the actual costs of providing the services to the budgeted costs. Payments due to either the City or CRW are payable within 30 days of the finalization of the reconciliation. During the year ended December 31, 2016, the City and CRW were billed based on budgeted expenditures and certain receivables and payables have been recorded based on these budgeted amounts. A reconciliation based on actual cost incurred is still being negotiated and any changes will be made prospectively.

Component Units

Harrisburg Downtown Improvement District, Inc.

A contract effective January 1, 2011 and ending December 31, 2013, was entered into with ABM Janitorial Services to provide all services and labor necessary to commence and complete a cleaning program with the District. The vendor will be compensated on a cost-plus basis not to exceed \$302,512 annually. Hourly wage rates, supplies, equipment expenses, and other costs are detailed in the proposal. A 12-month extension was agreed upon in December 2015 to continue through December 2016 with subsequent 12-month extensions.

Guarantees

The City is contingently liable under various agreements which guarantee debt of entities not included in the primary government's financial statements aggregating \$22,054,566 at December 31, 2016, all of which is for guarantees of component unit debt, and maturing at various dates through 2033. Information regarding the component unit debt guarantees is discussed in Note 10.

21. 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.

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 through 2016.

22. 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, 2016. The City has accrued for such cases that it believes are estimable and probable.

Primary Government

Several 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. Legal Counsel for the contracting companies did issue a letter query in 2017 on reviving the matter for discussion of resolution. The City believes it has no likely exposure on these stale claims.

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. Legal Counsel for the contractor issued a letter notice in 2017 seeking to revive the claim. Should the stale matter be allowed to proceed, it will be likely decided on a contract interpretation or procedural issue. No additional judicial filings have been made in the matter.

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

An extraordinary series of holes in the street and on the private property of homeowners suddenly appeared starting in February 2014. Issues of liability for a utility collapse/water main break versus other causes of these events have been the subject of engineering reviews and analysis. Projected restoration costs of the street and abatement of the underlying fissures stand in excess of \$4,000,000 for long term remediation, while the overall cost of an alternative approach of public acquisition and demolition of approximately 50 impacted properties has been estimated to bear an overall cost in excess of \$8,000,000. The City has secured Federal and State disaster relief funding, as well as other State Grants to underwrite the acquisition of the properties and the requisite relocation costs of property owners and tenants. Identification of additional funding sources to complete the required remediation and demolition of the area remains underway, which is anticipated to represent more than \$2,000,000 of the overall sinkhole project costs. Acquisition is expected to occur in 2017. While the issues related to the sinkhole issue originally were believed to create the risk of litigation, any such risk now appears de minimus.

The City is a party to complex litigation related to the collapse of a privately-owned wall onto a neighboring property. While the City does not view the likelihood of fiscal exposure, the nature of the matter presents numerous uncertainties that could create future fiscal risk to the City in litigation-related expenses. The City has accrued \$100,000 on the matter as a likely cost arising from the litigation.

The City is a party to an Ordinance challenge in a federal district court proceeding on First Amendment grounds for protests in front of women's health clinics. The likely costs and risks associate with such proceedings are not insubstantial, but are not yet estimable. Nonetheless, the City anticipates the case will require the use of litigation-related resources over several years.

23. SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE
BUDGETARY (NON-GAAP) BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2016
REQUIRED SUPPLEMENTARY INFORMATION

	Budget		Variance of Original with Final Budget Positive (Negative)	Actual Amounts	Variance of Actual with Final Budget Positive (Negative)
	Original Amounts	Final Amounts			
Revenues					
Taxes	\$ 40,450,784	\$ 40,125,785	\$ (324,999)	\$ 40,533,424	\$ 407,639
Licenses and permits	581,744	581,744	-	601,167	19,423
Intergovernmental revenue	3,907,990	3,907,990	-	4,673,383	765,393
Departmental earnings	5,526,316	5,621,689	95,373	9,962,398	4,340,709
Fines and forfeits	744,009	744,009	-	816,613	72,604
Investment income	1,015,034	1,015,034	-	1,830,137	815,103
Miscellaneous	2,494,791	2,514,791	20,000	2,812,181	297,390
Total revenues	54,720,668	54,511,042	(209,626)	61,229,303	6,718,261
Expenditures					
General government					
Elected and appointed offices					
City Council	414,394	420,854	(6,460)	333,441	87,413
Mayor	239,805	243,397	(3,592)	228,235	15,162
City Controller	162,251	167,359	(5,108)	150,928	16,431
City Treasurer	425,273	425,273	-	304,655	120,618
City Solicitor	754,263	815,322	(61,059)	515,748	299,574
Total elected and appointed offices	1,995,986	2,072,205	(76,219)	1,533,007	539,198
Office of administration					
Administration	2,824,358	3,182,725	(358,367)	2,508,123	674,602
General expenditures	15,071,738	15,121,665	(49,927)	12,063,475	3,058,190
Total general government	19,892,082	20,376,595	(484,513)	16,104,605	4,271,990
Community and economic development	1,165,814	1,250,134	(84,320)	848,659	401,475
Public safety	25,720,663	25,926,619	(205,956)	23,243,714	2,682,905
Public works	5,228,834	5,500,745	(271,911)	3,981,151	1,519,594
Total expenditures	52,007,393	53,054,093	(1,046,700)	44,178,129	8,875,964
Excess of revenues over (under) expenditures before other financing sources (uses)	2,713,275	1,456,949	(1,256,326)	17,051,174	15,594,225
Other financing sources (uses)					
Transfers in	5,604,000	5,572,491	(31,509)	5,018,798	(553,693)
Transfers out	(8,759,227)	(9,297,684)	(538,457)	(9,220,413)	77,271
Total other financing sources (uses)	(3,155,227)	(3,725,193)	(569,966)	(4,201,615)	(476,422)
Net change in fund balance	(441,952)	(2,268,244)	(1,826,292)	12,849,559	15,117,803
Fund balance - beginning of year, budgetary basis	543,000	2,282,582	1,739,582	18,389,637	16,107,055
Fund balance - end of year, budgetary basis	\$ 101,048	\$ 14,338	\$ (86,710)	\$ 31,239,196	\$ 31,224,858

CITY OF HARRISBURG, PENNSYLVANIA

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

YEAR ENDED DECEMBER 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETARY DATA

Annual budgets are legally adopted for the General Fund, Debt Service Fund, Neighborhood Services Fund, and the following nonmajor governmental funds: State Liquid Fuels Tax Fund, Host Municipality Fees Fund, Blight Remediation Fund, Special Events Fund, Fire Protection Fund, Police Protection Fund, Parks and Recreation Fund, and WHBG-TV Fund. Budgets for governmental funds are prepared on a cash basis. Specific funds exempted from legally adopted budgetary requirements include:

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

Several 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. Control over spending in the Parks and Property Improvement Fund is achieved through 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 2016 budget for governmental funds. The budget for the General Fund was prepared on a cash basis. For the purpose of preparing the Budgetary Comparison Schedule – Budgetary (Non-GAAP) Basis – General Fund, the actual results of operations have been presented on a budgetary basis consistent with the City’s budgeted revenues and expenditures.

CITY OF HARRISBURG, PENNSYLVANIA**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON
SCHEDULE**

YEAR ENDED DECEMBER 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

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

	Fund Balance, Beginning of Year	Revenues	Expenditures	Financing Sources (Uses) and Special Items	Fund Balance, End of Year
Budgetary basis	\$ 18,389,637	\$ 61,229,303	\$ (44,178,129)	\$ (4,201,615)	\$ 31,239,196
Taxes receivable	12,529,676	1,694,175	-	-	14,223,851
Other assets	20,094,845	(568,816)	(868,931)	(4,917,051)	13,740,047
Accounts payable	(2,438,071)	-	341,007	-	(2,097,064)
Accrued liabilities	(698,337)	-	32,592	-	(665,745)
Advances and amounts due to other funds	(1,280,479)	482,666	(2,944)	3,207	(797,550)
Unearned and unavailable revenue	(19,483,822)	452,740	-	-	(19,031,082)
Reclassifications	-	(802,947)	44,687	758,260	-
GAAP basis	<u>\$ 27,113,449</u>	<u>\$ 62,487,121</u>	<u>\$ (44,631,718)</u>	<u>\$ (8,357,199)</u>	<u>\$ 36,611,653</u>

2. BUDGET TO ACTUAL COMPARISONS

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

3. COMPLIANCE

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

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND
RELATED RATIOS - NON-UNIFORMED EMPLOYEES' PENSION PLAN
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015
Total Pension Liability		
Service cost	\$ 737,701	\$ 1,126,817
Interest	3,244,391	2,971,992
Change of assumptions	335,514	-
Benefit payments, including refunds	(4,242,451)	(4,075,097)
Differences between expected and actual experience	-	6,989,303
Transfers	-	(3,135,289)
Net Changes in Total Pension Liability	75,155	3,877,726
Total Pension Liability - Beginning	60,344,065	56,466,339
Total Pension Liability - Ending (a)	\$ 60,419,220	\$ 60,344,065
Plan Fiduciary Net Position:		
Contributions - employer	\$ -	\$ 14,004
Contributions - plan member	388,780	199,463
Investment income	(414,677)	3,833,485
Benefit payments, including refunds	(4,242,451)	(4,075,097)
Administrative expense	(176,532)	(155,705)
Transfers	-	(3,135,317)
Net Change in Plan Fiduciary Net Position	(4,444,880)	(3,319,167)
Plan Fiduciary Net Position - Beginning	74,232,967	77,552,134
Plan Fiduciary Net Position - Ending (b)	\$ 69,788,087	\$ 74,232,967
Net Pension Asset - Ending (a-b)	\$ (9,368,867)	\$ (13,888,902)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	115.51%	123.02%
Covered Employee Payroll	\$ 7,259,478	\$ 6,497,415
Net Pension Asset as a Percentage of Covered Employee Payroll	-129.06%	-213.76%

* The amounts presented for each fiscal year were determined as of the measurement date, which is December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

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

	2016	2015
Total Pension Liability		
Service cost	\$ 1,253,437	\$ 1,325,049
Interest	3,611,615	3,536,047
Changes of assumptions	(60,658)	-
Benefit payments, including refunds	(3,700,881)	(3,614,868)
Differences between expected and actual experience	-	241,776
Net Changes in Total Pension Liability	1,103,513	1,488,004
Total Pension Liability - Beginning	66,237,962	64,749,958
Total Pension Liability - Ending (a)	<u>\$ 67,341,475</u>	<u>\$ 66,237,962</u>
Plan Fiduciary Net Position:		
Contributions - employer	\$ 358,000	\$ 22,130
Contributions - plan member	250,526	226,360
Investment income	(595,792)	4,191,372
Benefit payments, including refunds	(3,700,881)	(3,614,868)
Administrative expense	(169,934)	(154,993)
Net Change in Plan Fiduciary Net Position	(3,858,081)	670,001
Plan Fiduciary Net Position - Beginning	73,117,624	72,447,623
Plan Fiduciary Net Position - Ending (b)	<u>\$ 69,259,543</u>	<u>\$ 73,117,624</u>
Net Pension Asset - Ending (a-b)	<u>\$ (1,918,068)</u>	<u>\$ (6,879,662)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>102.85%</u>	<u>110.39%</u>
Covered Employee Payroll	<u>\$ 6,259,064</u>	<u>\$ 6,703,314</u>
Net Pension Asset as a Percentage of Covered Employee Payroll	-30.64%	-102.63%

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See accompanying note to required supplementary information - pension information.

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

	2016	2015	2014
Total Pension Liability:			
Service cost	\$ 1,564,700	\$ 1,490,190	\$ 1,542,107
Interest	7,106,970	6,895,688	6,403,162
Changes of assumptions	-	4,507,561	-
Benefit payments, including refunds	(6,008,655)	(5,630,072)	(5,351,314)
Differences between expected and actual	-	(753,653)	-
Net Changes in Total Pension Liability	2,663,015	6,509,714	2,593,955
Total Pension Liability - Beginning	90,276,750	83,767,036	81,173,081
Total Pension Liability - Ending (a)	\$ 92,939,765	\$ 90,276,750	\$ 83,767,036
Plan Fiduciary Net Position:			
Contributions - employer	\$ 2,906,315	\$ 2,972,450	\$ 2,424,298
Contributions - plan member	479,598	462,539	478,549
Investment income	4,175,445	586,944	4,082,703
Benefit payments, including refunds	(6,008,655)	(5,630,072)	(5,351,314)
Administrative expense	(53,331)	(48,790)	(58,924)
Net Change in Plan Fiduciary Net Position	1,499,372	(1,656,929)	1,575,312
Plan Fiduciary Net Position - Beginning	73,580,318	75,237,247	73,661,935
Plan Fiduciary Net Position - Ending (b)	\$ 75,079,690	\$ 73,580,318	\$ 75,237,247
Net Pension Liability - Ending (a-b)	\$ 17,860,075	\$ 16,696,432	\$ 8,529,789
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.78%	81.51%	89.82%
Covered Employee Payroll	\$ 9,154,952	\$ 9,923,769	\$ 9,363,263
Net Pension Liability as a Percentage of Covered Employee Payroll	195.09%	168.25%	91.10%

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See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULES OF CITY CONTRIBUTIONS
NON-UNIFORMED EMPLOYEES' AND COMBINED FIREFIGHTERS' PENSION PLANS
YEAR ENDED DECEMBER 31, *
REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
NON-UNIFORMED EMPLOYEES' PENSION PLAN:										
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	-	14,004	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ (14,004)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 7,259,478	\$ 6,497,415								
Contributions as a percentage of covered employee payroll	0.00%	0.22%								
COMBINED FIREFIGHTERS' PENSION PLAN:										
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 358,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 834	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	358,000	22,130	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ (22,130)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 834	\$ -	\$ -
Covered employee payroll	\$ 6,259,064	\$ 6,703,314								
Contributions as a percentage of covered employee payroll	5.72%	0.33%								

* The amounts presented for each fiscal year were determined as of the measurement date, which is the December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
COMBINED POLICE PENSION PLAN:										
Schedule of City Contributions										
Actuarially determined contribution under Act 205	\$ 2,906,315	\$ 2,972,450	\$ 2,034,070	\$ 2,146,827	\$ 1,517,751	\$ 1,551,579	\$ 314,094	\$ 275,869	\$ 285,274	\$ 523,803
Contributions in relation to the actuarially determined contributions	2,906,315	2,972,450	2,424,298	2,594,752	2,524,734	4,510,723	314,094	275,869	285,274	523,803
Contribution deficiency (excess)	\$ -	\$ -	\$ (390,228)	\$ (447,925)	\$ (1,006,983)	\$ (2,959,144)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 9,154,952	\$ 9,923,769	\$ 9,363,263	\$ 10,240,017	\$ 10,358,429	\$ 10,250,723	\$ 9,650,596	\$ 9,524,752	\$ 9,137,927	\$ 9,453,063
Contributions as a percentage of covered employee payroll	31.75%	29.95%	25.89%	25.34%	24.37%	44.00%	3.25%	2.90%	3.12%	5.54%
Investment Returns										
Annual money-weighted rate of return, net of investment expense	6.08%	1.01%	6.05%	15.30%						

* This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years only for which information is available.

See accompanying note to required supplementary information - pension information.

CITY OF HARRISBURG, PENNSYLVANIA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION INFORMATION
YEAR ENDED DECEMBER 31, 2016
REQUIRED SUPPLEMENTARY INFORMATION

1. ACTUARIAL METHODS AND ASSUMPTIONS

Methods and assumptions used to determine the contribution rates required under Act 205 for the year ended December 31, 2015 (presented as the subsequent year on the preceding schedules) are as follows:

	<u>Non-uniformed Employees' and Combined Firefighters'</u>
Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	3.0%
Post-retirement cost-of-living adjustment increase	3%, subject to plan limitations
Pre-retirement mortality:	
Males: RP 2000 with 1 year set back	
Females: RP 2000 with 5 year set back	
Post-retirement mortality:	
Males and females: Sex distinct RP 2000 Combined Healthy Mortality	

Change in Actuarial Assumptions

The actuarial assumptions for the Non-uniformed Employees' Pension Plan and the Combined Firefighters' Pension Plan noted above were used for the prior measurement date of December 31, 2014 except for: (1) projected salary increases were 3.0% through 8.3%, (2) the PMRS Experience Study was for the period January 1, 2005 to December 31, 2008, (3) the pre-retirement mortality table for males was RP 200 with one year setback and for females was RP 2000 with five year set back, and (4) the post-retirement mortality table for males and females was RP 2000 Sex-Distinct Mortality Table.

CITY OF HARRISBURG, PENNSYLVANIA**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION INFORMATION****YEAR ENDED DECEMBER 31, 2016****REQUIRED SUPPLEMENTARY INFORMATION**

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Methods and assumptions used to determine contribution rates required under Act 205 for the year ended December 31, 2016 are as follows:

	<u>Combined Police</u>
Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value
Amortization period	11 years
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Underlying inflation rate	3.0%
Post-retirement mortality	UP 1984 Table

Change in Actuarial Assumptions

In January 1, 2015, the mortality table was updated from the UP 1984 Table to the RP-2000 Table for Males and Females

CITY OF HARRISBURG, PENNSYLVANIA
OTHER POST-EMPLOYMENT BENEFIT PLAN
YEAR ENDED DECEMBER 31, 2016
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress 01/01/12-01/01/16

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)
01/01/12	* \$ -	\$ 148,055,171	\$ 148,055,171	0.00 %	\$ 23,361,420	633.76 %
01/01/14	-	133,006,585	133,006,585	0.00	18,893,017	704.00
01/01/16	-	155,120,287	155,120,287	0.00	18,398,262	843.12

* - 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 2012-2016

Year Ended December 31	(f) Annual Required Contribution (ARC)	Actuarial Valuation Date Basis for ARC	(g) Employer Contribution	Percentage Contribution (g/f)
2012	\$ 15,654,748	01/01/12	\$ 4,476,131	28.59%
2013	16,194,677	01/01/12	4,783,417	29.54%
2014	10,216,593	01/01/14	5,375,266	52.61%
2015	10,223,974	01/01/14	5,653,446	55.30%
2016	11,753,620	01/01/16	6,110,202	51.99%

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

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF FUNDS
NONMAJOR GOVERNMENTAL FUNDS

State Liquid Fuels Tax Fund

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

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.

Blight Remediation Fund

The Blight Remediation Fund is used to account for the collection of fee revenue and related expenditures of the City as they pertain to enforcement of ordinances regulating blight and local health, housing and safety codes and regulations, including expense related to remediation of blighted conditions, as authorized.

Special Events Fund

The Special Events Fund is used to account for fees, service provision chargebacks, and contribution revenue, along with related expenditures, for use in the maintenance and betterment of the City's public works department.

Fire Protection Fund

The Fire Protection Fund is used to account for fees and contribution and grant revenue, along with related expenditures, for use in the maintenance and betterment of the City's fire department and activities.

Police Protection Fund

The Police Protection Fund is used to account for fees and contribution and grant revenue, along with related expenditures, for use in the maintenance and betterment of the City's police department and activities.

Parks and Recreation Fund

The Parks and Recreation Fund is used to account for fees and contributions and grant revenue, along with related expenditures for the use in the maintenance and betterment of the City's parks and recreation bureau, activities and programming.

WHBG-TV Fund

The WHBG-TV Fund is used to account for fees, contribution, advertising, and grant revenue, along with related expenditures, for use in the maintenance and betterment of the City's government access cable television channel and station.

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, 2016

	Special Revenue									Total Nonmajor Governmental Funds	
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund	Blight Remediation	Special Events	Fire Protection	Police Protection	Parks and Recreation	WHBG-TV		Capital Projects
ASSETS											
Cash and cash equivalents	\$ -	\$ 487,985	\$ -	\$ 206,171	\$ 31,625	\$ 156,423	\$ 516,648	\$ 304,335	\$ 20,136	\$ -	\$ 1,723,323
Investments, at fair value	1,271,544	-	169,876	-	-	-	-	-	-	1,484,057	2,925,477
Receivables, net of allowance for uncollectible accounts											
Taxes	-	-	-	-	-	-	-	-	-	61,481	61,481
Other	-	81,368	-	-	-	-	-	-	-	9,511	90,879
Due from other funds	772	1,471	-	-	-	-	627	746	-	305,998	309,614
Restricted assets											
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	1,583,003	1,583,003
Total assets	\$ 1,272,316	\$ 570,824	\$ 169,876	\$ 206,171	\$ 31,625	\$ 156,423	\$ 517,275	\$ 305,081	\$ 20,136	\$ 3,444,050	\$ 6,693,777
LIABILITIES AND FUND BALANCE											
Liabilities											
Accounts payable	\$ 6,390	\$ 112,000	\$ -	\$ 82	\$ -	\$ -	\$ 100,470	\$ 8,674	\$ -	\$ 188,894	\$ 416,510
Accrued liabilities	-	1,840	-	-	-	-	-	1,173	-	-	3,013
Due to other funds	-	215	70,080	-	-	-	-	-	-	514,283	584,578
Unearned revenue	-	-	-	-	-	-	116,538	-	-	-	116,538
Total liabilities	<u>6,390</u>	<u>114,055</u>	<u>70,080</u>	<u>82</u>	<u>-</u>	<u>-</u>	<u>217,008</u>	<u>9,847</u>	<u>-</u>	<u>703,177</u>	<u>1,120,639</u>
Fund balance											
Restricted for											
General government	-	-	-	-	-	-	-	-	20,136	-	20,136
Environment	-	456,769	-	-	-	-	-	-	-	-	456,769
Public works	1,265,926	-	-	-	31,625	-	-	-	-	-	1,297,551
Public safety	-	-	-	206,089	-	156,423	300,267	-	-	-	662,779
Community and economic development	-	-	99,796	-	-	-	-	295,234	-	-	395,030
Tourism	-	-	-	-	-	-	-	-	-	1,153,291	1,153,291
Capital projects	-	-	-	-	-	-	-	-	-	1,587,582	1,587,582
Total fund balance	<u>1,265,926</u>	<u>456,769</u>	<u>99,796</u>	<u>206,089</u>	<u>31,625</u>	<u>156,423</u>	<u>300,267</u>	<u>295,234</u>	<u>20,136</u>	<u>2,740,873</u>	<u>5,573,138</u>
Total liabilities and fund balance	\$ 1,272,316	\$ 570,824	\$ 169,876	\$ 206,171	\$ 31,625	\$ 156,423	\$ 517,275	\$ 305,081	\$ 20,136	\$ 3,444,050	\$ 6,693,777

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	Special Revenue									Total Nonmajor Governmental Funds	
	State Liquid Fuels Tax Fund	Host Municipality Fees Fund	Parks and Property Improvement Fund	Blight Remediation	Special Events	Fire Protection	Police Protection	Parks and Recreation	WHBG-TV		Capital Projects
Revenues											
Intergovernmental revenue	\$ 1,267,434	\$ 315,986	\$ -	\$ -	\$ -	\$ -	\$ 38,634	\$ -	\$ -	\$ -	\$ 1,622,054
Department earnings and program revenue	-	-	-	58,453	3,872	83,933	627	170,294	9,500	1,126,384	1,453,063
Investment income	4,146	-	-	-	-	-	-	-	-	3,662	7,808
Miscellaneous	-	-	-	-	-	100	115,183	150,750	-	-	266,033
Total revenues	1,271,580	315,986	-	58,453	3,872	84,033	154,444	321,044	9,500	1,130,046	3,348,958
Expenditures											
Current											
Community and economic development	-	-	-	-	-	-	-	285,006	-	-	285,006
Public safety	-	-	-	16,136	-	58,685	55,846	-	-	-	130,667
Public works	865,937	-	-	-	-	-	-	-	-	-	865,937
Environment	-	377,323	-	-	-	-	-	-	-	-	377,323
Capital outlay	-	-	-	-	-	-	-	-	-	2,026,008	2,026,008
Debt service											
Principal retirements	-	-	-	-	-	-	-	-	-	6,902	6,902
Total expenditures	865,937	377,323	-	16,136	-	58,685	55,846	285,006	-	2,032,910	3,691,843
Excess of revenues over (under) expenditures	405,643	(61,337)	-	42,317	3,872	25,348	98,598	36,038	9,500	(902,864)	(342,885)
Other financing sources (uses)											
Transfers in	-	-	-	-	-	-	-	-	-	633,616	633,616
Transfers out	-	-	-	-	-	-	-	-	-	(965,075)	(965,075)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	(331,459)	(331,459)
Net change in fund balances	405,643	(61,337)	-	42,317	3,872	25,348	98,598	36,038	9,500	(1,234,323)	(674,344)
Fund balances - beginning of year	860,283	518,106	99,796	163,772	27,753	131,075	201,669	259,196	10,636	3,975,196	6,247,482
Fund balances - end of year	\$ 1,265,926	\$ 456,769	\$ 99,796	\$ 206,089	\$ 31,625	\$ 156,423	\$ 300,267	\$ 295,234	\$ 20,136	\$ 2,740,873	\$ 5,573,138

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	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	\$ 1,085,781	\$ 1,085,781	\$ -	\$ 1,267,434	\$ 181,653	\$ -	\$ -	\$ -	\$ -	\$ -
Departmental earnings and program revenue						-	17,857	17,857	17,857	-
Investment income	190	190	-	4,146	3,956	379,737	379,737	-	379,782	45
Miscellaneous	-	-	-	-	-	-	-	-	7,201	7,201
Total revenues	<u>1,085,971</u>	<u>1,085,971</u>	<u>-</u>	<u>1,271,580</u>	<u>185,609</u>	<u>379,737</u>	<u>397,594</u>	<u>17,857</u>	<u>404,840</u>	<u>7,246</u>
Expenditures										
Public works	1,604,000	1,613,720	(9,720)	946,940	666,780	4,832	35,482	(30,650)	30,650	4,832
Debt service	-	-	-	-	-	9,134,132	9,634,132	(500,000)	9,634,092	40
Total expenditures	<u>1,604,000</u>	<u>1,613,720</u>	<u>(9,720)</u>	<u>946,940</u>	<u>666,780</u>	<u>9,138,964</u>	<u>9,669,614</u>	<u>(530,650)</u>	<u>9,664,742</u>	<u>4,872</u>
Excess of revenues over (under) expenditures	<u>(518,029)</u>	<u>(527,749)</u>	<u>(9,720)</u>	<u>324,640</u>	<u>852,389</u>	<u>(8,759,227)</u>	<u>(9,272,020)</u>	<u>(512,793)</u>	<u>(9,259,902)</u>	<u>12,118</u>
Other financing sources (uses)										
Transfers in	-	-	-	-	-	8,759,227	9,217,206	457,979	9,217,206	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,759,227</u>	<u>9,217,206</u>	<u>457,979</u>	<u>9,217,206</u>	<u>-</u>
Net change in fund balance	<u>(518,029)</u>	<u>(527,749)</u>	<u>(9,720)</u>	<u>324,640</u>	<u>852,389</u>	<u>-</u>	<u>(54,814)</u>	<u>(54,814)</u>	<u>(42,696)</u>	<u>12,118</u>
Fund balance - beginning of year, budgetary basis	<u>518,029</u>	<u>527,749</u>	<u>9,720</u>	<u>946,904</u>	<u>419,155</u>	<u>-</u>	<u>54,814</u>	<u>54,814</u>	<u>63,048</u>	<u>8,234</u>
Fund balance - end of year, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,271,544</u>	<u>\$ 1,271,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,352</u>	<u>\$ 20,352</u>
Explanation of differences between budget basis and GAAP:										
Net change in fund balance - budgetary basis				\$ 324,640					\$ (42,696)	
Accrued expenditures - December 31, 2015				86,621					30,650	
Accrued expenditures - December 31, 2016				<u>(5,618)</u>					<u>-</u>	
Net change in fund balance - GAAP basis				<u>\$ 405,643</u>					<u>\$ (12,046)</u>	

CITY OF HARRISBURG, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULES
BUDGETARY (NON-GAAP) BASIS - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	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					
Intergovernmental revenue	\$ 250,000	\$ 250,000	\$ -	\$ 315,138	\$ 65,138
Miscellaneous	-	-	-	2,674	2,674
Total revenues	<u>250,000</u>	<u>250,000</u>	<u>-</u>	<u>317,812</u>	<u>67,812</u>
Expenditures					
Environment	<u>414,778</u>	<u>512,232</u>	<u>(97,454)</u>	<u>285,416</u>	<u>226,816</u>
Total expenditures	<u>414,778</u>	<u>512,232</u>	<u>(97,454)</u>	<u>285,416</u>	<u>226,816</u>
Net change in fund balance	(164,778)	(262,232)	(97,454)	32,396	294,628
Fund balance - beginning of year, budgetary basis	<u>164,778</u>	<u>262,232</u>	<u>97,454</u>	<u>455,589</u>	<u>193,357</u>
Fund balance - end of year, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 487,985</u>	<u>\$ 487,985</u>
Explanation of differences between budget basis and GAAP:					
Net change in fund balance - budgetary basis				\$ 32,396	
Accrued expenditures - December 31, 2015				18,003	
Accrued expenditures - December 31, 2016				(112,584)	
Accrued revenues - December 31, 2015				(80,520)	
Accrued revenues - December 31, 2016				<u>81,368</u>	
Net change in fund balance - GAAP basis				<u>\$ (61,337)</u>	

CITY OF HARRISBURG, PENNSYLVANIA
DESCRIPTION OF FUNDS
AGENCY FUNDS

Agency Funds

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

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

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
DECEMBER 31, 2016

	<u>School Tax Collection</u>	<u>Payroll and Other Escrow Liabilities</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 299,056	\$ 877,926	\$ 1,176,982
Total assets	<u>299,056</u>	<u>877,926</u>	<u>1,176,982</u>
LIABILITIES			
Due to other governments	299,056	-	299,056
Due to City's General Fund	-	201,759	201,759
Escrow liabilities	-	676,167	676,167
Total liabilities	<u>\$ 299,056</u>	<u>\$ 877,926</u>	<u>\$ 1,176,982</u>

CITY OF HARRISBURG, PENNSYLVANIA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2016

	Beginning of Year	Additions	Deductions	End of Year
School Tax Collection				
Assets				
Cash and cash equivalents	\$ 482,666	\$ 40,110,318	\$ 40,293,928	\$ 299,056
Liabilities				
Due to other governments	\$ 482,666	\$ 40,110,318	\$ 40,293,928	\$ 299,056
Payroll and Other Escrow Liabilities				
Assets				
Cash and cash equivalents	\$ 932,571	\$ 27,991,356	\$ 28,046,001	\$ 877,926
Liabilities				
Due to City's General Fund	\$ 201,759	\$ -	\$ -	\$ 201,759
Escrow liabilities	730,812	27,991,356	28,046,001	676,167
Total liabilities	\$ 932,571	\$ 27,991,356	\$ 28,046,001	\$ 877,926
Total Agency Funds				
Assets				
Cash and cash equivalents	\$ 1,415,237	\$ 68,101,674	\$ 68,339,929	\$ 1,176,982
Liabilities				
Due to other governments	\$ 482,666	\$ 40,110,318	\$ 40,293,928	\$ 299,056
Due to City's General Fund	201,759	-	-	201,759
Escrow liabilities	730,812	27,991,356	28,046,001	676,167
Total liabilities	\$ 1,415,237	\$ 68,101,674	\$ 68,339,929	\$ 1,176,982

City of Harrisburg, Pennsylvania

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended December 31, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 25, 2017. Our report includes a reference to another auditor who audited the financial statements of the Harrisburg Downtown Improvement District, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by the other auditor. The financial statements of the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., and the Redevelopment Authority of the City of Harrisburg were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Harrisburg Parking Authority, the Harrisburg Downtown Improvement District, Inc., and the Redevelopment Authority of the City of Harrisburg.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

The Honorable Eric R. Papenfuse, Mayor
and Honorable Members of City Council
City of Harrisburg, Pennsylvania
Independent Auditor's Report on Internal
Control over Financial Reporting

or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and question costs as Findings 2016-001, 2016-003, 2016-004, and 2016-005, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2016-002 and 2016-005.

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
September 25, 2017

Independent Auditor's Report on Compliance for the Major Program
and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for the Major Federal Program

We have audited the City of Harrisburg, Pennsylvania's (City) compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2016. The City's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

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

Basis for Qualified Opinion on the 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
2016-006	14.218	Community Development Block Grants/Entitlement Grants Cluster	Reporting
2016-007	14.218	Community Development Block Grants/Entitlement Grants Cluster	Program Income
2016-008	14.218	Community Development Block Grants/Entitlement Grants Cluster	Subrecipient Monitoring
2016-009	14.218	Community Development Block Grants/Entitlement Grants Cluster	Earmarking

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

Qualified Opinion on the 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 Community Development Block Grants/Entitlement Grants Cluster program for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as follows:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2016-008	14.239	Home Investment Partnerships Program	Subrecipient Monitoring

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

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

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

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 and significant deficiencies.

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 2016-006, 2016-007, and 2016-008, to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2016-009, to be a significant deficiency.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
September 25, 2017

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Pass-Through to Subrecipients
U.S. Department of Housing and Urban Development					
Community Development Block Grants/Entitlement					
Grants Cluster	D	14.218	N/A	\$ 1,480,141	\$ 438,359
Emergency Solutions Grant Program	D	14.231	N/A	221,918	209,325
Home Investment Partnerships Program	D	14.239	N/A	468,785	200,583
Lead-Based Paint Hazard Control in Privately-Owned Housing	D	14.900	N/A	<u>527,343</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development				<u>2,698,187</u>	<u>848,267</u>
U.S. Department of Justice					
Public Safety Partnership and Community Policing Grants	D	16.710	N/A	<u>152,858</u>	<u>-</u>
U.S. Department of Transportation					
Passed through the Pennsylvania Department of Transportation:					
Passed through the Tri-County Regional Planning Commission:					
Highway Planning and Construction Cluster	I	20.205	520907	<u>29,969</u>	<u>-</u>
U.S. Department of Homeland Security - Federal					
Emergency Management Agency					
Passed through the Pennsylvania Emergency Management Agency:					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	I	97.036	FEMA-4267-DR- PA-043-32800-00	500,495	-
Assistance to Firefighters Grant	D	97.044	N/A	<u>12,536</u>	<u>-</u>
Total U.S. Department of Homeland Security - Federal Emergency Management Agency				<u>513,031</u>	<u>-</u>
Total Expenditures of Federal Awards				<u>\$ 3,394,045</u>	<u>\$ 848,267</u>

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

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 for the year ended December 31, 2016. 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, 2016.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the City's basic financial statements.

Such expenditures are recognized following, as applicable, either the cost principles in the U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. 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.

CITY OF HARRISBURG, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

The composition of promissory notes outstanding under Section 108 at December 31, 2016 is as follows:

<u>Date of Notice</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Required Interest Payment</u>	<u>Principal Balance December 31, 2016</u>	<u>2016 Principal Payments</u>
May 13, 2000	\$ 3,960,000	Variable *	Semi-annually, February and August 1st	\$ 950,000	\$ 285,000
September 14, 2006	\$ 3,795,000	4.99%- 5.77%	Semi-annually, February and August 1st	<u>2,115,000</u>	<u>210,000</u>
				<u>\$ 3,065,000</u>	<u>\$ 495,000</u>

* - Based on 90-day LIBOR plus 20 basis points (1.2% at December 31, 2016)

Section 108 loans changed during the year as follows:

<u>Beginning of Year</u>	<u>Additions</u>	<u>Payments</u>	<u>End of Year</u>
<u>\$ 3,560,000</u>	<u>\$ -</u>	<u>\$ 495,000</u>	<u>\$ 3,065,000</u>

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2016

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 2015-001: Financial Reporting

Condition: During the audit process, various material adjustments were proposed to the City of Harrisburg's (City) records by the auditors. These audit adjustments were necessary to correct transactions related to cash, the net present value of the notes receivable related to the Harrisburg Parking Authority lease proceeds, amounts due to/due from Capital Region Water (CRW) under the shared services agreement and the transition agreement, adjustments for disputed utility accounts and related amounts due to/due from other funds and due from CRW, recording of grant revenue and program income, receivables (utility, taxes, and other) and related allowances, due to other funds and due to other governments, debt proceeds, capital expenditures, and accounts payable.

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

Current Status: See current year Finding 2016-001.

Finding 2015-002: Debt Compliance

Condition: The City did not pay amounts due on its General Obligation Refunding Bonds, Series D of 1997 and General Obligation Refunding Notes, Series F of 1997 during the year ended December 31, 2015. Payments on the debt were made by the bond insurer under the insurance agreement per the trust indenture and in accordance with the AMBAC settlement agreement.

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

Current Status: See current year Finding 2016-002.

Finding 2015-003: Segregation of Duties

Condition: The City had segregation of duties issues noted in the Bureau of Information Technology (IT) where staff have control over multiple IT functions.

Recommendation: 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 2016-003.

Finding 2015-004: Reconciling Bank Accounts

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

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2016

- The payroll bank statements were received by the City Treasurer's office and then forwarded to the Controller's office and Finance Department.
- Monthly reconciliations for the year ended December 31, 2015 were not prepared timely or provided to the Controller's office timely for review.
- Although the monthly reconciliations were prepared, they did not reflect any adjustments related to the 2009, 2010, 2011, 2012, 2013, or 2014 audits.
- Bank reconciliations included transactions that were not appropriately reflected in the general ledger system including transfers related to credit card and automated clearinghouse transactions that had not been transferred to the appropriate funds/entities in the amount of \$561,967 and transfers related to adjustment of credit balances for disputed accounts in the amount of \$335,092.

Recommendation: We recommend that the City follow its policies regarding which department should receive its bank accounts statements, that bank reconciliations reflect only those transactions that occurred during the year, and that all bank accounts be reconciled and reviewed on a timely basis.

Current Status: See current year Finding 2016-004.

Finding 2015-005: Recording and Reconciliation of Shared Services Revenue and Expense and Invoicing Other Post-Employment Expenses for Water and Sewer Retirees

Condition: The City incurred certain revenues and expenditures under the Shared Service Agreement and the Transition Agreement with Capital Region Water (CRW). We noted the following items:

- Shared service expenditures for the years ended December 31, 2013 and 2014 were reconciled by CRW and the City during the year ended December 31, 2015; however, no adjustments related to this reconciliation were reflected in the general ledger for the year ended December 31, 2015.
- Per the shared services agreement, within 60 days after the end of each term, the parties are required to reconcile the actual costs for providing services to CRW to the costs in the budget provided pursuant to the shared services schedule. The City and CRW are to then reduce or increase the payments for the services based on actual costs. No such reconciliation occurred for costs incurred during the year ended December 31, 2015.
- Per the shared services agreement, budgeted expenditures are to be invoiced in advance for the month in which they are incurred; time and material expenditures are to be invoiced after costs are incurred; and other expenses are to be invoiced monthly. During testing of the shared services revenue and expenditures, it was noted that invoices to CRW for street sweeping services provided for October through December 2015 totaling \$149,102 were not billed until April 2016.
- Per the transition agreement, CRW assumed responsibility for all costs for post-employment benefits related to Water and Sewer retirees. Costs are to be invoiced by the City to CRW on a monthly basis and paid within 30 days of receipt of the invoice. During our testing of other post-employment benefit costs, it was noted that invoices to CRW for costs incurred during the years ended December 31, 2014 and 2015 for water and sewer retirees totaling \$538,249 were not billed to CRW as of December 31, 2015.

Recommendation: We recommend that procedures be established to record shared services revenue and expenditures at the appropriate amounts, to reconcile budgeted amounts to actual amounts and reduce or increase the subsequent payment based on the reconciliation, and to bill and pay shared services in a timely manner. We also recommend that procedures be established to invoice CRW timely for reimbursement of other post-employment costs for Water and Sewer retirees.

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2016

Current Status: All shared services revenue was recorded timely during the year ended December 31, 2016. In addition, the City and CRW continue to negotiate the amounts due for certain share services; however, the City is current with billings to CRW for shared services and post-retirement benefits related to Water and Sewer retirees at December 31, 2016.

III – Findings and questioned costs for federal awards.

Control Deficiency: Material Weakness

Finding 2015-006: 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, two 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 U.S. Department of Housing and Urban Development’s (HUD) remittance.

During the audit, it was noted that the final funding request related to the 2011 - 2014 Lead-Based Paint Hazard Control Program grant was received by the City on January 5, 2015 and invoices for allowable costs were not paid within ten calendar days of the date of HUD’s remittance.

During the audit, it was noted that there was only one reimbursement request related to the Highway Planning and Construction Program. The one reimbursement request selected for testing 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: This finding has been corrected in the current year.

Finding 2015-007: Preparing Required Reports

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 the two quarters selected for testing related to the Public Safety Partnership and Community Policing Grants – ARRA Program.

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

Current Status: This finding has been corrected in the current year.

CITY OF HARRISBURG, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2016

Finding 2015-008: 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)

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

Recommendation: The City should establish controls to ensure that subrecipient monitoring occurs as required for all federal funding passed through from the City to subrecipients. Such monitoring procedures should include obtaining audited financial statements of the organization, performing and documenting visits to the facility, having tangible goals in place for the organization, and ensuring, on a quarterly basis, that the progress to achieving those goals are in place and are being met.

Current Status: This finding has been corrected in the current year.

Finding 2015-009: Program Income

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

Condition: During the audit, the City did not expend the program income received during the year ended December 31, 2015 for eligible activities prior to drawing down additional entitlement funds.

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

Current Status: See current year Finding 2016-007.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles
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 no
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 2 CFR Section 200.516(a)? yes no
7. Major Programs:

CFDA Numbers	Name of Federal Program
14.218	Community Development Block Grants/Entitlement Grants Cluster
8. Dollar threshold used to distinguish between type A and type B programs: \$750,000
9. Auditee qualified as low-risk auditee? yes no

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

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

Finding 2016-001: Financial Reporting

Repeat Finding – See Finding 2015-001

Condition: During the audit process, various material adjustments were proposed to the City of Harrisburg's (City) records by the auditors. These audit adjustments were necessary to correct transactions related to cash, the net present value of the notes receivable related to the Harrisburg Parking Authority lease proceeds, amounts due to/due from Capital Region Water (CRW) under the transition agreement, due to other funds and due to other governments, and transfer of the Bureau of City Services from the General Fund to the Neighborhood Services Fund.

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).

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

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

Questioned Costs: This finding does not result in questioned costs.

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

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

Finding 2016-002: Debt Compliance

Repeat Finding – See Finding 2015-002

Condition: The City did not pay amounts due on its General Obligation Refunding Bonds, Series D of 1997 and General Obligation Refunding Notes, Series F of 1997 during the year ended December 31, 2016. Payments on the debt were made by the bond insurer under the insurance agreement per the trust indenture and in accordance with the AMBAC settlement agreement.

Criteria: The Series D of 1997 Bonds and F of 1997 Notes require principal and interest payments in accordance with the terms of the indenture.

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

Effect: Principal and interest payments have not been made in accordance with the terms of the indenture, causing the bond insurer to pay a portion of the amount due.

Questioned Costs: This finding does not result in questioned costs.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

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

Views of Responsible Officials: The City concurs and intends to comply as soon as the financial situation of the City firms. The AMBAC (bond insurer) settlement agreement was constructed as such in order to give the City fiscal flexibility as it emerged from State Receivership and the City continues to endeavor to emerge from its Act 47 designation. It is worth noting, subsequently in current year 2017, the City has achieved full payment on its own of the September due maturities for both the Series D Bonds and Series F Notes without utilizing an additional advance from the bond insurer. Such similar and favorable financial activity is anticipated for the near future as the City continues to consider its available options from a budgetary perspective.

Finding 2016-003: Segregation of Duties

Repeat Finding – See Finding 2015-003

Condition: The City had segregation of duties issues noted in the Bureau of Information Technology (IT) where 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.

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

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

Questioned Costs: This finding does not result in questioned costs.

Recommendation: 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 understands the nature of the finding and the recommendation being suggested to rectify the finding. However, with limited financial and personnel resources, having complete segregation of duties among all the identified functions is not currently possible. The IT department is working to identify the functions and duties that are only known to one individual so that cross-training can take place among other staff members. In addition, functional documentation, which currently does not exist, will need to be created in order to facilitate this learning as new resources are trained on the various job functions and responsibilities. As the City works to build a highly skilled and productive IT team, a continual review of all functions will be completed in order to ensure that critical duties are not overlooked and that more than one individual will be able to perform every function. As technologies evolve and systems are replaced, different technical skills may be needed to provide a high level of support for the systems deployed throughout the City. When this happens, adjustments will need to be made to the responsibilities.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

Finding 2016-004: Reconciling Bank Accounts and Properly Reporting and Remitting Amounts Due to Other Entities

Repeat Finding – See Finding 2015-004

Condition: The City's policy is that all bank account statements are to be reviewed and reconciled by the City Treasurer's office on a monthly basis and are to be reviewed by the Controller's office. In addition, the City collects certain amounts on behalf of other entities and governments. During the audit, we noted the following:

- Monthly reconciliations for the year ended December 31, 2016 were prepared timely, but were not provided to the Controller's office for review.
- Although the monthly reconciliations were prepared, certain reconciliations did not reflect any adjustments related to the 2009, 2010, 2011, 2012, 2013, 2014, or 2015 audits.
- The Central Depository account included certain amounts that were not appropriately reflected in the general ledger system including amounts collected for other entities, and transfers related to credit card and automated clearinghouse transactions that had not been transferred to the appropriate entities in the amount of \$299,056 for the year ended December 31, 2016.
- The Central Depository account also includes certain amounts related to credit card and automated clearinghouse transactions from February 2014 totaling \$135,901 that have not been transferred to the appropriate entity.

Criteria: In order to ensure that the City's cash balances and amounts due to other governments and other entities are accurately reported, the City should prepare and review the bank reconciliations for each bank account on a timely basis.

Cause: The City did not follow its policy for the review of the bank reconciliations or transfer credit card and automated clearinghouse transactions on a timely basis.

Effect: The City bank reconciliations did not reflect all adjustments from previous years' audits and the bank reconciliations included reconciling items for transfers to other entities from 2016 and previous years that did not occur. Finally, the bank reconciliations were not reviewed on a timely basis.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: We recommend that the City follow its policies regarding review of bank reconciliations. In addition, we recommend that the Accounting Manager obtain the monthly bank reconciliations from Treasury to determine if any adjustments need to be recorded to properly reflect amounts due to other entities.

Views of Responsible Officials: The City concurs and procedures have been implemented in order to rectify, in an appropriate and actionable timeframe, upon discussion and agreement between all relevant administration, departmental staff, and elected officials involved. Also, on an ongoing basis, the Accounting Manager has been continually working with both the Deputy Treasurer and Assistant Deputy Treasurer in resolving the historic outstanding and offsetting reconciling items included in these reconciliations. Although time consuming, progress has been made on the more significant Concentration and Central Disbursement accounts as well as some of the other smaller accounts, and efforts will continue to fully resolve remaining reconciling items for the City's other bank accounts as time and resources allow.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

Finding 2016-005: Preparing the Schedule of Expenditures of Federal Awards (SEFA)

Condition: For the year ended December 31, 2016, the City provided a summary SEFA, however, the SEFA was not materially accurate. Material adjustments were made to the Community Development Block Grants/Entitlement Grants to accurately report expenditures of federal funds for the year ended December 31, 2016.

Criteria: The Code of Federal Regulations (2 CFR 200.510(b)) requires that the auditee prepare a SEFA for the period covered by the auditee's financial statements. The SEFA is required to include, at a minimum: 1) individual federal programs by federal agency; 2) the name of the pass-through entity and the identifying number assigned by the pass-through entity; 3) the total federal awards expended for each individual federal program; and 4) total amount provided to subrecipients for each federal program.

Cause: The City does not have adequate procedures in place to ensure that the SEFA 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 SEFA.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: We recommend that the City implement procedures to ensure that all federal expenditures are included on the SEFA.

Views of Responsible Officials: In preparing the 2016 SEFA for audit procedures, all expenditures within the CDBG Fund, including those for debt service, were reviewed and reconciled for inclusion in this schedule. The Accounting Manager now has the understanding, moving forward, to exclude from the SEFA, reporting the debt service expenditures associated with the City's Section 108 Notes, which are accounted for within the CDBG Fund.

III – Findings and questioned costs for federal awards.

Control Deficiency: Material Weakness

Finding 2016-006: Reporting – Section 3 Summary Report

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

Condition: The City did not complete Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* for the year ended December 31, 2016.

Criteria: Pursuant to 24 CFR sections 135.3(a)(1) and 135.90, each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year, must submit Form HUD 60002 information using the Section 3 Summary Reporting System.

Cause: The City does not have controls in place to ensure that Form HUD 60002 is completed and submitted in accordance with federal reporting requirements.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

Effect: The City did not file the Form HUD 60002 for the year ended December 31, 2016, as required. This report is a required submission and omission of the report could jeopardize future funding.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: The City should implement procedures to ensure that all required reports are completed and filed by the applicable reporting deadline.

Views of Responsible Officials: The HUD Section 3 report for CDBG, calendar year 2016, has recently been submitted for filing through HUD's Section 3 Performance Evaluation and Registry System (SPEARS). This submittal was delayed due to encountered technical issues (on HUD's end) with this system dating back to the end of 2016/start of 2017, at which time this filing would be applicable to the City based on it being classified as an "other HUD grantee." A recently received SPEARS system update from HUD indicates an available extension of time to December 31, 2017 to file the Form HUD 60002 report for calendar year 2016, relative to entities classified as public housing authorities (PHA). Though the City is not classified as a PHA, the City is currently attempting to confirm with HUD the understanding that this filing extension is also available to the City due to the aforementioned technical issues experienced with the functionality of the SPEARS filing system.

Finding 2016-007: Program Income

Repeat Finding – See Finding 2015-009

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

Condition: The City did not expend the program income for eligible activities prior to drawing down additional entitlement funds.

Criteria: The Code of Federal Regulations (2 CFR Section 200.307(e)) 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 is expended for eligible activities prior to drawing down additional entitlement funds.

Effect: The City drew down entitlement funding before completely exhausting all program income in Integrated Disbursement and Information System (IDIS).

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

Questioned Costs: The amount of questioned costs, if any, is undeterminable.

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.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

Views of Responsible Officials: The City concurs with the finding. The DBHD has taken steps to insure that all program income receipts are receipted to HUD's IDIS. Additionally, the DBHD continues to draw down program income to fund payables before the use of entitlement funds.

Finding 2016-008: Subrecipient Monitoring

U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants Cluster (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 does not have a process in place to notify subrecipients of the federal award identification number, federal award date, or CFDA number for the federal award as required under the Uniform Guidance.

Criteria: The Code of Federal Regulations (2 CFR 200.331(a)) requires certain award information to be communicated to the subrecipient sufficient for the subrecipient to comply with federal statutes, regulations, and the terms and conditions of the award.

Cause: The City does not have controls in place to ensure that certain award information is communicated to the subrecipient as required under the Uniform Guidance.

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

Questioned Costs: This finding does not result in questioned costs.

Recommendations: We recommend that the City establish procedures to ensure that all required award information is communicated to the subrecipient at the time of the subaward in accordance with the Uniform Guidance.

Views of Responsible Officials: The City will expand the subrecipient award letter to include Federal identification number, and the federal award date as required under Uniform Guidance. This will ensure the subrecipient has the information to comply with the federal statutes, regulations, and the terms and conditions of the award.

Control Deficiency: *Significant Deficiency*

Finding 2016-009: Earmarking

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

Condition: During the audit, it was noted that the City expended 16.63 percent of funds on public service activities, which exceeds the 15 percent regulatory cap. The City also expended 21.31 percent of its funds on planning and administration, which exceeds the 20 percent regulatory cap. HUD requires repayment of the amount expended in excess of the 15 percent public service regulatory cap and the 20 percent planning and administration regulatory cap from non-federal sources, unless the City can provide a revised CDBG Financial Summary Report (IDIS PR26 report) which reflects expenditures at or below the limit.

CITY OF HARRISBURG, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

Criteria: Pursuant to 24 CFR section 570.201 (e), the amount of CDBG funds obligated during the program year for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income it received during the preceding program year.

In addition, pursuant to 24 CFR part 570, subpart D (i.e., Entitlement Grants), the amount of CDBG funds obligated during each program year for planning and program administrative costs, as defined in 24 CFR sections 570.205 and 570.206, respectively, is limited to no greater than 20 percent of the sum of the grant made for that program year plus the program income received by the recipient and its subrecipients during the program year.

Cause: The City does not have controls in place to ensure that earmarking requirements are met.

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

Questioned Costs: Questioned costs in the amount of \$57,404 were identified.

Recommendations: The City should establish controls to track the amounts expended for each grant award to ensure that no more than 15 percent of CDBG funds are expended on public services and no more than 20 percent of grant funds are expended on planning and administration.

Views of Responsible Officials: HUD's IDIS PR-26 reports, namely PR-26 Activity Summary by Selected Grant Report and PR-26 CDBG Financial Summary Report, represent separate and distinct reports for audit testing purposes. The City was in compliance with the PR-26 Activity Summary by Selected Grant Report (Grant Year: 2015) that indicated an expenditure percentage for Planning and Administration at 18.76% and an expenditure percentage for Public Service at 12.66%. However, the City was not in compliance with the PR-26 CDBG Financial Summary Report (Program Year: 2015) that indicated that the expended percentage for Planning and Administration was 21.31% and 16.63% for Public Service. The City will develop monitoring controls to insure that earmarking requirements are being met.