

The Parking Authority of the City of Lancaster

Financial Report

December 31, 2012 and 2011

The Parking Authority of the City of Lancaster

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December 31, 2012 and 2011

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Independent Auditor's Report

To the Board of Directors
The Parking Authority of the City of Lancaster
Lancaster, Pennsylvania

Report on the Financial Statements

We have audited the accompanying basic financial statements of The Parking Authority of the City of Lancaster (the Authority), a component unit of the City of Lancaster, Pennsylvania, which comprise the statement of net position as of December 31, 2012 and 2011, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards required 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 misstatements 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Parking Authority of the City of Lancaster as of December 31, 2012 and 2011, and the results of its operations and its cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 8 and the Schedule of Funding Progress on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of the 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 inquires 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 the 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.

Adoption of GASB Statement No. 63 and No. 65

As discussed in Note 2 to the financial statements, in 2012 and 2011 the Authority elected to adopt GASB issued Statement No. 63, related to *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB issued Statement No. 65, related to *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.



June 27, 2013
Lancaster, Pennsylvania

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2012 and 2011

Introduction

The Parking Authority of the City of Lancaster (the Authority) was incorporated on January 4, 1967 to serve the City of Lancaster, Pennsylvania's (the City) parking needs. The Authority is incorporated under the "Parking Authority Law" of 1947, State of Pennsylvania. The Authority may acquire, construct, improve, and maintain parking projects; conduct research related to parking problems; establish a permanent, coordinated system of parking facilities; borrow money; and issue bonds.

The governing body of the Authority is a five-member Board of Directors appointed by the Mayor of the City of Lancaster, Pennsylvania for a term of five years. Each of the five appointments are staggered allowing for one new or reappointed member each year. The Board proceedings are governed by the adopted by-laws of the Authority. Twelve monthly board meetings are held per year. The board members are actively involved in strategic planning and approval of major lease arrangements, new construction, major maintenance, financial management (including budget review and approval), and marketing of the Authority.

The Authority owns and operates five parking garages including the Penn Square Garage, East King Street Garage, Duke Street Garage, Prince Street Garage, and Water Street Garage. The Authority owns and operates three surface lots on Cherry Street, Mifflin Street, and Queen Street. The Authority owns 1024 parking meters which reside both on city streets and at two off-street lots located at Christian Street and the Lancaster Public Library.

Financial Requirements

The Authority is a self-supporting quasi-government organization with financial responsibility to manage and maintain its properties on behalf of the City of Lancaster and the Authority's bondholders. To meet its obligations, the Authority must perform productively and efficiently with a high standard of accountability.

The Authority issued bonds in 1969 to purchase the Watt & Shand Garage, currently known as the Penn Square Garage. Bonds were issued in 1970 and 1971 to construct the Duke Street Garage and the Prince Street Garage, respectively. In 1987, bonds were issued for the construction of the Water Street Garage.

The Authority issued new revenue bonds in October 2007 to retire the existing debt and issue new bonds to construct the East King Street Garage. Under the 2007 bond indenture, the Authority's Board of Directors has responsibility for management oversight of the parking facilities. The City of Lancaster guarantees the debt of the Authority and plays a significant role in the management of the Authority through appointment of the Authority's Board of Directors by the Mayor of the City of Lancaster. The 2007 bond indenture places restrictions on financial resources of the Authority to provide for debt service payments.

The following discussion and analysis of the Authority's activities and financial performance provides an introduction and overview to Authority's basic financial statements for the fiscal years ended December 31, 2012, 2011, and 2010. Please read it in conjunction with Authority's financial statements.

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2012 and 2011

Financial Highlights

- The Authority's net position increased by \$563,104 for the year ended December 31, 2012. This compares to a \$274,772 increase and an \$168,348 decrease in net position for the years ended December 31, 2011 and 2010, respectively.
- The Authority's operating revenues increased approximately 5%, or \$226,031, to \$4,766,429 for the year ended December 31, 2012 compared to operating revenues of \$4,540,398 and \$4,267,046 for the years ended December 31, 2011 and 2010, respectively.
- The Authority's operating expenses decreased approximately 10%, or \$316,123, to \$2,832,767. This compares to operating expenses of \$3,148,890 and \$2,934,510 for the years ended December 31, 2011 and 2010, respectively. Operating expenses included depreciation expense, which is a noncash expense, of \$883,586, \$1,121,624, and \$1,043,022 for the years ending December 31, 2012, 2011, and 2010, respectively.

Overview of the Financial Statements

The Authority's basic financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements themselves.

The Authority's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Statement of Net Position. The statement of net position presents the financial position of the Authority. It presents information on the Authority's assets, deferred outflows and inflows of resources, liabilities, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position. The statement of revenues, expenses, and changes in net position present information showing how the Authority's net position changed during each fiscal year presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., earned, but unused vacation leave).

Statement of Cash Flows. The statement of cash flows present information on the effects of changes in assets and liabilities have on cash during the course of the fiscal year.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements.

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2012 and 2011

Financial Analysis

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, liabilities are greater than assets by \$3,287,942, \$3,851,046, and \$4,125,818 at December 31, 2012, 2011, and 2010, respectively. In 2010, the Authority constructed a new parking garage in order to accommodate parking needs for a new convention center in downtown Lancaster City. To fund the construction, the Authority issued a new bond to cover the cost as well as restructure the required payments on this liability. This new bond is scheduled to be repaid by 2035.

A condensed summary of the Authority's statement of net position at December 31 is presented below:

Statement of Net Position

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current unrestricted assets	\$ 1,674,295	\$ 1,335,200	\$ 2,348,967
Current restricted assets	3,052,471	3,068,021	1,966,381
Capital assets, net	19,822,274	20,289,511	20,840,617
Total Assets	24,549,040	24,692,732	25,155,965
Current unrestricted liabilities	195,052	171,721	263,097
Current restricted liabilities	944,558	925,703	906,356
Elevator loan payable	1,050,000	1,200,000	1,350,000
Bond payable	25,990,000	26,645,000	27,275,000
Less discount and interest costs	(342,628)	(398,646)	(512,670)
Total Liabilities	27,836,982	28,543,778	29,281,783
Total net position	(3,287,942)	(3,851,046)	(4,125,818)
Total Net Position	\$ 24,549,040	\$ 24,692,732	\$ 25,155,965

The largest portion of the Authority's net position, \$(7,680,098) reflects its investment in capital assets, net of related debt, (e.g., land, garages, garage equipment, office equipment, vehicles, and parking meters) as of December 31, 2012, compared to \$(7,737,219) and \$(7,817,127) as of December 31, 2011 and 2010, respectively. The Authority's operating revenues are derived entirely from User Fees. The patrons are primarily employees of downtown businesses and their customers who commute from the suburban areas to the City on a regular basis as well as fees collected from special events held at the Convention Center and Hotel. During the year ended December 31, 2012, the Authority invested in structural improvements to the garages, updates to garage and office equipment and garage security improvements. During the year ended December 31, 2011, the Authority invested in improvements to the garages, including energy efficient lighting and other garage equipment. During the year ended December 31, 2010, the Authority invested in additions of garage equipment, including eight new elevators.

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2012 and 2011

Financial Analysis (continued)

Changes in net position. A condensed summary of the Authority's statements of revenues, expenses, and changes in net position for the years ended December 31 is presented below:

Statements of Revenues, Expenses, and Changes in Net Position

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Parking garages and lots	\$ 3,880,502	\$ 3,769,563	\$ 3,559,867
Parking meters	885,927	770,835	707,179
Total Operating Revenues	<u>4,766,429</u>	<u>4,540,398</u>	<u>4,267,046</u>
Operating Expenses, Excluding Depreciation	1,949,181	2,027,266	1,891,488
Provision for Depreciation	<u>883,586</u>	<u>1,121,624</u>	<u>1,043,022</u>
Total Operating Expenses	<u>2,832,767</u>	<u>3,148,890</u>	<u>2,934,510</u>
Operating Income	<u>1,933,662</u>	<u>1,391,508</u>	<u>1,332,536</u>
Non-Operating Revenues (Expense)			
Unrealized gain on investments	11,100	404,454	74,229
Gain on sale of assets	743	4,312	-
Investment income	64,477	68,249	90,447
Interest expense	(1,518,373)	(1,611,946)	(1,667,324)
Miscellaneous income	71,495	18,195	1,764
Total Net Non-Operating Revenues (Expenses)	<u>(1,370,558)</u>	<u>(1,116,736)</u>	<u>(1,500,884)</u>
Increase (Decrease) in Net Position	<u>563,104</u>	<u>274,772</u>	<u>(168,348)</u>
Net Position, Beginning, as Previously Reported	(3,851,046)	(4,125,818)	(3,726,242)
Prior Period Adjustment	-	-	(231,228)
Net Position, Beginning, as Restated	<u>(3,851,046)</u>	<u>(4,125,818)</u>	<u>(3,957,470)</u>
Net Position, Ending	<u>\$ (3,287,942)</u>	<u>\$ (3,851,046)</u>	<u>\$ (4,125,818)</u>

The Authority's major expenses are salaries, fringe benefits, facility maintenance, and interest expense.

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2012 and 2011

Capital Assets

Capital Acquisitions

The Authority's investment in capital assets includes land, parking garages, gate/revenue control systems, parking meters, vehicles, and office equipment. Capital acquisitions are recorded at cost. Acquisitions are funded by revenue generated by our patrons as well as by bonds.

Capital acquisitions for the years ended December 31, 2012, 2011, and 2010 were \$416,531, \$695,627 and \$2,130,890, respectively. The Authority's investments in capital assets as of December 31, 2012, 2011, and 2010, net of accumulated depreciation were as follows:

	Capital Assets at December 31		
	2012	2011	2010
Land	\$ 3,695,871	\$ 3,695,871	\$ 3,695,871
Parking garages, lots, and rental complex	32,291,679	31,943,635	31,672,342
Office furnishings and equipment	93,424	81,233	74,533
Equipment	3,350,416	3,318,076	3,025,065
Vehicles	88,843	74,862	77,112
	39,520,233	39,113,677	38,544,923
Less accumulated depreciation	19,697,959	18,824,166	17,704,306
Net Capital Assets	\$ 19,822,274	\$ 20,289,511	\$ 20,840,617

Additional information on capital assets can be found in Note 4.

Debt Administration

As of December 31, 2012, the Authority had \$26,645,000 of outstanding bonded debt compared to \$27,275,000 and \$27,885,000 for the years ended December 31, 2011 and 2010, respectively.

In 2010, the Authority obtained a ten year loan for \$1,500,000 to finance the replacement of eight garage elevators. The outstanding balance as of December 31, 2012 is \$1,200,000 and was \$1,350,000 as of December 31, 2011.

More detailed information about the Authority's long-term debt is presented in Notes 5 and 7 to the financial statements.

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2012 and 2011

Economic Condition and Outlook

The Authority has adapted favorably to competition in the marketplace and the financial outlook is strong based on steady demand throughout the city for off-street garage, surface lots and on-street metered parking; the latter providing diversification of the revenue stream from our structured garage portfolio. The Authority is also pursuing additional parking management opportunities to further diversify its revenue stream, an initiative tied directly to its current strategic plan.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, creditors, and funding agencies with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If there are any questions about this report, or if additional financial information is required, please contact the Finance Manager, The Parking Authority of the City of Lancaster at P.O. Box 866, Lancaster, PA 17608.

The Parking Authority of the City of Lancaster

Statement of Net Position

	December 31,	
	2012	2011
Assets		
Current Unrestricted Assets		
Cash and cash equivalents	\$ 1,498,398	\$ 1,256,169
Accounts receivable	23,349	12,587
Prepaid expenses	152,548	66,444
Total Current Unrestricted Assets	1,674,295	1,335,200
Restricted Assets		
Investments	3,052,471	3,068,021
Capital Assets		
Capital assets not being depreciated		
Land	3,695,871	3,695,871
Capital assets being depreciated		
Parking garages, lots, and rental complex	32,291,679	31,943,635
Office furnishings and equipment	93,424	81,233
Equipment	3,350,416	3,318,076
Vehicles	88,843	74,862
	35,824,362	35,417,806
Less accumulated depreciation	(19,697,959)	(18,824,166)
	16,126,403	16,593,640
Capital Assets, Net	19,822,274	20,289,511
Total Assets	24,549,040	24,692,732

The Parking Authority of the City of Lancaster

Statement of Net Position (continued)

	December 31,	
	2012	2011
Liabilities		
Current Liabilities (Payable from Current Unrestricted Net Assets)		
Trade accounts payable	\$ 32,088	\$ 27,776
Accrued salaries	37,947	35,357
Accrued payroll taxes	2,815	2,656
Revenue received in advance	122,202	105,932
Total Current Liabilities (Payable from Current Unrestricted Net Assets)	195,052	171,721
Current Liabilities (Payable from Restricted Assets)		
Accrued interest	139,558	145,703
Current portion of elevator loan payable	150,000	150,000
Current portion of revenue bonds payable	655,000	630,000
Total Current Liabilities (Payable from Restricted Assets)	944,558	925,703
Long-Term Debt - Less Current Portion		
Elevator loan payable	1,050,000	1,200,000
Revenue bonds payable	25,990,000	26,645,000
Less unamortized bond discount and interest costs	(342,628)	(398,646)
Total Long-Term Debt	26,697,372	27,446,354
Total Liabilities	27,836,982	28,543,778
Net Position		
Net Position		
Net investment in capital assets	(7,680,098)	(7,737,219)
Unrestricted	4,392,156	3,886,173
Total Net Position	\$ (3,287,942)	\$ (3,851,046)

The Parking Authority of the City of Lancaster

Statement of Revenues, Expenses, and Changes in Net Position

	December 31,	
	2012	2011
Operating Revenues		
Parking garages and lots	\$ 3,880,502	\$ 3,769,563
Parking meters	885,927	770,835
	<u>4,766,429</u>	<u>4,540,398</u>
Operating Expenses, Excluding Depreciation	<u>(1,949,181)</u>	<u>(2,027,266)</u>
Operating Income Before Depreciation	2,817,248	2,513,132
Provision for Depreciation	<u>(883,586)</u>	<u>(1,121,624)</u>
Operating Income	<u>1,933,662</u>	<u>1,391,508</u>
Nonoperating Revenues (Expenses)		
Unrealized gain on investments	11,100	404,454
Gain on sale of assets	743	4,312
Investment income	64,477	68,249
Interest expense	(1,518,373)	(1,611,946)
Miscellaneous income	71,495	18,195
Total Nonoperating Expenses	<u>(1,370,558)</u>	<u>(1,116,736)</u>
Increase in Net Position	<u>563,104</u>	<u>274,772</u>
Net Position, Beginning, as Previously Reported	(3,851,046)	(3,911,232)
Prior Period Adjustment	<u>-</u>	<u>(214,586)</u>
Net Position, Beginning, as Restated	<u>(3,851,046)</u>	<u>(4,125,818)</u>
Net Position, Ending	<u><u>\$ (3,287,942)</u></u>	<u><u>\$ (3,851,046)</u></u>

The Parking Authority of the City of Lancaster

Statement of Cash Flows

	Years Ended December 31,	
	2012	2011
Cash Flows from Operating Activities		
Cash received from customers	\$ 4,843,432	\$ 4,597,812
Cash payments to suppliers for goods and services	(1,145,220)	(1,311,831)
Cash payments to employees for services	(883,004)	(860,132)
Net Cash Provided by Operating Activities	2,815,208	2,425,849
Cash Flows from Capital and Related Financing Activities		
Interest paid on bonds and loan	(1,468,501)	(1,498,575)
Payments to redeem bonds outstanding and loans	(780,000)	(760,000)
Net Cash Used in Capital and Related Financing Activities	(2,248,501)	(2,258,575)
Cash Flows from Investing Activities		
Sale of investments	512,133	504,962
Purchases of investments	(485,300)	(1,077,039)
Capital expenditures for the purchase of equipment, vehicles, and the expansion of parking garages	(416,531)	(695,627)
Gain on sale of assets	743	4,312
Interest received on investments	64,477	68,249
Net Cash Used in Investing Activities	(324,478)	(1,195,143)
Net Increase (Decrease) in Cash and Cash Equivalents	242,229	(1,027,869)
Cash and Cash Equivalents - Beginning of Year	1,256,169	2,284,038
Cash and Cash Equivalents - End of Year	\$ 1,498,398	\$ 1,256,169

The Parking Authority of the City of Lancaster

Statement of Cash Flows (continued)

	Years Ended December 31,	
	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 1,933,662	\$ 1,391,508
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	883,586	1,121,624
Miscellaneous income	71,495	18,195
(Increase) decrease in assets		
Accounts receivable	(10,762)	6,662
Prepaid expenses	(86,104)	(20,764)
Increase (decrease) in liabilities		
Accounts payable and other accrued expenses	7,061	(123,933)
Revenue received in advance	16,270	32,557
	<u>16,270</u>	<u>32,557</u>
Net Cash Provided by Operating Activities	<u>\$ 2,815,208</u>	<u>\$ 2,425,849</u>

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Nature of Activity

The Parking Authority of the City of Lancaster (the Authority) was incorporated January 4, 1967, by an ordinance of the City of Lancaster, under the Commonwealth of Pennsylvania Parking Authority Law. The governing body of the Authority is a board consisting of five members, all of whom are appointed by the Mayor for a term of five years. The Authority owns various parking garages throughout the City of Lancaster and has issued revenue bonds to acquire or construct the parking facilities. Each of the bond issues is secured by a trust indenture.

Note 2 - Summary of Significant Accounting Policies

Reporting Entity

The criteria used by the Authority to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. There were no additional entities required to be included in the reporting entity under these criteria for the periods covered by the financial statements.

Component Unit

A component unit is a legally separate entity that satisfies at least one of the following criteria: 1) elected officials of a primary government are financially accountable for the entity, or 2) the nature and significance of the relationship between the entity and primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. The Authority is a component unit of the City of Lancaster, Pennsylvania.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed to the extent these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has elected to follow subsequent private-sector guidance, subject to the same limitation.

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses, and changes in net position. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for transportation services. Operating expenses include the cost of providing transportation services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the Authority are from gains on disposals of capital assets, investment income, and miscellaneous income. The principle nonoperating expense is interest expense.

Governmental Accounting Standards Board (GASB) Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide guidance for reporting of deferred inflows and outflows of resources which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The adoption of this statement did not result in a reclassification of any assets or liabilities.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to reclassify certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. This statement is effective for periods beginning after December 15, 2012. However, the Authority early adopted this statement as of December 31, 2012. As a result of the adoption of this statement, the Authority was required to reduce the carrying value of unamortized note issuance costs and reduce net position as of December 31, 2010 by \$214,586. For the year ended December 31, 2011, the adoption of this statement resulted in a reduction of amortization expense in the amount of \$14,962 and a corresponding increase in the increase in net position of \$14,962.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all short-term investments with a maturity of one month or less to be cash and cash equivalents.

Investments

Investments are carried at fair value or cost, plus any earned purchase discounts, or less any amortized purchase premiums. The Board is permitted to invest the Authority's funds as defined in the Pennsylvania Parking Authorities Law. Authorized types of investments include short-term, highly liquid debt instruments that include commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Non-negotiable certificates of deposits are recorded at cost. Investment income is recognized when earned. All investments held in trust are collateralized by pooled pledged securities. The market value of the pooled pledged securities exceeded the funds on deposit at December 31, 2012 and 2011. Investments are held in trust in the Authority's name.

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivables are stated at outstanding balances. The Authority considers accounts receivable to be fully collectable. If collection becomes doubtful, an allowance for doubtful accounts will be established, or accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received.

Restricted Assets

The terms of the bond indentures require that certain assets be restricted in favor of the bondholders and for capital projects. Restricted assets represent monies held or receivable by the independent trustee.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets are carried on the basis of cost. Capital assets are defined by the Authority as assets with a useful life in excess of one year and an initial individual cost of more than \$5,000. Expenditures for maintenance and repairs are charged against income, whereas major additions and betterments are capitalized. Depreciation is computed on the straight-line method. Estimated useful lives assigned to the various assets are as follows:

Parking garages, lots, and rental complex	10 to 40 years
Office furnishings and equipment	5 to 10 years
Equipment	7 to 10 years
Vehicles	5 years

Provisions for depreciation amounted to \$883,586 in 2012 and \$1,121,624 in 2011.

Capital assets other than those held for sale are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value of the impaired asset. Management has concluded that no impairment reserves are required as of December 31, 2012 and 2011.

Revenue Received in Advance

Parking fees, contract parking income, and lease rental revenues are recognized in the period for which such revenues pertain. Any amounts collected in advance of such periods are reflected in the balance sheets as deferred revenue.

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Net Position

Net position is classified between three categories as follows:

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding debt associated with capital assets.

Restricted net position consists of restricted assets reduced by related liabilities and deferred inflows of resources.

Unrestricted net position consists of amounts that do not meet the definitions of "net investment in capital assets" or "restricted" and are available for Authority operations.

When restricted and unrestricted resources are available for its use, it is the Authority's policy to use restricted resources first.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$8,271 and \$13,595 for the years ended December 31, 2012 and 2011, respectively.

Note 3 - Cash Deposits and Investments

Cash Deposits

The Authority's available cash is invested in demand deposit accounts and petty cash. The carrying amounts of the cash deposits and investments at December 31 consist of the following:

	<u>2012</u>	<u>2011</u>
Cash Deposits		
Cash and cash equivalents	\$ 1,475,043	\$ 1,233,414
Petty cash	23,355	22,755
	<u>\$ 1,498,398</u>	<u>\$ 1,256,169</u>
Investments		
Cash and cash equivalents	\$ 1,104,421	\$ 1,131,071
Fixed income	1,948,050	1,936,950
	<u>\$ 3,052,471</u>	<u>\$ 3,068,021</u>

The Authority has custodial credit risk on cash deposits. This is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 3 - Cash Deposits and Investments (continued)

Cash Deposits (continued)

As of December 31, 2012 and 2011, the Authority's cash deposits were \$1,475,043 and \$1,233,414, respectively. The bank balances as of December 31, 2012 and 2011 were \$1,317,600 and \$1,154,985, respectively, of which \$784,062 and \$709,831, respectively, was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name.

Investments

As of December 31, 2012 and 2011, the Authority had the following investments and maturities:

Investment Type	Investment Maturities (in Years)		
	Total Fair Value	Less Than One Year	Greater Than 10 Years
December 31, 2012			
U.S. Government Money Market Fund	\$ 1,104,421	\$ 1,104,421	\$ -
U.S. Government Securities Fixed Income Securities	1,948,050	-	1,948,050
	<u>\$ 3,052,471</u>	<u>\$ 1,104,421</u>	<u>\$ 1,948,050</u>
December 31, 2011			
U.S. Government Money Market Fund	\$ 1,131,071	\$ 1,131,071	\$ -
U.S. Government Securities Fixed Income Securities	1,936,950	-	1,936,950
	<u>\$ 3,068,021</u>	<u>\$ 1,131,071</u>	<u>\$ 1,936,950</u>

As of December 31, 2012 and 2011, the Authority's investments in United States Treasury Notes were rated AA+ by Standard & Poor's. The Authority's investment in Goldman Sachs Financial Squares Treasury Obligation Money Market Fund was not rated.

The Authority is authorized by statutes to invest its funds in certain governmental obligations as described in Note 1. The Authority's investment policy is consistent with these limitations.

As a means of managing its exposure to fair value losses arising from changes in interest rates, the Authority's investment policy permits investments with a maturity date in excess of 18 months provided market conditions and projected use of funds warrants a longer term.

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 4 - Capital Assets

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

	2012			Balance December 31, 2012
	Balance January 1, 2012	Additions	Deletions	
Capital Assets Not Being Depreciated				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital Assets Being Depreciated				
Parking garages, lots, and rental complex	31,943,635	348,044	-	32,291,679
Office furnishings and equipment	81,233	12,191	-	93,424
Equipment	3,318,076	32,340	-	3,350,416
Vehicles	74,862	23,956	9,975	88,843
Total Capital Assets Being Depreciated	35,417,806	416,531	9,975	35,824,362
Less Accumulated Depreciation For				
Parking garages, lots, and rental complex	17,547,538	555,221	-	18,102,759
Office furnishings and equipment	64,178	7,335	-	71,513
Equipment	1,174,461	304,236	-	1,478,697
Vehicles	37,989	16,794	9,793	44,990
Total Accumulated Depreciation	18,824,166	883,586	9,793	19,697,959
Total Capital Assets Being Depreciated, Net	16,593,640	(467,055)	182	16,126,403
	\$ 20,289,511	\$ (467,055)	\$ 182	\$ 19,822,274

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 4 - Capital Assets (continued)

	2011			Balance December 31, 2011
	Balance January 1, 2011	Additions	Deletions	
Capital Assets Not Being Depreciated				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital Assets Being Depreciated				
Parking garages, lots, and rental complex	31,672,342	395,916	124,623	31,943,635
Office furnishings and equipment	74,533	6,700	-	81,233
Equipment	3,025,065	293,011	-	3,318,076
Vehicles	77,112	-	2,250	74,862
Total Capital Assets Being Depreciated	34,849,052	695,627	126,873	35,417,806
Less Accumulated Depreciation For				
Parking garages, lots, and rental complex	16,765,937	781,601	-	17,547,538
Office furnishings and equipment	58,055	6,123	-	64,178
Equipment	850,403	324,058	-	1,174,461
Vehicles	29,911	9,842	1,764	37,989
Total Accumulated Depreciation	17,704,306	1,121,624	1,764	18,824,166
Total Capital Assets Being Depreciated, Net	17,144,746	(425,997)	125,109	16,593,640
	<u>\$ 20,840,617</u>	<u>\$ (425,997)</u>	<u>\$ 125,109</u>	<u>\$ 20,289,511</u>

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 5 - Advanced Refunding

On September 15, 2007, the Authority issued \$29,460,000 in Parking Revenue Bonds, \$20,385,000 of tax-exempt Series A money with an average interest rate of 4.90%, and \$9,075,000 of taxable Series B money with an average interest rate of 5.94%, to advance refund \$17,980,000 of outstanding 1992 and 1993 Series Bonds with average interest rates on both series of zero percent (zero coupon bonds) and repay in full \$700,000 of an outstanding 2003 note with a flat rate of 6.65%. The net proceeds of \$29,098,327 (after payment of \$361,673 in underwriting fees, insurance, and other issuance costs) plus an additional \$755,000 of 1992 sinking fund monies were used to purchase U.S. Government securities. Of the total monies received by the Authority, \$13,484,995 was deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 and 1993 bonds. The balance of the 2003 note, \$700,000, and related interest expense totaling \$6,452, was paid off in full with proceeds from the new debt issue. As a result, the 1992 and 1993 Series Bonds are considered to be defeased and the liability for those bonds has been removed from the Authority's balance sheet. The remaining bond issuance will be used to finance the construction of a new parking garage.

The Authority refunded its 1992 bonds, 1993 bonds, and 2003 note in order to restructure its debt to accommodate the issuance of the 2007 bonds attributable to the new capital project in the most efficient manner possible and allow the Authority greater flexibility to issue additional debt to meet its future capital expenditure needs.

Note 6 - Unamortized Bond Discounts, Reacquisition Costs, and Interest Costs

The bond discounts and interest costs of the various issues of the Parking Revenue Bonds are being amortized using the effective interest method over the terms of the bonds. The reacquisition costs are being amortized using the effective interest rate method over the remaining lives of the old bond issue. Amortized interest expense totaled \$56,018 and \$114,624 during 2012 and 2011, respectively. The bond discounts, reacquisition costs, and interest costs and the related accumulated amortization are as follows:

	Unamortized Bond Discount and Interest Costs		
	Series A of 2007	Series B of 2007	Total
Balance at December 31, 2010	\$ 308,981	\$ 203,689	\$ 512,670
2011 interest expense	(45,205)	(68,819)	(114,024)
Balance at December 31, 2011	263,776	134,870	398,646
2012 interest expense	(42,699)	(13,319)	(56,018)
Balance at December 31, 2012	\$ 221,077	\$ 121,551	\$ 342,628

The bond discounts, reacquisition costs (deferred loss), original issue discounts, and interest costs are presented as a reduction of the outstanding debt, in accordance with accounting principles generally accepted in the United States of America.

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 7 - Long-Term Debt

1992, 1993, 2003, and 2007 Bond Issues

The Parking Revenue Bonds of 1992, 1993, and 2003 are secured by a trust indenture dated December 31, 1985, and supplemental trust indentures dated January 15, 1992, December 14, 1993, and January 1, 1996, respectively, all issued by the Authority to the Trustee. The bonds are payable out of revenue derived principally from the operation of the parking facilities. The City of Lancaster has guaranteed (under the terms of a lease agreement dated December 31, 1985, as amended by supplemental issues dated January 15, 1992, December 14, 1993, and January 1, 1996) debt service payments to the Trustee.

On September 15, 2007, as described in Note 5, the 1992 and 1993 series were defeased and the 2003 note was paid in full with issuance of 2007 Series A and B Parking Revenue Bonds. The 2007 bonds are secured by a trust indenture dated September 15, 2007. Debt service payments are guaranteed by the City of Lancaster with a guaranty agreement dated September 15, 2007. The bonds are payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the 2007 Series A Bond range from 3.65 to 5.00%. Interest rates on the 2007 Series B Bond range from 5.60 to 5.95%.

	Balance January 1, 2012	Additions	Repayments	Balance December 31, 2012	Amounts Due Within 1 Year
2007 Series A Parking Revenue Bonds	\$ 18,725,000	\$ -	\$ 620,000	\$ 18,105,000	\$ 645,000
2007 Series B Parking Revenue Bonds	8,550,000	-	10,000	8,540,000	10,000
	<u>\$ 27,275,000</u>	<u>\$ -</u>	<u>\$ 630,000</u>	<u>\$ 26,645,000</u>	<u>\$ 655,000</u>
	Balance January 1, 2011	Additions	Repayments	Balance December 31, 2011	
2007 Series A Parking Revenue Bonds	\$ 19,285,000	\$ -	\$ 560,000	\$ 18,725,000	
2007 Series B Parking Revenue Bonds	8,600,000	-	50,000	8,550,000	
	<u>\$ 27,885,000</u>	<u>\$ -</u>	<u>\$ 610,000</u>	<u>\$ 27,275,000</u>	

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 7 - Long-Term Debt (continued)

1992, 1993, 2003, and 2007 Bond Issues (continued)

Future maturities are as follows:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2013	\$ 655,000	\$	1,383,772	\$	2,038,772
2014	690,000		1,357,396		2,047,396
2015	715,000		1,329,532		2,044,532
2016	745,000		1,300,667		2,045,667
2017	785,000		1,263,306		2,048,306
2018 - 2022	4,665,000		5,567,433		10,232,433
2023 - 2027	6,160,000		4,035,590		10,195,590
2028 - 2032	7,880,000		2,308,000		10,188,000
2033 - 2035	4,350,000		375,000		4,725,000
	<u>\$ 26,645,000</u>	<u>\$</u>	<u>18,920,696</u>	<u>\$</u>	<u>45,565,696</u>

Elevator Loan

During 2010, the Authority obtained additional bank financing of \$1,500,000 to upgrade its elevators in the garages. Principal is paid in ten equal annual installments of \$150,000. Interest is fixed at 4.31% through August 1, 2020, when the loan is scheduled to be paid in full.

	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance December 31, 2012</u>	<u>Amounts Due Within 1 Year</u>
Elevator Loan Payable	\$ 1,350,000	\$ -	\$ 150,000	\$ 1,200,000	\$ 150,000

	<u>Balance January 1, 2011</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance December 31, 2011</u>
Elevator Loan Payable	\$ 1,500,000	\$	\$ 150,000	\$ 1,350,000

Future maturities are as follows:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2013	\$ 150,000	\$	51,720	\$	201,720
2014	150,000		45,255		195,255
2015	150,000		38,790		188,790
2016	150,000		32,325		182,325
2017	150,000		25,860		175,860
2018 - 2020	450,000		38,790		488,790
	<u>\$ 1,200,000</u>	<u>\$</u>	<u>232,740</u>	<u>\$</u>	<u>1,432,740</u>

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 7 - Long-Term Debt (continued)

Interest Expense

Interest expense on all bonds totaled \$1,403,003 and \$1,433,028 for the years ended December 31, 2012 and 2011, respectively. Interest expense on the elevator loan totaled \$59,352 and \$64,894 for the years ended December 31, 2012 and 2011, respectively.

Defeased Debt

On December 31, 1985, the Authority funded the outstanding balance of \$13,825,000 of the Parking Revenue Bonds of the 1968 issue and the 1972 issue, by irrevocably placing in trust, direct obligations of the United States of America sufficient to satisfy the semi-annual interest payments and bond redemption requirements. The bonds considered to be extinguished for financial reporting purposes are excluded from the statement of net position. The Trustee retired \$415,000 of this debt in 2012 and \$735,000 in 2011. The debt has been fully retired as of December 31, 2012.

On September 15, 2007, the Authority funded the outstanding balance of \$17,980,000 of the Parking Revenue Bonds of the 1992 issue and the 1993 issue, by irrevocably placing in trust, direct obligations of the United States of America sufficient to satisfy the semi-annual interest payments and bond redemption requirements. The bonds considered to be extinguished for financial reporting purposes are excluded from the statement of net position. The Trustee retired \$2,135,000 of this debt in 2012 and \$1,380,000 in 2011.

A summary of outstanding funded bonds at December 31, is as follows:

	<u>2012</u>	<u>2011</u>
Series of 1992 and 1993		
Bonded debt outstanding	\$ 6,980,000	\$ 9,115,000
Funds on deposit with Trustee at market value	\$ 6,359,287	\$ 8,144,257
Series of 1968 and 1972		
Bonded debt outstanding	\$ -	\$ 415,000
Funds on deposit with Trustee at market value	\$ -	\$ 396,192

Note 8 - Pension Plan

The Authority's defined benefit pension plan, The Parking Authority of the City of Lancaster Employee Pension Plan, provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension plan is affiliated with the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer pension plan administered by an independent state agency created by the Pennsylvania General Assembly in 1974 to administer local government pension plans. The Authority to participate in the PMRS Plan and to select specific benefit options rests with the Board of Directors of the Authority. The PMRS issues a publicly available comprehensive annual financial report (CAFR). A copy of the CAFR can be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165 or by calling 1-800-622-7968.

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 8 - Pension Plan (continued)

Funding Policy

Plan participants are required to contribute 3.50% of their total compensation. The Authority is required to contribute at an actuarially determined rate; the current rate is 7.87% of annual covered payroll. The contribution requirement of the Authority is established and may be amended by PMRS. The contribution requirement of the Plan participants is established by the Board of Directors of the Authority.

Annual Pension Cost

The Authority had an annual pension cost of \$14,139 and \$13,372 for the years ended December 31, 2012 and 2011, respectively, which equaled the Authority's required and actual contribution. The required contribution was determined as a part of the actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include: (a) 6.00% investment rate of return (net of administration expense), (b) projected salary increases using an age-related scale for merit/seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%; 2.0% added for each of the first 3 years of service), including inflation at 3.0%, and (c) disability rates equal to 50% of the rates set forth in the 1964 OASPI (Social Security) experience.

The following is a summary of the last three years:

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligations</u>
12/31/2010	\$ 10,008	100 %	\$ -
12/31/2011	\$ 13,372	100	\$ -
12/31/2012	\$ 14,139	100	\$ -

The funded status of the Authority's Pension Plan as of January 1, 2011, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>(Overfunded) Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ration (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/2011	<u>\$ 1,487,813</u>	<u>\$ 1,336,517</u>	<u>\$ (151,296)</u>	<u>111.32 %</u>	<u>\$ 362,428</u>	<u>(41.75) %</u>

The Parking Authority of the City of Lancaster

Notes to Financial Statements

December 31, 2012 and 2011

Note 9 - Related Party Transactions - City of Lancaster

The following is a summary of transactions which occurred during the years ended December 31, 2012 and 2011 with the City of Lancaster. These transactions represent expenses for the Authority reflected in operating expenses in the statement of revenues, expenses, and changes in net position.

	<u>2012</u>	<u>2011</u>
Water and Sewer Services	\$ 5,420	\$ 5,212

Note 10 - Penn Square Lease Agreement

In 2007, the Authority entered into a lease agreement with Penn Square Partners. The lease provides Penn Square Partners with 300 guaranteed spaces, and the option to modify the Penn Square Garage. All modifications are paid by the Authority upon approval and are then reimbursed by the lessee. In the event of lease termination or cancellation, the lessee is responsible for all expenses required to revert the Penn Square Garage to its original form that existed prior to the lease agreement.

Note 11 - Reclassifications

Certain items in the 2011 financial statements have been reclassified to conform to the 2012 financial statement presentation. These reclassifications had no impact on the 2011 net income as previously reported.

Note 12 - Subsequent Events

The Authority has evaluated subsequent events through June 27, 2013. This date is the date the financial statements were issued. No subsequent events requiring disclosure were noted.

The Parking Authority of the City of Lancaster

Schedule of Funding Progress - Unaudited
 Years Ended December 31, 2012 and 2011

Actuarial Valuation January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as of Percentage of Completed Payroll [(b-a)/c]
2007	\$ 1,335,840	\$ 1,129,900	\$ (205,940)	118.23%	\$ 326,253	(63.12)%
2009	\$ 1,441,908	\$ 1,224,520	\$ (217,388)	117.75%	\$ 413,241	(52.61)%
2011	\$ 1,487,813	\$ 1,336,517	\$ (151,296)	111.32%	\$ 362,428	(41.75)%

The Parking Authority of the City of Lancaster

Notes to Supplementary Information

December 31, 2012 and 2011

The information presented in the supplementary information on page 26 was determined as part of the actuarial valuations at the dates indicated. Additional information as of the actuarial latest valuation date used to determine the Annual Required Contributions (ARC) is as follows:

Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Entry age, normal
Amortization Method	Level dollar, closed
Actuarial Valuation Method	Fair value
Actuarial Assumptions	
Investment rate of return	6.00 %
Projected salary increases*	Age-related scale for merit/seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%; 2.0% is added for each of the first 3 years of service)

* Includes inflation at 3.00%