

**The Parking Authority of the
City of Lancaster
(A Component Unit of the City of
Lancaster, Pennsylvania)**

Financial Statements and Required
Supplementary Information

Years Ended December 31, 2014 and 2013 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
www.md-cpas.com

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

YEARS ENDED DECEMBER 31, 2014 AND 2013

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis	i
---	---

Financial Statements:

Statements of Net Position	1
Statements of Revenues, Expenses, and Changes in Net Position	3
Statements of Cash Flows	4
Notes to Financial Statements	5

Required Supplementary Information:

Historical Pension Information	20
Note to Required Supplementary Information	21

Independent Auditor's Report

Board of Directors
The Parking Authority of the City of Lancaster

We have audited the accompanying financial statements of The Parking Authority of the City of Lancaster (Authority), a component unit of the City of Lancaster, Pennsylvania, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority'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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i to vi and the Historical Pension Information on pages 20 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maher Duessel

Harrisburg, Pennsylvania
April 23, 2015

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2014 and 2013

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 operates over 1000 parking metered spaces which reside both on city streets and at an off-street lot at the Lancaster Public Library.

In March 2014, the Authority began managing the North Queen Street Garage under an agreement with the Redevelopment Authority of the City of Lancaster. The initial term of the agreement is five years and is automatically renewable for up to five successive ten year terms.

In October 2014, the Authority began managing the Central Garage under an agreement with Lancaster Newspapers, Inc. The initial term of the agreement is three years and three months with no automatic renewal option.

Financial Requirements

The Authority is a self-supporting municipal authority 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 2007 bonds are scheduled to mature in 2035.

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2014 and 2013

The following discussion and analysis of the Authority's activities and financial performance provides an introduction and overview to the Authority's basic financial statements for the fiscal years ended December 31, 2014, 2013, and 2012. Please read it in conjunction with Authority's financial statements.

Financial Highlights

- The Authority's net position increased by \$1,052,031 for the year ended December 31, 2014. This compares to a \$311,324 increase and a \$563,104 increase in net position for the years ended December 31, 2013 and 2012, respectively.
- The Authority's operating revenues increased approximately 4%, or \$195,849, to \$5,072,453 for the year ended December 31, 2014 compared to operating revenues of \$4,876,604 and \$4,766,429 for the years ended December 31, 2013 and 2012, respectively.
- The Authority's operating expenses increased by slightly less than 1% or \$22,888, to \$3,019,282. This compares to operating expenses of \$2,996,394 and \$2,832,767 for the years ended December 31, 2013 and 2012, respectively. Operating expenses included depreciation expense, which is a noncash expense, of \$1,007,402, \$981,806, and \$883,586 for the years ending December 31, 2014, 2013, and 2012, 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 required 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 presents 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 presents information on the effects of changes in assets, deferred outflows and inflows of resources, and liabilities have on cash during the course of the fiscal year.

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2014 and 2013

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.

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 and deferred outflows of resources by \$1,924,587, \$2,976,618 and \$3,287,942 at December 31, 2014, 2013, and 2012, respectively.

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

Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current unrestricted assets	\$ 1,571,420	\$ 1,629,273	\$ 1,674,295
Current restricted assets	3,463,726	3,070,592	3,052,471
Capital assets, net	18,973,216	19,361,878	19,822,274
Total Assets	24,008,362	24,061,743	24,549,040
Total Deferred Outflows of Resources	19,554	39,108	65,179
Current unrestricted liabilities	160,511	159,538	195,052
Current restricted liabilities	988,648	972,301	944,558
Elevator loan payable	450,000	900,000	1,050,000
Bond payable	24,585,000	25,300,000	25,990,000
Less discount and interest costs	(231,656)	(254,370)	(277,449)
Total Liabilities	25,952,503	27,077,469	27,902,161
Net investment in capital assets	(3,211,848)	(4,314,052)	(4,627,627)
Unrestricted	1,287,261	1,337,434	1,339,685
Total Net Position	\$ (1,924,587)	\$ (2,976,618)	\$ (3,287,942)

The largest portion of the Authority's net position, \$(3,211,848) 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, 2014, compared to \$(4,314,052) and \$(4,627,627) as of December 31, 2013 and 2012, respectively. The Authority's operating revenues are derived primarily 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 Lancaster County Convention Center and other large venues. During the year ended December 31, 2014, the Authority invested in structural improvements and repairs to the garages and lots and vehicles; as well as, significant additions to garage equipment to automate customer payment systems. During the year ended

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2014 and 2013

December 31, 2013, the Authority invested in structural improvements and repairs to the garages, lots and office, as well as upgrades to equipment. 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.

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

	2014	2013	2012
Operating Revenues			
Parking garages and lots	\$ 4,057,142	\$ 3,878,526	\$ 3,880,502
Parking meters	952,601	998,078	885,927
Parking management	62,710	-	-
Total Operating Revenues	<u>5,072,453</u>	<u>4,876,604</u>	<u>4,766,429</u>
Operating Expenses, Excluding Depreciation	<u>2,011,880</u>	<u>2,014,588</u>	<u>1,949,181</u>
Provision for Depreciation	<u>1,007,402</u>	<u>981,806</u>	<u>883,586</u>
Total Operating Expenses	<u>3,019,282</u>	<u>2,996,394</u>	<u>2,832,767</u>
Operating Income	<u>2,053,171</u>	<u>1,880,210</u>	<u>1,933,662</u>
Non-Operating Revenues (Expense)			
Unrealized gain (loss) on investments	327,095	(300,618)	11,100
Gain on sale of assets	2,913	-	743
Investment income	67,194	67,171	64,477
Interest expense	(1,436,785)	(1,478,067)	(1,518,373)
Insurance proceeds	-	107,549	-
Miscellaneous income	38,443	35,079	71,495
Total Net Non-Operating Revenues (Expenses)	<u>(1,001,140)</u>	<u>(1,568,886)</u>	<u>(1,370,558)</u>
Increase (Decrease) in Net Position	<u>1,052,031</u>	<u>311,324</u>	<u>563,104</u>
Net Position (Deficit), Beginning	<u>(2,976,618)</u>	<u>(3,287,942)</u>	<u>(3,851,046)</u>
Net Position (Deficit), Ending	<u>\$ (1,924,587)</u>	<u>\$ (2,976,618)</u>	<u>\$ (3,287,942)</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, 2014 and 2013

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, 2014, 2013, and 2012 totaled \$622,826, \$521,410 and \$416,531, respectively. The Authority's investments in capital assets as of December 31, 2014, 2013, and 2012, net of accumulated depreciation were as follows:

	Capital Assets at December 31		
	2014	2013	2012
Land	\$ 3,695,871	\$ 3,695,871	\$ 3,695,871
Parking garages/lots	33,163,140	32,795,704	32,291,679
Office furnishings and equipment	93,424	93,424	93,424
Equipment	3,614,941	3,367,801	3,350,416
Vehicles	82,669	88,843	88,843
	40,650,045	40,041,643	39,520,233
Less accumulated depreciation	21,676,829	20,679,765	19,697,959
Net Capital Assets	\$ 18,973,216	\$ 19,361,878	\$ 19,822,274

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

Debt Administration

As of December 31, 2014, the Authority had \$25,300,000 of outstanding bonded debt compared to \$25,990,000 and \$26,645,000 for the years ended December 31, 2013 and 2012, 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, 2014 is \$600,000 and was \$1,050,000 and \$1,200,000 as of December 31, 2013 and 2012, respectively.

More detailed information about the Authority's long-term debt is presented in Notes 5 and 6 to the financial statements.

The Parking Authority of the City of Lancaster

Management's Discussion and Analysis

December 31, 2014 and 2013

Economic Condition and Outlook

The Authority's financial outlook remains strong as demand increases for on-street and off-street parking, based on economic development, business and residential activity in the city. Current parking conditions are outlined in a white paper on the state of parking in the City and highlight that the majority of garages and lots in the City will be at capacity within the next several years and the need for new inventory may be warranted if economic conditions continue on an upward projection. The Authority has taken on the management of two garages outside its portfolio which has diversified its revenue stream and is pursuing the handling of parking enforcement from the city as another potential new revenue stream.

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 Director of Finance and Administration, The Parking Authority of the City of Lancaster at P.O. Box 866, Lancaster, PA 17608-0866.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

STATEMENTS OF NET POSITION

DECEMBER 31, 2014 AND 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 1,117,133	\$ 1,347,612
Investments	357,275	162,819
Accounts receivable	30,443	11,236
Prepaid expenses	66,569	107,606
Total current assets	1,571,420	1,629,273
Restricted assets:		
Investments	3,463,726	3,070,592
Capital assets:		
Capital assets not being depreciated:		
Land	3,695,871	3,695,871
Capital assets being depreciated:		
Parking garages, lots, and rental complex	33,163,140	32,795,704
Office furnishings and equipment	93,424	93,424
Equipment	3,614,941	3,367,801
Vehicles	82,669	88,843
	36,954,174	36,345,772
Less accumulated depreciation	(21,676,829)	(20,679,765)
	15,277,345	15,666,007
Capital assets, net	18,973,216	19,361,878
Total Assets	24,008,362	24,061,743
Deferred Outflows of Resources		
Deferred charge on debt refunding, net of accumulated amortization	19,554	39,108
Total Deferred Outflows of Resources	19,554	39,108

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

Liabilities	2014	2013
Current liabilities (payable from current unrestricted assets):		
Trade accounts payable	58,318	51,683
Accrued salaries	33,058	29,196
Accrued payroll taxes	78	861
Revenue received in advance	69,057	77,798
Total current liabilities (payable from current unrestricted assets)	160,511	159,538
Current liabilities (payable from restricted assets):		
Accrued interest	123,648	132,301
Current portion of elevator loan payable	150,000	150,000
Current portion of revenue bonds payable	715,000	690,000
Total current liabilities (payable from restricted assets)	988,648	972,301
Long-term debt - less current portion:		
Elevator loan payable	450,000	900,000
Revenue bonds payable	24,585,000	25,300,000
Less unamortized bond discount	(231,656)	(254,370)
Total long-term debt	24,803,344	25,945,630
Total Liabilities	25,952,503	27,077,469
Net Position		
Net investment in capital assets	(3,211,848)	(4,314,052)
Unrestricted	1,287,261	1,337,434
Total Net Position	\$ (1,924,587)	\$ (2,976,618)

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Operating Revenues:		
Parking garages and lots	\$ 4,057,142	\$ 3,878,526
Parking meters	952,601	998,078
Parking management	62,710	-
Total operating revenues	5,072,453	4,876,604
Operating Expenses:		
Operating expenses, excluding depreciation	(2,011,880)	(2,014,588)
Operating income before depreciation	3,060,573	2,862,016
Provision for depreciation	(1,007,402)	(981,806)
Operating Income	2,053,171	1,880,210
Nonoperating Revenues (Expenses):		
Unrealized gain (loss) on investments	327,095	(300,618)
Gain on sale of assets	2,913	-
Investment income	67,194	67,171
Interest expense	(1,436,785)	(1,478,067)
Insurance proceeds	-	107,549
Miscellaneous income	38,443	35,079
Total nonoperating expenses	(1,001,140)	(1,568,886)
Change in Net Position	1,052,031	311,324
Net Position:		
Beginning of year	(2,976,618)	(3,287,942)
End of year	\$ (1,924,587)	\$ (2,976,618)

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

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities:		
Cash received from customers	\$ 5,082,948	\$ 4,879,392
Cash payments to suppliers for goods and services	(1,042,648)	(1,016,971)
Cash payments to employees for services	(918,481)	(943,785)
Net cash provided by operating activities	3,121,819	2,918,636
Cash Flows from Noncapital Financing Activities:		
Insurance proceeds	-	107,549
Net cash provided by noncapital financing activities	-	107,549
Cash Flows from Capital and Related Financing Activities:		
Capital asset purchases	(622,826)	(521,410)
Proceeds from sale of capital assets	7,000	-
Interest paid on bonds and loans	(1,403,170)	(1,436,174)
Payments to redeem bonds and loans	(1,140,000)	(805,000)
Net cash used in capital and related financing activities	(3,158,996)	(2,762,584)
Cash Flows from Investing Activities:		
Sale of investments	6,917,485	6,937,067
Purchases of investments	(7,177,981)	(7,190,633)
Interest received on investments	67,194	67,171
Net cash used in investing activities	(193,302)	(186,395)
Net Increase (Decrease) in Cash and Cash Equivalents	(230,479)	77,206
Cash and Cash Equivalents:		
Beginning of year	1,347,612	1,270,406
End of year	\$ 1,117,133	\$ 1,347,612
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 2,053,171	\$ 1,880,210
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,007,402	981,806
Miscellaneous income	38,443	35,079
(Increase) decrease in assets:		
Accounts receivable	(19,207)	12,113
Prepaid expenses	41,037	44,942
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	9,714	8,890
Revenue received in advance	(8,741)	(44,404)
Net cash provided by operating activities	\$ 3,121,819	\$ 2,918,636

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

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

1. NATURE OF ACTIVITY

The Parking Authority of the City of Lancaster (Authority) was incorporated January 4, 1967, by an ordinance of the City of Lancaster (City), 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 and has issued revenue bonds to acquire or construct the parking facilities. Each of the bond issues is secured by a trust indenture.

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

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

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

operations. The principal operating revenues of the Authority are charges to customers for parking services. Operating expenses include the cost of providing parking services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

Accounts Receivable

Accounts receivable are stated at outstanding balances. The Authority considers accounts receivable to be fully collectible. 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.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Capital Assets

Capital assets are carried in 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 \$1,007,402 and \$981,806 for the years ended December 31, 2014 and 2013, respectively.

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 statements of net position as unearned revenue.

Net Position

Net position is classified between two categories as follows:

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding debt associated with capital assets. Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Debt related to unspent proceeds or other restricted investments is excluded from the determination.

Unrestricted net position consists of amounts that are not restricted for any project or other purpose 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, then unrestricted resources as they are needed.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Use of Estimates

The preparation of the 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, deferred outflows of resources, liabilities, and disclosure of contingent 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.

Risk Management

The Authority 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. Significant losses are covered by commercial insurance. The Authority received \$107,549 in insurance proceeds during the year ended December 31, 2013. With the exception of these proceeds, settlement amounts have not exceeded insurance coverages for the years ended December 31, 2014 or the two prior years.

Pending Changes in Accounting Principles

In June of 2012, the GASB issued Statement No. 68, *“Accounting and Financial Reporting for Pensions.”* In addition, in November of 2013, the GASB issued Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date.”* These Statements revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of GASB Statements No. 68 and 71 are effective for the Authority’s December 31, 2015 financial statements.

In February of 2015, the GASB issued Statement No. 72, *“Fair Value Measurement and Application.”* This statement addresses accounting and financial reporting issues related to fair value measurements. This statement is effective for the Authority’s December 31, 2016 financial statements.

The effects of implementation of these Statements have not yet been determined.

Reclassification

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

3. DEPOSITS AND INVESTMENTS

Deposits

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

	<u>2014</u>	<u>2013</u>
Cash deposits:		
Cash and cash equivalents	\$ 1,081,502	\$ 1,325,639
Petty cash	<u>35,631</u>	<u>21,973</u>
	<u>\$ 1,117,133</u>	<u>\$ 1,347,612</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 Authority has custodial credit risk on cash deposits. The Authority has a deposit policy for custodial credit risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

As of December 31, 2014 and 2013, the Authority's cash deposits were \$1,117,133 and \$1,347,612, respectively. The bank balances as of December 31, 2014 and 2013 were \$1,087,897 and \$1,511,926, respectively. At December 31, 2014 and 2013, \$255,454 and \$255,202, respectively, was covered by federal depository insurance and \$832,443 and \$1,256,724, respectively, was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Investments

The Authority is authorized by statutes to invest its funds in certain governmental obligations as described in Note 2. The Authority's investment policy is consistent with these limitations.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

As of December 31, 2014 and 2013, the Authority had the following investments:

Investments	Fair Value
December 31, 2014	
Restricted:	
U.S. Government money market fund	\$ 1,489,196
U.S. Government securities fixed income securities	<u>1,974,530</u>
Total Restricted	<u><u>\$ 3,463,726</u></u>
Unrestricted:	
U.S. Government money market fund	<u><u>\$ 357,275</u></u>
December 31, 2013	
Restricted:	
U.S. Government money market fund	\$ 1,423,160
U.S. Government securities fixed income securities	<u>1,647,432</u>
Total Restricted	<u><u>\$ 3,070,592</u></u>
Unrestricted:	
U.S. Government money market fund	<u><u>\$ 162,819</u></u>

Custodial credit risk - Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have a formal policy that would limit its investment choices with regard to custodial credit risk. At December 31, 2014, all investments of the Authority are held by the financial institution's trust department or agency, in the Authority's name.

Concentration of credit risk - The Authority places no limits on the amount the Authority may invest in any one issuer.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

At December 31, 2014, more than five percent of the Authority's investments were held with the following issuers:

<u>December 31, 2014</u>	<u>Fair Value</u>	<u>Investments</u>
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	\$ 1,846,471	48.32%

Credit risk - The Authority does not have a formal policy that would limit its investment choices with regard to credit risk. As of December 31, 2014, the Authority's investments in the U.S. Government securities fixed income securities were rated AAA. As of December 31, 2014, the Authority's investments in the U.S. Government money market fund were rated AAA.

Interest rate risk - 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 warrant a longer term. At December 31, 2014, the Authority's U.S. Government money market fund investments had maturities of less than one year and the U.S. Government securities fixed income securities had maturities greater than 10 years.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

4. CAPITAL ASSETS

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

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
Capital assets not being depreciated:				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital assets being depreciated:				
Parking garages, lots, and rental complex	32,795,704	367,436	-	33,163,140
Office furnishings and equipment	93,424	-	-	93,424
Equipment	3,367,801	247,140	-	3,614,941
Vehicles	88,843	8,250	14,424	82,669
Total capital assets being depreciated	<u>36,345,772</u>	<u>622,826</u>	<u>14,424</u>	<u>36,954,174</u>
Less accumulated depreciation for:				
Parking garages, lots, and rental complex	18,772,713	723,309	-	19,496,022
Office furnishings and equipment	76,177	4,117	-	80,294
Equipment	1,771,415	266,249	-	2,037,664
Vehicles	59,460	13,727	10,338	62,849
Total accumulated depreciation	<u>20,679,765</u>	<u>1,007,402</u>	<u>10,338</u>	<u>21,676,829</u>
Total capital assets being depreciated, net	<u>15,666,007</u>	<u>(384,576)</u>	<u>4,086</u>	<u>15,277,345</u>
	<u>\$ 19,361,878</u>	<u>\$ (384,576)</u>	<u>\$ 4,086</u>	<u>\$ 18,973,216</u>

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
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	504,025	-	32,795,704
Office furnishings and equipment	93,424	-	-	93,424
Equipment	3,350,416	17,385	-	3,367,801
Vehicles	88,843	-	-	88,843
Total capital assets being depreciated	35,824,362	521,410	-	36,345,772
Less accumulated depreciation for:				
Parking garages, lots, and rental complex	18,102,759	669,954	-	18,772,713
Office furnishings and equipment	71,513	4,664	-	76,177
Equipment	1,478,697	292,718	-	1,771,415
Vehicles	44,990	14,470	-	59,460
Total accumulated depreciation	19,697,959	981,806	-	20,679,765
Total capital assets being depreciated, net	16,126,403	(460,396)	-	15,666,007
	\$ 19,822,274	\$ (460,396)	\$ -	\$ 19,361,878

5. UNAMORTIZED BOND DISCOUNTS AND DEFERRED CHARGE ON REFUNDING

The bond discounts of the various issues of the Parking Revenue Bonds are being amortized using the effective interest method over the terms of the bonds. The deferred charge on refunding is being amortized using the effective interest rate method over the remaining lives of the old bond issues. Amortized interest expense totaled \$42,268 and \$49,150 during the years ended December 31, 2014 and 2013, respectively.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

The bond discounts and deferred charge on refunding are as follows:

	Series A of 2007	Series B of 2007	Total
Balance at December 31, 2012	\$ 221,077	\$ 121,551	\$ 342,628
2013 interest expense	(35,846)	(13,304)	(49,150)
Balance at December 31, 2013	185,231	108,247	293,478
2014 interest expense	(28,980)	(13,288)	(42,268)
Balance at December 31, 2014	\$ 156,251	\$ 94,959	\$ 251,210

The bond discounts are presented as a reduction of the outstanding debt, in accordance with accounting principles generally accepted in the United States of America. The deferred charge on refunding is shown as a deferred outflow of resources.

6. LONG-TERM DEBT

The Parking Revenue Bonds of 1992, Parking Revenue Bonds of 1993, and 2003 Note were 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 were payable out of revenue derived principally from the operation of the parking facilities. The City 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. In accordance with the Guaranty Agreement, the City is required to make principal and interest payments on the bonds if the Authority fails to generate sufficient revenues to pay debt service. In accordance with the Reimbursement Agreement, if such payments are made by the City, the Authority is required to reimburse the City from any monies available for that purpose under the Trust Indenture.

On September 15, 2007, the 1992 and 1993 Series Bonds 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 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 Bonds range from 3.65 to 5.00%. Interest rates on the 2007 Series B Bonds range from 5.60 to 5.95%.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	Balance January 1, 2014	Additions	Repayments	Balance December 31, 2014	Amounts Due Within One Year
2007 Series A Parking Revenue Bonds	\$ 17,460,000	\$ -	\$ 675,000	\$ 16,785,000	\$ 700,000
2007 Series B Parking Revenue Bonds	8,530,000	-	15,000	8,515,000	15,000
	\$ 25,990,000	\$ -	\$ 690,000	\$ 25,300,000	\$ 715,000
	Balance January 1, 2013	Additions	Repayments	Balance December 31, 2013	Amounts Due Within One Year
2007 Series A Parking Revenue Bonds	\$ 18,105,000	\$ -	\$ 645,000	\$ 17,460,000	\$ 675,000
2007 Series B Parking Revenue Bonds	8,540,000	-	10,000	8,530,000	15,000
	\$ 26,645,000	\$ -	\$ 655,000	\$ 25,990,000	\$ 690,000

Future maturities are as follows:

	Principal	Interest	Total
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	830,000	1,218,088	2,048,088
2019	875,000	1,168,703	2,043,703
2020 - 2024	5,220,000	4,996,232	10,216,232
2025 - 2029	6,825,000	3,371,750	10,196,750
2030 - 2034	8,685,000	1,500,250	10,185,250
2035	620,000	31,000	651,000
	\$ 25,300,000	\$ 16,179,528	\$ 41,479,528

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Elevator Loan

During the year ended December 31, 2010, the Authority obtained bank financing of \$1,500,000 to upgrade elevators in the garages. Principal is to be paid in equal annual installments of \$150,000. During the year ended December 31, 2014, the Authority paid \$300,000 in excess of the amount due. As a result, the life of the loan decreased by two years and the balance will be fully repaid by 2018. Interest is fixed at 4.31%.

	Balance January 1, 2014	Additions	Repayments	Balance December 31, 2014	Amounts Due Within One Year
Elevator Loan Payable	\$ 1,050,000	\$ -	\$ 450,000	\$ 600,000	\$ 150,000
	\$ 1,050,000	\$ -	\$ 450,000	\$ 600,000	\$ 150,000
	Balance January 1, 2013	Additions	Repayments	Balance December 31, 2013	Amounts Due Within One Year
Elevator Loan Payable	\$ 1,200,000	\$ -	\$ 150,000	\$ 1,050,000	\$ 150,000
	\$ 1,200,000	\$ -	\$ 150,000	\$ 1,050,000	\$ 150,000

Future maturities are as follows:

	Principal	Interest	Total
2015	\$ 150,000	\$ 23,150	\$ 173,150
2016	150,000	16,738	166,738
2017	150,000	10,220	160,220
2018	150,000	3,755	153,755
	\$ 600,000	\$ 53,863	\$ 653,863

Interest Expense

Interest expense on all bonds totaled \$1,357,392 and \$1,381,573 for the years ended December 31, 2014 and 2013, respectively. Interest expense on the elevator loan totaled \$37,125 and \$47,344 for the years ended December 31, 2014 and 2013, respectively.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Defeased Debt

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 are considered to be extinguished for financial reporting purposes and are excluded from the statements of net position. The Trustee retired \$1,745,000 and \$1,745,000 of this debt in 2014 and 2013, respectively.

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

	<u>2014</u>	<u>2013</u>
Series of 1992 and 1993		
Bonded debt outstanding	\$ 3,490,000	\$ 5,235,000
Funds on deposit with Trustee at fair value	\$ 3,265,159	\$ 4,830,994

7. 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 Systems, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165 or by calling 1-800-622-7968.

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 8.97% 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.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Annual Pension Cost

The Authority had an annual pension cost of \$6,907 and \$2,736 for the years ended December 31, 2014 and 2013, 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, closed level dollar actuarial cost method. The actuarial assumptions include: (a) 5.5% 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 three years of services), including inflation at 3.0%, and (c) disability rates equal to 40% of the rates set forth in the 1964 OASPI (Social Security) experience.

The following is a summary of the last three years:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12/31/2012	\$ 14,139	100%
12/31/2013	2,736	100%
12/31/2014	6,907	100%

The schedules of funding progress, presented as required supplementary information following the notes to financial statements, present 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.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	AAL as a Percentage of Covered Payroll ((a-b)/c)
1/1/2013	\$ 1,527,779	\$ 1,355,760	\$ 172,019	112.7%	\$ 370,246	46.5%

8. 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

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

responsible for all expenses required to revert the Penn Square Garage to its original form that existed prior to the lease agreement.

9. TRANSACTIONS WITH PRIMARY GOVERNMENT – CITY OF LANCASTER

During the years ended December 31, 2014 and 2013, the City paid the Authority \$130,027 and \$127,192, respectively, for employee parking. These transactions are reported as parking garages and lots revenue in the Statements of Revenues, Expenses, and Changes in Net Position.

**Required Supplementary
Information**

**THE PARKING AUTHORITY OF THE
CITY OF LANCASTER**

HISTORICAL PENSION INFORMATION
(REQUIRED SUPPLEMENTARY INFORMATION)

(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation January 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Funded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	AAL as of Percentage of Covered Payroll ((a-b)/c)
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%
2013	1,527,779	1,355,760	172,019	112.69%	370,246	46.46%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

	Annual Required Contribution	Percentage Contributed
2009	\$ 5,479	100.00%
2010	10,008	100.00%
2011	13,371	100.00%
2012	14,139	100.00%
2013	2,736	100.00%
2014	6,907	100.00%

See accompanying note to required supplementary information.

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2014

The information presented in the required supplementary information on page 20 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 Pension Cost (APC) is as follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.5%
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 three years of services), including inflation at 3.0%