

**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, 2017 and 2016
with Independent Auditor's Report

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

YEARS ENDED DECEMBER 31, 2017 AND 2016

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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, as of and for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, 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 vii and the historical pension plan information, as listed in the table of contents, 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
May 24, 2018

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Management's Discussion and Analysis

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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 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 and Mifflin Street. The Authority operates over 1000 metered parking 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. In 2017, the agreement was renewed for one year, with an optional second year.

In January 2017, the Authority began managing most aspects of parking enforcement operations under an agreement with the City. The term of the agreement is three years with no automatic renewal option. The agreement provides for a performance review at 18 months, with an option by either party to terminate the agreement after said review with five months' notice to the other party.

Financial Requirements

The Authority is a self-supporting municipal authority with financial responsibility to manage and maintain its properties on behalf of the City 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.

In December 2016, the Authority advance refunded and defeased the 2007 Series A and Series B Revenue Bonds with the issuance of 2016 Parking Revenue Bonds (Series of 2016 and Series of

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Management's Discussion and Analysis

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2016A). The City 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

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, 2017, 2016, and 2015. Please read it in conjunction with Authority's financial statements.

Financial Highlights

- The Authority's net position increased by \$2,249,656 for the year ended December 31, 2017. This compares to a \$1,266,260 and \$897,349 increase in net position for the years ended December 31, 2016 and 2015, respectively.
- The Authority's operating revenues increased approximately 47%, or \$2,864,758 to \$8,908,958 for the year ended December 31, 2017 compared to operating revenues of \$6,044,200 and \$5,527,525 for the years ended December 31, 2016 and 2015, respectively. The 2017 increase is primarily attributable to the addition of parking enforcement revenues. Excluding parking enforcement, operating revenues increased approximately 5%, or \$273,734 for the year ended December 31, 2017.
- The Authority's operating expenses increased by 70% or \$2,489,760, to \$6,029,437. This compares to operating expenses of \$3,539,677 and \$3,132,074 for the years ended December 31, 2016 and 2015, respectively. The 2017 increase in operating expenses is primarily due to the addition of parking enforcement operations. Operating expenses included depreciation expense, which is a noncash expense, of \$1,154,036, \$1,106,170, and \$1,007,609 for the years ending December 31, 2017, 2016, and 2015, 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 timing 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

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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.

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, assets and deferred outflows of resources were greater than liabilities and deferred inflows of resources by \$2,669,763 and \$420,107 as of December 31, 2017 and 2016, respectively. Liabilities and deferred inflows of resources were greater than assets and deferred outflows of resources by \$846,153 at December 31, 2015.

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

Condensed Statement of Net Position

	2017	2016	2015
Current unrestricted assets	\$ 5,278,974	\$ 3,028,933	\$ 2,164,497
Current restricted assets	2,725	3,848	3,452,556
Capital assets, net	19,125,996	19,102,019	18,548,802
Net pension asset	14,115	33,084	190,100
Total Assets	24,421,810	22,167,884	24,355,955
Total Deferred Outflows of Resources	1,335,565	1,489,594	14,098
Current unrestricted liabilities	2,316,734	1,308,537	253,286
Current restricted liabilities	-	-	1,012,182
Elevator loan payable	-	150,000	300,000
Bond payable	20,370,000	21,300,000	23,840,000
Unamortized bond premium (discount)	400,878	478,834	(209,329)
Total Liabilities	23,087,612	23,237,371	25,952,503
Total Deferred Inflows of Resources	-	-	20,067
Net investment in capital assets	(1,475,317)	(2,542,745)	(2,817,795)
Unrestricted	4,145,080	2,962,852	1,971,642
Total Net Position	\$ 2,669,763	\$ 420,107	\$ (846,153)

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The net investment in capital assets portion of the Authority's net position, \$(1,475,317) 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, 2017, compared to \$(2,542,745) and \$(2,817,795) as of December 31, 2016 and 2015, 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, 2017, the Authority invested in structural improvements and repairs to the garages and administrative office building; as well as purchase of new vehicles and equipment. During the year ended December 31, 2016, the Authority invested in structural improvements and repairs to the garages, purchase and improvements to a new administrative office building; as well as purchase of new vehicles and equipment. During the year ended December 31, 2015, the Authority invested in structural improvements and repairs to the garages; as well as, significant additions to equipment to add and replace on-street multi-space kiosks and continue to automate garage payment systems.

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Management's Discussion and Analysis

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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

	2017	2016	2015
Operating Revenues			
Parking garages and lots	\$ 4,533,040	\$ 4,527,115	\$ 4,161,758
Parking meters	1,366,882	1,147,734	1,054,121
Parking violations and fines	2,591,024	-	-
Parking management	418,012	369,351	311,646
Total Operating Revenues	8,908,958	6,044,200	5,527,525
Operating Expenses, Excluding Depreciation	4,875,401	2,433,507	2,124,465
Provision for Depreciation	1,154,036	1,106,170	1,007,609
Total Operating Expenses	6,029,437	3,539,677	3,132,074
Operating Income	2,879,521	2,504,523	2,395,451
Non-Operating Revenues (Expense)			
Unrealized gain (loss) on investments	-	244,522	(77,212)
Gain (loss) on sale of assets	(13,127)	1,884	(141,380)
Investment income	20,891	61,116	67,303
Interest expense	(728,352)	(1,610,564)	(1,384,271)
Miscellaneous income	90,723	64,779	37,458
Total Net Non-Operating Revenues (Expenses)	(629,865)	(1,238,263)	(1,498,102)
Increase (Decrease) in Net Position	2,249,656	1,266,260	897,349
Net Position (Deficit), Beginning	402,107	(846,153)	(1,924,587)
Effect of Implementation of GASB Statements No. 68 and 71	-	-	181,085
Net Position (Deficit), Ending	\$ 2,669,763	\$ 402,107	\$ (846,153)

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

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Capital Assets

Capital Acquisitions

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

Capital acquisitions for the years ended December 31, 2017, 2016, and 2015 totaled \$1,191,140, \$1,659,503, and \$724,575, respectively. The Authority's investments in capital assets as of December 31, 2017, 2016, and 2015, net of accumulated depreciation were as follows:

	Capital Assets at December 31		
	2017	2016	2015
Land	\$ 3,695,871	\$ 3,695,871	\$ 3,695,871
Parking garages/lots and office building	36,044,145	34,945,173	33,422,418
Office furnishings and equipment	97,285	94,224	70,196
Equipment	3,644,711	3,644,383	3,705,525
Vehicles	249,959	193,264	113,664
	40,036,100	42,572,915	41,007,674
Less accumulated depreciation	24,605,975	23,470,896	22,458,872
Net Capital Assets	\$ 19,125,996	\$ 19,102,019	\$ 18,548,802

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

Debt Administration

As of December 31, 2017, the Authority had \$21,300,000 of outstanding bonded debt compared to \$22,250,000 and \$24,585,000 for the years ended December 31, 2016 and 2015, 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, 2017 is \$150,000 and was \$300,000 and \$450,000 as of December 31, 2016 and 2015, respectively.

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

Economic Condition and Outlook

The Authority's financial outlook remains strong as current and long-term demands for parking are increasing for on-street and off-street parking. This is based on several large scale economic development projects in the city that are currently under construction and will result in an eventual influx of new employees working, living and parking in the city. Key projects currently under construction include the Marriott hotel expansion as part of the Convention Center, a new Fulton Financial corporate headquarters and the development of the Lancaster Square and 101 North

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Queen Street commercial, residential, offices and condominiums project. With this new construction of apartments and condominiums coming on-line in 2018 and beyond, there will be an increase in parking demand and also help maximize the use of our parking assets during non-peak times. In addition, most of the Authority off-street garages continue to be at or near capacity on a continual basis on the majority of weekday business days. To that end, planning is underway to add new garage inventory in the Lancaster Square development project. The Authority also continues managing parking enforcement operations under an agreement with the City which provides another line of business to the Authority portfolio of services. The Authority has refinanced all outstanding debt to lower interest rates to free up debt capacity and lower interest expense.

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, 2017 AND 2016

Assets	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 2,048,830	\$ 1,521,326
Investments	2,824,517	1,366,556
Accounts receivable, net	248,083	54,446
Prepaid expenses	157,544	86,605
Total current assets	<u>5,278,974</u>	<u>3,028,933</u>
Restricted assets:		
Investments	<u>2,725</u>	<u>3,848</u>
Capital assets:		
Capital assets not being depreciated:		
Land	<u>3,695,871</u>	<u>3,695,871</u>
Capital assets being depreciated:		
Parking garages, lots, rental complex, and administrative building	36,044,145	34,945,173
Office furnishings and equipment	97,285	94,224
Equipment	3,644,711	3,644,383
Vehicles	249,959	193,264
	<u>40,036,100</u>	<u>38,877,044</u>
Less accumulated depreciation	<u>(24,605,975)</u>	<u>(23,470,896)</u>
	<u>15,430,125</u>	<u>15,406,148</u>
Capital assets, net	<u>19,125,996</u>	<u>19,102,019</u>
Net pension asset	<u>14,115</u>	<u>33,084</u>
Total Assets	<u>24,421,810</u>	<u>22,167,884</u>
Deferred Outflows of Resources		
Deferred charge on debt refunding, net of accumulated amortization	1,246,840	1,380,222
Deferred outflows of resources - pension	<u>88,725</u>	<u>109,372</u>
Total Deferred Outflows of Resources	<u>1,335,565</u>	<u>1,489,594</u>

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

	2017	2016
Liabilities		
Current liabilities:		
Accounts payable	546,319	81,662
Due to the City of Lancaster	527,594	-
Accrued salaries	48,295	37,898
Revenue received in advance	55,243	56,015
Accrued interest	59,283	32,962
Current portion of elevator loan payable	150,000	150,000
Current portion of revenue bonds payable	930,000	950,000
Total current liabilities	2,316,734	1,308,537
Long-term debt - less current portion:		
Elevator loan payable	-	150,000
Revenue bonds payable	20,370,000	21,300,000
Unamortized bond premium	400,878	478,834
Total long-term debt	20,770,878	21,928,834
Total Liabilities	23,087,612	23,237,371
Net Position		
Net investment in capital assets	(1,475,317)	(2,542,745)
Unrestricted	4,145,080	2,962,852
Total Net Position	\$ 2,669,763	\$ 420,107

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating Revenues:		
Parking garages and lots	\$ 4,533,040	\$ 4,527,115
Parking meters	1,366,882	1,147,734
Parking violations and fines	2,591,024	-
Parking management	418,012	369,351
Total operating revenues	<u>8,908,958</u>	<u>6,044,200</u>
Operating Expenses:		
Operating expenses, excluding depreciation	<u>(4,875,401)</u>	<u>(2,433,507)</u>
Operating income before depreciation	4,033,557	3,610,693
Provision for depreciation	<u>(1,154,036)</u>	<u>(1,106,170)</u>
Operating Income	<u>2,879,521</u>	<u>2,504,523</u>
Nonoperating Revenues (Expenses):		
Net realized and unrealized gain on investments	-	244,522
Gain (loss) on disposal of assets	(13,127)	1,884
Investment income	20,891	61,116
Interest expense	(728,352)	(1,610,564)
Miscellaneous income	90,723	64,779
Total nonoperating expenses	<u>(629,865)</u>	<u>(1,238,263)</u>
Change in Net Position	2,249,656	1,266,260
Net Position:		
Beginning of year	<u>420,107</u>	<u>(846,153)</u>
End of year	<u>\$ 2,669,763</u>	<u>\$ 420,107</u>

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, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities:		
Cash received from customers	\$ 8,805,272	\$ 6,142,534
Cash payments to suppliers for goods and services	(2,022,166)	(1,313,205)
Cash payments to employees for services	(2,141,741)	(1,168,101)
Net cash provided by operating activities	<u>4,641,365</u>	<u>3,661,228</u>
Cash Flows from Capital and Related Financing Activities:		
Capital asset purchases	(933,896)	(1,659,503)
Proceeds from sale of capital assets	-	2,000
Interest paid on bonds and loans	(644,018)	(1,323,864)
Proceeds from issuance of debt	-	22,728,834
Cash paid for debt issuance costs	-	(365,737)
Payments to bond escrow agent	-	(25,032,488)
Payments to redeem bonds and loans	(1,100,000)	(895,000)
Net cash used in capital and related financing activities	<u>(2,677,914)</u>	<u>(6,545,758)</u>
Cash Flows from Investing Activities:		
Sale of investments	7,753,022	13,504,715
Purchases of investments	(9,209,860)	(10,475,456)
Interest received on investments	20,891	61,116
Net cash provided by (used in) investing activities	<u>(1,435,947)</u>	<u>3,090,375</u>
Net Increase in Cash and Cash Equivalents	527,504	205,845
Cash and Cash Equivalents:		
Beginning of year	1,521,326	1,315,481
End of year	<u>\$ 2,048,830</u>	<u>\$ 1,521,326</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 2,879,521	\$ 2,504,523
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,154,036	1,106,170
Miscellaneous income	90,723	64,779
Amortization of deferred outflows and inflows of resources - pension	21,586	21,024
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(193,637)	26,174
Prepaid expenses	(73,526)	2,136
Net pension asset	18,969	157,016
Deferred outflows of resources - pension	(939)	(122,816)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and other accrued expenses	217,810	(85,092)
Due to City of Lancaster	527,594	-
Revenue received in advance	(772)	7,381
Deferred inflows of resources - pension	-	(20,067)
Net cash provided by operating activities	<u>\$ 4,641,365</u>	<u>\$ 3,661,228</u>

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, 2017 AND 2016

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.

As noted in Note 9, the Authority began enforcement of all on-street and off-street parking regulations of the City during the year ended December 31, 2017.

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

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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 operations. The principal operating revenues of the Authority are charges to customers for parking services and violations and fines for parking enforcement. 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 statements 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, plus any earned purchase discounts, or less any amortized purchase premiums. The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Board of Directors is permitted to invest the Authority's funds as defined in the Pennsylvania Parking Authorities Law. Authorized types of investments include U.S. Treasury bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. Investment income is recognized when earned.

Accounts Receivable

Accounts receivable are stated at outstanding balances. With the exception of accrued parking enforcement revenue, which is adjusted for estimated uncollectible amounts, the Authority considers accounts receivable to be fully collectible. If collection becomes

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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. As of December 31, 2017, the Authority's allowance for uncollectible accrued parking enforcement revenue was \$233,814.

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 in the basis of cost. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the Authority would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Capital assets are defined by the Authority as assets with 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, rental complex, and administrative building	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 \$1,154,036 and \$1,106,170 for the years ended December 31, 2017 and 2016, respectively.

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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 revenue received in advance.

Deferred Outflows of Resources for Pension

In conjunction with pension accounting requirements, the effect of the differences in the Authority's expected and actual experience, changes in assumptions, difference between projected and actual earnings on pension plan investments, and Authority contributions subsequent to the measurement date are recorded as deferred outflows of resources related to pension on the statements of net position. These amounts are determined based on the actuarial valuation performed for the pension plan.

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 are 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.

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 and disclosures. Actual results could differ from those estimates.

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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. There were no significant reductions in insurance coverages in 2017. Settlement amounts have not exceeded insurance coverage for the current year or the two prior years.

Pending Changes in Accounting Principles

In November of 2016, the GASB issued Statement No. 83, *"Certain Asset Retirement Obligations."* This Statement addresses accounting and financial reporting for certain asset retirement obligations. The provisions of GASB Statement No. 83 are effective for the Authority's December 31, 2019 financial statements.

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

In June of 2017, the GASB issued Statement No. 87, *"Leases."* This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the Authority's December 31, 2020 financial statements.

In May of 2017, the GASB issued Statement No. 88, *"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements."* This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of GASB Statement No. 88 are effective for the Authority's December 31, 2019 financial statements.

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

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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>2017</u>	<u>2016</u>
Cash deposits:		
Cash and cash equivalents	\$ 2,015,617	\$ 1,492,038
Petty cash	<u>33,213</u>	<u>29,288</u>
	<u>\$ 2,048,830</u>	<u>\$ 1,521,326</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, 2017 and 2016, the Authority's cash deposits were \$2,048,830 and \$1,521,326, respectively. The bank balances as of December 31, 2017 and 2016 were \$2,066,648 and \$1,617,940, respectively. At December 31, 2017 and 2016, \$250,000 was covered by federal depository insurance and \$1,816,648 and \$1,367,940, 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.

In July 2017, the Board approved a Board Restricted Cash Reserve Policy (Policy) as a reserve fund to be designated for uses approved by the Board. The Policy sets a target reserve amount of \$3,000,000, with the initial \$500,000 funded by accumulated liquid net assets as the beginning balance, and the remaining \$2,500,000 to be funded over the next five years in increments of \$500,000 per year through funding strategies incorporated into the Authority's annual operating budget.

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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 Authority's investments are considered Level 1 based on quoted market prices. As of December 31, 2017 and 2016, the Authority had the following investments:

<u>Investments</u>	<u>Fair Value</u>
December 31, 2017	
Restricted:	
Money market funds	<u>\$ 2,725</u>
Unrestricted:	
Money market funds	<u>\$ 2,824,517</u>
December 31, 2016	
Restricted:	
Money market funds	<u>\$ 3,848</u>
Unrestricted:	
Money market funds	<u>\$ 1,366,556</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, 2017, 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.

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, 2017, the Authority's investments in the money market funds were rated AAA.

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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, 2017, the Authority's money market funds had average maturities of less than one year.

4. Capital Assets

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

	Balance January 1, 2017	Additions	Deletions	Balance December 31, 2017
Capital assets not being depreciated:				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital assets being depreciated:				
Parking garages, lots, and rental complex	34,945,173	1,111,472	12,500	36,044,145
Office furnishings and equipment	94,224	5,366	2,305	97,285
Equipment	3,644,383	17,607	17,279	3,644,711
Vehicles	193,264	56,695	-	249,959
Total capital assets being depreciated	<u>38,877,044</u>	<u>1,191,140</u>	<u>32,084</u>	<u>40,036,100</u>
Less accumulated depreciation for:				
Parking garages, lots, and rental complex	20,994,982	803,324	11,667	21,786,639
Office furnishings and equipment	58,446	7,185	1,344	64,287
Equipment	2,346,278	307,537	5,946	2,647,869
Vehicles	71,190	35,990	-	107,180
Total accumulated depreciation	<u>23,470,896</u>	<u>1,154,036</u>	<u>18,957</u>	<u>24,605,975</u>
Total capital assets being depreciated, net	<u>15,406,148</u>	<u>37,104</u>	<u>13,127</u>	<u>15,430,125</u>
	<u>\$ 19,102,019</u>	<u>\$ 37,104</u>	<u>\$ 13,127</u>	<u>\$ 19,125,996</u>

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	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
Capital assets not being depreciated:				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital assets being depreciated:				
Parking garages, lots, and rental complex	33,422,418	1,522,755	-	34,945,173
Office furnishings and equipment	70,196	24,028	-	94,224
Equipment	3,705,525	20,620	81,762	3,644,383
Vehicles	113,664	92,100	12,500	193,264
Total capital assets being depreciated	37,311,803	1,659,503	94,262	38,877,044
Less accumulated depreciation for:				
Parking garages, lots, and rental complex	20,233,041	761,941	-	20,994,982
Office furnishings and equipment	54,785	3,661	-	58,446
Equipment	2,101,248	326,676	81,646	2,346,278
Vehicles	69,798	13,892	12,500	71,190
Total accumulated depreciation	22,458,872	1,106,170	94,146	23,470,896
Total capital assets being depreciated, net	14,852,931	553,333	116	15,406,148
	<u>\$ 18,548,802</u>	<u>\$ 553,333</u>	<u>\$ 116</u>	<u>\$ 19,102,019</u>

5. Unamortized Bond Premiums and Deferred Charge on Refunding

The bond premiums 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 new bond issues. Amortized interest expense totaled \$55,426 and \$28,469 during the years ended December 31, 2017 and 2016, respectively.

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

	Series A of 2007	Series B of 2007	Series of 2016	Series A of 2016	Total
Balance at December 31, 2015	\$ 134,153	\$ 81,694	\$ -	\$ -	\$ 215,847
2016 interest expense	(15,228)	(13,241)	-	-	(28,469)
Issuance of debt:					
Advance refunding	(118,925)	(68,453)	-	-	(187,378)
Deferred charge on refunding	-	-	878,863	501,359	1,380,222
Bond premium	-	-	(478,834)	-	(478,834)
Balance at December 31, 2016	-	-	400,029	501,359	901,388
2017 interest expense	-	-	(51,759)	(3,667)	(55,426)
Balance at December 31, 2017	\$ -	\$ -	\$ 348,270	\$ 497,692	\$ 845,962

The bond premium is presented as an addition 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.

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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 were secured by a trust indenture dated September 15, 2007. Debt service payments were guaranteed by the City with a guaranty agreement dated September 15, 2007. The bonds were payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the 2007 Series A Bonds ranged from 3.65% to 5.00%. Interest rates on the 2007 Series B Bonds ranged from 5.60% to 5.95%.

On December 15, 2016, the 2007 Series A Bonds were advance refunded and defeased with the issuance of Series of 2016 Parking Revenue Bonds (Series of 2016 Bonds). The Series of 2016 Bonds are secured by a trust indenture dated February 11, 2016. Debt service payments are guaranteed by the City with a guaranty agreement dated February 11, 2016. 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. The Series of 2016 Bonds are payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the Series of 2016 Bonds are at a fixed rate of 2.85% through December 1, 2026. Thereafter, the Series of 2016 Bonds will bear interest at a variable rate equal to 85% of the prime rate until maturity on December 1, 2035, provided that such variable rate shall not exceed 3.95%. The Authority completed the advance refunding to reduce its total debt service payments by \$4,058,272 through the year 2035, which resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2,470,851. These savings assume the Series of 2016 Bonds maximum variable rate of 3.95% subsequent to 2026.

On December 15, 2016, the 2007 Series B Bonds were advance refunded and defeased with the issuance of Series A of 2016 Parking Revenue Bonds (Series A of 2016 Bonds). The Series A of 2016 Bonds are secured by a trust indenture dated December 15, 2016. Debt service payments are guaranteed by the City with a guaranty agreement dated December 15, 2016. 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. The Series A of 2016 Bonds are payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the Series A of 2016 Bonds range from 1.10% to 5.00% through the maturity date of December

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1, 2025. The Authority completed the advance refunding to reduce its total debt service payments by \$884,558 through the year 2025, which resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$792,811.

	Balance January 1, 2017	Additions	Repayments	Balance December 31, 2017	Amounts Due Within One Year
Series of 2016 Parking Revenue Bonds	\$ 13,620,000	\$ -	\$ 15,000	\$ 13,605,000	\$ -
Series A of 2016 Parking Revenue Bonds	8,630,000	-	935,000	7,695,000	930,000
	<u>\$ 22,250,000</u>	<u>\$ -</u>	<u>\$ 950,000</u>	<u>\$ 21,300,000</u>	<u>\$ 930,000</u>
	Balance January 1, 2016	Additions	Repayments	Balance December 31, 2016	Amounts Due Within One Year
2007 Series A Parking Revenue Bonds	\$ 16,085,000	\$ -	\$ 16,085,000	\$ -	\$ -
2007 Series B Parking Revenue Bonds	8,500,000	-	8,500,000	-	-
Series of 2016 Parking Revenue Bonds	-	13,620,000	-	13,620,000	15,000
Series A of 2016 Parking Revenue Bonds	-	8,630,000	-	8,630,000	935,000
	<u>\$ 24,585,000</u>	<u>\$ 22,250,000</u>	<u>\$ 24,585,000</u>	<u>\$ 22,250,000</u>	<u>\$ 950,000</u>

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Future maturities are as follows:

	Principal	Interest	Total
2018	\$ 930,000	\$ 645,666	\$ 1,575,666
2019	945,000	627,066	1,572,066
2020	970,000	605,566	1,575,566
2021	1,000,000	580,166	1,580,166
2022	1,030,000	555,150	1,585,150
2023-2027	5,900,000	2,241,961	8,141,961
2028-2032	6,935,000	1,554,320	8,489,320
2033-2035	3,590,000	236,138	3,826,138
	<u>\$ 21,300,000</u>	<u>\$ 7,046,033</u>	<u>\$ 28,346,033</u>

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, 2017	Additions	Repayments	Balance December 31, 2017	Amounts Due Within One Year
Elevator Loan Payable	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

	Balance January 1, 2016	Additions	Repayments	Balance December 31, 2016	Amounts Due Within One Year
Elevator Loan Payable	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>	<u>\$ 150,000</u>

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Future maturities are as follows:

	Principal	Interest	Total
2018	<u>\$ 150,000</u>	<u>\$ 3,755</u>	<u>\$ 153,755</u>

Interest Expense

Interest expense on all bonds totaled \$657,271 and \$1,223,434 for the years ended December 31, 2017 and 2016, respectively. Interest expense on the elevator loan totaled \$13,068 and \$16,210 for the years ended December 31, 2017 and 2016, respectively.

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 debt was fully retired during the year ended December 31, 2016.

On December 15, 2016, the Authority funded the outstanding balance of \$15,355,000 of the 2007 Series A Bonds and \$8,485,000 of the 2007 Series B Bonds, 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 2007 Series A Bonds and 2007 Series B Bonds are considered to be extinguished for financial reporting purposes and are excluded from the statements of net position. The debt was fully retired during the year ended December 31, 2017.

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7. Pension Plan

Plan Description

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 all full-time plan members and their beneficiaries. The plan is a single-employer defined benefit pension plan. 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 PMRS issues a publicly available financial report that includes financial statements and required supplementary information for the PERS. The report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165, or via PMRS's website.

Benefits Provided

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, grants the authority to establish and amend the benefit terms to the Authority's Board of Directors.

Normal Benefit – Normal retirement age is 62 and the annual benefit is determined by multiplying years of credited service times final average salary times .015, whereby final average salary is the average annual compensation during the highest five consecutive years prior to the effective date of retirement. A member is fully vested after ten years of credited service.

Early Retirement Benefit – Early retirement is available for those who have at least ten years of service and have attained the age of 55. The benefit will be actuarially reduced for each year and month prior to normal retirement age that early retirement takes place.

Survivor Benefit – If a member is eligible to retire at the time of death, their beneficiary receives the present value of the accrued benefit.

Disability Benefit – In the instance of a service or non-service related disability, a 30% disability benefit is provided, offset by applicable worker's compensation benefits, to a member who has ten years of service and who is unable to perform gainful employment.

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Cost-of-Living Adjustments – The Authority has the option to award post-retirement adjustments based on investment performance.

Plan Membership

Membership of the Plan consisted of the following at the most recent actuarial valuation date of December 31, 2016:

Active employees	18
Inactive employees and beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	<u>1</u>
Total	<u><u>33</u></u>

Contributions

Active members are required to contribute 3.50% of their total compensation. Effective February 1, 2016, active members may also contribute up to an additional 16.5% to fund an optional member annuity. The Authority is required to contribute at an actuarially determined rate, as in accordance with Act 205.

During the year ended December 31, 2016, the Authority made a contribution to the Plan in the amount of \$20,875. The minimum municipal obligation (MMO) for the year ended December 31, 2016 was \$20,835. During the year ended December 31, 2017, the Authority made a contribution of \$19,000. The MMO for the year ended December 31, 2017 was \$18,720. The 2016 and 2017 contributions are reported as deferred outflows of resources at December 31, 2016 and 2017, respectively.

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Changes in the Net Pension Asset

The changes in the net pension asset of the Authority for the years ended December 31, 2017 and 2016 were as follows:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	\$ 1,314,115	\$ 1,347,199	\$ (33,084)
Changes for the year:			
Service cost	69,238	-	69,238
Interest	72,523	-	72,523
Changes in assumptions	30,135	-	30,135
Differences between expected and actual experience	38,482	-	38,482
Contributions - employer	-	20,875	(20,875)
Contributions - employee	-	31,547	(31,547)
Net investment income	-	143,577	(143,577)
Benefit payments, including refunds	(123,976)	(123,976)	-
Administrative expense	-	(4,590)	4,590
Net changes	<u>86,402</u>	<u>67,433</u>	<u>18,969</u>
Balances at December 31, 2017 (based on the measurement date of December 31, 2016)	<u>\$ 1,400,517</u>	<u>\$ 1,414,632</u>	<u>\$ (14,115)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>101.01%</u>

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	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2015 (based on the measurement date of December 31, 2014)	\$ 1,294,328	\$ 1,484,428	\$ (190,100)
Changes for the year:			
Service cost	64,414	-	64,414
Interest	71,493	-	71,493
Changes in assumptions	3,220	-	3,220
Contributions - employer	-	5,112	(5,112)
Contributions - employee	-	24,532	(24,532)
Net investment income	-	(43,585)	43,585
Benefit payments, including refunds	(119,340)	(119,340)	-
Administrative expense	-	(3,948)	3,948
Net changes	19,787	(137,229)	157,016
Balances at December 31, 2016 (based on the measurement date of December 31, 2015)	<u>\$ 1,314,115</u>	<u>\$ 1,347,199</u>	<u>\$ (33,084)</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>102.52%</u>

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Actuarial Assumptions - The total pension liability was determined by an actuarial valuation performed on January 1, 2017, with liabilities measured at December 31, 2016, using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial assumptions:

Investment rate of return	5.25%
Projected salary increases	2.8% - 7.05%*
* includes inflation rate of 2.8%	
Post retirement cost of living adjustments	2.8%, subject to plan limitations

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

Pre-retirement mortality:

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

Post-retirement mortality:

Males: RP 2000 Male Annuitant table projected 5 years with Scale AA
Females: RP 2000 Female Annuitant table projected 10 years with Scale AA

Changes in Actuarial Assumptions – The actuarial assumptions noted above were used for the prior measurement date of December 31, 2015 except for investment return assumption for municipal assets decreased from 5.50% to 5.25%.

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Discount Rate – The discount rate adopted by the PMRS Board and used to measure the individual participating municipalities' total pension liability as of December 31, 2016 was 5.25%. The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the discount rate was required, used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's long-term expected rate of return will be used in the depletion testing of the projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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

December 31, 2017:

1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
<u>\$ 118,529</u>	<u>\$ (14,115)</u>	<u>\$ (128,232)</u>

December 31, 2016:

1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
<u>\$ 78,656</u>	<u>\$ (33,084)</u>	<u>\$ (130,400)</u>

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Pension Expense and Deferred Outflows of Resources Related to Pension

For the years ended December 31, 2017 and 2016, the Authority recognized pension expense of \$58,616 and \$56,032, respectively. At December 31, the Authority reported deferred outflows of resources related to pension from the following sources:

	2017	2016
Differences between expected and actual experience	\$ 32,020	\$ 1,851
Authority contributions subsequent to the measurement date	19,000	20,875
Changes in assumptions	26,040	2,576
Net difference between projected and actual earnings on pension plan investments	11,665	84,070
Total	<u>\$ 88,725</u>	<u>\$ 109,372</u>

The differences in the Authority's expected and actual experience and changes in assumptions are recognized over the average expected remaining service lives of active and inactive members. The difference between projected and actual earnings on the pension plan investments is recognized over five years. Authority contributions subsequent to the measurement date at December 31, 2017 and 2016 will be recorded as an increase to the pension asset during the years ending December 31, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	
2018	\$ 21,586
2019	21,587
2020	25,987
2021	565
	<u>\$ 69,725</u>

THE PARKING AUTHORITY OF THE CITY OF LANCASTER

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

8. Agreements

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.

In 2015, the Authority entered into a lease agreement with Hotel Lancaster. The lease provides Hotel Lancaster with 134 guaranteed spaces. The term of the agreement is for five years, with an option to extend for two additional five-year terms subject to the Authority's right to increase the rent per space based upon then existing market conditions.

9. Transactions with Primary Government – City of Lancaster

During the years ended December 31, 2017 and 2016, the City paid the Authority \$163,801 and \$158,613, 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.

On June 23, 2016, the City and the Authority entered into an Agreement, with the commencement date of January 1, 2017, whereby the Authority will enforce all on-street and off-street parking regulations of the City. The term of the Agreement is three years and may be extended upon agreement by the City and the Authority. In accordance with the Agreement, the Authority shall receive 10% of gross parking enforcement revenue. The Authority is required to annually pay a minimum guaranteed amount of \$500,000 to the City and the City receives the remaining net income for parking enforcement, as defined in Exhibit A of the Agreement. Amounts due to the City, as calculated in accordance with Exhibit A of the Agreement, were \$1,640,507 for the year ended December 31, 2017. Of this amount, \$527,594 is outstanding and due to the City as of December 31, 2017.

Eighteen months after the date of the Agreement, the City and Authority agree to meet and review the performance of the Authority and the formula established in Exhibit A of the Agreement. After such meeting, both the City and the Authority have the option to terminate the Agreement upon five months' written notice.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

LANCASTER PARKING AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CHANGES IN THE PENSION PLAN'S NET PENSION ASSET AND RELATED RATIOS

	2017 *	2016	2015
Total Pension Liability:			
Service cost	\$ 69,238	\$ 64,414	\$ 34,602
Interest	72,523	71,493	70,961
Benefit payments, including refunds	(123,976)	(119,340)	(137,991)
Changes in assumptions	30,135	3,220	-
Differences between expected and actual experience	38,482	-	3,085
Net Changes in Total Pension Liability	86,402	19,787	(29,343)
Total Pension Liability - Beginning	1,314,115	1,294,328	1,323,671
Total Pension Liability - Ending (a)	\$ 1,400,517	\$ 1,314,115	\$ 1,294,328
Plan Fiduciary Net Position:			
Contributions - employer	\$ 20,875	\$ 5,112	\$ 7,687
Contributions - employees	31,547	24,532	16,561
Net investment income	143,577	(43,585)	104,945
Benefit payments, including refunds	(123,976)	(119,340)	(137,991)
Administrative expense	(4,590)	(3,948)	(3,843)
Net Change in Plan Fiduciary Net Position	67,433	(137,229)	(12,641)
Plan Fiduciary Net Position - Beginning	1,347,199	1,484,428	1,497,069
Plan Fiduciary Net Position - Ending (b)	\$ 1,414,632	\$ 1,347,199	\$ 1,484,428
Net Pension Liability (Asset) - Ending (a-b)	\$ (14,115)	\$ (33,084)	\$ (190,100)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.0%	102.5%	114.7%
Covered Employee Payroll	\$ 696,471	697,602	396,954
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	-2.03%	-4.74%	-47.89%

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

See accompanying notes to required supplementary information - pension plan.

LANCASTER PARKING AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION -

SCHEDULE OF AUTHORITY PENSION CONTRIBUTIONS

	2017*	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution under Act 205	\$ 20,835	\$ 5,032	\$ 6,907	\$ 2,736	\$ 14,139	\$ 13,371	\$ 10,008	\$ 5,479	\$ 7,369	\$ 1,707
Contribution in relation to the actuarially determined contribution	20,875	5,112	7,687	2,736	14,139	13,371	10,008	5,479	7,369	1,707
Contribution deficiency (excess)	\$ (40)	\$ (80)	\$ (780)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 696,471	\$ 697,602	\$ 396,954							
Contributions as a percentage of covered employee payroll	3.00%	0.73%	1.94%							

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

See accompanying notes to required supplementary information - pension plan.

LANCASTER PARKING AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

1. Actuarial Methods and Assumptions

The information presented in the required supplementary information was determined as part of the actuarial valuation at the date indicated. Methods and assumptions used to determine the contribution rate required under Act 205 for the year ended December 31, 2016 (presented as the subsequent year on the preceding schedules) are as follows:

Actuarial valuation date	1/1/2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	Based on periods in Act 205
Asset valuation method	Based on the municipal reserves
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	Age related scale with merit and inflation component
Underlying inflation rate	3.0%
Post-retirement cost-of-living adjustment increase	3%, subject to plan limitations
Pre-retirement mortality:	
Males: RP 2000 with 1 year set back	
Females: RP 2000 with 5 year set back	
Post-retirement mortality:	
Males and females: Sex distinct RP 2000 Combined Healthy Mortality	

2. Changes in Actuarial Assumptions

The December 31, 2015 assumptions were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 first effective.

LANCASTER PARKING AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

The December 31, 2016 investment return assumption for municipal assets decreased from 5.50% to 5.25%.