# 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, 2019 and 2018 with Independent Auditor's Report


MaherDuessel
Certified Public Accountants

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# THE PARKING AUTHORITY OF THE CITY OF LANCASTER

YEARS ENDED DECEMBER 31, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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
June 23, 2020

**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 six parking garages including the Penn Square Garage, East King Street Garage, Duke Street Garage, Prince Street Garage, Water Street Garage and North Queen 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. The Authority purchased the North Queen Street Garage in June 2019 from the Redevelopment Authority through the issuance of a $3,000,000 unsecured note payable.

In October 2014, the Authority began managing the Central Garage under an agreement with Lancaster Newspapers, Inc. The initial term of the agreement was three years and three months and was renewed for two additional years. The agreement expired at the end of 2018.

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. The performance review took place in June 2018 with both parties expressing satisfactory performance to date. The City reviewed the performance of the Authority and proposed an extension of the agreement to December 31, 2022. The Authority approved, accepted, and agreed to the extension.

## 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 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 Authority issued bonds in October 2019 to finance the construction of a new parking facility and public library.

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, 2019, 2018, and 2017. Please read it in conjunction with Authority's financial statements.

## Financial Highlights

- The Authority's net position increased by $7,836,885 for the year ended December 31, 2019. This compares to a $2,362,156 and $2,249,656 increase in net position for the years ended December 31, 2018 and 2017, respectively.

- The Authority's operating revenues decreased approximately 2%, or $(142,026) to $9,193,904 for the year ended December 31, 2019 compared to operating revenues of $9,335,930 and $8,908,958 for the years ended December 31, 2018 and 2017, respectively. The 2019 decrease is attributable to a decrease in enforcement revenue due to a reduction in collections on citations. The 2018 increase is attributable to increases in garage parking and enforcement parking fine revenues. The 2017 increase is attributable to the addition of parking enforcement revenues.

- The Authority's operating expenses increased by 4% or $269,827, to $6,848,759. This compares to operating expenses of $6,578,932 and $6,029,437 for the years ended December 31, 2018 and 2017, respectively. The 2019 increase in operating expenses is a result of general inflation of costs of personnel and materials. The 2018 increase in operating expense is due to increases in personnel costs, depreciation expense and parking enforcement remittances to the City of Lancaster. The 2017 increase is due to the addition of parking enforcement operations. Operating expenses included depreciation expense, which is a noncash expense, of $1,402,729, $1,267,395 and, $1,154,036 for the years ending December 31, 2019, 2018, and 2017, 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 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 $12,868,804 as of December 31, 2019, compared to $5,031,919 and $2,669,763 as of December 31, 2018 and 2017, respectively.

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

**Condensed Statement of Net Position**

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Current unrestricted assets | **$ 4,417,831** | $ 6,893,193 | $ 5,278,974 |
| Current restricted assets | **32,254,229** | - | 2,725 |
| Capital assets, net | **31,526,792** | 18,682,028 | 19,125,996 |
| Prepaid bond insurance | **201,880** | 18,112 | - |
| Net pension asset | **-** | 151,446 | 14,115 |
| **Total Assets** | **68,400,732** | 25,744,779 | 24,421,810 |
| **Total Deferred Outflows of Resources** | **1,173,727** | 1,183,348 | 1,335,565 |
| Current unrestricted liabilities | **3,598,802** | 2,016,649 | 2,316,734 |
| City of Lancaster note payable | **2,850,000** | - | - |
| Bond payable | **47,605,000** | 19,425,000 | 20,370,000 |
| Unamortized bond premium (discount) | **2,504,534** | 322,878 | 400,878 |
| Net pension liability | **94,828** | - | - |
| **Total Liabilities** | **56,653,164** | 21,764,527 | 23,087,612 |
| **Total Deferred Inflows of Resources** | **52,491** | 131,681 | - |
| Net investment in capital assets | **9,784,696** | (901,741) | (1,475,317) |
| Unrestricted | **3,084,108** | 5,933,660 | 4,145,080 |
| **Total Net Position** | **$ 12,868,804** | $ 5,031,919 | $ 2,669,763 |

The net investment in capital assets portion of the Authority's net position, $9,784,696 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, 2019, compared to $(901,741) and $(1,475,317) as of December 31, 2018 and 2017, 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, 2019, the Authority invested in the purchase of the North Queen Street Garage, land for the proposed Christian Street Garage and structural improvements and repairs to the garages, as well as the purchase of a new vehicle. During the year ended December 31, 2018, the Authority invested in structural improvements and repairs to the garages; as well as purchases of new garage and office equipment. 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.

**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**

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Parking garages and lots | **$ 5,161,425** | $ 4,692,966 | $ 4,533,040 |
| Parking meters | **1,445,433** | 1,409,436 | 1,366,882 |
| Parking violations and fines | **2,567,046** | 2,828,722 | 2,591,024 |
| Parking management | **20,000** | 404,806 | 418,012 |
| **Total Operating Revenues** | **9,193,904** | 9,335,930 | 8,908,958 |
| **Operating Expenses, Excluding Depreciation** | **5,446,030** | 5,311,537 | 4,874,401 |
| **Provision for Depreciation** | **1,402,729** | 1,267,395 | 1,154,036 |
| **Total Operating Expenses** | **6,848,759** | 6,578,932 | 6,029,437 |
| **Operating Income** | **2,345,145** | 2,756,998 | 2,879,521 |
| **Non-Operating Revenues (Expense)** | | | |
| Intra-entity transfers | **5,372,280** | - | - |
| Contributions from CRIZ | **1,489,897** | - | - |
| Gain (loss) on sale of assets | **-** | (5,023) | (13,127) |
| Investment income | **223,952** | 67,197 | 20,891 |
| Interest expense | **(1,723,206)** | (707,321) | (728,352) |
| Miscellaneous income | **128,817** | 250,305 | 90,723 |
| **Total Net Non-Operating Revenues (Expenses)** | **5,491,740** | (394,842) | (629,865) |
| **Increase (Decrease) in Net Position** | **7,836,885** | 2,362,156 | 2,249,656 |
| **Net Position (Deficit), Beginning** | **5,031,919** | 2,669,763 | 420,107 |
| **Net Position (Deficit), Ending** | **$ 12,868,804** | $ 5,031,919 | $ 2,669,763 |

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

## 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, 2019, 2018, and 2017 totaled $14,247,495, $828,449, and $1,191,140, respectively. The Authority's investments in capital assets as of December 31, 2019, 2018, and 2017, net of accumulated depreciation were as follows:

| | Capital Assets at December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Construction in progress | **$ 3,522,014** | $ - | $ - |
| Land | **5,743,454** | 3,695,871 | 3,695,871 |
| Parking garages/lots and office building | **45,268,026** | 36,660,383 | 36,044,145 |
| Office furnishings and equipment | **134,396** | 138,996 | 97,285 |
| Equipment | **3,784,130** | 3,783,828 | 3,644,711 |
| Vehicles | **294,174** | 271,074 | 249,959 |
| | **58,527,712** | 44,550,152 | 43,731,971 |
| Less accumulated depreciation | **27,219,402** | 25,868,124 | 24,605,975 |
| **Net Capital Assets** | **$ 31,308,310** | $ 18,682,028 | $ 19,125,996 |

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

## Debt Administration

As of December 31, 2019, the Authority had $48,575,000 of outstanding bonded debt compared to $20,370,000 and $21,300,000 for the years ended December 31, 2018 and 2017, 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, 2019 is $ -0- and was $ -0- and $150,000 as of December 31, 2018 and 2017, respectively.

In June 2019, the Authority purchased the North Queen Street Garage from the Redevelopment Authority of the City of Lancaster through the issuance of a $3,000,000 unsecured note payable. The Authority will make an annual payment of $150,000 over a 20-year period to satisfy the unsecured note payable to the City

More detailed information about the Authority's long-term debt is presented in Notes 5, 6, and 10 to the financial statements.

### Economic Condition and Outlook

The Authority is well positioned for long term success in supporting the ongoing economic development of the City. Even with a slight downturn in the economy in 2020, demand is strong for all sectors looking to be within our vibrant City. The Authority has done an outstanding job in positioning themselves by proactively building capital reserves over the past years while deferring non-emergency short term capital projects to handle negative impact from Covid-19 in 2020. To that end, 2019 bonds on the new Authority and CRIZ supported Christian Street garage with a new public library and retail space was structured to have interest only payments over the next two years. And previously refinanced 2016 bonds are in place with lower interest rates and additional debt capacity.

With an eye toward the future, the Authority expects long-term demand for parking will rebound from any 2020 impact and continue to be strong for on-street and off-street parking. This is based on several large-scale economic development projects in the city that have recently been completed and have resulted in an influx of new employees working, living and parking in the city. Two key projects that have been completed are a new Marriott hotel tower expansion as part of the downtown Convention Center and a new corporate headquarters expansion for Fulton Bank and Fulton Financial Services. With the Christian Street Garage project as part of the development of the Ewell Plaza (former Lancaster Square) and sandwiched between a new Holiday Inn and 101 North Queen Street (former Bulova building), commercial, residential, offices and condominiums have been completed. Several large tenants with corporate headquarters are occupying vast commercial space. Other Authority off-street garages are at or near capacity on a continual basis on the majority of weekday business days. The Authority also continues managing all parking enforcement operations under an agreement with the City which provides another line of business to the Authority's portfolio of services.

### 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 Deputy Executive Director, 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, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,927,803 | $ 2,457,236 |
| Investments | 450,184 | 3,798,640 |
| Accounts receivable, net | 827,117 | 503,964 |
| Prepaid expenses | 212,727 | 133,353 |
| Total current assets | 4,417,831 | 6,893,193 |
| Restricted assets: | | |
| Investments | 32,254,229 | - |
| Capital assets: | | |
| Capital assets not being depreciated: | | |
| Construction in progress | 3,522,014 | - |
| Land | 5,743,454 | 3,695,871 |
| | 9,265,468 | 3,695,871 |
| Capital assets being depreciated: | | |
| Parking garages, lots, rental complex, and administrative building | 45,268,026 | 36,660,383 |
| Office furnishings and equipment | 134,396 | 138,996 |
| Equipment | 3,784,130 | 3,783,828 |
| Vehicles | 294,174 | 271,074 |
| | 49,480,726 | 40,854,281 |
| Less accumulated depreciation | (27,219,402) | (25,868,124) |
| | 22,261,324 | 14,986,157 |
| Capital assets, net | 31,526,792 | 18,682,028 |
| Prepaid bond insurance | 201,880 | 18,112 |
| Net pension asset | - | 151,446 |
| **Total Assets** | 68,400,732 | 25,744,779 |
| **Deferred Outflows of Resources** | | |
| Deferred charge on debt refunding, net of accumulated amortization | 977,269 | 1,109,109 |
| Deferred outflows of resources - pension | 196,458 | 74,239 |
| **Total Deferred Outflows of Resources** | 1,173,727 | 1,183,348 |

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

| | 2019 | 2018 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | 779,577 | 125,859 |
| Retainage payable | 218,482 | - |
| Due to the City of Lancaster | 467,036 | 694,423 |
| Accrued salaries | 59,972 | 54,950 |
| Revenue received in advance | 140,930 | 144,162 |
| Accrued interest | 812,805 | 52,255 |
| Current portion of note payable to City of Lancaster | 150,000 | - |
| Current portion of revenue bonds payable | 970,000 | 945,000 |
| Total current liabilities | 3,598,802 | 2,016,649 |
| Non-current liabilities: | | |
| Note payable to City of Lancaster, net of current maturities | 2,850,000 | - |
| Revenue bonds payable, net of current maturities | 47,605,000 | 19,425,000 |
| Net pension liability | 94,828 | - |
| Unamortized bond premium | 2,504,534 | 322,878 |
| Total non-current liabilities | 53,054,362 | 19,747,878 |
| **Total Liabilities** | 56,653,164 | 21,764,527 |
| **Deferred Inflows of Resources** | | |
| Deferred inflows of resources - pension | 52,491 | 131,681 |
| **Net Position** | | |
| Net investment in capital assets | 9,784,696 | (901,741) |
| Unrestricted | 3,084,108 | 5,933,660 |
| **Total Net Position** | $ 12,868,804 | $ 5,031,919 |

# THE PARKING AUTHORITY OF THE CITY OF LANCASTER

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Operating Revenues:** | | |
| Parking garages and lots | $ 5,161,425 | $ 4,692,966 |
| Parking meters | 1,445,433 | 1,409,436 |
| Parking violations and fines | 2,567,046 | 2,828,722 |
| Parking management | 20,000 | 404,806 |
| Total operating revenues | 9,193,904 | 9,335,930 |
| **Operating Expenses:** | | |
| Operating expenses, excluding depreciation | (5,446,030) | (5,311,537) |
| Operating income before depreciation | 3,747,874 | 4,024,393 |
| Provision for depreciation | (1,402,729) | (1,267,395) |
| **Operating Income** | 2,345,145 | 2,756,998 |
| **Nonoperating Revenues (Expenses):** | | |
| Intra-entity transfers | 5,372,280 | - |
| Contributions from CRIZ | 1,489,897 | - |
| Loss on disposal of assets | - | (5,023) |
| Investment income | 223,952 | 67,197 |
| Interest expense | (1,723,206) | (707,321) |
| Miscellaneous income | 128,817 | 250,305 |
| Total nonoperating revenues (expenses) | 5,491,740 | (394,842) |
| **Change in Net Position** | 7,836,885 | 2,362,156 |
| **Net Position:** | | |
| Beginning of year | 5,031,919 | 2,669,763 |
| End of year | $ 12,868,804 | $ 5,031,919 |

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, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Cash received from customers | $ 8,996,336 | $ 9,419,273 |
| Cash payments to suppliers for goods and services | (3,704,512) | (3,184,015) |
| Cash payments to employees for services | (2,020,252) | (2,362,170) |
| Net cash provided by operating activities | 3,271,572 | 3,873,088 |
| **Cash Flows from Capital and Related Financing Activities:** | | |
| Capital asset purchases | (4,981,153) | (828,449) |
| Interest paid on debt | (620,180) | (652,031) |
| Contribution from CRIZ | 1,205,400 | - |
| Proceeds from issuance of debt | 31,443,878 | - |
| Cash paid for debt issuance cost | (150,251) | - |
| Payments for bond insurance | (189,162) | - |
| Payments to redeem debt | (945,000) | (1,080,000) |
| Net cash provided by (used in) capital and related financing activities | 25,763,532 | (2,560,480) |
| **Cash Flows from Investing Activities:** | | |
| Sale of investments | 10,420,476 | 7,585,867 |
| Purchases of investments | (39,156,010) | (8,557,266) |
| Interest received on investments | 170,997 | 67,197 |
| Net cash used in investing activities | (28,564,537) | (904,202) |
| **Net Increase in Cash and Cash Equivalents** | 470,567 | 408,406 |
| **Cash and Cash Equivalents:** | | |
| Beginning of year | 2,457,236 | 2,048,830 |
| End of year | $ 2,927,803 | $ 2,457,236 |

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

| | 2019 | 2018 |
|---|---|---|
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities:** | | |
| Operating income | $ 2,345,145 | $ 2,756,998 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 1,402,729 | 1,267,395 |
| Miscellaneous income | 128,817 | 250,305 |
| Amortization of deferred outflows and inflows of resources - pension | 28,888 | (12,600) |
| (Increase) decrease in assets and deferred outflows of resources: | | |
| Accounts receivable | (323,153) | (255,881) |
| Prepaid expenses | (79,374) | 3,492 |
| Net pension asset | 151,446 | (137,331) |
| Deferred outflows of resources - pension | (151,107) | 27,086 |
| Increase (decrease) in liabilities and deferred inflows of resources: | | |
| Accounts payable and other accrued expenses | (16,838) | (413,805) |
| Due to City of Lancaster | (227,387) | 166,829 |
| Net pension liability | 94,828 | - |
| Revenue received in advance | (3,232) | 88,919 |
| Deferred inflows of resources - pension | (79,190) | 131,681 |
| Net cash provided by operating activities | $ 3,271,572 | $ 3,873,088 |
| **Noncash Capital Financing and Related Financing Activities:** | | |
| Intra-entity acquisition of capital assets | $ 8,372,280 | $ - |
| Intra-entity note payable for capital asset acquisition | $ (3,000,000) | $ - |

## 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

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, parking enforcement, 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. 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 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, 2019 and 2018, the Authority's allowance for uncollectible accrued parking enforcement revenue was $472,338 and $755,288, respectively.

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. Prepaid debt issuance costs are being amortized using the effective interest rate method over the terms of the bonds.

Capital Assets

Capital assets are carried in the basis of cost. Donated capital assets are recorded at acquisition value at the date of donation. Except for assets acquired through an intra-entity transaction, 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 $1,402,729 and $1,267,395 for the years ended December 31, 2019 and 2018, 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 revenue received in advance.

Deferred Outflows and Inflows 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 and inflows 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.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

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.

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 2019. Settlement amounts have not exceeded insurance coverage for the current year or the two prior years.

Adopted Pronouncement

The requirements of the following GASB statement was adopted by the Authority's 2019 financial statement, prospectively.

GASB Statement No. 89, "*Accounting for Interest Costs Incurred before the End of a Construction Period*," enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. As a result of adopting GASB Statement No. 89, the Authority no longer capitalizes interest costs during period of construction effective January 1, 2019.

Pending Change in Accounting Principles

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, 2022 financial statements.

The effect of implementation of this Statement has not yet been determined.

## 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:

| | 2019 | 2018 |
|---|---|---|
| Cash deposits: | | |
| Cash and cash equivalents | $ 2,902,589 | $ 2,421,570 |
| Petty cash | 25,214 | 35,666 |
| | $ 2,927,803 | $ 2,457,236 |

*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, 2019 and 2018, the Authority's cash deposits were $2,927,803 and $2,457,236, respectively. The bank balances as of December 31, 2019 and 2018 were $3,023,745 and $2,428,369, respectively. At December 31, 2019 and 2018, $250,000 was covered by federal depository insurance and $2,773,745 and $2,178,369, 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.

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 in money market funds are considered Level 1 based on quoted market prices. The Authority's investments in negotiable certificates of deposits and government agency funds are considered level 2 investments. As of December 31, 2019 and 2018, the Authority had the following investments:

| Investments | Fair Value |
|---|---|
| December 31, 2019 | |
| Unrestricted: | |
| Money market funds | $ 450,184 |
| Restricted: | |
| Money market funds | $ 25,785,326 |
| Negotiable certificates of deposits | 1,470,203 |
| Government agency fixed income | 4,998,700 |
| Total restricted investments | $ 32,254,229 |
| December 31, 2018 | |
| Unrestricted: | |
| Money market funds | $ 3,798,640 |

*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, 2019, 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, 2019, the Authority's investments in the money market funds were rated AAA, the government agency fixed income fund was rated AA+, and the negotiable certificates of deposit were not rated.

*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, 2019, the Authority's investments 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, 2019 | Additions | Deletions | Balance December 31, 2019 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Construction in process | $ - | $ 3,522,014 | $ - | $ 3,522,014 |
| Land | 3,695,871 | 2,047,583 | - | 5,743,454 |
| Total capital assets not being depreciated | 3,695,871 | 5,569,597 | - | 9,265,468 |
| Capital assets being depreciated: | | | | |
| Parking garages, lots, and rental complex | 36,660,383 | 8,608,568 | 925 | 45,268,026 |
| Office furnishings and equipment | 138,996 | - | 4,600 | 134,396 |
| Equipment | 3,783,828 | 46,230 | 45,928 | 3,784,130 |
| Vehicles | 271,074 | 23,100 | - | 294,174 |
| Total capital assets being depreciated | 40,854,281 | 8,677,898 | 51,453 | 49,480,726 |
| Less accumulated depreciation for: | | | | |
| Parking garages, lots, and rental complex | 22,678,879 | 1,010,248 | 925 | 23,688,202 |
| Office furnishings and equipment | 72,172 | 14,088 | 4,600 | 81,660 |
| Equipment | 2,972,123 | 336,126 | 45,928 | 3,262,321 |
| Vehicles | 144,950 | 42,269 | - | 187,219 |
| Total accumulated depreciation | 25,868,124 | 1,402,731 | 51,453 | 27,219,402 |
| Total capital assets being depreciated, net | 14,986,157 | 7,275,167 | - | 22,261,324 |
| | $ 18,682,028 | $ 12,844,764 | $ - | $ 31,526,792 |

| | Balance January 1, 2018 | Additions | Deletions | Balance December 31, 2018 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 3,695,871 | $ - | $ - | $ 3,695,871 |
| Capital assets being depreciated: | | | | |
| Parking garages, lots, and rental complex | 36,044,145 | 616,238 | - | 36,660,383 |
| Office furnishings and equipment | 97,285 | 43,340 | 1,629 | 138,996 |
| Equipment | 3,644,711 | 147,756 | 8,639 | 3,783,828 |
| Vehicles | 249,959 | 21,115 | - | 271,074 |
| Total capital assets being depreciated | 40,036,100 | 828,449 | 10,268 | 40,854,281 |
| Less accumulated depreciation for: | | | | |
| Parking garages, lots, and rental complex | 21,786,639 | 892,240 | - | 22,678,879 |
| Office furnishings and equipment | 64,287 | 9,505 | 1,620 | 72,172 |
| Equipment | 2,647,869 | 327,880 | 3,626 | 2,972,123 |
| Vehicles | 107,180 | 37,770 | - | 144,950 |
| Total accumulated depreciation | 24,605,975 | 1,267,395 | 5,246 | 25,868,124 |
| Total capital assets being depreciated, net | 15,430,125 | (438,946) | 5,022 | 14,986,157 |
| | $ 19,125,996 | $ (438,946) | $ 5,022 | $ 18,682,028 |

## 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 $19,618 and $59,731 during the years ended December 31, 2019 and 2018, respectively.

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

| | Series of 2016 | Series A of 2016 | Series A of 2019 | Total |
|---|---|---|---|---|
| Balance at December 31, 2017 | $ 827,104 | $ 18,858 | $ - | $ 845,962 |
| 2018 interest expense | (56,062) | (3,669) | - | (59,731) |
| Balance at December 31, 2018 | 771,042 | 15,189 | - | 786,231 |
| Issuance of Debt: | | | | |
| Bond premium | - | - | (2,293,878) | (2,293,878) |
| 2019 interest expense | (56,062) | (3,669) | 40,113 | (19,618) |
| Balance at December 31, 2019 | $ 714,980 | $ 11,520 | $ (2,253,765) | $ (1,527,265) |

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.

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.

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%.

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 1, 2025.

On October 1, 2019, the Authority Issued Series A and B of Guaranteed Parking Revenue Bonds (Series A and B of 2019 Bonds). The issuance of the Series A and B of 2019 Bonds were made to finance the design, planning, acquisition, and construction of an approximately 300 vehicle parking facility and public library. The Series A and B of 2019 Bonds are secured by a trust indenture dated October 1, 2019. Debt service payments are guaranteed by the City with a guaranty agreement dated October 1, 2019. 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 and B of 2019 Bonds are payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the Series A and B of 2019 Bonds range from 2.10% to 4.00% through the maturity date of September 1, 2044.

In the event of default by the Authority and the City, the Trustee may take and maintain possession of all or any part of the Parking Facilities, and may hold, manage, and operate such Parking Facilities and collect the amounts payable by reason of such operation.

| | Balance January 1, 2019 | Additions | Repayments | Balance December 31, 2019 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Direct Placements: | | | | | |
| Series of 2016 Parking Revenue Bonds | $ 13,605,000 | $ - | $ - | $ 13,605,000 | $ - |
| Series A of 2016 Parking Revenue Bonds | 6,765,000 | - | 945,000 | 5,820,000 | 970,000 |
| Series A of 2019 Parking Revenue Bonds | - | 27,825,000 | - | 27,825,000 | - |
| Series B of 2019 Parking Revenue Bonds | - | 1,325,000 | - | 1,325,000 | - |
| | $ 20,370,000 | $ 29,150,000 | $ 945,000 | $ 48,575,000 | $ 970,000 |

| | Balance January 1, 2018 | Additions | Repayments | Balance December 31, 2018 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Series of 2016 Parking Revenue Bonds | $ 13,605,000 | $ - | $ - | $ 13,605,000 | $ - |
| Series A of 2016 Parking Revenue Bonds | 7,695,000 | - | 930,000 | 6,765,000 | 945,000 |
| | $ 21,300,000 | $ - | $ 930,000 | $ 20,370,000 | $ 945,000 |

Future maturities are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2020 | $ 970,000 | $ 2,887,217 | $ 3,857,217 |
| 2021 | 1,485,000 | 2,861,817 | 4,346,817 |
| 2022 | 1,665,000 | 2,816,934 | 4,481,934 |
| 2023 | 2,045,000 | 2,720,503 | 4,765,503 |
| 2024 | 2,125,000 | 2,597,688 | 4,722,688 |
| 2025-2029 | 12,025,000 | 10,956,908 | 22,981,908 |
| 2030-2034 | 11,545,000 | 8,018,213 | 19,563,213 |
| 2035-2039 | 9,325,000 | 4,225,812 | 13,550,812 |
| 2040-2044 | 7,390,000 | 1,639,600 | 9,029,600 |
| | $ 48,575,000 | $ 38,724,691 | $ 87,299,691 |

### 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 was to be paid in equal annual installments of $150,000. During the year ended December 31, 2018, the remaining balance of $150,000 was paid in full.

### Interest Expense

Interest expense on the bonds, excluding amortization of deferred charge on debt refunding, premiums, and prepaid insurance, totaled $1,393,536 and $644,122 for the years ended December 31, 2019 and 2018, respectively. In addition, there was a total of $310,052 included in interest expense related to debt issuance costs for the year ended December 31, 2019. Interest expense on the elevator loan totaled $881 for the year ended December 31, 2018.

## 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.

*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 January 1, 2019:

| | |
|---|---|
| Active employees | 32 |
| Inactive employees and beneficiaries currently receiving benefits | 12 |
| Inactive employees entitled to but not yet receiving benefits | 0 |
| Total | 44 |

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, 2018, the Authority made a contribution to the Plan in the amount of $31,163. The minimum municipal obligation (MMO) for the year ended December 31, 2018 was $31,043. During the year ended December 31, 2019, the Authority made a contribution of $64,525. The MMO for the year ended December 31, 2019 was $64,365. The 2018 and 2019 contributions are reported as deferred outflows of resources at December 31, 2018 and 2019, respectively.

Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) of the Authority for the years ended December 31, 2019 and 2018 were as follows:

| | Increases (Decreases) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
| Balances at December 31, 2018 (based on the measurement date of December 31, 2017) | $ 1,466,554 | $ 1,618,000 | $ (151,446) |
| Changes for the year: | | | |
| Service cost | 156,403 | - | 156,403 |
| Interest | 81,652 | - | 81,652 |
| Differences between expected and actual experience | (62,989) | - | (62,989) |
| Contributions - employer | - | 31,163 | (31,163) |
| Contributions - employee | - | 81,810 | (81,810) |
| Net investment income (loss) | - | (179,827) | 179,827 |
| Benefit payments, including refunds | (102,194) | (102,194) | - |
| Administrative expense | - | (4,354) | 4,354 |
| Net changes | 72,872 | (173,402) | 246,274 |
| Balances at December 31, 2019 (based on the measurement date of December 31, 2018) | $ 1,539,426 | $ 1,444,598 | $ 94,828 |
| Plan fiduciary net position as a percentage of the total pension liability | | | 93.84% |

| | Increases (Decreases) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
| Balances at December 31, 2017 (based on the measurement date of December 31, 2016) | $ 1,400,517 | $ 1,414,632 | $ (14,115) |
| Changes for the year: | | | |
| Service cost | 97,605 | - | 97,605 |
| Interest | 75,453 | - | 75,453 |
| Contributions - employer | - | 19,000 | (19,000) |
| Contributions - employee | - | 47,920 | (47,920) |
| Net investment income | - | 247,783 | (247,783) |
| Benefit payments, including refunds | (107,021) | (107,021) | - |
| Administrative expense | - | (4,314) | 4,314 |
| Net changes | 66,037 | 203,368 | (137,331) |
| Balances at December 31, 2018 (based on the measurement date of December 31, 2017) | $ 1,466,554 | $ 1,618,000 | $ (151,446) |
| Plan fiduciary net position as a percentage of the total pension liability | | | 110.33% |

*Actuarial Assumptions* - The total pension liability was determined by an actuarial valuation performed on January 1, 2019, with liabilities rolled forward to December 31, 2018, 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

*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.pmrs.state.pa.us. Based on the four-part analysis, the PMRS Board established the System's long-term expected rate of return at 7.0%. The rationale for the difference between the System's long-term expected rate of return and the discount rate can be found at www.pmrs.state.pa.us.

*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, 2018 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, 2019:

| 1% Decrease (4.25%) | Current Discount Rate (5.25%) | 1% Increase (6.25%) |
|---|---|---|
| $ 269,061 | $ 94,828 | $ (50,950) |

December 31, 2018:

| 1% Decrease (4.25%) | Current Discount Rate (5.25%) | 1% Increase (6.25%) |
|---|---|---|
| $ (12,547) | $ (151,446) | $ (270,943) |

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

For the years ended December 31, 2019 and 2018, the Authority recognized pension expense of $109,390 and $40,000, respectively.

At December 31, 2019, the Authority reported deferred outflows and inflows of resources related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 15,394 | $ 52,491 |
| Authority contributions subsequent to the measurement date | 64,525 | - |
| Changes in assumptions | 12,698 | - |
| Net difference between projected and actual earnings on pension plan investments | 103,841 | - |
| Total | $ 196,458 | $ 52,491 |

At December 31, 2018, the Authority reported deferred outflows and inflows of resources related to pension from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 23,707 | $ - |
| Authority contributions subsequent to the measurement date | 31,163 | - |
| Changes in assumptions | 19,369 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 131,681 |
| Total | $ 74,239 | $ 131,681 |

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, 2019 and 2018 will be recorded as a reduction to the pension liability during the years ending December 31, 2020 and 2019, respectively. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ending December 31, | |
|---|---|
| 2020 | $ 33,288 |
| 2021 | 7,863 |
| 2022 | 7,300 |
| 2023 | 41,487 |
| 2024 | (10,496) |
| | $ 79,442 |

## 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. As of April 1, 2019, Penn Square Partners leased an additional 117 spaces. 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 for an annual rent of $80,400. As of April 1, 2019, Hotel Lancaster leased an additional 84 spaces for monthly rent of $10,900. The term of the original agreement was 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. The agreement has been extended to March 31, 2029, with an option to extend for two additional five-year terms subjects to the Authority's right to increase the rent per space upon then existing market conditions.

## 9. Transactions with Primary Government – City of Lancaster

During the years ended December 31, 2019 and 2018, the City paid the Authority $171,688 and $168,502, 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 $1,554,417 and $1,821,153 for the years ended December 31, 2019 and 2018, respectively. Of these amounts, $467,036 and $694,423 were outstanding and due to the City as of December 31, 2019 and 2018, respectively.

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. On October 22, 2019, the City and the Authority agreed to extend the Enforcement Agreement for an additional three year period to December 31, 2022.

As noted in Note 10, the Authority has a note payable outstanding to the City totaling $3,000,000 as of December 31, 2019.

## 10. Related Party Transactions, Intra-entity Transfers, and Note Payable to the City

On June 19, 2019, the Authority purchased the North Queen Street Garage from the Redevelopment Authority of the City of Lancaster (RACL) through the issuance of a $3,000,000 unsecured note payable. As the Authority and RACL are both component units of the City, the asset purchase was treated as an intra-entity transaction and RACL's net book value of the asset at the time of the transaction was used for recording the acquisition. The Authority recorded $897,583 and $7,474,697 of land and building respectively as part of the transaction.

During the year ended December 31, 2019, RACL assigned the outstanding note payable to the City. The Authority will make an annual payment in the amount of $150,000 over a 20-year period to satisfy the unsecured note payable to the City. See below for the note maturity schedule:

| | Principal |
|---|---|
| 2020 | $ 150,000 |
| 2021 | 150,000 |
| 2022 | 150,000 |
| 2023 | 150,000 |
| 2024 | 150,000 |
| 2025-2029 | 750,000 |
| 2030-2034 | 750,000 |
| 2035-2039 | 750,000 |
| | $ 3,000,000 |

During the year ended December 31, 2018, the Authority and the City of Lancaster City Revitalization and Improvement Zone Authority (CRIZ), a component unit of the City, entered into a contract whereby CRIZ agreed to grant $1,000,000 to the Authority for the purchase of property at 151 North Queen Street. In April 2019, the CRIZ's board approved to increase funding by an additional $200,000 for the property purchase. The property purchase is for the purpose of constructing a building which will house the Lancaster Public Library, retail space, and an approximately 300 space public parking garage. In addition to funding the property purchase, the contract also provides up to 100% of the annual increment created by the tenants of 101 North Queen Street, the Hotel Lancaster, and tenants of the retail space of the project to the Authority to pay future debt service payments on one or more bonds to be issued by the Authority in order to construct the building. Such CRIZ payments shall continue until the future bonds are retired or the Commonwealth of Pennsylvania City Revitalization and Improvement Zone program ends, whichever is first to occur. CRIZ reasonably estimates that upon completion of the project, the amount of the annual increment to be received by the Authority shall be $2,000,000. On or before October 30 of each year, CRIZ shall certify in writing to the Authority the amount of the annual increment that the Authority shall receive for that year. During the year ended December 31, 2019, CRIZ contributions totaled $1,489,897 of which $284,497 is due from CRIZ as of December 31, 2019.

## 11. Commitments

The Authority entered into two construction contracts totaling $13,000,914 during the year ended December 31, 2019 for development and construction of the Christian Street mixed-use parking garage. The commitments outstanding on the contracts was $9,892,161 as of December 31, 2019.

## 12. Subsequent Events

In early 2020, an outbreak of a novel strain of coronavirus was identified and infections have been found in several countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The Authority suspended parking enforcement for approximately 2 months and associated garage revenue decreased during this time. The extent of the impact of the coronavirus on the Authority's operational and financial performance is currently uncertain and cannot be fully predicted.

On February 27, 2020, the Authority entered into a professional consulting services agreement with R & R Studios to serve as the Authority's professional representative and to provide professional community outreach, education, and project management services for the Ewell Plaza Façade/Christian Street Garage integrated artwork. The Authority will pay R & R Studios $90,000 to re-design the Façade of the Ewell Plaza. This contact was originally signed with the City, however was assigned to the Authority on March 9, 2020 by the City.

In March 2020, the Authority and the Lancaster Public Library (Library) entered into an agreement whereby the Authority will lease space to the Library in the new Christian Street mixed-use parking garage building upon project completion. If the space is not delivered to the Library in accordance with this agreement on or before October 31, 2021, the Library may terminate the agreement upon written notice to the Authority. The Library is responsible for all costs incurred to complete the work on the library structure in order to prepare it for use as a public library. The lease commences once the Library takes occupancy of the space and the term is 99 years with monthly rent payments of $0.

# REQUIRED SUPPLEMENTARY INFORMATION

# LANCASTER PARKING AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION -

SCHEDULE OF CHANGES IN THE PENSION PLAN'S
NET PENSION LIABILITY (ASSET) AND RELATED RATIOS

| | 2019 * | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Total Pension Liability:** | | | | | |
| Service cost | $ 156,403 | $ 97,605 | $ 69,238 | $ 64,414 | $ 34,602 |
| Interest | 81,652 | 75,453 | 72,523 | 71,493 | 70,961 |
| Benefit payments, including refunds | (102,194) | (107,021) | (123,976) | (119,340) | (137,991) |
| Changes in assumptions | - | - | 30,135 | 3,220 | - |
| Differences between expected and actual experience | (62,989) | - | 38,482 | - | 3,085 |
| **Net Changes in Total Pension Liability** | 72,872 | 66,037 | 86,402 | 19,787 | (29,343) |
| **Total Pension Liability - Beginning** | 1,466,554 | 1,400,517 | 1,314,115 | 1,294,328 | 1,323,671 |
| **Total Pension Liability - Ending (a)** | $ 1,539,426 | $ 1,466,554 | $ 1,400,517 | $ 1,314,115 | $ 1,294,328 |
| **Plan Fiduciary Net Position:** | | | | | |
| Contributions - employer | $ 31,163 | $ 19,000 | $ 20,875 | $ 5,112 | $ 7,687 |
| Contributions - employees | 81,810 | 47,920 | 31,547 | 24,532 | 16,561 |
| Net investment income (loss) | (179,827) | 247,783 | 143,577 | (43,585) | 104,945 |
| Benefit payments, including refunds | (102,194) | (107,021) | (123,976) | (119,340) | (137,991) |
| Administrative expense | (4,354) | (4,314) | (4,590) | (3,948) | (3,843) |
| **Net Change in Plan Fiduciary Net Position** | (173,402) | 203,368 | 67,433 | (137,229) | (12,641) |
| **Plan Fiduciary Net Position - Beginning** | 1,618,000 | 1,414,632 | 1,347,199 | 1,484,428 | 1,497,069 |
| **Plan Fiduciary Net Position - Ending (b)** | $ 1,444,598 | $ 1,618,000 | $ 1,414,632 | $ 1,347,199 | $ 1,484,428 |
| **Net Pension Liability (Asset) - Ending (a-b)** | $ 94,828 | $ (151,446) | $ (14,115) | $ (33,084) | $ (190,100) |
| **Plan Fiduciary Net Position as a Percentage of the Total Pension Liability** | 93.8% | 110.3% | 101.0% | 102.5% | 114.7% |
| **Covered Employee Payroll** | $ 1,364,462 | $ 910,049 | $ 696,471 | 697,602 | 396,954 |
| **Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll** | 6.95% | -16.64% | -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

| | 2019* | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Actuarially determined contribution under Act 205 | $ 31,043 | $ 18,720 | $ 20,835 | $ 5,032 | $ 6,907 | $ 2,736 | $ 14,139 | $ 13,371 | $ 10,008 | $ 5,479 |
| Contribution in relation to the actuarially determined contribution | 31,163 | 19,000 | 20,875 | 5,112 | 7,687 | 2,736 | 14,139 | 13,371 | 10,008 | 5,479 |
| Contribution deficiency (excess) | $ (120) | $ (280) | $ (40) | $ (80) | $ (780) | $ - | $ - | $ - | $ - | $ - |
| Covered employee payroll | $ 1,364,462 | $ 910,049 | $ 696,471 | $ 697,602 | $ 396,954 | | | | | |
| Contributions as a percentage of covered employee payroll | 2.28% | 2.09% | 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, 2018 (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 | 5.25% |
| 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.

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