

Harrisburg Parking Authority
(A Component Unit of the City of
Harrisburg)

Financial Statements

Year Ended December 31, 2014 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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HARRISBURG PARKING AUTHORITY

YEAR ENDED DECEMBER 31, 2014

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Independent Auditor's Report

Board of Directors
Harrisburg Parking Authority

We have audited the accompanying financial statements of the Harrisburg Parking Authority (Authority), a component unit of the City of Harrisburg, as of and for the year ended December 31, 2014, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Maher Duessel

Harrisburg, Pennsylvania
June 16, 2015

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BALANCE SHEET

DECEMBER 31, 2014

Assets:

Current assets:

Cash and cash equivalents	\$ 1,120,864
Receivables - trade	27,630
Receivables - benefit trust distribution	404,792
Rent receivable	73,442
Prepaid expenses	26,840

Total current assets 1,653,568

Noncurrent assets:

Capital assets (net of accumulated depreciation of \$3,288,294)	4,711,703
Title insurance deposit	100,000

Total noncurrent assets 4,811,703

Total Assets \$ 6,465,271

Liabilities:

Accounts payable and accrued expenses	\$ 201,345
Due to the City of Harrisburg	73,442
Accrued termination benefits	258,590

Total Liabilities 533,377

Net Position:

Net investment in capital assets	4,711,703
Restricted:	
Insurer agreement	1,171,139
Unrestricted	49,052

Total Net Position 5,931,894

Total Liabilities and Net Position \$ 6,465,271

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

HARRISBURG PARKING AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2014

Operating Revenues:

Parking revenue	\$ 101,062
Management fees	100,464
Other	29,266
Total operating revenues	<u>230,792</u>

Operating Expenses:

Salaries and fringe benefits	390,976
Repairs, maintenance, and supplies	13,498
Professional services	324,830
Depreciation	204,959
Insurance	54,869
Utilities	22,096
Other	77,608
Total operating expenses	<u>1,088,836</u>

Operating Loss

(858,044)

Nonoperating Revenue (Expenses):

Arbitrage rebate refund	68,700
Benefit trust distribution	404,792
Rent	1,100,000
Transfer to the City of Harrisburg	<u>(1,100,000)</u>
Total nonoperating revenue, net	<u>473,492</u>

Change in Net Position

(384,552)

Net Position:

Beginning	<u>6,316,446</u>
Ending	<u><u>\$ 5,931,894</u></u>

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

HARRISBURG PARKING AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2014

Cash Flows From Operating Activities:

Received from operations	\$ 971,022
Payments to employees for services	(1,338,571)
Payments to suppliers for goods and services	<u>(2,011,148)</u>
Net cash used in operating activities	<u>(2,378,697)</u>

Cash Flows From Noncapital Financing Activities:

Rent payments received	1,100,000
Transfer to the City of Harrisburg	<u>(1,100,000)</u>
Net cash used in noncapital financing activities	<u>-</u>

Cash Flows From Investing Activities:

Arbitrage rebate refund received	68,700
Proceeds from the sale of investment securities	<u>58,937</u>
Net cash provided by investing activities	<u>127,637</u>

Net Decrease in Cash and Cash Equivalents (2,251,060)

Cash and Cash Equivalents:

Beginning	<u>3,371,924</u>
Ending	<u><u>\$ 1,120,864</u></u>

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:

Operating loss	\$ (858,044)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	204,959
Changes in operating assets and liabilities:	
Receivable - trade	740,230
Prepaid expenses	(21,126)
Accounts payable and accrued expenses	(1,497,121)
Accrued termination benefits	<u>(947,595)</u>
Net cash used in operating activities	<u><u>\$ (2,378,697)</u></u>

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description

The Harrisburg Parking Authority (HPA) was incorporated in 1972 under the Pennsylvania Parking Authority Law of 1947. HPA is an agency of the Commonwealth of Pennsylvania, which owns and operates parking facilities in the City of Harrisburg (City). For financial statement purposes, HPA is a component unit (single enterprise fund) of the City and is thus included in the City's annual financial statement.

The five-member board of HPA is appointed by the Mayor and members of the Board can be removed from the Board at will.

On December 23, 2013, HPA entered into an Asset Transfer Agreement for the City of Harrisburg Parking System (Agreement) for a majority of its parking facilities, meters, and lots. Subsequent to the asset transfer date of December 23, 2013, HPA maintained an operating interest in the City Island Garage and certain parking lots. Although HPA maintains an operating interest in the City Island Garage as of December 31, 2014, the Asset Transfer Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

B. Reporting Entity

For financial reporting purposes, HPA includes those operations that are generally controlled by or dependent on HPA. Controlled by or dependent on HPA is determined on the basis of such factors as budget adoption, outstanding debt secured by revenues of HPA, obligations of HPA to finance any deficit that may occur, or receipt of significant subsidies from HPA.

C. Basis of Presentation

HPA's operations are funded through user charges. Therefore, HPA is presented as an enterprise fund, a proprietary fund type, using the economic resources measurement focus. An enterprise fund is used to account for operations where the costs of providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of HPA are charges for parking and management fees. Operating expenses include the cost of services, administrative expenses, and depreciation on

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YEAR ENDED DECEMBER 31, 2014

capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Basis of Accounting

The accrual basis of accounting is utilized by HPA. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred.

The accounting and financial reporting treatment applied to HPA is determined by its measurement focus. The transactions of HPA are accounted for on a flow of economic resources measurement focus; all assets and liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets, net of total liabilities) is segregated into “Net investment in capital assets”, “Restricted”, and “Unrestricted” components.

E. Cash Equivalents

For purposes of the statements of cash flows, HPA considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are classified as prepaid expenses when made and expensed in future periods.

G. Capital Assets

Capital assets in service and construction in progress are stated on the basis of cost. Capital assets are defined by HPA as assets with an initial, individual cost of \$10,000 for land, buildings, and related improvements, or \$1,000 for furniture and equipment purposes, and an estimated useful life in excess of three years. Maintenance and repairs, which do not significantly extend the value or life of capital assets, are expensed as incurred.

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

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

H. Accrued Termination Benefits

As a result of the consummation of the transaction described in Note 8, there is one employee who is eligible for postemployment benefits. The amount of other postemployment benefits is based on an estimate of the actuarial present value of medical coverage as of July 1, 2015 (date of employment termination) for coverage for this employee and his spouse to age 65 and is included on the financial statements at December 31, 2014 as accrued termination benefits.

I. Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted consists of net position for which constraints are placed thereon by external parties, such as the bond insurer. Unrestricted consists of all other net position not included in the above categories.

J. Risk Management

HPA 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 2014. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

K. Use of Estimates in the Preparation of Financial Statements

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

2. DEPOSITS

The Parking Authority Law limits HPA to the type of deposits it may make. Allowable deposits include deposits with banks or savings associations that, to the extent not insured,

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YEAR ENDED DECEMBER 31, 2014

are secured by a pledge of direct obligations of the U.S. Government, Commonwealth of Pennsylvania, or the City having an aggregate market value at least equal to the balance of such deposits.

Custodial credit risk. As of December 31, 2014, HPA's cash deposits were \$1,120,864 and the bank balance was \$1,138,017. Of the bank balance at December 31, 2014, \$124,995 was covered by federal depository insurance. The remaining \$1,013,022 was invested in the Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits (INVEST). INVEST issues audited financial statements that are available to the public. The fair value of HPA's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pool. At December 31, 2014, INVEST carried an AAA rating and had an average weighted maturity of less than one year.

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning of Year	Additions	Dispositions	End of Year
Buildings and improvements	\$ 7,999,997	\$ -	\$ -	\$ 7,999,997
Less accumulated depreciation	(3,083,335)	(204,959)	-	(3,288,294)
Total capital assets, net	<u>\$ 4,916,662</u>	<u>\$ (204,959)</u>	<u>\$ -</u>	<u>\$ 4,711,703</u>

4. BONDS AND NOTES PAYABLE

In 2000, HPA issued the "Guaranteed Parking Revenue Note, Series K of 2000" (Series K Notes) in the aggregate principal amount of \$11,800,000 with a variable interest rate to provide funding for the costs of completing the acquisition, design, development, construction, and equipping of three parking garages; certain costs of acquiring, constructing, and equipping miscellaneous capital additions of HPA's parking facilities and parking system; debt service reserve funds under a third supplemental indenture of the City of York General Authority and fund capitalized interest on the Series K Note; and paying the costs of issuing HPA's Series K Notes. In order to minimize the risk of interest rate fluctuations, HPA entered into an interest rate cap agreement, the term of which was to run from June 1, 2000 through and including October 1, 2024. The maximum rate under this agreement was 8.0% annually. As a result of the Agreement, as disclosed in Note 8, securities were deposited into an irrevocable trust with an escrow agent to provide for all debt service

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YEAR ENDED DECEMBER 31, 2014

payments on the Series K Notes. As a result, the Series K Notes are considered to be defeased and the liability for those Notes has been removed from HPA's balance sheet. The outstanding Series K Notes were redeemed on January 2, 2014. The interest rate cap agreement was terminated at the time of defeasance.

In 2003, HPA issued the "Harrisburg Parking Authority Guaranteed Parking Revenue Refunding Bonds, Series N of 2003" (Series N Bonds) principal amount of \$7,905,000 (plus accrued interest of \$10,051 plus an original issue premium of \$98,721) with interest rates ranging from 2.50% to 4.30% to advance refund \$7,400,000 of outstanding the Series F Bonds of 1993. As a result of the Agreement, as disclosed in Note 8, securities were deposited into an irrevocable trust with an escrow agent to provide for all debt service payments on the Series N Bonds. As a result, the Series N Bonds are considered to be defeased and the liability for those Bonds has been removed from HPA's balance sheet. The outstanding Series N Bonds were redeemed on January 22, 2014.

In 2005, HPA issued the "Harrisburg Parking Authority Guaranteed Parking Revenue Bonds, Series P of 2005" (Series P Bonds) in the aggregate principal amount of \$16,630,000 (plus an original issue premium of \$506,664) with interest rates ranging from 3.30% to 5.70% to provide for the acquisition and construction of the South Street Garage; funding of a debt service reserve fund under the HPA indenture; and the payment of the costs of issuing the bonds. As a result of the Agreement, as disclosed in Note 8, securities were deposited into an irrevocable trust with an escrow agent to provide for all debt service payments on the Series P Bonds. As a result, the Series P Bonds are considered to be defeased and the liability for those Bonds has been removed from HPA's balance sheet. As of December 31, 2014, \$4,110,000 of Series P Bonds remained outstanding.

In 2007, HPA issued the "Harrisburg Parking Authority Guaranteed Parking Revenue Bonds, Series R of 2007" (Series R Bonds) in the aggregate principal amount of \$16,695,000 (less an original issue discount of \$98,959) with interest rates ranging from 3.60% to 5.00% to provide for the acquisition of a parking condominium; funding of a debt service reserve fund under the HPA indenture; and the payment of the costs of issuing the Bonds. As a result of the Agreement, as disclosed in Note 8, securities were deposited into an irrevocable trust with an escrow agent to provide for all debt service payments on the Series R Bonds. As a result, the Series R Bonds are considered to be defeased and the liability for those Bonds has been removed from HPA's balance sheet. As of December 31, 2014, \$15,130,000 of Series R Bonds remained outstanding.

In 2007, HPA issued the "Harrisburg Parking Authority Parking Revenue Refunding Bonds, Series T of 2007" (Series T Bonds) principal amount of \$19,890,000 (plus accrued interest of \$6,783 less an original issue discount of \$365,066) with interest rates ranging from 3.50% to 4.50% to advance refund \$17,090,000 of outstanding Guaranteed Parking Revenue Bonds, Series 2001 Bonds (Series 2001). The net proceeds of \$18,158,129 (after payment of

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YEAR ENDED DECEMBER 31, 2014

\$1,174,687 in issuance costs and deposits of \$1,418,976 to the Series T Debt Service Reserve Fund) together with \$1,456,945 from the Series 2001 Debt Service Reserve Fund trust account were used to purchase U.S. Government securities. As a result of the Agreement, as disclosed in Note 8, securities were deposited into an irrevocable trust with an escrow agent to provide for all debt service payments on the Series T Bonds. As a result, the Series T Bonds are considered to be defeased and the liability for those Bonds has been removed from HPA's balance sheet. As of December 31, 2014, \$15,860,000 of Series T Bonds remained outstanding.

In September 2011, HPA issued the "Harrisburg Parking Authority Tax Convertible Parking Revenue Bonds, Series U of 2011" (Series U Bonds) principal amount of \$10,645,000 (less an original issue discount of \$212,900) with an interest rate of 10.75% during the Federally Taxable Period, to provide for the financing of certain improvements to the Walnut Street Garage, including reimbursement of certain costs paid by HPA; financing of certain change orders to the Harrisburg University Garage; prepaying of rent for an extension of the lease for the Walnut Street Garage, Chestnut Street Garage, and Fifth Street Garage; and paying the costs of issuing the bonds. Series U Bonds are collectively comprised of three subseries; "Series U-1 Bonds" principal amount of \$7,885,000, "Series U-2 Bonds" principal amount of \$2,135,000, and "Series U-3 Bonds" principal amount of \$625,000. In February 2012, the Series U-1 Bonds converted from a 10.75% interest rate to a federally tax-exempt obligation rate of 8.50%. As a result of the Agreement, as disclosed in Note 8, Series U-2 and U-3 Bonds were paid in full as of December 31, 2013. In addition, securities were deposited into an irrevocable trust with an escrow agent to provide for all debt service payments on the Series U-1 Bonds. As a result, the Series U-1 Bonds are considered to be defeased and the liability for those Bonds has been removed from HPA's balance sheet. As of December 31, 2014, \$7,885,000 of Series U-1 Bonds remained outstanding.

5. PENSION PLAN

HPA is the sponsor of a defined contribution plan, called the Parking Authority of the City of Harrisburg Retirement Plan (Plan), which covered substantially all full-time employees who were 18 years of age or older and had completed one year of service. Employees may elect to have the employer defer a portion of their compensation, subject to certain maximum limitations, and contribute such amount to the Plan.

Contributions to the Plan were made by HPA at its discretion, based on a percentage of the covered employee's compensation. Employees' vesting percentages in such contributions were based on total years of service. Contributions by HPA totaled \$15,787 for the year ended December 31, 2014, and was based on covered compensation of \$239,289, compared to total compensation of \$291,028. This contribution represented approximately 6.6% of covered payroll for the year ended December 31, 2014. Employee contributions totaled

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

\$17,009 for the year ended December 31, 2014. These contributions represented 7.1% of covered payroll. Pension costs are expensed as funded.

6. COMMITMENTS AND RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, HPA entered into a contract with an engineering firm to survey and zone City Island. Of the total contract amount of \$68,500, \$20,000 is included in accounts payable at December 31, 2014. The commitment remaining on the contract at December 31, 2014 was \$48,500.

In accordance with the Asset Transfer Agreement, as disclosed in Note 8, HPA receives monthly rent payments from Pennsylvania Economic Development Financing Authority (PEDFA) based upon the flow of funds. During the year ended December 31, 2013, HPA entered into the 2013 Harrisburg Downtown Parking Cooperation Agreement with the City and Harristown Development Corporation, of which HPA directs these monthly rent payments received from PEDFA directly to the City. As a result of this, rent revenue and corresponding transfer to the City for the year ended December 31, 2014 amounted to \$1,100,000, of which \$73,442 is recorded as rent receivable and corresponding due to the City as of December 31, 2014.

Contingent upon available funds in accordance with the Asset Transfer Agreement, as described in Note 8, the following amounts are to be received HPA and then disbursed to the City in future years:

Period ending December 31,	Rent
2015	\$ 1,133,000
2016	1,166,990
2017	1,202,000
2018	1,238,060
2019	1,275,201
2020-2024	6,973,325
2025-2029	8,083,994
2030-2034	9,371,564
2035-2039	10,864,213
2040-2044	12,594,599
2045-2049	14,600,593
2050-2053	13,337,847
Total	<u>\$ 81,841,386</u>

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

7. LITIGATION

HPA is involved in several lawsuits arising in the normal course of business. Management believes that none of the litigation outstanding against HPA will have a material adverse effect on the financial position of HPA at December 31, 2014.

8. ASSET TRANSFER AGREEMENT

On December 23, 2013, HPA entered into an Agreement dated December 1, 2013 with PEDFA. Under the Agreement, HPA agreed to lease, for a period of approximately forty years, certain parking facilities, meters, and lots for an upfront acquisition price of approximately \$267 million, plus four notes receivable, with a present value of approximately \$12 million. At closing on December 23, 2013, at the request of the City, HPA assigned the notes receivable to the City, County, and Bond Insurer. Any surplus revenues (as defined in the Agreement), are to be paid on the notes receivable, with 75% going to the Bond Insurer and the County and 25% going to the City, until such time as the Bond Insurer and the County are made whole and then all amounts going to the City.

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

9. BENEFIT TRUST DISTRIBUTION

Those employees who were laid off as a result of the Agreement and met certain criteria were offered a severance package including health insurance and supplemental unemployment benefits through June 30, 2015. The cost of these benefits was reported as accrued termination benefits at December 31, 2013. HPA established a trust for each type of benefit during the year ended December 31, 2014. All proceeds remaining in the trust after payment of benefits are to be returned to HPA. At December 31, 2014, it is anticipated that \$404,792 will be returned to HPA and has been reported as benefit trust distribution receivable at December 31, 2014.