

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

Financial Statements

Year Ended December 31, 2016 with
Independent Auditor's Report

MaherDuessel

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HARRISBURG PARKING AUTHORITY

YEAR ENDED DECEMBER 31, 2016

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Balance Sheet	1
Statement of Revenues, Expenses, and Changes in Net Position	2
Statement of Cash Flows	3
Notes to Financial Statements	4

Independent Auditor's Report

Board of Directors
Harrisburg Parking Authority

We have audited the accompanying financial statements of the Harrisburg Parking Authority (HPA), a component unit of the City of Harrisburg, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise HPA'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 HPA as of December 31, 2016, 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

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
August 10, 2017

HARRISBURG PARKING AUTHORITY

BALANCE SHEET

DECEMBER 31, 2016

Assets:

Current assets:

Cash and cash equivalents	\$ 739,587
Receivables - trade	15,812
Rent receivable	751,910
Prepaid expenses	7,859
Total current assets	<u>1,515,168</u>

Noncurrent assets:

Capital assets (net of accumulated depreciation of \$3,708,568)	<u>4,291,429</u>
Total noncurrent assets	<u>4,291,429</u>
Total Assets	<u><u>\$ 5,806,597</u></u>

Liabilities:

Accounts payable and accrued expenses	\$ 96,048
Due to the City of Harrisburg	<u>751,910</u>
Total Liabilities	<u>847,958</u>

Net Position:

Net investment in capital assets	4,291,429
Restricted:	
Insurer agreement	312,893
Unrestricted	<u>354,317</u>
Total Net Position	<u>4,958,639</u>
Total Liabilities and Net Position	<u><u>\$ 5,806,597</u></u>

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, 2016

Operating Revenues:

Parking revenue	\$ 34,846
Management fees	108,356
Other	25,892
Total operating revenues	<u>169,094</u>

Operating Expenses:

Repairs, maintenance, and supplies	9,497
Professional services	113,130
Depreciation	208,411
Insurance	31,253
Utilities	23,285
Other	98,360
Total operating expenses	<u>483,936</u>

Operating Loss

(314,842)

Nonoperating Revenue (Expenses):

Rent	1,166,990
Transfer to the City of Harrisburg	<u>(1,166,990)</u>
Total nonoperating revenue (expenses)	<u>-</u>

Change in Net Position

(314,842)

Net Position:

Beginning	<u>5,273,481</u>
Ending	<u>\$ 4,958,639</u>

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

HARRISBURG PARKING AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

Cash Flows From Operating Activities:

Received from operations	\$ 166,019
Payments to suppliers for goods and services	<u>(272,476)</u>
Net cash used in operating activities	<u>(106,457)</u>

Cash Flows From Noncapital Financing Activities:

Rent payments received	1,093,622
Transfer to the City of Harrisburg	<u>(1,093,622)</u>
Net cash provided by noncapital financing activities	<u>-</u>

Net Decrease in Cash and Cash Equivalents (106,457)

Cash and Cash Equivalents:

Beginning	<u>846,044</u>
Ending	<u><u>\$ 739,587</u></u>

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

Operating loss	\$ (314,842)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	208,411
Changes in assets and liabilities:	
Receivables - trade	(3,075)
Prepaid expenses	6,590
Accounts payable and accrued expenses	<u>(3,541)</u>
Net cash used in operating activities	<u><u>\$ (106,457)</u></u>

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

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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 statements.

The five-member Board of Directors (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) dated December 1, 2013 with Pennsylvania Economic Development Financing Authority (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, Dauphin County (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 associated capital assets were removed from HPA's financial statements as of the closing date. At the end of forty years, all associated 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 HPA in respect of its ownership of the parking assets transferred, in excess of reserves agreed upon by HPA 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 HPA after closing of the transfer of assets is to be promptly paid to the bond insurer. As of December 31, 2016, such transfer has not taken place as HPA and the bond insurer are currently in the settlement process.

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, 2016, the Agreement stipulates that the City Island Garage could also be transferred once negotiations with certain interested parties are complete.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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 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 statement 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.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

F. Rent Receivable

Management has assessed the rent receivables referenced in Note 5 for collectability and deemed the amounts to be fully collectable. Rent receipts are applied to the oldest receivables first.

G. 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.

H. Capital Assets

Capital assets in service and construction in progress are stated on the basis of cost. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that HPA 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 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.

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.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages in 2016. 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 and disclosures. Actual results could differ from those estimates.

L. Pending Changes 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 HPA's December 31, 2020 financial statements.

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

2. DEPOSITS

The Parking Authority Law limits HPA to the type of deposits it may make. 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.

HPA uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for HPA funds. These funds are invested in the Pennsylvania Treasurer's INVEST Program (INVEST), which separately 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. HPA is invested in Invest Daily Pool, which requires no minimum balance, no minimum initial investments, and has no required investment period.

Custodial credit risk. As of December 31, 2016, HPA's cash deposits were \$739,587 and the bank balance was \$745,679. Of the bank balance at December 31, 2016, \$17,810 was

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

covered by federal depository insurance. The remaining \$727,869 was invested in INVEST. At December 31, 2016, 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, 2016 was as follows:

	Beginning of Year	Additions	Disposals	End of Year
Buildings and improvements	\$ 7,999,997	\$ -	\$ -	\$ 7,999,997
Less accumulated depreciation	(3,500,157)	(208,411)	-	(3,708,568)
Total capital assets, net	<u>\$ 4,499,840</u>	<u>\$ (208,411)</u>	<u>\$ -</u>	<u>\$ 4,291,429</u>

4. BONDS AND NOTES PAYABLE

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 1, 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. The outstanding Series R Bonds were redeemed on November 15, 2016.

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 \$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 1, 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

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

HPA's balance sheet. As of December 31, 2016, \$14,310,000 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 1, 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, 2016, \$7,490,000 of Series U-1 Bonds remained outstanding.

5. COMMITMENTS AND RELATED PARTY TRANSACTIONS

In accordance with the Agreement, as disclosed in Note 1, HPA receives monthly rent payments from 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. HPA reports the rent revenue in the year provided for under the Agreement. As a result of this, rent revenue and corresponding transfer to the City for the year ended December 31, 2016 amounted to \$1,166,990, of which \$751,910 is recorded as rent receivable and corresponding due to the City as of December 31, 2016.

In November 2016, the Board approved to file suit against PEDFA for failure to pay rent and City payments and failure to deliver an annual budget. PEDFA has asserted that there are ambiguities in the Agreement as to whether accrued rent from prior years has to be paid, and as to the level of the waterfall at which accrued rent within the current year has to be paid. HPA disputes that there is any ambiguity in the Agreement. HPA contends that it is entitled to immediate release of the withheld rent and payment of accrued and unpaid rent for all years as funds become available in accordance with the waterfall, as defined in the Agreement.

HARRISBURG PARKING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Contingent upon available funds in accordance with the Agreement, as described in Note 1, the following amounts are to be received by HPA and then disbursed to the City in future years:

<u>Period ending December 31,</u>	<u>Rent</u>
2017	\$ 1,202,000
2018	1,238,060
2019	1,275,201
2020	1,313,458
2021	1,352,861
2022-2026	7,398,000
2027-2031	8,576,309
2032-2036	9,942,293
2037-2041	11,525,843
2042-2046	13,361,610
2047-2051	15,489,769
2052-2053	<u>6,865,992</u>
Total	<u>\$ 79,541,396</u>

During the year ended December 31, 2015, HPA entered into a Memorandum of Understanding with the City to assist with the daily management of HPA operations. Effective July 1, 2015, the City engaged an employee to serve as the HPA's Executive Director and perform required daily HPA management activities.

6. 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, 2016.