

**CITY OF YORK GENERAL AUTHORITY
(A Component Unit of the City of York, Pennsylvania)**

ANNUAL FINANCIAL REPORT

Years Ended December 31, 2011 and 2010

CITY OF YORK GENERAL AUTHORITY

(A Component Unit of the City of York, Pennsylvania)

YEARS ENDED DECEMBER 31, 2011 AND 2010

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Independent Auditors' Report

To the Members of the Board
City of York General Authority
York, Pennsylvania

We have audited the accompanying basic financial statements of the City of York General Authority (a component unit of the City of York, Pennsylvania) as of December 31, 2011 and 2010, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the City of York General Authority's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of York General Authority as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Maillie LLP

Oaks, Pennsylvania
May 16, 2013

CITY OF YORK GENERAL AUTHORITY

(A Component Unit of the City of York, Pennsylvania)

STATEMENTS OF NET ASSETS

DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 59,216	\$ 99,253
Cash and cash equivalents - restricted under trust indentures	1,090,661	1,891,941
Accrued interest receivable	5,776	5,708
Accounts receivable	24,871	3,470
Note receivable	149,745	-
Due from other governments	283,000	-
Capital assets, net of accumulated depreciation of \$7,445,335 for 2011 and \$7,038,013 for 2010	7,368,179	7,148,312
Deferred financing costs, net of accumulated amortization of \$494,960 for 2011 and \$493,352 for 2010	27,340	28,948
Total Assets	<u>9,008,788</u>	<u>9,177,632</u>
Liabilities		
Due to the City of York	113,293	72,653
Accounts payable	426,188	308,327
Accrued interest payable	49,296	57,841
Funds collected in advance	342,440	361,120
Deferred revenue	149,745	-
Arbitrage rebate liability	18,937	18,937
Notes payable:		
Due within one year	294,118	785,383
Due in more than one year	4,705,882	4,660,417
Total Liabilities	<u>6,099,899</u>	<u>6,264,678</u>
Net Assets		
Invested in capital assets, net of related debt	2,797,643	2,587,740
Unrestricted	111,246	325,214
Total Net Assets	<u>\$ 2,908,889</u>	<u>\$ 2,912,954</u>

See accompanying notes to basic financial statements.

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STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
<u>Parking fees</u>	<u>\$ 1,696,268</u>	<u>\$ 1,726,078</u>
Operating Expenses:		
<u>System expenses</u>	<u>962,843</u>	<u>860,334</u>
City of York administrative fee	141,000	141,000
Administration	78,608	105,333
Depreciation	<u>518,032</u>	<u>293,228</u>
Total operating expenses	<u>1,700,483</u>	<u>1,399,895</u>
Operating Income (Loss)	<u>(4,215)</u>	<u>326,183</u>
Non-Operating Revenues (Expenses):		
<u>Interest income</u>	<u>559</u>	<u>830</u>
Interest expense	(248,852)	(238,759)
Loss on disposal of capital asset	(32,949)	-
Revenue from other local governments	283,000	-
Amortization of bond issuance costs and discount	<u>(1,608)</u>	<u>(39,308)</u>
Total non-operating revenues (expenses)	<u>150</u>	<u>(277,237)</u>
Change in Net Assets	<u>(4,065)</u>	<u>48,946</u>
Net Assets:		
<u>Beginning of year</u>	<u>2,912,954</u>	<u>2,864,008</u>
End of year	<u>\$ 2,908,889</u>	<u>\$ 2,912,954</u>

See accompanying notes to basic financial statements.

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STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities:		
Cash received from customers	\$ 1,656,187	\$ 1,699,832
Cash paid to suppliers and City of York	(1,156,641)	(1,389,988)
Net cash provided by operating activities	499,546	309,844
Cash Flows From Investing Activities:		
Interest received	491	830
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of note payable	339,581	2,134,623
Proceeds from sale of capital asset	1	-
Principal paid on note payable	(785,381)	(715,023)
Interest paid	(257,397)	(211,230)
Capital asset additions	(638,158)	(1,843,650)
Net cash used in capital and related financing activities	(1,341,354)	(635,280)
Net Decrease in Cash and Cash Equivalents	(841,317)	(324,606)
Cash and Cash Equivalents:		
Beginning of year	1,991,194	2,315,800
End of year	\$ 1,149,877	\$ 1,991,194
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ (4,215)	\$ 326,183
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	518,032	293,228
Changes in assets and liabilities:		
Accounts receivable	(21,401)	(2,566)
Funds collected in advance	(18,680)	(23,680)
Due to the City of York	40,640	4,309
Accounts payable	(14,830)	(287,630)
Total adjustments	503,761	(16,339)
Net cash provided by operating activities	\$ 499,546	\$ 309,844
Non-Cash Capital and Related Financing Activities:		
Capital assets included in accounts payable	\$ 417,859	\$ 285,168

See accompanying notes to basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

The City of York General Authority (Authority) was incorporated on January 1, 1995, under the provisions of the Municipality Authorities Act of 1945, as amended, for all the purposes authorized by the Act and shall have and exercise all powers granted to such authorities under the Act. Through December 31, 2011, its operations have been primarily to operate and maintain a municipal parking system and issue conduit debt.

Reporting Entity

The Authority is a component unit of the City of York (City) reporting entity. Criteria considered in making this determination include appointment of the Authority's Board, financial interdependence, and the Authority's potential to provide specific financial benefits to, or impose specific financial burdens on, the City.

Basis of Accounting

The accounting records of the Authority are maintained on the accrual basis and its operations are accounted for as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected to follow subsequent private-sector guidance.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenue of the Authority is parking fee income. 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 non-operating revenues and expenses.

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YEARS ENDED DECEMBER 31, 2011 AND 2010

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into “invested in capital assets, net of related debt” and “unrestricted” components.

Nonrecourse Debt Issues

The Authority participates in several bond issues for which it has no liability. Acting solely in an agent capacity, the Authority serves as a tax-exempt financing conduit, bringing the ultimate borrower and the ultimate lender together. Although the Authority is a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the Authority in the case of default. As such, the corresponding debt is not reported in the Authority’s statement of net assets, but is disclosed in Note 6.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable trust indentures or other agreements.

Capital Assets

Capital assets are carried at cost or at estimated fair value, if donated. Depreciation has been provided using the straight-line method over the expected economic useful life of the assets (5 to 20 years). When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the Authority as assets with an initial, individual or aggregate cost of more than \$5,000 and an estimated useful life in excess of two years.

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YEARS ENDED DECEMBER 31, 2011 AND 2010

Deferred Financing Costs

Financing costs are deferred and are being amortized over the life of the Series of 1998, Parking Revenue Note and the Series of 2008, Promissory Note, using a straight-line method. In the statement of net assets, the unamortized financing costs are reported as a deferred charge (asset).

Funds Collected in Advance

Funds collected in advance represent funds collected from several municipalities for future period parking fees. Revenue is earned in the period in which services are provided.

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net assets are classified in the following components: invested in capital assets, net of related debt and unrestricted net assets. Invested in capital assets, net of related debt, 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. Unrestricted consists of all other net assets not included in the above category.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

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

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YEARS ENDED DECEMBER 31, 2011 AND 2010

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. The Authority purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Pending Changes in Accounting Principles

In June of 2011, the GASB issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" Statement No. 63 provides guidance on reporting deferred inflows and outflows of resources, which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The provisions of this Statement are effective for the Authority's December 31, 2012 financial statements. The effect of implementation of this Statement has not yet been determined.

In April of 2012, the GASB issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*" Statement No. 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for the Authority's December 31, 2013 financial statements. The effect of implementation of this Statement has not yet been determined.

2. DEPOSITS AND INVESTMENTS

The deposit and investment policy of the Authority adheres to state statutes, prudent business practices, and the applicable trust indentures. The Authority deposits cash in local financial institutions.

Deposits

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 does not have a deposit policy for custodial credit risk. As of December 31, 2011, the Authority's book balance was \$78,086 and the bank balance was \$202,390. The full bank balance amount was covered by federal depository insurance.

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Investments

At December 31, 2011, the fair value of the Authority's investment in money market funds was \$1,071,791.

Credit risk – The Authority does not have a formal policy that would limit its investment choices with regard to credit risk. At December 31, 2011, the money market funds were rated AAA by Standard & Poor's.

Interest rate risk – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's money market funds had a weighted average maturity of less than one year.

3. NOTE RECEIVABLE

The Authority entered into a Note Receivable Agreement (Note) with a long-term tenant of the King Street Garage, whereby, the tenant will reimburse the Authority for the cost associated with a renovation project. Under the Note, the tenant will pay the Authority \$2,741 per month including interest at 3.75% and principal, commencing on July 1, 2012 and monthly thereafter until June 1, 2017. A corresponding deferred revenue has been recorded for the amount of the Note, which will be amortized over the life of the renovations, once they are placed in service.

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4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning of Year	Increases/ Transfers In	Decreases/ Transfers Out	End of Year
Capital assets, not being depreciated				
Construction in progress	\$ 5,156,118	\$ 761,709	\$ (4,712,342)	\$ 1,205,485
Total capital assets, not being depreciated	<u>5,156,118</u>	<u>761,709</u>	<u>(4,712,342)</u>	<u>1,205,485</u>
Capital assets, being depreciated:				
Buildings and improvements	9,030,207	4,721,482	(143,660)	13,608,029
Less accumulated depreciation	<u>(7,038,013)</u>	<u>(518,032)</u>	<u>110,710</u>	<u>(7,445,335)</u>
Total capital assets, being depreciated, net	<u>1,992,194</u>	<u>4,203,450</u>	<u>(32,950)</u>	<u>6,162,694</u>
Capital assets, net	<u>\$ 7,148,312</u>	<u>\$ 4,965,159</u>	<u>\$ (4,745,292)</u>	<u>\$ 7,368,179</u>

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning of Year	Increases	Decreases	End of Year
Capital assets, not being depreciated				
Construction in progress	\$ 3,027,300	\$ 2,128,818	\$ -	\$ 5,156,118
Total capital assets, not being depreciated	<u>3,027,300</u>	<u>2,128,818</u>	<u>-</u>	<u>5,156,118</u>
Capital assets, being depreciated:				
Buildings and improvements	9,030,207	-	-	9,030,207
Less accumulated depreciation	<u>(6,744,785)</u>	<u>(293,228)</u>	<u>-</u>	<u>(7,038,013)</u>
Total capital assets, being depreciated, net	<u>2,285,422</u>	<u>(293,228)</u>	<u>-</u>	<u>1,992,194</u>
Capital assets, net	<u>\$ 5,312,722</u>	<u>\$ 1,835,590</u>	<u>\$ -</u>	<u>\$ 7,148,312</u>

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5. NOTES PAYABLE

Series of 1998, Parking Revenue Note

At December 31, 2011, the Series of 1998, Parking Revenue Note was paid in full. Principal and interest payments were due on May 15 and November 15 until November 15, 2011. The interest rate was 4.38%. The notes were secured by the receipts and revenues of the parking system and were due in full to the City of York, Pennsylvania.

Series of 2008 Promissory Note

In 2008, the Authority issued the Series of 2008 Promissory Note in the amount of \$5,000,000, the proceeds of which were to be used to finance the renovation to the Market Street Garage, along with improvements to the Authority's other assets. The loan is interest-only for three years during the draw-down period, followed by seventeen years of amortization, maturing December 23, 2028. Quarterly payment of interest-only is due during the draw-down period. Upon amortization, quarterly interest and semi-annual principal will be required. At December 31, 2011, the Authority had fully drawn-down the Series of 2008 Promissory Note.

Interest is payable at an initial rate of 4.65% per annum until December 15, 2015. Thereafter, the rate changes to 75% of the Bank's prime rate as in effect from time to time, but in no event less than 2.75% or above 12% per annum, and may adjust as often as daily, provided that the Authority may elect to pay interest at a fixed rate offered by the Bank for such additional term or terms as the Authority and the Bank may agree.

Notes payable activity for the year ended December 31, 2011 was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Current Portion</u>
Notes payable	<u>\$ 5,445,800</u>	<u>\$ 339,581</u>	<u>\$ (785,381)</u>	<u>\$ 5,000,000</u>	<u>\$ 294,118</u>

Notes payable activity for the year ended December 31, 2010 was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Current Portion</u>
Notes payable	<u>\$ 4,026,200</u>	<u>\$ 2,134,623</u>	<u>\$ (715,023)</u>	<u>\$ 5,445,800</u>	<u>\$ 785,383</u>

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Debt service requirements to maturity for subsequent years using the fixed interest rate in effect at December 31, 2012 of 4.65% are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 294,118	\$ 168,187
2013	294,118	212,808
2014	294,118	199,078
2015	294,118	185,349
2016	294,118	171,619
2017-2021	1,470,590	652,154
2022-2026	1,470,590	308,913
2027-2028	588,230	27,459
	<u>\$ 5,000,000</u>	<u>\$ 1,925,567</u>

6. NONRECOURSE DEBT ISSUES

As discussed in Note 1, several nonrecourse debt issues were outstanding at December 31, 2011, as follows:

The Series 1996, Adjustable Rate Pooled Financing Revenue Bonds, was issued in the amount of \$200,000,000 to establish a loan program to provide funds to municipal borrowers. As of December 31, 2011 and 2010, three loans have been originated under this program for \$121,900,000. As of December 31, 2011, the amount outstanding on these loans was \$11,800,000.

During 2002, the Authority issued Series of 2002, Variable Rate Demand Revenue Bonds, in the amount of \$8,000,000. Concurrently, the Authority entered into a loan agreement whereby the Authority lent the proceeds of the sale of the bonds to the Strand-Capitol Performing Arts Center, Inc. and Strand-Capitol Foundation for the purpose of acquisition, construction, and installation of a facility located at 38 through 50 North George Street. In 2009, the Board of Directors of the Strand Capitol Performing Arts Center, Inc. approved a resolution for redemption of \$600,000 of the outstanding Bonds. As of December 31, 2011, the total amount outstanding on these Bonds amounted to \$3,710,000. In March 2012, the Board of Directors of the

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YEARS ENDED DECEMBER 31, 2011 AND 2010

Strand Capitol Performing Arts Center, Inc. approved a resolution for redemption of \$750,000 of the outstanding Bonds, effective May 1, 2012.

In March of 2003, the Authority entered into an agreement with a borrower, under the Authority's 1996 Pool, in which the borrower's interest payments under this loan were swapped from a current fixed rate, as defined in the original loan agreement, to a variable rate set weekly.

On May 1, 2001, the Authority issued Guaranteed Revenue Bonds Series 2001 in the amount of \$7,305,000 and entered into a loan agreement whereby the Authority will lend the proceeds of the sale of the bonds to the York Recreation Corporation for the purpose of building and operating a new twin-surface ice sports facility and to convert the existing ice rink into a multi-purpose recreation facility. In connection therewith, the City guaranteed the timely payment of the principal and interest on the bonds. The guaranty was a general obligation of the City, secured by the City's full faith and credit and taxing power.

During 2003, the York Recreation Corporation defaulted on their debt service requirements. Effective November 2003, the City assumed operations of the facility and, accordingly, the City is required to fund future payments of this obligation. The amount outstanding as of December 31, 2011 on the Guaranteed Revenue Bonds Series 2001 was \$4,815,000.

7. MANAGEMENT AGREEMENT WITH THE CITY OF YORK

The Authority entered into a management agreement with the City to operate the Authority's Parking System. The agreement continues indefinitely; however, the Authority can terminate the agreement with a thirty-day cancellation notice. The agreement requires that the Mayor prepare an operating expenses budget for adoption by the City Council, with final approval by the Authority and the inclusion of such budgeted operating expenses in the Authority's annual budget. During 2011 and 2010, the Authority remitted a total of \$1,103,843 and \$1,001,334, respectively, to the City under this agreement. Of this amount, \$141,000 and \$141,000, respectively, for the years ended December 31, 2011 and 2010, were administrative fees to the City and the remaining \$962,843 and \$860,334, respectively, were to pay other expenses of the Authority. At December 31, 2011 and 2010, the Authority recorded a due to City of York of \$113,293 and \$72,653, respectively, for the remainder of expenses due under the management agreement, and reimbursements for capital expenditures that the City paid on behalf of the Authority.

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8. COMMITMENTS

During October 2007, the Authority's Board of Directors adopted a resolution to contribute \$500,000 to the Northwest Triangle Initiative, one of the City's economic development projects, which is being significantly funded through a Redevelopment Assistance Capital Program Grant (RACP) to the City of York Redevelopment Authority (RDA). Under the RACP application, \$500,000 of local match is for the acquisition, design, related soft costs, and/or construction of parking related controls and/or facilities within the Northwest Triangle. The Authority, in its sole discretion, will determine monthly rental rates and special event parking fees and will be responsible for staffing and maintenance of the digital meters and/or lot(s) or other parking facilities after title is conveyed to it; and the Authority and the RDA agree that the \$500,000 contribution may also be in the way of repairs, renovations, or expansions of existing Authority-owned facilities, or improvements to or replacement of such facilities. This contribution is contingent on the continuation of the Northwest Triangle Initiative. The Authority has expended approximately \$314,446 as of December 31, 2011 towards the Northwest Triangle Initiative.

During 2011, the Authority entered into contracts with construction contractors totaling \$696,355 for the rehabilitation of the King Street Parking Garage. At December 31, 2011, \$413,969 was included in accounts payable. The remaining commitment on these contracts at December 31, 2011 was \$24,370.

9. ARBITRAGE REBATE LIABILITY

In connection with a potential arbitrage rebate liability associated with the Authority's 1996 Series Pool Bonds, the Authority has accrued the amount of \$18,937. Although the final anticipated arbitrage rebate liability is not likely to be less than this amount, it is uncertain whether any additional liability will be imposed and, accordingly, no additional amount has been accrued.