

**ANNUAL (2017)
FINANCIAL STATEMENTS
for
PARK HARRISBURG
(A PROJECT OF
THE PENNSYLVANIA ECONOMIC
DEVELOPMENT FINANCING AUTHORITY)**

**(Leased Harrisburg Parking System
12-23-2013)**

**Section No. 4
Exhibit No. 28**

PARK HARRISBURG
(A PROJECT OF THE PENNSYLVANIA ECONOMIC
DEVELOPMENT FINANCING AUTHORITY)

FINANCIAL STATEMENTS

DECEMBER 31, 2017

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

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INDEPENDENT AUDITORS' REPORT

To PK Harris Advisors, Inc.
Park Harrisburg (a project of the Pennsylvania
Economic Development Financing Authority)
Atlanta, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Park Harrisburg (a project of the Pennsylvania Economic Development Financing Authority) (the System), which comprise the balance sheet as of December 31, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements.

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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 System as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 7 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.

As discussed in Note 1, the accompanying financial statements present only the financial position, changes in financial position and cash flows of the System and do not purport to, and do not present the financial position of Pennsylvania Economic Development Financing Authority as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2018, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

April 26, 2018

Fraxier A. Deeter, LLC

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Management's Discussion and Analysis (Unaudited)

December 31, 2017

As management of Park Harrisburg (the System), a project of the Pennsylvania Economic Development Financing Authority (PEDFA), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the System's financial statements and notes to the basic financial statements, which follow this section. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Highlights

- On a GAAP accounting basis, the liabilities of the System exceeded its assets by \$61.8 million (net deficit) as a result of a cumulative excess of non-operating expenses over operating income since project inception.
- On a GAAP accounting basis, the System's total revenues from operations were \$22.3 million for the year ended December 31, 2017, while total operating expenses were \$13.9 million for the same period.
- The System's bond covenants require a debt coverage ratio of not less than 1.25 to 1.0. For the year ended December 31, 2017, the debt coverage ratio was 1.30.

Overview of the Financial Statements

This annual report includes management's discussion and analysis, the independent auditors' report and the basic financial statements of the System. The financial statements also include notes that explain in more detail information in the financial statements.

Required Financial Statements

The financial statements of the System report information using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The balance sheet includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to System creditors (liabilities). It also provides the basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System. Information within this report differs significantly from cash basis financial statements as a result of the GAAP accounting policies which are detailed in this report and are essential to evaluation of the information herein.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Management's Discussion and Analysis (Unaudited) - Continued

December 31, 2017

Required Financial Statements - continued

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the System's operations over the past year and can be used to determine the System's profitability and credit worthiness.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. The statement provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the System

To begin our analysis, a summary of the System's balance sheets are presented in Table A-1.

TABLE A-1
Condensed Balance Sheets (in millions)

	December 31, 2017	December 31, 2016
Current, restricted, and other assets	\$ 19.9	\$ 19.5
Capital assets, net of accumulated depreciation and amortization	<u>275.0</u>	<u>282.2</u>
Total Assets	<u><u>\$ 294.9</u></u>	<u><u>\$ 301.7</u></u>
Long-term liabilities	\$ 343.6	\$ 341.3
Other liabilities	<u>13.1</u>	<u>11.9</u>
Total liabilities	356.7	353.2
Total net position	<u>(61.8)</u>	<u>(51.5)</u>
Total Liabilities and Net Position	<u><u>\$ 294.9</u></u>	<u><u>\$ 301.7</u></u>

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Management's Discussion and Analysis (Unaudited) - Continued

December 31, 2017

Financial Analysis of the System - continued

Significant factors in the changes in the System's financial position for the year ended December 31, 2017 include:

1. Operation of the project during the year ended December 31, 2017 resulted in a reduction of total assets due to depreciation and amortization of \$7.9 million of the capital assets.
2. Moderate increase in liabilities due to accrued capital lease obligations and accreted interest on bonds payable.

TABLE A-2
Condensed Statement of Revenues, Expenses and Changes in Net Position (in millions)

	<u>2017</u>	<u>2016</u>
Parking revenues, net of parking tax	\$ 22.2	\$ 21.2
Other revenues	<u>0.1</u>	<u>0.1</u>
Total operating revenues	22.3	21.3
Operator costs	3.7	3.6
Rent expense	1.2	1.2
Management fees and administrative expenses	1.1	1.1
Depreciation and amortization	7.9	7.7
Non-operating income and expenses	<u>18.7</u>	<u>18.4</u>
Total expenses	32.6	32.0
Change in net position	(10.3)	(10.7)
Net position, beginning of year	<u>(51.5)</u>	<u>(40.8)</u>
Net position, end of year	<u><u>\$ (61.8)</u></u>	<u><u>\$ (51.5)</u></u>

Significant factors in the results for the year ended December 31, 2017 include:

The project was approximately \$130 thousand under budget for revenues and \$40 thousand under budget for operating expenses resulting in \$90 thousand under budget for operating income before debt service. The revenue budget shortfall was primarily due to lower than expected monthly parking revenue, lower than expected enforcement revenue, and timing of receipt of revenue.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Management's Discussion and Analysis (Unaudited) - Continued

December 31, 2017

Assets Under Capital Lease

During fiscal year 2017, the System invested approximately \$780 thousand in parking equipment and other capital improvements.

Long-Term Debt

As of December 31, 2017, the System had total bond debt outstanding, net of unamortized bond discount and premium, of approximately \$290 million. A portion of the debt is backed by the full faith, credit, and taxing power of Dauphin County.

The PEDFA Senior Insured Parking Revenue Bonds Series A of 2013 (the Series A Bonds) were assigned an underlying rating of "BBB" by Standard & Poor's Global Ratings (S&P) at the time of issuance. In July 2016, S&P downgraded its underlying rating on the Series A Bonds from "BBB" to "BB+" and changed the outlook to negative from stable. In October 2017, S&P revised its outlook on the Series A Bonds to stable from negative. At the same time, S&P affirmed its 'BB+' rating on the bonds.

The System's future borrowing capabilities are seen in its debt coverage ratio, which calculated on a cash basis, is currently 1.30 as shown in Table A-3. The System's Rate Covenant requires the System to maintain a debt coverage ratio of not less than 1.25 to 1.0.

TABLE A-3
Debt Coverage Ratio

	Year ended December 31, 2017	Year ended December 31, 2016
Operating revenues	\$ 22,220,317	\$ 21,684,196
Current operating expenses (before depreciation and amortization)	<u>(4,244,307)</u>	<u>(4,792,731)</u>
Income available for debt service	<u>\$ 17,976,010</u>	<u>\$ 16,891,465</u>
Annual debt service	13,870,763	13,240,263
Debt coverage ratio	1.30	1.28

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Management's Discussion and Analysis (Unaudited) - Continued

December 31, 2017

Currently Known Facts, Decisions, or Conditions

The System was in compliance with the Rate Covenant for the year ended December 31, 2017. The System Rate Covenant was also above the required threshold of 1.25 for the year ended December 31, 2016.

Contacting Management of PEDFA

This financial report is designed to provide a general overview of the finances of Park Harrisburg. If you have questions about this report or need additional information, contact John Gass of PK Harris Advisors, Inc., 3500 Lenox Road, Suite G1, Atlanta, GA 30326.

**PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA
ECONOMIC DEVELOPMENT FINANCING AUTHORITY)**

Balance Sheet

December 31, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 1,374,658
Accounts receivable	224,835
Prepaid expenses	<u>90,000</u>

Total current assets 1,689,493

Restricted cash and cash equivalents 15,296,301

Capital assets, net of accumulated depreciation
and amortization of \$30,831,376 275,022,212

Bond insurance premium, net of accumulated
amortization of \$452,304 2,939,977

Total Assets \$ 294,947,983

See notes to financial statements.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Balance Sheet - Continued

December 31, 2017

Liabilities and Net Position

Current liabilities:

Due to related parties	\$ 1,858,613
Due to parking operator, net	588,626
Accounts payable and accrued expenses	380,183
Sales tax payable	282,696
Parking revenue collected in advance	282,076
Current maturities of bonds payable, net of unamortized bond premium	2,231,784
Current maturities of capital lease obligations	<u>1,705,379</u>

Total current liabilities 7,329,357

Current liabilities payable from restricted assets:

Accrued interest payable on bonds	<u>5,757,881</u>
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Long-term liabilities:

Bonds payable, net of current maturities, net of unamortized bond premium	288,163,722
Authority notes, net of discount of \$180,975,462	16,124,538
Accreted interest on bonds payable	19,278,337
Capital lease obligations, net of current maturities	<u>20,082,143</u>

Total long-term liabilities 343,648,740

Total liabilities 356,735,978

Commitments

Net position:

Net investment in capital assets	(55,109,424)
Restricted for debt service	2,375,449
Unrestricted	<u>(9,054,020)</u>

Total net position (61,787,995)

Total Liabilities and Net Position \$ 294,947,983

See notes to financial statements.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2017

Operating revenues:	
Parking revenues, net of parking tax of \$3,419,685	\$ 22,152,187
Other revenues	<u>63,278</u>
Total operating revenues	<u>22,215,465</u>
Operating expenses:	
Operator costs	3,671,815
Rent expense	1,202,000
Administrative and general	297,732
Asset and operator management fees	514,500
Distribution expense	217,485
Depreciation and amortization	<u>7,876,289</u>
Total operating expenses	<u>13,779,821</u>
Operating income	8,435,644
Nonoperating revenues (expenses):	
Interest income	46,583
Interest expense	<u>(18,729,299)</u>
Total nonoperating expenses, net	<u>(18,682,716)</u>
Change in net position	(10,247,072)
Net position, beginning of year	<u>(51,540,923)</u>
Net position, end of year	<u><u>\$ (61,787,995)</u></u>

See notes to financial statements.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Statement of Cash Flows

For the Year Ended December 31, 2017

Increase in Cash and Cash Equivalents

Cash flows from operating activities:

Receipts from customers	\$ 21,274,794
Payments to vendors	(3,305,948)
Payments to or on behalf of agents of the System	<u>(1,864,469)</u>
Net cash provided by operating activities	<u>16,104,377</u>

Cash flows from investing activities:

Interest received	<u>46,583</u>
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Cash flows from capital and related financing activities:

Payment of short-term payable for prior year capital asset additions	(418,483)
Capital expenditures	(345,675)
Payments on long-term debt	(1,685,000)
Interest paid	<u>(13,118,561)</u>
Net cash provided by financing activities	<u>(15,567,719)</u>

Net increase in cash and cash equivalents	583,241
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Cash and cash equivalents, beginning of year	<u>16,087,718</u>
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Cash and cash equivalents, end of year	<u><u>\$ 16,670,959</u></u>
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Unrestricted cash and cash equivalents	\$ 1,374,658
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Restricted cash and cash equivalents	<u>15,296,301</u>
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Total cash and cash equivalents	<u><u>\$ 16,670,959</u></u>
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See notes to financial statements.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Statement of Cash Flows - Continued

For the Year Ended December 31, 2017

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	\$ 8,435,644
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	7,876,289
Changes in operating assets and liabilities:	
Accounts receivable	5,822
Due to related parties	602,610
Accounts payable and accrued expenses	130,507
Sales tax payable	2,544
Parking revenue collected in advance	<u>(949,039)</u>
Total adjustments	<u>7,668,733</u>
Net cash provided by operating activities	<u><u>\$ 16,104,377</u></u>

Supplemental Disclosure of Noncash Capital and Related Financing Activities:

Interest expense financed by capital lease obligations	<u><u>\$ 372,310</u></u>
Amortization of bond insurance premium included in interest expense	<u><u>\$ 113,076</u></u>
Amortization of net bond premium included in interest expense	<u><u>\$ 410,371</u></u>
Accreted interest on capital appreciation bonds payable	<u><u>\$ 5,245,217</u></u>
Accrued interest on Authority notes	<u><u>\$ 1,054,876</u></u>
Purchase of equipment financed by accounts payable	<u><u>\$ 360,908</u></u>

See notes to financial statements.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements

December 31, 2017

Note 1 - Description of business and summary of significant accounting policies:

Park Harrisburg (the System) is a project of the Pennsylvania Economic Development Financing Authority (PEDFA). The operations of the System were transferred under the terms of the Asset Transfer Agreement (the Agreement) to PEDFA, a public body corporate and politic and an instrumentality of the Commonwealth of Pennsylvania (the Commonwealth), from the Harrisburg Parking Authority (HPA) and the City of Harrisburg, Pennsylvania (the City) on December 23, 2013 (inception). The System includes 9 parking garages, 2 parking lots, and approximately 1,200 metered on-street spaces located in Harrisburg, Pennsylvania.

Neither PEDFA nor the Commonwealth of Pennsylvania has any obligation to fund any operating expense, debt service, capital expense, or other obligations of the System (except in relation to the County in association with the guarantee of the Series 2013 Class B and C Bonds described in Note 4, and the Commonwealth with regard to the parking lease described in Note 8). Payment of project obligations are dependent on the revenues generated by the project and certain reserve deposits made from the bond proceeds at closing.

As required by the Agreement, PEDFA issued bonds and entered into a Trust Indenture under which the System operates. The proceeds of the bonds were remitted to HPA. In addition to the upfront payment to HPA, the Agreement requires PEDFA to make future payments to the City recorded as a capital lease obligation on the balance sheet. Simultaneously, PEDFA entered into a ground lease with HPA for the land on which the parking facilities reside. The term of the ground lease is consistent with that of the Agreement.

On December 1, 2013, PEDFA entered into an agreement with PK Harris Advisors, Inc. (the Asset Manager) under which the Asset Manager agreed to provide asset management services and to assist PEDFA with respect to the System. The agreement will remain in force through December 31, 2023 and stipulates annual payments of a base management fee of \$200,000 and a performance fee of \$50,000. The performance fee is contingent on available cash flow as defined in the Trust Indenture. Both fees increase annually by 5% at the beginning of each operating year. Thereafter, the agreement will automatically renew until either party decides to terminate the agreement. Amounts paid or accrued under the agreement during the year ended December 31, 2017 totaled \$288,487. Performance fees payable to the Asset Manager totaled \$57,881 at December 31, 2017.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 1 - Description of business and summary of significant accounting policies - continued:

Additionally on December 1, 2013, the Asset Manager entered into an agreement with Standard Parking Plus (the Operator). The Operator is the exclusive operator through December 31, 2023 to administer, manage, and operate the System. The agreement stipulates annual payments of base management fees of \$240,000 and performance fees of \$60,000. The performance fees are subject to available cash flow as defined in the Trust Indenture. Both fees increase annually by 5% at the beginning of each operating year. Amounts paid or accrued under the agreement during the year ended December 31, 2017 totaled \$347,288. Performance fees payable to the Operator totaled \$69,457 at December 31, 2017.

The System is obligated, subject to the available cash flow as defined in the Trust Indenture, to make distributions to PEDFA annually in the amount of \$200,000, and in each operating year thereafter and adjusted each year based on changes in the Consumer Price Index. Distributions payable to PEDFA totaled \$835,666 at December 31, 2017.

The System has a trustee relationship with US Bank (Trustee) whereby the Trustee controls all proceeds from the operations of the System in accordance with the Trust Indenture. The Trustee also issues all payments on behalf of the System as authorized by an officer of the Asset Manager.

Basis of presentation, measurement focus, and basis of accounting

The accompanying financial statements present the financial position, changes in financial position, and cash flows of the System based on amounts specifically identifiable in PEDFA's accounting records. The System is a project of PEDFA and the accompanying financial statements present only the Project and do not purport to, and do not present the financial position of PEDFA as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Measurement focus is a term used to describe which transactions are recorded in the financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements of the System are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 1 - Description of business and summary of significant accounting policies - continued:

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The System's cash and cash equivalents include cash on hand, demand deposits, and highly liquid investments (including restricted cash and cash equivalents) with maturities of three months or less from the date of acquisition.

The System's investments consist of short term treasury bills and money market accounts with financial institutions, and are included in restricted cash and cash equivalents on the balance sheet. The balances in such accounts are restricted for use by the Asset Manager and all investments are recorded at cost. Investment income is recorded as nonoperating income.

Accounts receivable

Accounts receivable primarily consists of parking fees due from customers net of an allowance for doubtful accounts. Accounts receivable are written off when it is determined that amounts are uncollectible. Management has determined that no reserve is necessary at December 31, 2017.

Restricted assets

Assets required to be segregated by bond Trust Indentures or contractual obligations are identified as restricted assets. Restricted assets at December 31, 2017 represent funds required to be restricted under the terms of the Trust Indenture related to the bonds.

Assets under capital lease and equipment

Assets transferred under the Agreement are recorded as a capital lease and are amortized over the term of the Agreement, 40 years. Equipment additions are depreciated over their estimated useful lives of 5 - 15 years.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 1 - Description of business and summary of significant accounting policies - continued:

Bond premiums, discounts, issuance costs, and bond insurance premium

The System amortizes premiums and discounts over the term of the bonds as an adjustment to interest expense using the effective interest method. Bond issuance cost is expensed as incurred, in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement No. 65). The bond insurance premium is amortized over 30 years. Amortization related to the bond insurance premium totaled \$113,076 for the year ended December 31, 2017, and is included in interest expense in accordance with Statement No. 65. Estimated annual amortization related to the bond insurance premium for the years ended December 31, 2018 through 2022 is \$113,076 and \$2,374,597 thereafter.

Capital lease

The Agreement transfers the parking operations of the System to PEDFA and will revert back to HPA at the end of the 40 year term on December 31, 2053 or upon earlier termination. The terms of the Agreement qualify as a capital lease. The payments for the rights to operate the parking facilities are capitalized and amortized over the term of the capital lease.

Net position

The System has adopted the provisions of the GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Statement No. 63) that established reporting standards for deferred outflows of resources and deferred inflows of resources for all state and local governmental entities. Statement No. 63 amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 63 requires the System to classify its net position into three components - net investment in capital assets, restricted, and unrestricted.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 1 - Description of business and summary of significant accounting policies - continued:

Net position - continued

These classifications are defined as follows:

- Net investment in capital assets - consists of assets under capital lease and equipment, net of accumulated amortization and depreciation, and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows 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.
- Restricted - consists of restricted assets, with constraints placed on their use by contractual agreement with other parties, revenue bond resolutions, or enabling legislation, reduced by liabilities and deferred inflows related to those assets.
- Unrestricted - consists of the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

Parking revenue collected in advance

Parking revenue collected in advance represents amounts received for future periods on leases in effect as of year-end.

Revenues and expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the System. The principal operating revenues of the System are charges for parking. Operating expenses include the cost of services, administrative expenses, and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the System's policy to apply those expenses to restricted net position to the extent they are available and then to unrestricted net position.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 1 - Description of business and summary of significant accounting policies - continued:

Income taxes

The System qualifies for tax-exempt status and is, therefore, not a tax-paying entity for United States of America federal or state income tax purposes. No events or transactions have occurred that would impact the tax exempt status of the accompanying financial statements.

Note 2 - Cash deposits and investments:

The System is authorized to invest idle funds in direct obligations of the United States Government, the Commonwealth of Pennsylvania, or any of its agencies and obligations guaranteed by the United States Government or its agencies.

Allowable investments as outlined in the Trust Indenture between PEDFA and the Trustee include government obligations, debt obligations, deposit, money market or demand accounts, and certificates of deposits. At December 31, 2017, the System's investments consisted of \$11,013,192 of short term treasury bills and \$4,283,109 of funds in money market accounts. Of the money market funds, \$3,783,477 was held at US Bank which had a credit rating of A+ by Standard & Poor's at December 31, 2017, and \$499,632 was held at Wells Fargo which had a credit rating of A+ by Standard & Poor's at December 31, 2017. The System has not adopted any investment policies that further restrict the maturities of their investments, credit risk or custodial risk. Also, the System has not adopted a formal policy to limit the amount the System may invest in any one issuer.

Pursuant to the provisions of the Trust Indenture relating to the long-term debt (see Note 4), deposits with the Trustee include the revenue fund, bond fund, debt service reserve fund, rebate fund, capital reserve fund, performance fee account, holdback fund, and surplus fund. Amounts in these funds held by the Trustee have been included in restricted cash and cash equivalents and are primarily used in servicing the bonds, capital improvements, and operations of the System.

Custodial credit risk is the risk that in the event of bank failure, the System's deposits will not be able to recover its deposits or will not be able to recover its collateral securities that are in the possession of an outside party. At December 31, 2017, the System's cash balance totaled \$16,670,959 and the bank balance totaled \$16,589,373. Of the bank balance, \$750,000 was insured by the Federal Deposit Insurance Corporation and \$15,839,373 was uninsured and uncollateralized.

At December 31, 2017, the System had designated cash deposits in the amount of \$547,231 to satisfy past due payments to the City and HPA (see Note 11).

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 3 - Capital assets:

Capital assets at December 31, 2016 and 2017 and changes during 2017 consist of the following:

	Balance - December 31, 2016	Additions	Reductions	Balance - December 31, 2017
Assets under capital lease	\$ 300,457,812	\$ -	\$ -	\$ 300,457,812
Less accumulated amortization	<u>(22,534,336)</u>	<u>(7,511,446)</u>	<u>-</u>	<u>(30,045,782)</u>
Assets under capital lease, net	277,923,476	(7,511,446)	-	270,412,030
Equipment	4,689,193	706,583	-	5,395,776
Less accumulated depreciation	<u>(420,751)</u>	<u>(364,843)</u>	<u>-</u>	<u>(785,594)</u>
Equipment, net	<u>4,268,442</u>	<u>341,740</u>	<u>-</u>	<u>4,610,182</u>
Total capital assets	<u><u>\$ 282,191,918</u></u>	<u><u>\$ (7,169,706)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 275,022,212</u></u>

Note 4 - Long-term debt:

In December 2013, PEDFA issued its \$120,928,161 Series A 2013 Senior Parking Revenue Bonds, \$97,172,029 Series B 2013 Junior Guaranteed Parking Revenue Bonds, \$68,453,474 Series C 2013 Junior Insured/Guaranteed Parking Revenue Bonds, and the \$197,100,000 Series 2013 Subordinate Parking Revenue Notes (Authority Notes). The Series 2013 Bonds were issued in part as Capital Appreciation Bonds (Series 2013 CABs).

The bonds are payable from and secured by the Trust Estate pledged under the Trust Indenture consisting of: (i) all revenues of the System; (ii) the Leasehold Mortgage; and (iii) an assignment from HPA to the Trustee of certain rights of HPA under the Asset Transfer Agreement, the HPA Lease, the DGS Parking Lease, the PEDFA Intergovernmental Cooperation Agreement, and the Asset Management Agreement.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 4 - Long-term debt - continued:

Payment of the principal and interest on the Series A Bonds is guaranteed by a municipal bond insurance policy (the Series A Bond Insurance Policy) issued by Assured Guaranty Municipal Corporation (Assured Guaranty). Payment of the principal and interest on the Series B Bonds is guaranteed by the County of Dauphin, Pennsylvania (the County) pursuant to the Series B Bond Guaranty Agreement which is secured by the full faith, credit, and taxing power of the County. Payment of the principal and interest on the Series C Bonds is guaranteed by a municipal bond insurance policy (the Series C Bond Insurance Policy) issued by Assured Guaranty. If Assured Guaranty fails to honor its obligations under the Series C Bond Insurance Policy, payment of the principal and interest on the Series C Bonds is guaranteed by the County pursuant to the Series C Bond Guaranty Agreement which is secured by the full faith, credit, and taxing power of the County.

The Authority Notes are payable solely from amounts deposited in the surplus fund (Note 2) and are subordinate to the Series A of 2013 Senior Parking Revenue Bonds, the Series B of 2013 Junior Guaranteed Parking Revenue Bonds, and the Series C of 2013 Junior Insured/Guaranteed Parking Revenue Bonds.

The debt agreements require the System to comply with a covenant related to its debt service coverage ratio. The System was in compliance with this covenant at December 31, 2017.

Long-term debt at December 31, 2017 consists of the following:

2013 Series A-1 Senior Parking Revenue Bonds bearing interest at rates ranging from 4.00% to 5.25% and maturing from January 1, 2022 through January 1, 2044;	\$ 100,215,000
2013 Series A-2 Senior Parking Revenue Bonds bearing interest at rates ranging from 1.74% to 6.64% and maturing from January 1, 2018 through January 1, 2037;	19,763,640
2013 Series B-1 Junior Guaranteed Parking Revenue Bonds bearing interest at rates ranging from 5.00% to 6.00% and maturing from January 1, 2018 through July 1, 2053;	69,960,000
2013 Series B-2 Junior Guaranteed Parking Revenue Bonds bearing interest at rates ranging from 5.50% to 6.80% and maturing from January 1, 2028 through January 1, 2047;	25,061,280
2013 Series B-3 Junior Guaranteed Parking Revenue Bonds bearing interest at 7.25% and maturing January 1, 2049;	2,010,749

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 4 - Long-term debt - continued:

2013 Series C-1 Junior Insured/Guaranteed Parking Revenue Bonds bearing interest at rates ranging from 5.00% to 5.50% and maturing from January 1, 2018 through January 1, 2033;	43,610,000
2013 Series C-2 Junior Insured/Guaranteed Parking Revenue Bonds bearing interest at rates ranging from 5.99% to 7.00% and maturing from January 1, 2034 through July 1, 2053;	23,668,474
Pennsylvania Economic Development Financing Authority Subordinate Parking Revenue Notes, consisting of 4 notes totaling \$197,100,000 (value at maturity) accruing interest at an imputed rate of 7% and maturing in December 2053.	<u>16,124,538</u>
Total long-term debt	300,413,681
Unamortized issue premium	7,432,748
Unamortized issue discount	(1,326,385)
Less: Current portion	<u>(2,231,784)</u>
Long-term portion	<u><u>\$ 304,288,260</u></u>

The amount of accumulated accreted interest on the Series 2013 CABs as of December 31, 2017 is set forth in the following table. The accumulated accreted interest is added to the outstanding principal on July 1 and January 1 of each year beginning January 1, 2014.

2013 Series A-2 Senior Parking Revenue Bonds	\$ 4,833,348
2013 Series B-2 Junior Guaranteed Parking Revenue Bonds	6,880,435
2013 Series B-3 Junior Guaranteed Parking Revenue Bonds	667,083
2013 Series C-2 Junior Insured/Guaranteed Parking Revenue Bonds	<u>6,897,471</u>
Total accreted interest on bonds payable	<u><u>\$ 19,278,337</u></u>

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 4 - Long-term debt - continued:

Future maturities of long-term debt are as follows at December 31, 2017:

	<u>Principal</u>	<u>Net Premium</u>	<u>Interest</u>	<u>Total</u>
<u>Year Ending December 31,</u>				
2018	\$ 2,231,784	\$ 404,131	\$ 11,638,978	\$ 14,274,893
2019	2,776,322	396,527	11,688,440	14,861,289
2020	3,320,618	387,339	11,772,144	15,480,101
2021	4,254,583	374,545	11,837,679	16,466,807
2022	5,445,000	361,462	11,162,763	16,969,225
2023 - 2027	38,218,167	1,524,561	53,188,158	92,930,886
2028 - 2032	40,684,932	842,012	66,266,743	107,793,687
2033 - 2037	36,084,248	353,554	84,308,852	120,746,654
2038 - 2042	54,471,706	443,630	73,824,094	128,739,430
2043 - 2047	34,562,887	582,614	94,424,761	129,570,262
2048 - 2052	44,078,484	432,450	84,905,122	129,416,056
2053	<u>34,284,950</u>	<u>3,538</u>	<u>194,561,357</u>	<u>228,849,845</u>
	<u><u>\$ 300,413,681</u></u>	<u><u>\$ 6,106,363</u></u>	<u><u>\$ 709,579,091</u></u>	<u><u>\$ 1,016,099,135</u></u>

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 5 - Capital lease obligations:

In accordance with the Agreement, the System makes monthly payments to the City based upon the flow of funds. Monthly payments made to the City for the year ended December 31, 2017 totaled \$1,583,048.

Contingent upon available funds in accordance with the Agreement, the following amounts are to be paid to the City in future years:

<u>Year Ending December 31,</u>	
2018	\$ 1,762,331
2019	2,241,682
2020	1,057,258
2021	1,071,587
2022	1,086,345
2023 - 2027	5,669,072
2028 - 2032	6,110,403
2033 - 2037	6,622,025
2038 - 2042	7,215,138
2043 - 2047	7,902,715
2048 - 2052	8,699,807
2053	<u>1,846,448</u>
Total	51,284,811
Less amount representing interest	<u>(29,497,289)</u>
Present value of net payments	21,787,522
Less current maturities	<u>(1,705,379)</u>
Long-term capital lease obligations	<u><u>\$ 20,082,143</u></u>

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 6 - Ground lease:

On December 1, 2013 PEDFA entered into a ground lease with HPA for the land on which the parking facilities reside. The lease requires payments annually through December 31, 2053. Lease expense for the year ended December 31, 2017 totaled \$1,202,000 and is included in rent expense. The amount payable to HPA related to the ground lease totaled \$895,609 at December 31, 2017 and is included in amounts due to related parties.

Future minimum lease payments under the lease are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 1,238,060
2019	1,275,201
2020	1,313,458
2021	1,352,861
2022	1,393,447
2023 - 2027	7,619,939
2028 - 2032	8,833,598
2033 - 2037	10,240,561
2038 - 2042	11,871,617
2043 - 2047	13,762,458
2048 - 2052	15,954,461
2053	<u>3,483,729</u>
Total	<u>\$ 78,339,390</u>

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 7 - Changes in long-term liabilities:

Long-term liability activity for the year ended December 31, 2017 is as follows:

	Long-Term Debt (Net of Unamortized <u>Bond Premium</u>)	Authority Notes, Net of <u>Discount</u>	Accreted Interest on Bonds <u>Payable</u>	Capital Lease <u>Obligations</u>	Total Long-Term <u>Liabilities</u>
Balance, December 31, 2016	\$ 292,434,357	\$ 15,069,662	\$ 14,089,639	\$ 22,159,833	\$ 343,753,491
Additions	-	1,054,876	5,188,698	1,210,738	7,454,312
Reductions	<u>(2,038,851)</u>	<u>-</u>	<u>-</u>	<u>(1,583,049)</u>	<u>(3,621,900)</u>
Balance, December 31, 2017	<u>\$ 290,395,506</u>	<u>\$ 16,124,538</u>	<u>\$ 19,278,337</u>	<u>\$ 21,787,522</u>	<u>\$ 347,585,903</u>
Amounts due within one year at December 31, 2017	<u>\$ 2,231,784</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,705,379</u>	<u>\$ 3,937,163</u>

Note 8 - Concentration of credit risk:

The System provides services primarily in the state of Pennsylvania, with a concentration in the metropolitan Harrisburg area. This geographic concentration of customers creates a concentration of credit risk.

The System recognized revenues from the Commonwealth totaling \$11,619,030 during the year ended December 31, 2017, which represents 52% of total revenues for 2017. There were no amounts due from the Commonwealth at December 31, 2017. The System is the lessor of a vehicle parking lease with the Commonwealth beginning in July 2014 for a term of 30 years. Under certain conditions the Commonwealth may terminate the lease after giving 30 days' written notice.

Note 9 - Related party transactions:

Revenues from the Commonwealth (Note 8) are related party transactions. The System also made rent payments to HPA and the City totaling \$1,058,301 and \$1,583,048, respectively, during the year ended December 31, 2017. Amounts due to HPA and the City under capital lease obligations and the ground lease are described in Notes 5 and 6.

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Notes to Financial Statements - Continued

December 31, 2017

Note 9 - Related party transactions - continued:

As described in Note 1, the System incurred PEDFA distribution expense of \$217,485 during the year ended December 31, 2017. Amounts due to PEDFA for current and prior year distributions totaled \$835,666 at December 31, 2017.

In addition, at December 31, 2017 the System had a net payable to the Operator in the amount of \$588,626 which consists of a payable in the amount of \$788,091 and a receivable in the amount of \$199,465. These amounts are related to a net overpayment of revenues from 2015 and 2014, as well as the net difference between operating expenses incurred by the Operator on behalf of the System and the amount of funding provided to the Operator to cover such expenses. The net amount is anticipated to be reimbursed to SP Plus beginning in 2018 and is classified as a current liability at December 31, 2017.

Payments of performance fees made to the Asset Manager in 2014 and 2015 in the amounts of \$60,000 and \$30,000, respectively, were recorded as prepaid expenses in the financial statements. It was subsequently determined that the System did not generate sufficient cash flow, as defined by the Trust Indenture, to pay the performance fees in those years. As such it was determined that the fees should not have been recognized as earned, but rather forfeited as of the end of 2015. The amount will be applied to future performance fees earned.

Note 10 - Risk management:

The System 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 System obtains commercial insurance to cover general liability claims. Claims arising are paid by the insurer. There have been no significant reductions in insurance coverage during the year ended December 31, 2017, and settled claims did not exceed insurance coverage.

Note 11 - Contingencies:

On July 8, 2016, PEDFA received official notice from the City and HPA regarding past due amounts for lease payments due under the terms of the Agreement (see Note 1). Since inception, the System has made annual payments less than those stipulated by the Agreement due to insufficient cash flows. PEDFA is currently in discussions with the City and HPA to resolve these past due amounts. Accrued amounts for the City and HPA under the Agreement for prior years are \$1,120,334 and \$895,609, respectively, at December 31, 2017. At December 31, 2017, the System had designated cash deposits in the amount of \$547,231 to satisfy past due payments to the City and HPA pending resolution of the issue.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To PK Harris Advisors, Inc.
Park Harrisburg (a project of the Pennsylvania Economic
Development Financing Authority)
Atlanta, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Park Harrisburg (a project of the Pennsylvania Economic Development Financing Authority) (the System) as of December 31, 2017 and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated April 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 26, 2018

Frazier & Deeter, LLC

PARK HARRISBURG (A PROJECT OF THE PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY)

Schedule of Prior Audit Findings

December 31, 2017

Financial Statement Findings

There were no prior findings reported.