

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

ANNUAL FINANCIAL REPORT

Years Ended December 31, 2006 and 2005

CITY OF YORK GENERAL AUTHORITY
(A COMPONENT UNIT OF THE CITY OF YORK, PENNSYLVANIA)

YEARS ENDED DECEMBER 31, 2006 AND 2005

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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 and for the years ended December 31, 2006 and 2005, 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 audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 audit provides 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, 2006 and 2005, and the changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

The City of York General Authority has not presented a management's discussion and analysis that U.S. generally accepted accounting principles have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Maillie, Falconiero & Company LLP

October 31, 2007

CITY OF YORK GENERAL AUTHORITY

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

STATEMENTS OF NET ASSETS

DECEMBER 31, 2006 AND 2005

| <u>Assets</u> | <u>2006</u> | <u>2005</u> |
|--|---------------------|-------------------|
| Cash and cash equivalents | \$ 298,806 | \$ 199,113 |
| Cash and cash equivalents - restricted under trust indentures | 1,953,290 | 1,737,439 |
| Accrued interest receivable | 7,449 | 5,055 |
| Capital assets, net of accumulated depreciation of \$5,823,331 for 2006 and \$5,215,077 for 2005 | 3,041,267 | 3,632,941 |
| Deferred financing costs, net of accumulated amortization of \$339,327 for 2006 and \$301,624 for 2005 | 150,809 | 188,512 |
| Total Assets | <u>5,451,621</u> | <u>5,763,060</u> |
| Liabilities | | |
| Due to the City of York | 312,910 | 294,097 |
| Accrued interest payable | 18,965 | 22,249 |
| Funds collected in advance | 455,840 | 479,520 |
| Note payable: | | |
| Due within one year | 628,541 | 599,820 |
| Due in more than one year | 2,835,778 | 3,464,321 |
| Total Liabilities | <u>4,252,034</u> | <u>4,860,007</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 641,401 | 742,412 |
| Unrestricted | 558,186 | 160,641 |
| Total Net Assets | <u>\$ 1,199,587</u> | <u>\$ 903,053</u> |

See accompanying notes to basic financial statements.

CITY OF YORK GENERAL AUTHORITY

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

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2006 AND 2005

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Operating Revenues: | | |
| <u>Parking fees</u> | <u>\$ 1,969,275</u> | <u>\$ 2,096,010</u> |
| Operating Expenses: | | |
| <u>System expenses</u> | <u>723,268</u> | <u>745,005</u> |
| City of York administrative fee | 146,524 | 141,000 |
| Administration | 78,597 | 58,301 |
| Depreciation | <u>608,254</u> | <u>605,490</u> |
| Total operating expenses | <u>1,556,643</u> | <u>1,549,796</u> |
| Operating Income | <u>412,632</u> | <u>546,214</u> |
| Non-Operating Revenues (Expenses): | | |
| <u>Interest income</u> | <u>96,314</u> | <u>53,034</u> |
| Interest expense | (174,709) | (200,045) |
| Miscellaneous expense | - | (19,000) |
| Amortization of bond issuance costs and discount | <u>(37,703)</u> | <u>(37,703)</u> |
| Total nonoperating revenues (expenses) | <u>(116,098)</u> | <u>(203,714)</u> |
| Change in Net Assets | <u>296,534</u> | <u>342,500</u> |
| Net Assets: | | |
| <u>Beginning of year</u> | <u>903,053</u> | <u>560,553</u> |
| End of year | <u>\$ 1,199,587</u> | <u>\$ 903,053</u> |

See accompanying notes to basic financial statements.

CITY OF YORK GENERAL AUTHORITY

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

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

| | 2006 | 2005 |
|---|---------------------|---------------------|
| Cash Flows From Operating Activities: | | |
| Cash received from customers | \$ 1,945,595 | \$ 2,072,330 |
| Cash paid to suppliers | (801,865) | (822,306) |
| Cash paid to the City of York | (127,711) | (111,192) |
| Net cash provided by operating activities | <u>1,016,019</u> | <u>1,138,832</u> |
| Cash Flows From Investing Activities: | | |
| Interest received | <u>93,920</u> | <u>49,604</u> |
| Cash Flows From Capital and Related Financing Activities: | | |
| Principal paid on note payable | (599,822) | (575,426) |
| Interest paid | (177,993) | (203,197) |
| Capital asset additions | (16,580) | (15,609) |
| Net cash used in capital and related financing activities | <u>(794,395)</u> | <u>(794,232)</u> |
| Net Increase in Cash and Cash Equivalents | 315,544 | 394,204 |
| Cash and Cash Equivalents: | | |
| Beginning of year | <u>1,936,552</u> | <u>1,542,348</u> |
| End of year | <u>\$ 2,252,096</u> | <u>\$ 1,936,552</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating income | <u>\$ 412,632</u> | <u>\$ 546,214</u> |
| Adjustment to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 608,254 | 605,490 |
| Decrease in funds collected in advance | (23,680) | (23,680) |
| Decrease in due to the City of York | 18,813 | 29,808 |
| Miscellaneous expense | - | (19,000) |
| Total adjustments | <u>603,387</u> | <u>592,618</u> |
| Net cash provided by operating activities | <u>\$ 1,016,019</u> | <u>\$ 1,138,832</u> |

See accompanying notes to basic financial statements.

CITY OF YORK GENERAL AUTHORITY

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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, 2006, 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.

The Authority follows the accounting and financial reporting standards issued by the Governmental Accounting Standards Board (GASB). The Authority follows only those Financial Accounting Standards Board standards issued on or before November 30, 1989, as allowed under GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*"

Enterprise 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 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 nonoperating revenues and expenses.

CITY OF YORK GENERAL AUTHORITY

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NOTES TO BASIC FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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 liabilities”; 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 5.

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 (7 to 16 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 cost of more than \$5,000 and an estimated useful life in excess of two years.

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YEARS ENDED DECEMBER 31, 2006 AND 2005

Deferred Financing Costs

Financing costs are deferred and are being amortized over the life of the Series of 1998, Parking Revenue 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 parking fees in the upcoming year. Revenue is earned in the period 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, 2006 AND 2005

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.

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, 2006, the Authority's book balance was \$298,806 and the bank balance was \$110,860. Of the bank balance, \$101,000 was covered by federal depository insurance and \$9,860 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits.

Investments

At December 31, 2006, the fair value of the Authority's investment in money market funds was \$1,953,290.

Custodial credit risk - Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have an investment policy for custodial credit risk. All investments of the Authority are held by the financial institution, not in the Authority's name.

Concentration of credit risk - The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2006, 100% of the Authority's investments were held in MTB U.S. Government money market funds.

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YEARS ENDED DECEMBER 31, 2006 AND 2005

Credit risk – At December 31, 2006, the money market funds were rated AAA by Standard and Poors.

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. CAPITAL ASSETS

Capital assets as of December 31, 2006, consisted of the following:

| | Beginning of Year | Increases | Decreases | End of Year |
|------------------------------------|----------------------|---------------------|-------------|---------------------|
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 8,848,018 | \$ 16,580 | \$ - | \$ 8,864,598 |
| Less accumulated depreciation | (5,215,077) | (608,254) | - | (5,823,331) |
| Capital assets, net | <u>\$ 3,632,941</u> | <u>\$ (591,674)</u> | <u>\$ -</u> | <u>\$ 3,041,267</u> |

Capital assets as of December 31, 2005, consisted of the following:

| | Beginning of Year | Increases | Decreases | End of Year |
|------------------------------------|----------------------|---------------------|-------------|---------------------|
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 8,832,409 | \$ 15,609 | \$ - | \$ 8,848,018 |
| Less accumulated depreciation | (4,609,587) | (605,490) | - | (5,215,077) |
| Capital assets, net | <u>\$ 4,222,822</u> | <u>\$ (589,881)</u> | <u>\$ -</u> | <u>\$ 3,632,941</u> |

4. NOTE PAYABLE

The Authority's note payable consists of the Series of 1998, Parking Revenue Note in the amount of \$3,464,319 at December 31, 2006. Principal and interest payments are due on May 15 and November 15 until November 15, 2011. The interest rate is 4.38%. The notes are secured by the receipts and revenues of the parking system and are due in full to the City of York, Pennsylvania.

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YEARS ENDED DECEMBER 31, 2006 AND 2005

Note payable activity for the year ended December 31, 2006 was as follows:

| | <u>Beginning of Year</u> | <u>Additions</u> | <u>Retirements</u> | <u>End of Year</u> | <u>Current Portion</u> |
|--------------|------------------------------|------------------|--------------------|------------------------|----------------------------|
| Note payable | \$ 4,064,141 | \$ - | \$ (599,822) | \$ 3,464,319 | \$ 628,541 |

Note payable activity for the year ended December 31, 2005 was as follows:

| | <u>Beginning of Year</u> | <u>Additions</u> | <u>Retirements</u> | <u>End of Year</u> | <u>Current Portion</u> |
|--------------|------------------------------|------------------|--------------------|------------------------|----------------------------|
| Note payable | \$ 4,639,569 | \$ - | \$ (575,428) | \$ 4,064,141 | \$ 599,820 |

Debt service requirements to maturity for subsequent years are as follows:

| <u>Years Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|---------------------|-------------------|
| 2007 | \$ 628,541 | \$ 151,724 |
| 2008 | 651,789 | 124,196 |
| 2009 | 683,585 | 95,650 |
| 2010 | 715,023 | 65,712 |
| 2011 | 785,381 | 34,398 |
| | <u>\$ 3,464,319</u> | <u>\$ 471,680</u> |

5. NONRECOURSE DEBT ISSUES

As discussed in Note 1, several nonrecourse debt issues were outstanding at December 31, 2006, 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, 2006 and 2005, three loans have been originated under this program for \$121,900,000.

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

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YEARS ENDED DECEMBER 31, 2006 AND 2005

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 has assumed operations of the facility and, accordingly, the City is required to fund future payments of this obligation.

6. 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 2006 and 2005, the Authority remitted a total of \$869,792 and \$886,005, respectively, to the City under this agreement. Of this amount, \$146,524 and \$141,000, respectively, for the years ended December 31, 2006 and 2005, were administrative fees to the City and the remaining \$723,268 and \$745,005, respectively, were to pay other expenses of the Authority. At December 31, 2006 and 2005, the Authority recorded a due to City of York of \$312,910 and \$294,097, 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.