

**Dauphin County General Authority
(A Component Unit of the County of
Dauphin, Pennsylvania)**

Financial Statements and
Supplementary Information
Year Ended December 31, 2012
with Independent Auditor's Report

DAUPHIN COUNTY GENERAL AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF
DAUPHIN, PENNSYLVANIA)

YEAR ENDED DECEMBER 31, 2012

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Balance Sheet – Proprietary Funds	1
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	3
Statement of Cash Flows – Proprietary Funds	4
Notes to Financial Statements	6

Supplementary Information:

Combining Balance Sheet – Nonmajor Enterprise Funds	33
Combining Statement of Revenues, Expenses, and Changes in Net Position – Nonmajor Enterprise Funds	34
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	35

Independent Auditor's Report

Members of the Board
Dauphin County General Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Dauphin County General Authority (Authority), a component unit of the County of Dauphin, Pennsylvania, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe the audit evidence we have obtained is sufficient to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Authority, as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Uncertainties Regarding Compliance with Bond Indentures

As discussed in Note 10 to the financial statements, the Pittsburgh Hyatt Hotel and Conference Center Fund made unscheduled withdrawals from the Bond Redemption and Improvement Fund and Bond Reserve Fund. The possible outcome of this matter cannot presently be determined. Accordingly, maturities continue to be presented in accordance with original debt service requirements.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Mahe Duessel

Harrisburg, Pennsylvania
May 15, 2013

DAUPHIN COUNTY GENERAL AUTHORITY

BALANCE SHEET PROPRIETARY FUNDS

DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					Business-type Activities - Internal Service Fund		Total Business-type Activities (See Note 1)
	Riverfront Office Center Fund	Pittsburgh Hyatt Hotel and Conference Center Fund	Dauphin Highlands Golf Course Fund	Nonmajor Enterprise Funds	Total Enterprise Funds			
Assets								
Current assets:								
Cash and cash equivalents	\$ -	\$ 282,534	\$ 176,245	\$ -	\$ 458,779	\$ 1,221,236	\$ 1,680,015	
Investments	-	-	-	-	-	2,243,619	2,243,619	
Accounts receivable	1,641	446,060	33,402	13,577	494,680	16	494,696	
Internal receivables	-	-	-	-	-	20,861	-	
Inventory	-	34,985	58,721	-	93,706	-	93,706	
Current portion of investment in direct financing leases with primary government	-	-	-	668,069	668,069	-	668,069	
Prepaid expenses	179,203	85,927	7,937	246	273,313	5,143	278,456	
Accrued interest	76	31	-	12	119	1,457	1,576	
Total current assets	180,920	849,537	276,305	681,904	1,988,666	3,492,332	5,460,137	
Internal receivables	-	-	-	-	-	3,726,386	-	
Investments in direct financing leases with primary government, net of current portion	-	-	-	5,315,000	5,315,000	-	5,315,000	
Capital assets not being depreciated	-	159,048	2,028,786	-	2,187,834	-	2,187,834	
Capital assets (net of accumulated depreciation and amortization of \$47,896,077)	22,242,225	31,959,237	3,278,548	-	57,480,010	-	57,480,010	
Debt financing costs (net of accumulated amortization of \$782,181)	153,051	707,941	59,327	-	920,319	-	920,319	
Bond discount (net of accumulated amortization of \$1,076,432)	207,024	1,008,872	-	-	1,215,896	-	1,215,896	
Amounts restricted for long-term debt requirements:								
Cash and cash equivalents	3,087,243	268,402	36,244	15,287	3,407,176	-	3,407,176	
Investments	6,204,672	8,835,194	-	1,057,354	16,097,220	-	16,097,220	
Total Assets	\$32,075,135	\$43,788,231	\$ 5,679,210	\$ 7,069,545	\$88,612,121	\$ 7,218,718	\$92,083,592	

	Business-type Activities - Enterprise Funds					Business-type Activities - Total	
	Riverfront Office Center Fund	Hyatt Hotel and Conference Center Fund	Dauphin Highlands Golf Course Fund	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund	Business-type Activities (See Note 1)
Liabilities							
Current liabilities:							
Internal payables	\$ 5,979	\$ 5,960	\$ 8,301	\$ 621	\$ 20,861	\$ -	\$ -
Accounts payable	131,875	1,217,340	97,981	5,211	1,452,407	14,073	1,466,480
Accrued expenses	1,611,938	11,620,732	25,549	46,625	13,304,844	8,033	13,312,877
Unearned revenue	-	91,788	-	467,020	558,808	-	558,808
Current portion of capital lease obligation	-	-	41,902	-	41,902	-	41,902
Current portion of long-term debt	1,305,000	1,770,000	232,509	655,000	3,962,509	-	3,962,509
Total current liabilities	3,054,792	14,705,820	406,242	1,174,477	19,341,331	22,106	19,342,576
Long-term liabilities:							
Internal payables	-	-	3,726,386	-	3,726,386	-	-
Long-term debt, net of current portion	40,505,637	53,175,000	10,713,232	5,315,000	109,708,869	-	109,708,869
Capital lease payable, net of current portion	-	-	24,795	-	24,795	-	24,795
Deferred charge on debt refunding (net of accumulated amortization of \$253,684)	-	-	(773,517)	-	(773,517)	-	(773,517)
Total Liabilities	43,560,429	67,880,820	14,097,138	6,489,477	132,027,864	22,106	128,302,723
Net Position							
Net investment in capital assets	(14,072,032)	(12,947,058)	(4,836,016)	-	(31,855,106)	-	(31,855,106)
Restricted:							
Debt service	-	-	-	253,400	253,400	-	253,400
Fund operations	2,586,738	-	-	344,446	2,931,184	-	2,931,184
Unrestricted	-	(11,145,531)	(3,581,912)	(17,778)	(14,745,221)	7,196,612	(7,548,609)
Total Net Position	(11,485,294)	(24,092,589)	(8,417,928)	580,068	(43,415,743)	7,196,612	(36,219,131)
Total Liabilities and Net Position	\$32,075,135	\$43,788,231	\$ 5,679,210	\$ 7,069,545	\$88,612,121	\$ 7,218,718	\$92,083,592

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

DAUPHIN COUNTY GENERAL AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds						Business-type Activities - Internal Service Fund		Total Business-type Activities (See Note 1)
	Riverfront Office Center Fund	Pittsburgh Hyatt Hotel and Conference Center Fund	Dauphin Highlands Golf Course Fund	Nonmajor Enterprise Funds	Total Enterprise Funds				
Operating Revenues:									
Interest income - investments	\$ 36,892	\$ 2,373	\$ 2,593	\$ 384	\$ 42,242	\$ 140,046	\$ 182,288		
Income from direct financing leases	-	-	-	216,929	216,929	-	216,929		
Rental income	5,720,547	-	24,600	285,969	6,031,116	-	6,031,116		
Parking income	216,445	-	-	-	216,445	-	216,445		
Administrative fees	-	-	-	-	-	444,685	444,685		
Golf fees	-	-	1,085,128	-	1,085,128	-	1,085,128		
Hotel revenue	-	19,345,850	-	-	19,345,850	-	19,345,850		
Other revenue	-	-	73,755	-	73,755	102,681	176,436		
Auxiliary golf course revenues	-	-	350,599	-	350,599	-	350,599		
Total operating revenues	5,973,884	19,348,223	1,536,675	503,282	27,362,064	687,412	28,049,476		
Operating Expenses:									
Administrative costs	290,831	1,429,982	185,772	26,967	1,933,552	385,788	2,319,340		
Operating expenses	2,546,010	13,278,564	966,439	279,072	17,070,085	-	17,070,085		
Depreciation and amortization	1,443,429	1,969,427	326,375	-	3,739,231	-	3,739,231		
Amortization of debt financing costs	9,875	44,244	16,811	-	70,930	-	70,930		
Amortization of bond discount	13,357	63,054	-	-	76,411	-	76,411		
Amortization of deferred charge on refunding	-	-	218,020	-	218,020	-	218,020		
Accretion	944,235	-	-	-	944,235	-	944,235		
Interest expense	1,656,600	3,406,590	358,465	195,179	5,616,834	-	5,616,834		
Total operating expenses	6,904,337	20,191,861	2,071,882	501,218	29,669,298	385,788	30,055,086		
Operating Income (Loss)	(930,453)	(843,638)	(535,207)	2,064	(2,307,234)	301,624	(2,005,610)		
Net Position:									
Beginning of year	(10,554,841)	(23,248,951)	(7,882,721)	578,004	(41,108,509)	6,894,988	(34,213,521)		
End of year	<u>\$ (11,485,294)</u>	<u>\$ (24,092,589)</u>	<u>\$ (8,417,928)</u>	<u>\$ 580,068</u>	<u>\$ (43,415,743)</u>	<u>\$ 7,196,612</u>	<u>\$ (36,219,131)</u>		

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

DAUPHIN COUNTY GENERAL AUTHORITY

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					Business-type Activities -		Total Business-type Activities - (See Note 1)
	Pittsburgh Riverfront Office and Conference Center Fund	Hyatt Hotel and Conference Center Fund	Dauphin Highlands Golf Course Fund	Nomajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund		
Cash Flows From Operating Activities:								
Cash received from users	\$ 5,941,188	\$ 19,412,884	\$ 1,498,980	\$ 1,126,363	\$ 27,979,415	\$ 691,251	\$ 28,670,666	
Cash paid to suppliers	(2,869,690)	(13,907,476)	(681,449)	(313,725)	(17,772,340)	(167,324)	(17,939,664)	
Cash paid to employees	-	-	(432,726)	-	(432,726)	(216,792)	(649,518)	
Net cash provided by operating activities	3,071,498	5,505,408	384,805	812,638	9,774,349	307,135	10,081,484	
Cash Flows From Investing Activities:								
Sale (purchase) of investment securities	44,839	13,003	328,904	14,525	401,271	(381)	400,890	
Interest received	36,892	2,373	2,593	384	42,242	10,151	52,393	
Net cash provided by investing activities	81,731	15,376	331,497	14,909	443,513	9,770	453,283	
Cash Flows From Capital and Related Financing Activities:								
Principal payments on bonds payable	(1,230,000)	-	(206,340)	-	(1,436,340)	-	(1,436,340)	
Principal payments on capital lease	-	-	(40,358)	-	(40,358)	-	(40,358)	
Purchase of property and equipment	(243,875)	(280,762)	(115,708)	-	(640,345)	-	(640,345)	
Interest paid	(1,656,600)	-	(230,061)	(55,704)	(1,942,365)	-	(1,942,365)	
Net cash used in capital and related financing activities	(3,130,475)	(280,762)	(592,467)	(55,704)	(4,059,408)	-	(4,059,408)	
Cash Flows From Noncapital Financing Activities:								
Change in internal receivables and payables	-	-	41,954	-	41,954	(41,954)	-	
Principal payments on bonds payable	-	(1,675,000)	-	(645,000)	(2,320,000)	-	(2,320,000)	
Interest paid	-	(3,406,590)	-	(139,475)	(3,546,065)	-	(3,546,065)	
Net cash provided by (used in) noncapital financing activities	-	(5,081,590)	41,954	(784,475)	(5,824,111)	(41,954)	(5,866,065)	
Net Increase (Decrease) in Cash and Cash Equivalents	22,754	158,432	165,789	(12,632)	334,343	274,951	609,294	
Cash and Cash Equivalents:								
Beginning of year	3,064,489	392,504	46,700	27,919	3,531,612	946,285	4,477,897	
End of year	\$ 3,087,243	\$ 550,936	\$ 212,489	\$ 15,287	\$ 3,865,955	\$ 1,221,236	\$ 5,087,191	

DAUPHIN COUNTY GENERAL AUTHORITY

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					Business-type Activities - Internal Service Fund		Total Business-type Activities (See Note 1)
	Riverfront Office Center Fund	Pittsburgh Hyatt Hotel and Conference Center Fund	Dauphin Highlands Golf Course Fund	Nonmajor Enterprise Funds	Total Enterprise Funds			
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:								
Operating income (loss)	\$ (930,453)	\$ (843,638)	\$ (535,207)	\$ 2,064	\$ (2,307,234)	\$ 301,624	\$ (2,005,610)	
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:								
Depreciation and amortization	1,443,429	1,969,427	326,375	-	3,739,231	-	3,739,231	
Interest income - investments	(36,892)	(2,373)	(2,593)	(384)	(42,242)	(140,046)	(182,288)	
Interest expense	1,656,600	3,406,590	358,465	195,179	5,616,834	-	5,616,834	
Amortization of bond discount	13,357	63,054	-	-	76,411	-	76,411	
Amortization of debt financing costs	9,875	44,244	16,811	-	70,930	-	70,930	
Amortization of deferred charge on refunding	-	-	218,020	-	218,020	-	218,020	
Accretion	944,235	-	-	-	944,235	-	944,235	
Changes in assets and liabilities:								
(Increase) decrease in accounts receivable	4,184	69,819	(33,402)	(88)	40,513	145,298	185,811	
(Increase) decrease in inventory	-	3,888	(7,161)	-	(3,273)	-	(3,273)	
Increase (decrease) in internal payables	3,374	(3,518)	6,387	(286)	5,957	(5,957)	-	
(Increase) decrease in prepaid expenses	(234)	(8,272)	4,724	(10)	(3,792)	605	(3,187)	
(Increase) decrease in accrued interest income	12	11	-	2	25	(1,413)	(1,388)	
Decrease in investments in direct financing leases	-	-	-	646,143	646,143	-	646,143	
Increase (decrease) in accounts payable	1,675	30,275	39,272	(3,891)	67,331	(20)	67,311	
Increase (decrease) in accrued expenses	(37,664)	782,585	(5,186)	(3,499)	736,236	7,044	743,280	
Decrease in unearned revenue	-	(6,684)	(1,700)	(22,592)	(30,976)	-	(30,976)	
Total adjustments	4,001,951	6,349,046	920,012	810,574	12,081,583	5,511	12,087,094	
Net cash provided by operating activities	\$ 3,071,498	\$ 5,505,408	\$ 384,805	\$ 812,638	\$ 9,774,349	\$ 307,135	\$ 10,081,484	
Noncash Capital Financing Activities:								
Acquisition of capital assets through capital lease	\$ -	\$ -	\$ 40,174	\$ -	\$ 40,174	\$ -	\$ 40,174	

The accompanying notes are an integral part these financial statements.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dauphin County General Authority (Authority), a component unit of the County of Dauphin (County), Pennsylvania, was incorporated on March 7, 1984, by the County. The Authority was created for the purpose of acquiring, financing, holding, constructing, improving, maintaining and operating, owning, and leasing, either in the capacity of lessor or lessee, projects of the kind and character contemplated by law for a general purpose authority, as authorized and permitted by, and also as limited by, provisions of the Pennsylvania Municipality Authorities Act, the Act of May 2, 1945, P.L. 382, as amended. Accordingly, the Authority is not subject to income taxes. The Authority is a special purpose government engaged in business-type activities.

A summary of the Authority's significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Reporting Entity

The Authority has adopted the provisions of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards, for the criteria used to evaluate organizations, activities, and functions that should be included in the Authority's financial statements. The basic criteria used is the exercise of "oversight responsibility" over such organization, activities, and functions.

The Authority has not identified any entities which should be subject to evaluation for inclusion in the Authority's reporting entity. Because the Authority was initially created for the delivery of services to the County, the Authority has been evaluated under the aforementioned criteria for inclusion in the reporting entity of the County. The County includes the Authority in its financial statements as a component unit, since the Authority meets the criteria satisfying inclusion in the County's financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activities are included on their balance sheets. Net position is segregated into "net investment in capital assets," "restricted," and "unrestricted" components.

The financial statements are reported using the accrual basis of accounting. Under 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.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The Authority reports the following major proprietary funds:

The *Riverfront Office Center Fund* accounts for the leasing operations of the Riverfront Office Center. The Authority issued Office and Parking Revenue Bonds, Series of 1998, to fund the acquisition of office and parking facilities at 1101 South Front Street, Harrisburg, Pennsylvania, known as Riverfront Office Center. The facilities are leased to various governmental and private organizations.

The *Pittsburgh Hyatt Hotel and Conference Center Fund* accounts for the proceeds of the Hotel and Conference Center Revenue Bonds, Series of 1998, issued to fund the design and construction of a Hyatt Regency Hotel and Conference Center at the Pittsburgh International Airport. The hotel officially opened on June 29, 2000.

The *Dauphin Highlands Golf Course Fund* accounts for the operations of Dauphin Highlands Golf Course. The County guarantees the full payment of the principal and interest on the 1993 Bonds and subsequent refunding bond issues, which funded the golf course construction, in the event that the Authority fails to pay the amount of principal and interest due. The Authority has agreed to pay to the County 90% of the revenues net of operating expenses and debt service earned by the Authority in connection with the golf course. Such amounts will only be paid after the Dauphin Highlands Golf Course Fund has achieved positive fund equity. The Authority will retain the remaining 10% of the net revenue for its general operations and other purposes.

The Nonmajor Enterprise Funds consist of the following:

The *County Building Bond Fund* accounts for the proceeds of a bond issue to purchase from and subsequently lease back to the County a parking garage/office building.

The *100 Chestnut Street Fund* accounts for the leasing operations of 100 Chestnut Street. The Authority issued Lease Revenue Bonds, Series of 1998, to fund the acquisition of 100 Chestnut Street. The Authority subsequently leased the facility to the County.

Additionally, the Authority reports the following fund type:

The *Internal Service Fund* accounts for the administrative responsibilities associated with the various enterprise activities of the Authority.

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.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Conduit Debt Issues

The Authority participates in various Bond issues for which it has limited liability. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together for which it receives an administrative fee. Although the Authority is a party to the Trust indenture with the trustee, 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 reflected on the Authority's balance sheet, but is summarized in Note 7.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair value.

Direct Financing Lease Transactions

The Authority accounts for its leases with various agencies as direct financing leases (see Note 4).

Inventory

Inventory is valued at the lower of cost or market. Cost is determined on the first-in, first-out method. Inventory consists of consumable supplies used for operations and maintenance and also represents items for sale. Inventory is expensed when the items are used or sold.

Capital Assets

Capital assets are recorded at cost. The Authority provides for depreciation and amortization over the estimated useful lives of the assets using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation or amortization of such assets are

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

removed from the accounts and any resulting gain or loss is credited or charged to income for the period. Expenditures for maintenance and repairs are charged to income as incurred. 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.

Debt Financing Costs

Debt financing costs, representing issuance costs for the outstanding bonds, net of reimbursement, are amortized over the outstanding terms of the bonds using the effective interest method.

Bond Discount

Bond discounts, representing the underwriters' discount on bonds issued and/or the discount for bonds issued at less than par value are amortized over the outstanding terms of the bonds using the effective interest method.

Restricted Assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation, and contingency activities.

Net Position

Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all net position which is not restricted for any project or other purpose.

For the time period that revenue bonds are outstanding and the trust indenture is in effect in each fund, the net position of the fund are presented as restricted for fund operations.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Authority, these revenues are charges for services, investment income, and miscellaneous revenues. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Authority.

Total Business-Type Activities

The column captioned "Total Business-type Activities" is the combined "Total Enterprise Funds" and "Business-type Internal Service Fund" after internal receivables and payables have been eliminated.

Pending Changes in Accounting Principles

Governmental Accounting Standards Board (GASB) Statement No. 65, *"Items Previously Reported as Assets and Liabilities."* The objective of this statement is to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this Statement are effective for the Authority's December 31, 2013 financial statements.

GASB Statement No. 69, *"Government Combinations and Disposals of Government Operations."* The objective of this statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The provisions of this Statement are effective for the Authority's December 31, 2014 financial statements.

The effect of implementation of these Statements has not yet been determined.

2. DEPOSITS AND INVESTMENTS

Cash and investments are held by trustees, pursuant to provisions of various Trust Indentures, except for the Administrative Fund cash account, and the Dauphin Highlands Golf Course cash account, which are administered by the Authority's Executive Director.

The Municipality Authorities Act (Act) provides for investment of governmental funds into certain authorized investment types, including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations or their agencies or instrumentalities, and insured or collateralized time deposits and certificates of deposit. The Act does not prescribe regulations relating to demand deposits.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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. At December 31, 2012, the book balance of the Authority's unrestricted deposits was \$1,680,015 and the bank balance was \$1,662,212. Of the unrestricted bank balance, \$1,000,000 was covered by federal depository insurance, and \$662,212 was collateralized under Act 72 of the 1971 session of the Pennsylvania General Assembly for the protection of public depositors. At December 31, 2012, the book balance of the Authority's restricted deposits was \$3,407,176 and the bank balance was \$3,410,831. Of the restricted bank balance, \$304,646 was covered by federal depository insurance, and \$3,106,185 was collateralized under Act 72.

Investments

Total Authority investments reported on the balance sheet at December 31, 2012 are as follows:

	<u>Fair Value</u>
Unrestricted:	
Money market funds	\$ 2,241,791
U.S. Government obligations	1,828
	<u>\$ 2,243,619</u>
Restricted:	
Money market funds	\$ 11,495,200
U.S. Government agency obligations	4,602,020
	<u>\$ 16,097,220</u>

Concentration of credit risk. The Authority places no limit on the amount the Authority may invest in any one issuer. More than five percent of the Authority's investments were held with the following issue:

	<u>Fair Value</u>	<u>Percent of Investment</u>
Federal National Mortgage Association	\$ 4,602,020	25.09%

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Credit risk. The Authority does not have a formal policy that would limit investment choices with regard to credit risk. The Authority's investments had the following level of exposure to credit risk as of December 31, 2012:

	<u>Fair Value</u>	<u>Rating</u>
Unrestricted:		
Money market funds	\$ 2,241,791	AAAm
U.S. Government obligations	1,828	AA+
Restricted:		
Money market funds	\$ 11,495,200	AAAm
U.S. Government agency obligations	4,602,020	AA+

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 following is a list of the Authority's money market and fixed income investments and their related average maturities:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Investment Maturity</u>			
		<u>2013</u>	<u>2014-2018</u>	<u>2019-2023</u>	<u>Subsequent to 2023</u>
Unrestricted:					
Money market funds	\$ 2,241,791	\$ 2,241,791	\$ -	\$ -	\$ -
U.S. Government obligations	1,828	-	-	1,828	-
	<u>\$ 2,243,619</u>	<u>\$ 2,241,791</u>	<u>\$ -</u>	<u>\$ 1,828</u>	<u>\$ -</u>
Restricted:					
Money market funds	\$ 11,495,200	\$ 11,495,200	\$ -	\$ -	\$ -
U.S. Government agency obligations	4,602,020	4,602,020	-	-	-
	<u>\$ 16,097,220</u>	<u>\$ 16,097,220</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

3. INTERFUND BALANCES

The composition of interfund balances at December 31, 2012 was as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
Riverfront Office Center Fund	\$ -	\$ 5,979
Pittsburgh Hyatt Hotel and Conference Center Fund	-	5,960
Dauphin Highlands Golf Course Fund	-	3,734,687
Nonmajor Funds	-	621
Internal Service Fund	<u>3,747,247</u>	<u>-</u>
	<u>\$ 3,747,247</u>	<u>\$ 3,747,247</u>

Working capital for the Dauphin Highlands Golf Course, a major fund, is being provided by the Dauphin County General Authority Administrative Fund, the Internal Service Fund. At December 31, 2012, the Administrative Fund has advanced \$2,619,713 to the Dauphin Highlands Golf Course. Effective January 1, 2001, the Authority began accruing interest on the advance balance at a simple interest rate of 6% per annum. Dauphin Highlands Golf Course had accrued interest of \$1,106,673 at December 31, 2012. The Dauphin Highlands Golf Course expects to repay the amount from the proceeds of any future sale and/or other options which may be developed that would involve partial sale of land, leases, and other options that would allow the Authority to be paid back in whole or part.

4. DIRECT FINANCING LEASES

The Authority's County Building Bond Fund leasing operation, accounted for as a nonmajor enterprise fund, consists of leasing a parking garage/office building to the County under a direct financing lease arrangement, with the lease assigned to a trustee as collateral for the County Building Bonds. Subsequent to leasing, the County designated the Authority as agent to operate the facility. All operating costs remain the responsibility of the County and are accounted for on the County's records. In November 2009, the Authority currently refunded the Revenue Bonds Series 2001 through the issuance of Guaranteed Lease Revenue Bonds, Series C of 2009. The term of the revised lease agreement is 20 years and expires in 2022.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The Authority's 100 Chestnut Street Bond Fund leasing operation, accounted for as a nonmajor enterprise fund, consists of leasing an office building to the County under a direct financing lease arrangement, with the lease assigned to a trustee as collateral for the Chestnut Street Revenue Bonds. The Chestnut Street Revenue Bonds were originally advance refunded in 2003 through the issuance of Lease Revenue Bonds, Series A and B of 2003. In November 2009, the Authority currently refunded the Lease Revenue Bonds, Series A of 2003 through the issuance of Tax Exempt Lease Revenue Bonds, Series D of 2009. The term of the revised lease agreement is 15 years and expires in 2018.

Following is a schedule of minimum lease payments for all direct financing leases:

<u>Years Ending December 31,</u>	<u>County Building Bond Fund</u>	<u>100 Chestnut Street Fund</u>	<u>Total</u>
2013	\$ 494,225	\$ 347,275	\$ 841,500
2014	491,125	346,375	837,500
2015	492,000	344,475	836,475
2016	490,750	346,240	836,990
2017	494,200	346,790	840,990
2018-2022	2,465,028	346,390	2,811,418
	<u>\$ 4,927,328</u>	<u>\$ 2,077,545</u>	<u>\$ 7,004,873</u>

The net investment in direct financing leases consists of the following at December 31, 2012:

	<u>County Building Bond Fund</u>	<u>100 Chestnut Street Fund</u>	<u>Total</u>
Total minimum lease payments to be received	\$ 4,927,328	\$ 2,077,545	\$ 7,004,873
Less unearned income	832,328	189,476	1,021,804
	<u>\$ 4,095,000</u>	<u>\$ 1,888,069</u>	<u>\$ 5,983,069</u>
Current portion	\$ 360,000	\$ 308,069	\$ 668,069
Noncurrent portion	3,735,000	1,580,000	5,315,000
	<u>\$ 4,095,000</u>	<u>\$ 1,888,069</u>	<u>\$ 5,983,069</u>

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

5. CAPITAL ASSETS

Changes in capital assets of the business-type activities at December 31, 2012 consist of the following:

	Beginning Balance	Increases/ Transfers in	Decreases/ Transfers out	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,028,786	\$ -	\$ -	\$ 2,028,786
Construction in progress	269,117	159,048	(269,117)	159,048
Total capital assets, not being depreciated	<u>2,297,903</u>	<u>159,048</u>	<u>(269,117)</u>	<u>2,187,834</u>
Capital assets, being depreciated:				
Land improvements	5,743,097	-	-	5,743,097
Buildings	95,947,853	583,931	-	96,531,784
Building improvements	365,983	-	(650)	365,333
Golf course equipment	962,288	140,214	(21,669)	1,080,833
Other equipment	<u>1,588,596</u>	<u>66,444</u>	<u>-</u>	<u>1,655,040</u>
Total capital assets, being depreciated	<u>104,607,817</u>	<u>790,589</u>	<u>(22,319)</u>	<u>105,376,087</u>
Less accumulated depreciation and amortization for:				
Land improvements	(3,102,322)	(191,437)	-	(3,293,759)
Buildings	(39,171,892)	(3,314,135)	-	(42,486,027)
Building improvements	(284,129)	(12,619)	650	(296,098)
Golf course equipment	(760,269)	(82,195)	21,669	(820,795)
Other equipment	<u>(860,553)</u>	<u>(138,845)</u>	<u>-</u>	<u>(999,398)</u>
Total accumulated depreciation and amortization	<u>(44,179,165)</u>	<u>(3,739,231)</u>	<u>22,319</u>	<u>(47,896,077)</u>
Capital assets, being depreciated, net	<u>60,428,652</u>	<u>(2,948,642)</u>	<u>-</u>	<u>57,480,010</u>
Capital assets, net	<u>\$ 62,726,555</u>	<u>\$ (2,789,594)</u>	<u>\$ (269,117)</u>	<u>\$ 59,667,844</u>

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Depreciation and amortization were calculated on the straight-line method using the following useful lives:

	<u>Estimated Useful Lives</u>
Land	-
Construction in progress	-
Land improvements	30 years
Buildings	30 years
Building improvements	15 years
Golf course equipment	7 years
Other equipment	7-10 years

6. LONG-TERM DEBT

Long-term debt outstanding at December 31, 2012 is as follows:

Office and Parking Revenue Bonds (Riverfront Office Center):	
Series A of 1998	\$ 27,610,000
Series C of 1998 - Capital Appreciation Bonds	14,200,637
Hotel and Conference Center Bonds (Hyatt Hotel Project):	
Series of 1998	54,945,000
Dauphin County Guaranteed Lease Revenue Bonds (Building Bonds):	
Series C of 2009	4,095,000
Lease Revenue Bonds (100 Chestnut Street):	
Series D of 2009	1,875,000
Dauphin County Guaranteed Revenue Bonds (Dauphin Highlands):	
Series A and B of 2011	10,945,741
Capital lease payable (Dauphin Highlands)	<u>66,697</u>
	<u><u>\$ 113,738,075</u></u>

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Long-term debt is shown on the balance sheet - as follows:

Current-portion of capital lease obligation	\$ 41,902
Current portion of long-term debt	3,962,509
Long-term debt, net of current portion	109,708,869
Capital lease payable, net of current portion	24,795
	<u>\$ 113,738,075</u>

Long-term liability activity for the Authority's business-type activities for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term debt	\$ 116,550,364	\$ 984,409	\$ (3,796,698)	\$ 113,738,075	\$ 4,004,411
Deferred charge	(991,537)	-	218,020	(773,517)	-
	<u>\$ 115,558,827</u>	<u>\$ 984,409</u>	<u>\$ (3,578,678)</u>	<u>\$ 112,964,558</u>	<u>\$ 4,004,411</u>

Each of the Authority's financing programs is described below. The Authority has complied with the significant covenants contained in its debt agreements for the year ended December 31, 2012 except as described in Note 10.

Office and Parking Revenue Bonds – Series A, B, and C of 1998 (Riverfront Office Center)

On June 30, 1998, the Authority issued Office and Parking Revenue Bonds Series A, B, and C in the principal amounts of \$38,950,000, \$1,120,000, and \$5,235,436, respectively. The bond proceeds were used to acquire certain real estate and parking facilities in the City of Harrisburg, known as the Riverfront Office Center, to fund a debt service reserve and to pay the cost of issuance. The bonds were issued without a municipal bond guaranty insurance policy.

The bonds, as issued, consisted of Current Interest and Capital Appreciation Bonds. The Series A and B are Current Interest Bonds and the Series C are Capital Appreciation Bonds.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Series A

The Series A Current Interest Bonds bear interest and mature as follows:

Years	Interest Rate	Principal	Interest	Total
2013	6.00%	\$ 1,305,000	\$ 1,656,600	\$ 2,961,600
2014	6.00%	1,385,000	1,578,300	2,963,300
2015	6.00%	1,465,000	1,495,200	2,960,200
2016	6.00%	1,555,000	1,407,300	2,962,300
2017	6.00%	1,650,000	1,314,000	2,964,000
2018-2022	6.00%	9,845,000	4,962,600	14,807,600
2023-2025	6.00%	10,405,000	1,443,300	11,848,300
		<u>\$ 27,610,000</u>	<u>\$ 13,857,300</u>	<u>\$ 41,467,300</u>

Series B

There was no balance remaining on the Series B bonds at December 31, 2012.

Series C

The Capital Appreciation Bonds, which have an effective yield of 7%, bear no stated interest and have stated initial principal values as follows:

Maturity Dates	Stated Values at Issuance	Maturity Values	Discount	Accreted Value
July 1, 2024	\$ 304,140	\$ 1,820,000	\$ 995,030	\$ 824,970
January 1, 2025	293,857	1,820,000	1,022,931	797,069
July 1, 2025	283,920	1,820,000	1,049,885	770,115
January 2, 2026	274,310	1,820,000	1,075,929	744,071
July 1, 2026	265,047	1,820,000	1,101,082	718,918
January 1, 2027	256,074	1,820,000	1,125,397	694,603
July 1, 2027	247,411	1,820,000	1,148,893	671,107
January 1, 2028	3,310,677	25,205,000	16,225,215	8,979,785
	<u>\$ 5,235,436</u>	<u>\$ 37,945,000</u>	<u>\$ 23,744,363</u>	<u>\$ 14,200,637</u>

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

As required by a mandatory sinking fund provision, the trustee deposited \$2,964,300 of bond proceeds in the Debt Service Reserve Account.

Hotel and Conference Center Revenue Bonds – Series of 1998 (Hyatt Hotel Project)

On July 1, 1998, the Authority issued Hotel and Conference Center Revenue Bonds, Series of 1998 in the principal amount of \$64,500,000. The bond proceeds were used to provide funds to design, construct, and equip the Hyatt Regency Pittsburgh International Airport Hotel and Conference Center, to capitalize interest through the construction period, to fund a debt service reserve, to fund an operating reserve, and to pay the costs of issuance. The bonds were issued without a municipal bond guaranty insurance policy.

The bonds bear interest and mature as follows:

<u>Years</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	6.20%	\$ 1,770,000	\$ 3,351,720	\$ 5,121,720
2014	6.20%	1,885,000	3,238,415	5,123,415
2015	6.20%	2,000,000	3,117,980	5,117,980
2016	6.20%	2,125,000	2,990,105	5,115,105
2017	6.20%	2,255,000	2,854,325	5,109,325
2018-2022	6.20%	13,375,000	11,939,495	25,314,495
2023-2027	6.20%	17,955,000	7,126,125	25,081,125
2028-2029	6.20%	13,580,000	997,270	14,577,270
		<u>\$ 54,945,000</u>	<u>\$ 35,615,435</u>	<u>\$ 90,560,435</u>

As required by a mandatory sinking fund provision, the trustee deposited \$5,189,000 of bond proceeds in the Debt Service Reserve Account. However, as discussed in Note 10, unscheduled draws were made out of the Bond Reserve Fund.

Dauphin County Guaranteed Lease Revenue Bonds – Series C of 2009 (Building Bonds)

On November 21, 2001, the Authority issued \$5,620,000 Dauphin County Guaranteed Lease Revenue Refunding Bonds – Series A of 2001 and \$4,750,000 Dauphin County Guaranteed Lease Revenue Bonds, Series B of 2001. The proceeds of Series A of 2001 were used to defease the County Building Bonds Series of 1997. At December 31, 2012, the balance outstanding on both the County Building Bonds Series of 1997 and the Dauphin County Guaranteed Lease Revenue Refunding Bonds – Series A of 2001 is zero.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The Series B of 2001 Bonds were issued to make renovations and improvements to a portion of the building; upgrade the electrical, plumbing, and HVAC systems and installation of a new steam heating system to the property; and to pay the costs of issuance associated with issuing the bonds.

On November 12, 2009, the Authority issued \$4,865,000 Dauphin County Guaranteed Lease Revenue Bonds – Series C of 2009. The proceeds of Series C of 2009 were used to currently refund Series B of 2001 and to pay the costs of issuance associated with issuing the bonds. The balance outstanding on the Series B of 2001 bonds at December 31, 2012 is zero.

The County has pledged its taxing power to support its lease rental payments related to both principal and interest due on the Authority's Bonds. These bonds mature as follows:

Years	Interest Rate	Principal	Interest	Total
2013	2.25%	\$ 360,000	\$ 134,225	\$ 494,225
2014	2.50%	365,000	126,125	491,125
2015	3.00%	375,000	117,000	492,000
2016	3.00%	385,000	105,750	490,750
2017	3.20%	400,000	94,200	494,200
2018-2022	3.40%-3.88%	2,210,000	255,028	2,465,028
		<u>\$ 4,095,000</u>	<u>\$ 832,328</u>	<u>\$ 4,927,328</u>

Lease Revenue Bonds – Series D of 2009 (100 Chestnut Street)

On October 1, 2003, the Authority issued Tax Exempt Lease Revenue Bonds, Series A in the principal amount of \$2,490,000 and Federally Taxable Lease Revenue Bonds, Series B, in the principal amount of \$1,355,000. The Authority used the 2003 bond proceeds to advance refund the Lease Revenue Bonds, Series A of 1998, resulting in defeasance of the bonds. The bonds were insured by a municipal bond guaranty insurance policy.

On November 12, 2009, the Authority issued Tax Exempt Lease Revenue Bonds, Series D of 2009, in the principal amount of \$2,570,000. The Authority used the Series D bond proceeds to currently refund the Series A of 2003 Bonds. As of December 31, 2012, the Series A and Series B of 2003 bonds had a zero balance.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The bonds bear interest and mature as follows:

Years	Interest Rate	Principal	Interest	Total
2013	2.00%	\$ 295,000	\$ 52,275	\$ 347,275
2014	2.30%	300,000	46,375	346,375
2015	2.70%	305,000	39,475	344,475
2016	3.00%	315,000	31,240	346,240
2017	3.20%	325,000	21,790	346,790
2018	3.40%	335,000	11,390	346,390
		<u>\$ 1,875,000</u>	<u>\$ 202,545</u>	<u>\$ 2,077,545</u>

Lease Revenue Bonds – Series A and B of 1998 (100 Chestnut Street)

On September 1, 1998, the Authority issued Tax Exempt Lease Revenue Bonds, Series A, in the principal amount of \$4,285,000 and Federally Taxable Lease Revenue Bonds, Series B, in the principal amount of \$340,000. The bond proceeds were used to acquire certain real estate in the City of Harrisburg, known as 100 Chestnut Street, to fund certain renovations to the facility, to fund a debt service reserve, and to pay the costs of issuance. On October 1, 2003, the Authority advance refunded the Series A of 1998, resulting in a defeasance of the bonds. As a result, the liability for those bonds has been removed from the 100 Chestnut Street Fund. The balance outstanding on the defeased Series A bonds on December 31, 2012 is \$1,845,000. The Series B bonds matured in 2006 and were paid in full.

Dauphin County Guaranteed Revenue Bonds – Series A and B of 2011 (Dauphin Highlands)

On January 6, 2005, the Authority issued Tax Exempt County Guaranteed Revenue Refunding Bonds, Series A of 2005 (Series A of 2005), and Taxable County Guaranteed Revenue Refunding Bonds, Series B of 2005 (Series B of 2005), in the principal amount of \$8,565,000 and \$2,435,000, respectively. The bonds were insured by a municipal bond guaranty insurance policy. The net proceeds were used to advance refund the 1993 Series Capital Appreciation Bonds, advance refund the County Guaranteed Revenue Bonds, Series of 2003, and pay the costs of issuing the bonds. As a result, the liability for those bonds has been removed from the Authority. At December 31, 2012, the maturity value and accreted value of the bonds outstanding on the 1993 Series Capital Appreciation Bonds are \$10,860,000 and \$7,700,817, respectively. There is no balance outstanding on the County Guaranteed Revenue Bonds, Series of 2003, at December 31, 2012.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

On September 30, 2011, the Authority issued Taxable County Guaranteed Revenue Refunding Bond, Series A of 2011 (Series A of 2011) and Taxable County Guaranteed Revenue Refunding Bond, Series B of 2011 (Series B of 2011), in the principal amounts of \$8,796,927 and \$2,355,154, respectively. The bonds are insured by a municipal bond guarantee insurance policy. The Authority used the proceeds of Series A of 2011 to currently refund the Series A of 2005 and pay the cost of issuance. The net proceeds of Series B of 2011 were used to advance refund the Series B of 2005 and pay issuance costs. As a result, the liability for those bonds has been removed from the Authority. There is no balance outstanding on the County Guaranteed Revenue Bonds, Series B of 2005, at December 31, 2012.

The interest rate on Series A of 2011 Bonds is variable. Per the bond agreements, the interest rates will change monthly and be calculated based on London Interbank Offered Rate (LIBOR) plus 1.75%, not to exceed 12%. The interest rate on these bonds as of December 31, 2012 was 1.9635%. The County has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series A of 2011 Bonds. Using the interest rate in effect at December 31, 2012, these bonds mature as follows:

Years	Principal Amount	Interest	Total
2013	\$ 86,197	\$ 172,975	\$ 259,172
2014	97,129	171,179	268,308
2015	109,448	169,156	278,604
2016	8,427,657	139,157	8,566,814
	<u>\$ 8,720,431</u>	<u>\$ 652,467</u>	<u>\$ 9,372,898</u>

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The interest rate on Series B of 2011 Bonds is variable. Per the bond agreements the interest rates will change monthly and be calculated based on LIBOR plus 1.75%, not to exceed 12%. The interest rate on these bonds as of December 31, 2012 was 1.9635%. The County has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series B of 2011 Bonds. Using the interest rate in effect at December 31, 2012, these bonds mature as follows:

Years	Principal Amount	Interest	Total
2013	\$ 146,312	\$ 43,233	\$ 189,545
2014	164,868	40,185	205,053
2015	185,777	36,750	222,527
2016	1,728,353	27,674	1,756,027
	<u>\$ 2,225,310</u>	<u>\$ 147,842</u>	<u>\$ 2,373,152</u>

Capital Lease Payable

In 2009, Dauphin Highlands purchased golf carts under a long-term lease agreement that is classified as a capital lease. As of December 31, 2012, Dauphin Highlands includes these golf carts at a cost of \$159,800, with accumulated depreciation of \$81,802.

In 2012, Dauphin Highlands purchased an aerator and a sweeper under a long-term lease agreement that is classified as a capital lease. As of December 31, 2012, Dauphin Highlands includes this equipment at a cost of \$40,174, with accumulated depreciation of \$5,739.

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

The future minimum payments under this capital lease and the present value of the minimum lease payments at December 31, 2012 are as follows:

<u>Year Ended December 31,</u>	<u>Total</u>
2013	\$ 45,065
2014	8,971
2015	8,971
2016	<u>8,970</u>
Total minimum lease payments	71,977
Less amount representing interest	<u>(5,280)</u>
Present value of future minimum lease payments	<u>\$ 66,697</u>

7. CONDUIT DEBT ISSUES

As discussed in Note 1, the following conduit debt issues were outstanding at December 31, 2012:

Dauphin County Library System	\$ 934,442
Pinnacle Health Systems	182,215,000
Pinnacle Health Systems	98,750,000
Pinnacle Health Systems	128,210,000
United Church of Christ Homes, Inc.	<u>28,748,874</u>
	<u>\$ 438,858,316</u>

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

8. ADMINISTRATIVE FEES

Provisions of the financing documents of the bond issues require administrative fees to be paid to the Authority. For the year ended December 31, 2012, these fees, as paid by each fund, are as follows:

Administrative Fund:	
County Building Bonds	\$ 20,000
Riverfront Office Center	265,596
Chestnut Street	40,644
Dauphin Highlands Golf Course	24,600
Pittsburgh Hyatt Hotel and Conference Center	30,000
Accounting fees	23,845
Bond issuance fees	40,000
	<hr/>
	\$ 444,685

9. RELATED PARTY TRANSACTIONS

The Authority is a component unit of the County. The Authority has entered into certain lease financing arrangements with the County. Lease payments from the County to the Authority for 2012 were \$585,132.

The County has been paying rent in excess of the lease requirement to the Authority since 2000. The total amount of these overpayments is \$415,876 at December 31, 2012 and is reported as unearned revenue on the Balance Sheet. The County had a claim on such overpayments until February 17, 2010, when an indemnity agreement was signed.

The Authority was awarded a 2011 Local Share Gaming Grant and a 2012 Local Share Gaming Grant from the County. During the year ended December 31, 2012, the Authority incurred \$55,004 of grant-related expenses.

10. COMMITMENTS AND CONTINGENCIES

Payments in Lieu of Taxes and Real Estate Taxes

The Authority, as part of its construction of the Hyatt Hotel Project, committed to make payments in lieu of property taxes to the County of Allegheny in return for exempting this property from real estate taxes. This payment in lieu of taxes (PILOT) will be made from the respective funds if sufficient resources exist to make such payments are available, on an

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

annual basis, from the respective funds revenues after meeting operating costs and debt service payments. The PILOTs for the Hyatt Hotel Project have been accrued for the years ended December 31, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, and 2012 in the amount of \$460,000, \$537,000, \$614,000, \$680,000, \$767,000, \$767,000, \$767,040, \$767,040, \$767,000, \$767,000, \$767,000, \$767,000, and \$767,000, respectively.

Project Viability

The continued operation of the Dauphin Highlands Golf Course is dependent on the Administrative Fund providing working capital to fund any deficits created by operations of this golf course. The Authority's Administrative Fund has provided, and intends to continue to provide, funds for working capital needs of the Dauphin Highlands Golf Course, as discussed in Note 3. The Administrative Fund provided \$116,954 of working capital advances during 2012 to the Dauphin Highlands Golf Course. As of December 31, 2012, \$75,000 had been repaid to the Administrative Fund.

If the Authority fails to generate sufficient revenues to pay debt service on the Series A of 2011 and the Series B of 2011, or ceases revenue generating operations, or if other monies set aside for such purposes are insufficient, the County will be required to pay principal and interest on such bonds when due pursuant to the County Bond Guaranty Agreement among the County, the Authority, and the trustee for the bonds. The Dauphin Highlands Golf Course has incurred substantial accumulated losses, which have resulted in cash flow difficulties. Throughout 2012, Dauphin Highlands has made a concerted effort to better market the property, in conjunction with substantial cost-cutting measures. The Authority continues to work on maximizing the revenue and controlling the expenses of Dauphin Highlands. The Authority entered into a contract with a management agency subsequent to year-end to try to increase revenues and limit expenses. The Authority will continue to pursue the sale of the golf course, "consistent with our fiduciary responsibility."

The Pittsburgh Hyatt Hotel and Conference Center project viability is dependent upon the facility maintaining sufficient operating cash flows to meet debt service payments. Operations of the facility commenced June 29, 2000, and the bond proceeds included a working capital reserve that approximated eighteen (18) months of working capital necessary for operations. In 2002, funds sufficient to meet the debt service payments were transferred from the Construction Fund. In 2003, the facility generated sufficient cash flows from operations to meet the debt service requirements on the facility. However, in January 2004, an unscheduled withdrawal was made on the Bond Redemption Improvement Account in order to satisfy the January 2004 interest payment. The operating revenues of the facility were sufficient to meet the July 2004 and January 2005 debt service payment. However, the Authority made unscheduled withdraws from the Bond Reserve Fund in order to satisfy the July 2005, January 2006, and July 2006 debt service payments. Under the trust indenture, the

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Authority has within 12 months of such withdraw to replenish the Bond Reserve Fund. At December 31, 2006, the Authority was in technical default because the Bond Reserve Fund had not been replenished as required by the trust indenture in the amount of approximately \$750,000. On July 1, 2007, the Debt Service Reserve Fund has been fully funded in accordance with the terms of the Indenture. The operating revenues of the facility were sufficient to meet the January 2007, July 2007, and January 2008 debt service payments. On July 1, 2008, a total of \$384,000 was transferred out of the Bond Redemption and Improvement Fund because it was believed that the facility had not generated sufficient cash flows from operations to meet the July 1, 2008 debt service requirements. However, there were sufficient cash flows to cover the July 1, 2008 debt service requirements prior to the transfer from the Bond Redemption and Improvement Fund. A total of \$625,000 remained in the Bond Fund after the July 1, 2008 debt service payment was made. This amount remained in the Bond Fund and was used to service the debt payment made on January 2, 2009. On July 1, 2009, a total of \$653,186 was transferred out of the Bond Reserve Fund because it was believed that the facility had not generated sufficient cash flows from operations to meet the July 1, 2009 debt service requirements. However, there were sufficient cash flows to cover the July 1, 2009 debt service requirements prior to the transfer from the Bond Reserve Fund. This amount remained in the Bond Fund and was used to service the debt payment made on January 4, 2010. On January 4, 2010, \$776,474 was transferred out of the Bond Reserve Fund in order to meet the debt service requirement. On July 1, 2010, \$1,623,115 was transferred from the Bond Reserve Fund and \$92 was transferred from the Bond Redemption and Improvement Fund in order to meet the July 1, 2010 debt service requirements. However, a balance of \$790,000 remained in the Bond Fund after the July 1, 2010 payment, which was used to service the debt payment made on January 3, 2011. As of December 31, 2010 the ending balances outstanding to the Bond Reserve Fund and the BRIF were \$1,011,523 and \$92, respectively. The outstanding balance and activity for the years ended December 31, 2011 and 2012 are outlined below:

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	Due to Bond Reserve Fund	Due to Bond Redemption and Improvement Fund	Total
<u>2011 Activity</u>			
Balance, December 31, 2010	\$ 1,011,523	\$ 92	\$ 1,011,615
Borrowed for January 3, 2011 payment	1,739,224	1,990	1,741,214
Monthly payment of \$64,706 on January 1, 2010 borrowing	(64,706)	-	(64,706)
Monthly payment of \$135,260 on July 1, 2010 borrowing	(946,815)	-	(946,815)
Borrowed for July 1, 2011 payment	2,311,450	-	2,311,450
Monthly payment of \$144,935 on January 3, 2011 borrowing	(1,594,285)	-	(1,594,285)
Monthly payment of \$192,621 on July 1, 2011 borrowing	(963,105)	-	(963,105)
Balance, December 31, 2011	<u>\$ 1,493,286</u>	<u>\$ 2,082</u>	<u>\$ 1,495,368</u>
<u>2012 Activity</u>			
Balance, December 31, 2011	\$ 1,493,286	\$ 2,082	\$ 1,495,368
Borrowed for January 3, 2012 payment	2,442,730	-	2,442,730
Monthly payment of \$144,935 on January 3, 2011 borrowing	(144,935)	-	(144,935)
Monthly payment of \$192,621 on July 1, 2011 borrowing	(1,348,351)	-	(1,348,351)
Borrowed for July 1, 2012 payment	2,588,295	-	2,588,295
Monthly payment of \$203,561 on January 3, 2012 borrowing	(2,239,171)	-	(2,239,171)
Monthly payment of \$215,691 on July 1, 2012 borrowing	(933,459)	-	(933,459)
Balance, December 31, 2012	<u>\$ 1,858,395</u>	<u>\$ 2,082</u>	<u>\$ 1,860,477</u>

Throughout the course of the year, the Authority was unable to make timely payments to repay the Bond Reserve Fund for various debt service borrowings. The first occurrence was the final repayment of \$192,621 for the July 1, 2011 borrowing. This repayment occurred

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

during August and September 2012, outside the one year window of repayment and was considered a technical default. The second occurrence was related to the final monthly payment of \$203,561, related to the January 1, 2012 borrowing. This amount was due in January of 2013 and was not repaid by the Authority by the required payment date. Also, the final payment made to the Bond Reserve Fund during December 2012 was \$70,695. This amount is not equivalent to the required monthly transfer of \$215,691 that is required to pay back the July 1, 2012 borrowing; however, an additional transfer of \$129,438 was made February 28, 2013 in an effort to fully replenish the Bond Reserve Fund for the corresponding borrowing within one year.

As of April 30, 2012, there were not sufficient revenues available in the Bond Fund to replenish the Bond Reserve Fund for repayment of borrowings. Any available funds in the Revenue Fund on April 30, 2012 were paid to the Manager as a partial payment against operating expenses. As a result of, the Authority undertook an information filing through the Municipal Securities Rule Making Board's Access system (EMMA) on or about May 16, 2012. The full amount of the required reimbursement was paid in May 2012 with the priority of payments detailed in Section 6.02 of the trust indenture.

At December 31, 2012, \$1,858,395 remained due to the Bond Reserve Fund and \$2,082 remained due to the Bond Redemption and Improvement Fund. However, an additional \$2,588,288 was transferred out of the Bond Reserve Fund in order to meet the debt service requirement on January 2, 2013.

In 2012, the Pittsburgh Hyatt Hotel and Conference Center was unable to meet debt covenant requirement 6.1, which states that hotel revenues must be deposited into a Revenue Fund at an amount at least equal to 130% of the Annual Debt Service Payment. At present, there is no indication that the majority bondholder will invoke remedies prescribed under the trust indenture.

During October 2012, the Authority issued a request for proposal (RFP) for the disposition of the Pittsburgh Hyatt Hotel and Conference Center. As a result of the RFP, a letter of intent was entered into with a prospective buyer and the Authority is working toward the execution of a Purchase and Sale Agreement.

Cease and Desist Order

In April 2004, the Securities and Exchange Commission entered a cease and desist order against the Authority, alleging that the Authority had omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in connection with the offer, sale, or purchase of a series of bonds. The Authority has consented to the entry of the order imposing remedial sanctions under the

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

Securities Act of 1933 to cease and desist or causing any violation or future violations of Section 17(a) of the Securities Act of 1933, which does not include any monetary fine or sanction.

11. SEGMENT INFORMATION

The Authority has issued revenue bonds to finance various activities. The nonmajor enterprise funds consist of the County Building Bond Fund and 100 Chestnut Street Fund. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities or the related guarantee, if applicable, for repayment. Summary financial information for the funds is presented on the following page:

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

	County Building Bond Fund	100 Chestnut Street Fund	Total Nonmajor Enterprise Funds
CONDENSED BALANCE SHEET			
Assets			
Current assets	\$ 360,000	\$ 321,904	\$ 681,904
Noncurrent investment in direct financing lease	3,735,000	1,580,000	5,315,000
Restricted assets	66,922	1,005,719	1,072,641
Total Assets	\$ 4,161,922	\$ 2,907,623	\$ 7,069,545
Liabilities and Net Position			
Liabilities:			
Current liabilities	\$ 444,700	\$ 729,777	\$ 1,174,477
Noncurrent liabilities	3,735,000	1,580,000	5,315,000
Total Liabilities	4,179,700	2,309,777	6,489,477
Net position:			
Restricted	-	597,846	597,846
Unrestricted	(17,778)	-	(17,778)
Total Net Position	(17,778)	597,846	580,068
Total Liabilities and Net Position	\$ 4,161,922	\$ 2,907,623	\$ 7,069,545
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
Operating revenues	\$ 161,232	\$ 342,050	\$ 503,282
Operating expenses	(159,482)	(341,736)	(501,218)
Operating Income	1,750	314	2,064
Net Position:			
Beginning of year	(19,528)	597,532	578,004
End of year	\$ (17,778)	\$ 597,846	\$ 580,068
CONDENSED STATEMENT OF CASH FLOWS			
Net cash provided by (used in):			
Operating activities	\$ 489,468	\$ 323,170	\$ 812,638
Investing activities	7	14,902	14,909
Capital and related financing activities	-	(55,704)	(55,704)
Noncapital financing activities	(489,475)	(295,000)	(784,475)
Net Decrease	-	(12,632)	(12,632)
Cash and Cash Equivalents:			
Beginning of year	-	27,919	27,919
End of year	\$ -	\$ 15,287	\$ 15,287

DAUPHIN COUNTY GENERAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

12. NET POSITION

The following funds of the Authority had negative net position as of December 31, 2012:

<u>Fund</u>	
Riverfront Office Center	\$ 11,485,294
Pittsburgh Hyatt Hotel and Conference Center	24,092,589
Dauphin Highlands Golf Course	8,417,928
County Building Bonds	17,778

Revenue, receipts, and property of each fund are pledged as collateral on the bonds and are not cross collateralized.

13. LITIGATION

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverages in 2012. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The Authority is involved in several lawsuits arising in the normal course of business, including a potential lawsuit for breach of contract. Management of the Authority believes none of the litigation outstanding against the Authority and none of the potential unasserted claims that may be asserted against the Authority would materially affect the financial position of the Authority.

14. SUBSEQUENT EVENT

On April 30, 2013, the Authority executed a settlement agreement to sell the 10 Mars Street property, located on the Dauphin Highlands Golf Course, in the amount of \$75,000.

Supplementary Information

DAUPHIN COUNTY GENERAL AUTHORITY

COMBINING BALANCE SHEET NONMAJOR ENTERPRISE FUNDS

DECEMBER 31, 2012

	County Building Bond Fund	100 Chestnut Street Fund	Total Nonmajor Enterprise Funds
Assets			
Current assets:			
Accounts receivable	\$ -	\$ 13,577	\$ 13,577
Current portion of investment in direct direct financing leases with primary government	360,000	308,069	668,069
Prepaid expenses	-	246	246
Accrued interest	-	12	12
Total current assets	360,000	321,904	681,904
Noncurrent assets:			
Investments in direct financing leases with primary government, net of current portion	3,735,000	1,580,000	5,315,000
Amounts restricted for long-term debt requirements:			
Cash and cash equivalents	-	15,287	15,287
Investments	66,922	990,432	1,057,354
Total Assets	\$ 4,161,922	\$ 2,907,623	\$ 7,069,545
Liabilities and Net Position			
Liabilities:			
Current liabilities:			
Internal payables	\$ -	\$ 621	\$ 621
Accounts payable	-	5,211	5,211
Accrued expenses	33,556	13,069	46,625
Unearned revenue	51,144	415,876	467,020
Current portion of long-term debt	360,000	295,000	655,000
Total current liabilities	444,700	729,777	1,174,477
Long-term liabilities:			
Long-term debt, net of current portion	3,735,000	1,580,000	5,315,000
Total Liabilities	4,179,700	2,309,777	6,489,477
Net Position:			
Restricted:			
Debt service	-	253,400	253,400
Fund operations	-	344,446	344,446
Unrestricted	(17,778)	-	(17,778)
Total Net Position	(17,778)	597,846	580,068
Total Liabilities and Net Position	\$ 4,161,922	\$ 2,907,623	\$ 7,069,545

DAUPHIN COUNTY GENERAL AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION

NONMAJOR ENTERPRISE FUNDS

YEAR ENDED DECEMBER 31, 2012

	County Building Bond Fund	100 Chestnut Street Fund	Total Nonmajor Enterprise Funds
Operating Revenues:			
Interest income - investments	\$ 7	\$ 377	\$ 384
Income from direct financing leases	161,225	55,704	216,929
Rental income	-	285,969	285,969
Total operating revenues	<u>161,232</u>	<u>342,050</u>	<u>503,282</u>
Operating Expenses:			
Administrative costs	20,007	6,960	26,967
Operating expenses	-	279,072	279,072
Interest expense	<u>139,475</u>	<u>55,704</u>	<u>195,179</u>
Total operating expenses	<u>159,482</u>	<u>341,736</u>	<u>501,218</u>
Operating income	1,750	314	2,064
Net Position:			
Beginning of year	<u>(19,528)</u>	<u>597,532</u>	<u>578,004</u>
End of year	<u><u>\$ (17,778)</u></u>	<u><u>\$ 597,846</u></u>	<u><u>\$ 580,068</u></u>

DAUPHIN COUNTY GENERAL AUTHORITY

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

YEAR ENDED DECEMBER 31, 2012

	County Building Bond Fund	100 Chestnut Street Fund	Total Nonmajor Enterprise Funds
Cash Flows From Operating Activities:			
Cash received from users	\$ 511,225	\$ 615,138	\$ 1,126,363
Cash paid to suppliers	(21,757)	(291,968)	(313,725)
Net cash provided by operating activities	489,468	323,170	812,638
Cash Flows From Investing Activities:			
Sale of investment securities	-	14,525	14,525
Interest received	7	377	384
Net cash provided by investing activities	7	14,902	14,909
Cash Flows From Capital and Related Financing Activities:			
Interest paid	-	(55,704)	(55,704)
Net cash used in capital and related financing activities	-	(55,704)	(55,704)
Cash Flows From Noncapital Financing Activities:			
Principal payments on bonds payable	(350,000)	(295,000)	(645,000)
Interest paid	(139,475)	-	(139,475)
Net cash used in noncapital financing activities:	(489,475)	(295,000)	(784,475)
Net Decrease in Cash and Cash Equivalents	-	(12,632)	(12,632)
Cash and Cash Equivalents:			
Beginning of year	-	27,919	27,919
End of year	\$ -	\$ 15,287	\$ 15,287
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	\$ 1,750	\$ 314	\$ 2,064
Adjustments to reconcile operating income to net cash provided by operating activities:			
Interest income - investments	(7)	(377)	(384)
Interest expense	139,475	55,704	195,179
Changes in assets and liabilities:			
Increase in accounts receivable	-	(88)	(88)
Increase in prepaid expenses	-	(10)	(10)
Decrease in accrued interest income	-	2	2
Decrease in internal payables	-	(286)	(286)
Decrease in investments in direct financing leases	350,000	296,143	646,143
Decrease in accounts payable	-	(3,891)	(3,891)
Decrease in accrued expenses	(1,750)	(1,749)	(3,499)
Decrease in unearned revenue	-	(22,592)	(22,592)
Total adjustments	487,718	322,856	810,574
Net cash provided by operating activities	\$ 489,468	\$ 323,170	\$ 812,638