

**City of Lancaster Revitalization and
Improvement Zone Authority
(A Component Unit of the
City of Lancaster, Pennsylvania)**

Financial Statements

December 31, 2020 and 2019

**City of Lancaster Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)**

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Independent Auditors' Report

To the Board of Directors of
City of Lancaster Revitalization and Improvement Zone Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Lancaster Revitalization and Improvement Zone Authority (the Authority), a component unit of the City of Lancaster, Pennsylvania, which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the City of Lancaster Revitalization and Improvement Zone Authority as of December 31, 2020 and 2019, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted a 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Lancaster, Pennsylvania
April 30, 2021

City of Lancaster Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)

Statements of Net Position
 December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash	\$ 5,513,892	\$ 2,049,644
Accounts receivable	3,350	-
Current portion of note receivable	-	67,439
	<u>5,517,242</u>	<u>2,117,083</u>
Total current assets		
Noncurrent Assets		
Note receivable, net	1,220,289	1,432,561
Restricted cash, debt service reserve fund	423,597	-
	<u>1,643,886</u>	<u>1,432,561</u>
Total noncurrent assets		
Total assets	<u>\$ 7,161,128</u>	<u>\$ 3,549,644</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 100,394	\$ 294,806
Accrued interest	789	-
	<u>101,183</u>	<u>294,806</u>
Total current liabilities		
Noncurrent Liabilities		
Long-term debt	486,780	-
	<u>587,963</u>	<u>294,806</u>
Total liabilities		
Net Position		
Unrestricted	<u>6,573,165</u>	<u>3,254,838</u>
Total liabilities and net position	<u>\$ 7,161,128</u>	<u>\$ 3,549,644</u>

See notes to financial statements

City of Lancaster Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)

Statements of Revenues, Expenses and Change in Net Position (Deficit)
 Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues		
Taxes	\$ 8,465,577	\$ 7,154,797
Interest	93,800	84,583
Other income	4,446	25,718
Application fees	<u>3,750</u>	<u>9,350</u>
Total revenues	<u>8,567,573</u>	<u>7,274,448</u>
Expenses		
Project costs	4,896,921	3,298,699
Professional	255,295	236,691
Debt issuance costs	50,000	-
Administrative	26,513	21,031
Interest	14,517	123,406
Rent	<u>6,000</u>	<u>7,295</u>
Total expenses	<u>5,249,246</u>	<u>3,687,122</u>
Change in net position	3,318,327	3,587,326
Net Position (Deficit), Beginning	<u>3,254,838</u>	<u>(332,488)</u>
Net Position, Ending	<u>\$ 6,573,165</u>	<u>\$ 3,254,838</u>

See notes to financial statements

City of Lancaster Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Cash received from taxes, application fees and other revenues	\$ 8,470,423	\$ 7,189,865
Cash received for interest	93,800	84,583
Cash paid to vendors	(5,442,869)	(3,454,134)
Cash received (paid) for participation in note receivable	279,711	(1,500,000)
	<u>3,401,065</u>	<u>2,320,314</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from long-term debt	486,780	-
Repayments of long-term debt	-	(7,150,000)
	<u>486,780</u>	<u>(7,150,000)</u>
Net cash provided by (used in) capital and related financing activities	<u>486,780</u>	<u>(7,150,000)</u>
Increase (decrease) in cash	3,887,845	(4,829,686)
Cash and Restricted Cash, Beginning	<u>2,049,644</u>	<u>6,879,330</u>
Cash and Restricted Cash, Ending	<u>\$ 5,937,489</u>	<u>\$ 2,049,644</u>
Cash and Restricted Cash		
Cash	\$ 5,513,892	\$ 2,049,644
Restricted cash	423,597	-
	<u>\$ 5,937,489</u>	<u>\$ 2,049,644</u>
Reconciliation of Change in Net Position to Net Cash Provided by Operating Activities		
Change in net position	\$ 3,318,327	\$ 3,587,326
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(3,350)	-
Note receivable	279,711	(1,500,000)
Accounts payable	(194,412)	239,594
Accrued interest	789	(6,606)
	<u>789</u>	<u>(6,606)</u>
Net cash provided by operating activities	<u>\$ 3,401,065</u>	<u>\$ 2,320,314</u>

City of Lancaster Revitalization and Improvement Zone Authority (A Component Unit of the City of Lancaster, Pennsylvania)

Notes to Financial Statements
December 31, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The City of Lancaster Revitalization and Improvement Zone Authority (the Authority) is a component unit of the City of Lancaster, Pennsylvania. The Authority was organized in 2013 by the City of Lancaster, Pennsylvania (the City) under the Pennsylvania Municipality Authorities Act of 1945, as amended and supplemented, by Article XVIII-C of House Bill No. 465, Session of 2013. The Authority's purpose is to acquire, hold, construct, improve, maintain, own, finance and lease, industrial, specialized or commercial development projects for purposes of administering, providing financing for and undertaking all other activities related to the City Revitalization and Improvement Zone (the CRIZ) of the City. The CRIZ consists of approximately 130 acres in downtown Lancaster and in selected areas in the remaining parts of the City. Certain qualified state and local tax revenues are provided to the Authority for the repayment of debt service on bonds and loans issued for the acquisition, improvement and development of qualified capital improvements within the CRIZ.

Reporting Entity

The reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, as amended. The Authority's financial statements include the operations of all organizations for which the Board of Directors exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Based on the oversight criteria above, the Authority has been included as a component unit of the City.

Basis of Accounting, Measurement Focus

The accounting and reporting policies of the Authority relating to its proprietary fund type included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the GASB.

The proprietary fund-type is accounted for on an economic resources management focus, using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Authority has evaluated subsequent events through April 30, 2021, which is the date the financial statements were available to be issued.

City of Lancaster Revitalization and Improvement Zone Authority (A Component Unit of the City of Lancaster, Pennsylvania)

Notes to Financial Statements
December 31, 2020 and 2019

Recent Accounting Standards

In March 2018, the GASB issued statement No. 88 - *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This standard was implemented January 1, 2020.

2. Cash

The Authority Code, Section 902.1, authorizes investments in U.S. Treasury bills, savings accounts, obligations of the United States or its agencies, and shares of investment companies registered under the Investment Company Act of 1940. Act 72 requires all governmental (public fund) deposits not insured by the Federal Deposit Insurance Corporation (FDIC) to be collateralized by the financial institution.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to them. The Authority does not have a formal deposit policy for custodial credit risk. At December 31, 2020 and 2019, respectively, the Authority's total bank deposits were \$5,937,489 and \$2,052,558, respectively. The deposits that were not covered by FDIC insurance were collateralized with securities held by the pledging financial institution, but not in the Authority's name.

3. Note Receivable

On February 28, 2019, the Authority (Participant) has entered into a participation agreement with Community First Fund (CFF), by purchasing \$1,500,000 of a \$4,800,000 loan made by CFF to Square Development, L.P. (Square). Under the terms of this participation agreement, interest is paid monthly from CFF beginning March 15, 2019 at 7.0 percent per annum on the Authority's portion of the outstanding principal using a 360 day year. Monthly principal payments are scheduled to begin in 2020 with a final maturity and balloon payment of remaining outstanding principal due June 15, 2028. CFF is only required to remit payment of interest and principal to the Authority as collected from Square. No collateral is held by the Authority from CFF or Square in regards to this participation agreement. During 2020 the Authority's participation in the loan was reduced to \$1,250,000 with principal payments scheduled to begin in 2022. The outstanding principal balance of this participation agreement was \$1,220,289 at December 31, 2020 and \$1,500,000 at December 31, 2019 and is classified as note receivable on the statements of net position, net of estimated current portion. Interest earned was \$93,800 during 2020 and \$84,583 during 2019.

4. Tax Revenue

The Authority receives revenue through state and local taxes. Currently, there are seven eligible state taxes and two out of four eligible local taxes are used to calculate revenue which is received from the State.

**City of Lancaster Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)**

Notes to Financial Statements
December 31, 2020 and 2019

5. Long-Term Debt, Direct Borrowing

On March 15, 2020, the Authority issued a \$5,500,000 Tax Revenue Note, Series of 2020 (the 2020 Note) supplementing and amending an existing Trust Indenture between the Authority and Fulton Bank, N.A. The 2020 Note is available on a draw down basis through and including December 15, 2022 to be applied to the Authority's Small Business Program. An initial draw of \$486,780 was made to fund a debt service reserve fund of \$436,780 and pay issuance costs of \$50,000. The 2020 Note has an initial interest rate of 3.89 percent through and including June 15, 2030. Thereafter the interest rate shall be a variable rate based on the London Interbank Offered Rate plus 1.80 percent, not to exceed 6 percent. Interest only is due semiannually through June 15, 2022. Beginning December 15, 2022, principal and interest is due semiannually through maturity on December 15, 2040.

Long-term debt from direct borrowings consists of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
\$5,500,000, Tax Revenue Note, Series of 2020, interest rate at 3.89%, balance amortized over 216 months beginning June 15, 2030 through December 2040, secured by a pledge of the Authority's revenues.	\$ 486,780	\$ -

The following is a summary of long-term debt from direct borrowings:

	<u>2020</u>	<u>2019</u>
Long-term debt at January 1:	\$ -	\$ 7,150,000
Additions	486,780	-
Payments	-	(7,150,000)
Long-term debt at December 31:	486,780	-
Current portion	-	-
Long-term debt, net	<u>\$ 486,780</u>	<u>\$ -</u>

Note availability consists of the following at December 31, 2020:

Series of 2020 note amount available	\$ 5,500,000
Total draws on note as of December 31, 2020	<u>486,780</u>
Balance of note available to draw down at December 31, 2020	<u>\$ 5,013,220</u>

The Authority's outstanding note from direct borrowings of \$486,780 contains provisions that if there is an event of default that materially impairs the notes collateral or the Authority's ability to satisfy the note obligation, all amounts outstanding are due immediately. Events of default include failure to pay any principal or interest installment when due and failure by the Authority to observe or perform any covenants in the note agreement.

City of Lancaster Revitalization and Improvement Zone Authority
(A Component Unit of the City of Lancaster, Pennsylvania)

Notes to Financial Statements
 December 31, 2020 and 2019

Scheduled principal repayments on long-term debt from direct borrowings are as follows:

	<u>Principal Payments</u>	<u>Interest</u>	<u>Total</u>
Years ending December 31:			
2021	\$ -	\$ 213,950	\$ 213,950
2022	222,000	213,950	435,950
2023	231,000	205,314	436,314
2024	33,780	196,328	230,108
Total	<u>\$ 486,780</u>	<u>\$ 829,542</u>	<u>\$ 1,316,322</u>

Interest expense on this note was \$13,728 in 2020.

6. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has approved the following:

Statement No. 87, *Leases*

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*

Statement No. 91, *Conduit Debt Obligations*

Statement No. 92, *Omnibus 2020*

Statement No. 93, *Replacement of Interbank Offered Rates*

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Statement No. 96, *Subscription-Based Information Technology Arrangements*

Statement No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

GASB Statement No. 95 postpones the effective dates of Statements No. 89, 91, 92 and 93 for a period of one year and Statement No. 87 for a period of 18 months.

Authority management is in the process of evaluating these standards. When they become effective, application of these standards may restate portions of these financial statements.

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

To the Board of Directors of
City of Lancaster Revitalization and Improvement Zone Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Lancaster City Revitalization and Improvement Zone Authority (the Authority) (a component unit of the City of Lancaster, Pennsylvania) which comprise the statement of net position as of December 31, 2020, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated April 30, 2021. Our report disclosed that the Authority elected to exclude a Management's Discussion and Analysis, that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the financial statements. Our opinion was not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Baker Tilly US, LLP

Lancaster, Pennsylvania
April 30, 2021

City of Lancaster Revitalization and Improvement Zone Authority

Independent Accountants' Report
on Applying Agreed-Upon Procedures

December 31, 2020

Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Board of Directors of
City of Lancaster Revitalization and Improvement Zone Authority and
Commonwealth of Pennsylvania, Department of Community and Economic Development

We have performed the procedures enumerated below, which were agreed to by the Board of Directors of the City of Lancaster Revitalization and Improvement Zone Authority (the Authority) and the Commonwealth of Pennsylvania, Department of Community and Economic Development (DCED), solely to assist you in evaluating whether the Authority complied with the provisions of the City Revitalization and Improvement Zone Program (CRIZ Program) requirements, which was created by Act 52 of 2013, for the year ended December 31, 2020. The Authority's management is responsible for compliance with the provisions of the CRIZ Program. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

1. We agreed and recalculated the amount of the eligible local tax to the amount submitted to the local taxing authority based on the Authority Certification letter submitted by the City of Lancaster to the Pennsylvania Department of Revenue.

No exceptions found as a result of applying this procedure.

2. We agreed the amount that the local taxing authority transferred to the Pennsylvania Treasury was the correct amount by reviewing the tax remittance summary and copy of the check issued to the Pennsylvania Department of Revenue by the City of Lancaster.

No exceptions found as a result of applying this procedure.

3. We agreed by reviewing documentation provided by the Authority including agreements, invoices, cancelled checks, or wire transfers, that the state and local tax dollars transferred to the Authority were expended in accordance with CRIZ Program guidelines.

No exceptions found as a result of applying this procedure.

4. We noted that no restricted funds or excess funding was requested by the Authority under Section 1812-C of the Tax Reform Code.

No exception found as a result of applying this procedure.

This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectfully, on the compliance with the provisions of the CRIZ Program for the year ended December 31, 2020. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above, and is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly US, LLP

Lancaster, Pennsylvania
April 30, 2020