

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

Financial Statements

December 31, 2021 and 2020

**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 Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of City of Lancaster Revitalization and Improvement Zone Authority (the Authority), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the the Authority's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the 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 March 28, 2022 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

March 28, 2022

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

Statements of Net Position
 December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash	\$ 6,650,380	\$ 5,513,892
Accounts receivable	-	3,350
	<u>6,650,380</u>	<u>5,517,242</u>
Noncurrent Assets		
Note receivable	1,220,289	1,220,289
Restricted cash, debt service reserve fund	560,431	423,597
	<u>1,780,720</u>	<u>1,643,886</u>
Total noncurrent assets	<u>1,780,720</u>	<u>1,643,886</u>
Total assets	<u>\$ 8,431,100</u>	<u>\$ 7,161,128</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 24,732	\$ 100,394
Accrued interest	9,509	789
Current portion of long-term debt	222,000	-
	<u>256,241</u>	<u>101,183</u>
Total current liabilities	256,241	101,183
Noncurrent Liabilities		
Long-term debt, net	264,780	486,780
	<u>264,780</u>	<u>486,780</u>
Total liabilities	521,021	587,963
Net Position		
Unrestricted	<u>7,910,079</u>	<u>6,573,165</u>
Total liabilities and net position	<u>\$ 8,431,100</u>	<u>\$ 7,161,128</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
 Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues		
Taxes	\$ 7,833,620	\$ 8,465,577
Interest	46,405	93,800
Other income	-	4,446
Application fees	-	3,750
	<u>7,880,025</u>	<u>8,567,573</u>
Total revenues		
Expenses		
Project costs	3,090,246	4,896,921
COVID-19 Small Business Recovery and Sustainability fund grants	3,036,257	-
Professional	360,494	255,295
Interest	27,655	14,517
Administrative	24,159	26,513
Rent	4,300	6,000
Debt issuance costs	-	50,000
	<u>6,543,111</u>	<u>5,249,246</u>
Total expenses		
Change in net position	1,336,914	3,318,327
Net Position, Beginning	<u>6,573,165</u>	<u>3,254,838</u>
Net Position, Ending	<u>\$ 7,910,079</u>	<u>\$ 6,573,165</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Cash received from taxes, application fees and other revenues	\$ 7,836,970	\$ 8,470,423
Cash received for interest	46,405	93,800
Cash paid to vendors	(3,554,861)	(5,429,141)
Cash paid to grantees	(3,036,257)	-
Cash paid for interest	(18,935)	(13,728)
Cash received for participation in note receivable	-	279,711
	<u>1,273,322</u>	<u>3,401,065</u>
Net cash provided by operating activities	1,273,322	3,401,065
Cash Flows From Capital and Related Financing Activities		
Proceeds from long-term debt	-	486,780
	<u>1,273,322</u>	<u>3,887,845</u>
Increase in cash	1,273,322	3,887,845
Cash and Restricted Cash, Beginning	<u>5,937,489</u>	<u>2,049,644</u>
Cash and Restricted Cash, Ending	<u>\$ 7,210,811</u>	<u>\$ 5,937,489</u>
Cash and Restricted Cash		
Cash	\$ 6,650,380	\$ 5,513,892
Restricted cash	560,431	423,597
	<u>\$ 7,210,811</u>	<u>\$ 5,937,489</u>
Reconciliation of Change in Net Position to Net Cash Provided by Operating Activities		
Change in net position	\$ 1,336,914	\$ 3,318,327
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	3,350	(3,350)
Note receivable	-	279,711
Accounts payable	(75,662)	(194,412)
Accrued interest	8,720	789
	<u>1,273,322</u>	<u>3,401,065</u>
Net cash provided by operating activities	<u>\$ 1,273,322</u>	<u>\$ 3,401,065</u>

See notes to financial statements

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

Notes to Financial Statements
December 31, 2021 and 2020

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. During 2021, the Authority authorized the distribution of CRIZ COVID-19 Small Business Recovery and Sustainability Grants to eligible businesses.

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 measurement 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 March 28, 2022, 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, 2021 and 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, 2021 and 2020, the Authority's total bank deposits were \$7,210,811 and \$5,937,489, 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 \$1,220,289 with principal payments scheduled to begin in 2022. On January 22, 2021 the parties to this note modified the loan to have a reduced payment period from January 15, 2021 until December 15, 2021, where the interest paid by CFF would be calculated at the reduced rate of 3.88 percent. All principal and interest in excess of the reduced rate were accrued but were deferred until the conclusion of the reduced payment period, where the deferred principal and interest will be amortized over the remaining term of the note. The outstanding principal balance of this participation agreement was \$1,220,289 at December 31, 2021 and 2020 respectively and is classified as note receivable on the statements of net position. Interest earned was \$46,405 during 2021 and \$93,800 during 2020.

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
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Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
\$5,500,000, Tax Revenue Note, Series of 2020, interest rate at 3.89%, balance amortized over 216 months beginning June 15, 2022 through December 2040, secured by a pledge of the Authority's revenues.	\$ 486,780	\$ 486,780

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

	<u>2021</u>	<u>2020</u>
Long-term debt at January 1:	\$ 486,780	\$ -
Additions	-	486,780
Long-term debt at December 31:	486,780	486,780
Current portion	222,000	-
Long-term debt, net	<u>\$ 264,780</u>	<u>\$ 486,780</u>

Note availability consists of the following at December 31, 2021:

Series of 2020 Note amount available	\$ 5,500,000
Total draws on note as of December 31, 2021	<u>486,780</u>
Balance of note available to draw down at December 31, 2021	<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
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Notes to Financial Statements
December 31, 2021 and 2020

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:			
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>\$ 615,592</u>	<u>\$ 1,102,372</u>

Interest expense on this note was \$27,655 in 2021 and \$14,517 in 2020. The scheduled interest payments above are the maximum amounts of interest to be paid based upon the Authority drawing the full \$5.5 million of the note. The Authority is planning to draw extensively on this note during the year ending December 31, 2022.

Subsequent to year end on January 14, 2022, the note was amended, extending the draw period from December 15, 2022 to December 15, 2024.

6. New Accounting Pronouncements

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

Statement No. 87, *Leases*

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

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

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 City of Lancaster Revitalization and Improvement Zone Authority (the Authority), which comprise the statement of net position as of December 31, 2021, 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, and have issued our report thereon dated March 28, 2022. Our report disclosed that the Authority elected to omit 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 basic financial statements. Our opinion was not modified with respect to this matter.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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
March 28, 2022