

**Bethlehem Revitalization and
Improvement Authority**

Financial Statements

December 31, 2018 and 2017

Bethlehem Revitalization and Improvement Authority

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Independent Auditors' Report

To the Board of Directors of
Bethlehem Revitalization and Improvement Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Bethlehem Revitalization and Improvement Authority (the "Authority"), which comprise the statements of net position - modified cash basis, as of December 31, 2018 and 2017 and the related statements of revenues, expenditures and change in net position - modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position - modified cash basis of the Authority as of December 31, 2018 and 2017, and the change in its net position - modified cash basis for the years then ended on the basis of accounting described in Note 1.

Other Matter

Basis of Accounting

We draw attention to the basis of accounting described under Management's Responsibility for the Financial Statements. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019 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 Virchow Krause, LLP

State College, Pennsylvania
March 28, 2019

Bethlehem Revitalization and Improvement Authority

Statements of Net Position - Modified Cash Basis

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash	<u>\$ 170,650</u>	<u>\$ 7,030</u>
Net Position		
Unrestricted	<u>\$ 170,650</u>	<u>\$ 7,030</u>

See notes to financial statements

Bethlehem Revitalization and Improvement Authority

Statements of Revenues, Expenditures and Change in Net Position - Modified Cash Basis

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Government grants	\$ 603,681	\$ 152,094
User charges	30,500	15,000
Other income	2,947	711
	<u>637,128</u>	<u>167,805</u>
Expenditures		
Project costs	436,874	93,524
Operating costs	36,634	79,791
	<u>473,508</u>	<u>173,315</u>
Excess (deficit) of revenues over expenditures	163,620	(5,510)
Net Position, Beginning	<u>7,030</u>	<u>12,540</u>
Net Position, Ending	<u>\$ 170,650</u>	<u>\$ 7,030</u>

See notes to financial statements

Bethlehem Revitalization and Improvement Authority

Notes to Financial Statements
December 31, 2018 and 2017

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Bethlehem Revitalization and Improvement Authority ("BRIA") was established on November 6, 2013 by the City of Bethlehem of Lehigh and Northampton Counties, Pennsylvania. It is established as a Municipal Authority under the Pennsylvania Municipal Authorities Act. The Authority is governed by a 5 member appointed Board of Directors and was established to oversee and direct the activities of Bethlehem's City Revitalization and Improvement Zone ("CRIZ").

Reporting Entity

The reporting entity has been defined in accordance with the criteria established in Government Accounting Standards Board ("GASB") Statement 14, as amended by Statements 39, 61, and 80. The specific criteria used in determining whether other organizations should be included in BRIA's financial reporting entity are financial accountability, fiscal dependency and legal separation.

BRIA is a basic level of government that has oversight responsibility and control of the authority. BRIA receives funding from local and state sources and must comply with concomitant requirements of these funding source entities. However, BRIA is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members have decision making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. No other entities are included in these financial statements.

Basis of Accounting, Measurement Focus

The accounting and reporting policies of the Authority relating to its special revenue fund type included in the accompanying basic financial statements conform to the modified cash basis of accounting, which is a basis of accounting other than 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 Authority applies the standards prescribed by the GASB with the constraints of the modified cash basis of accounting.

Accordingly, revenue is recognized when received rather than when earned and expenses are recognized when paid rather than when incurred. Consequently, accounts receivable, amounts due to vendors and suppliers, accrued expenses and debt are not included in the financial statements.

Recent Accounting Standards

The Authority adopted GASB Statement No. 85, Omnibus 2017 for the year ended December 31, 2018. GASB 85 enhances consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The adoption of this standard did not have a significant impact on the Authority's financial statements.

Bethlehem Revitalization and Improvement Authority

Notes to Financial Statements
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2. Cash

Under the Municipality Authorities Act of 1945, the Authority can invest in U.S. Treasury Bills, other short-term U.S. and Pennsylvania government obligations or their agencies or instruments and insured or collateralized time deposits and certificates of deposits.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a formal deposit policy for custodial credit risk. At December 31, 2018 and 2017, all of its deposits were covered by federal depository insurance.

3. 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 in the form of grant revenue.

4. Project Costs

The following projects had costs incurred for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Bethworks Renovations LLC/Bethworks Renovation II, Greenway A Roasters, LLC (Northampton County tax parcel ID# P6SE1B-6-2 and P6SE1B-6-3)	\$ 179,891	\$ 87,874
Greenway I, Inc., (Northampton County tax parcel ID# P6SE1A-10-11)	<u>256,983</u>	<u>5,650</u>
Total	<u>\$ 436,874</u>	<u>\$ 93,524</u>

5. Conduit Debt

The Authority acts as an intermediary between businesses and financial institutions wishing to provide financing to such businesses in the form of bonds and/or notes (debt instruments) that are classified as conduit debt issuances.

These debt instruments are not reported as liabilities in the Authority's financial statements. They are not secured by, or payable from revenues or assets of the Authority. The faith and credit of the Authority is not pledged to the payment of the principal and interest on the debt instruments nor is the Authority in any manner obligated to make any payments on such instruments.

During the year ended December 31, 2018, the Authority executed a promissory note to provide \$3,250,000 to Bethworks Renovation II, LLC, Bethworks Renovation LLC and Greenway A Roasters, LLC (the borrowers) through a conduit debt issuance. As described above, the note is secured by the property financed and is payable solely from payments received on the underlying note between Peoples Security Bank & Trust Company and the borrowers.

The principal amount payable under this note, along with applicable debt instruments issued in prior years was \$8,029,518.

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6. Pending Changes in Accounting Principles

In January 2018, the GASB issued Statement No. 84, *Fiduciary Activities*. Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments and separate criteria to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. To the extent applicable, the Authority is required to adopt Statement No. 84 for its 2020 financial statements.

In June 2018, the GASB issued Statement No. 87, *Leases*. Statement No. 87 improves recognition of certain lease assets and liabilities for leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. To the extent applicable, the Authority is required to adopt Statement No. 87 for its 2020 financial statements.

Authority's management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the financial reporting process.

**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 Supervisors of
Bethlehem Revitalization and Improvement 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 Bethlehem Revitalization and Improvement Authority (the "Authority"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 28, 2019. Our report communicated that the financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. 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 Virchow Krause, LLP

State College, Pennsylvania
March 28, 2019