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*March 26, 2019*

Via Email Only ([akarner@bethlehem-pa.gov](mailto:akarner@bethlehem-pa.gov))  
Bethlehem Revitalization & Improvement Authority  
Attn: Alicia M. Karner  
10 East Church Street  
Bethlehem, PA 18018

Re: Bethworks Greenway A LP and Shelby Brothers 2 LLC  
City Revitalization and Improvement Zone Project Application  
522 E. Third Street, Bethlehem, PA 18015

Dear Ms. Karner:

This firm represents Bethworks Greenway A LP (“Bethworks”) and Shelby Brothers 2 LLC (“Shelby”). On behalf of Bethworks and Shelby, we are excited to submit the following application for CRIZ financing to support the addition of a new tenant, to be named at a later date.

- A. Description of Project: Fit-out construction of prime retail space within 514 E. Third Street, Bethlehem, as licensee of a restaurant.
- B. Property: Bethworks will lease 3,900 square feet within the 510 Flats Building at the corner of East Third Street and Fillmore Street (PIN NO: P6SE1B 6 3 0204).
- C. Ownership: The 510 Flats Building is owned by Bethworks Greenway A LP and will be landlord for the leased space. Bethworks Greenway A LP has signed a lease with Shelby to locate a restaurant in the building. In addition to the restaurant, Shelby will operate a wine and beer shop.
- D. Milestones and Timelines: The shell work for the 510 Flats Building, as well as the construction of the residential component of the building is complete. It is anticipated for fit-out construction to commence on May 1, 2019, with completion and initial tenant occupancy to occur in September of 2019.
- E. Contractor: Boyle Construction will act as general contractor for Bethworks and Shelby to complete the fit-out.

- F. Financing or Timing Concerns: Financing will be provided by Peoples Security Bank and Trust (“PSBT”) pursuant to an existing loan between the Authority and PSBT. The Authority will serve as the borrower on the proposed loan, but will not be required to guaranty any payment of the loan beyond the pledge of CRIZ increment generated by the project.
- G. Lease: Shelby will lease the fit-out space from Bethworks.
- H. Proposed Uses and Square Footage: The restaurant will occupy approximately 3,100 square feet and the wine and beer shop will occupy approximately 800 square feet.
- I. Job Creation: It is estimated that the retail tenants will employ approximately 30 people.
- J. Project Budget: The total project cost of \$600,000 is being paid for pursuant to the existing loan.
- K. Income and Cash Flow: Projected income and cash flow statements from Bethworks and Shelby are confidential. This information has been made available to PSBT, and is the basis for their commitment to finance this project.
- L. Owner Federal Tax Return: This is not being made available, as this information is confidential. This information has been shared with PSBT.
- M. Owner Experience: The individuals who own Bethworks have decades of real estate development experience. In making its decision to finance this project, PSBT has determined the individuals who own Bethworks have the creditworthiness of the individuals comprising the entity are sufficient to undertake this project.
- N. GC Experience: Boyle Construction is a well-known and highly-respected general contractor firm in the Lehigh Valley. In Bethlehem alone, Boyle has built the North Street Garage, Orasure Technologies buildings, the Levitt Pavilion and the Bethlehem Visitor Center, Blue Restaurant. Boyle Construction was also the general contractor the Social Still Building, the first CRIZ project in the Commonwealth of Pennsylvania and also is the general contractor for the 510 Flats Building.
- O. Project Compliance: The project is compliant with the City of Bethlehem Land Development Ordinance and Master Plan. Furthermore, the project has received the necessary building permits form the City of Bethlehem.
- P. Project Drawings: The project will not alter the elevation or façade of the existing building.
- Q. Project Feasibility: Bethworks and its owners have decades of successful development and redevelopment experience in New York, New Jersey, and Pennsylvania. The 510 Flats Building was approved by the City of Bethlehem as a mixed-use anchor building in the South Side Commercial District.
- R. Projected CRIZ Increment: The restaurant and wine and beer shop are projected to generate \$120,000 of CRIZ upon stabilization.
- S. Environmental: The site upon which the building is constructed is governed by an existing Act 2 release from the Pennsylvania Department of Environmental Protection.

- T. Parking/Traffic: This project will have minimal parking requirements and generate negligible traffic. There presently exists ample public parking on adjacent lots (also owned by Bethworks affiliate) and there are future plans for a public parking garage.
- U. Land Development: This project is the retail fit-out of an approved land development plan already under construction
- V. Historic Review: This building is not located within a historic district.

It is my clients' hope that we can have this project before the Authority at its next scheduled meeting on Thursday, April 4. Please do not hesitate to contact my office with any questions or to confirm the agenda.

Thank you.

Very truly yours,

A handwritten signature in black ink, consisting of a stylized loop and a horizontal line extending to the left.

Seth R. Tipton



# Bethlehem Revitalization and Improvement Zone

10 East Church Street, Bethlehem, Pennsylvania 18018-6025

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## Memo

**To:** Bethlehem Revitalization and Improvement Authority

**From:** Alicia Miller Karner, Executive Director

**Date:** March 29, 2019

**Re:** 2017 Increment

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In November of 2018, the Bethlehem Revitalization and Improvement Authority received the 2017 Increment, as transferred from the Pennsylvania State Treasurer. Some funds were disbursed, as per established agreements.

Total Increment Received	\$ 603,681
Administrative Support	\$ 30,184
Project Transfers	\$ 436,830
Remaining Funds	\$ 136,667

Of the remaining funds, I recommend disbursement as follows:

Professional Services Allocation	
Compliance, Audit	\$20,000
Additional Debt Service	
to active projects	\$10,000

The majority of the remaining funds are attributed to work associated with the New Street Parking garage. In 2018, the city contracted with Wallace, Roberts and Todd to engage the community in a redevelopment of the public infrastructure in that corridor. The total contract amount is \$248,186. Therefore, I recommend disbursement as follows:

WRT Contract for	
New St Improvements	\$106,667



**Bethlehem Revitalization and  
Improvement Authority**

Financial Statements

December 31, 2018 and 2017

# **Bethlehem Revitalization and Improvement Authority**

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December 31, 2018 and 2017

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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

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Statements of Net Position - Modified Cash Basis

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	<u>\$ 170,650</u>	<u>\$ 7,030</u>
<b>Net Position</b>		
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>
<b>Revenues</b>		
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>
<b>Expenditures</b>		
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)
<b>Net Position, Beginning</b>	<u>7,030</u>	<u>12,540</u>
<b>Net Position, Ending</b>	<u>\$ 170,650</u>	<u>\$ 7,030</u>

See notes to financial statements

# Bethlehem Revitalization and Improvement Authority

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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  
December 31, 2018 and 2017

## 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.

# Bethlehem Revitalization and Improvement Authority

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Notes to Financial Statements  
December 31, 2018 and 2017

## 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