

**REDEVELOPMENT AUTHORITY OF THE CITY OF YORK
(A Component Unit of the City of York, Pennsylvania)**

ANNUAL FINANCIAL REPORT

Years Ended December 31, 2018 and 2017

Independent Auditors' Report

To the Members of the Board
Redevelopment Authority of the City of York
York, Pennsylvania

We have audited the accompanying financial statements of the Redevelopment Authority of the City of York (a component unit of the City of York, Pennsylvania), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes 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

The Redevelopment Authority of the City of York's 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. 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 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.

To the Members of the Board
Redevelopment Authority of the City of York
York, Pennsylvania

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Redevelopment Authority of the City of York as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Emphasis of Matter

As discussed in Note 10 to the financial statements, subsequent to year end, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. The pandemic has resulted in economic uncertainties which have the potential to have a significant impact on the Redevelopment Authority of the City of York's operations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Mailie LLP

Limerick, Pennsylvania
March 4, 2021

REDEVELOPMENT AUTHORITY OF THE CITY OF YORK

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YEARS ENDED DECEMBER 31, 2018 AND 2017

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**REDEVELOPMENT AUTHORITY OF THE
CITY OF YORK**

(A Component Unit of the City of York, Pennsylvania)

STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
Assets		
Cash and cash equivalents	\$ 573,585	\$ 862,697
Cash and cash equivalents - restricted	42,186	72,304
Grant receivable	52,500	-
Loans receivable	1,000,000	1,000,000
Note receivable	950,000	-
Capital assets, net of accumulated depreciation of \$2,258,072 for 2018 and \$2,115,791 for 2017	1,298,954	1,441,235
Total Assets	3,917,225	3,376,236
Liabilities		
Accounts payable and accrued expenses	140,214	138,214
Litigation payable	950,000	1,500,000
Due to primary government	2,000	2,000
Due to other governments	106,973	106,973
Unearned revenue	992,000	58,478
Current portion of loan payable	299,201	299,226
Current portion of bonds payable	175,000	165,000
Environmental remediation liability	532,750	1,744,000
Note payable	1,000,000	1,000,000
Bonds payable	1,820,000	1,995,000
Total Liabilities	6,018,138	7,008,891
Net Position		
Net investment in capital assets	(696,046)	(718,765)
Restricted:		
Debt service	42,186	72,304
Revolving loans	1,000,000	1,000,000
Unrestricted	(2,447,053)	(3,986,194)
Total Net Position	\$ (2,100,913)	\$ (3,632,655)

See accompanying notes to basic financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF YORK

(A Component Unit of the City of York, Pennsylvania)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
Operating Revenues:		
Service revenue	\$ 439,103	\$ 343,471
Charges for service	285,102	165,756
Grants and contributions	1,416,478	295,218
Total operating revenues	2,140,683	804,445
Operating Expenses:		
Community development and planning	428,885	2,556,624
Depreciation	142,281	141,749
Total operating expenses	571,166	2,698,373
Operating Income (Loss)	1,569,517	(1,893,928)
Non-Operating Revenues (Expenses):		
Interest income	45,746	42,886
Interest expense	(83,521)	(79,449)
Total non-operating revenues (expenses)	(37,775)	(36,563)
Change in Net Position	1,531,742	(1,930,491)
Net Position:		
Beginning of year	(3,632,655)	(1,702,164)
End of year	\$ (2,100,913)	\$ (3,632,655)

See accompanying notes basic financial statements.

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STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017 (Restated)
Cash Flows From Operating Activities:		
Cash received from customers and grantor agencies	\$ 2,071,705	\$ 874,263
Cash paid for community development and planning	(2,188,135)	(467,621)
Net cash provided by (used in) operating activities	(116,430)	406,642
Cash Flows From Investing Activities:		
Interest received	45,746	42,886
Net cash provided by investing activities	45,746	42,886
Cash Flows From Capital and Related Financing Activities:		
Principal paid on bonds payable	(165,000)	(155,000)
Principal paid on loan payable	(25)	(145,484)
Interest paid	(83,521)	(79,449)
Purchase of capital assets	-	(31,961)
Net cash used in capital and related financing activities	(248,546)	(411,894)
Net Increase (Decrease) in Cash and Cash Equivalents	(319,230)	37,634
Cash and Cash Equivalents:		
Beginning of year	935,001	897,367
End of year	\$ 615,771	\$ 935,001
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 1,569,517	\$ (1,893,928)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	142,281	141,749
Change in assets and liabilities:		
Grant receivable	(52,500)	-
Property sale receivable	-	75,000
Accounts payable	2,000	95,003
Litigation payable	(550,000)	250,000
Environmental remediation liability	(1,211,250)	1,744,000
Unearned revenue	(16,478)	(5,182)
Total adjustments	(1,685,947)	2,300,570
Net cash provided by (used in) operating activities	\$ (116,430)	\$ 406,642

See accompanying notes basic financial statements.

REDEVELOPMENT AUTHORITY OF THE CITY OF YORK

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NOTES TO BASIC FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

1. Summary of Significant Accounting Policies

Purpose

The Redevelopment Authority of the City of York (Authority) was formed in 1950 under the Pennsylvania Urban Redevelopment Law, Act of 1945 (Public Law – 991, as amended). A five-member board administers the Authority, all of who are appointed by the City of York (City) Mayor. The Authority strategically acquires underutilized, blighted, and vacant parcels throughout the City for the purpose of promoting residential, commercial, and industrial redevelopment projects in the municipality. The Authority, in January of 2002, issued debt for the purpose of constructing the Susquehanna Commerce Center Parking Garage. In 2017, the Authority purchased and, subsequently, began operating York's Market and Penn Farmer's Market.

Reporting Entity

The Authority is a component unit of the City reporting entity. Criteria considered in making this determination include appointment of the Authority's Board, financial interdependence, and the Authority's potential to provide specific financial benefits to, or impose specific financial burdens on, the City.

Basis of Accounting and Presentation

The accounting records of the Authority are maintained on the accrual basis and its operations are accounted for as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenue of the Authority is operating grants and contributions and parking fee income. Operating expenses include the costs associated with community development and planning. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position. Net position (i.e., total assets net of total liabilities) is segregated into “net investment in capital assets,” “restricted,” and “unrestricted” components.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Authority considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Investments

Investments are recorded at fair value. The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net position because their use is limited by applicable trust indentures or other agreements. In addition, amounts required as collateral in bank accounts are also included in restricted assets.

Capital Assets

Capital assets are carried at cost. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that the Authority would have paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Depreciation has been provided using the straight-line method over the expected economic useful lives of the assets (25 years). When assets are retired or otherwise disposed of, the cost and related accumulated

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depreciation are removed from the accounts, and any resulting gain or loss is recognized. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 or in the aggregate, and an estimated useful life in excess of two years.

Because the mission of the Authority is to acquire blighted residential, commercial, and former industrial properties for the City to land bank, rehabilitate, or strategically purchase for future redevelopment projects ranging from for sale low- to moderate-income home buyers or market rate mixed use development projects, which it does at little or no profit, such purchases are expensed at the time of acquisition.

Nonrecourse Debt Issues

The Authority participates in several bond issues for which it has no liability. Acting solely in an agent capacity, the Authority serves as a tax-exempt financing conduit, bringing the ultimate borrower and the ultimate lender together to do business. Although the Authority is a party to the trust indentures with the trustees, the agreements are structured such that there is no recourse against the Authority in the case of default. As such, the corresponding debt is not reported in the Authority's statements of net position. The amount of nonrecourse debt issues is unavailable at December 31, 2018 and 2017.

Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. The restricted classification presents net position with external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation. Unrestricted consists of all other net position not included in the above categories.

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Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

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 amounts and disclosures. Actual results could differ from those estimates.

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Pending Governmental Accounting Standards Board (GASB) Statements

In June of 2017, the GASB issued Statement No. 87, "*Leases.*" This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the Authority's December 31, 2022 financial statements.

In May of 2017, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.*" This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of GASB Statement No. 88 are effective for the Authority's December 31, 2020 financial statements.

In June of 2018, the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred Before the End of a Construction Period.*" This Statement improves financial reporting by providing users of financial statements with more relevant information

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about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. The provisions of GASB Statement No. 89 are effective for the Authority's December 31, 2021 financial statements.

In May of 2019, the GASB issued Statement No. 91, "*Conduit Debt Obligations*." This Statement improves financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The provisions of GASB Statement No. 91 are effective for the Authority's December 31, 2022 financial statements.

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

2. Deposits and Investments

The deposit and investment policy of the Authority adheres to state statutes, prudent business practices, and the applicable trust indentures. The Authority deposits cash in local financial institutions.

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2018, the Authority's deposit balance was as follows:

Cash and cash equivalents per financial statements:	
Unrestricted	\$ 573,585
Restricted	42,186
	<hr/>
	615,771
Less money market funds	(42,186)
Total deposits	<hr/> <hr/>
	\$ 573,585

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As of December 31, 2018, the Authority's book balance was \$573,585 and the bank balance was \$854,508. A total of \$517,324 of the bank balance was covered by federal depository insurance at December 31, 2018, and the remaining \$337,184 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly (Act), in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits. The remaining balance of \$42,186 was invested in money market funds as of December 31, 2018 and is presented as restricted cash and cash equivalents on the statement of net position. The money market funds are described in further detail below.

Investments

The Authority's investment in money market funds, totaling \$42,186, is considered Level 1 based on quoted market prices at December 31, 2018.

Custodial credit risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have an investment policy for custodial credit risk. The Authority's investments are not exposed to custodial credit risk because they are not evidenced by securities in book entry or paper form.

Concentration of credit risk – The Authority places no limit on the amount the Authority may invest in any one issuer.

Credit risk – The Authority does not have a formal policy that would limit its investment choices with regard to credit risk. At December 31, 2018, the money market funds were rated AAAM by Standard & Poor's.

Interest rate risk – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2018, the Authority's money market funds had a weighted average maturity of less than one year.

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3. Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning of Year	Increases	Decreases	End of Year
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,557,026	\$ -	\$ -	\$ 3,557,026
Less accumulated depreciation	(2,115,791)	(142,281)	-	(2,258,072)
Capital assets, net	\$ 1,441,235	\$ (142,281)	\$ -	\$ 1,298,954

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning of Year	Increases	Decreases	End of Year
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,525,065	\$ 31,961	\$ -	\$ 3,557,026
Less accumulated depreciation	(1,974,042)	(141,749)	-	(2,115,791)
Capital assets, net	\$ 1,551,023	\$ (109,788)	\$ -	\$ 1,441,235

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4. Loans Receivable

Loans receivable in the amount of \$1,000,000 at December 31, 2018 and 2017 are composed of:

	2018	2017
<p>The following loans were made utilizing funds received from the Commonwealth of Pennsylvania Department of Community and Economic Development (DCED) for Housing and Redevelopment and Assistance program (HRA):</p>		
<p>HRA 2009 loan bearing interest at 5% per annum with interest only paid annually until maturity date, at which time the entire \$500,000 is due. Maturity date was in 2018; however, parties are working on formal extension agreement</p>	\$ 500,000	\$ 500,000
<p>HRA 2010 loan bearing interest at rates varying from 1% to 3% per annum with interest only paid annually until maturity date in 2020, at which time the entire \$500,000 is due</p>	500,000	500,000
<p>Total loans receivable</p>	\$ 1,000,000	\$ 1,000,000

5. Debt

Redevelopment Authority Series of 2002 Revenue Bonds

In January 2002, the Authority issued the Series of 2002 Variable Rate Demand/Fixed Rate Revenue Bonds (2002 Revenue Bonds) in the amount of \$3,725,000. The 2002 Revenue Bonds were issued for the purpose of financing the Susquehanna Commerce Center Garage Project.

The 2002 Revenue Bonds are not general obligations of the Authority and do not pledge the taxing power of the City of York. The principal and interest on these 2002 Revenue

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Bonds is payable only from certain receipts including net parking rentals, rates, and other charges collected by the Authority for the use of the parking facility.

The Authority entered into a management agreement with Creekside Investors L.P. (Manager), whereby Creekside Investors, L.P. managed and operated the parking facilities on behalf of the Authority. Under the agreement, the Manager, on behalf of the Authority, collected all parking fees, rents, charges, and other income attributable to the parking facilities. The Manager deposited receipts in a segregated account to be used to pay costs, fees, and expenses incurred by the Manager in the performance of its duties under the management agreement. In addition, the Manager, on behalf of the Authority, paid amounts due to the trustee. Effective February 2009, Creekside Investors, L.P. submitted a Parking Assignment Agreement to the Authority since Creekside Investors, L.P. dissolved. The assignment is to Susquehanna Commerce Center Condominium Association, Inc. The management agreement term was to end January 1, 2016. In November 2015, the Authority's Board approved an extension of the agreement through October 1, 2027.

The Bonds initially bear interest at a variable rate, determined by the Remarketing Agent (Agent). The rate is based on a minimum rate that, in the judgment of the Agent, taking into account prevailing market conditions, would enable the Agent to sell all of the Bonds on the adjustment date at a price equal to the principal plus accrued interest. The Issuer may from time to time, with written consent of the Credit Facility Provider, change the interest rate on the Bonds from a variable to a fixed rate over one or more consecutive fixed rate periods.

The Authority bonds payable at December 31, 2018 are comprised of the following individual bond issue:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Amount Outstanding</u>
2002 Revenue Bonds	\$ 3,725,000	Thru 2027	Variable (1.86% at 12-31-18)	<u>\$ 1,995,000</u>

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Bonds payable activity for the year ended December 31, 2018 was as follows:

	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Bonds payable	\$ 2,160,000	\$ -	\$ (165,000)	\$ 1,995,000	\$ 175,000

Bonds payable activity for the year ended December 31, 2017 was as follows:

	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Bonds payable	\$ 2,315,000	\$ -	\$ (155,000)	\$ 2,160,000	\$ 165,000

The annual principal and interest requirements for amounts due from the Authority under the 2002 Revenue Bonds using the 1.86% interest rate in effect at December 31, 2018 are as follows:

Year Ending December 31,	Principal	Interest
2019	\$ 175,000	36,429
2020	185,000	33,135
2021	195,000	29,655
2022	205,000	25,990
2023	220,000	22,119
2024 - 2027	1,015,000	44,800
	\$ 1,995,000	\$ 192,128

2012 Promissory Note and Loan Payables

In May 2012, the Authority entered into a promissory note agreement whereby the Authority borrowed \$500,000 with interest at 5% per annum, with interest only paid annually until the original maturity date in 2018. Under the 2015 loan modification agreement, principal will be due in 30 equal installments commencing on July 1, 2018 and on each July 1st thereafter until paid in full. During the year ended December 31, 2018, there were no principal payments made on the promissory note. A loan modification was approved in 2020 stating the due date for the principal is extended until December 31, 2023. The note payable is secured by a pledge of installment

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payments of principal and interest for which the Authority is owed under the 2009 HRA loan, as referenced in Note 4. \$500,000 remains outstanding as of December 31, 2018 and 2017.

2014 Promissory Note Payable

In July 2014, the Authority entered into a promissory note agreement in the amount of \$500,000. Interest is due annually at the rate of 2% from 2014 through 2017, with interest increasing to 3% per annum until the note is paid in full on the maturity date of December 31, 2020, at which time the entire \$500,000 is due. The note payable is secured by a pledge of installment payments of principal and interest for which the Authority is owed under the 2010 HRA loan, as referenced in Note 4. The amount outstanding on this promissory note payable totaled \$500,000 as of December 31, 2018 and 2017.

2015 Short-Term Loan Payable

In September 2015, the Authority's Board approved a short-term loan in the amount of \$970,000, for the purpose of funding a settlement, in which the owner of a condemned property, that was obtained by the Authority through eminent domain, challenged the valuation of the property. Loan payments are paid quarterly, interest only, beginning on March 16, 2016, with all unpaid principal and accrued interest to be paid in full on or before November 30, 2016. In December 2016, the loan was extended through May 30, 2017. As part of this modification agreement, the Authority agreed that 100% of net proceeds from the sale of the property located at 1 North George Street will be applied to the outstanding principal balance. In June 2017, the loan was extended through December 31, 2017. In December 2017, the loan was extended through February 28, 2018. In February 2018, the loan was extended through August 28, 2018. In September 2018, the loan was extended through September 28, 2019 and the interest rate floor was increased to 4.00%. At December 31, 2018, the variable interest is based on the prime rate with a floor of 5.00%. \$299,201 and \$299,226 was outstanding on the loan as of December 31, 2018 and 2017, respectively.

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Note and loan payable activity for the year ended December 31, 2018 was as follows:

	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Promissory notes	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
Short-term loan payable	\$ 299,226	\$ -	\$ (25)	\$ 299,201	\$ 299,201

Note and loan payable activity for the year ended December 31, 2017 was as follows:

	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Promissory notes	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
Short-term loan payable	\$ 444,710	\$ -	\$ (145,484)	\$ 299,226	\$ 299,226

6. **Litigation Payable and Related Note Receivable/Unearned Revenue**

During the year ended December 31, 2016, the Authority, as condemnor, was involved in an eminent domain case, where the condemnee challenged the valuation of the property. A jury awarded \$1,250,000 in just compensation to the condemnee and this amount was accrued as of December 31, 2016. In October of 2018, a final settlement agreement was reached with the condemnee for \$1,500,000 and, as such, an additional \$250,000 was accrued during the year ended December 31, 2017, with an aggregate amount outstanding as of December 31, 2017 of \$1,500,000. The settlement agreement called for an initial deposit of \$550,000 in October of 2018 and the remaining balance of \$950,000 plus 8% interest to be paid in installment payments over a two year period. The Authority made the initial deposit of \$550,000 during the year ended December 31, 2018, which included \$350,000 received from a third party as noted per the agreement referenced in the subsequent paragraph.

Upon settlement in 2018, the Authority concurrently entered into an agreement of sale with a third party. As such, the third party paid \$350,000 of the \$550,000 due at settlement and entered into an agreement with the Authority to pay the debt service, including interest and principal, on the remaining \$950,000. As the sale to the third

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party did not occur until 2018, the related sale was not recorded in the financial statements as of December 31, 2017.

As of December 31, 2018, \$950,000 is recorded as a note receivable and unearned revenue in the financial statements and \$350,000 of service revenue was recognized for the 2018 sale proceeds during the year ended December 31, 2018. The remaining \$950,000 litigation payable, as well as the required interest payments, will be made in accordance with the settlement agreement as follows:

Year Ending December 31,	Principal	Interest
2019	\$ 500,000	\$ 76,000
2020	450,000	26,000
	<u>\$ 950,000</u>	<u>\$ 102,000</u>

The remaining unearned revenue of \$950,000 as of December 31, 2018 will be recognized during 2019 and 2020 when principal payments are received from the third party in accordance with the above table.

7. Environmental Remediation Liability and Grants Receivable

During the year ended December 31, 2017, the Authority was notified that one of its properties required environmental remediation with an estimated cost of \$2,329,450. During the year ended December 31, 2018, the Authority secured grant awards to cover \$1,744,000 of the total liability. The residual portion of the liability in the amount of \$585,450 will be paid by the developer of the property and, as such, no liability was reported for this amount in the Authority's financial statements at December 31, 2017. The environmental remediation liability as of December 31, 2018 and 2017 was \$532,750 and \$1,744,000, respectively.

Grant revenue is recognized as eligible costs are incurred. For the years ending December 31, 2018 and 2017, grant revenue totaled \$1,263,750 and zero, respectively. Grant receivable in the amount of \$52,500 and zero for the years ended December 31,

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2018 and 2017, respectively, represent reimbursements to be received for eligible costs incurred as of the financial statement date.

Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The Authority believes disallowances, if any, will be immaterial.

8. Negative Net Position

The Authority had a negative net position as of December 31, 2018 in the amount of \$2,100,913. This net deficit in net position is primarily caused by a litigation payable, as indicated in Note 6. The Authority has sold the property with respect to the litigation payable during the year ended December 31, 2018 and the unearned revenue of \$950,000 will be recognized as sale proceeds revenue in 2019 and 2020, as explained in Note 6. The remaining negative position is attributable to the holding and subsequent transfer of properties to developers in the City as a means to help subsidize projects. There are certain properties in the Authority's possession that have high carrying cost, including but not limited to insurance, utilities, and maintenance. The Authority plans to address the liquidity issues with the disposition of held projects once construction plans have been finalized, thereby reducing, if not eliminating, all carrying costs and resolving its liquidity issue.

9. Restatement

During the year ended December 31, 2018, the Authority determined that accounts payable and operating expenses were understated at December 31, 2017 by \$134,000. The December 31, 2017 financial statements have been restated to properly reflect this transaction.

10. Subsequent Events

In early 2020, an outbreak of a novel strain of coronavirus was identified, and infections have been found in a number of countries around the world, including the United

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States. The coronavirus and its associated impacts on supply chains, travel, employee productivity and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The extent of the impact of the coronavirus on Authority's operational and financial performance is currently uncertain and cannot be predicted.