



ALLENTOWN NEIGHBORHOOD  
IMPROVEMENT ZONE  
DEVELOPMENT AUTHORITY

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**ALLENTOWN NEIGHBORHOOD IMPROVEMENT  
ZONE DEVELOPMENT AUTHORITY  
ALLENTOWN, PENNSYLVANIA**

**REPORT ON AUDIT OF  
BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

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ALLENTOWN NEIGHBORHOOD IMPROVEMENT  
ZONE DEVELOPMENT AUTHORITY  
ALLENTOWN, PENNSYLVANIA

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## INDEPENDENT AUDITOR'S REPORT

May 27, 2020

To the Authority Board Members  
Allentown Neighborhood Improvement  
Zone Development Authority  
Allentown, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the Allentown Neighborhood Improvement Zone Development Authority ("ANIZDA"), Allentown, Pennsylvania, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise ANIZDA's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's 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 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

To the Authority Board Members  
Allentown Neighborhood Improvement  
Zone Development Authority

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 of the Allentown Neighborhood Improvement Zone Development Authority as of December 31, 2019 and 2018, 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.

#### Other Matters

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
BARBACANE, THORNTON & COMPANY LLP

**ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
DECEMBER 31, 2019 AND 2018**

The Allentown Neighborhood Improvement Zone Development Authority ("ANIZDA") is a public instrumentality of the Commonwealth of Pennsylvania ("the Commonwealth"), and a body corporate and politic created by the City of Allentown ("the City"). ANIZDA was incorporated under the Pennsylvania Economic Development Financing Law. A certificate of incorporation was issued to ANIZDA by the Secretary of the Commonwealth on March 23, 2012. ANIZDA's existence will continue for 50 years to March 23, 2062.

ANIZDA offers readers of these financial statements this narrative overview and analysis of the financial activities of ANIZDA for the fiscal year ended December 31, 2019. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Readers are encouraged to consider the information presented here in conjunction with the financial statements as a whole.

### **Financial Highlights**

During the fiscal year ended December 31, 2019, ANIZDA:

- Entered into an agreement with the City of Allentown and City Center Investment Corporation to fund construction of improvements in the public right-of-way to develop the Hamilton Connector Artswalk Extension in an amount not to exceed \$1,414,000.
- Entered into an agreement with the City of Allentown to fund engineering services for the construction of improvements in the public right-of-way at Center Square in an amount not to exceed \$35,500.
- Transferred \$20,432,755 in preliminary excess Neighborhood Improvement Zone ("NIZ") revenue to the Commonwealth of Pennsylvania in May 2019. This return was accrued for in the December 31, 2018 statements.
- Accrued for \$64,350,658 in NIZ revenue for calendar year 2019. This accrual is net of \$22,000,000 in excess NIZ revenue due back to the Commonwealth of Pennsylvania for calendar year 2019, which is to be transferred to the Commonwealth in May 2020. The amount of NIZ revenue certified and remitted by the Commonwealth of Pennsylvania to the escrow agent was the highest annual amount since the inception of the NIZ program.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to ANIZDA's basic financial statements. ANIZDA's basic financial statements consist of: 1) financial statements and 2) notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
DECEMBER 31, 2019 AND 2018**

**Table 1: Statements of Net Position**

	2019	2018	2017
<b>Assets:</b>			
Current assets	\$ 88,961,854	\$ 90,467,645	\$ 94,928,088
Noncurrent assets	205,554,781	196,088,270	202,104,538
<b>Total Assets</b>	<u><u>\$294,516,635</u></u>	<u><u>\$286,555,915</u></u>	<u><u>\$297,032,626</u></u>
<b>Liabilities and Deferred Inflows:</b>			
Current liabilities	\$ 50,981,548	\$ 45,335,247	\$ 42,202,553
Long-term liabilities	208,645,910	215,405,689	220,199,384
Deferred inflows of resources	2,885,862	2,466,638	1,897,414
<b>Total Liabilities and Deferred Inflows</b>	<u><u>262,513,320</u></u>	<u><u>263,207,574</u></u>	<u><u>264,299,351</u></u>
<b>Net Position:</b>			
Net investment in capital assets	(23,534,873)	(11,146,514)	(9,843,648)
Restricted	51,642,323	28,771,043	39,093,633
Unrestricted	3,895,865	5,723,812	3,483,290
<b>Total Net Position</b>	<u><u>32,003,315</u></u>	<u><u>23,348,341</u></u>	<u><u>32,733,275</u></u>
<b>Total Liabilities and Net Position</b>	<u><u>\$294,516,635</u></u>	<u><u>\$286,555,915</u></u>	<u><u>\$297,032,626</u></u>

The primary variances in the statement of net position were:

- In 2019, current assets decreased by \$1,505,791 compared to 2018 primarily due to a reclassification of investments to noncurrent assets as a result of scheduled maturities of investments exceeding one year from the balance sheet date. This was offset by an increase in the year-end receivable from the Commonwealth of Pennsylvania. Comparing 2018 and 2017, current assets decreased by \$4,460,443 primarily due to a decrease in the year-end receivable from the Commonwealth of Pennsylvania.
- In 2019, noncurrent assets increased by \$9,466,511 compared to 2018 due to an increase in noncurrent investments, which was offset by the increase in accumulated depreciation. In 2018, noncurrent assets decreased by \$6,016,268 compared to 2017 due to depreciation expense of \$6,023,000 exceeding additions of \$6,732.
- In 2019, long-term liabilities decreased by \$6,759,779 compared to 2018 due to payments made on long-term debt. Comparing 2018 and 2017, long-term liabilities decreased by \$4,793,695 also due to payments made on long-term debt.

**ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
DECEMBER 31, 2019 AND 2018**

**Table 2: Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 65,821,925	\$ 44,500,177	\$ 49,596,233
Operating expenses	<u>45,486,400</u>	<u>43,559,741</u>	<u>40,670,712</u>
Income from operations	20,335,525	940,436	8,925,521
Non-operating revenues (expenses)			
Investment income	938,313	807,254	347,723
Gain on investments	-	11,832	278,576
Capital grant expense	(2,217,076)	(573,045)	-
Interest expense	<u>(10,401,788)</u>	<u>(10,571,411)</u>	<u>(10,966,063)</u>
Non-operating expenses	<u>(11,680,551)</u>	<u>(10,325,370)</u>	<u>(10,339,764)</u>
Change in net position	<u>\$ 8,654,974</u>	<u>\$ (9,384,934)</u>	<u>\$ (1,414,243)</u>

The primary variances in the statement of revenues, expenses, and changes in net position were as follows:

- In 2019, operating revenues increased by \$21,321,748 compared to 2018 primarily due to an increase in the NIZ revenue remitted by the Commonwealth of Pennsylvania and the timing of returns of excess NIZ revenues to the Commonwealth. In 2019, there was one accrual for the return of 2019 excess revenues, while in 2018 there was an accrual for return of 2018 excess NIZ revenues in addition to a return that occurred during the fiscal year 2018 related to 2017 excess NIZ revenues.
- Investment income increased by \$131,059 when comparing 2019 and 2018 due to improved market performance in 2019. In 2018, investment income increased by \$459,531 when compared to 2017. This increase can be attributed to improved market performance in 2018.
- Capital grant expense increased by \$1,644,031 when comparing 2019 and 2018 due to increased development activity funded through ANIZDA's Public Improvement Investment Program. Construction of the Artswalk Hamilton Connector, Allentown Parking Authority pay station kiosk installation, and 107 W. Hamilton Street public improvement projects was substantially completed during 2019.

**ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
DECEMBER 31, 2019 AND 2018**

**Capital Assets and Debt Administration**

***Capital Assets***

As of December 31, 2019, 2018, and 2017, ANIZDA's investment in capital assets, net of accumulated depreciation was \$190,065,218, \$196,088,270, and \$202,104,538, respectively. This investment in capital assets includes land, buildings, land improvements, and equipment.

**Table 3: Capital Assets**

	2019	2018	2017
Land	\$ 42,483,747	\$ 42,483,747	\$ 42,483,747
Depreciable Capital Assets:			
Buildings	158,433,789	158,433,789	158,433,789
Land improvements	941,918	941,918	941,918
Equipment	20,233,614	20,233,614	20,233,614
Leasehold improvements	106,691	106,691	99,959
Office equipment	20,615	20,615	20,615
Total Depreciable Capital Assets	179,736,627	179,736,627	179,729,895
Less Accumulated Depreciation	(32,155,156)	(26,132,104)	(20,109,104)
Net Depreciable Assets	147,581,471	153,604,523	159,620,791
Total Capital Assets (including land)	<u>\$190,065,218</u>	<u>\$196,088,270</u>	<u>\$202,104,538</u>

Additional information about ANIZDA's capital assets is presented in Note 6 to the financial statements.

***Long-term Debt***

As of December 31, 2019, 2018, and 2017, ANIZDA had \$213,765,147, \$218,649,384, and \$223,323,621, respectively, in Tax Revenue Bonds outstanding.

During year ended December 31, 2017, ANIZDA also opened a revolving credit facility with Peoples Security Bank & Trust. At December 31, 2019 and 2018, the balance was \$4,000,000 and \$2,640,542 respectively.

Additional information about ANIZDA's current long-term debt can be found in Notes 7 and 14 to the financial statements.

**ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
DECEMBER 31, 2019 AND 2018**

**Future Plans**

- Based on the level of inquiries and proposals received from prospective developers, additional future development projects are expected within the NIZ.

**Requests for Information**

This report is designed to provide an overview of ANIZDA's finances for those parties with an interest in further understanding the operations of the entity for the year. Questions concerning any of the information found in this report or requests for additional information should be directed to the Allentown Neighborhood Improvement Zone Development Authority at 5 North Front Street, Allentown, PA, 18102-5303.

**ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,895,865	\$ 5,723,812
Cash and cash equivalents - restricted	5,034,294	33,203,980
Investments - restricted	15,448,146	-
Accounts receivable - Commonwealth of Pennsylvania	64,350,658	51,053,134
Accounts receivable - Other	232,891	369,422
Prepaid expenses	-	117,297
Total Current Assets	88,961,854	90,467,645
Noncurrent Assets:		
Investments - restricted	15,489,563	-
Capital Assets		
Land	42,483,747	42,483,747
Depreciable capital assets, net	147,581,471	153,604,523
Total Capital Assets	190,065,218	196,088,270
Total Noncurrent Assets	205,554,781	196,088,270
<b>TOTAL ASSETS</b>	<b>\$ 294,516,635</b>	<b>\$ 286,555,915</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and other accrued liabilities	\$ 339,118	\$ 373,953
Unearned revenue	423,170	364,903
Developer Dedicated NIZ Revenue payable	38,324,137	36,306,525
Capital reserve fund escrow	1,021,946	615,440
Accrued payroll and related liabilities	7,653	7,448
Revolving credit facility	4,000,000	1,000,000
Accrued interest payable	1,746,287	1,782,741
Bonds payable, including unamortized premium	5,119,237	4,884,237
Total Current Liabilities	50,981,548	45,335,247
Noncurrent Liabilities:		
Bonds payable, including unamortized premium	208,645,910	213,765,147
Revolving credit facility	-	1,640,542
Total Noncurrent Liabilities	208,645,910	215,405,689
<b>TOTAL LIABILITIES</b>	<b>259,627,458</b>	<b>260,740,936</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred arena rent	2,885,862	2,466,638
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,885,862</b>	<b>2,466,638</b>
<b>NET POSITION</b>		
Net investment in capital assets	(23,534,873)	(11,146,514)
Restricted	51,642,323	28,771,043
Unrestricted	3,895,865	5,723,812
Total Net Position	32,003,315	23,348,341
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 294,516,635</b>	<b>\$ 286,555,915</b>

The accompanying notes are an integral part of these financial statements.

**ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>OPERATING REVENUES:</b>		
Commonwealth of Pennsylvania - NIZ revenue	\$ 86,350,658	\$ 71,485,889
Less: Return of excess NIZ revenue 2019	(22,000,000)	-
Less: Return of excess NIZ revenue 2018	-	(20,432,755)
Less: Return of excess NIZ revenue 2017	-	(8,264,386)
Net Commonwealth of Pennsylvania - NIZ revenue	64,350,658	42,788,748
Local hotel tax - NIZ revenue	275,089	270,968
Developer fees	541,181	832,128
Arena rents	330,776	330,776
Parking fees and reimbursements	143,380	143,235
Other	180,841	134,322
<b>TOTAL OPERATING REVENUES</b>	<b>65,821,925</b>	<b>44,500,177</b>
<b>OPERATING EXPENSES:</b>		
Condo fees	-	2,363
Depreciation	6,023,052	6,023,000
Developer Dedicated NIZ Revenue	38,324,137	36,306,525
Insurance	16,256	18,382
Local hotel tax distribution	275,089	270,968
Other expenses	49,425	182,918
Parking facility operating expenses and management fees	143,380	143,235
Payroll expenses	207,782	216,329
Professional fees	426,363	378,168
Rent	20,916	17,853
<b>TOTAL OPERATING EXPENSES</b>	<b>45,486,400</b>	<b>43,559,741</b>
<b>OPERATING INCOME</b>	<b>20,335,525</b>	<b>940,436</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Investment income	938,313	807,254
Gain on investments	-	11,832
Capital grant expense	(2,217,076)	(573,045)
Interest expense	(10,401,788)	(10,571,411)
<b>TOTAL NONOPERATING EXPENSES</b>	<b>(11,680,551)</b>	<b>(10,325,370)</b>
<b>CHANGE IN NET POSITION</b>	<b>8,654,974</b>	<b>(9,384,934)</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>23,348,341</b>	<b>32,733,275</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 32,003,315</b>	<b>\$ 23,348,341</b>

The accompanying notes are an integral part of these financial statements.

**ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Commonwealth of Pennsylvania - NIZ revenue received	\$ 51,053,134	\$ 50,223,984
Other cash receipts	2,085,289	2,630,926
Developer Dedicated NIZ Revenue paid	(36,306,525)	(33,508,564)
Other cash payments	<u>(650,038)</u>	<u>(1,328,441)</u>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>16,181,860</b></u>	<u><b>18,017,905</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income received	938,313	807,254
Purchase of investments	(30,937,709)	-
Sale of investments	-	11,387,267
<b>NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES</b>	<u><b>(29,999,396)</b></u>	<u><b>12,194,521</b></u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Revolving credit facility proceeds	2,359,458	2,090,542
Principal payment on revolving credit facility	(1,000,000)	(2,000,000)
Principal payment on long term debt	(4,595,000)	(4,385,000)
Interest paid on bonds	(10,727,479)	(10,893,974)
Payment of capital grant	(2,217,076)	(573,045)
Payments for the acquisition and construction of capital assets	-	(6,732)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(16,180,097)</b></u>	<u><b>(15,768,209)</b></u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(29,997,633)	14,444,217
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u><b>38,927,792</b></u>	<u><b>24,483,575</b></u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u><b>\$ 8,930,159</b></u></u>	<u><u><b>\$ 38,927,792</b></u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 20,335,525	\$ 940,436
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	6,023,052	6,023,000
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable - Commonwealth of Pennsylvania	(13,297,524)	7,435,236
Decrease in accounts receivable - other	136,531	208,813
Decrease (Increase) in prepaid expenses	117,297	(114,824)
Decrease in accounts payable and other accrued liabilities	(34,835)	(370,384)
Increase in unearned revenue	58,267	141,460
Increase in capital reserve fund escrow	406,506	391,419
Increase in Developer Dedicated NIZ Revenue payable	2,017,612	2,797,961
Increase (Decrease) in accrued payroll and related liabilities	205	(4,436)
Increase in deferred inflows of resources - deferred arena rent	419,224	569,224
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u><b>\$ 16,181,860</b></u></u>	<u><u><b>\$ 18,017,905</b></u></u>
Cash and cash equivalents	\$ 3,895,865	\$ 5,723,812
Cash and cash equivalents - restricted	5,034,294	33,203,980
	<u><u><b>\$ 8,930,159</b></u></u>	<u><u><b>\$ 38,927,792</b></u></u>
<b>NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Amortization of bond premium (component of interest expense)	<u><u><b>\$ 289,237</b></u></u>	<u><u><b>\$ 289,237</b></u></u>
Gain on investments	<u><u><b>\$ -</b></u></u>	<u><u><b>\$ 11,832</b></u></u>

The accompanying notes are an integral part of these financial statements.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Allentown Neighborhood Improvement Zone Development Authority ("ANIZDA") is a public instrumentality of the Commonwealth of Pennsylvania ("the Commonwealth"), and a body corporate and politic created by the City of Allentown ("the City"). ANIZDA was incorporated under the Pennsylvania Economic Development Financing Law. A certificate of incorporation was issued to ANIZDA by the Secretary of the Commonwealth on March 23, 2012. ANIZDA's existence will continue for 50 years to March 23, 2062.

The criteria for including organizations within ANIZDA's reporting entity, as set forth in the Governmental Accounting Standards Board *Codification of Governmental Accounting and Financial Reporting Standards* ("GASB Codification"), relate to financial accountability. On the basis of these criteria, ANIZDA has no other entities that are required to be included in its financial statements, nor is ANIZDA includable in the financial statements of any other reporting entity.

ANIZDA was created by the City as a dedicated industrial development authority to implement and administer development and financing of projects in the Neighborhood Improvement Zone ("the NIZ"), as explained below, to manage the unique financing structure of the NIZ, including the financing and development of the Arena Project and related supporting projects.

The provisions of Act 50 of 2009, Act 26 of 2011, Act 87 of 2012, and Act 52 of 2013 as amended in Act 84 of 2016 and Act 43 of 2017 of the Pennsylvania General Assembly, authorize, among other things, the establishment of the NIZ in an area not greater than 130 acres located in the City of Allentown and the pledge of revenues to ANIZDA derived from the taxes enumerated in the NIZ Act from all taxpayers associated with a qualified business, as defined below, located in the NIZ, distributed, or to be distributed to ANIZDA by the Treasurer of the Commonwealth ("the NIZ revenues") for the payment of debt service on the bonds or obligations issued to finance improvements and developments within the NIZ, including the construction of the Arena Project within the NIZ. The NIZ contains approximately 128 acres.

The NIZ Act defines a "Qualified Business" as an entity authorized to conduct business in the Commonwealth which is located or partially located within the NIZ and engaged in the active conduct of a trade or business for the taxable year.

The Commonwealth has agreed to transfer the NIZ revenues attributed to the previous calendar year to ANIZDA on or about March 20 of each year.

ANIZDA is authorized to acquire, hold, construct, improve, maintain, own, finance, and lease, either in capacity of lessor or lessee, industrial, specialized, or commercial development projects and serve as successor contracting authority to the Allentown Commercial and

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Industrial Development Authority ("ACIDA") for purposes of administering the NIZ. ANIZDA's powers are limited to development activities within the NIZ. ANIZDA is authorized to assume or issue debt to refinance debt issued by ACIDA for NIZ-related projects and acquire the NIZ-related assets held by ACIDA in the Arena Block.

ACIDA is a separate entity and independent of ANIZDA. ACIDA has served as the City's economic development financing arm since 1983. ACIDA acted as the initial creator of the NIZ and designated the initial boundaries of the NIZ as required by the NIZ Act. In addition, in 2011, ACIDA incurred the initial debt under the NIZ Act to finance certain property acquisitions for the site of the arena and related development projects.

On October 2, 2012, ANIZDA and ACIDA entered into an asset purchase agreement whereby all NIZ-related assets were acquired by ANIZDA. In addition, ANIZDA assumed all liabilities relating to the ownership of the real property and all contracts entered into by ACIDA.

Basis of Accounting

The term "basis of accounting" is used to determine when a transaction or event is recognized on the Authority's operating statement. ANIZDA uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

ANIZDA applies all relevant principles as identified in the GASB Codification. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles and accounting principles generally accepted in the United States of America.

Basis of Presentation

ANIZDA's accounts are organized as an enterprise fund. The operations are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, net position, revenues, and expenses. Enterprise funds are used to account for operations that provide a service to the public financed by charges to users of that service and activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Use of Estimates in the Preparation of Financial Statements

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.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cash Equivalents

Cash equivalents include all deposit accounts and highly liquid investments in money market mutual funds.

Investments

Investments are recorded at fair value.

In establishing the fair value of investments, the Authority uses the following hierarchy. The lowest level of valuation available is used for all investments.

*Level 1* – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

*Level 2* – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

*Level 3* – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Net Position

The financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, ANIZDA's policy is to apply restricted net position first.

Restricted net position consists of NIZ revenues restricted for the payment of debt service on the bonds or obligations issued to finance improvements and developments within the NIZ per the NIZ Act.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Accounts Receivable

Accounts receivable are stated at net realizable value. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms.

Management's estimate of the allowance for uncollectible accounts receivable is based on historical collection rates and an analysis of the collectability of individual receivables. The allowance for uncollectible accounts was \$0 as of December 31, 2019 and 2018.

Capital Assets

ANIZDA defines capital assets as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year.

Capital assets of ANIZDA are recorded at either their actual cost. Donated assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible capital assets is charged as an expense against their operations. Depreciation is computed using the straight-line method over estimated asset lives as follows:

Buildings	40 years
Land improvements	15 - 40 years
Equipment	5 - 15 years

Major additions and betterments are capitalized while expenses for maintenance and repairs that do not add value to the asset or materially extend asset lives are charged to operations as incurred.

Bonds Payable

In the financial statements, bonds payable are reported as liabilities. The bond premium is deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed when incurred.

Deferred Inflows and Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense) until that time. ANIZDA currently has one item that qualifies for reporting in this category.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cumulative rents received from the arena lease in excess of the cumulative amount recognized as revenue using the straight-line method over the life of the lease are reflected as deferred inflows of resources on the statement of net position.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with ANIZDA's principal ongoing operations. The principal operating revenues of ANIZDA include developer fees, arena rents, and parking fees. Operating expenses include Developer Dedicated NIZ Revenue, parking management and maintenance fees, depreciation expense, and other administrative costs. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

NOTE 2 DEPOSITS AND INVESTMENTS

ANIZDA is allowed to invest in certain qualified investments as defined by the Master Trust Indenture for the Series of 2012A and B bonds. Subject to certain limitations and credit ratings, qualified investments include:

- Cash deposits (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with direct obligations of the United States of America).
- Direct obligations of the United States of America.
- Obligations of federal agencies backed by the full faith and credit of the United States of America.
- Obligations of federal agencies not fully guaranteed by the full faith and credit of the United States of America.
- U.S. dollar denominated deposit accounts, federal funds, and bankers' acceptances.
- Domestic commercial paper.
- Domestic money market mutual funds.
- Demand deposits, including interest-bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, and certificates of deposit or bankers acceptances.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

- General obligations of states.
- Shares in the Pennsylvania Local Government Investment Trust ("PLGIT").

Deposits

At December 31, 2019, the carrying amount of ANIZDA's deposits was \$8,930,159, and the bank balance was \$9,235,734. Of the bank balance, \$4,485,418 was insured by federal depository insurance, and \$771,946 was collateralized by pooled securities in accordance with Act 72 of 1971 ("Act 72"). At December 31, 2018, the carrying amount of ANIZDA's deposits was \$38,927,792, and the bank balance was \$39,160,751. Of the bank balance, \$500,000 was insured by federal depository insurance, and \$6,369,097 was collateralized by pooled securities in accordance with Act 72. To the extent that deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States of America, the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth. Under Act 72, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. The deposits collateralized in accordance with Act 72 were exposed to custodial credit risk because they were uninsured, and the collateral held by the depository's agent was not in ANIZDA's name.

As of December 31, 2019 and 2018, \$3,978,370 and \$32,212,361, respectively, of ANIZDA's deposits were invested in a domestic money market mutual fund managed by Goldman Sachs. Goldman Sachs is registered with the Securities and Exchange Commission and subject to regulatory oversight. The objective of the fund is to maintain a stable net asset value of \$1 per share. In addition, the fund is rated by nationally recognized rating organizations (Moody's Investors Service rating of Aaa-mf and Standard & Poor's rating of AAAM as of December 31, 2019 and 2018) and is subject to an independent annual audit.

As of December 31, 2019 and 2018, \$0 and \$79,293, respectively, of ANIZDA's deposits were invested in a domestic money market mutual fund managed by PFM Asset Management LLC ("PFM"). PFM is registered with the Securities and Exchange Commission and subject to regulatory oversight. The objective of the fund is to maintain a stable net asset value of \$1 per share. In addition, the fund is rated by a nationally recognized rating organization (Standard & Poor's rating of AAAM as of December 31, 2019 and 2018; not rated by Moody's Investors Service) and is subject to an independent annual audit.

Investments

As of December 31, 2019 and 2018, ANIZDA held investments in the amount of \$30,937,709 and \$0, respectively. The investments and maturities as of December 31, 2019 are summarized in the following chart.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Maturities</u>	
			<u>Less Than One year</u>	<u>One to Five Years</u>
U.S. Treasury notes	<u>\$30,937,709</u>	<u>\$30,937,709</u>	<u>\$15,448,146</u>	<u>\$15,489,563</u>
TOTAL	<u>\$30,937,709</u>	<u>\$30,937,709</u>	<u>\$15,448,146</u>	<u>\$15,489,563</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, ANIZDA will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of December 31, 2019, none of ANIZDA's investments were subject to custodial credit risk.

Interest Rate Risk

The Master Trust Indenture does not limit the maturity dates of investments in U.S. Treasury notes. As of December 31, 2019, all of ANIZDA's investments in U.S. Treasury notes matured at various times through 2021.

Credit Risk

The Master Trust Indenture does not limit the credit ratings of investment in U.S. Treasury notes. As of December 31, 2019, ANIZDA's investments in U.S. Treasury notes are rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's.

NOTE 3 DEVELOPMENT OF THE ARENA BLOCK

City Center Investment Corporation ("CCIC"), Hammes Company Sports Development, Inc., the City, ANIZDA (successor to ACIDA by assignment), and City Center Wholesale LLC have entered into an Amended and Restated Arena Block Master Development Agreement, dated October 1, 2012, effective as of June 15, 2012, as amended. This agreement sets forth the terms amongst the parties for the purpose of coordinating various development, planning, permitting, and financing activities necessary to construct a mixed use facility on a portion of the Arena Block, including the Arena Project. The Arena Block is located within the NIZ as defined in Note 1.

The Arena Project was the first phase of the development on the Arena Block, which was completed during 2014. The Arena Project includes a multipurpose arena (8,500 seats for

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEVELOPMENT OF THE ARENA BLOCK (cont'd)

hockey, with up to 10,000 seats for concerts), parking facilities, land acquisitions, site improvements, and the development of supporting infrastructure.

ANIZDA declared the Arena Block to be a condominium form of ownership and the property was converted into nine separate units, all individually owned. The Condominium Instrument provides for the units to be numbered as Unit One ("the Arena Building"), Unit Two ("the Office Building"), Unit Three ("the Hotel"), Unit Four ("the North Parking Deck"), Unit Five ("the South Parking Structure"), Unit Six ("the Commercial Unit"), Unit Seven ("the Retail Unit"), Unit Eight ("the Arena Side Commercial Unit"), and Unit Nine ("the Streetside Commercial Unit").

ANIZDA retains ownership of the Arena Building, the North Parking Deck, the South Parking Structure, the Retail Unit, and the Arena Side Commercial Unit, which were completed in 2014. The Office Building, the Hotel, and the Streetside Commercial Unit are owned by CCIC. CCIC financed these projects separately.

NOTE 4 ARENA LEASE

ANIZDA (successor to ACIDA by assignment) has entered into an agreement with BDH Development LLC ("the Arena Operator") for the lease of the arena and all installed equipment. The lease, which was amended in 2014, commenced on September 1, 2014 for an initial lease period of 29 years with two 10-year renewal options. The Arena Operator has an option to purchase the arena at the end of the lease term at a purchase price of 120 percent of the total arena development costs or fair market value, whichever is greater.

Under the terms of the agreement, the Arena Operator shall use and operate the arena for hosting all American Hockey League ("AHL") home games for the Phantoms, other AHL events, concerts, trade shows, and other events. All costs, charges, and expenses relating to the use, occupancy, repair, and maintenance of the arena, including but not limited to assessments for improvements, utilities and services, insurance, operation, maintenance, and repairs shall be paid by the Arena Operator. The Arena Operator is entitled to receive and retain all revenues (net of applicable taxes) from all events except for community events. The Arena Operator will also receive all revenues from sponsorship, naming rights and signage on or inside the arena.

ANIZDA shall establish a Capital Reserve Fund as a segregated fund separate and apart from other funds received from the Operator. The Arena Operator will make deposits to the fund annually for qualified capital repairs and capital improvements, and non-routine maintenance or repairs.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 ARENA LEASE (cont'd)

As of December 31, 2019, lease payments to be received are as follows:

Year Ending December 31,

2020	\$ 450,000
2021	450,000
2022	449,167
2023	446,667
2024	346,666
2025	150,000
2026	150,000
2027	150,000
2028	150,000
2029	150,000
2030	150,000
2031	150,000
2032	150,000
2033	150,000
2034	150,000
2035	150,000
2036	150,000
2037	150,000
2038	150,000
2039	150,000
2040	150,000
2041	150,000
2042	150,000
2043	<u>100,000</u>
	<u>\$ 4,942,500</u>

Revenue recognized under this lease for the years ended December 31, 2019 and 2018 was \$330,776 for both years. In addition, as of December 31, 2019 and 2018, a deferred inflow of resources in the amount of \$2,885,862 and \$2,466,638, respectively, was recognized for cumulative rents received in excess of the cumulative amount recognized as revenue under the straight-line method.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PARKING FACILITY

ANIZDA has entered into an agreement with the Office and Hotel Developers for shared use with the Arena Operator of the parking facilities owned by ANIZDA. An exception is during arena events where the Arena Operator has sole use of a limited number of spaces in the parking facility. Under the terms of the agreement, ANIZDA will be responsible for the operation of the parking facilities and all repairs and maintenance.

ANIZDA will be compensated with a monthly management fee which will be equal to the direct operating costs and expenses of the parking facilities. This agreement commenced on September 1, 2014, shall continue for a period of 30 years, and shall automatically renew for additional three-year terms unless otherwise terminated by ANIZDA or the Office and Hotel Developers.

On September 1, 2014, ANIZDA entered into an agreement with the Allentown Parking Authority ("APA") for the operation of the parking facilities and all repairs and maintenance. ANIZDA compensates APA with a monthly management fee of \$3,018 starting September 1, 2014. ANIZDA is responsible for all direct operating expenses. The initial agreement term was for five years ending September 1, 2019. The agreement is currently operating on a year to year basis until either party elects to terminate or renegotiate the agreement. The future total commitment to the Allentown Parking Authority under this agreement is \$68,804 for 2020.

NOTE 6 CAPITAL ASSETS

A summary of changes in ANIZDA's capital assets is as follows:

	2019			Balance 12/31/19
	Balance 01/01/19	Additions	Deletions	
Assets not being depreciated:				
Land	\$ 42,483,747	\$ -	\$ -	\$ 42,483,747
Total assets not being depreciated	42,483,747	-	-	42,483,747
Assets being depreciated:				
Buildings	158,433,789	-	-	158,433,789
Land improvements	941,918	-	-	941,918
Equipment	20,233,614	-	-	20,233,614
Leasehold improvements	106,691	-	-	106,691
Office equipment	20,615	-	-	20,615
Total assets being depreciated	179,736,627	-	-	179,736,627
Accumulated depreciation	(26,132,104)	(6,023,052)	-	(32,155,156)
Total assets being depreciated, net	153,604,523	(6,023,052)	-	147,581,471
CAPITAL ASSETS, NET	\$196,088,270	\$ (6,023,052)	\$ -	\$190,065,218

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 CAPITAL ASSETS (cont'd)

	2018			Balance 12/31/18
	Balance 01/01/18	Additions	Deletions	
Assets not being depreciated:				
Land	\$ 42,483,747	\$ -	\$ -	\$ 42,483,747
Total assets not being depreciated	<u>42,483,747</u>	<u>-</u>	<u>-</u>	<u>42,483,747</u>
Assets being depreciated:				
Buildings	158,433,789	-	-	158,433,789
Land improvements	941,918	-	-	941,918
Equipment	20,233,614	-	-	20,233,614
Leasehold improvements	99,959	6,732	-	106,691
Office equipment	20,615	-	-	20,615
Total assets being depreciated	179,729,895	6,732	-	179,736,627
Accumulated depreciation	(20,109,104)	(6,023,000)	-	(26,132,104)
Total assets being depreciated, net	<u>159,620,791</u>	<u>(6,016,268)</u>	<u>-</u>	<u>153,604,523</u>
CAPITAL ASSETS, NET	<u>\$202,104,538</u>	<u>\$ (6,016,268)</u>	<u>\$ -</u>	<u>\$196,088,270</u>

NOTE 7 BONDS PAYABLE

On October 2, 2012, ANIZDA issued Tax Revenue Bonds Series of 2012A and 2012B in the aggregate of \$224,380,000 (Series of 2012A - \$183,955,000 non-taxable and Series of 2012B - \$40,425,000 taxable), collectively referred to as "the bonds." The bonds were issued for the purpose of providing funds to develop the Arena Project. The bonds mature through May 1, 2042 and require semi-annual interest payments on May 1 and November 1 of each year, and annual principal payments on May 1 of each year. Interest rates on the bonds range from 4.12 percent to 5.67 percent. The bonds are secured by the NIZ revenues and rent payments made by the Arena Operator as described in Note 4.

A schedule of the changes in the bonds payable for the year ended December 31, 2019 is as follows:

	Outstanding 01/01/19	Additions	Deletions	Outstanding 12/31/19	Amount Due in One Year
Bonds payable	\$ 211,780,000	\$ -	\$ 4,595,000	\$ 207,185,000	\$ 4,830,000
Bond premium	6,869,384	-	289,237	6,580,147	289,237
Total	<u>\$ 218,649,384</u>	<u>\$ -</u>	<u>\$ 4,884,237</u>	<u>\$ 213,765,147</u>	<u>\$ 5,119,237</u>

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 BONDS PAYABLE (cont'd)

A schedule of the changes in the bonds payable for the year ended December 31, 2018 is as follows:

	<u>Outstanding 01/01/18</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding 12/31/18</u>	<u>Amount Due in One Year</u>
Bonds payable	\$ 216,165,000	\$ -	\$ 4,385,000	\$ 211,780,000	\$ 4,595,000
Bond premium	7,158,621	-	289,237	6,869,384	289,237
Total	<u>\$ 223,323,621</u>	<u>\$ -</u>	<u>\$ 4,674,237</u>	<u>\$ 218,649,384</u>	<u>\$ 4,884,237</u>

The bonds mature as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 4,830,000	\$ 10,351,663	\$ 15,181,663
2021	5,095,000	10,087,526	15,182,526
2022	5,385,000	9,798,133	15,183,133
2023	5,700,000	9,485,219	15,185,219
2024	6,015,000	9,165,812	15,180,812
2025 - 2029	35,085,000	40,829,625	75,914,625
2030 - 2034	45,045,000	30,863,125	75,908,125
2035 - 2039	57,840,000	18,066,750	75,906,750
2040 - 2042	<u>42,190,000</u>	<u>3,228,500</u>	<u>45,418,500</u>
Totals	<u>\$ 207,185,000</u>	<u>\$ 141,876,353</u>	<u>\$ 349,061,353</u>

NOTE 8 CONDUIT DEBT

On January 31, 2013, ANIZDA entered into a Construction Loan Agreement with Branch Banking and Trust Company (formerly National Penn Bank) in the amount of \$10,000,000 for the purpose of assisting with the financing needs of EPC Allentown, LLC. ANIZDA also entered into promissory notes providing for withdrawal of funds from the escrow account created under the Amended and Restated Escrow Agreement which provides an allocation of NIZ revenues for the purpose of paying down the loan. ANIZDA will have no liability for this loan other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this loan is not reported as a liability in ANIZDA's financial statements. This loan is a non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this loan was \$6,022,685 and \$6,218,245, respectively.

On February 13, 2013, ANIZDA entered into a construction loan agreement with Branch Banking and Trust Company (formerly National Penn Bank) in the amount of \$135,000,000 for the purpose of assisting with the financing needs of CCIC. The loan was increased to \$185,000,000 in October 2014 and to \$325,000,000 in August 2016 and reduced

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 CONDUIT DEBT (cont'd)

to \$125,000,000 in July 2017. ANIZDA also entered into promissory notes providing for withdrawal of funds from the escrow account created under the Amended and Restated Escrow Agreement which provides an allocation of NIZ revenues for the purpose of paying down the loan. During 2018, this debt was purchased by M&T Bank from BB&T, as such the debt balances were with M&T Bank at December 31, 2019 and 2018. ANIZDA will have no liability for this loan other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this loan is not reported as a liability in ANIZDA's financial statements. This loan is a non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this loan was \$15,682,041 and \$11,431,812, respectively.

On October 11, 2013, ANIZDA entered into a construction loan agreement with Branch Banking and Trust Company (formerly National Penn Bank) in the amount of \$7,400,000 for the purpose of assisting with the financing needs of Schoens Allentown, LLC. ANIZDA also entered into promissory notes providing for withdrawal of funds from the escrow account created under the Amended and Restated Escrow Agreement which provides an allocation of NIZ revenues for the purpose of paying down the loan. ANIZDA will have no liability for this loan other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this loan is not reported as a liability in ANIZDA's financial statements. This loan is a non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this loan was \$5,907,957 and \$6,154,068, respectively.

On July 29, 2014, ANIZDA entered into a Construction Loan Agreement with Branch Banking and Trust Company (formerly National Penn Bank) in the amount of \$4,800,000 for the purpose of assisting with the financing needs of Sacred Heart. During 2017, this debt was purchased by St. Luke's Hospital of Bethlehem, Pennsylvania from BB&T, as such the debt balances were with St. Luke's at December 31, 2019 and 2018. ANIZDA also entered into a promissory note providing for withdrawal of funds from the escrow account created under the Amended and Restated Escrow Agreement which provides an allocation of NIZ revenues for the purpose of paying down the loan. ANIZDA will have no liability for this loan other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this loan is not reported as a liability in ANIZDA's financial statements. This loan is non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this loan was \$4,211,320 and \$4,332,734, respectively.

On December 23, 2015, ANIZDA entered into a Construction Loan Agreement with Lafayette Ambassador Bank in the amount of \$6,249,600 for the purpose of assisting with the financing needs of The Waterfront Development Company. During 2019 Lafayette Ambassador Bank Merged into Fulton Bank. ANIZDA also entered into a promissory note providing for withdrawal of funds from the escrow account created under the Amended and Restated Escrow Agreement which provides an allocation of NIZ revenues for the purpose of paying down the loan. ANIZDA will have no liability for this loan other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this loan is not reported as a liability in ANIZDA's financial statements. This loan is non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this loan was \$4,253,790 and \$1,348,726, respectively.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 CONDUIT DEBT (cont'd)

On May 25, 2016, ANIZDA entered into a Construction Loan Agreement with Branch Banking and Trust Company (formerly National Penn Bank) in the amount of \$13,515,000 for the purpose of assisting with the financing needs of EPC Allentown, LLC. ANIZDA also entered into a promissory note providing for withdrawal of funds from the escrow account created under the Amended and Restated Escrow Agreement which provides an allocation of NIZ revenues for the purpose of paying down the loan. ANIZDA will have no liability for this loan other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this loan is not reported as a liability in ANIZDA's financial statements. This loan is non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this loan was \$10,731,312 and \$10,731,312, respectively.

On December 19, 2016, ANIZDA entered into a Construction Loan Agreement with ESSA Bank and Trust in the amount of \$5,300,000 for the purpose of assisting with the financing needs of Allentown Parking Authority. ANIZDA also entered into a promissory note providing for an allocation of NIZ revenues for the purpose of paying down the loan. ANIZDA will have no liability for this loan other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this loan is not reported as a liability in ANIZDA's financial statements. This loan is non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this loan was \$4,299,851 and \$4,085,022, respectively.

On June 15, 2017, ANIZDA issued Tax Revenue Bonds Series of 2017 in the amount of \$210,165,000 for the purpose of refunding certain indebtedness previously issued by ANIZDA to fund improvements within the NIZ relating to projects developed by CCIC. ANIZDA will have no liability for this bond other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this bond is not reported as a liability in ANIZDA's financial statements. This bond is non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this bond was \$205,520,000 and \$210,165,000, respectively.

On December 22, 2017, ANIZDA entered into a Construction Loan Agreement with Peoples Security Bank & Trust in the amount of \$2,478,223 for the purpose of assisting with the financing needs of the Trust Building, Inc. and Vault 634, LLC. ANIZDA also entered into a promissory note providing for an allocation of NIZ revenues for the purpose of paying down the loan. ANIZDA will have no liability for this loan other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this loan is not reported as a liability in ANIZDA's financial statements. This loan is non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this loan was \$2,478,223 and \$2,478,223, respectively.

On April 18, 2018, ANIZDA issued Tax Revenue Bonds Series of 2018 in the amount of \$99,690,000 for the purpose of refunding certain indebtedness previously issued by ANIZDA to fund improvements within the NIZ relating to projects developed by CCIC. ANIZDA will have no liability for these bonds other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, these bonds are not reported as a liability in ANIZDA's financial statements. These bonds are non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of these bonds was \$99,690,000 and \$99,690,000, respectively.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 CONDUIT DEBT (cont'd)

On June 19, 2018, ANIZDA entered into a Construction Loan Agreement with First Keystone Community Bank in the amount of \$9,000,000 for the purpose of assisting with the financing needs of Americus Investors, LP, and Americus Hotel, LLC. ANIZDA also entered into a promissory note providing for an allocation of NIZ revenues for the purpose of paying down the loan. ANIZDA will have no liability for this loan other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, this loan is not reported as a liability in ANIZDA's financial statements. This loan is non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of this loan was \$6,618,595 and \$2,887,966, respectively.

On December 28, 2018, ANIZDA issued Tax Revenue Bonds Series of 2018 in the amount of \$147,995,000 for the purpose of refunding certain indebtedness previously issued by ANIZDA to fund improvements within the NIZ relating to projects developed by CCIC. ANIZDA will have no liability for these bonds other than the allocation of the Developer Dedicated NIZ Revenue. Accordingly, these bonds are not reported as a liability in ANIZDA's financial statements. These bonds are non-recourse debt to ANIZDA. As of December 31, 2019 and 2018, the balance of these bonds was \$147,995,000 and \$147,995,000, respectively.

NOTE 9 NIZ REVENUES AND DEVELOPER DEDICATED NIZ REVENUE

The Commonwealth transfers NIZ revenues attributed to the previous calendar year to ANIZDA each March. In addition, as disclosed in Note 8, ANIZDA provides an allocation of NIZ revenues ("Developer Dedicated NIZ Revenue") to private developers for the purpose of paying down their loans and bonds on approved capital projects in the NIZ. The purpose of this subsidy is to encourage development in the NIZ.

As of December 31, 2019, ANIZDA was due \$64,350,658 (net of \$22,000,000 due back to the Commonwealth of Pennsylvania and local governmental entities based on the determination of excess NIZ revenue for calendar year 2019, as defined by the Master Trust Indenture) from the Commonwealth for the 2019 calendar tax year. The \$22,000,000 in excess NIZ revenue for calendar year 2019 was paid in May 2020 and accrued in the 2019 financial statements.

As of December 31, 2018, ANIZDA was due \$51,053,134 (net of \$20,432,755 due back to the Commonwealth of Pennsylvania and local governmental entities based on the determination of excess NIZ revenue for calendar year 2018, as defined by the Master Trust Indenture) from the Commonwealth for the 2018 calendar tax year. The \$20,432,755 in excess NIZ revenue for calendar year 2018 was paid in May 2019 and accrued in the 2018 financial statements.

Calendar year 2019 Developer Dedicated NIZ Revenue amounted to \$38,324,137 and calendar year 2018 Developer Dedicated NIZ Revenue amounted to \$36,306,525. Both amounts have been reflected as liabilities called Developer Dedicated NIZ Revenue payable in ANIZDA's statement of net position as of December 31, 2019 and 2018, respectively.

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 RESTRICTED ASSETS

As of December 31, 2019 and 2018, restricted cash equivalents and investments in the amount of \$35,972,003 and \$33,203,980, respectively, are restricted for the repayment of debt in accordance with the Master Trust Indenture and specific projects within the Neighborhood Improvement Zone.

NOTE 11 NET INVESTMENT IN CAPITAL ASSETS

A schedule of net investment in capital assets as of December 31, 2019 is as follows:

Total capital assets, net	\$ 190,065,218
Unspent bond proceeds	165,056
Less: bonds payable	<u>(213,765,147)</u>
Total Net Investment in Capital Assets	<u>\$ (23,534,873)</u>

A schedule of net investment in capital assets as of December 31, 2018 is as follows:

Total capital assets, net	\$ 196,088,270
Unspent bond proceeds	11,414,600
Less: bonds payable	<u>(218,649,384)</u>
Total Net Investment in Capital Assets	<u>\$ (11,146,514)</u>

NOTE 12 PUBLIC IMPROVEMENT INVESTMENT PROGRAM

ANIZDA has entered into agreements with project sponsors and public property owners under the ANIZDA Public Improvement Investment Program. Under these agreements, ANIZDA has provided funding for four public improvement projects during 2019: construction of the Artswalk Hamilton Connector, Allentown Parking Authority pay station kiosk installation, 107 W. Hamilton Street public improvements, and lighting of the Soldiers and Sailors Monument. During the year ended December 31, 2019, ANIZDA incurred expenses amounting to \$2,217,076 related to these projects. These expenses have not been capitalized as ANIZDA only acts as a funding agent for the cost of construction and will have no responsibility for maintenance or upkeep after completion of the projects.

NOTE 13 LEASE

ANIZDA is obligated under an operating lease for office space at 5 North Front Street, Allentown, Pennsylvania, executed on December 28, 2016. This lease expires on

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 13 LEASE (cont'd)

December 31, 2021. Also, ANIZDA entered in a lease with Great America Financial Services for a copier machine, executed on December 8, 2017. This lease will expire on December 8, 2022.

Future minimum lease payments are as follows:

<u>Year Ending December 31</u>	
2020	\$ 18,556
2021	19,080
2022	<u>1,072</u>
	<u>\$ 38,708</u>

NOTE 14 REVOLVING CREDIT FACILITY

On January 29, 2017, ANIZDA opened an unsecured revolving credit facility in the amount of \$10,000,000 with Peoples Security Bank & Trust. Outstanding amounts against this line bear interest at the bank's prime rate (3.25 percent at December 31, 2019) plus one quarter of one percent (0.25 percent) per annum. The annual payment on the credit facility is the lesser of the outstanding facility proceeds, or \$1,000,000, unless there are no surplus funds that would otherwise be placed in the Excess NIZ Revenue Account in which case there is no required annual payment. The maturity date of the revolving credit facility is May 31, 2020. The outstanding balance on this credit facility was \$4,000,000 and \$2,640,542 at December 31, 2019 and 2018, respectively.

NOTE 15 CONTINGENCY

The Plaza at 835 West Hamilton Street LP ("the Plaintiff"), the owner of a commercial office building known as PPL Plaza in Allentown, has filed a complaint for declaratory, injunctive, and monetary relief against ANIZDA and other defendants in federal court regarding the constitutionality of the legislation establishing the NIZ in Allentown and other related claims. ANIZDA has filed a motion for judgment on the pleadings and multiple briefs, and reply briefs have been filed. All of the other defendants have moved to dismiss the Plaintiff's complaint.

On September 12, 2017, the court granted the motions submitted by the Defendants, specifically including ANIZDA's motion for judgement on the pleadings, dismissing with prejudice, the Plaintiff's claims under the Pennsylvania Constitution, and dismissing without prejudice, the Plaintiff's claims under federal law, thus allowing the Plaintiff an opportunity to

ALLENTOWN NEIGHBORHOOD IMPROVEMENT ZONE DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 15 CONTINGENCY (cont'd)

file an amended complaint consistent with the Judge's memorandum. On November 9, 2017, ANIZDA filed a motion to dismiss the amended complaint. The Plaintiff then filed a motion to stay the proceedings pending resolution of an eminent domain action brought in state court against the City of Allentown and the Commonwealth of Pennsylvania Department of Revenue. Although ANIZDA is not a party to the eminent domain action and opposed the stay, on July 24, 2018, the federal court stayed the proceedings pending the outcome of the eminent domain proceedings in the state court. The eminent domain proceeding has been terminated by court order in favor of the Defendants on April 12, 2019. The Plaintiff has appealed the court order. The outcome of this matter cannot be determined as of the date of this report.

NOTE 16 SUBSEQUENT EVENTS

Subsequent to December 31, 2019 several outstanding conduit obligations were refinanced. On January 9, 2020, the loan for Schoens Allentown, LLC was refinanced with People's Security Bank & Trust. On February 24, 2020, two loans for EPC Allentown, LLC were refinanced with ESSA Bank & Trust. These refinanced obligations are conduit debts and not reported on the face of ANIZDA's financial statements. These obligations are, however, disclosed in Note 8.

Additionally, as a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact ANIZDA's income in 2020. Other financial impact could occur though such potential impact is unknown at this time.

ANIZDA has evaluated all subsequent events through May 27, 2020, the date the financial statements were available to be issued.