

**LANCASTER DOWNTOWN
INVESTMENT DISTRICT AUTHORITY**

YEAR ENDED APRIL 30, 2011

Lancaster Downtown Investment District Authority

Financial Statements with Supplementary Information

Year Ended April 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lancaster Downtown Investment District Authority
Lancaster, Pennsylvania

We have audited the accompanying statement of net assets of **Lancaster Downtown Investment District Authority**, a component unit of the City of Lancaster, as of April 30, 2011, and the related statements of revenues, expenses, and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the **Lancaster Downtown Investment District Authority's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Lancaster Downtown Investment District Authority** as of April 30, 2011, and change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 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, 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. 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.

Trout, Ebersole & Groff, LLP

July 27, 2011
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

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Lancaster Downtown Investment District Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

Year Ended April 30, 2011

The **Lancaster Downtown Investment District Authority** (the Authority) was created in 1991 with its mission to ensure economic vitality and the highest quality of life in the Downtown Investment District.

As management of the Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended April 30, 2011. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director.

Financial Highlights

- The assets of the Authority exceeded its liabilities as of April 30, 2011, by \$130,691 (net assets).
- The Authority's cash balance as of April 30, 2011, was \$91,432, representing a decrease of \$13,321 from the prior year.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged in a business-type activity. The following statements are included:

- Statement of Net Assets - reports the Authority's current financial resources (short-term spendable resources) with capital assets.
- Statement of Revenues, Expenses and Change in Net Assets - reports the Authority's operating and nonoperating revenues by major source along with operating and nonoperating expenses.
- Statement of Cash Flows - reports cash flows from operating, financing, and investing activities.

The most important question asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?"

The attached analysis of net assets, revenues, and expenses is provided to assist with answering the above question. This analysis includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual accounting recognizes revenues and expenses when earned and incurred regardless of when cash is received or paid.

Our analysis also presents the Authority's net assets and changes in them. The Authority's net assets represent the difference between what the Authority owns (assets) and what the Authority owes (liabilities). An analysis of the change in net assets will assist the reader with measuring the health or financial position of the Authority over time.

Significant changes in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating.

Lancaster Downtown Investment District Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended April 30, 2011

Economic Factors and Next Year's Budget

The following factors were considered in preparing the Authority's budget for the fiscal year ending April 30, 2012:

1. Reflecting the management agreement between the Authority and the James Street Improvement District.
2. A continued conservative outlook on receipt of assessments and contributions in lieu of assessments, given an ongoing tight economic climate and an equally conservative expectation of expenses.
3. Contractual obligations to vendors, specifically SGI, Inc., which manages our sidewalk cleaning operations.

Analysis of Net Assets

Total assets for the years ended April 30, 2010 and 2011, were \$152,388 and \$141,123, respectively. This represents a net decrease of \$11,265 from 2010 to 2011.

- Cash decreased by \$13,321 from the prior year.
- Other current assets increased by \$4,548.
- Capital assets, net of depreciation, decreased by \$2,492 from the prior year.
- Current liabilities were \$10,432 for the year ended April 30, 2011, as compared to \$24,256 for the year ended April 30, 2010, representing a decrease of \$13,824.

The following table illustrates our analysis.

	2010	2011	Change
Cash and Cash Equivalents	104,753	91,432	(13,321)
Other Current Assets	31,200	35,748	4,548
Capital Assets, net of Accumulated Depreciation	<u>16,435</u>	<u>13,943</u>	<u>(2,492)</u>
Total Assets	152,388	141,123	(11,265)
Current Liabilities	24,256	10,432	(13,824)
Noncurrent Liabilities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	24,256	10,432	(13,824)

Lancaster Downtown Investment District Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended April 30, 2011

Analysis of Net Assets (Continued)

	2010	2011	Change
Invested in Capital Assets	16,435	13,943	(2,492)
Unrestricted Net Assets	<u>111,697</u>	<u>116,748</u>	<u>5,051</u>
Total Equity/Net Assets	<u>128,132</u>	<u>130,691</u>	<u>2,559</u>
Total Liabilities and Equity/Net Assets	152,388	141,123	(11,265)

Analysis of Revenues

Total revenues for the years ended April 30, 2010 and 2011, were \$438,368 and \$428,710, respectively. The change from 2011 to 2010 is primarily attributable to a continued slow decline in the assessment base.

Analysis of Expenses

Total expenses decreased by \$9,197 for the year ended April 30, 2011, as compared to the year ended April 30, 2010. DID staff have approached any non-contractually obligated expenses prudently in an effort to continue managing costs.

	2010	2011	Change
Revenues:			
Assessments	308,825	299,692	(9,133)
Contributions	79,038	82,580	3,542
Marketing Income	29,025	29,485	460
Nonoperating Income	<u>21,480</u>	<u>16,953</u>	<u>(4,527)</u>
Total Revenues	<u>438,368</u>	<u>428,710</u>	<u>(9,658)</u>
Expenses:			
Safety	159,795	160,001	206
Appearance	150,180	145,757	(4,423)
Marketing	33,547	29,702	(3,845)
General and Administrative	<u>91,826</u>	<u>90,691</u>	<u>(1,135)</u>
Total Expenses	<u>435,348</u>	<u>426,151</u>	<u>(9,197)</u>
Change in Net Assets	3,020	2,559	(461)

Lancaster Downtown Investment District Authority

STATEMENT of NET ASSETS

April 30, 2011

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 91,432
Assessments Receivable	34,998
Prepaid Expenses	<u>750</u>

Total Current Assets **127,180**

CAPITAL ASSETS

Equipment - Appearance	21,689
Equipment - Operations	19,058
Equipment - Safety	3,961
Leasehold Improvements	<u>1,840</u>
	46,548
Accumulated Depreciation	<u>(32,605)</u>

Net Capital Assets **13,943**

TOTAL ASSETS **141,123**

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	404
Other Current Liabilities	<u>10,028</u>

TOTAL LIABILITIES **10,432**

NET ASSETS

Invested in Capital Assets, net of Related Debt	13,943
Unrestricted	<u>116,748</u>

TOTAL NET ASSETS **\$ 130,691**

See notes to financial statements.

Lancaster Downtown Investment District Authority
 STATEMENT of REVENUES, EXPENSES, and CHANGE in NET ASSETS
 Year Ended April 30, 2011

OPERATING REVENUES

Assessments	\$ 299,692
Contributions	82,580
Marketing Income	<u>29,485</u>

Total Operating Revenues **411,757**

OPERATING EXPENSES

Safety	160,001
Appearance	145,757
Marketing	29,702
General and Administrative	<u>90,691</u>

Total Operating Expenses **426,151**

Operating Loss **(14,394)**

NONOPERATING INCOME

Grant Revenue	14,196
Other Revenue	2,400
Interest Income	<u>357</u>

Total Nonoperating Income **16,953**

NET INCOME **2,559**

NET ASSETS

Beginning of Year	<u>128,132</u>
End of Year	<u>\$ 130,691</u>

See notes to financial statements.

Lancaster Downtown Investment District Authority

STATEMENT of CASH FLOWS

Year Ended April 30, 2011

CASH FLOWS from OPERATING ACTIVITIES

Receipts from Assessments	\$ 295,828
Receipts from Customers and Users	31,655
Contributions	82,580
Payments to Suppliers for Goods and Services	<u>(423,741)</u>
Net Cash Used by Operating Activities	<u>(13,678)</u>

CASH FLOWS from INVESTING ACTIVITIES

Interest Earned	<u>357</u>
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DECREASE in CASH and CASH EQUIVALENTS (13,321)

CASH and CASH EQUIVALENTS

Beginning of Year	<u>104,753</u>
End of Year	<u>91,432</u>

RECONCILIATION of OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES

Operating Loss	(14,394)
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ADJUSTMENTS to RECONCILE OPERATING LOSS to NET CASH USED by OPERATING ACTIVITIES

Depreciation	2,492
Miscellaneous Income not in Operating Income on Statement of Revenues, Expenses, and Change in Net Assets Included for Cash Flows	3,084
(Increase) Decrease in:	
Assessments Receivable	(4,548)
Increase (Decrease) in:	
Accounts Payable	(82)
Other Current Liabilities	<u>(230)</u>
Total Adjustments	<u>716</u>

Net Cash Used by Operating Activities **\$ (13,678)**

SUPPLEMENT DISCLOSURE of CASH FLOW INFORMATION

Noncash Donations of Professional Services	2,239
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See notes to financial statements.

Lancaster Downtown Investment District Authority

NOTES to FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The **Lancaster Downtown Investment District Authority** (the Authority) was organized on August 13, 1991, by the City of Lancaster under the Municipality Authorities Act of 1945 and the Central Business District Authority Act of 1980. The Authority was organized for the purpose of providing and funding administrative services and business improvements to benefit the City of Lancaster's downtown investment district.

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the **Lancaster Downtown Investment District Authority** and any component units. Component units are separate legal entities that (1) elected officials of a primary government are financially accountable for or (2) the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

This report includes the enterprise fund of the **Lancaster Downtown Investment District Authority** based on the above criteria. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year. The Authority is a component unit of the City of Lancaster on the basis of such criteria.

Basic Financial Statements

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements consist of:

Supplementary Information:

Management's Discussion and Analysis

Enterprise Fund Financial Statements:

Statement of Net Assets

Statement of Revenues, Expenses, and Change in Net Assets

Statement of Cash Flows

Notes to Financial Statements

Basis of Accounting

The Authority operates as an enterprise activity and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority follows all applicable GASB pronouncements and FASB pronouncements issued before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Lancaster Downtown Investment District Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing and funding administrative services and business improvements to benefit the City of Lancaster's downtown investment district. The principal operating revenues of the Authority are assessments to property owners. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Assessments Receivable

The assessments receivable balance of \$34,998 for the year ended April 30, 2011, has been reviewed by management and, except for some possible immaterial amounts, the accounts due appear collectible. See Note 2 for collection periods and lien procedures. All outstanding assessments are accompanied by liens on real estate and collected upon sale of the property, if not prior to sale. Therefore, there is no allowance for uncollectible accounts.

Capital Assets

Capital assets, which include equipment and leasehold improvements, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at cost.

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Assets	Years
Leasehold Improvements	15
Equipment	5 to 7

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets.

Lancaster Downtown Investment District Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant Revenue

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Concentration of Credit Risk

The financial instruments that potentially subject the Authority to credit risk consist primarily of cash deposits. The Authority maintains its cash deposits with financial institutions where the account balances may at times exceed FDIC insured limits. However, the balances in excess of federal deposit insurance are collateralized by a pool of marketable securities as required by Act 72. All deposits were insured at April 30, 2011.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Accordingly, actual results may differ from estimated amounts.

NOTE 2 - ASSESSMENTS RECEIVABLE

The Authority issues assessments to property owners within the district. The bills are mailed at the beginning of the fiscal year with the following terms:

2% Discount Period	May 1 to June 30
Face Amount Period	July 1 to August 31
10% Penalty Period	September 1 and Thereafter

If payment for the current year is not received by the Authority prior to December 31, a reminder letter is sent to the delinquent property owner. As of May 1 of the subsequent year, all unpaid delinquent assessments have liens filed against their property.

NOTE 3 - CASH and CASH EQUIVALENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term United States and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes. In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

Lancaster Downtown Investment District Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 3 - CASH and CASH EQUIVALENTS (Continued)

The deposit and investment policy of the Authority adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Authority.

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of April 30, 2011, none of the Authority's bank balance was exposed to custodial credit risk.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the year follows:

	Balance May 1, 2010	Increases	Decreases	Balance April 30, 2011
Equipment	44,708	-0-	-0-	44,708
Leasehold Improvements	<u>1,840</u>	<u>-0-</u>	<u>-0-</u>	<u>1,840</u>
Capital Assets	46,548	-0-	-0-	46,548
Accumulated Depreciation	<u>(30,113)</u>	<u>(2,492)</u>	<u>-0-</u>	<u>(32,605)</u>
Net Capital Assets	16,435	(2,492)	-0-	13,943

NOTE 5 - OTHER CURRENT LIABILITIES

Other current liabilities of \$10,028 represents the estimate of future obligations for gift certificates sold but not yet redeemed as of April 30, 2011.

NOTE 6 - LEASE COMMITMENTS

The Authority leases office space under an operating lease which expires December 31, 2012. Rent expense for the fiscal year ended April 30, 2011, was \$7,554. Minimum future rental payments under the non-cancelable operating lease as of April 30, 2011, are as follows:

2012	10,296
2013	6,864

As part of the lease agreement, the Authority receives \$200 annually for a rebate on utilities.

Lancaster Downtown Investment District Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 7 - DONATED SERVICES and RELATED PARTY TRANSACTIONS

The Authority has recognized \$2,239 in contributed professional services. The Authority receives police patrol services and billing and collection services from the City of Lancaster, a related party, at no cost to the Authority. The Authority receives contributed management and marketing services from the James Street Improvement District at no cost to the Authority. The value of these services has not been determined and is not reflected in the accompanying financial statements.

NOTE 8 - RISK MANAGEMENT

The Authority maintains insurance contracts to deal with the risk of loss arising from theft of, damage to, or destruction of assets, errors and omissions, and job-related illnesses or injuries to employees. For the years ended April 30, 2011, 2010, and 2009, the claims that were incurred did not exceed coverage provided by these contracts.