THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF TUCSON, ARIZONA

Audited Financial Statements

For the years ended June 30, 2019 and 2018
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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors
The Industrial Development Authority of the City of Tucson, Arizona

We have audited the accompanying financial statements of the business-type activities of The Industrial Development Authority of the City of Tucson, Arizona (the “Authority”) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements which collectively comprise the Authority’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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Pursuant to the Authority’s request, we did not attempt to confirm the amount of the outstanding bond obligation (conduit debt) disclosed in Note 5 by direct correspondence with the bond trustees. We were unable to satisfy ourselves about the amount of the outstanding bond obligation (conduit debt) through other auditing procedures.

As discussed in Note 5, the conduit debt is not an obligation of the Authority. The unaudited bond obligation represents zero percent of the assets, net position and revenue of the Authority.
To the Board of Directors
The Industrial Development Authority of the City of Tucson, Arizona

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the net position of the business-type activities of the Authority, as of June 30, 2019 and 2018, and the changes in net position and cash flows thereof 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 management's discussion and analysis on pages 3 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.

May 04, 2020
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to The Industrial Development Authority of the City of Tucson, Arizona’s (the “Authority”) basic financial statements. The Authority’s basic financial statements include the: 1) Statements of Net Position - Enterprise Funds; 2) Statements of Revenue, Expenses and Changes in Net Position - Enterprise Funds; 3) Statements of Cash Flows - Enterprise Funds; and 4) Notes to Financial Statements.

Statements of Net Position

The Statements of Net Position – Enterprise Funds present information on all of the Authority’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statements of Net Position – Enterprise Funds can be found on page 5 of this report.

Statements of Revenue, Expenses and Changes in Net Position

The Statements of Revenue, Expenses and Changes in Net Position - Enterprise Funds present information showing how the Authority’s net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The Statements of Revenue, Expenses and Changes in Net Position - Enterprise Funds can be found on page 6 of this report.

Statements of Cash Flows

The Statements of Cash Flows - Enterprise Funds measures the Authority’s ability to fund operations and programmatic initiatives from funds generated from operations and investing activities. This measure excludes non-cash gains and losses. The Statements of Cash Flows - Enterprise Funds can be found on page 7 of this report.

Notes to the Financial Statements

The Nature of Activities and Summary of Significant Accounting Policies describes accounting policies, which are the specific accounting principles and the methods of applying those principles, used by the Authority in preparing its financial statements. GASB 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements requires disclosure of all accounting policies where there is a selection from acceptable alternatives. The Nature of Activities and Summary of Significant Accounting Policies can be found on pages 8-11 of this report.

Additional notes to the financial statements provide information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 11-18 of this report.

The Authority as a Whole

The Authority’s net position increased 4.3% from the prior year, from $10,189,727 to $10,625,935. This increase can be attributed to continued growth in nonoperating revenues associated with the operation of two downtown parking lots in Tucson, Arizona, combined with operating revenues being sufficient to cover operating expenses. Operating revenue decreased due to the decline in growth in volume of the Pima Tucson Homebuyer Solution Program (the “PTHS Program”), an existing program. The Statements of Net Position and the Statements of Revenue, Expenses and Changes in Net Position report information about the Authority that includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenue and expenses are taken into account when earned or incurred, regardless of when cash is received or paid.
Overview of the Financial Statements (Continued)

The Authority as a Whole (Continued)

The following table shows a comparison of assets and liabilities for fiscal years ended June 30, 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$5,677,296</td>
<td>$5,288,112</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>5,024,257</td>
<td>5,000,945</td>
</tr>
<tr>
<td>Total assets</td>
<td>10,701,553</td>
<td>10,289,057</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>75,618</td>
<td>99,330</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>75,618</td>
<td>99,930</td>
</tr>
<tr>
<td>Net position</td>
<td>$10,625,935</td>
<td>$10,189,727</td>
</tr>
</tbody>
</table>

The following table shows a comparison of the revenue and expenses for fiscal years ended June 30, 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>$587,904</td>
<td>$851,054</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>556,389</td>
<td>572,650</td>
</tr>
<tr>
<td>Net operating income</td>
<td>31,515</td>
<td>278,404</td>
</tr>
<tr>
<td>Nonoperating revenue</td>
<td>404,693</td>
<td>291,159</td>
</tr>
<tr>
<td>Change in net position</td>
<td>$436,208</td>
<td>$569,563</td>
</tr>
</tbody>
</table>

Operating revenue decreased during 2019 due to the decline in growth in the volume of the PTHS Program, which allows homebuyers to finance their down payments through the Program. The PTHS Program charges fees to the homebuyers and bundles the financing to sell on the open market. The popularity of the PTHS Program is distinguished from other similar homebuyer programs offered by the Authority that require homebuyers to be first-time homebuyers and have more restrictions and requirements related to the issuance of tax-exempt bonds.

Operating expenses remained consistent between fiscal 2019 and fiscal 2018.

Nonoperating revenue increased during 2019 with increased revenue earned from the downtown parking lots due to increased traffic in the downtown area. With an improving economy, the Authority increased net assets in fiscal 2019 due to interest rates remaining low compared to its existing mortgage credit certificate programs and the decision to work with the existing capacity under existing mortgage credit certificate programs.

Contacting the Authority’s Office

This financial report is designed to provide the residents of Tucson, Arizona, our consultants, and our financial advisors with a general overview of the Authority’s finances and to show the Authority’s accountability for the revenue it receives. If you have any questions about this report or need additional information, contact the Program Administrator at The Industrial Development Authority of the City of Tucson, Arizona 335 N. Wilmot Road, Suite 420, Tucson, Arizona 85711 or call (520) 882-5591. The website address is www.tucsonida.org.
<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>$3,158,526</td>
<td>$4,710,256</td>
</tr>
<tr>
<td>Investments</td>
<td>2,307,536</td>
<td>400,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>67,181</td>
<td>20,383</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>-</td>
<td>1,500</td>
</tr>
<tr>
<td>Prepaid expense</td>
<td>21,569</td>
<td>21,569</td>
</tr>
<tr>
<td>Notes receivable, current portion, net of allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>for loan loss of $3,125 in 2019 and $3,282 in 2018</td>
<td>122,484</td>
<td>134,404</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>5,677,296</td>
<td>5,288,112</td>
</tr>
<tr>
<td>Noncurrent assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program advances and related fees earned, net of withdrawals</td>
<td>74,150</td>
<td>291,890</td>
</tr>
<tr>
<td>Property and equipment, net of accumulated depreciation of $14,525 in 2019 and $39,165 in 2018</td>
<td>3,294,846</td>
<td>3,268,631</td>
</tr>
<tr>
<td>Notes receivable, long term, net of allowance for loan loss of $41,562 in 2019 and $37,812 in 2018</td>
<td>1,655,261</td>
<td>1,440,424</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>5,024,257</td>
<td>5,000,945</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>10,701,553</td>
<td>10,289,057</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>64,920</td>
<td>93,200</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>10,698</td>
<td>6,130</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>75,618</td>
<td>99,330</td>
</tr>
<tr>
<td><strong>NET POSITION, all unrestricted</strong></td>
<td><strong>$10,625,935</strong></td>
<td><strong>$10,189,727</strong></td>
</tr>
</tbody>
</table>

See notes to financial statements.
THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

STATEMENTS OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION - ENTERPRISE FUNDS
For the years ended June 30, 2019 and 2018

<table>
<thead>
<tr>
<th>OPERATING REVENUE</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refunding, issuer and administration fees</td>
<td>$484,946</td>
<td>$776,078</td>
</tr>
<tr>
<td>Interest from notes receivable direct loan program</td>
<td>102,958</td>
<td>74,976</td>
</tr>
<tr>
<td>Total operating revenue</td>
<td>587,904</td>
<td>851,054</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING EXPENSE</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal fees</td>
<td>186,855</td>
<td>259,677</td>
</tr>
<tr>
<td>Administrative fees</td>
<td>163,142</td>
<td>150,216</td>
</tr>
<tr>
<td>Lobbying fees</td>
<td>49,525</td>
<td>-</td>
</tr>
<tr>
<td>Program costs</td>
<td>58,835</td>
<td>71,575</td>
</tr>
<tr>
<td>Insurance expenses</td>
<td>21,569</td>
<td>21,569</td>
</tr>
<tr>
<td>Accounting fees</td>
<td>18,000</td>
<td>17,995</td>
</tr>
<tr>
<td>Other</td>
<td>29,237</td>
<td>18,465</td>
</tr>
<tr>
<td>Advertising</td>
<td>22,991</td>
<td>23,484</td>
</tr>
<tr>
<td>Bank charges</td>
<td>2,642</td>
<td>2,104</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>3,593</td>
<td>7,565</td>
</tr>
<tr>
<td>Total operating expense</td>
<td>556,389</td>
<td>572,650</td>
</tr>
</tbody>
</table>

Net operating income | 31,515 | 278,404 |

<table>
<thead>
<tr>
<th>NON-OPERATING REVENUE (EXPENSE)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parking lot income, net of $175,614 in expenses, including $1,557 in depreciation in 2019, and $171,309 in expenses, including $650 in depreciation in 2018</td>
<td>325,877</td>
<td>266,316</td>
</tr>
<tr>
<td>North Main property rental income, net of $14,077 in expenses, including $0 of depreciation in 2019, and $20,871 in expenses, including $4,248 of depreciation in 2018</td>
<td>(13,627)</td>
<td>(19,071)</td>
</tr>
<tr>
<td>Income from investments</td>
<td>92,443</td>
<td>43,914</td>
</tr>
<tr>
<td>Total non-operating revenue (expense)</td>
<td>404,693</td>
<td>291,159</td>
</tr>
</tbody>
</table>

Change in net position | 436,208 | 569,563 |

| NET POSITION, unrestricted, beginning of year | 10,189,727 | 9,620,164 |
| NET POSITION, unrestricted, end of year      | $10,625,935 | $10,189,727 |

See notes to financial statements.
<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH FLOWS FROM OPERATING ACTIVITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received for refunding, issuer and administration fees</td>
<td>$660,456</td>
<td>$1,145,029</td>
</tr>
<tr>
<td>Cash received for interest from notes receivable direct loan program</td>
<td>104,458</td>
<td>73,476</td>
</tr>
<tr>
<td>Cash paid for operating expenses</td>
<td>(582,747)</td>
<td>(534,348)</td>
</tr>
<tr>
<td>Net cash flows from operating activities</td>
<td>182,167</td>
<td>684,157</td>
</tr>
<tr>
<td>CASH FLOWS FROM INVESTING ACTIVITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividends received from investments</td>
<td>92,443</td>
<td>43,914</td>
</tr>
<tr>
<td>Investment in certificates of deposit, net of redemptions</td>
<td>(1,907,536)</td>
<td>100,293</td>
</tr>
<tr>
<td>Advances on notes receivable</td>
<td>(552,750)</td>
<td>(615,000)</td>
</tr>
<tr>
<td>Principal collections on notes receivable direct loan program</td>
<td>346,240</td>
<td>201,907</td>
</tr>
<tr>
<td>Cash paid for property and equipment</td>
<td>(27,772)</td>
<td>(119,250)</td>
</tr>
<tr>
<td>Cash received for parking lot income</td>
<td>501,491</td>
<td>447,643</td>
</tr>
<tr>
<td>Cash paid for parking lot expenses</td>
<td>(172,278)</td>
<td>(180,188)</td>
</tr>
<tr>
<td>Cash paid for building rental expenses</td>
<td>(13,735)</td>
<td>(16,241)</td>
</tr>
<tr>
<td>Net cash flows from investing activities</td>
<td>(1,733,897)</td>
<td>(136,922)</td>
</tr>
<tr>
<td>NET CHANGE IN CASH AND EQUIVALENTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1,551,730)</td>
<td></td>
<td>547,235</td>
</tr>
<tr>
<td>CASH AND EQUIVALENTS, beginning of year</td>
<td>4,710,256</td>
<td>4,163,021</td>
</tr>
<tr>
<td>CASH AND EQUIVALENTS, end of year</td>
<td>$3,158,526</td>
<td>$4,710,256</td>
</tr>
<tr>
<td>RECONCILIATION OF NET OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>$31,515</td>
<td>$278,404</td>
</tr>
<tr>
<td>Adjustments to reconcile operating income (loss) to net cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for loan loss</td>
<td>3,593</td>
<td>7,565</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(46,798)</td>
<td>38,230</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>1,500</td>
<td>(1,500)</td>
</tr>
<tr>
<td>Program advances and related fees earned, net of withdrawals</td>
<td>217,740</td>
<td>331,066</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>(29,951)</td>
<td>30,736</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>4,568</td>
<td>(344)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>150,652</td>
<td>405,753</td>
</tr>
<tr>
<td>Net cash flows from operating activities</td>
<td>$182,167</td>
<td>$684,157</td>
</tr>
</tbody>
</table>

See notes to financial statements.
1. **Nature of Activities and Summary of Significant Accounting Policies**

**Nature of Activities**

The Industrial Development Authority of the City of Tucson, Arizona (the "Authority"), a political subdivision and instrumentality of the State of Arizona was established in 1979 to issue tax-exempt bonds for the purposes set forth in Arizona Revised Statutes §35-701 onward. Proceeds from bond issues are loaned to various qualifying borrowers. The bonds are not general obligations of the Authority or the City of Tucson, but are special limited obligations of the Authority payable solely from the payments on the loans made to the participating borrowers, from bond proceeds held and invested in trust, from credit enhancement vehicles (such as letters of credit and bond insurance), and from assets specifically pledged by the borrowers for the benefit of the holders of the particular bonds. The third party borrowers of bond proceeds reimburse the Authority for expenses of issuance of the bonds, pay fees of the Authority, and make payments under the loans for the benefit of the holders of the bonds. The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The significant accounting policies of the Authority are described below.

**Basis of Presentation**

The Authority is a special-purpose, stand-alone government which is a legally separate entity. The Authority is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement. The elected Mayor and Council of the City of Tucson, Arizona appoint the Authority’s board members. However, the City of Tucson is not financially accountable for the Authority. In addition, the Authority has no component units as defined in GASB Statement 14. Dark Mountain Development Corporation is a legally separate nonprofit corporation which is governed by the Authority’s Board of Directors. The nonprofit corporation is inactive.

The Authority is a special-purpose government engaged only in business-type activities. Accordingly, the basic financial statements do not include separate government-wide financial statements which are followed by fund financial statements. The Authority presents only Enterprise Fund financial statements in accordance with GASB No. 34 paragraph 138. Enterprise Funds are used to account for the Authority’s on-going activities which are similar to those found in the private sector. Such activities are typically self-supporting. The measurement focus is upon determination of net income, financial position, and changes in cash flows. Enterprise Fund net position is unrestricted. When an expense is incurred for which 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.

The Enterprise Fund Financial Statements include the following elements:

- Management’s Discussion and Analysis
- Basic Financial Statements:
  - Statement of Net Position
  - Statement of Revenue, Expenses and Changes in Net Position
  - Statement of Cash Flows
- Notes to Financial Statements

The IDA does not adopt an annual budget and, accordingly, no budget and actual statements are presented.
1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. The Authority applies all applicable GASB Statements, including GASB 62 and 63 effective for periods beginning after December 15, 2011.

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

In 2012, the Authority implemented GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which supersedes GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. GASB Statement No. 62 incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance previously contained in various Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements.

Also in 2012, the Authority implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Accordingly, the accompanying statements of financial position report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, 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 these estimates.

Income Tax Status

As a political subdivision of the State of Arizona, the Authority is exempt from federal and state income taxes.

Cash and Equivalents

The Authority considers all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

GASB Statement No. 31 provides that governmental entities may report all investments at fair value or they may elect to report certain money market investments and participating interest-earned investment contracts at amortized cost. The Authority has elected to report all investments at fair value. The Authority has investments in certificates of deposits with original maturities of more than three months. The fair value of the Authority’s investments equals cost.
1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Property and Equipment

Assets of the Authority are capitalized at historical cost or fair market value at dates of acquisition. Assets are depreciated on a straight-line basis over their estimated useful lives, which range from 5 years for equipment to 15 years for a building. The Authority has adopted a capitalization threshold of $2,500.

The Authority reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flow expected to be generated by the rental property plus the estimated proceeds from the eventual disposition of the real estate. If the real estate's value is impaired, the impairment to be recognized is the amount by which the carrying amount of the real estate exceeds the fair value of the property. There was no impairment loss recognized in 2019 or 2018.

Allowance for Loan Loss

The Authority adopted a policy for the allowance for loan loss at a level adequate to absorb probable losses. The Authority determines the adequacy of the allowance based on calculating 2% of the outstanding loan balances, plus any specific loans that are identified as doubtful. The Authority charges off loans that are 90 days or more past due.

Deferred Revenue

The Authority recognizes the advanced receipt of refunding and administration fees as deferred revenue until such fees are earned.

Revenue Recognition

The Authority charges the borrower of bond proceeds an initial application fee of $2,500 for each bond issue, recognized at time of preliminary approval. In addition, an annual administrative fee is charged based on a percentage ranging from .02% to .09% of the outstanding principal balance of the bond issue. There is a continuing policy to charge a fee of $2,500 for any modification of existing bond issues. These initial administrative fees are not recognized until the actual bond closing has occurred. The annual administrative fees are accrued monthly and billed on the annual anniversary of the bond closing.

Classification of Revenues

The Authority has classified its revenue as either operating or non-operating revenue according to the following criteria:

A) Operating revenues — Operating revenues include activities that have characteristics of exchange transactions such as fees for services for initiating and monitoring bond issues, interest earned on notes receivable which are part of the direct loan program, and other programs;

B) Non-operating revenues — Non-operating revenues include activities and revenue resources that are defined as non-operating revenues by GASB Statement No. 6, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting, and GASB Statement No. 34, such as interest, investment income, parking lot income and building rental income.

Advertising Costs

The Authority expenses advertising costs as incurred. The Authority does not participate in direct response advertising which requires the capitalization and amortization of related costs.
1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Subsequent Events

The Authority has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended June 30, 2019 through May 04, 2020, the date the financial statements were available to be issued. See Note 7.

2. Deposits and Investments

Cash and equivalents on the statements of net position consist of cash on hand with the parking lot management firm, bank demand accounts and money market funds. The bank demand accounts maintained with commercial banking institutions had book values totaling $728,085 and $784,805, and bank balances totaling $728,217 and $785,744 at June 30, 2019 and 2018, respectively. The difference of $132 and $939 between book value and bank balance represent deposits in transit and outstanding checks at June 30, 2019 and 2018, respectively.

Additionally, cash and equivalents includes money market mutual funds held by a bank in the amount of $2,430,441 and $3,925,451 at June 30, 2019 and 2018, respectively (account balance equals book balance). The money market mutual funds are not covered by FDIC.

Investments on the statements of net position consist of Authority owned non-negotiable certificates of deposit with original maturities of more than three months. These certificates of deposit had bank balances totaling $2,307,536 and $400,000 at June 30, 2019 and 2018, respectively, which is the same as their fair value. These certificates of deposits are entirely covered by FDIC insurance. All certificates mature in less than one year.

Realized gains and losses – The Authority had no realized net gain or loss on the sale of investments in 2019 or 2018. The calculation of realized gain is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that were held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the Authority restricts its investments to insured money market funds, short-term US Government and US Government Agency paper and short-term certificates of deposits issued by different institutions, subject to the FDIC limits. The Authority coordinates investment maturity to match anticipated cash flow needs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority does not have a formal policy for custodial credit risk.

Concentration of Credit Risk

The Authority diversifies its investments by type and institution. Investment policies are governed by board decisions. Investments shall be made with the objective of maximizing return while maintaining the safety and security of Authority funds. The recommended investment mix is:

- **Cash** – cash and money market funds (in an amount so it is insured through a financial institution or security broker/dealer) up to 42% of total investment amount;
- **3 month Certificates of deposit** – subject to the FDIC limit, up to 29% of total investment amount;
2. Deposits and Investments (continued)
   - 6 month Certificates of deposit – subject to the FDIC limit, up to 29% of total investment amount;
   - 1 year Certificates of deposit – subject to the FDIC limit, as determined by the Board of Directors and Investment advisors;
   - US Government and US Government Agencies paper – 3 month to 1 year maturity, as determined by the Board of Directors and Investment advisors.

Funds in excess of the specified dollar threshold are to be swept into the money market account.

At year end, more than five percent of the Authority’s investments were held in various money market funds and in bank accounts in excess of FDIC insurance. Such concentrations are permitted by the Authority’s investment policy.

3. Property and Equipment

Property and equipment consists of the following:

Parking Lots

During 2009, the Authority took possession of three parcels of land. The land is recorded at fair market value on the date it was received. The Authority, through a fee-based management agent, operates parking lots on the land for daily and monthly visitors to downtown. During 2018, the Authority purchased an easement for a cost of $119,250 that made the land complete for any future potential sale.

Capitalized costs of $40,443 relate to an archeological assessment on the Block 175 property. The archeological assessment was performed in 2012 and the report indicated several areas of historical significance on the property. The report recommends excavation of the entire area prior to development. The estimated cost of the archeological excavation and data recovery for both Block 175 and the Stone and Council site is in excess of $1,200,000. This does not include the cost of removing all modern additions to the properties. The Authority has not obtained an estimate for that cost.

450 N. Main

In March 2010, the Authority purchased land and building located at 450 N. Main, Tucson, Arizona. The Authority is holding the property for future mixed use development which is stalled due to right of way and flood zone issues. The property was held for commercial lease in anticipation that future events would allow the property to be used for mixed use/residential purposes. The building was demolished during the year ended June 30, 2019. The net book value of the building and demolition costs were added to the carry value of the land.
THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

3. Property and Equipment (continued)

Property and Equipment consists of the following at June 30, 2019 and 2018, respectfully:

<table>
<thead>
<tr>
<th>Land and other non-depreciable assets:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block 175 (used as a parking lot facility)</td>
<td>$2,359,693</td>
<td>$2,359,693</td>
</tr>
<tr>
<td>Stone and Council (used as a parking lot facility)</td>
<td>730,000</td>
<td>730,000</td>
</tr>
<tr>
<td>450 N. Main (future location for affordable housing)</td>
<td>202,816</td>
<td>137,521</td>
</tr>
<tr>
<td>Total land and other non-depreciable assets</td>
<td>3,292,509</td>
<td>3,227,214</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Depreciable assets:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building (450 N. Main demolished 2019)</td>
<td>-</td>
<td>63,720</td>
</tr>
<tr>
<td>Equipment (parking lots)</td>
<td>16,862</td>
<td>16,862</td>
</tr>
<tr>
<td>Total depreciable assets</td>
<td>16,862</td>
<td>80,582</td>
</tr>
<tr>
<td>Subtotal</td>
<td>3,309,371</td>
<td>3,307,796</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(14,525)</td>
<td>(39,165)</td>
</tr>
<tr>
<td>Total</td>
<td>$3,294,846</td>
<td>$3,268,631</td>
</tr>
</tbody>
</table>

4. Notes Receivable

Notes receivable arising from the Authority’s direct loan programs consist of the following:

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alvernon Medical Center LLC</td>
<td>$95,411</td>
</tr>
<tr>
<td>Arizona Media Arts</td>
<td>-</td>
</tr>
<tr>
<td>Arizona Theatre Company</td>
<td>-</td>
</tr>
<tr>
<td>Avenue Boutique</td>
<td>35,886</td>
</tr>
<tr>
<td>Carly Quinn Designs, Inc.</td>
<td>33,234</td>
</tr>
<tr>
<td>Casez Investment Group, LLC</td>
<td>-</td>
</tr>
<tr>
<td>Conformatatech, Inc.</td>
<td>139,955</td>
</tr>
<tr>
<td>Corbett Brewing</td>
<td>135,421</td>
</tr>
<tr>
<td>Courtney Medical Group PLLC</td>
<td>84,378</td>
</tr>
<tr>
<td>Dakota Pro, LLC</td>
<td>46,115</td>
</tr>
<tr>
<td>Desert Horizons</td>
<td>135,269</td>
</tr>
<tr>
<td>Ermanos Craft Beer Depot LLC</td>
<td>125,000</td>
</tr>
<tr>
<td>Gibson’s Market, LLC (Note 2 of 2)</td>
<td>102,776</td>
</tr>
<tr>
<td>GreCycle Arizona LLC</td>
<td>95,284</td>
</tr>
<tr>
<td>Individual low income homebuyers</td>
<td>3,407</td>
</tr>
<tr>
<td>Kaelen Harwell Organic Day Spa LLC</td>
<td>35,782</td>
</tr>
<tr>
<td>Kassel Fire Protection, Inc.</td>
<td>115,302</td>
</tr>
<tr>
<td>Kingman Place, LLC</td>
<td>241,219</td>
</tr>
<tr>
<td>Nonprofit Loan Fund of Tucson and Southern Arizona</td>
<td>-</td>
</tr>
<tr>
<td>Pueblo Vida Brewing Co.</td>
<td>44,664</td>
</tr>
<tr>
<td>Seoul Kitchen Corporation</td>
<td>70,627</td>
</tr>
<tr>
<td>Ten 55 Brewpub, LLC</td>
<td>144,525</td>
</tr>
<tr>
<td>The River 5, LLC</td>
<td>60,000</td>
</tr>
<tr>
<td>Thunder Canyon Brewery, Inc.</td>
<td>15,321</td>
</tr>
<tr>
<td>Wavelab Downtown, LLC</td>
<td>55,856</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,822,432</td>
</tr>
<tr>
<td>Less current portion, net of allowance</td>
<td>(122,484)</td>
</tr>
<tr>
<td>Less allowance for loan loss</td>
<td>(44,687)</td>
</tr>
<tr>
<td>Notes receivable, long term, net of allowance</td>
<td>$1,655,261</td>
</tr>
</tbody>
</table>
4. Notes Receivable (continued)

Alvernon Medical Center, LLC

In May 2017, the Authority advanced $105,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to Alvernon Medical Center, LLC, for the purpose of acquiring property in Tucson, Arizona. The note is collateralized by a deed of trust and calls for interest at 6.0% annually, and monthly payments of $886 until May 2027, at which time the unpaid balance is due.

Arizona Media Arts

In September 2003, the Authority advanced $48,400 to the Arizona Media Arts to refinance a loan. The note is collateralized by a first deed of trust and calls for interest at 6.0% annually, and monthly payments of $408 until October 2018, at which time the unpaid balance is due. This note was paid in full during fiscal 2019.

Arizona Theatre Company

In November 2013, the Authority advanced $50,000 as a 50% owner in a participation loan with the Industrial Development Authority of the County of Pima, to the Arizona Theatre Company for the purpose of working capital. The note is collateralized by a deed of trust and calls for interest at 4.5% annually and monthly payments of $1,140.17 until October 2018, at which time the unpaid balance is due. This note was paid in full during fiscal 2019.

All M Designs, LLC (dba Avenue Boutique)

In April 2018, the Authority advanced $40,000 as an 80% owner in a participation loan with the Business Development Financing Corporation to All M Designs, LLC dba Avenue Boutique, for the purpose of working capital. The note is collateralized by a second deed of trust and a security interest in the business assets and calls for interest at 9.25% annually, and monthly payments of $512 until April 2023, at which time the unpaid balance is due.

Carly Quinn Designs, Inc.

In April 2017, the Authority advanced $37,500 as a 50% owner in a participation loan with the Business Development Financing Corporation to Carly Quinn Designs, Inc., for the purpose of making renovations to the building in the downtown area in Tucson, Arizona. The note is collateralized by security interests in business assets and calls for interest at 8.5% annually, and monthly payments of $465 until April 2022, at which time the unpaid balance is due.

Casez Investment Group, LLC

In October 2012, the Authority advanced $100,000 as a 40% owner in a participation loan with the Business Development Financing Corporation, to Casez Investment Group, LLC to refinance three carwashes in the Tucson, Arizona area. The note is collateralized by a second deed of trust and calls for interest at 3.75% annually and monthly payments of $646 until September 2022, at which time the unpaid balance is due. This note was paid in full during fiscal 2019.

Conformatatech, Inc.

In March 2019, the Authority advanced $140,000 as a 48.28% owner in a participation loan with the Business Development Financing Corporation to CTEC Properties LLC, for the purpose of refinancing debt and working capital. The note is collateralized by a deed of trust and calls for interest at 6.75% annually fixed for the first 5 years, and then adjusted to 10-Year Treasury plus 4.00%, amortized over the final 20 years. Monthly payments of $967 until March 2044, at which time the unpaid balance is due.
4. Notes Receivable (continued)

**Corbett Brewing**

In February 2016, the Authority advanced $150,000 as a 50% owner in a participation loan with Business Development Financing Corporation to Red 417, LLC dba Corbett Brewing for acquiring machinery and equipment, working capital and the improvement of property in Tucson, Arizona. The note is collateralized by a deed of trust and calls for interest at 6.00% annually and monthly payments of $1,075 until February 2026 at which time the unpaid balance is due.

**Courtney Medical Group PLLC**

In July 2018, the Authority advanced $85,000 as a 42.5% owner in a participation loan with the Business Development Financing Corporation to Courtney Medical Group PLLC, for the purpose of acquiring land and constructing a commercial real estate building. The note is collateralized by a deed of trust and calls for interest at 7.0% annually, and monthly payments of $601 until July 2043, at which time the unpaid balance is due.

**Dakota Pro, LLC**

In May 2015, the Authority advanced $92,000 as a 38.98% owner in a participation loan with Business Development Financing Corporation to Dakota Pro, LLC for the purpose of acquiring and installing equipment at a location in Tucson, Arizona. The note is collateralized by a deed of trust and calls for interest at 6.75% annually and monthly payments of $1,377 until April 2022, at which time the unpaid balance is due.

**Desert Horizons**

In April 2016, the Authority advanced $150,000 as a 50% owner in a participation loan with Business Development Financing Corporation to CB Real Estate Investments dba Desert Horizons Communities for acquiring machinery and equipment, working capital and the improvement of property in Tucson, Arizona. The note is collateralized by a deed of trust and initially calls for interest at 4.89% annually to be adjusted to 3.00% plus the 10 year U.S Treasury Note on April 2021 and initial monthly payments of $981, to be redetermined April 2021 until April 2026 at which time the unpaid balance is due.

**Ermanos Craft Beer Depot LLC**

In June 2019, the Authority advanced $125,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to Ermanos Craft Beer Depot LLC, for the purpose of tenant improvements and to purchase equipment. The note is collateralized by a deed of trust and calls for interest at 7.5% annually fixed for the first 5 years, and then adjusted to 10-Year Treasury plus 4.75%, amortized over the final 5 years. Monthly payments of $1,484 until June 2028, at which time the unpaid balance is due.

**Gibson’s Market, LLC (Note 2 of 2)**

In June 2017, the Authority advanced $121,025 as a 50% owner in a participation loan with the Business Development Financing Corporation to Gibson’s Market, LLC (a second note receivable from this business), for the purpose of refinancing existing loans. The note is collateralized by a second deed of trust and a security interest in the business assets and calls for interest at 7.5% annually, and monthly payments of $1,437 until June 2027, at which time the unpaid balance is due.

**Greecycle Arizona LLC**

In July 2018, the Authority advanced $105,250 as a 50% owner in a participation loan with the Business Development Financing Corporation to Greecycle Arizona LLC, for the purpose of refinancing commercial real estate debt. The note is collateralized by a deed of trust and calls for interest at 6.0% annually, and monthly payments of $973 until July 2029, at which time the unpaid balance is due.
4. **Notes Receivable (continued)**

**Individual low income homebuyers**

During the period October 2005 through December 2005, the Authority made four separate advances of $11,250 each to four separate qualified low income homebuyers in the form of subordinated second mortgages to assist these low income homebuyers in qualifying for homes that were otherwise unaffordable based on available household income at the time of the home purchases. These four notes are collateralized by second deeds of trust and call for interest at 3.0% annually. However, the first 5 years of interest was being accrued to the outstanding balances. Monthly payments of $72 began between the months of November 2010 and January 2011 with final payments scheduled between the months of October 2030 and December 2030. During fiscal 2016, one of these notes, with an outstanding balance of $12,536, was reduced to $0, due to several months of non-payments. During fiscal 2019, one of the remaining notes was paid in full.

**Kaelen Harwell Organic Day Spa, LLC**

In July 2018, the Authority advanced $37,500 as a 50% owner in a participation loan with the Business Development Financing Corporation to Kaelen Harwell Organic Day Spa, LLC, for the purpose of acquiring equipment and working capital. The note is collateralized by a deed of trust and calls for interest at 9.5% annually, and monthly payments of $485 until July 2028, at which time the unpaid balance is due.

**Kazal Fire Protection, Inc.**

In October 2012, the Authority advanced $150,000 as a 50% owner in a participation loan with the Business Development Financing Corporation, to Kazal Fire Protection, Inc. to refinance an industrial building located in the downtown area of Tucson, Arizona. The note is collateralized by a second deed of trust and calls for interest at 3.75% annually and monthly payments of $969 until September 2022, at which time the unpaid balance is due.

**Kingan Place LLC**

In July 2017, the Authority advanced $250,000 as a 62.5% owner in a participation loan with the Business Development Financing Corporation to Kingan Place LLC, for the purpose of acquiring machinery and equipment. The note is collateralized by a second deed of trust and calls for interest at 7.5% annually, and monthly payments of $1,535 until July 2027, at which time the unpaid balance is due.

**Nonprofit Loan Fund of Tucson and Southern Arizona**

In December 2013, February 2015, and December 2017, the Authority advanced $50,000, $50,000, and $50,000, respectively to the Nonprofit Loan Fund of Tucson and Southern Arizona for the purpose of making loans to qualifying nonprofit organizations in the city of Tucson, Arizona and southern Arizona. The note is unsecured and calls for interest-only payments at 2% annually made semi-annually with principal due in full for $50,000, $50,000 and $50,000 in December 2018, February 2020, and December 2022, respectively. This note was paid in full during fiscal 2019.

**Pueblo Vida Brewing Co.**

In June 2017, the Authority advanced $50,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to Pueblo Vida Brewing Co., for the purpose of acquiring machinery and equipment. The note is collateralized by a security interest in the business assets and calls for interest at 7.5% annually, and monthly payments of $594 until June 2027, at which time the unpaid balance is due.
4. Notes Receivable (continued)

Seoul Kitchen Corporation

In March 2018, the Authority advanced $75,000 as a 75% owner in a participation loan with the Business Development Financing Corporation to Seoul Kitchen Corporation, for the purpose of renovations and working capital. The note is collateralized by a second deed of trust and calls for interest at 9.25% annually, and monthly payments of $1,530 until March 2023, at which time the unpaid balance is due.

Ten55 Brewpub LLC

In June 2018, the Authority advanced $150,000 as a 75% owner in a participation loan with the Business Development Financing Corporation to Ten55 Brewpub LLC, for the purpose of tenant improvements. The note is collateralized by a security interest in the business assets and calls for interest at 9.25% annually, and monthly payments of $3,132 until June 2023, at which time the unpaid balance is due.

The River 5, LLC

In May 2019, the Authority advanced $60,000 as a 50% owner in a participation loan with the Business Development Financing Corporation to The River 5, LLC, for the purpose of acquiring commercial real estate in Tucson, Arizona. The note is collateralized by a deed of trust and calls for interest at 6.0% annually, and monthly payments of $430 until May 2039, at which time the unpaid balance is due.

Thunder Canyon Brewery, Inc.

In June 2012, the Authority advanced $97,500 as a 50% owner in a participation loan with the Business Development Financing Corporation, to Thunder Canyon Brewery, Inc. to purchase equipment for a real estate location in the downtown area of Tucson, Arizona. The note is collateralized by a second deed of trust and calls for interest at 6.5% annually and monthly payments of $1,448 until June 2019, at which time the unpaid balance is due.

Wavelab Downtown, LLC

In September 2012, the Authority advanced $70,000 as a 50% owner in a participation loan with the Business Development Financing Corporation, to Wavelab Downtown, LLC to acquire an industrial building located in the downtown area of Tucson, Arizona. The note is collateralized by a second deed of trust and calls for interest at 6.50% annually and monthly payments of $522 until August 2032, at which time the unpaid balance is due.

5. Revenue Bonds (Conduit Debt) (Unaudited)

The Authority has issued limited obligation tax-exempt bonds. Proceeds from bond issues were loaned to qualifying borrowers for development of industry and housing. The outstanding bond obligation was $41,551,546 and $43,312,579 as of June 30, 2019 and 2018, respectively. The obligation is to be repaid solely from loan payments made on behalf of or directly by qualifying borrowers and bond proceeds held and invested in trust or other collateral pledged by the qualifying borrowers.
6. Program Advances and Related Fees Earned, Net of Withdrawals

Program advances includes funds held by the fiscal agent for the 2012 Pima Tucson Homebuyers’ Solution Program (PTHS) and the Pathway to Purchase Program (P2P). Under the terms of both of these Programs, the Authority has advanced funds to the fiscal agent for the purpose of providing down-payment assistance through program intermediaries to qualifying homebuyers in the Tucson area. After closing, pooled mortgages are securitized and sold on the open market generating both fee income to the Authority and the return of the down payment assistance advanced by the fiscal agent based on the realized spread between prevailing tax-advantaged bond rates and the underlying rate at which mortgages are made.

Fees earned by the Authority under the P2P Program (which restarted in October 2018) were $95,480 and $0 for the years ended June 30, 2019 and 2018, respectively, and are included in refunding, issuer and administration fees.

Fees earned by the Authority under the PTHS Program were $86,759 and $396,091 for the years ended June 30, 2019 and 2018, respectively, and are included in refunding, issuer and administration fees.

Additionally, the Authority earns a percentage fee based on the spread in interest rates underlying the mortgage pools. These transactions are affected by the investment banker and do not expose the Authority to credit risk. Related fees earned by the Authority were $181,288 and $283,201, for the years ended June 30, 2019 and 2018, respectively, and are included in refunding, issuer and administration fees.

7. Subsequent Events

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern”. The COVID-19 pandemic is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Authority’s operational and financial performance will depend on certain developments, including the duration, severity and spread of the outbreak as well as the impact on its customers and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which the COVID-19 pandemic may materially impact the financial condition or results of operations is uncertain and cannot be reasonably estimated.