

**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**

**AUDITED FINANCIAL STATEMENTS**

**FISCAL YEARS ENDED  
JUNE 30, 2011 AND 2010**

**BOARD OF DIRECTORS**

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Executive Director  
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***INDEPENDENT AUDITORS' REPORT***



## INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Directors  
Economic Development Authority of the  
City of Winchester, Virginia  
Winchester, Virginia

We have audited the accompanying financial statements of the Economic Development Authority of the City of Winchester, Virginia (the "Authority") as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Authority has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying schedule of bonds outstanding is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of bonds outstanding has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



January 31, 2012



***FINANCIAL STATEMENTS***



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA  
STATEMENTS OF NET ASSETS  
At June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,332,523	\$ 753,962
Prepaid expenses	-	1,517
Bond administration fee receivable	<u>134,105</u>	<u>88,335</u>
Total Current Assets	<u>1,466,628</u>	<u>843,814</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents	<u>573,211</u>	<u>616,356</u>
Capital Assets:		
Equipment	9,029	9,029
Less accumulated depreciation	<u>(8,895)</u>	<u>(7,865)</u>
Total capital assets (net of accumulated depreciation)	<u>134</u>	<u>1,164</u>
Other Assets:		
Notes receivable	312,532	114,057
Permanently deferred notes receivable	(52,550)	(52,550)
Property held for development	<u>1,393,439</u>	<u>623,734</u>
Total Other Assets	<u>1,653,421</u>	<u>685,241</u>
<b>Total Assets</b>	<u>3,693,394</u>	<u>2,146,575</u>
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	5,086	2,109
Interest payable	1,109	-
Due to related parties	1,690	4,532
Security deposits payable	-	1,625
Deferred liabilities	799,912	-
Held for others	<u>14,613</u>	<u>14,613</u>
Total Current Liabilities	<u>822,410</u>	<u>22,879</u>
Long-Term Liabilities:		
Note payable, net of current portion	<u>400,000</u>	<u>-</u>
<b>Total Liabilities</b>	<u>1,222,410</u>	<u>22,879</u>
<b>Net Assets</b>		
Invested in capital assets	134	1,164
Restricted for endowment - expendable	573,211	616,356
Unrestricted	<u>1,897,639</u>	<u>1,506,176</u>
<b>Total Net Assets</b>	<u>\$ 2,470,984</u>	<u>\$ 2,123,696</u>

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



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA  
STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating revenue</b>		
Bond administration fees	\$ 309,105	\$ 132,890
Application fees	1,000	2,000
Contribution from City of Winchester	590,835	287,143
Rental income	-	8,636
Miscellaneous	-	35
	<u>900,940</u>	<u>430,704</u>
<b>Operating expenses</b>		
Professional fees	43,210	55,621
Office expense	2,523	-
Insurance	1,603	1,577
Interest expense	1,109	-
Survey expense	2,500	-
Consulting expense	4,185	-
Economic analysis	45,950	26,238
Appraisal fees	7,000	3,000
Depreciation	1,030	1,484
Service charges	79	112
Business development grant	290,835	287,143
Economic development	300,000	-
Rental expense	75	194
Utilities	4,165	-
Taxes	1,820	-
	<u>706,084</u>	<u>375,369</u>
<b>Operating income (loss)</b>	<u>194,856</u>	<u>55,335</u>
<b>Non-operating revenues (expenses)</b>		
Gain(loss) on sale of property held for development	147,254	(148,314)
Interest income	1,676	2,014
Dividend income	3,502	5,011
	<u>152,432</u>	<u>(141,289)</u>
<b>Change in Net Assets</b>	347,288	(85,954)
<b>Net Assets, Beginning of Year</b>	<u>2,123,696</u>	<u>2,209,650</u>
<b>Net Assets, End of Year</b>	<u>\$ 2,470,984</u>	<u>\$ 2,123,696</u>

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





**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2011 and 2010**

	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 264,335	\$ 191,236
Cash payments to suppliers for goods and services	(703,306)	(396,805)
Contribution from City of Winchester	590,835	287,143
Net Cash Used by Operating Activities	151,864	81,574
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from note payable	400,000	-
Net Cash Used by Noncapital Financing Activities	400,000	-
<b>Cash Flows from Investing Activities:</b>		
Interest received	1,676	3,812
Dividends received	3,502	5,011
Loans made to others	(225,000)	-
Loan repayments received	26,525	5,595
Proceeds from sale of property held for development	685,000	625,000
Purchase and improvements to property held for development	(508,151)	(1,302,133)
Net Cash Provided by Investing Activities	(16,448)	(662,715)
Net Increase (Decrease) in Cash and Cash Equivalents	535,416	(581,141)
Cash and Cash Equivalents, Beginning of Year	1,370,318	1,951,459
Cash and Cash Equivalents, End of Year	\$ 1,905,734	\$ 1,370,318
<b>Reconciliation of operating income to net cash used by operating activities</b>		
Operating income (loss)	\$ 194,856	\$ 55,335
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation	1,030	1,484
Changes in assets and liabilities:		
(Increase) decrease in bond administration fee receivable	(45,770)	47,675
Decrease in prepaid expenses	1,517	60
Increase (decrease) in accounts payable	135	(24,605)
Increase in interest payable	1,109	-
Increase in deferred liability	612	-
Increase (decrease) in security deposits payable	(1,625)	1,625
Net cash used by operating activities	\$ 151,864	\$ 81,574
<b>Noncash investing, capital, and financing activities:</b>		
Conveyance of former Social Services Building (Note 10)		
Conveyance of property from the City of Winchester	\$ 799,300	\$ -
Deferred liability	(799,300)	-
	\$ -	\$ -

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



ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Economic Development Authority of the City of Winchester, Virginia (the "Authority") was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City of Winchester on October 15, 1967, pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373, et seq., of the Code of Virginia (1950) as amended [the Code]). The Authority is governed by seven directors appointed by the City of Winchester, Virginia. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Winchester, Virginia.

The Authority is authorized to issue revenue bonds upon application by qualified applicants for the purpose of acquiring, constructing, equipping, and rehabilitating certain facilities as provided in Chapter 49 of the Industrial Development and Revenue Bond Act as set forth in the Code. Upon issuance, the proceeds of the bonds are loaned to the applicant, who then agrees to repay the bonds as set forth in the Loan Agreement executed in connection with the issuance of the bonds. Section 15.2-4909 of the Code specifically provides that the bonds shall not be deemed to constitute a debt or a pledge of the faith and credit of the Commonwealth, or any political subdivision thereof, including the locality issuing the bonds. Such bonds are payable solely from the revenues and moneys pledged for such purpose by the applicant, and are secured by a deed of trust, line of credit, and/or other pledge of the applicant's assets.

B. Enterprise Fund Financial Statements

Statement of Net Assets – The Statement of Net Assets is designed to display financial position of the Authority. The Authority reports all capital assets in the Statement of Net Assets and reports depreciation expense – the cost of "using up" capital assets – in the Statement of Revenues, Expenses, and Changes in Net Assets. The net assets of the Authority are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

C. Measurement Focus and Basis of Accounting

The Authority has prepared its financial statements using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Authority accrues expenses for services rendered but not yet paid at the end of the year.

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

The Authority follows all applicable GASB pronouncements and FASB pronouncements issued before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA  
Notes to Financial Statements  
June 30, 2011 and 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

C. Measurement Focus and Basis of Accounting (continued)

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for application and administration fees. Operating expenses include professional fees, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with maturities of 90 days or less.

E. Investments

The Authority reports investments at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

F. Contributions and Grants from Local Governments

Contributions and grants from local governments are recognized as income of the Authority when the activities for which the contributions and grants were designated have been completed.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Restricted Assets

Restricted assets of \$573,211 and \$616,356 at June 30, 2011 and 2010, respectively, represent the balance of an endowment fund established by an agreement between the Authority, the Winchester-Frederick County Industrial Development Corporation, the City of Winchester, and the Winchester-Frederick Chamber of Commerce Foundation.

I. Capital Assets

Capital assets include property, plant, and equipment with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Equipment is depreciated using the straight-line method over an estimated useful life of seven years.



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

J. 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.

**2. DEPOSITS AND INVESTMENTS**

Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon the choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Authority has no investment policies that would further limit their investment choices.

*Credit Risk* – The Authority's investments are subject to credit risk, concentration of credit risk, and interest rate risk as described below. The Authority's investments are not subject to custodial risk or foreign currency risk.

The Authority's rated debt investments as of June 30, 2011 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Quality Ratings</u>	
		<u>AAAm</u>	<u>Unrated</u>
<u>Primary Government</u>			
Local Government Investment Pool	\$ 1,726,396	\$ 1,726,396	\$ -
Total Fair Value	<u>\$ 1,726,396</u>	<u>\$ 1,726,396</u>	<u>\$ -</u>

*Concentration of Credit Risk* – The Authority places no limits on the amount that may be invested in any one issuer.

*Interest Rate Risk* – As of June 30, 2011, the Authority had investments with the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
<u>Primary Government</u>				
Local Government Investment Pool	\$ 1,726,396	\$ 1,726,396	\$ -	\$ -
Total Fair Value	<u>\$ 1,726,396</u>	<u>\$ 1,726,396</u>	<u>\$ -</u>	<u>\$ -</u>

The Authority does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arriving from increasing interest rates.



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA  
Notes to Financial Statements  
June 30, 2011 and 2010**

**3. PERMANENTLY DEFERRED NOTES RECEIVABLE**

A summary of the Authority's permanently deferred notes receivable is as follows:

At June 30, 2011 and 2010, permanently deferred notes receivable consisted of a promissory note with Joleen, LC in the amount of \$52,550. This note is non-interest bearing and shall be deemed fully paid and satisfied in the event that Joleen, LC constructs an additional 50,000 square feet of retail space in a shopping center it owns prior to October 12, 2012, which is the maturity date of the promissory note. Since it is expected that Joleen, LC will satisfy the terms of the note by constructing the additional retail space, the full amount of this note is reported as permanently deferred notes receivable in the Statement of Net Assets.

**4. CAPITAL ASSETS**

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

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets, being depreciated:				
Equipment	9,029	-	-	9,029
Less accumulated depreciation for:				
Equipment	(7,865)	(1,030)	-	(8,895)
Total capital assets being depreciated, net	1,164	(1,030)	-	134
Authority capital assets, net	<u>\$ 1,164</u>	<u>\$ (1,030)</u>	<u>\$ -</u>	<u>\$ 134</u>

**5. RELATED PARTY TRANSACTIONS**

During fiscal years 2011 and 2010, the Authority incurred fees of \$38,165 and \$51,318, respectively, for legal services provided by Michael L. Bryan, who serves as both secretary and counsel for the Authority. Of these amounts, \$1,690 was payable at June 30, 2011 and \$4,532 was payable at June 30, 2010.

**6. RESTRICTED NET ASSETS**

As of June 30, 2011 and 2010, net assets restricted for other purposes and not considered to be available for general spending due to external limitations were as follows:

	2011	2010
Winchester-Frederick County IDC Endowment Fund	<u>\$ 573,211</u>	<u>\$ 616,356</u>

**7. ENDOWMENT FUND**

The Authority entered into an Endowment Fund agreement with the Winchester-Frederick County Industrial Development Corporation (IDC), the City of Winchester, and the Winchester-Frederick Chamber of Commerce Foundation. The terms of the agreement, which became effective during fiscal year 2002, are as follows:



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA  
Notes to Financial Statements  
June 30, 2011 and 2010**

**7. ENDOWMENT FUND (continued)**

- a. All funds received by the Authority from the IDC will be held in an endowment fund for not less than 10 years from the date of transfer.
- b. During the 10-year term of the endowment fund, the City of Winchester, Virginia, must provide services of value to the Authority at a minimum level of \$80,000 per year.
- c. For so long as the minimum funding requirements are met, the Authority may withdraw up to 7% of total assets of the endowment one time in any fiscal year, which will be based on the value of the assets as of the last day of the preceding fiscal year.

**8. LONG TERM DEBT**

A summary of the Authority's long-term debt is as follows:

\$400,000 note payable to Summit Bank, issued June 10, 2011. Payable in full no later than June 10, 2014. Interest payments are made monthly at a rate of 4.99% per annum. This note is secured by a first deed of trust on the properties located at 443 and 450-452 North Loudoun Street in Winchester, Virginia.	<u>\$ 400,000</u>
Total Long-Term Debt	<u>\$ 400,000</u>

Maturities of long-term debt by year are as follows:

Year Ending June 30,	Interest	Principal
2012	\$ 20,293	\$ -
2013	20,237	-
2014	20,237	400,000
Total	<u>\$ 60,767</u>	<u>\$ 400,000</u>

**9. CONTINGENCIES**

As a condition of the Endowment Fund agreement discussed in Note 7, the City of Winchester must provide services to the Authority at a minimum level of \$80,000 per annum. If this service requirement is not met, then all remaining assets in the Authority's endowment fund will revert to and be transferred to the Winchester-Frederick Chamber of Commerce Foundation.

For fiscal years 2011 and 2010, the City provided human resources, facilities, use of City services, and budget authority to the Authority. The value of these services is estimated to exceed the \$80,000 minimum required by the endowment fund agreement.

(Notes continued on next page)



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA  
Notes to Financial Statements  
June 30, 2011 and 2010**

**10. PROPERTY HELD FOR DEVELOPMENT**

Property held for development is composed of the following at June 30, 2011 and 2010:

	2011	2010
502-504 N. Kent Street	\$ 90,615	\$ 90,615
Perc Fitness Property	-	329,802
146-148 N. Loudoun Street	-	202,705
Former Social Services Building	799,912	612
443, 450-452, 513 N Loudoun Street	<u>502,912</u>	<u>-</u>
Total property held for development	<u>\$ 1,393,439</u>	<u>\$ 623,734</u>

**11. DEFERRED LIABILITIES**

On April 13, 2011 the City of Winchester conveyed property located at 29-35 East Boscawen Street in Winchester, Virginia (the "Property"). The Property had an assessed value of \$799,300. The Property was conveyed under an agreement dated February 16, 2011 between the Authority and the City of Winchester whereby the Authority is required to make reasonable efforts to secure an agreement from a private partner for the redevelopment of the Property. Upon successful execution of this agreement, the Authority will convey the Property to the private partner. In the event that the Authority is unsuccessful in securing such an agreement described above, the property must be conveyed back to the City of Winchester. As either absolution of the agreement results in the Authority conveying the property to another party, a deferred liability equaling the assessed value of the Property exists at June 30, 2011.

**12. SUBSEQUENT EVENTS**

On September 22, 2011 the Authority entered into a development agreement with Oakcrest Properties, LLC for the renovation and rehabilitation of 29-35 East Boscawen Street in the City of Winchester (the "Property"). This agreement states that within thirty days of approval of the application of certain Historic Tax Credits filed by Oakcrest Properties, LLC, but in no event later than December 1, 2011 the Property shall be conveyed to Oakcrest Properties, LLC. As of January 31, 2012, the property had not yet been conveyed.

On October 11, 2011 the property known as 150 Commercial Street in Winchester, Virginia (the "Property") was conveyed to the Authority. On December 22, 2011 the Property was sold for consideration totaling \$425,000.



***SUPPLEMENTARY SCHEDULE***





**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA  
SCHEDULE OF BONDS OUTSTANDING  
At June 30, 2011**

Name of Issue	Issued on Behalf of	Original Amount Issued	Date of Original Issue	Name of Trustee	Aggregate Outstanding Payable June 30, 2011
Industrial Development Hospital Facility Revenue Refunding Bonds, Series 1993	Winchester Medical Center, Inc.	\$ 43,695,000	07/01/93	Regions Bank	\$ 9,200,000
Industrial Development Education Facilities First Mortgage Revenue Bonds, Series 1998	Shenandoah University	22,245,000	03/18/98	Bank of New York	17,350,000
Industrial Development Residential Care Facility Revenue Bonds, Series 2005A	Westminster-Canterbury of Winchester, Inc.	39,085,000	06/09/05	U.S. Bank	34,420,000
Industrial Development Variable Rate Residential Care Facility Revenue Bonds, Series 2005B	Westminster-Canterbury of Winchester, Inc.	26,665,000	06/09/05	U.S. Bank	11,350,000
Industrial Development Hospital Revenue Bonds, Series 2007	Winchester Medical Center, Inc.; Shenandoah Memorial Hospital, Inc.; and Warren Memorial Hospital	88,335,000	01/01/07	Regions Bank	88,335,000
Industrial Development Hospital Revenue Bonds, Series 2009A	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	25,000,000
Industrial Development Hospital Revenue Bonds, Series 2009B	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	25,000,000
Industrial Development Hospital Revenue Bonds, Series 2009C	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	25,000,000
Industrial Development Hospital Revenue Bonds, Series 2009D	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	25,000,000
Industrial Development Hospital Revenue Bonds, Series 2009E	Winchester Medical Center, Inc.	75,000,000	12/17/09	Regions Bank	75,000,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2010	Sunshine's Pride, LLC	7,100,000	05/07/10	Wells Fargo	6,125,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2011	NW Works, Inc.	2,300,000	12/20/10	Wells Fargo	2,290,000
		<u>\$ 404,425,000</u>			<u>\$ 344,070,000</u>

**COMPLIANCE SECTION**



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Members of the Board of Directors  
Economic Development Authority of the  
City of Winchester, Virginia

We have audited the financial statements of the Economic Development Authority of the City of Winchester, Virginia (the "Authority"), as of and for the year ended June 30, 2011, and have issued our report thereon dated January 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 11-1

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses to be a significant deficiency: 11-2

Compliance and Other Matters

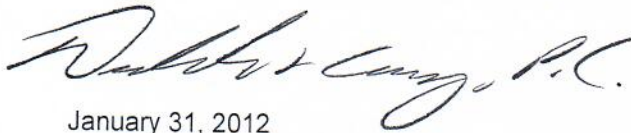
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the



determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the Authority and is not intended to be and should not be used by anyone other than this specified party.



January 31, 2012



**ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2011**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Economic Development Authority of the City of Winchester (the "Authority").
2. One control deficiency disclosed during the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Item 11-1 is reported as a material weakness. Item 11-2 is reported as a significant deficiency.
3. No instances of noncompliance material to the financial statements of the Economic Development Authority of the City of Winchester were disclosed during the audit.

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**MATERIAL WEAKNESS**

11– 1 Financial Statement Preparation

*Condition:* Material audit adjustments were required in order for the Authority's financial statements to be fairly stated in accordance with generally accepted accounting principles (GAAP).

*Criteria:* Proper internal controls over financial reporting include controls over the general ledger and the preparation of the financial statements. The auditor cannot be considered a compensating control for the client.

*Cause:* Internal controls over financial reporting were inadequately designed.

*Effect:* Because of the failure to adjust financial accounts, such as accounts receivable, prepaid expenses, property held for development, accounts payable, and amounts held for others, the financial statements, prior to the posting of audit adjustments, were not fairly stated.

*Recommendation:* The Authority should implement procedures to ensure that all adjustments for GAAP financial reporting have been made at the close of each fiscal year.

*Management Response:* Accountant will work more closely with the Director of the EDA to ensure proper supporting documentation is available for all transactions. Accountant will be receiving copies of all board meeting minutes within 7 days of their preparation in order to better understand the business transactions of the organization which will allow for timely and correct financial reporting. Additionally, accountant will focus 50% of required continuing professional educational hours on financial reporting issues in calendar year 2012.



## SIGNIFICANT DEFICIENCY

## 11-2 Accounting for Loan Payments Received

*Condition:* Payments made to the Authority for loans receivable are not being properly applied to principal and interest.

*Criteria:* Proper procedures should be in place to ensure that loan payments are applied to principal on the basis of date and amount of payment.

*Cause:* Loan amortization calculations were not properly adjusted to reflect actual payments.

*Effect:* Because of the failure to adjust loan amortization calculations to actual payments received, an immaterial overpayment occurred.

*Recommendation:* The Authority should implement procedures to ensure that all principal and interest portions of all loan payments are properly calculated and recorded.

*Management Response:* Allocations of interest and principal will be allocated according to the loan amortization schedules prepared based on the original loan agreements on file at the time payment is received. Should payments be received in amounts other than those required by the loan documents, new amortization schedules will be prepared as necessary. All loan balances and interest income will be adjusted to supporting documentation at the time of payment and any discrepancies brought to the attention of the director for resolution.

