

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

**FINANCIAL REPORT**

**June 30, 2012**

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

**DIRECTORY OF PRINCIPAL OFFICIALS**

**BOARD OF DIRECTORS**

Larry Omps, Chairman  
Ron Mislowsky, Vice Chairman  
Joseph Kalbach  
William Buettin  
J.P. Carr  
Suzanne Conrad  
Daniel Troup

**OFFICIALS**

James Deskins, Executive Director  
Michael Bryan, Secretary/Counsel

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Economic Development Authority of the City of Winchester  
Winchester, Virginia

We have audited the accompanying basic financial statements of the Economic Development Authority of the City of Winchester, Virginia (the "Authority"), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the City of Winchester Economic Development Authority as of June 30, 2011, were audited by other auditors whose report dated January 31, 2012, expressed an unmodified opinion on those statements.

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 the 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 the 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 above present fairly, in all material respects, the financial position of the Economic Development Authority of the City of Winchester, Virginia as of June 30, 2012, and the changes in its financial position and cash flows for the year 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 December 31, 2013, on our consideration of the Authority's internal control over financial reporting and on 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 audit.

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

*Brown, Edwards & Company, L.L.P.*  
CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
December 31, 2013



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

## STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 910,019	\$ 1,332,523
Assets held for others (Note 3)	600,000	799,912
Bond administration fees receivable	87,245	134,105
Total current assets	<u>1,597,264</u>	<u>2,266,540</u>
Noncurrent assets:		
Cash and cash equivalents, restricted (Note 2)	-	573,211
Notes receivable, net (Note 4)	451,661	259,982
Property held for development (Note 5)	1,641,518	593,527
Capital assets, net (Note 6)	-	134
	<u>2,093,179</u>	<u>1,426,854</u>
Total assets	<u>3,690,443</u>	<u>3,693,394</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	32,785	6,776
Interest payable	1,109	1,109
Assets held for others (Note 3)	600,000	799,912
Total current liabilities	<u>633,894</u>	<u>807,797</u>
Noncurrent liabilities:		
Notes payable (Note 7)	396,225	400,000
Total liabilities	<u>1,030,119</u>	<u>1,207,797</u>
<b>NET ASSETS</b>		
Invested in capital assets	-	134
Restricted for endowment (Note 9)	-	573,211
Unrestricted, as restated (Note 12)	2,660,324	1,912,252
Total net assets	<u>\$ 2,660,324</u>	<u>\$ 2,485,597</u>

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>		
Bond administration fees	\$ 353,330	\$ 309,105
Application fees	500	1,000
Contribution from City of Winchester - cash	129,748	590,835
Contribution from City of Winchester - property	197,500	-
Contribution for purchase of Taylor Hotel	52,475	-
Total operating revenue	<u>733,553</u>	<u>900,940</u>
<b>Operating expenses:</b>		
Professional fees	73,437	43,210
Office expense	108	2,523
Insurance	4,356	1,603
Interest expense	20,550	1,109
Survey expense	5,950	2,500
Consulting expense	56,993	4,185
Economic analysis	35,000	45,950
Appraisal fees	3,500	7,000
Depreciation	134	1,030
Service charges	25	79
Business development grants	129,748	290,835
Economic development	242,513	300,000
Rental expense	1,321	75
Utilities	369	4,165
Miscellaneous	121	1,820
Total operating expenses	<u>574,125</u>	<u>706,084</u>
Operating income	159,428	194,856
<b>Nonoperating revenues:</b>		
Gain on sale of property held for development	-	147,254
Interest income	12,785	1,676
Dividend income	2,514	3,502
Total nonoperating revenues	<u>15,299</u>	<u>152,432</u>
Change in net assets	174,727	347,288
Net assets:		
Beginning of the year, as restated (Note 12)	<u>2,485,597</u>	<u>2,138,309</u>
End of the year	<u>\$ 2,660,324</u>	<u>\$ 2,485,597</u>

The Notes to Financial Statements are an integral part of these statements.

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

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 400,690	\$ 264,335
Cash payments to suppliers for goods and services	(547,981)	(703,306)
Contributions from City of Winchester	129,748	590,835
Contributions for purchase of Taylor Hotel	52,475	-
	<u>34,932</u>	<u>151,864</u>
Net cash provided by operating activities		
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	400,000
Principal paid on notes payable	(3,775)	-
	<u>(3,775)</u>	<u>400,000</u>
Net cash provided by (used in) noncapital financing activities		
<b>INVESTING ACTIVITIES</b>		
Interest received	12,785	1,676
Dividends received	2,514	3,502
Loans made to others	(200,000)	(225,000)
Loan repayments received	8,320	26,525
Proceeds from sale of property held for development	425,000	685,000
Purchase and improvements to property held for development	(1,275,491)	(508,151)
	<u>(1,026,872)</u>	<u>(16,448)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	(995,715)	535,416
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,905,734</u>	<u>1,370,318</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 910,019</u>	<u>\$ 1,905,734</u>
<b>RECONCILIATION TO EXHIBIT 1</b>		
Cash and cash equivalents	\$ 910,019	\$ 1,332,523
Cash and cash equivalents, restricted	-	573,211
	<u>\$ 910,019</u>	<u>\$ 1,905,734</u>

The Notes to Financial Statements are an integral part of these statements.



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

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2012 and 2011**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 159,428	\$ 194,856
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	134	1,030
Contribution of property	(197,500)	-
(Increase) decrease in assets:		
Bond administration fees receivable	46,860	(45,770)
Prepaid expenses	-	1,517
Increase (decrease) in liabilities:		
Accounts payable	26,010	135
Interest payable	-	1,109
Deferred revenue	-	612
Security deposits payable	-	(1,625)
	<hr/>	<hr/>
Net cash provided by operating activities	<u>\$ 34,932</u>	<u>\$ 151,864</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Conveyance of property from the City of Winchester	\$ -	\$ 799,912
Transfer of assets held for others	-	(799,912)
	<hr/>	<hr/>
	<u>\$ -</u>	<u>\$ -</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 1. Summary of Significant Accounting Policies**

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 enterprise 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, construction, 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 25.2-4909 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 monies pledged for such purpose by the applicant, and are secured by a deed of trust, line or credit, and/or pledge of the applicant's assets.

Measurement focus and basis of accounting:

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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 generally result from charges to customers for application and administration fees and certain contributions from the City to assist in operations including property held for development and resale. All revenue 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, and then unrestricted resources as they are needed.



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Deposits and investments:

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Investments for the Authority are reported at fair value, The State Treasurer's 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.

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. Capital assets purchased or constructed are stated at historical cost. Donated property is recorded at the fair value prevailing at the date of donation. Equipment is depreciated using the straight-line method over an estimated useful life of seven years.

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. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

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.

Estimates:

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ from those estimates.

**Note 2. Deposits and Investments**

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) or 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 that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 2. Deposits and Investments (Continued)**

Investments:

Statutes authorize the Authority 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 its investment choices.

Pursuant to Section. 2.1-234.7 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than one year from the date of purchase. The carrying amount of investments in LGIP at June 30 approximates fair value.

At June 30, 2012 and 2011 all investments were held in LGIP. LGIP was rated by Standard and Poor's and has been assigned an AAAM rating. Also, all investment activity during the year was with LGIP.

As of June 30, the EDA had the following cash and cash equivalents:

	<u>2012</u>	<u>2011</u>
Investments:		
LGIP	\$ 678,910	\$ 1,726,396
Deposits	231,109	179,338
Total deposits and investments	<u>\$ 910,019</u>	<u>\$ 1,905,734</u>
Statement of Net Assets:		
Cash and cash equivalents	\$ 910,019	\$ 1,332,523
Cash and cash equivalents, restricted	<u>-</u>	<u>573,211</u>
Total deposits and investments	<u>\$ 910,019</u>	<u>\$ 1,905,734</u>

Restricted cash and cash equivalents represent the balance of the endowment agreement as described in Note 10.



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 3. Assets Held for Others**

On June 22, 2012, the City of Winchester, Virginia transferred \$600,000 in Governor's Opportunity Funds to the EDA. These funds were not the property of the EDA and were subsequently awarded to a third-party after year end.

On April 13, 2011, the City of Winchester conveyed property located at 29-35 East Boscawen Street in Winchester, Virginia (the "property"). The Property has an assessed value of \$799,912. The Property was conveyed under an agreement dated February 16, 2011 between the Authority and the City of Winchester whereby the Authority was 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 on August 16, 2011, the Authority conveyed the Property to the private partner. If the Authority had been unsuccessful in securing such an agreement, the Property would have been conveyed back to the City of Winchester. As either absolution of the agreement would have resulted in the Authority conveying the Property to another party, a deferred liability equaling the assessed value of the Property existed at June 30, 2011.

**Note 4. Notes Receivable**

Notes receivable are for the purchase of or improvement to property. The receivables consist of the following:

	<b>Interest Rate</b>	<b>Date Issued</b>	<b>Maturity Date</b>	<b>Amount of Original Note</b>	<b>2012</b>	<b>2011</b>
Oakcrest Properties, LLC North Loudon Street Renovations, LLC	1.79%	05/10/12	05/10/17	\$ 200,000	\$ 199,322	\$ -
Joleen, L.C.	5.00%	04/28/11	04/28/16	200,000	211,667	200,000
R. Hunter Hurt	0.00%	08/18/05	10/12/13	52,550	52,550	52,550
Kimberly's	3.00%	04/13/11	04/13/16	25,000	25,000	25,000
Village Square	3.00%	04/01/10	03/01/13	26,500	6,850	15,747
Richard Oram and Debra Johnson (RED, Inc.)	3.00%	11/26/07	10/26/12	9,800	700	2,759
				26,500	8,122	16,476
Total notes receivable					504,211	312,532
Less: permanently deferred notes receivable					(52,550)	(52,550)
Total notes receivable, net					<u>\$ 451,661</u>	<u>\$ 259,982</u>

At June 30, 2012 and 2011, permanently deferred notes receivable consisted of a promissory note with Joleen, L.C. 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, its maturity date. Subsequent to year end, the note was extended to October 12, 2015. These terms are expected to be satisfied; therefore, the note is reported as permanently deferred notes receivable in the Statement of Net Assets.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 5. Property Held for Development**

Property held for development is composed of the following:

	<u>2012</u>	<u>2011</u>
502-504 N. Kent Street	\$ 90,615	\$ 90,615
Taylor Hotel	853,403	-
317 South Cameron Street	197,500	-
443, 450-452, 513 North Loudoun Street	<u>500,000</u>	<u>502,912</u>
Total property held for development	<u>\$ 1,641,518</u>	<u>\$ 593,527</u>

**Note 6. Capital Assets**

Capital asset activity was as follows:

<u>June 30, 2012</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, depreciated equipment	\$ 9,029	\$ -	\$ -	\$ 9,029
Less accumulated depreciation	<u>(8,895)</u>	<u>(134)</u>	<u>-</u>	<u>(9,029)</u>
Total capital assets, depreciated, net	<u>\$ 134</u>	<u>\$ (134)</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>June 30, 2011</u>				
Capital assets, depreciated equipment	\$ 9,029	\$ -	\$ -	\$ 9,029
Less accumulated depreciation	<u>(7,865)</u>	<u>(1,030)</u>	<u>-</u>	<u>(8,895)</u>
Total capital assets, depreciated, net	<u>\$ 1,164</u>	<u>\$ (1,030)</u>	<u>\$ -</u>	<u>\$ 134</u>

**Note 7. Long Term Debt**

Long-term debt consists of the following:

\$400,000 note payable to Summit Bank, issued June 10, 2011. Payable in full no later than June 10, 2014. Interest payable monthly at a rate of 4.99% per annum. Secured by a first deed of trust on 443 and 450-452 North Loudoun Street in Winchester, Virginia.

\$ 396,225



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 8. Commitments**

The Authority has a business development grant program to stimulate economic development of large vacant properties, whereby the City provides entities a grant equal to a percentage of business taxes based on the square footage of the new business. As the City collects the tax revenues, the Authority has no liability associated with these commitments until funds are transferred by the City to the Authority.

**Note 9. Endowment Agreement and Restricted Net Assets**

The Authority entered into an Endowment 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 and were concluded during fiscal year 2012, were as follows:

- 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 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 of the last day of the preceding fiscal year.

Restricted net assets of \$573,211 at June 30, 2011, represent the balance of the endowment agreement. There were no restricted net assets as of June 30, 2012 as the agreement was complete.

**Note 10. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority is insured through the City's insurance policies. There were no significant reductions in insurance coverages from the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 11. Related Party Transactions**

During 2012 and 2011, the Authority incurred fees of \$51,028 and \$38,165, respectively, for legal services provided by Michael L. Bryan, who serves as both secretary and counsel for the Authority. Of these amounts \$3,150 was payable at June 30, 2012.

**Note 12. Restatement of Net Assets**

Net Assets were restated as of June 30, 2011 to remove a liability for \$14,613 that had been carried forward for a project that had been completed prior to June 30, 2011.



ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**Note 13. Reclassifications**

Certain items in the June 30, 2011 financial statements and notes to the financial statements have been reclassified to conform to the June 30, 2012 presentation. These reclassifications had no impact on net assets or changes in net assets.

**Note 14. Subsequent Events**

There were several Revolving Loan Fund loans, investment properties purchased and sold, business development grants, and other such transactions that occurred in the normal course of business subsequent to year end.

**Note 15. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for the inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the “substantively the same governing body” criterion, it additionally requires that a financial benefit or financial burden relationship exist or that management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.



ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**Note 15. New Accounting Standards (Continued)**

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

Management has not yet evaluated the effects, if any, of adopting these standards.

**SUPPLEMENTARY SCHEDULE**

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

**SCHEDULE OF BONDS OUTSTANDING**

June 30, 2012

Name of Issue	Issued on Behalf of	Original Amount Issued	Date of Original Issue	Name of Trustee	Aggregate Outstanding Payable June 30, 2012
Industrial Development Hospital Facility Revenue Refunding Bonds, Series 1993	Winchester Medical Center, Inc.	\$ 43,695,000	07/01/93	Regions Bank	\$ 4,900,000
Industrial Development Residential Care Facility Revenue Bonds, Series 2005A	Westminster-Canterbury of Winchester, Inc.	39,085,000	06/09/05	U.S. Bank	32,435,000
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	10,700,000
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	5,160,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2011	NW Works, Inc.	2,300,000	12/20/10	Wells Fargo	2,170,000
		<u>\$ 382,180,000</u>			<u>\$ 318,700,000</u>



**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**

To the Board of Directors  
Economic Development Authority of the City of Winchester  
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, 2012, and have issued our report thereon dated December 31, 2013. 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

Management of the Authority is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. **We identified deficiencies in internal control over financial reporting, items 12-01 and 12-02 in the accompanying Schedule of Findings and Responses that we consider to be material weaknesses, as defined above.**



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.**

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and federal awarding agencies and pass-through entities and it is not intended to be, and should not be, used by anyone other than these specified parties.

*Brown, Edwards & Company, L.L.P.*  
CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
December 31, 2013

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

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2012**

As more fully described 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*," we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts and grant agreements, and other matters shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

Cash and Investment Laws  
Conflicts of Interest Act  
Local Retirement Systems  
Procurement Laws

LOCAL COMPLIANCE

Authority By-Laws

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2012

A. FINDINGS – FINANCIAL STATEMENT AUDIT

**12-01: Segregation of Duties (Material Weakness)**

*Condition:*

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. A proper segregation of duties has not been established in functions related to cash receipts, cash disbursements, and accounts payable.

*Recommendation:*

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

*Management's Response:*

Management understands the concern expressed with this finding. However, the current staff limits the separation of duties in regards to these functions.

**12-02: Audit Adjustments (Material Weakness)**

*Condition:*

We noted that there were errors which required adjustments to financial statements, indicating a material weakness in controls over financial reporting.

*Recommendation:*

The Authority should implement steps to improve its financial reporting process.

*Management's Response:*

A new bookkeeper has been hired subsequent to year end to prevent errors.