

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

**FINANCIAL REPORT**

**June 30, 2016**

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

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## INTRODUCTORY SECTION

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

**DIRECTORY OF PRINCIPAL OFFICIALS**

**BOARD OF DIRECTORS**

William Buettin, Chair  
Lauri Bridgeforth  
Douglas Toan  
Jeff Buettner  
Carol Koenecke-Grant  
Tim Painter  
Cary Craig

**INDEPENDENT AUDITORS**

**Brown, Edwards & Company, L.L.P.**

**FINANCIAL SECTION**

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**Financial Section contains the  
Basic Financial Statements.**



## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

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, 2016 and 2015, 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, 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 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section and the supplemental Schedule of Bonds Outstanding are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and the supplemental Schedule of Bonds Outstanding have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2018 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
July 19, 2018



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**BASIC FINANCIAL  
STATEMENTS**

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

**STATEMENTS OF NET POSITION**

**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,701,478	\$ 367,770
Investments (Note 2)	683,679	681,477
Bond administration fees receivable	335,894	668,327
Notes receivable, current portion (Note 3)	252,908	257,465
Interest receivable, current portion (Note 3)	1,515	42,605
Due from City of Winchester	548	20,821
Total current assets	<u>2,976,022</u>	<u>2,038,465</u>
Noncurrent assets:		
Cash and cash equivalents, restricted (Note 2)	273,987	273,004
Notes receivable (Note 3)	363,634	610,654
Property held for development (Note 4)	-	90,615
Capital assets	750	-
Investment in joint venture (Note 5)	400,000	1,590,627
Total noncurrent assets	<u>1,038,371</u>	<u>2,564,900</u>
Total assets	<u>4,014,393</u>	<u>4,603,365</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	11,356	7,449
Due to grantees (Note 6)	-	20,092
Total current liabilities	<u>11,356</u>	<u>27,541</u>
Commitments and contingencies (Note 6)	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Investment in capital assets	750	-
Restricted (Note 2)	273,987	273,004
Unrestricted	<u>3,728,300</u>	<u>4,302,820</u>
Total net position	<u>\$ 4,003,037</u>	<u>\$ 4,575,824</u>

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

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Bond administration fees	\$ 404,646	\$ 408,801
Application fees	-	1,000
Contribution from City of Winchester	187,708	114,544
Proceeds from sale of property	90,615	268,869
Miscellaneous	-	4,060
Total operating revenue	<u>682,969</u>	<u>797,274</u>
<b>OPERATING EXPENSES</b>		
Professional fees	80,956	42,498
Office expense	9,179	1,564
Insurance	1,712	1,143
Consulting expense	675	750
Economic analysis	-	15,226
Service charges	84	499
Business development grants (Note 6)	57,708	58,735
Management fees	46,200	39,294
Utilities	-	1,155
Cost of property sold	90,615	460,610
Administrative fees	18,130	-
Miscellaneous	17,871	185
Total operating expenses	<u>323,130</u>	<u>621,659</u>
Operating income	<u>359,839</u>	<u>175,615</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	26,609	26,419
Dividend income	2,201	818
Interest expense	(21)	(7,380)
Net loss from joint venture (Note 5)	(848,331)	(16,727)
Write-off of notes receivable (Note 5)	(113,084)	-
Total nonoperating revenues (expenses)	<u>(932,626)</u>	<u>3,130</u>
Change in net position	(572,787)	178,745
<b>NET POSITION</b>		
<b>BEGINNING OF THE YEAR, AS RESTATED (NOTE 9)</b>	<u>4,575,824</u>	<u>4,397,079</u>
<b>END OF THE YEAR</b>	<u>\$ 4,003,037</u>	<u>\$ 4,575,824</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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING ACTIVITIES</b>		
Cash received for fees	\$ 737,079	\$ 1,276
Cash payments to suppliers for goods and services	(170,900)	(112,700)
Business redevelopment grants	(77,800)	(38,643)
Contributions from City of Winchester	187,708	114,544
Reimbursements from City of Winchester	20,273	14,429
Miscellaneous receipts	-	4,060
Proceeds from sale of property	90,615	268,869
	<u>786,975</u>	<u>251,835</u>
Net cash provided by operating activities		
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Principal paid on notes payable	-	(313,586)
Interest paid	(21)	(10,075)
	<u>(21)</u>	<u>(323,661)</u>
Net cash used in noncapital financing activities		
<b>INVESTING ACTIVITIES</b>		
Interest received	67,699	20,455
Dividends received	2,201	818
Loans made to others	(135,000)	-
Loan repayments received	273,493	113,733
Purchase of investments	(2,202)	(817)
Purchase of capital assets	(750)	-
Investment in joint venture	-	(125,734)
Distribution from joint venture	342,296	90,464
	<u>547,737</u>	<u>98,919</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	1,334,691	27,093
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>640,774</u>	<u>613,681</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,975,465</u>	<u>\$ 640,774</u>
<b>RECONCILIATION TO EXHIBIT 1</b>		
Cash and cash equivalents	\$ 1,701,478	\$ 367,770
Cash and cash equivalents, restricted	273,987	273,004
	<u>\$ 1,975,465</u>	<u>\$ 640,774</u>

(Continued)

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 Year Ended June 30, 2016 and 2015**

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

	<u>2016</u>	<u>2015</u>
Operating income	\$ 359,839	\$ 175,615
Adjustments to reconcile operating income to net cash provided by operating activities		
(Increase) decrease in assets:		
Bond administration fees receivable	332,433	(408,525)
Due from City of Winchester	20,273	14,429
Property held for development	90,615	460,610
Increase (decrease) in liabilities:		
Accounts payable	3,907	(10,386)
Due to grantees	(20,092)	20,092
Net cash provided by operating activities	<u>\$ 786,975</u>	<u>\$ 251,835</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Net loss from joint venture	<u>\$ (848,331)</u>	<u>\$ (16,727)</u>
Write-off of notes receivable	<u>\$ (113,084)</u>	<u>\$ -</u>

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

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**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 (the "City") 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 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, 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 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.

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, certain contributions from the City to assist in operations, including property held for development and resale, and the sale of property. 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.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**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 held by the Authority are reported at fair value. The 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.

Property held for development:

The cost of land is allocated to subdivided areas for the purpose of accumulating costs to match with sales revenues. Property purchased by the Authority is recorded at cost. Property donated to the Authority is recorded at fair value on the date of donation. Property held for development is valued at the lower of cost or market. These properties are evaluated on an annual basis for impairment and a loss is recognized if the carrying amount exceeds the fair value.

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 position:

Net position is the difference between assets and liabilities. Restricted net position represents 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.

(Continued)



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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**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 identified as public are considered fully collateralized. At June 30, 2016 and 2015, the Authority's deposits that were not designated as public funds under the Act were \$273,987 and \$273,004, respectively. At times during the year, this account was in excess of the FDIC limits.

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, 2016 and 2015 all investments were held in LGIP. LGIP was rated by Standard and Poor's and has been assigned an AAAM rating.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

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

Restricted Deposits:

Under an agreement with United Bank, in 2013 the Authority pledged as collateral certificates of deposit totaling \$500,000, to be held in escrow, in order to secure financing totaling \$1.4 million. This loan is in the name of Taylor Landlord, LLC and is for the purpose of financing the Taylor Hotel rehabilitation project. If at any time Taylor Landlord, LLC defaults under the terms of its note with United Bank, some or all of this collateral balance may be paid to United Bank as a remedy under the Virginia Uniform Commercial Code. As of June 30, 2016 and 2015, \$273,987 and \$273,004, respectively, remained pledged under this agreement.

As of June 30, the EDA had the following deposits and investments:

	<b>2016</b>	<b>2015</b>
Investments: LGIP	\$ 683,679	\$ 681,477
Deposits	1,701,478	367,770
Certificate of deposit	273,987	273,004
Total deposits and investments	<b>\$ 2,659,144</b>	<b>\$ 1,322,251</b>
Statement of Net Position:		
Cash and cash equivalents	\$ 1,701,478	\$ 367,770
Investments	683,679	681,477
Cash and cash equivalents, restricted	273,987	273,004
	<b>\$ 2,659,144</b>	<b>\$ 1,322,251</b>

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**Note 3. Notes Receivable**

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

	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Orig. Note</u>	<u>2016</u>	<u>2015</u>
Oakcrest Properties, LLC North Loudon Street Renovations, LLC (Note 9)	1.79%	5/10/2012	5/10/2017	\$ 200,000	\$ 163,763	\$ 172,846
Joleen, L.C.	5.00%	4/28/2011	4/28/2016	200,000	-	200,000
Bonnie Blue Partners	0.00%	8/18/2005	10/12/2015	52,550	52,550	52,550
Boscawen Properties, LLC	1.80%	9/5/2012	9/5/2017	75,000	19,366	34,557
Taylor Hotel Landlord, LC	1.86%	2/25/2013	2/25/2018	180,000	55,777	73,593
Taylor Hotel Landlord, LC	1.75%	5/8/2013	5/8/2019	200,000	179,983	186,651
Michelle's	5.00%	2/10/2014	2/10/2024	125,000	-	113,084
Cohiba, LLC	2.50%	8/20/2014	8/20/2016	1,722	223	1,015
Leroy French Bakery	2.50%	8/19/2014	8/19/2019	19,000	12,313	15,996
Sowers	3.20%	10/24/2014	10/24/2019	20,000	-	17,827
1720 Valley Ave	2.50%	10/1/2015	10/1/2020	35,000	35,000	-
	2.63%	12/1/2015	12/1/2020	100,000	97,567	-
Total notes receivable					616,542	868,119
Less current portion					(252,908)	(257,465)
Notes receivable, long-term					<u>\$ 363,634</u>	<u>\$ 610,654</u>

**Note 4. Property Held for Development**

During fiscal year 2016, the Authority sold its remaining property held for development to the City of Winchester. No additional property was purchased in 2016.

**Note 5. Investment in Joint Venture**

On May 10, 2013, the Authority transferred the Taylor Hotel property to a joint venture the Authority has in partnership with Brian Wishneff and Associates. This partnership was created to facilitate the rehabilitation of the Taylor Hotel structure using a combination of historic tax credits, Community Development Block Grants, public and private funding, and loans guaranteed by the Authority. The transfer of the deed for the Taylor Hotel represented the Authority's initial investment in the joint venture. The Authority is entitled to a portion of the joint venture's income, which is reported for the years ended December 31, 2015 and 2014.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**Note 5. Investment in Joint Venture (Continued)**

The Authority sold its interest in the joint venture in October of 2016 for a total sales price of \$400,000. This event is considered to provide evidence about the carrying value of the assets included in the investment in joint venture as of June 30, 2016. As a result, the following impairment loss has been recognized in the net loss from joint venture in the current year:

Income from joint venture activities, prior to impairment	\$ 86,086
Impairment of joint venture assets	<u>(934,417)</u>
Net loss from joint venture	<u>\$ (848,331)</u>

The joint venture owes the Authority a promissory note of \$200,000 to be paid back in full by May 8, 2019, as shown in Note 3. Interest revenue recognized from this note totaled \$3,222 and \$3,435 for the years ended June 30, 2016 and 2015, respectively.

The joint venture also owed the Authority a promissory note of \$125,000, as shown in Note 3. In August of 2016, an agreement was reached between the joint venture and the Authority whereby the Authority would forgive the amount remaining on the note in exchange for certain equipment. This event is considered to provide evidence about the carrying value of the asset included in notes receivable as of June 30, 2016. As a result, the following impairment loss has been recognized which resulted in a net loss of \$113,084 for the year ended June 30, 2016.

The Authority has also entered into a conditional grant agreement for certain loans owed by the joint venture totaling \$2,308,000, under which the Authority would be responsible for 50% of all principal, interest, and other amounts outstanding in the event the joint venture defaults. These loans are not represented on the Authority's Statements of Net Position. Separate financial statements of the joint venture are not available.

**Note 6. Commitments, Contingencies, and Subsequent Events**

The Authority has a business development grant program to stimulate economic development of large vacant properties, whereby the Authority provides entities a grant equal to a percentage of business taxes based on the square footage of the new business. One outstanding grant is in place through December 2016.

In October 2016, the Authority sold its interest in the Taylor Hotel joint venture. See Note 5 for more information.

The Authority holds a promissory note due from Joleen, L.C. in the amount of \$52,550. This note is non-interest bearing and shall be deemed fully 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 April 12, 2017, its maturity date. In March of 2017, these conditions were determined to have been met, and the loan has been settled.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**Note 6. Commitments, Contingencies, and Subsequent Events (Continued)**

Subsequent to year end, the Authority approved a loan for approximately \$70,000 to Bonnie Blue Partners with a stated interest rate of 2.54% for five years.

Additionally, subsequent to year end, the Authority has purchased various property. In August 2017, the Authority purchased the Towers Property in the amount of \$795,000. In December 2017, the Authority purchased property located on Piccadilly Street in the amount of \$523,000. In January 2018, the Authority purchased property located on South Kent Street for approximately \$1.625 million. In January 2018, the Authority purchased property located on East Cork Street for \$260,000.

**Note 7. 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 8. Related Party Transactions**

During 2016 and 2015, the Authority incurred legal fees of \$46,022 and \$20,614, respectively, for legal services provided by an individual, who serves as both secretary and counsel for the Authority. Of these amounts, \$9,719 and \$2,008 were payable at June 30, 2016 and 2015, respectively. Additionally, during 2016, the individual assisted LeRoy French Bakery in paying off its note receivable in the amount of approximately \$16,600.

The City provides personnel and office space to the Authority at no charge.

North Loudoun Street Renovations, LLC, who owed a note receivable and related interest to the Authority totaling \$241,667 as of June 30, 2015 is co-managed by a former chairperson of the Authority. The note was paid in full as of June 30, 2016.

Boscawen Properties, LLC, who owed a note receivable and related interest to the Authority totaling \$56,140 and \$73,730 as of June 30, 2016 and 2015, respectively, is managed by a current City of Winchester Council member.

(Continued)

ECONOMIC DEVELOPMENT AUTHORITY  
OF THE CITY OF WINCHESTER, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

**Note 9. Prior Period Adjustment**

The Authority has adjusted beginning net position for an item discovered subsequent to its previously issued financial statements, as noted below.

Net Position, July 1, 2015, as previously reported	\$ 4,551,852
Bond administration fees calculation errors	<u>23,972</u>
Net position, July 1, 2015, as restated	<u>\$ 4,575,824</u>

**Note 10. New Accounting Standards**

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

**GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*** establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

**GASB Statement No. 84, *Fiduciary Activities*** establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**Note 10. New Accounting Standards (Continued)**

**GASB Statement No. 85, *Omnibus 2017*** addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

**GASB Statement No. 87, *Leases*** establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

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, 2016

Name of Issue	Issued on Behalf of	Original Amount Issued	Date of Original Issue	Name of Trustee	Aggregate Outstanding Payable June 30, 2016
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	\$ 2,355,000
Industrial Development Hospital Revenue Bonds, Series 2009A	Winchester Medical Center, Inc.	\$ 25,000,000	11/17/09	Regions Bank	\$ 24,835,000
Industrial Development Hospital Revenue Bonds, Series 2009B	Winchester Medical Center, Inc.	\$ 25,000,000	11/17/09	Regions Bank	\$ 24,830,000
Industrial Development Hospital Revenue Bonds, Series 2009C	Winchester Medical Center, Inc.	\$ 25,000,000	11/17/09	Regions Bank	\$ 24,830,000
Industrial Development Hospital Revenue Bonds, Series 2009D	Winchester Medical Center, Inc.	\$ 25,000,000	11/17/09	Regions Bank	\$ 24,830,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2010	Sunshine's Pride, LLC	\$ 7,100,000	05/07/10	Wells Fargo	\$ 1,785,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2011	NW Works, Inc.	\$ 2,300,000	12/20/10	Wells Fargo	\$ 1,595,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenue Bonds, Series 2013A	Winchester Medical Center, Inc.	\$ 35,135,000	12/04/13	Regions Bank	\$ 33,805,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2013B	Winchester Medical Center, Inc.	\$ 70,530,000	12/04/13	Regions Bank	\$ 66,900,000
Industrial Development Residential Care Facility Revenue Bonds, Series 2014A	Westminster-Canterbury of Winchester, Inc.	\$ 38,266,009	12/31/14	United Bank	\$ 36,345,457
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2014A	Winchester Medical Center, Inc.	\$ 43,135,000	10/07/14	Regions Bank	\$ 42,375,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2014B	Winchester Medical Center, Inc.	\$ 12,000,000	10/07/14	Regions Bank	\$ 12,000,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2015A	Winchester Medical Center, Inc.	\$ 114,495,000	07/22/15	Regions Bank	\$ 114,490,000
		<u>\$ 511,296,009</u>			<u>\$ 410,975,457</u>

## COMPLIANCE SECTION

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**INDEPENDENT AUDITOR'S 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, Virginia  
Winchester, Virginia

We have audited, 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, 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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 19, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2013-001 and 2013-002, that we consider to be material weaknesses.**

## 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*.**

## Economic Development Authority of the City of Winchester, Virginia's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
July 19, 2018

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

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2016**

As more fully described in the "Independent Auditor's 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  
Procurement Laws

LOCAL COMPLIANCE

Authority By-Laws

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

**SCHEDULE OF FINDINGS AND RESPONSES**

**June 30, 2016**

**A. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2013-001: 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.

We also noted a lack of review and approval of journal entries, disbursements, and bank reconciliations at both the Authority and the joint venture the Authority is invested in. Lack of review and approval increases the risk of unauthorized transactions remaining undetected.

*Recommendation:*

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

Steps should be taken to ensure that all journal entries, disbursements, and bank reconciliations are reviewed and approved by an individual other than the preparer.

*Management's Response:*

Management understands the concern expressed with this finding. Steps are being taken to implement segregation of duties with current staff resources available.

**2013-002: Audit Adjustments (Material Weakness)**

*Condition:*

We noted that there were errors which required material 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:*

The auditee concurs with this recommendation.

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

**B. FINDINGS – COMMONWEALTH OF VIRGINIA**

**2014-001: Public Deposits**

*Condition:*

We noted one certificate of deposit that was not identified as public funds by the financial institution as required by the *Code of Virginia*.

*Recommendation:*

Management should take the necessary steps to properly identify this account as public funds.

*Management's Response:*

Management will take the necessary steps to have the funds properly identified as public.