

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

**FINANCIAL REPORT**

**June 30, 2013**

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

**DIRECTORY OF PRINCIPAL OFFICIALS**

**BOARD OF DIRECTORS**

Ron Mislowsky, Chair  
Suzanne Conrad, Treasurer  
William Buettin  
J.P. Carr  
Daniel Troup  
Lauri Bridgeforth  
Douglas Toan

**OFFICIALS**

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, Virginia  
Winchester, Virginia

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

We have audited the accompanying financial statements of the City of Winchester Economic Development Authority (the "Authority") as of and for the year ended June 30, 2013, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 City of Winchester Economic Development Authority, as of June 30, 2013, and the changes in financial position and cash flows for the year 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental Schedule of Bonds Outstanding is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental Schedule of Bonds Outstanding has 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 it.

*Report on Summarized Comparative Information*

We have previously audited the Authority's 2012 financial statements, and our report dated December 31, 2013, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014 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  
December 2, 2014

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

**STATEMENT OF NET POSITION**  
**June 30, 2013**  
**(With Comparative Totals for June 30, 2012)**

<b>ASSETS</b>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 902,984	\$ 910,019
Assets held for others	-	600,000
Bond administration fees receivable	136,750	87,245
Due from City of Winchester	115,035	-
Total current assets	<u>1,154,769</u>	<u>1,597,264</u>
Noncurrent assets:		
Cash and cash equivalents, restricted (Note 2)	500,000	-
Notes receivable, net (Note 3)	658,072	451,661
Property held for development (Note 4)	811,825	1,641,518
Investment in joint venture (Note 5)	1,478,147	-
Total noncurrent assets	<u>3,448,044</u>	<u>2,093,179</u>
Total assets	<u>4,602,813</u>	<u>3,690,443</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	75,409	32,785
Due to grantees (Note 7)	72,382	-
Interest payable	1,859	1,109
Assets held for others	-	600,000
Notes payable (Note 6)	315,073	81,152
Total current liabilities	<u>464,723</u>	<u>715,046</u>
Noncurrent liabilities:		
Notes payable (Note 6)	-	315,073
Total liabilities	<u>464,723</u>	<u>1,030,119</u>
<b>NET POSITION</b>		
Restricted (Note 2)	500,000	-
Unrestricted, as restated (Note 10)	3,638,090	2,660,324
Total Net position	<u>\$ 4,138,090</u>	<u>\$ 2,660,324</u>

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

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

**For the Year Ended June 30, 2013**

**(With Comparative Totals for June 30, 2012)**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Bond administration fees	\$ 312,840	\$ 353,330
Application fees	1,800	500
Contribution from City of Winchester - cash	1,109,136	129,748
Contribution from City of Winchester - property	650,000	197,500
Contribution for purchase of Taylor Hotel	228	52,475
Total operating revenue	<u>2,074,004</u>	<u>733,553</u>
<b>OPERATING EXPENSES</b>		
Professional fees	63,757	73,437
Office expense	277	108
Insurance	317	4,356
Survey expense	3,880	5,950
Consulting expense	10,807	56,993
Economic analysis	27,951	35,000
Appraisal fees	-	3,500
Depreciation	-	134
Service charges	186	25
Business development grants	431,483	372,261
Rental expense	75	1,321
Utilities	1,001	369
Miscellaneous	3,171	121
Total operating expenses	<u>542,905</u>	<u>553,575</u>
Operating income	1,531,099	179,978
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Loss on sale of property held for development	(54,069)	-
Interest income	16,275	12,785
Dividend income	1,107	2,514
Interest expense	(16,646)	(20,550)
Total nonoperating revenues (expenses)	<u>(53,333)</u>	<u>(5,251)</u>
Change in net position	1,477,766	174,727
<b>NET POSITION</b>		
<b>BEGINNING OF THE YEAR</b>	<u>2,660,324</u>	<u>2,485,597</u>
<b>END OF THE YEAR</b>	<u>\$ 4,138,090</u>	<u>\$ 2,660,324</u>

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

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

**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2013**  
**(With Comparative Totals for June 30, 2012)**

	<u>2013</u>	<u>2012</u>
<b>OPERATING ACTIVITIES</b>		
Cash received for fees	\$ 265,135	\$ 400,690
Cash payments to suppliers for goods and services	(121,339)	(527,431)
Business redevelopment grants	(359,101)	-
Contributions from City of Winchester	1,010,351	129,748
Purchases made for City of Winchester	(16,250)	-
Contributions for purchase of Taylor Hotel	228	52,475
	<u>779,024</u>	<u>55,482</u>
Net cash provided by operating activities		
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Principal paid on notes payable	(81,152)	(3,775)
Interest paid on notes payable	(15,896)	(20,550)
	<u>(97,048)</u>	<u>(24,325)</u>
Net cash used in noncapital financing activities		
<b>INVESTING ACTIVITIES</b>		
Interest received	5,119	12,785
Dividends received	1,107	2,514
Loans made to others	(255,000)	(200,000)
Loan repayments received	59,745	8,320
Proceeds from sale of property held for development	140,331	425,000
Purchase and improvements to property held for development	(244,513)	(1,275,491)
Investment in joint venture	(24,396)	-
Distribution from joint venture	128,596	-
	<u>(189,011)</u>	<u>(1,026,872)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	492,965	(995,715)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>910,019</u>	<u>1,905,734</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,402,984</u>	<u>\$ 910,019</u>
<b>RECONCILIATION TO EXHIBIT 1</b>		
Cash and cash equivalents	\$ 902,984	\$ 910,019
Cash and cash equivalents, restricted	500,000	-
	<u>\$ 1,402,984</u>	<u>\$ 910,019</u>

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



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

**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2013**  
**(With Comparative Totals for June 30, 2012)**

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

Operating income	\$ 1,531,099	\$ 179,978
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	-	134
Noncash contributions	(650,000)	(197,500)
(Increase) decrease in assets:		
Bond administration fees receivable	(49,505)	46,860
Due from City of Winchester	(115,035)	-
Increase (decrease) in liabilities:		
Accounts payable	(9,917)	26,010
Grants payable	72,382	-
	<u>779,024</u>	<u>55,482</u>
Net cash provided by operating activities	<u>\$ 779,024</u>	<u>\$ 55,482</u>

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

Conveyance of property from the City of Winchester	\$ 650,000	\$ -
Investment in joint venture acquired through accounts payable	52,541	-
Conveyance of Taylor Hotel property to investment in joint venture	1,529,806	-

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**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 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 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 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, 2013

**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 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**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.

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, 2013 and 2012 all investments were held in LGIP. LGIP was rated by Standard and Poor's and has been assigned an AAAM rating.

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

	<u>2013</u>	<u>2012</u>
Investments:		
LGIP	\$ 680,017	\$ 678,910
Deposits	222,967	231,109
Certificate of Deposit	500,000	-
Total deposits and investments	<u>\$ 1,402,984</u>	<u>\$ 910,019</u>
Statement of Net Position:		
Cash and cash equivalents	\$ 902,984	\$ 910,019
Cash and cash equivalents, restricted	500,000	-
	<u>\$ 1,402,984</u>	<u>\$ 910,019</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

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

Under an agreement with United Bank, the Authority has pledged as collateral certificates of deposit totaling \$500,000 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.

**Note 3. 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>2013</b>	<b>2012</b>
Oakcrest Properties, LLC North Loudon Street Renovations, LLC	1.79%	05/10/12	05/10/17	\$ 200,000	\$ 191,081	\$ 199,322
Joleen, L.C.	5.00%	04/28/11	04/28/16	200,000	221,667	211,667
R. Hunter Hurt	0.00%	08/18/05	10/12/15	52,550	52,550	52,550
Kimberly's Village Square	3.00%	04/13/11	04/13/16	25,000	-	25,000
Richard Oram and Debra Johnson (RED, Inc.)	3.00%	04/01/10	03/01/13	26,500	-	6,850
Bonnie Blue Partners	3.00%	11/26/07	10/26/12	9,800	-	700
Boscawen Properties, LLC	3.00%	05/15/10	04/15/13	26,500	-	8,122
	1.80%	09/05/12	09/05/17	75,000	64,168	-
	1.86%	02/25/13	02/25/18	180,000	181,156	-
Total notes receivable					710,622	504,211
Less: permanently deferred notes receivable					(52,550)	(52,550)
Total notes receivable, net					<u>\$ 658,072</u>	<u>\$ 451,661</u>

At June 30, 2013 and 2012, 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, 2015, its maturity date. These terms are expected to be satisfied; therefore, the note is reported as permanently deferred notes receivable in the Statement of Net Position.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**Note 4. Property Held for Development**

Property held for development is composed of the following:

	<u>2013</u>	<u>2012</u>
502-504 N. Kent Street	\$ 90,615	\$ 90,615
Taylor Hotel	-	853,403
317 South Cameron Street	415,610	197,500
443, 450-452, 513 North Loudoun Street	<u>305,600</u>	<u>500,000</u>
Total property held for development	<u>\$ 811,825</u>	<u>\$ 1,641,518</u>

**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 rehabilitate 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. As of June 30, 2013, the Authority has invested \$1,478,147 in the joint venture. The Authority entitled to a portion of the joint venture's income, and is owed a \$200,000 promissory note by the joint venture to be paid back in full by May 8, 2018. The Authority has also guaranteed loans belonging to the joint venture totaling \$2,308,000; these loans are not represented on the Authority's Statement of Net Position. Separate financial statements of the joint venture are not available.

**Note 6. Notes payable**

Notes payable 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.	<u>\$ 315,073</u>
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**Note 7. 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. The Authority owes \$72,382 in business development grants as of June 30, 2013.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**Note 8. 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 9. Related Party Transactions**

During 2013 and 2012, the Authority incurred fees of \$48,437 and \$51,028, respectively, for legal services provided by Michael L. Bryan, who serves as both secretary and counsel for the Authority. Of these amounts, \$3,526 and \$- were payable at June 30, 2013 and 2012, respectively.

**Note 10. Reclassifications**

Certain items in the June 30, 2012 financial statements and notes to the financial statements have been reclassified to conform to the June 30, 2013 presentation. These reclassifications had no impact on net position or changes in net position.

**Note 11. 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 12. New Accounting Standards**

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

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.

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

**Note 12. New Accounting Standards (Continued)**

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.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, replaces the requirements of GASB Statements No. 25 and No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial Statements and in 10-year RSI schedules. This Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*, replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**Note 12. New Accounting Standards (Continued)**

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also provides guidance on the accounting for the government if they are the obligor in the transaction and on intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend or receive nonexchange financial guarantees. This 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, 2013

Name of Issue	Issued on Behalf of	Original Amount Issued	Date of Original Issue	Name of Trustee	Aggregate Outstanding Payable June 30, 2013
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	4,200,000
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>\$ 317,740,000</u>



**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 and 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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 2, 2014.

**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.

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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*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 deficiencies described in the accompanying schedule of findings and responses as items 13-1 and 13-2 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, S. L. P.*

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
December 2, 2014

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

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2013**

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, 2013**

**A. FINDINGS – FINANCIAL STATEMENT AUDIT**

**13-1: 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. 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. However, the current staff limits the separation of duties in regards to these functions.

**13-2: 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:*

The auditee concurs with this recommendation.