

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

FINANCIAL REPORT

June 30, 2015

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

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Directory of Principal Officials	2
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	4
FINANCIAL STATEMENTS	
Exhibit 1 - Statements of Net Position	7
Exhibit 2 - Statements of Revenues, Expenses, and Changes in Net Position	8
Exhibit 3 - Statements of Cash Flows	9
Notes to Financial Statements	11
SUPPLEMENTARY SCHEDULE	
Schedule of Bonds Outstanding	19
COMPLIANCE SECTION	
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 <i>GOVERNMENT AUDITING STANDARDS</i>	21
SUMMARY OF COMPLIANCE MATTERS	23
STATEMENT OF FINDINGS AND RESPONSES	24

THIS PAGE INTENTIONALLY BLANK

INTRODUCTORY SECTION

**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
Lauri Bridgeforth
Douglas Toan
Jeff Buettner

OFFICIALS

Michael Bryan, Secretary/Counsel

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

**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, 2015 and 2014, 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 audit. 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. 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 Economic Development Authority of the City of Winchester, Virginia, as of June 30, 2015 and 2014, 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 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2017 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, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 19, 2017

THIS PAGE INTENTIONALLY BLANK

**BASIC FINANCIAL
STATEMENTS**

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

**STATEMENTS OF NET POSITION
June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:	\$ 367,770	\$ 340,677
Cash and cash equivalents (Note 2)	681,477	680,660
Investments (Note 2)	644,355	235,830
Bond administration fees receivable	257,465	45,760
Notes receivable, current portion (Note 3)	42,605	5,474
Interest receivable, current portion (Note 3)	20,821	35,250
Due from City of Winchester	<u>2,014,493</u>	<u>1,343,651</u>
Total current assets		
Noncurrent assets:	273,004	273,004
Cash and cash equivalents, restricted (Note 2)	610,654	936,092
Notes receivable (Note 3)	-	31,167
Interest receivable (Note 3)	90,615	551,225
Property held for development (Note 4)	1,590,627	1,572,084
Investment in joint venture (Note 5)	<u>2,564,900</u>	<u>3,363,572</u>
Total noncurrent assets		
Total assets	<u>4,579,393</u>	<u>4,707,223</u>
LIABILITIES		
Current liabilities:	7,449	17,835
Accounts payable	20,092	-
Due to grantees (Note 7)	-	2,695
Interest payable	-	313,586
Notes payable (Note 6)	<u>27,541</u>	<u>334,116</u>
Total current liabilities		
Commitments and contingencies (Note 7)	<u>-</u>	<u>-</u>
NET POSITION		
Restricted (Note 2)	273,004	273,004
Unrestricted	<u>4,278,848</u>	<u>4,100,103</u>
Total net position	<u>\$ 4,551,852</u>	<u>\$ 4,373,107</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Bond administration fees	\$ 408,801	\$ 377,870
Application fees	1,000	-
Contribution from City of Winchester	114,544	74,687
Proceeds from sale of property	268,869	-
Miscellaneous	4,060	-
Total operating revenue	<u>797,274</u>	<u>452,557</u>
OPERATING EXPENSES		
Professional fees	42,498	69,447
Office expense	1,564	1,015
Insurance	1,143	2,460
Survey expense	-	300
Consulting expense	750	1,450
Economic analysis	15,226	16,198
Service charges	499	284
Business development grants (Note 7)	58,735	45,496
Management fees	39,294	75
Utilities	1,155	2,409
Cost of property sold	460,610	-
Miscellaneous	185	10,004
Total operating expenses	<u>621,659</u>	<u>149,138</u>
Operating income	<u>175,615</u>	<u>303,419</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	26,419	25,349
Dividend income	818	643
Interest expense	(7,380)	(15,406)
Net loss from joint venture	(16,727)	(2,004)
Impairment of property held for development (Note 4)	-	(260,600)
Total nonoperating revenues (expenses)	<u>3,130</u>	<u>(252,018)</u>
Change in net position	178,745	51,401
NET POSITION		
BEGINNING OF THE YEAR	<u>4,373,107</u>	<u>4,321,706</u>
END OF THE YEAR	<u>\$ 4,551,852</u>	<u>\$ 4,373,107</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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Cash received for fees	\$ 1,276	\$ 368,143
Cash payments to suppliers for goods and services	(112,700)	(108,675)
Business redevelopment grants	(38,643)	(171,295)
Contributions from City of Winchester	114,544	43,437
Reimbursements from City of Winchester	14,429	164,452
Miscellaneous receipts	4,060	-
Proceeds from sale of property	268,869	-
	<u>251,835</u>	<u>296,062</u>
Net cash provided by operating activities		
NONCAPITAL FINANCING ACTIVITIES		
Principal paid on notes payable	(313,586)	(1,487)
Interest paid on notes payable	(10,075)	(14,570)
	<u>(323,661)</u>	<u>(16,057)</u>
Net cash used in noncapital financing activities		
INVESTING ACTIVITIES		
Interest received	20,455	11,531
Dividends received	818	643
Loans made to others	-	(125,000)
Loan repayments received	113,733	30,947
Purchase of investments	(817)	(643)
Investment in joint venture	(125,734)	(307,969)
Distribution from joint venture	90,464	1,200
	<u>98,919</u>	<u>(389,291)</u>
Net cash provided by (used in) investing activities		
Net increase (decrease) in cash and cash equivalents	27,093	(109,286)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>613,681</u>	<u>722,967</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 640,774</u>	<u>\$ 613,681</u>
RECONCILIATION TO EXHIBIT 1		
Cash and cash equivalents	\$ 367,770	\$ 340,677
Cash and cash equivalents, restricted	273,004	273,004
	<u>\$ 640,774</u>	<u>\$ 613,681</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, 2015 and 2014**

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

	<u>2015</u>	<u>2014</u>
Operating income	\$ 175,615	\$ 303,419
Adjustments to reconcile operating income to net cash provided by operating activities		
(Increase) decrease in assets:		
Bond administration fees receivable	(408,525)	(9,727)
Due from City of Winchester	14,429	133,202
Property held for development	460,610	-
Increase (decrease) in liabilities:		
Accounts payable	(10,386)	(5,033)
Due to grantees	20,092	(125,799)
Net cash provided by operating activities	<u>\$ 251,835</u>	<u>\$ 296,062</u>
NONCASH INVESTING ACTIVITIES		
Net loss from joint venture	<u>\$ (16,727)</u>	<u>\$ (2,004)</u>
Impairment of property held for development (Note 4)	<u>\$ -</u>	<u>\$ (260,600)</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 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.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 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.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 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, 2015 and 2014, \$273,004 of the Authority's deposits were not designated as public funds under the Act. 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, 2015 and 2014 all investments were held in LGIP. LGIP was rated by Standard and Poor's and has been assigned an AAAM rating.

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, 2015 and 2014, \$273,004 remained pledged under this agreement.

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

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

Note 2. Deposits and Investments (Continued)

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

	2015	2014
Investments: LGIP	\$ 681,477	\$ 680,660
Deposits	367,770	340,677
Certificate of Deposit	273,004	273,004
 Total deposits and investments	 \$ 1,322,251	 \$ 1,294,341
 Statement of Net Position:		
Cash and cash equivalents	\$ 367,770	\$ 340,677
Investments	681,477	680,660
Cash and cash equivalents, restricted	273,004	273,004
	 \$ 1,322,251	 \$ 1,294,341

Note 3. Notes Receivable

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

	Interest Rate	Date Issued	Maturity Date	Amount of Orig. Note	2015	2014
Oakcrest Properties, LLC	1.79%	5/10/2012	5/10/2017	\$ 200,000	\$ 172,846	\$ 181,971
North Loudon Street Renovations, LLC (Note 9)	5.00%	4/28/2011	4/28/2016	200,000	200,000	200,000
Joleen, L.C.	0.00%	8/18/2005	10/12/2015	52,550	52,550	52,550
Bonnie Blue Partners	1.80%	9/5/2012	9/5/2017	75,000	34,557	49,484
Boscawen Properties, LLC	1.86%	2/25/2013	2/25/2018	180,000	73,593	175,342
Taylor Hotel Landlord, LC	1.75%	5/8/2013	5/8/2018	200,000	186,651	200,000
Taylor Hotel Landlord, LC	5.00%	2/10/2014	2/10/2024	125,000	113,084	122,505
Michelle's	2.50%	8/20/2014	8/20/2016	1,722	1,015	-
Cohiba, LLC	2.50%	8/19/2014	8/19/2019	19,000	15,996	-
Leroy French Bakery	3.20%	10/24/2014	10/24/2019	20,000	17,827	-
 Total notes receivable					868,119	981,852
Less current portion					(257,465)	(45,760)
					 \$ 610,654	 \$ 936,092

(Continued)

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

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

Note 4. Property Held for Development

Property held for development is composed of the following:

	2015	2014
502-504 N. Kent Street	\$ 90,615	\$ 90,615
317 South Cameron Street	-	415,610
443, 450-452, 513 North Loudoun Street	-	45,000
Total property held for development	\$ 90,615	\$ 551,225

At June 30, 2014, the market value of property held for development was determined to be lower than the carrying amount. Accordingly, the Authority reduced the value of the related property by \$260,600, and recorded a corresponding impairment loss.

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 has invested \$1,590,627 and \$1,572,084 in the joint venture as of December 31, 2015 and 2014, respectively.

The joint venture owes the Authority promissory notes of \$200,000 and \$125,000 to be paid back in full by May 8, 2018 and February 10, 2024, respectively, as shown in Note 3. Interest revenue recognized from these notes totaled \$9,386 and \$6,419 for the years ended June 30, 2015 and 2014, respectively.

The Authority is entitled to a portion of the joint venture's income, which is reported for the years ended December 31, 2014 and 2013. The Authority's share of the joint venture's net loss of \$16,727 and \$2,004 for the years ended December 31, 2014 and 2013, respectively included \$3,908 and \$963 in interest expense attributable to the notes payable to the Authority described in Note 3.

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.

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

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

Note 6. Notes payable

Notes payable consists of the following at June 30:

	2015	2014
\$400,000 note payable to Summit Bank, issued June 10, 2011. Payable in full no later than June 11, 2015. 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>\$ -</u>	<u>\$ 313,586</u>

Note 7. Commitments and 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 2015.

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. To date, the requirements for satisfaction of this note have not been met.

Subsequent to year end, the Authority approved a loan for \$100,000 to 1720 Valley Avenue, LLC and also a \$35,000 façade loan to Kimberly Sowers. Additionally, the Authority has approved a \$16,000 grant to Lord Fairfax Small Business Development Center.

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 2015 and 2014, the Authority incurred legal fees of \$20,614 and \$32,716, respectively, for legal services provided by an individual, who serves as both secretary and counsel for the Authority. Of these amounts, \$2,008 and \$2,613 were payable at June 30, 2015 and 2014, respectively.

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

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

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

Note 9. Related Party Transactions (Continued)

North Loudoun Street Renovations, LLC, who owed a note receivable and related interest to the Authority totaling \$241,667 and \$231,667 as of June 30, 2015 and 2014, respectively, is co-managed by a former chairperson of the Authority.

Boscawen Properties, LLC, who owed a note receivable and related interest to the Authority totaling \$73,730 and \$181,156 as of June 30, 2015 and 2014, respectively, is managed by a current City of Winchester Council member.

Note 10. New Accounting Standards

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

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

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.

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

SUPPLEMENTARY SCHEDULE

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

SCHEDULE OF BONDS OUTSTANDING
June 30, 2015

<u>Name of Issue</u>	<u>Issued on Behalf of</u>	<u>Original Amount Issued</u>	<u>Date of Original Issue</u>	<u>Name of Trustee</u>	<u>Aggregate Outstanding Payable June 30, 2015</u>
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	\$ 87,310,000
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	\$ 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	\$ 24,830,000
Industrial Development Hospital Revenue Bonds, Series 2009E	Winchester Medical Center, Inc.	\$ 75,000,000	12/17/09	Regions Bank	\$ 29,025,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2010	Sunshine's Pride, LLC	\$ 7,100,000	05/07/10	Wells Fargo	\$ 2,025,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2011	NW Works, Inc.	\$ 2,300,000	12/20/10	Wells Fargo	\$ 1,650,000
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	\$ 34,480,000
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	\$ 70,025,000
Industrial Development Residential Care Facility Revenue Bonds, Series 2014A	Westminster-Canterbury of Winchester, Inc.	\$ 38,266,009	12/31/14	United Bank	\$ 37,712,210
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	\$ 43,135,000
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	\$ 508,000
		<u>\$ 471,801,009</u>			<u>\$ 405,535,210</u>

COMPLIANCE SECTION

**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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 19, 2017.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. **We consider the 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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 19, 2017

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2015

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, 2015

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 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.

13-2: 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, 2015

B. FINDINGS – COMMONWEALTH OF VIRGINIA

14-1: 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.