

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

FINANCIAL REPORT

June 30, 2014

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

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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, 2014 and 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 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, 2014 and 2013, 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.

Correction of Errors

As discussed in Note 10 to the financial statements, the 2013 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

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 13, 2016 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 13, 2016

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**BASIC FINANCIAL
STATEMENTS**

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

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 340,677	\$ 222,967
Investments (Note 2)	680,660	680,017
Bond administration fees receivable	235,830	226,103
Notes receivable, current portion (Note 3)	45,760	35,272
Interest receivable, current portion (Note 3)	5,474	1,156
Due from City of Winchester	35,250	168,452
Total current assets	1,343,651	1,333,967
Noncurrent assets:		
Cash and cash equivalents, restricted (Note 2)	273,004	500,000
Notes receivable (Note 3)	936,092	852,527
Interest receivable (Note 3)	31,167	21,667
Property held for development (Note 4)	551,225	811,825
Investment in joint venture (Note 5)	1,572,084	1,319,860
Total noncurrent assets	3,363,572	3,505,879
Total assets	4,707,223	4,839,846
LIABILITIES		
Current liabilities:		
Accounts payable	17,835	75,409
Due to grantees (Note 7)	-	125,799
Interest payable	2,695	1,859
Notes payable (Note 6)	313,586	315,073
Total current liabilities	334,116	518,140
Commitments and contingencies (Note 7)	-	-
NET POSITION		
Restricted (Note 2)	273,004	500,000
Unrestricted, as restated (Note 10)	4,100,103	3,821,706
Total Net position	\$ 4,373,107	\$ 4,321,706

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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Bond administration fees	\$ 377,870	\$ 312,840
Application fees	-	1,800
Contribution from City of Winchester - cash	74,687	1,162,553
Contribution from City of Winchester - property	-	650,000
Contribution for purchase of Taylor Hotel	-	228
Proceeds from sale of property	-	142,500
Total operating revenue	<u>452,557</u>	<u>2,269,921</u>
OPERATING EXPENSES		
Professional fees	69,447	63,757
Office expense	1,015	277
Insurance	2,460	317
Survey expense	300	3,880
Consulting expense	1,450	10,807
Economic analysis	16,198	27,951
Service charges	284	186
Business development grants (Note 7)	45,496	484,900
Rental expense	75	75
Utilities	2,409	1,001
Cost of property sold	-	194,400
Miscellaneous	10,004	5,340
Total operating expenses	<u>149,138</u>	<u>792,891</u>
Operating income	<u>303,419</u>	<u>1,477,030</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	25,349	16,275
Dividend income	643	1,107
Interest expense	(15,406)	(16,646)
Net loss from joint venture	(2,004)	-
Impairment of property held for development (Note 4)	(260,600)	-
Total nonoperating revenues (expenses)	<u>(252,018)</u>	<u>736</u>
Change in net position	51,401	1,477,766
NET POSITION		
BEGINNING OF THE YEAR (Note 10)	<u>4,321,706</u>	<u>2,843,940</u>
END OF THE YEAR	<u>\$ 4,373,107</u>	<u>\$ 4,321,706</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Cash received for fees	\$ 368,143	\$ 265,135
Cash payments to suppliers for goods and services	(108,675)	(121,339)
Business redevelopment grants	(171,295)	(359,101)
Contributions from City of Winchester	43,437	1,010,351
Reimbursements from City of Winchester	164,452	-
Purchases made for City of Winchester	-	(16,250)
Contributions for purchase of Taylor Hotel	-	228
Purchase and improvements to property held for development	-	(244,513)
Proceeds from sale of property	-	140,331
	<u>296,062</u>	<u>674,842</u>
Net cash provided by operating activities		
NONCAPITAL FINANCING ACTIVITIES		
Principal paid on notes payable	(1,487)	(81,152)
Interest paid on notes payable	(14,570)	(15,896)
	<u>(16,057)</u>	<u>(97,048)</u>
Net cash used in noncapital financing activities		
INVESTING ACTIVITIES		
Interest received	11,531	5,119
Dividends received	643	1,107
Loans made to others	(125,000)	(255,000)
Loan repayments received	30,947	59,745
Purchase of investments	(643)	(1,107)
Investment in joint venture	(307,969)	(24,396)
Distribution from joint venture	1,200	128,596
	<u>(389,291)</u>	<u>(85,936)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	(109,286)	491,858
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>722,967</u>	<u>231,109</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 613,681</u>	<u>\$ 722,967</u>
RECONCILIATION TO EXHIBIT 1		
Cash and cash equivalents	\$ 340,677	\$ 222,967
Cash and cash equivalents, restricted	273,004	500,000
	<u>\$ 613,681</u>	<u>\$ 722,967</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, 2014 and 2013**

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

	<u>2014</u>	<u>2013</u>
Operating income	\$ 303,419	\$ 1,477,030
Adjustments to reconcile operating income to net cash provided by operating activities		
Noncash contributions	-	(650,000)
(Increase) decrease in assets:		
Bond administration fees receivable	(9,727)	(49,505)
Due from City of Winchester	133,202	(168,452)
Property held for development	-	(50,113)
Increase (decrease) in liabilities:		
Accounts payable	(5,033)	(9,917)
Due to grantees	(125,799)	125,799
Net cash provided by operating activities	<u>\$ 296,062</u>	<u>\$ 674,842</u>
NONCASH INVESTING ACTIVITIES		
Conveyance of property from the City of Winchester	<u>\$ -</u>	<u>\$ 650,000</u>
Investment in joint venture acquired through accounts payable	<u>\$ -</u>	<u>\$ 52,541</u>
Conveyance of Taylor Hotel property to investment in joint venture	<u>\$ -</u>	<u>\$ 1,329,806</u>
Note receivable due from joint venture for prior investments made	<u>\$ -</u>	<u>\$ 200,000</u>
Income from joint venture	<u>\$ (2,004)</u>	<u>\$ -</u>
Impairment of property held for development (Note 4)	<u>\$ (260,600)</u>	<u>\$ -</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014

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.

Reclassifications:

Certain items in the June 30, 2013 financial statements and notes to the financial statements have been reclassified to conform to the June 30, 2014 presentation. These reclassifications had no impact on net position or changes in net position.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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, 2014 and 2013, \$273,004 and \$500,000, respectively, 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, 2014 and 2013 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, 2014, \$273,004 remained pledged under this agreement.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 2. Deposits and Investments (Continued)

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

	2014	2013
Investments: LGIP	\$ 680,660	\$ 680,017
Deposits	340,677	222,967
Certificate of Deposit	273,004	500,000
 Total deposits and investments	 \$ 1,294,341	 \$ 1,402,984
 Statement of Net Position:		
Cash and cash equivalents	\$ 340,677	\$ 222,967
Investments	680,660	680,017
Cash and cash equivalents, restricted	273,004	500,000
	 \$ 1,294,341	 \$ 1,402,984

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	2014	2013
Oakcrest Properties, LLC North Loudon Street	1.79%	5/10/2012	5/10/2017	\$ 200,000	\$ 181,971	\$ 191,081
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	49,484	64,168
Boscawen Properties, LLC	1.86%	2/25/2013	2/25/2018	180,000	175,342	180,000
Taylor Hotel Landlord, LC	1.75%	5/8/2013	5/8/2018	200,000	200,000	200,000
Taylor Hotel Landlord, LC	5.00%	2/10/2014	2/10/2024	125,000	122,505	-
Total notes receivable					981,852	887,799
Less current portion					(45,760)	(35,272)
					 \$ 936,092	 \$ 852,527

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 4. Property Held for Development

Property held for development is composed of the following:

	2014	2013
502-504 N. Kent Street	\$ 90,615	\$ 90,615
317 South Cameron Street	415,610	415,610
443, 450-452, 513 North Loudoun Street	45,000	305,600
Total property held for development	\$ 551,225	\$ 811,825

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 \$1,572,084 and \$1,319,860 in the joint venture as of December 31, 2014 and 2013, 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 \$6,419 for the year ended June 30, 2014.

The Authority is entitled to a portion of the joint venture's income, which is reported for the years ended December 31, 2013 and 2012. The Authority's share of the joint venture's net loss of \$2,004 for the year ended December 31, 2013 included \$963 in interest expense attributable to the notes payable to the Authority described in Note 3.

The Authority has also guaranteed loans owed by the joint venture totaling \$2,308,000. 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, 2014**

Note 6. Notes payable

Notes payable consists of the following at June 30:

	<u>2014</u>	<u>2013</u>
\$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>\$ 313,586</u>	<u>\$ 315,073</u>

Note 7. Commitments and Contingencies

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. The 2014 grant under this arrangement approximated \$36,000 in refunded taxes.

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.

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 2014 and 2013, the Authority incurred legal fees of \$32,716 and \$48,437, respectively, for legal services provided by an individual, who serves as both secretary and counsel for the Authority. Of these amounts, \$2,613 and \$3,526 were payable at June 30, 2014 and 2013, 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, 2014**

Note 9. Related Party Transactions (Continued)

North Loudoun Street Renovations, LLC, who owed a note receivable and related interest to the Authority totaling \$231,667 and \$221,667 as of December 31, 2014 and 2013, 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 \$175,460 and \$181,156 as of December 31, 2014 and 2013, respectively, is managed by a current City of Winchester Council member.

Note 10. Prior Period Adjustments

During the current fiscal year, the Authority identified certain errors related to previously recorded bond administration fees, the investment in joint venture, and notes receivable attributable to periods prior to the fiscal year beginning July 1, 2012. Accordingly, adjustments were recorded to bond administration fees, investment in joint venture, and net position as follows:

Net position at June 30, 2012		\$ 2,660,324
Recognition of prior bond administration fee revenues and receivables		89,353
Increase investment in joint venture for items previously recorded as expenses		41,713
Increase notes receivable for economic incentive recognized before earned by grantee		<u>52,550</u>
Restated net position at July 1, 2012		<u><u>\$ 2,843,940</u></u>

Also during the current fiscal year, the Authority identified an error related to previously unrecorded contributions from the City of Winchester and business development grants with a corresponding error related to amounts due from the City of Winchester and due to grantees attributable to the period ended June 30, 2013. Accordingly, an adjustment to increase each by \$53,417 was recorded as of and for the year ended June 30, 2013. Additionally, the Authority identified in the current fiscal year an error related to previously recorded investment in joint venture, with a corresponding error related to notes receivable at June 30, 2013. Accordingly, an adjustment to decrease investment in joint venture and increase notes receivable by \$200,000 was recorded as of June 30, 2013. No effect on beginning or ending net position resulted from these adjustments.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 11. New Accounting Standards

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* 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.

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.

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, 2014

Name of Issue	Issued on Behalf of	Original Amount Issued	Date of Original Issue	Name of Trustee	Aggregate Outstanding Payable June 30, 2014
Industrial Development Hospital Facility Revenue Refunding Bonds, Series 1993	Winchester Medical Center, Inc.	\$ 43,695,000	07/01/93	Regions Bank	\$ 2,500,000
Industrial Development Residential Care Facility Revenue Bonds, Series 2005A	Westminster-Canterbury of Winchester, Inc.	\$ 39,085,000	06/09/05	U.S. Bank	\$ 31,385,000
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	\$ 10,610,000
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	\$ 87,310,000
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	\$ 3,260,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2011	NW Works, Inc.	\$ 2,300,000	12/20/10	Wells Fargo	\$ 1,720,000
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	\$ 35,135,000
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	\$ 70,530,000
		<u>\$ 487,845,000</u>			<u>\$ 417,450,000</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, 2014, 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 13, 2016.

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 13, 2016

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2014

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, 2014

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 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, 2014

B. FINDINGS – COMMONWEALTH OF VIRGINIA

14-1: Public Deposits

Condition:

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.