BROWNEDWARDS
certified public accountants

REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the financial statements of the Economic Development Authority of the City of Winchester, hereafter referred to as the "Authority," for the years ended June 30, 2018 and 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 25, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018 or 2017. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The fair value of property held for development is based on external indicators such as tax assessments, appraisals of property, and subsequent sales of property.

We evaluated the key factors and assumptions used to develop these estimates in determining that the estimates are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements include those related to:

- Property held for development, notes receivable, investment in joint venture, long-term debt, and commitments and contingencies.

The financial statement disclosures are neutral, consistent and clear.

Significant Audit Findings (Continued)

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. In our judgment, the audit adjustments we proposed, shown in the attached schedule, which were recorded by the Authority, both individually and in the aggregate, indicate matters that had a significant effect on the Authority's financial reporting process.

Management has determined that the effect of the following unrecorded misstatements are immaterial, individually and in the aggregate, to the financial statements taken as a whole.

2017

- An increase to property held for development and a corresponding decrease to expenses for $6,135.

2018

- A decrease to bond administration fees receivable and a corresponding decrease to bond administration fee revenue for $1,750.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 15, 2020, a copy of which is attached.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were not engaged to report on the Introductory Section or the Schedule of Bonds Outstanding, which accompany the financial statements but is not required supplementary information. We did not audit or perform other procedures on this other information, and we do not express an opinion or provide any assurance on it.

Restriction of Use

This information is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 15, 2020

Attachment

Winchester economic development authority Virginia

April 15, 2020

Brown Edwards and Company, L.L.P.
1909 Financial Drive
Harrisonburg, VA 22801

This representation letter is provided in connection with your audits of the financial statements of the Economic Development Authority of the City of Winchester, Virginia, as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of April 15, 2020, the following representations made to you during your audit.

Financial Statements

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 2, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.

2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

3) We acknowledge our responsibility for 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.

4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and responses.

8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the uncorrected misstatements is below:

   2017

   - An increase to property held for development and a corresponding decrease to expenses for $6,135.

   2018

   - A decrease to bond administration fees receivable and a corresponding decrease to bond administration fee revenue for $1,750.

11) Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed.

12) We have provided the planning communication letter to all members of those charged with governance as requested.

Information Provided

13) We have provided you with:

   a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters [and all audit or relevant monitoring reports, if any, received from funding sources].

   b) Additional information that you have requested from us for the purpose of the audit.

   c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   d) Minutes of the meetings or summaries of actions of recent meetings for which minutes have not yet been prepared.

14) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

15) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

16) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

   - Management,
   - Employees who have significant roles in internal control,
   - Service organizations used by the entity,or
   - Others where the fraud could have a material effect on the financial statements.

17) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.

18) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

19) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

20) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government—specific

21) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

22) We have a process to track the status of audit findings and recommendations.

23) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

24) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

25) The entity has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

26) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.

27) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

28) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

29) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

30) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

31) As part of your audit, you assisted with preparation of the financial statements and related notes as well as certain nonaudit journal entries, and assistance with notes and bond administration fees receivable schedules. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. Additionally, we have consulted with individuals with suitable skill, knowledge, or experience employed at the City of Winchester for additional assistance. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

32) The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

33) The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

34) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

35) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.

36) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

37) Components of net position (net investment in capital assets; restricted; and unrestricted), and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

38) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

39) Provisions for uncollectible receivables have been properly identified and recorded.

40) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

41) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

42) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

43) Special and extraordinary items are appropriately classified and reported, if applicable.

44) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.

45) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

46) Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.

47) We have not completed the process of evaluating the impact that will result from adopting new Governmental Accounting Standards Board (GASBS) Statements that are not yet effective, as discussed in the notes to financial statements. The entity is therefore unable to disclose the impact that adopting these Statements will have on its financial position and the results of its operations when the Statements are adopted.

48) We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

49) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

50) Expenditures of federal awards were below the $750,000 threshold in the audit period, and we were not required to have an audit in accordance with the Uniform Guidance.

51) We are unaware of any circumstances or information that would indicate property held for development should be impaired.

52) We reaffirm the representations made to you in our letter dated July 19, 2018 regarding your audit for the fiscal year ended June 30, 2016.

Signature: ______________________
Title: Chairman, EDA of the City of Winchester

Signature: Mary Blowe
Title: City Chief Financial Officer/Director of Support Services

Signature: Celeste R. Broadstreet
Title: Financial Services Director/Real Estate Administrator

Signature: ______________________
Title: Executive Director, EDA of the City of Winchester

Signature: Shirley Dodson
Title: Business and Community Development Manager

Client: ***0638498.000 - City of Winchester Economic Development Authority***
Engagement: ***City of Winchester Economic Development Authority***
Period Ending: ***6/30/2017***
Trial Balance: ***3500 - Trial Balance***
Workpaper:
Account Description

Account	Description		Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 1				
AJEs to match FY17 beginning balances to the ending balances from FY16 audit.				
1150	Other receivables		547.84	
1400	Bond admin fee receivable		335,894.26	
1855	Notes Receivable:Facade:Cohiba - 5YR - 2.5%		5.58	
1855.1	Cohiba Interest Receivable		9.46	
1880	Notes Receivable:Improvement:Oakcrest (29-35 E Boscawen) - 20YR - 2%		50.79	
1880.1	Oakcrest interest receivable		162.85	
1890.1	Bonne Blue Ptnrs interest receivable		25.19	
1891.1	Boscawen Properties LLC interest receivable		363.11	
1893	Notes Receivable:Facade:Richardson (Michelle's) - 2YR - 2.5%		76.25	
1893.1	Richardson Interest Receivable		0.15	
1894.1	Sowers Interest Receivable		653.85	
1896.1	1720 Valley Ave LLC interest receivable		93.86	
1898.1	Taylor Landlord interest receivable 5YR		206.73	
2100	Accrued interest		2,694.92	
2610	Contribution Revenue		178,224.95	
3300	Retained Earnings		665,552.26	
1100	Accounts Receivable and Bond Fees Receivable			166,506.44
1600	Investment in Taylor Hotel Reno			906,654.85
1800	Loan to TMT			3,541.67
1890	Notes Receivable:Revolving:Bonnie Blue Ptnrs - 5YR - 1.5%			21.14
1891	Notes Receivable:Revolving:Boscawen Properties LLC - 5YR - 1.86%			1,394.18
1894	Notes Receivable:Facade:135 N Braddock (Sowers) - 5yr - 2.5%			583.33
1895	Notes Receivable:Taylor Landlord - 125K 10YR - 5%			102,046.18
1896	Notes Receivable:Revolving:1720 Valley Ave. LLC			520.36
1898	Notes Receivable:Taylor Landlord - 200K 5 YR 1.75%			371.07
2000	Accounts Payable			1,636.84
2500	Due to related parties			1,285.99
Total			**1,184,562.05**	**1,184,562.05**
Adjusting Journal Entries JE # 2				
To reclassify receipt of cash funds related to closing of Taylor Hotel Renovations bank account				
3100	Opening Balance Equity		30,000.00	
4050	Operating income:Miscellaneous			30,000.00
Total			**30,000.00**	**30,000.00**
Adjusting Journal Entries JE # 3				
To adjust sale of Taylor Hotel interest. Already recognized in FY16.				
1600	Investment in Taylor Hotel Reno		906,654.85	
8010	Non-operating income:Gain(loss) on sale of investm			906,654.85
Total			**906,654.85**	**906,654.85**
Adjusting Journal Entries JE # 4				
To record cash (revenue) received against loss on Taylor Hotel sale loss.				
4090	Income from joint venture		400,000.00	
8010	Non-operating income:Gain(loss) on sale of investm			400,000.00
Total			**400,000.00**	**400,000.00**
Adjusting Journal Entries JE # 5		**3610**		
To reflect the Winston Towers purchase as an asset held for development.				
1300	Properties held for development		797,956.00	
6010	Operating expense:Pass through funds for purchase of property			797,956.00
Total			**797,956.00**	**797,956.00**
Adjusting Journal Entries JE # 6		**3610**		
To record payments made on Taylor hotel note to the non-written off note.				
1895	Notes Receivable:Taylor Landlord - 125K 10YR - 5%		11,058.67	
1898	Notes Receivable:Taylor Landlord - 200K 5 YR 1.75%			11,058.67
Total			**11,058.67**	**11,058.67**
Adjusting Journal Entries JE # 7		**4501**		
To capitalize Winchester Tower demolition fees paid and record reimbursement as a contribution from the City.				

Client: ***0638498.000 - City of Winchester Economic Development Authority***
Engagement: ***City of Winchester Economic Development Authority***
Period Ending: ***6/30/2017***
Trial Balance: ***3500 - Trial Balance***
Workpaper:
Account Description

Account	Description		Debit	Credit
1300	Properties held for development		392,312.44	
4030	Operating income:Contribution from City of Winc			392,312.44
Total			**392,312.44**	**392,312.44**
Adjusting Journal Entries JE # 8		**5101**		
To accrue accounting fees relating to FY17.				
6100	Operating expense:Professional fees		7,500.00	
2000	Accounts Payable			7,500.00
Total			**7,500.00**	**7,500.00**
Adjusting Journal Entries JE # 9		**4252**		
To accrue bond admin fees.				
1100	Accounts Receivable and Bond Fees Receivable		114,925.00	
4010	Operating income:Bond Administration Fee			114,925.00
Total			**114,925.00**	**114,925.00**
Adjusting Journal Entries JE # 10		**4201**		
To adjust the principle receivable balances as of year end.				
1890	Notes Receivable:Revolving:Bonnie Blue Ptnrs - 5YR - 1.5%		1,308.03	
1891	Notes Receivable:Revolving:Boscawen Properties LLC - 5YR - 1.86%		5,580.09	
1898	Notes Receivable:Taylor Landlord - 200K 5 YR 1.75%		11,058.67	
8020.1	Non-operating income:Interest Income:Taylor Landlord - 125k		138.04	
8020.9	Non-operating income:Interest Income:Oakcrest		50.79	
1100	Accounts Receivable and Bond Fees Receivable			17,946.79
1100	Accounts Receivable and Bond Fees Receivable			138.04
1880	Notes Receivable:Improvement:Oakcrest (29-35 E Boscawen) - 20YR - 2%			50.79
Total			**18,135.62**	**18,135.62**
Adjusting Journal Entries JE # 11		**4203.08**		
To adjust interest receivable on Bonnie Blue loan				
1890	Notes Receivable:Revolving:Bonnie Blue Ptnrs - 5YR - 1.5%		13.58	
8020.11	Non-operating income:Interest Income:Taylor Landlord - 200k		1,308.03	
8020.11	Non-operating income:Interest Income:Taylor Landlord - 200k		1,308.03	
8020.2	Non-operating income:Interest Income:Bonnie Blue Partners		20.11	
1100	Accounts Receivable and Bond Fees Receivable			1,308.03
1890	Notes Receivable:Revolving:Bonnie Blue Ptnrs - 5YR - 1.5%			1,308.03
1890.1	Bonne Blue Ptnrs interest receivable			20.11
8020.2	Non-operating income:Interest Income:Bonnie Blue Partners			13.58
Total			**2,649.75**	**2,649.75**
Adjusting Journal Entries JE # 12		**4203.01**		
To adjust interest income and note balance on Boscawen NR				
1891	Notes Receivable:Revolving:Boscawen Properties LLC - 5YR - 1.86%		332.79	
8020.3	Non-operating income:Interest Income:Boscawen		355.66	
1891.1	Boscawen Properties LLC interest receivable			355.66
8020.3	Non-operating income:Interest Income:Boscawen			332.79
Total			**688.45**	**688.45**
Adjusting Journal Entries JE # 13		**4203.02**		
To adjust interest income and note balance on Taylor Landlord 200k NR				
7900	Miscellaneous		3,393.32	
8020.11	Non-operating income:Interest Income:Taylor Landlord - 200k		570.51	
8020.11	Non-operating income:Interest Income:Taylor Landlord - 200k		28.02	
1100	Accounts Receivable and Bond Fees Receivable			22.67
1150	Other receivables			547.84
1898	Notes Receivable:Taylor Landlord - 200K 5 YR 1.75%			6.52
1898.1	Taylor Landlord interest receivable 5YR			21.50
8020.11	Non-operating income:Interest Income:Taylor Landlord - 200k			3,393.32
Total			**3,991.85**	**3,991.85**
Adjusting Journal Entries JE # 14		**4203.03**		
To adjust interest income and note balance on Cohiba NR				
8020.5	Non-operating income:Interest Income:Cohiba		6.99	
1855	Notes Receivable:Facade:Cohiba - 5YR - 2.5%			3.95

Client: *0638498.000 - City of Winchester Economic Development Authority*
Engagement: *City of Winchester Economic Development Authority*
Period Ending: *6/30/2017*
Trial Balance: *3500 - Trial Balance*
Workpaper:

Account	Description		Debit	Credit
1855.1	Cohiba Interest Receivable			3.04
Total			**6.99**	**6.99**
Adjusting Journal Entries JE # 15		**4203.09**		
To adjust interest income and note balance on Sowers/135 N Braddock NR				
1894	Notes Receivable:Facade:135 N Braddock (Sowers) - 5yr - 2.5%		581.15	
8021.1	Non-operating income:Interest Income:Sowers		11.69	
1894.1	Sowers Interest Receivable			592.84
Total			**592.84**	**592.84**
Adjusting Journal Entries JE # 16		**4203.10**		
To adjust interest income and note balance on Valley Ave NR				
1896.1	1720 Valley Ave LLC interest receivable		103.86	
8021.3	Non-operating income:Interest Income:1720 Valley Ave		410.70	
1896	Notes Receivable:Revolving:1720 Valley Ave. LLC			514.56
Total			**514.56**	**514.56**
Adjusting Journal Entries JE # 17		**4252**		
To agree bond admin fees receivable to detailed schedule				
4010	Operating income:Bond Administration Fee		6,580.26	
1400	Bond admin fee receivable			6,580.26
Total			**6,580.26**	**6,580.26**
Adjusting Journal Entries JE # 18				
To remove Taylor landlord activity for old 125k loan (was written off in 2016)				
8020.10	Non-operating income:Interest Income:Bank Interest		4,851.16	
1100	Accounts Receivable and Bond Fees Receivable			4,851.16
Total			**4,851.16**	**4,851.16**
Adjusting Journal Entries JE # 19		**3610**		
To reclassify rehab improvment grant for 305 N. Loudoun to grant expense				
7100	Operating expense:Business development grant		10,000.00	
2610	Contribution Revenue			10,000.00
Total			**10,000.00**	**10,000.00**
Adjusting Journal Entries JE # 20				
To reclassify reimbursements from the City for development grants related to Rare Hospitality and Taylor Master Tenant				
2610	Contribution Revenue		42,628.33	
4030	Operating income:Contribution from City of Winc			42,628.33
Total			**42,628.33**	**42,628.33**
Adjusting Journal Entries JE # 21		**3610**		
To eliminate payables related to prior year and true up accounts payable				
1800	Loan to TMT		3,541.67	
2000	Accounts Payable		1,636.84	
2500	Due to related parties		9,718.50	
2000	Accounts Payable			3,541.67
6110	Operating expense:Legal fees			9,718.50
6120	Operating expense:Other Fees			1,636.84
Total			**14,897.01**	**14,897.01**
Adjusting Journal Entries JE # 22		**PF 309**		
To reflect Rubbermaid grant expense and related contribution from city				
7100	Operating expense:Business development grant		400,000.00	
4030	Operating income:Contribution from City of Winc			400,000.00
Total			**400,000.00**	**400,000.00**
Adjusting Journal Entries JE # 23				
Reclassify loss expense to misc expenses				
6120	Operating expense:Other Fees		1,617.79	
8010	Non-operating income:Gain(loss) on sale of investm			1,617.79
Total			**1,617.79**	**1,617.79**

Client:	***0638498.000 - City of Winchester Economic Development Authority***
Engagement:	***City of Winchester Economic Development Authority***
Period Ending:	***6/30/2017***
Trial Balance:	***3500 - Trial Balance***
Workpaper:	
Account	Description

Account	Description		Debit	Credit
Adjusting Journal Entries JE # 24		**4203.07**		
To adjust interest income and accrued interest on Oakcrest NR				
8020.9	Non-operating income:Interest Income:Oakcrest		162.85	
1880.1	Oakcrest interest receivable			162.85
8020.11	Non-operating income:Interest Income:Taylor Landlord - 200k			
8020.9	Non-operating income:Interest Income:Oakcrest			
Total			**162.85**	**162.85**
Adjusting Journal Entries JE # 25				
Reclassify fees paid to Frederick County for bond admin				
9999	BE account - intergovernmental		10,856.00	
4010	Operating income:Bond Administration Fee			10,856.00
Total			**10,856.00**	**10,856.00**
Adjusting Journal Entries JE # 26				
To gross up management fees and reimbursement from City and record one month payable to TMT				
7680	Operating expense:Management Fee		42,500.00	
4030	Operating income:Contribution from City of Winc			42,500.00
Total			**42,500.00**	**42,500.00**
Adjusting Journal Entries JE # 27				
To expense portion of taxes paid and not reimbursed and reclassify receivable to "other receivables"				
1150	Other receivables		9,170.90	
7900	Miscellaneous		13,657.10	
1630	Due from Taylor Hotel			9,170.90
1630	Due from Taylor Hotel			13,657.10
Total			**22,828.00**	**22,828.00**
Adjusting Journal Entries JE # 28				
To write off Richardson note and equipment no longer used				
1510	Accum Depr-Office Equip		9,029.00	
7900	Miscellaneous		750.00	
8020.7	Non-operating income:Interest Income:Leslie M. Richardson		76.40	
1500	Office Equipment			9,779.00
1893	Notes Receivable:Facade:Richardson (Michelle's) - 2YR - 2.5%			76.25
1893.1	Richardson Interest Receivable			0.15
Total			**9,855.40**	**9,855.40**
	Total Adjusting Journal Entries - 2017		**4,438,325.87**	**4,438,325.87**
	Total All Journal Entries - 2017		**4,438,325.87**	**4,438,325.87**

Adjusting Journal Entries

Account	Description		Debit	Credit
Adjusting Journal Entries JE # 1		**3612**		
To correct beginning balances				
778-0000-104.02-01	STATE POOLED FUNDS / LGIP		592.31	
778-0000-115.10-10	MISCELLANEOUS / OTHER		329,314.00	
778-0000-116.01-03	NOTES RECEIVABLE / NOTES RECEIVABLE		462.91	
778-0000-161.02-01	BUILDINGS & IMPROVEMENTS / PROPERTIES HELD FOR DEVEL		1,190,268.44	
778-0000-165.10-00	MACHINERY & EQUIPMENT / ACCUMULATED DEPRECIATION		9,029.00	
778-0000-208.08-00	MISC LIABILITIES / CONTRIBUTION REVENUE		210,853.28	
778-0000-209.03-06	DUE TO OTHER SOURCES / RELATED PARTIES		8,432.51	
778-0000-210.02-01	ACCRUED INTEREST PAYABLE / ACCRUED INTEREST PAYABLE		2,694.92	
778-0000-115.10-20	MISCELLANEOUS / BILLING SYSTEM			66,677.23
778-0000-116.01-03	NOTES RECEIVABLE / NOTES RECEIVABLE			87,566.02
778-0000-165.00-00	FIXED ASSETS / MACHINERY & EQUIPMENT			9,779.00
778-0000-201.00-00	CURRENT LIABILITIES / PAYABLES			11,041.67
778-0000-261.00-00	RETAINED EARNINGS / RETAINED EARNINGS			1,576,583.45
778-0000-115.10-10	MISCELLANEOUS / OTHER			
Total			**1,751,647.37**	**1,751,647.37**

Adjusting Journal Entries JE # 2

Client: ***0638498.000 - City of Winchester Economic Development Authority***
Engagement: ***City of Winchester Economic Development Authority***
Period Ending: ***6/30/2017***
Trial Balance: ***3500 - Trial Balance***
Workpaper:
Account Description

Account	Description		Debit	Credit
Additional entry to correct beginning balances				
778-0000-116.01-03	NOTES RECEIVABLE / NOTES RECEIVABLE		91,564.00	
778-0000-261.00-00	RETAINED EARNINGS / RETAINED EARNINGS		33,940.51	
778-0000-104.02-01	STATE POOLED FUNDS / LGIP			592.31
778-0000-115.10-20	MISCELLANEOUS / BILLING SYSTEM			4.23
778-0000-210.02-01	ACCRUED INTEREST PAYABLE / ACCRUED INTEREST PAYABLE			123,300.35
778-8151-481.58-72	MISCELLANEOUS / MISC CHARGES & FEES			1,607.62
Total			**125,504.51**	**125,504.51**
Adjusting Journal Entries JE # 3		**4252**		
To adjust bond admin fees receivable				
778-0000-318.98-05	FEES / BOND ADMINSTRATION FEES		2,068.00	
778-0000-115.10-10	MISCELLANEOUS / OTHER			2,068.00
Total			**2,068.00**	**2,068.00**
Adjusting Journal Entries JE # 4				
To adjust balance sheet accounts reversing activity that was captured in prior year.				
778-0000-115.10-20	MISCELLANEOUS / BILLING SYSTEM		75,848.13	
778-0000-201.00-00	CURRENT LIABILITIES / PAYABLES		11,041.67	
778-0000-210.02-01	ACCRUED INTEREST PAYABLE / ACCRUED INTEREST PAYABLE		120,605.43	
778-8151-481.31-50	PROFESSIONAL SERVICES / LEGAL SERVICES		8,432.51	
778-8151-481.58-72	MISCELLANEOUS / MISC CHARGES & FEES		10,858.05	
778-0000-208.08-00	MISC LIABILITIES / CONTRIBUTION REVENUE			210,853.28
778-0000-209.03-06	DUE TO OTHER SOURCES / RELATED PARTIES			8,432.51
778-8151-481.31-20	PROFESSIONAL SERVICES / ACCOUNTING AND AUDITING			7,500.00
Total			**226,785.79**	**226,785.79**
Adjusting Journal Entries JE # 5				
To record additional amount due from City for Taylor Master Tenant				
778-0000-115.10-20	MISCELLANEOUS / BILLING SYSTEM		3,541.67	
778-0000-318.99-60	DONATIONS & SPECIAL GIFTS / WINCHESTER			3,541.67
Total			**3,541.67**	**3,541.67**
Adjusting Journal Entries JE # 6				
To adjust beginning retained earnings for 2017 taxes paid not reimbursed				
778-0000-261.00-00	RETAINED EARNINGS / RETAINED EARNINGS		22,828.00	
778-8151-481.58-72	MISCELLANEOUS / MISC CHARGES & FEES			22,828.00
Total			**22,828.00**	**22,828.00**
Adjusting Journal Entries JE # 7				
To remove balance for Boscawen				
778-8151-481.58-72	MISCELLANEOUS / MISC CHARGES & FEES		4,841.00	
778-0000-116.01-05	NOTES RECEIVABLE / REVOLVING LOANS			4,841.00
Total			**4,841.00**	**4,841.00**
	Total Adjusting Journal Entries - 2018		**2,137,216.34**	**2,137,216.34**
	Total All Journal Entries - 2018		**2,137,216.34**	**2,137,216.34**

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

June 30, 2018 and 2017

CONTENTS

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

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

In planning and performing our audits of the financial statements of the Economic Development Authority of the City of Winchester, Virginia (the "Authority") as of and for the years ended June 30, 2018 and 2017, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in circumstances for the purpose of expressing our opinion on the financial statements and to comply with any other applicable standards, such as *Government Auditing Standards*, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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.

If material weaknesses or significant deficiencies were identified during our procedures, they are appropriately designated as such in this report. Additional information on material weaknesses or significant deficiencies and compliance and other matters is included 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*** which should be read in conjunction with this report.

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Additionally, during our audit, we may have become aware of certain other matters that provide opportunities for improving your financial reporting system and/or operating efficiency. Such comments and suggestions regarding these matters, if any, are also included in the attached report, but are not designated as a material weakness or significant deficiency. Since our audit is not designed to include a detail review of all systems and procedures, these comments should not be considered as being all-inclusive of areas where improvements might be achieved. We also have included information on accounting and other matters that we believe is important enough to merit consideration by management and those charged with governance. It is our hope that our suggestions will be taken in the constructive light in which they are offered.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Authority, management, and the appropriate state and federal regulatory agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia

April 15, 2020

SUMMARY OF CURRENT YEAR COMMENTS AND SUGGESTIONS

REVIEW OF RECEIVABLE RECONCILATIONS

Currently, a detailed reconciliation is prepared for notes receivable and the related interest income. The reconciliation is used to track payments and amounts owed by note holders. We recommend a formalized review of the schedule on a periodic basis by the Executive Director and Business & Community Development Manager in addition to reviews performed by the City finance staff. Documentation should be noted of who prepared and reviewed the schedule.

A detailed reconciliation for bond administration fees receivable is currently not prepared. We recommend a reconciliation be used to help track balances, payments and revenue earned and be reconciled to the general ledger on a periodic basis. Similar to the note receivable reconciliation comment, we recommend a formalized review of the schedule on a periodic basis by the parties above. Documentation should be noted of who prepared and reviewed the schedule.

COMMONWEALTH OF VIRGINIA DISCLOSURE STATEMENTS

For 2018, we noted certain members of the board that did not file statements of economic interests by the February 1st deadline as set forth by the Code of Virginia. We recommend taking steps to ensure these statements are filed by all required individuals in a timely manner.

SUMMARY OF STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

FINANCIAL REPORTING (Material Weakness)

As part of our audit, we proposed a number of significant adjustments which were necessary for the financial statements to be in compliance with U.S. generally accepted accounting principles (GAAP). Specific areas and recommendations are discussed below:

- **Noncash transactions and accruals** –Noncash transactions and accruals are not properly recognized in accordance with GAAP. We recommend developing and implementing period and year-end accounting closing procedures, during which all potential accruals and noncash transactions should be considered and adjusted. We also stress the importance of involving individuals familiar with GAAP for governmental entities in this process.
- **Cash and cash equivalents** – A significant certificate of deposit was recorded as transferred to the investment in joint venture, but was in fact still in the possession of the Authority. We recommend maintaining documentation for all transfers of assets. If it is discovered that a recorded transfer lacks adequate documentation, its true disposition should be investigated with assistance from the related financial institution.
- **Contributions from City of Winchester and related receivables –** All contributions from the City of Winchester were initially recorded as "pass-through funds"; however, nearly all transfers of assets from the City should be recorded as contribution revenue in the periods they are earned. We recommend coordinating with the City's Finance Department to ensure that these amounts are properly recorded. Generally, any amounts recorded as expenses by the City should be recorded as revenues by the Authority in the same period.
- **Notes receivable and related interest income** – The majority of audit adjustments made to notes receivable in the current year related to the improper allocation of payments received between principal and interest. Most notes receivable held by the Authority have terms that state "all interest shall be computed and charged for the actual number of days elapsed on the basis of a year consisting of three hundred sixty (360) days", and "if a payment is 7 days or more late, the Borrower will be charged 5.000% of the unpaid portion of the regularly scheduled payment". We recommend utilizing a professionally developed application or spreadsheet to help ensure that the correct amounts are billed and the appropriate amounts of principal and interest are recognized. We also recommend maintaining supporting documentation for all payments received and clearly documenting who payments were from. To make this process less cumbersome, we recommend reconciling these payments on a monthly or quarterly basis.
- **Bond administration fees and related receivables** – A significant audit adjustment was required in the current year for bond administration fees and related receivables due to discrepancies between what was recorded and what was confirmed by third parties. Per the bond administration agreements, an annual administrative fee is "payable to the Authority at a rate of 1/10 of one percent of the principal amount of all Bonds Outstanding on each anniversary date of the original issuance date of the bonds", and "shall accrue from the original issuance date of the Bonds". To ensure the completeness of bond administration fees and related receivables, we recommend maintaining a listing of all bond issuances for which administration fees apply. This listing should include bond principal amounts, anniversary dates, and billing/payment history. Doing so will also help to ensure that all such amounts are billed to the Bond Holders in a timely manner and for the correct amounts.

FINANCIAL REPORTING (Material Weakness) (Continued)

- **Investment in joint venture and related income** – Numerous adjustments were required in the current year in order to properly state the investment in joint venture and related income in accordance with GAAP. We recommend ensuring that the accounting implications of all agreements currently in place are properly reflected in the accounting records; in particular, this applies to loans made by the Authority to the joint venture entities, rent revenues attributable to the Authority as a result of the real estate master lease agreement, and developer fees. Also, see the "Segregation of Duties" section below for more recommendations with regards to the investment in joint venture.
- **Property held for development and related impairment** – A significant audit adjustment was required in the current year for property held for development. This adjustment resulted from property with a fair value that was significantly less than its carrying value, which resulted in an impairment loss. In this context, "fair value" generally refers to the exit/sale price of the asset in question. We recommend evaluating all properties held for development on at least an annual basis for impairment.

Also during our audit procedures, we noted numerous instances in which there was a lack of adequate documentation available to support transactions. In particular, we noted inadequate documentation available for certain journal entries, bond administration fees, bond balances, and certain payments received on notes receivable. We recommend thoroughly documenting all pertinent agreements, contracts, board decisions, journal entries made, invoices paid, and payments received, and also filing all such documentation in an orderly manner in a centralized location.

Given the significant audit adjustments that have been required in this and prior years, we recommend the board consider developing a more formal response, such as a board resolution, to identified risks. Identified risks can include those discovered as a part of this audit, as well as those derived from an independent risk assessment performed by the board and management.

Additionally, we recommend reviewing all adjustments that were made as a result of the current year audit as a reminder of matters that require accounting attention in preparing for the 2015 audit.

> **2017 Current Status:** *Material audit adjustments were required for noncash transactions and accruals, contributions from City of Winchester, notes receivable and interest income, bond administration fees and related receivables, investment in joint venture and related income, and property held for development. We didn't note errors with cash and cash equivalents. We also didn't note lack of adequate documentation available to support transactions.*
>
> *We believe a material weakness is still applicable for 2017 due to the required material audit adjustments.*
>
> **2018 Current Status:** *Audit adjustments were required for bond administration fees and related receivables, and to correctly state beginning balances. Overall, we noted significantly less audit adjustments for 2018.*
>
> *Given significantly less audit adjustments for 2018, we believe a material weakness is not present for 2018, however see recommendations under SUMMARY OF CURRENT YEAR COMMENTS AND SUGGESTIONS.*

SEGREGATION OF DUTIES (Material Weakness)

One of the more important aspects of any internal control is segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and either be concealed or not detected.

Specific items related to segregation of duties are discussed below:

- **Bank statements and reconciliations** - We noted that bank statements did not contain a signature documenting review and there was also no evidence of review of the bank reconciliation. Lack of review increases the risk that improper cash activity will remain undetected. We recommend all bank statements and reconciliations be reviewed by an individual other than the preparer. All statements should be initialed and dated by the reviewer, and all reconciliations should be initialed by the preparer and the reviewer in order to attribute responsibility to the appropriate individuals.
- **Receipts and disbursements** – There are currently no policies in place dictating segregation of duties related to cash receipts and disbursements. Given the limited staffing available, we understand the constraints on implementing true preventive controls; however, even with limited staffing, stronger controls can be implemented. We recommend establishing a policy that limits the writing of checks and handling of receipts/deposits to the Economic Redevelopment Assistant, the authorization of those transactions to the Economic Redevelopment Director, and the recording of those transactions to the third party bookkeeper. The Economic Redevelopment Director should also compare receipts and disbursements to supporting remittance advices, agreements, and invoices to help ensure completeness and appropriateness.
- **Approval of journal entries** – During our review of journal entries, we noted that no entries contained proper approval by an individual other than the preparer. Lack of review and approval increases the risk for unauthorized entries remaining undetected. We recommend all journal entries be reviewed and approved by an individual other than the preparer. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. All journal entries should also include adequate documentation that clearly supports the nature and purpose of the entries.
- **Joint venture** – The Manager of Taylor Pavilion, LLC is the sole individual writing checks and making deposits for the Taylor Hotel entities, and appears to have no oversight or review from anyone at the Authority or within the Manager's company. To address this, we recommend enforcing section 20 of the Taylor Pavilion, LLC operating agreement, which stipulates "Within ninety (90) days after the conclusion of each fiscal year, the Company will furnish to the Members an annual report containing financial statements of the Company together with a summary year-end statement of the Company's operations." We also recommend requesting more frequent, interim reports. All such reports should be compared to developed expectations to help ensure appropriateness. For comparability purposes and financial statement preparation, we also recommend having the annual report be prepared in accordance with GAAP.

SEGREGATION OF DUTIES (Material Weakness) (Continued)

2017 Current Status: *Informal review of the bank statements and reconciliations is occurring, however does not appear to be consistently documented. Informal review of receipts and disbursements is also occurring, however is not consistently documented. Both of these items are being reviewed as a part of the monthly board package and meetings.*

Formalized approval of journal entries made by the third party accountant is also not documented.

With the sale of the Authority's interest in October 2016, the joint venture comment above is no longer applicable.

We still believe a material weakness exists in 2017 related to segregation of duties due to these factors.

2018 Current Status: *The City of Winchester finance staff took over primary responsibility and review of the accounting for the Authority's transactions starting January 1, 2018. Prior to that date the items noted above under "2017 Current Status" were still applicable and as such we believe a material weakness over segregation of duties existed to that point.*

Subsequent to the City finance staff's involvement, we believe there have been significant improvements regarding segregation of duties. The Authority now functions similar to a department of the City. We believe the comments regarding bank reconciliations and statements, receipts and disbursements, and approval of journal entries appear to be mitigated. As discussed in SUMMARY OF CURRENT YEAR COMMENTS AND SUGGESTIONS, we recommend a documented review of notes and bond administration fees receivable reconciliations.

PUBLIC DEPOSITS

We noted one certificate of deposit that was not identified as public funds by the financial institution as required by the Code of Virginia. We recommend taking the necessary steps with the financial institution to identify this account as public funds.

Current Status: *None noted for the 2017 and 2018 audits.*

ACCOUNTING AND OTHER MATTERS

In this section, we would like to make you aware of certain confirmed and potential changes that are on the horizon that may affect your financial reporting and audit.

The GASB issued **Statement No. 83**, ***Certain Asset Retirement Obligations*** in November 2016. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, ***Fiduciary Activities*** in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, ***Leases*** in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Definition of a Lease

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

Lease Term

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.

b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.

c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.

d. Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors should reassess the lease term only if one or more of the following occur:

a. The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.

b. The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.

c. An event specified in the lease contract that requires an extension or termination of the lease takes place.

Short-Term Leases

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Lessee Accounting

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

Contracts with Multiple Components and Contract Combinations

Generally, a government should account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

Lease Modifications and Terminations

An amendment to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

Subleases and Leaseback Transactions

Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, ***Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*** in March 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 89**, ***Accounting for Interest Cost Incurred before the End of a Construction Period*** in June 2018. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

The GASB issued **Statement No. 90**, ***Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*** in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF WINCHESTER, VIRGINIA

FINANCIAL REPORT

June 30, 2018 and 2017

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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

2018

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

2017

William Buettin, Chair
Douglas Toan
Lauri Bridgeforth
Jeffrey Buettner
Frederick White
Carol Koenecke-Grant
Tim Painter

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

Financial Section contains the Basic Financial Statements.

BROWN EDWARDS
certified public accountants

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2020 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 solely 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
April 15, 2020

BASIC FINANCIAL STATEMENTS

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ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF WINCHESTER, VIRGINIA

STATEMENTS OF NET POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 1,304,638	$ 2,040,237
Investments (Note 2)	43,512	688,843
Other receivables	9,171	9,171
Bond administration fees receivable	328,996	329,314
Notes receivable, current portion (Note 3)	200,194	40,567
Interest receivable, current portion	-	463
Due from City of Winchester (Note 9)	3,542	-
Total current assets	1,890,053	3,108,595
Noncurrent assets:		
Notes receivable (Note 3)	76,499	301,076
Property held for development (Note 4)	2,774,821	1,190,268
Total noncurrent assets	2,851,320	1,491,344
Total assets	4,741,373	4,599,939
LIABILITIES		
Current liabilities:		
Accounts payable	5,883	11,038
Deposits	1,500	-
Assets held for others	4	-
Total current liabilities	7,387	11,038
Commitments and contingencies (Note 7)	-	-
NET POSITION		
Unrestricted	4,733,986	4,588,901
Total net position	$ 4,733,986	$ 4,588,901

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, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Bond administration fees	$ 398,483	$ 401,649
Contributions from City of Winchester (Note 9)	44,132	881,441
Rental income	60,550	-
Miscellaneous	-	32,000
Total operating revenue	503,165	1,315,090
OPERATING EXPENSES		
Business development grants	35,323	468,628
Professional fees	197,839	118,897
Office expense	12,423	4,935
Insurance	3,796	4,040
Consulting expense	-	50
Service charges	-	214
Management fees	42,500	42,500
Utilities	8,408	-
Administrative fees	9,918	10,856
Repairs, maintenance and rental expenses	2,556	17,875
Bad debt expense	-	46,454
Loss on sale of property (Note 4)	33,018	750
Miscellaneous	23,724	29,032
Total operating expenses	369,505	744,231
Operating income	133,660	570,859
NONOPERATING REVENUES (EXPENSES)		
Interest income	6,651	9,875
Investment income	5,839	5,165
Interest expense	(1,065)	(35)
Total nonoperating revenues (expenses)	11,425	15,005
Change in net position	145,085	585,864
NET POSITION		
BEGINNING OF THE YEAR	4,588,901	4,003,037
END OF THE YEAR	$ 4,733,986	$ 4,588,901

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, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Cash received for fees	$ 398,801	$ 408,229
Cash payments to suppliers for goods and services	(306,319)	(228,717)
Business redevelopment grants	(33,819)	(468,628)
Contributions and reimbursements from City of Winchester	40,590	881,989
Miscellaneous receipts	60,550	22,829
Purchase and improvements to property held for development	(3,248,571)	(1,190,268)
Proceeds from sale of property	1,631,000	-
Net cash used in operating activities	(1,457,768)	(574,566)
NONCAPITAL FINANCING ACTIVITIES		
Proceeds from line of credit	335,981	-
Payments on line of credit	(335,981)	-
Interest paid	(1,065)	(35)
Net cash used in noncapital financing activities	(1,065)	(35)
INVESTING ACTIVITIES		
Interest received	7,114	10,927
Dividends received	5,839	5,165
Loans made to others	(102,496)	(3,800)
Loan repayments received	167,446	232,245
Proceeds from sale (purchases) of investments, net	645,331	(5,164)
Proceeds on sale of investment in joint venture	-	400,000
Net cash provided by investing activities	723,234	639,373
Net increase (decrease) in cash and cash equivalents	(735,599)	64,772
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,040,237	1,975,465
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,304,638	$ 2,040,237

(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, 2018 and 2017

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

	2018	2017
Operating income	$ 133,660	$ 570,859
Adjustments to reconcile operating income to net cash used in operating activities		
Bad debt expense	-	46,454
Loss on sale of property held for development	33,018	-
Loss on equipment disposal	-	750
(Increase) decrease in assets:		
Bond administration fees receivable	318	6,580
Other receivables	-	(9,171)
Due from City of Winchester	(3,542)	548
Property held for development	(1,617,571)	(1,190,268)
Increase (decrease) in liabilities:		
Accounts payable	(5,155)	(318)
Deposits	1,500	-
Assets held for others	4	-
Net cash used in operating activities	$ (1,457,768)	$ (574,566)

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

Note 1. Summary of Significant Accounting Policies

Reporting entity:

The Economic Development Authority of the City of Winchester, Virginia (the "Authority") was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City of Winchester (the "City") on October 15, 1967, pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373, et seq., of the code of Virginia (1950) as amended). The Authority is governed by seven directors appointed by the City of Winchester, Virginia. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprise to locate and remain in Winchester, Virginia.

The Authority is authorized to issue revenue bonds upon application by qualified applicants for the purpose of acquiring, constructing, equipping, and rehabilitating certain facilities as provided in Chapter 49 of the Industrial Development and Revenue Bond Act as set forth in the Code. Upon issuance, the proceeds of the bonds are loaned to the applicant, who then agrees to repay the bonds as set forth in the Loan Agreement executed in connection with the issuance of the bonds. Section 15.2-4909 of the Code specifically provides that the bonds shall not be deemed to constitute a debt or a pledge of the faith and credit of the Commonwealth, or any political subdivision thereof, including the locality issuing the bonds. Such bonds are payable solely from the revenues and monies pledged for such purpose by the applicant, and are secured by a deed of trust, line or credit, and/or pledge of the applicant's assets.

Measurement focus and basis of accounting:

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

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority generally result from charges to customers for application and administration fees, certain contributions from the City to assist in operations, including property held for development and resale, and the sale of property. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

(Continued)

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.

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.

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 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. LGIP is not registered with the SEC, but is overseen by the Treasurer of Virginia and the State Treasury Board. The value of the Authority's position in the pools is the same as the value of the pool shares and is stated at amortized cost in accordance with GASB Statement 79, which approximates fair value.

At June 30, 2018 and 2017 all investments were held in LGIP. LGIP was rated by Standard and Poor's and has been assigned an AAAm rating.

(Continued)

Note 2. Deposits and Investments (Continued)

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

	2018	2017
Investments: LGIP	$ 43,512	$ 688,843
Deposits	1,304,638	2,040,237
Total deposits and investments	$ 1,348,150	$ 2,729,080
Statement of Net Position:		
Cash and cash equivalents	$ 1,304,638	$ 2,040,237
Investments	43,512	688,843
	$ 1,348,150	$ 2,729,080

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	2018	2017
Bonnie Blue Partners	1.80%	9/5/2012	9/5/2017	$ 75,000	$ -	$ 3,905
Boscawen Properties, LLC	1.86%	2/25/2013	2/25/2018	180,000	-	28,832
Taylor Hotel Landlord, LC	1.75%	5/8/2013	5/8/2019	200,000	166,295	173,196
Cohiba, LLC	2.50%	8/19/2014	8/19/2019	19,000	-	8,527
Sowers	2.50%	10/1/2015	10/1/2020	35,000	21,750	30,293
1720 Valley Ave	2.63%	12/1/2015	12/1/2020	100,000	-	93,150
Healens	2.50%	5/1/2017	5/1/2022	3,800	3,017	3,740
Once Upon a Find	7.00%	10/15/2017	10/15/2019	10,000	7,226	-
Iron Rose	7.00%	6/1/2018	6/1/2020	6,500	6,247	-
Bonnie Blue Southern Markets	2.54%	7/21/2017	8/1/2022	70,246	59,148	-
Healens (revolving)	2.54%	7/1/2017	7/1/2022	15,750	13,010	-
Total notes receivable					276,693	341,643
Less current portion					(200,194)	(40,567)
Notes receivable, long-term					$ 76,499	$ 301,076

(Continued)

Note 4. Property Held for Development

Property held for development activity for 2018 and 2017 was as follows:

Property	Date of Purchase	Cost	Improvements	Sold	Total	2018	2017
200, 214 N. Cameron Street	August 2016	$ 795,000	$ 395,268	$ -	$ 1,190,268	$ 1,190,268	$ 1,190,268
204-206, 210, 212-214 Piccadilly Street	December 2017	523,000	8,031	-	531,031	531,031	-
21-25 South Kent Street	January 2018	1,625,000	-	(1,625,000)	-	-	-
212 East Cork Street	January 2018	260,000	4,266	-	264,266	264,266	-
204 North Kent Street and East Piccadilly Street	March 2018	500,000	27,830	-	527,830	527,830	-
206 North Kent Street	March 2018	250,000	11,426	-	261,426	261,426	-
						$ 2,774,821	$ 1,190,268

During both 2017 and 2018, the Authority created two limited liability companies (L.L.C.) to own, manage, and operate property. The Authority is the sole member of both Piccadilly Street Investments, L.L.C and Cameron Street Investments, L.L.C. which purchased the properties noted above, except for 200 North Cameron Street.

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 sold its interest in the joint venture in October of 2016 for a total sales price of $400,000. This event was considered to provide evidence about the carrying value of the assets included in the investment in joint venture as of June 30, 2016. As a result, an impairment loss of $848,331 was recognized in the net loss from joint venture during 2016.

The joint venture owes the Authority a promissory note of $200,000 to be paid back in full by May 8, 2019, as shown in Note 3. Interest revenue recognized from this note totaled $2,982 and $5,578 for the years ended June 30, 2018 and 2017, respectively.

The Authority had also entered into a conditional grant agreement for certain loans owed by the joint venture totaling $2,308,000, under which the Authority would have been responsible for 50% of all principal, interest, and other amounts outstanding in the event the joint venture defaults. As a result of the sale of the Authority's interest noted above, the Authority is released from any potential liability associated with the joint venture loans.

(Continued)

Note 6. Line of Credit

The Authority entered into a line of credit with the Bank of Clark County in March 2018 for short term financing of property purchases in which amounts could be advanced to the Authority up to \$500,000. The note bore interest at 5.5%. All amounts advanced to the Authority were paid in full during 2018.

Note 7. Commitments, Contingencies, and Subsequent Events

Subsequent to year end, the Authority approved new loans for approximately \$32,000 to T.J.S. Properties, \$25,000 to the Winchester Book Gallery, and an additional loan request to Iron Rose for \$3,500.

Additionally, subsequent to year end, the Authority sold 212 East Cork Street for \$265,000 to T.J.S. Properties and has agreed to finance the purchase through a promissory note in the same amount.

Interest rates on the above loans range from 2.5% to 7.0%.

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 2018 and 2017, the Authority incurred legal fees of \$10,688 and \$78,141, respectively, for legal services provided by an individual, who formally served as both secretary and counsel for the Authority.

The City reimbursed the Authority approximately \$443,000 for business development grants in 2017, approximately \$392,000 for various expenditures the Authority incurred for the development of 200,214 North Cameron Street, and \$42,500 for management fees paid to Taylor Master Tenant in both 2017 and 2018. The City also provides personnel and office space to the Authority at no charge.

Boscawen Properties, LLC, who owed a note receivable and related interest to the Authority totaling \$- and \$28,832 as of June 30, 2018 and 2017, respectively, is managed by a former City of Winchester Council member.

(Continued)

Note 10. New Accounting Standards

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

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

(Continued)

Note 10. New Accounting Standards (Continued)

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018.The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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, 2018 and 2017

Name of Issue	Issued on Behalf of	Original Amount Issued	Date of Original Issue	Name of Trustee	Aggregate Outstanding Payable June 30, 2018	Aggregate Outstanding Payable June 30, 2017
Industrial Development Hospital Revenue Bonds, Series 2009A	Winchester Medical Center, Inc.	$ 25,000,000	11/17/09	Regions Bank	$ 24,660,000	$ 24,480,000
Industrial Development Hospital Revenue Bonds, Series 2009B	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	24,665,000	24,475,000
Industrial Development Hospital Revenue Bonds, Series 2009C	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	24,665,000	24,475,000
Industrial Development Hospital Revenue Bonds, Series 2009D	Winchester Medical Center, Inc.	25,000,000	11/17/09	Regions Bank	24,665,000	24,475,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2010	Sunshine's Pride, LLC	7,100,000	05/07/10	Wells Fargo	1,555,000	1,665,000
Industrial Development Variable Rate Revenue Refunding Bond, Series 2011	NW Works, Inc.	2,300,000	12/20/10	Wells Fargo	1,475,000	1,535,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenue Bonds, Series 2013A	Winchester Medical Center, Inc.	35,135,000	12/04/13	Regions Bank	33,105,000	32,380,000
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	63,575,000	60,505,000
Industrial Development Residential Care Facility Revenue Bonds, Series 2014A	Westminster-Canterbury of Winchester, Inc.	38,266,009	12/31/14	United Bank	33,458,617	34,927,023
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	40,835,000	41,610,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2014B	Winchester Medical Center, Inc.	12,000,000	10/07/14	Regions Bank	12,000,000	12,000,000
Economic Development Authority of the City of Winchester, Virginia Hospital Revenues Bonds, Series 2015A	Winchester Medical Center, Inc.	114,495,000	07/22/15	Regions Bank	113,045,000	114,365,000
		$ 422,961,009			$ 397,703,617	$ 396,892,023

COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

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 years ended June 30, 2018 and 2017, 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 15, 2020.

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 the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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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 15, 2020

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS
June 30, 2018 and 2017

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, 2018 and 2017

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2013-001: Segregation of Duties (Material Weakness)

Condition:

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

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

Recommendation:

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

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

Management's Response:

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

2013-002: Audit Adjustments (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

The auditee concurs with this recommendation.