

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

FINANCIAL REPORT

June 30, 2020

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

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INTRODUCTORY SECTION

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

DIRECTORY OF PRINCIPAL OFFICIALS

BOARD OF DIRECTORS

2020

Jeff Buettner, Chair
Douglas Toan, Treasurer
Lauri Bridgeforth, Vice Chair
Cary Craig, Secretary
Addie Lingle
James Imoh
Tim Painter

INDEPENDENT AUDITORS

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

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FINANCIAL SECTION

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Economic Development Authority of the City of Winchester, Virginia (the "Authority") as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2020 and 2019, 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 November 10, 2021 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 the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 10, 2021

**BASIC FINANCIAL
STATEMENTS**

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

**STATEMENTS OF NET POSITION
June 30, 2020 and 2019**

| | 2020 | 2019 |
|--|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (Note 2) | \$ 1,438,809 | \$ 1,398,505 |
| Investments (Note 2) | 45,293 | 44,567 |
| Other receivables | 7,003 | 5,220 |
| Bond administration fees receivable | 324,252 | 325,754 |
| Notes receivable, current portion (Note 3) | 105,738 | 232,881 |
| Due from City of Winchester (Note 7, 8) | 99,812 | 26,767 |
| Prepaid expenses | - | 7,083 |
| Total current assets | 2,020,907 | 2,040,777 |
| NONCURRENT ASSETS | | |
| Notes receivable (Note 3) | 467,821 | 326,362 |
| Property held for development (Note 4, 8) | 2,578,690 | 2,578,690 |
| Total noncurrent assets | 3,046,511 | 2,905,052 |
| Total assets | 5,067,418 | 4,945,829 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 8,688 | 40,806 |
| Assets held for others | 3,466 | 228 |
| Total current liabilities | 12,154 | 41,034 |
| NET POSITION | | |
| Unrestricted | 5,055,264 | 4,904,795 |
| Total net position | \$ 5,055,264 | \$ 4,904,795 |

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
Years Ended June 30, 2020 and 2019**

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| OPERATING REVENUES | | |
| Bond administration fees | \$ 379,647 | \$ 390,332 |
| Contributions from City of Winchester (Note 7, 8) | 133,046 | 102,040 |
| Rental income | - | 21,125 |
| Gain on sale of property | - | 734 |
| Miscellaneous | 1,088 | 724 |
| Total operating revenue | <u>513,781</u> | <u>514,955</u> |
| OPERATING EXPENSES | | |
| Business development grants and contributions | 148,020 | 151,955 |
| Professional fees | 149,768 | 97,830 |
| Office expense | 13,698 | 12,962 |
| Insurance | 3,103 | 10,133 |
| Management fees | 42,500 | 42,500 |
| Utilities | - | 1,022 |
| Administrative fees | 5,912 | 9,485 |
| Repairs, maintenance and rental expenses | - | 1,935 |
| Miscellaneous | 19,572 | 38,876 |
| Total operating expenses | <u>382,573</u> | <u>366,698</u> |
| Operating income | <u>131,208</u> | <u>148,257</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income on notes receivable | 8,938 | 9,406 |
| Investment income | 10,323 | 7,011 |
| Total nonoperating revenues (expenses) | <u>19,261</u> | <u>16,417</u> |
| Change in net position | 150,469 | 164,674 |
| NET POSITION | | |
| BEGINNING OF THE YEAR, as restated (Note 8) | <u>4,904,795</u> | <u>4,740,121</u> |
| END OF THE YEAR | <u>\$ 5,055,264</u> | <u>\$ 4,904,795</u> |

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

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

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019**

| | <u>2020</u> | <u>2019</u> |
|--|----------------------------|----------------------------|
| OPERATING ACTIVITIES | | |
| Cash received for fees | \$ 381,149 | \$ 393,574 |
| Cash payments to suppliers for goods and services | (256,350) | (186,679) |
| Business redevelopment grants | (148,020) | (153,455) |
| Contributions and reimbursements from City of Winchester | 60,001 | 78,815 |
| Miscellaneous receipts | (695) | 25,800 |
| Purchase and improvements to property held for development | - | (62,000) |
| | <u>36,085</u> | <u>96,055</u> |
| INVESTING ACTIVITIES | | |
| Interest received | 8,938 | 9,406 |
| Investment income | 10,323 | 7,011 |
| Loans made to others | (221,894) | (69,326) |
| Loan repayments received | 207,578 | 51,776 |
| Purchases of investments, net | (726) | (1,055) |
| | <u>4,219</u> | <u>(2,188)</u> |
| Net cash provided by (used in) investing activities | <u>4,219</u> | <u>(2,188)</u> |
| Net increase in cash and cash equivalents | 40,304 | 93,867 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>1,398,505</u> | <u>1,304,638</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u><u>\$ 1,438,809</u></u> | <u><u>\$ 1,398,505</u></u> |

(Continued)

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

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

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019**

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

| | 2020 | 2019 |
|---|------------------|-------------------|
| Operating income | \$ 131,208 | \$ 148,257 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Gain on sale of property held for development | - | (734) |
| (Increase) decrease in assets: | | |
| Bond administration fees receivable | 1,502 | 3,242 |
| Other receivables | (1,783) | 3,951 |
| Due from City of Winchester | (73,045) | (23,225) |
| Prepaid expenses | 7,083 | (7,083) |
| Property held for development | - | (62,000) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (32,118) | 34,923 |
| Deposits | - | (1,500) |
| Assets held for others | 3,238 | 224 |
| | \$ 36,085 | \$ 96,055 |
| Net cash provided by operating activities | | |
| NONCASH OPERATING AND INVESTING ACTIVITIES | | |
| Sale of property financed with note receivable | \$ - | \$ 265,000 |

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

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

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 borrowers for application and administration fees, certain contributions from the City to assist in operations, including property held for development and resale, and the sale of property. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

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 acquisition 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 acquisition 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.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

Note 2. Deposits and Investments (Continued)

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, 2020 and 2019 all investments were held in LGIP. LGIP was rated by Standard and Poor’s and has been assigned an AAAM rating.

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

| | 2020 | 2019 |
|------------------------------------|------------------|------------------|
| Investments: LGIP | \$ 45,293 | \$ 44,567 |
| Deposits | 1,438,809 | 1,398,505 |
| Total deposits and investments | \$ 1,484,102 | \$ 1,443,072 |
| Statement of Net Position: | | |
| Cash and cash equivalents | \$ 1,438,809 | \$ 1,398,505 |
| Investments | 45,293 | 44,567 |
| | \$ 1,484,102 | \$ 1,443,072 |

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

Note 3. Notes Receivable

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

| | <u>Interest Rate</u> | <u>Date Issued</u> | <u>Maturity Date</u> | <u>Amount of Orig. Note</u> | <u>2020</u> | <u>2019</u> |
|--|--------------------------|------------------------|--------------------------|---------------------------------|--------------------------|--------------------------|
| Taylor Hotel Landlord, LC | 1.75% | 5/8/2013 | 11/8/2019 | \$ 200,000 | \$ - | \$ 159,650 |
| Sowers | 2.50% | 10/1/2015 | 10/1/2020 | 35,000 | 6,290 | 14,469 |
| Healens | 2.50% | 5/1/2017 | 5/1/2022 | 3,800 | 2,081 | 2,311 |
| Once Upon a Find | 7.00% | 10/15/2017 | 10/15/2019* | 10,000 | 2,241 | 3,514 |
| Iron Rose | 7.00% | 6/1/2018 | 6/1/2020* | 6,500 | 3,363 | 3,363 |
| Bonnie Blue Southern Markets | 2.54% | 7/21/2017 | 8/1/2022 | 70,246 | 33,892 | 45,518 |
| Healens (revolving) | 2.54% | 7/1/2017 | 7/1/2022 | 15,750 | 10,309 | 10,757 |
| Iron Rose | 7.00% | 6/1/2018 | 6/1/2020* | 3,500 | 2,387 | 2,387 |
| Winchester Book Gallery | 3.27% | 8/1/2018 | 8/1/2023 | 25,000 | 17,220 | 21,112 |
| TJS Properties, LLC | 2.72% | 1/1/2019 | 1/1/2024 | 265,000 | 239,675 | 255,336 |
| TJS Properties, LLC | 2.54% | 7/1/2019 | 8/1/2019* | 32,000 | 28,479 | 32,000 |
| Dolinar | 7.00% | 7/1/2019 | 7/1/2021 | 8,826 | 5,728 | 8,826 |
| Disaster relief loans (various entities) | - | 4/6/2020 | 4/6/2025 | 221,894 | 221,894 | - |
| Total notes receivable | | | | | 573,559 | 559,243 |
| Less current portion | | | | | (105,738) | (232,881) |
| Notes receivable, long-term | | | | | <u>\$ 467,821</u> | <u>\$ 326,362</u> |

*Management anticipates collecting all loan balances in full despite the maturity date. As such, management has determined that an allowance is not necessary.

Note 4. Property Held for Development

Property held for development activity for 2020 and 2019 was as follows:

| <u>Property</u> | <u>Date of Purchase</u> | <u>Cost</u> | <u>Improvements</u> | <u>Prior Period Adjustment</u> | <u>Sold</u> | <u>Total</u> | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|-------------|---------------------|------------------------------------|-------------|----------------------------|----------------------------|--------------|
| 200, 214 N. Cameron Street* | August 2016 | \$ 795,000 | \$ 395,268 | \$ 6,135 | \$ - | \$ 1,196,403 | \$ 1,196,403 | \$ 1,196,403 |
| 204-206, 210, 212-214 Piccadilly Street | December 2017 | 523,000 | 8,031 | | - | 531,031 | 531,031 | 531,031 |
| 212 East Cork Street | January 2018 | 260,000 | 4,266 | | (264,266) | - | - | - |
| 204 North Kent Street and East Piccadilly Street | March 2018 | 500,000 | 27,830 | | - | 527,830 | 527,830 | 527,830 |
| 206 North Kent Street | March 2018 | 250,000 | 11,426 | | - | 261,426 | 261,426 | 261,426 |
| 214 East Piccadilly | June 2019 | 62,000 | - | | - | 62,000 | 62,000 | 62,000 |
| | | | | | | <u>\$ 2,578,690</u> | <u>\$ 2,578,690</u> | |

* During the FY20 audit, the 2020 and 2019 balances were adjusted upward by \$6,135 to reflect capitalizable amounts that were expensed in prior years. See Note 8 on page 15.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

Note 4. Property Held for Development (Continued)

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 214 East Piccadilly.

Note 5. Commitments, Contingencies, Subsequent Events and COVID-19 Impact

In December 2020, the TJS Properties note receivable was paid in full.

In April 2021, the Authority entered into a Purchase and Sales Agreement for property held for development on Piccadilly Street. As of the report date, the Authority still owns the property.

In October 2021, the Authority sold the Winchester Towers, reported as property held for development, for approximately \$325,000.

In fiscal year 2021, the Authority converted all disaster relief loans to grants using CARES money received from the City under the CARES Act. The disaster relief loans of \$221,894 will not be required to be paid back.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Authority’s financial condition, liquidity, and future results of operations. To date, the Authority has not suffered any significant impact from the pandemic. However, management continues to monitor the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

In response to the COVID-19 outbreak, the Authority was a conduit for small business grant programs in 2020 and 2021 resulting from the 2020 CARES Act(s). A review committee was established for each round of grants in order to ensure the funds were utilized by Winchester businesses with a need for appropriate reasons. Following the review by Authority staff and a review committee, all grants were reviewed by City of Winchester Finance staff prior to distribution.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

Note 6. 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 7. Related Party Transactions

Previously, the Authority was a member of a joint venture, in which the Authority sold its interest in October 2016. The joint venture owed the Authority a promissory note of \$200,000 which was paid in full in 2019, as shown in Note 3. Interest revenue recognized from this note totaled \$1,597 and \$2,861 for the years ended June 30, 2020 and 2019, respectively.

The City reimbursed the Authority \$99,812 and \$32,773 for business development grants in 2020 and 2019, and \$42,500 for management fees paid to Taylor Master Tenant in both 2020 and 2019. Additionally, the City was awarded a grant for \$17,500 from the Virginia Department of Agriculture and Consumer Services which was ultimately passed through to the Authority to pay the award recipient. The City also provides personnel and office space to the Authority at no charge.

Of the \$99,812 due from the City, \$26,767 was related to 2019. Accordingly, the revenue was not recognized in 2020 but instead beginning net position was adjusted. See Note 8 below.

Note 8. Restatement of Net Position

During 2019 and 2020, the Authority awarded grants for which the City reimburses. Therefore, the Authority is eligible to recognize revenue and a related receivable at the end of fiscal year 2019. Additionally, the Authority adjusted property held for development for an amount that was previously expensed. Below is a reconciliation of the adjustments to beginning net position.

| | |
|---|---------------------|
| Beginning net position, June 30, 2018, as previously reported | \$ 4,733,986 |
| To capitalize property held for development | 6,135 |
| Beginning net position, June 30, 2018, as restated | <u>4,740,121</u> |
| June 30, 2019 change in net position, as previously reported | 137,907 |
| To recognize reimbursement revenue | 26,767 |
| June 30, 2019 net position, as restated | <u>\$ 4,904,795</u> |

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

Note 9. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance** due to the COVID-19 pandemic.

In January 2017, the GASB issued **Statement No. 84, Fiduciary Activities**. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2017, The GASB issued **Statement No. 87, Leases**. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

In March 2018, the GASB issued **Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements**. This Statement improves the information disclosed in the notes to government financial statements related to debt. The requirements of this Statement are effective for fiscal years beginning after June 15, 2019.

In August 2018, the GASB issued **Statement No. 90, Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61**. 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.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

Note 9. New Accounting Standards (Continued)

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

In May 2019, the GASB issued **Statement No. 91, *Conduit Debt Obligations***. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued **Statement No. 92, *Omnibus***. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 93, *Replacement of Interbank Offered Rates***. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96, *Subscription-Based Information Technology Arrangements***. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In June 2020, the GASB issued **Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32***. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

SUPPLEMENTARY SCHEDULE

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ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

SCHEDULE OF BONDS OUTSTANDING
June 30, 2020 and 2019

| Name of Issue | Issued on Behalf of | Original Amount Issued | Date of Original Issue | Name of Trustee | Aggregate Outstanding Payable June 30, 2020 | Aggregate Outstanding Payable June 30, 2019 |
|--|--|------------------------|------------------------|-----------------|---|---|
| Industrial Development Hospital Revenue Bonds, Series 2009A | Winchester Medical Center, Inc. | \$ 25,000,000 | 11/17/09 | Regions Bank | \$ 24,100,000 | \$ 24,295,000 |
| Industrial Development Hospital Revenue Bonds, Series 2009B | Winchester Medical Center, Inc. | 25,000,000 | 11/17/09 | Regions Bank | 24,100,000 | 24,290,000 |
| Industrial Development Hospital Revenue Bonds, Series 2009C | Winchester Medical Center, Inc. | 25,000,000 | 11/17/09 | Regions Bank | 24,100,000 | 24,290,000 |
| Industrial Development Hospital Revenue Bonds, Series 2009D | Winchester Medical Center, Inc. | 25,000,000 | 11/17/09 | Regions Bank | 24,100,000 | 24,290,000 |
| Industrial Development Variable Rate Revenue Refunding Bond, Series 2010 | Sunshine's Pride, LLC | 7,500,000 | 05/07/10 | Wells Fargo | 1,315,000 | 1,455,000 |
| Industrial Development Variable Rate Revenue Refunding Bond, Series 2011 | NW Works, Inc. | 2,300,000 | 12/20/10 | Wells Fargo | 1,370,000 | 1,415,000 |
| 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 | 30,855,000 | 31,630,000 |
| 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 | 52,490,000 | 56,320,000 |
| Industrial Development Residential Care Facility Revenue Bonds, Series 2014A | Westminster-Canterbury of Winchester, Inc. | 38,266,009 | 12/31/14 | United Bank | 30,367,737 | 31,938,478 |
| 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 | 40,040,000 | 40,040,000 |
| 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. | <u>114,925,000</u> | 07/22/15 | Regions Bank | <u>111,715,000</u> | <u>111,715,000</u> |
| | | <u>\$ 423,791,009</u> | | | <u>\$ 376,552,737</u> | <u>\$ 383,678,478</u> |

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COMPLIANCE SECTION

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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Economic Development Authority of the City of Winchester, Virginia (the “Authority”), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated November 10, 2021.

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) as a basis for designing 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Responses, as item 2020-01.**

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
November 10, 2021

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF WINCHESTER, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2020

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, 2020

A. FINDINGS – FINANCIAL STATEMENT AUDIT

None

B. FINDINGS – COMMONWEALTH OF VIRGINIA

2020-001: Virginia Public Procurement

Condition:

We noted one instance where the Authority did not follow the Virginia Public Procurement Act (VPPA) when obtaining contracts.

Criteria:

Per requirements set forth by the Commonwealth of Virginia, public bodies must adhere to VPPA requirements to obtain high quality goods and services at a reasonable cost.

Cause:

The Authority entered into a contract without adhering to the applicable VPPA procedures required. However, the Authority did solicit bids from three sources.

Effect:

The Authority did not receive multiple formal bids in order to ensure they obtained the highest quality of goods and services at a reasonable cost.

Recommendation:

We recommend adhering to VPPA requirements when procuring goods and services. In accordance with VPPA §2.2-4303(G), the Authority may adopt a written procurement policy stating that they do not have to obtain competitive sealed bids for single term contracts for certain items, as listed in §2.2-4303(G).

View of Responsible Officials and Planned Corrective Action:

Auditee agrees with finding. The Authority's management noted that they will adhere to VPPA requirements going forward.