

Economic and Industrial Development Authorities City of Newport News, Virginia

Component Units of the
City of Newport News, Virginia



Financial Statements and Schedule
Fiscal Years Ended June 30, 2018 and 2017
(With Independent Auditor's Report Thereon)

Newport News
Where Great Things Are Happening

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)

Financial Statements and Schedule

For the Years Ended

June 30, 2018 and 2017

(With Report of Independent Auditor Thereon)

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)

Table of Contents

	Page
Introductory Section:	
List of Members, Officials, Other Support Staff	i-ii
Financial Section:	
Report of Independent Auditor	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements:	
Statements of Net Position	12
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15-29
Supplementary Section:	
Schedule of Conduit Debt Obligations	30
Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance <i>with Government Auditing Standards</i>	31-32

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)
Listing of Members, Officials, and Other Support Staff

Members

C. Gary Minter	Chairman
Cassandra Pully Greene	Vice Chairman
Jennifer Smith-Brown	Director
Jeffrey C. Verhoef	Director
Mary Aldrich	Director
Alonzo R. Bell, Jr.	Director
Johnathan Skinner	Director

Officials

Cynthia D. Rohlf	City Manager (ex officio)
Florence G. Kingston	Secretary/Treasurer (ex officio)
Cherry L. Croushore	Assistant Secretary

Other Support Staff

Kearston Milburn	Recording Secretary
Sam Workman	Assistant Director
Carol Meredith	Assistant Director
Zoe Lumpkin, CPA	Chief of Fiscal Operations
Joy Robison	Administrative Services Manager
Derek Perry	Economic Development Manager
Matt Johnson	Economic Development Manager
Marc Rodgers	Senior Project Coordinator
Kalila Walker	Senior Project Coordinator
Macon Whitson	Senior Project Coordinator
Pricilla Green	Senior Project Coordinator
Tricia F. Wilson	Business Development Specialist
Robin Boyd	Marketing Coordinator
Andy Wilks	Property Manager
Shakir Johnson	Business Retention Coordinator
Stephanie Hancock	Accounting Specialist
Saejin Connor	Accountant II

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)
Listing of Members, Officials, and Other Support Staff

Mallory Butler

Senior Economic Analyst

Jared Midkiff

Marketing and Development Coordinator

Elizabeth McCoury

Redevelopment Project Manager

Keith Ferguson

Budget Department

Report of Independent Auditor

To the Board of Directors
Economic and Industrial Development Authorities of
the City of Newport News, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Economic and Industrial Development Authorities of the City of Newport News, Virginia (the "Authorities"), component units of the City of Newport News, Virginia, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authorities' 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 the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Economic and Industrial Development Authorities of the City of Newport News, Virginia, as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authorities' basic financial statements. The Listing of Members, Officials, and Other Support Staff and the Schedule of Conduit Debt Obligations, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Conduit Debt Obligations is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Conduit Debt Obligations is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Listing of Members, Officials, and Other Support Staff has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, on our consideration of the Authorities' 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 Authorities' 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 Authorities' internal control over financial reporting and compliance.



Richmond, Virginia
November 21, 2018

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Management's Discussion and Analysis

Years ending June 30, 2018 and 2017

This section of the Economic and Industrial Development Authorities of the City of Newport News, Virginia (the "Authorities") annual financial report presents management's discussion and analysis of the financial performance during the fiscal years ended June 30, 2018, 2017 and 2016. A comparative analysis is presented. Please read it in conjunction with the Authorities' financial statements, which follow this section.

Financial Highlights for Fiscal Year 2018

At the end of the fiscal year, the Authorities' assets and deferred outflows of resources exceeded liabilities and deferred inflow of resources by \$132.22 million. This amount represents an increase of \$4.80 million over prior year's ending balance of \$127.42 million, which was an increase of \$4.38 million over fiscal year 2016 ending balance. Total operating revenues decreased by approximately \$7.49 million in fiscal year 2018 due to a decrease in Land and Building Sales. This decrease occurred because in the prior year, the Authorities sold, to Printpack, Inc. and United Parcel Service, the facilities they had been leasing for a combined total of approximately \$6.5 million. Total operating expenses in 2018 decreased by approximately \$7.53 million due to a decrease in cost of land sold. Total operating expenses increased in 2017 from the previous year by approximately \$3.86 million mostly due to an increase in cost of land sold. Net non-operating expenses decreased in 2018 by \$376,704 due a reduction in the disbursement of Commonwealth Opportunity Grants. Net non-operating expenses decreased in 2017 by \$2.32 million from the previous year due to a reduction in interest expense and an increase in grant revenues.

In fiscal year 2017, the Industrial Development Authority (the "IDA") received the fifth and final grant payment from the Commonwealth of Virginia for the Advanced Shipbuilding Training Facility Grant Program. This grant payment was paid to Armada Hoffler, the developer, in accordance with the Amended and Restated Memorandum of Understanding between the IDA, Huntington Ingalls Incorporated, Armada Hoffler, and the Commonwealth of Virginia. The project is a significant mixed-use redevelopment in the City of Newport News, Virginia (the "City") traditional downtown. It includes a state-of-the-art 88,740 square-foot Apprentice School, with 197 apprentice and workforce housing units, 38,000 square feet of retail and a 382-space parking garage in a 6-acre campus-like setting.

The City, along with the Newport News Redevelopment and Housing Authority, was awarded a \$500,000 Choice Neighborhood Planning Grant from the US Department of Housing and Urban Development. The Economic Development Authority (the "EDA") has been providing support for the CNI Planning grant as well as partnering in the application for a CNI Implementation Grant. The City will use the new CNI Implementation Grant, if awarded, to transform the neighborhood surrounding the Marshall-Ridley Place public housing complex.

In November 2017, the EDA was awarded a \$500,000 Virginia Brownfields Restoration and Economic Assistance competitive grant by the Virginia Economic Development Partnership to accelerate the continued cleanup of the former Chase Packaging site (a 26-acre parcel) purchased by the EDA in July 2017. This new funding will help speed up redevelopment in the Marshall-Ridley Choice Neighborhood, the focus of the CNI Implementation grant application.

In May 2018, the LTD Hospitality Group opened the Holiday Inn Newport News – City Center. The group purchased the former Magnuson hotel property in Oyster Point and spent over \$14 million to renovate the 182-room hotel. The Authorities provided support through its local Tourism Zone incentive program and loaning the group approximately \$1.5 million.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Management's Discussion and Analysis

Years ended June 30, 2018 and 2017

In June 2018, Ferguson Enterprises held a groundbreaking ceremony for its eight-story, 260,000-square-foot campus that will house 1,600 employees working in Marketing and Communications, Human Resources, Information Technology, Security and other corporate functions. The company will invest nearly \$83 million and create 350 new jobs. The Authorities will facilitate and provide support through land and plans to construct an approximately 1500-space parking garage and related infrastructure improvements, consistent with the City Center master plan.

In 2017, United Parcel Service exercised its purchase option to purchase its leased facility and purchased additional property owned by the Authorities adjacent to its leased facility to be used for additional parking. The total sales price was \$2.52 million. The City and EDA will provide local incentives for job creation.

In December 2017, the grocery store anchoring the Brooks Crossing mixed-use development project in the Southeast Community closed and was replaced by Piggly Wiggly, a locally-owned franchise of the grocery store chain. The construction of the Brooks Crossing Grocery store building and parking field was completed in 2017. The EDA had entered into a New Market Tax Credit (NMTC) transaction with Brooks Crossing Grocery Store, LLC, whose sole member is the Newport News Redevelopment and Housing Authority, to provide the community access to a full-service grocery store. The EDA provided the \$4.3 million leveraged loan to facilitate the construction of the 29,290-square-foot grocery store building.

In February 2018, a groundbreaking ceremony was held for the 105,000-square foot office building in Brooks Crossing. Southeast Commerce Center Associates will develop, construct and own the building and Newport News Shipbuilding, a division of Huntington Ingalls, plans to lease a majority of the building. There will be a collaborative space for innovation and new ventures, including STEM education and entrepreneurial initiatives.

Leibherr Mining Equipment Company, a manufacturer of mining equipment, located in southern Copeland Industrial Park continues to invest in its Newport News facility. In March 2018, Liebherr announced plans to invest \$45 million in an expansion which includes three new buildings adjacent to the company's current manufacturing facility. Much needed improvements to City Line road were recently completed with joint funding from the company, available grants, and the City, which improves the transportation of finished goods from its facility to accommodate not only its expansion but increase in production. Infrastructure improvements to a public pump station and public sanitary sewer improvements, which benefit the broader Copeland Industrial Park business community, support this expansion.

In 2017, the Authorities purchased six properties located in the Upper Warwick Corridor consisting of 10.95 acres and the adjacent 9.42 acres for future strategic development. The purchase was financed by two taxable notes at the fixed rate of 3.14%, payable over a term of 15 years. Acquisition of these sites allows the Authorities to control approximately 20 acres of developed commercial real estate on a major thoroughfare. Currently, the Authorities lease the space to Ferguson Enterprises and various other tenants, utilizing the rents collected to support the debt service on the notes.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Management's Discussion and Analysis

Years ended June 30, 2018 and 2017

In 2016, Printpack, a company with 25 plants in the US, China and Mexico, announced plans to invest \$25.7 million to add a 150,000 square-foot building expansion to its existing leased facility in Oakland Industrial Park adding new equipment and creating 50 new jobs. In 2017, Printpack purchased from the Authorities its facility at 270 Pickets Line for \$4,000,000 and completed the 150,000 square foot expansion.

The EDA continues its Façade Improvement Grant Program, which restores, sustains, and improves commercial properties located within the City by providing matching funds toward eligible façade improvements. This program was originally funded by the EDA with an initial commitment of \$300,000 in FY 2012. Because of its huge success, the City and EDA have continued jointly funding this program in each of the following years, which has benefited over 111 properties City-wide with grants distributed of approximately \$2.49 million.

Overview of the Financial Statements

The Authorities are component units of the City. Component units are other governmental units over which the City (the City Council, acting as a group) can exercise influence and/or may be obligated to provide financial support. Component units of the City are presented as a separate column in the government-wide financial statements of the City. The Authorities' operations are accounted for as business-type activities in a proprietary fund, which is used to account for the ongoing activities that are financed and operated similar to those often found in the private sector. The measurement focus is upon determination of net income.

The Authorities' financial section of the annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements and related notes.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)
Management's Discussion and Analysis
Years ended June 30, 2018 and 2017

Financial Analysis

The following table reflects the condensed net position of the Authorities:

**Table A-1
Authorities' Net Position**

For the years ended June 30, 2018, 2017 and 2016
(in millions)

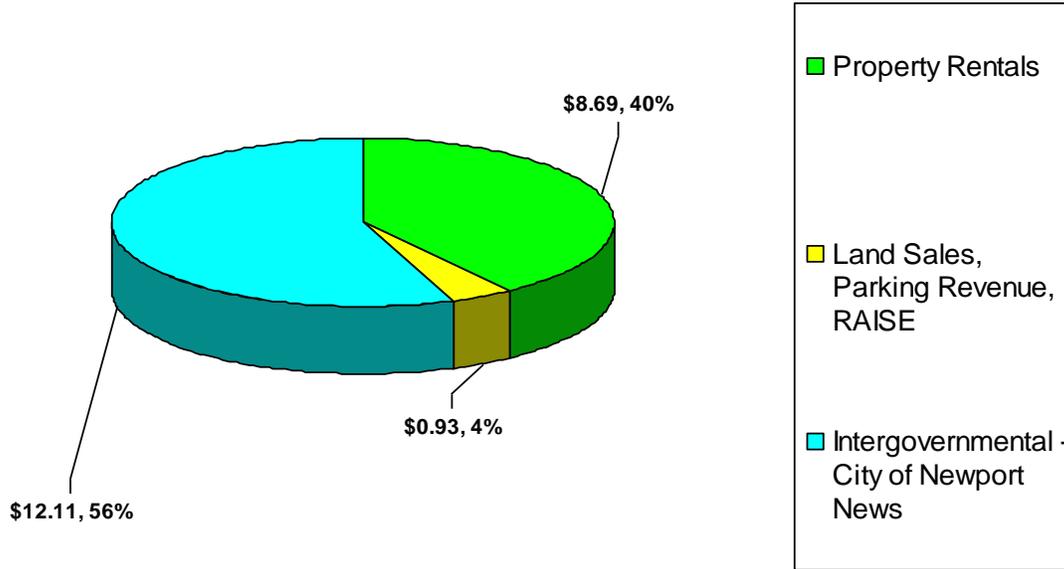
	2018	2017	2016
Current and other assets	\$ 64.37	\$ 63.62	\$ 59.64
Capital assets, net	163.50	168.27	171.16
Total assets	<u>227.87</u>	<u>231.89</u>	<u>230.80</u>
Deferred swaps	\$ —	\$ —	\$ 0.09
Deferred refunding	4.92	5.58	6.25
Total deferred outflows of resources	<u>4.92</u>	<u>5.58</u>	<u>6.34</u>
Current and other liabilities	\$ 20.25	\$ 19.62	\$ 14.37
Long-term liabilities	80.32	90.42	99.72
Total liabilities	<u>100.57</u>	<u>110.04</u>	<u>114.09</u>
Deferred inflows of resources	\$ -	\$ 0.01	\$ 0.01
Net investment in capital assets	\$ 82.35	\$ 77.80	\$ 79.96
Restricted	12.91	14.35	14.94
Unrestricted	36.96	35.27	28.14
Total Net Position	<u>\$ 132.22</u>	<u>\$ 127.42</u>	<u>\$ 123.04</u>

Total assets and deferred outflows of resources of the Authorities exceeded recorded liabilities and deferred inflows of resources by \$132.22 million as of June 30, 2018, \$127.42 million as of June 30, 2017 and \$123.04 million as of June 30, 2016. Approximately \$12.91 million in fiscal year 2018, \$14.35 million in fiscal year 2017, and \$14.94 million in fiscal year 2016 of net position is restricted for various specific economic development projects and programs.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)
Management's Discussion and Analysis
Years ended June 30, 2018 and 2017

The Authorities' total operating revenues were \$21.73 million for the fiscal year ending June 30, 2018. Property rentals comprised of both operating and capital lease revenues represented 40% of total operating revenues. Intergovernmental revenue from the City approximated \$12.11 million in fiscal year 2018. Land sales in FY 2018 were \$36,530.

Revenues by Source in Millions



**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Management's Discussion and Analysis

Years ended June 30, 2018 and 2017

The following table summarizes the changes in the Authorities' net position:

Changes in Authorities' Position

For the years ended June 30, 2018, 2017 and 2016

(in millions)

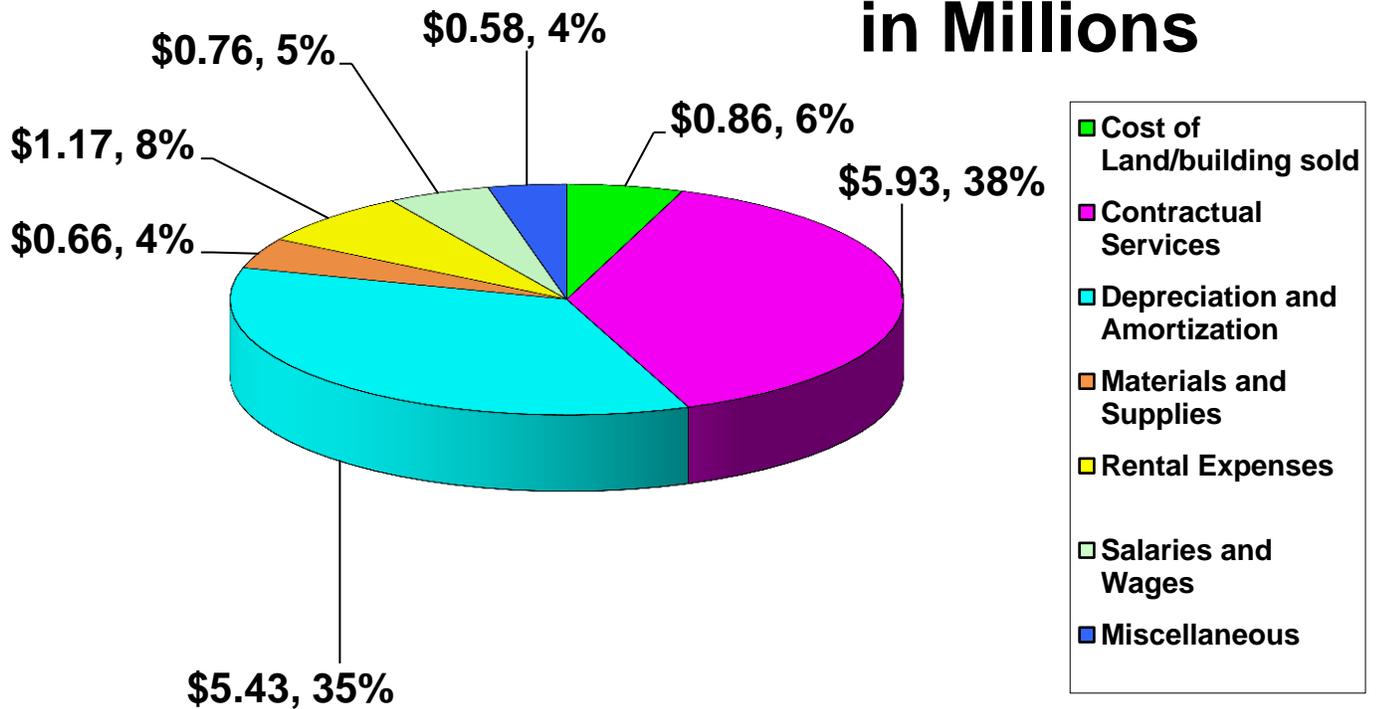
	2018	2017	2016
Revenues and expenses:			
Operating revenues:			
Property rentals	\$ 8.69	\$ 8.68	\$ 9.58
Parking contributions	0.18	0.20	0.18
Land/building sales	0.03	7.07	4.27
Parking Revenues	0.72	0.75	0.69
Intergovernmental - Regional Air Service Enhancement Fund	—	0.08	0.13
Intergovernmental - City of Newport News	12.11	12.44	26.41
Total operating revenues	<u>21.73</u>	<u>29.22</u>	<u>41.26</u>
Operating expenses:			
Cost of land/building sold	0.86	8.53	5.00
Contractual services	5.93	6.29	5.84
Depreciation and amortization	5.43	5.15	5.09
Materials and supplies	0.66	0.43	0.50
Rental expenses	1.17	1.18	1.43
Salaries and wages	0.76	0.74	0.66
Miscellaneous	0.58	0.61	0.55
Total operating expenses	<u>15.39</u>	<u>22.93</u>	<u>19.07</u>
Operating income	6.34	6.29	22.19
Nonoperating expenses, net	<u>(1.54)</u>	<u>(1.91)</u>	<u>(4.23)</u>
Change in net position	4.80	4.38	17.96
Net position, beginning	<u>127.42</u>	<u>123.04</u>	<u>105.08</u>
Net position, ending	<u>\$ 132.22</u>	<u>\$ 127.42</u>	<u>\$ 123.04</u>

The net position (assets and deferred outflows of resources over liabilities and deferred inflows of resources), increased in fiscal year 2018 by approximately \$4.80 million compared to an increase in fiscal year 2017 of \$4.38 million and an increase in fiscal year 2016 of \$17.96 million. Total operating revenues decreased by approximately \$7.49 million, primarily due to a decrease in Land/building sales. In fiscal year 2017, sales of facilities to both Printpack and United Parcel Service are reflected. The additional transfers from the City in fiscal year 2016 were for the purchase of the South Police Precinct and the construction and infrastructure in the Brooks Crossing project. The decrease in operating

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)
Management's Discussion and Analysis
Years ended June 30, 2018 and 2017

expenses in fiscal year 2018 as compared to fiscal year 2017 was approximately \$7.53 million predominantly because of the decrease in the cost of land/building sold. The decrease in net non-operating expenses in fiscal year 2018 is mostly due to a decrease in Commonwealth Opportunity Grant refund. The decrease in net non-operating expenses in fiscal year 2017 as compared to 2016 was due to a reduction in grant revenues received in fiscal year 2017.

Operating Expenses in Millions



**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)
Management's Discussion and Analysis
Years ended June 30, 2018 and 2017

Capital Assets and Debt Administration

The following table shows the capital assets at year-end:

Table A-3
Authorities' Capital Assets
As of June 30, 2018, 2017, and 2016
(net of depreciation, in millions)

	2018	2017	2016
Buildings	\$ 201.59	\$ 201.59	\$ 202.15
Improvements, machinery and equipment (IME)	19.68	19.32	14.41
Infrastructure	2.54	2.54	2.54
Construction in progress (CIP)	8.21	7.92	12.30
Accumulated depreciation	(68.54)	(63.10)	(60.24)
Total	<u>\$ 163.48</u>	<u>\$ 168.27</u>	<u>\$ 171.16</u>

At the end of 2018, the Authorities had \$163.48 million invested in capital assets as compared to \$168.27 in 2017 and \$171.16 in 2016. During the year, IME increased by \$363,354. CIP had a net increase of \$287,192 which was caused by an increase in on-going projects such as Patrick Henry Parkway, Liebherr and the Ferguson expansion of approximately \$2.7 million and the transfer of Patrick Henry Parkway to the City at year-end of \$2.1 million and capitalization of the improvements of \$363,354. The decrease in CIP in 2017 was caused by moving the Applied Research Center HVAC improvements and Brooks Crossing parking lot out of CIP and into Improvements, machinery and equipment. Additional information on the Authorities' capital assets can be found in Note 6 of the basic financial statements.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Management's Discussion and Analysis

Years ended June 30, 2018 and 2017

The following table summarizes debt outstanding:

**Table A-4
Authorities' Outstanding Debt**
As of June 30, 2018, 2017 and 2016
(In millions)

	2018	2017	2016
Industrial Revenue Bonds - IDA	\$ 11.40	\$ 12.71	\$ 14.00
Industrial Revenue Bonds - EDA	65.98	73.62	81.37
Bond Premiums (Discounts)	2.89	3.25	3.63
Notes payable	8.82	9.50	1.50
Interest Rate Swap fair value	—	—	0.09
Total	<u>\$ 89.09</u>	<u>\$ 99.08</u>	<u>\$ 100.59</u>

As of June 30, 2018, the Authorities had \$89.09 million of debt outstanding in bonds and notes payable as compared to debt outstanding in June 2017 and June 2016, of \$99.08 million and \$100.59 million, respectively. In 2018, the Authorities refinanced the remaining balance on the note payable, related to 809 Omni Boulevard, with a five year fixed rate at 3.49% amortized over ten years. In 2017, the Authorities financed the purchase of two significant parcels referred to as the Sherwood properties with two separate notes payable bearing a taxable interest rate of 3.14%. In addition, the Authorities refinanced the Series 2000 A bonds for the Downtown Engineering Center at a fixed rate of 2.58%, a significant savings. In 2016, the Authorities refunded the Conference Center 2006 tax exempt debt in the amount of \$4.88 million to take advantage of lower interest rate opportunities. Additional information on the Authorities' long-term debt can be found in Note 8 to the basic financial statements.

Contacting the Authorities' Financial Management

This financial report is designed to provide our citizens, taxpayers, bondholders and creditors with a general overview of the Authorities' finances and to demonstrate the Authorities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Secretary/Treasurer or Chief of Fiscal Operations at (757) 926-8428 of the Authorities, c/o Department of Development, 2400 Washington Avenue, 3rd Floor, Newport News, Virginia 23607.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)

Statements of Net Position

June 30, 2018 and 2017

Assets and Deferred Outflows

	2018	2017
Current assets:		
Cash (note 2)	\$ 8,453,384	\$ 8,472,362
Restricted cash and cash equivalents (note 3)	10,773,183	12,353,065
Receivables:		
Newport News Capital Fund Revolving Loan Program	86,675	63,239
Accounts, Notes & Grants	317,833	312,242
Other	1,432,366	1,123,487
Total current assets	21,063,441	22,324,395
Noncurrent assets:		
Restricted cash and cash equivalents (note 3)	2,253,900	2,071,512
Receivables:		
Newport News Capital Fund Revolving Loan Program	1,288,180	1,059,728
Notes Receivable (note 5)	3,037,590	3,037,590
Accounts, Notes & Grants	6,866,764	5,607,169
Other	48,061	48,061
Land held for lease or resale (note 4)	29,829,093	29,471,249
Non depreciable Capital Assets (Note 6)	8,211,322	7,924,130
Depreciable Capital Assets, net (Note 6)	155,274,128	160,345,925
Total noncurrent assets	206,809,038	209,565,364
Total assets	227,872,479	231,889,759
Deferred outflows of resources:		
Debt refunding losses	4,915,179	5,577,422
Total deferred outflows of resources	4,915,179	5,577,422

Liabilities

Current liabilities:		
Trade accounts payable and accrued liabilities	1,043,416	569,415
Construction accounts payable	244,030	160,315
Notes Payable - current portion (note 8)	683,334	2,033,333
Due to City of Newport News - current portion (note 10)	—	383
Industrial revenue bonds payable - due within one year (note 8)	10,112,196	9,315,408
Liabilities payable from restricted assets	37,502	76,472
Total current liabilities	12,120,478	12,155,326
Note Payable (note 8)	8,133,333	7,466,667
Due to City of Newport News (note 10)	10,155,757	10,155,374
Industrial revenue bonds payable (note 8)	70,159,586	80,264,964
Total liabilities	100,569,154	110,042,331

Deferred inflows of resources:

Unearned revenues	—	4,806
-------------------	---	-------

Net Position

Net Investment in capital assets	82,349,769	77,804,694
Restricted for:		
Capital projects	11,306,871	12,782,477
Capital loans	1,601,771	1,565,628
Unrestricted	36,960,093	35,267,245
Total net position	\$ 132,218,504	\$ 127,420,044

See accompanying notes to financial statements.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Property rentals (Note 7)	\$ 8,691,694	\$ 8,679,419
Parking contributions	180,641	197,811
Land/building sales	36,530	7,067,601
Parking Authority revenues	717,280	754,612
Intergovernmental - Regional Air Service Enhancement Fund	—	78,232
Intergovernmental - City of Newport News	12,106,701	12,441,230
Total operating revenues	<u>21,732,846</u>	<u>29,218,905</u>
Operating expenses:		
Cost of land/building sold	857,938	8,526,273
Contractual services	5,934,686	6,294,070
Depreciation and amortization	5,435,152	5,145,481
Materials and supplies	661,890	428,287
Rental expenses (note 7)	1,166,953	1,180,817
Salaries and wages	759,755	743,300
Miscellaneous	580,127	607,404
Total operating expenses	<u>15,396,501</u>	<u>22,925,632</u>
Operating income	<u>6,336,345</u>	<u>6,293,273</u>
Nonoperating revenues (expenses):		
Interest income	497,899	332,356
Interest expense (note 8)	(3,206,398)	(3,370,444)
Interest expense - City of Newport News	(283,346)	(283,356)
Bond and administrative fee income	322,633	288,570
Governor's opportunity grants	—	150,000
Governor's opportunity grants	—	(650,000)
Letter of credit and trustee fees	(51,300)	(59,937)
Other	1,182,627	1,678,222
Nonoperating expenses, net	<u>(1,537,885)</u>	<u>(1,914,589)</u>
Change in net position	4,798,460	4,378,684
Net position at beginning of year	<u>127,420,044</u>	<u>123,041,360</u>
Net position at end of year	<u>\$ 132,218,504</u>	<u>\$ 127,420,044</u>

See accompanying notes to financial statements.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**
(Component Units of the City of Newport News, Virginia)

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from leased properties	\$ 9,068,880	\$ 8,896,573
Receipts from Regional Air Service Enhancement Fund	—	78,232
Receipts from Parking Authority	717,280	754,612
Parking contributions received from developers	180,641	197,811
Receipts from City of Newport News	12,106,701	12,441,230
Receipts from land sales, net of settlement charges	36,530	7,067,601
Receipts from loans and mortgages	(251,888)	113,730
Payments to suppliers	(9,349,572)	(18,982,202)
Payments to employees	(759,755)	(743,300)
Net cash provided by operating activities	<u>11,748,817</u>	<u>9,824,287</u>
Cash flows used in capital and related financing activities:		
Acquisition of capital assets	(650,546)	(2,256,972)
Repayment and retirement of industrial revenue bonds and note payable	(9,991,923)	(12,059,147)
Proceeds from issuance of debt	—	10,640,000
Payments to City of Newport News	(283,356)	(283,739)
Proceeds from City of Newport News	283,356	283,356
Interest paid	(3,489,744)	(3,653,800)
Proceeds from debt refunding	662,243	682,337
Other revenue and expenses	1,453,960	1,406,855
Net cash used in capital and related financing activities	<u>(12,016,010)</u>	<u>(5,241,110)</u>
Cash flows from investing activities:		
Interest received	497,899	332,356
Loans issued	(1,647,178)	(683,682)
Net cash used in investing activities	<u>(1,149,279)</u>	<u>(351,326)</u>
Increase (decrease) in cash and restricted cash and cash equivalents	(1,416,472)	4,231,851
Cash, restricted cash and cash equivalents at beginning of year	<u>22,896,939</u>	<u>18,665,088</u>
Cash, and restricted cash and cash equivalents at end of year	<u>\$ 21,480,467</u>	<u>\$ 22,896,939</u>
Reported as:		
Cash	\$ 8,453,384	\$ 8,472,362
Restricted cash and cash equivalents (Current)	10,773,183	12,353,065
Restricted cash and cash equivalents (Non-Current)	<u>2,253,900</u>	<u>2,071,512</u>
Cash and restricted cash and cash equivalents at end of year	<u>\$ 21,480,467</u>	<u>\$ 22,896,939</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,336,345	\$ 6,293,273
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	5,435,152	5,145,481
Changes in assets and liabilities:		
Land inventory	(357,844)	705,339
Mortgages receivable	(251,888)	113,730
Other receivables	73,112	115,210
Trade accounts payable and accrued liabilities	518,746	(2,539,646)
Unearned revenues	(4,806)	(9,100)
Net cash provided by operating activities	<u>\$ 11,748,817</u>	<u>\$ 9,824,287</u>

See accompanying notes to financial statements.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

Narrative Profile

The Economic Development Authority of the City of Newport News, Virginia (the “EDA”) was created by Chapter 726 of the 1972 Acts of the Virginia General Assembly, as amended, and the Industrial Development Authority of the City of Newport News, Virginia (the “IDA”) was created by City Ordinance 3954-89 in accordance with Title 15.2, Chapter 49 of the Code of Virginia, 1950, as amended, (collectively, the “Authorities” or “EIDA”) for the purpose of attracting and promoting industry and economic development within the City of Newport News, Virginia (the “City”). This purpose has been served through the acquisition, development and resale of land for business and industrial sites within the City, through issuance of industrial revenue bonds to finance the sale of land and construction of buildings for private enterprises, and through the establishment of loan programs to promote small business development.

(a) Financial Reporting Entity

The Authorities’ financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with GAAP, the Authorities are considered component units of the City for reporting purposes and, as such, will be discretely presented component units in the City’s Comprehensive Annual Financial Report. Future funding and ongoing cash flows of the Authorities are dependent on the City. The EDA and the IDA are reported as one consolidated entity in their financial statements.

In evaluating how to define the Authorities, for financial reporting purposes, management has determined that there are no entities over which the Authorities exercise significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the Authorities. Since the Authorities do not exercise significant influence or accountability over other entities, they have no component units.

(b) Basis of Accounting

The Authorities’ operations are accounted for as a proprietary fund, using the economic resources measurement focus. The Authorities charge fees for Industrial Revenue Bonds, acquire, develop, and resell land and buildings and administer various operating and direct financing leases.

The financial statements are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenues of the Authorities include the sale of land, intergovernmental transfers in from the City and lease income. Operating expenses include the cost of land sold, contractual services, depreciation and amortization, materials and supplies, rental expenses, salaries and wages, and commissions.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies (continued)

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(c) Capital Assets

Capital assets are recorded at historical cost. Contributed capital assets are recorded at estimated fair market value on the date of receipt. Capital assets are defined by the Authorities as assets with an initial, individual cost of more than \$5,000 and a useful life of 1 year. Net interest costs on funds borrowed to finance the construction of capital assets are capitalized. No interest was incurred, capitalized or included in construction in progress at June 30, 2018 or 2017. The costs of major improvements are capitalized while the cost of maintenance and repairs, which do not improve or extend the life of an asset, are expensed. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Depreciation has been provided over the useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	5-50 years
Machinery and equipment	5-20 years
Infrastructure	20-50 years

(d) Land Held for Lease or Resale and Cost of Land Sold

Land held for lease or resale is stated at acquisition cost plus improvements and capitalized interest, if applicable, but not in excess of net realizable value. Capitalized costs of projects are assigned to individual components of the projects based on specific identification. As land is sold, all costs associated with that land are charged to cost of land sold.

(e) Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The Authorities' deferred outflows of resources consist of the amounts by which the principal and premium of the 2015 and 2012 refunding bonds exceeded the net carrying amount of the refunded debt. The deferred refunding outflow is being amortized over the remaining life of the refunded debt. The deferred inflows of resources represent revenues earned in a future period. These deferred inflows will be recognized as revenue when earned.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies (continued)

(f) Miscellaneous

Cash Equivalents

For purposes of the Statement of Cash Flows, cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, the Authorities consider investments with original maturities of three months or less to be cash equivalents.

Loans and Mortgages Receivable

Loans and mortgages receivable include loans extended from the Newport News Capital Fund; a U.S. Economic Development Administration-funded revolving loan fund program that extends mortgages, equipment loans, and working capital to certain area businesses for the land and property they are occupying. The loans and mortgages range in length from 1 to 15 years. In 1998, the Authorities established a micro loan program to encourage entrepreneurship and small business development within the City. Once approved, micro loans are serviced and accounted for by the Newport News Redevelopment and Housing Authority.

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects management's best estimate of probable losses in the accounts receivable balance. The allowance is determined based on known troubled accounts, historic experience, and other currently available evidence. As of June 30, 2018 and 2017, there was no allowance for doubtful accounts.

Restricted resources

The Authorities do not have a policy for the use of its unrestricted fund balance amounts, but in practice committed amounts are reduced first, followed by assigned amounts, then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net position policies

Net position is classified as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets is defined as capital assets net of related debt and net of deferred inflows and outflows attributable to the acquisition, construction or improvements of those assets. Restricted net position represents constraints on resources that are either externally imposed by creditors, contributions, or laws and regulations of other governments, or imposed by law through state statute

(g) New Accounting Pronouncements

In fiscal year 2018, the Authorities implemented GASB Statement No. 89 (GASB 89), "Accounting for Interest Cost Incurred before the End of a Construction Period." In financial statements prepared using the economic resources measurement focus, GASB 89 establishes

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies (continued)

(g) *New Accounting Pronouncements (continued)*

that interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset

(2) Cash

Cash consists of cash on hand, deposits in banks (including certificates of deposit) and short-term investments in the State Treasurer's Local Government Investment Pool (the Virginia LGIP). The cash and investments of the Authorities are included in a cash and investment pool administered by the City in order to optimize investment returns. Earnings are allocated monthly to the Authorities on the basis of its average daily cash balance.

(a) *Deposits*

All cash of the authorities is maintained in accounts collateralized in accordance with the *Virginia Security for Public Depositories Act*, Section 2.2-4400 et. Seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the Commonwealth's Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The Commonwealth's Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

(b) *Investments*

The Authorities categorize its fair value measurements within the fair value hierarchy established within GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Interest rate swaps are valued based upon significant other observable inputs (Level 2 inputs) which are discussed in Note 11. The Virginia LGIP is reported at amortized cost, which approximates fair value.

(c) *Credit Risk*

Custodial Credit Risk: The Authorities deposits at June 30, 2018 were fully insured or collateralized by securities held in the name of the City by the City's custodial banks.

Custodial Credit Risk – Investments: The City policy requires that all securities purchased for the Authorities shall be held by the City Treasurer or by the City Treasurer's designated third party custodian. If held by a custodian, the securities must be in the Authorities' or in the custodian's nominee name and identifiable on the custodian's books as belonging to the Authorities and the custodian must be a third party, not a counter-party (buyer or seller).

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(2) Cash (continued)

(c) Credit Risk (continued)

Credit Risk of Debt Securities of Primary Government: The Authorities rated debt investments as of June 30, 2018, were rated by Standard & Poors and Moody. The rating for the LGIP is presented below using the Standard & Poors rating scale.

Assets held by the Treasurer	Fair Value	Credit Rating	Average Maturity (Years)
LGIP - Year ending 2018	\$ 18,344,967	AAAm	0.16
LGIP - Year ending 2017	\$ 15,238,398	AAAm	0.16

(3) Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents dedicated for specific projects and activities at June 30, 2018 and 2017 are as follows:

	2018	2017
Applied Research Center Fund	\$ 534,946	\$ 250,158
Air Service Enhancement Fund	1,246,140	1,235,473
City Center at Oyster Point	3,636,278	4,194,614
Bond escrow funds	106,369	86,369
Newport News Capital Fund	218,154	424,062
Micro Loan Fund	8,762	18,599
Rouse Tower Fund	3,240,296	3,070,780
City Center Garage Escrow accts and imprest fund	90,200	90,200
Parking Authority Fund	1,195,583	978,802
Brooks Crossing	25,680	25,303
Tourism Zones	2,147,531	1,985,143
LTD Oyster Point	114,873	1,421,294
FIG Grant	386,612	643,780
Animal Shelter Reserve	75,659	—
Total	\$ 13,027,083	\$ 14,424,577
Classified as:		
Current	\$ 10,773,183	\$ 12,353,065
Noncurrent	2,253,900	2,071,512
	\$ 13,027,083	\$ 14,424,577

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(4) Land Held for Lease or Resale

Land held for lease or resale at June 30, 2018 and 2017 is comprised of the following tracts:

	2018	2017
Oakland Industrial Park	\$ 4,043,163	\$ 4,043,163
Jefferson Avenue/Habersham	2,246,598	2,246,598
Jefferson Center - Research and Technology	4,486,797	4,486,797
Oyster Point of Newport News	2,083,003	2,083,003
Patrick Henry Commerce Center	1,431,942	1,897,080
Sears and VSS Land	929,943	929,943
Port Warwick/Light Rail	1,036,640	1,036,640
Downtown Engineering Center	753,600	753,600
809 Omni Blvd	433,900	433,900
Southeast Corridor	1,368,200	1,674,200
Oriana Road	1,066,900	1,066,900
Rouse Tower Land	1,164,800	1,164,800
Apprentice School Garage Land	641,700	641,700
South Police Precinct Land	357,200	357,200
Upper Warwick Corridor	1,350,809	1,350,809
Sherwood	2,529,606	2,529,606
Chase	1,105,938	110,000
Miscellaneous parking lots	874,323	874,323
Miscellaneous parcels	1,924,032	1,790,987
Total	\$ 29,829,093	\$ 29,471,249

In fiscal year 2017, the Authorities purchased several parcels known collectively as Sherwood in which there are several buildings which are currently leased. The total acreage of these parcels equals approximately 20 acres on a major thoroughfare in the Upper Warwick corridor of Newport News. These parcels were purchased for future strategic development purposes.

(5) Other Note Receivable

The major component of receivables, as of June 30, 2018 and 2017, is a promissory note originally due from Oyster Point Hotel Associates, LLC (OPHA, LLC) for \$3,700,000. The balance of this note as of June 30, 2018 and 2017 was \$3,037,590, plus accrued interest of \$1,173,841 and \$1,067,526 for June 30, 2018 and 2017, respectively. This note bears interest, compounded annually, at the rate of 3.5% per year. Provided Newport News-Oyster Point Hotel, LLC has funds to satisfy a preferred return to its members on the total project, Newport News-Oyster Point Hotel, LLC is required to make a repayment of principal and accrued interest on this loan. During fiscal year 2018, Newport News-Oyster Point Hotel, LLC was not required to make a payment of principal or accrued interest due to the inability to satisfy the preferred return to its members on the total project. Management believes this note to be fully collectible.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(6) Capital Assets

Capital assets at June 30, 2018 and 2017 and related changes for the years then ended are as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases/Transfers</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets not being depreciated-				
Construction in progress	\$ 7,924,130	\$ 2,723,083	\$ (2,435,891)	\$ 8,211,322
Other capital assets:				
Buildings	201,593,974	-	-	201,593,974
Improvements	19,232,150	363,355	-	19,595,505
Infrastructure	2,543,500	-	-	2,543,500
Machinery and equipment	84,674	-	-	84,674
	<u>223,454,298</u>	<u>363,355</u>	<u>-</u>	<u>223,817,653</u>
Less accumulated depreciation for:				
Buildings	(53,909,720)	(4,743,864)	-	(58,653,584)
Improvements	(8,005,069)	(593,521)	-	(8,598,590)
Infrastructure	(1,108,910)	(97,767)	-	(1,206,677)
Machinery and equipment	(84,674)	-	-	(84,674)
	<u>(63,108,373)</u>	<u>(5,435,152)</u>	<u>-</u>	<u>(68,543,525)</u>
Total capital assets, being depreciated, net	<u>160,345,925</u>	<u>(5,071,797)</u>	<u>-</u>	<u>155,274,128</u>
Capital assets, net	<u>\$ 168,270,055</u>	<u>\$ (2,348,714)</u>	<u>\$ (2,435,891)</u>	<u>\$ 163,485,450</u>

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(6) Capital Assets (continued)

	Balance July 1, 2016	Increases	Decreases/Transfers	Balance June 30, 2017
Capital assets not being depreciated-				
Construction in progress	\$ 12,298,009	\$ 1,316,439	\$ (5,690,318)	\$ 7,924,130
 Other capital assets:				
Buildings	202,153,256	5,305,258	(5,864,540)	201,593,974
Improvements	14,327,640	5,072,769	(168,259)	19,232,150
Infrastructure	2,543,500	-	-	2,543,500
Machinery and equipment	84,674	-	-	84,674
	219,109,070	10,378,027	(6,032,799)	223,454,298
 Less accumulated depreciation for:				
Buildings	(51,393,991)	(4,743,863)	2,228,134	(53,909,720)
Improvements	(7,751,828)	(310,730)	57,489	(8,005,069)
Infrastructure	(1,011,142)	(97,768)	-	(1,108,910)
Machinery and equipment	(84,674)	-	-	(84,674)
	(60,241,635)	(5,152,361)	2,285,623	(63,108,373)
 Total capital assets, being depreciated, net	158,867,435	5,225,666	(3,747,176)	160,345,925
 Capital assets, net	\$ 171,165,444	\$ 6,542,105	\$ (9,437,494)	\$ 168,270,055

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(7) Operating Leases

(a) Lessee Operating Leases

The Authorities lease land and property in Newport News. Lease terms range from 1 to 20 years. Rent expense at June 30, 2018 and 2017 was \$1,166,953 and \$1,180,817.

Future minimum lease payments on these non-cancelable operating leases, as of June 30, 2018, are as follows:

Year ending June 30:		
2019	\$	1,024,641
2020		1,026,679
2021		1,028,772
2022		949,825
2023		910,000
2024-2027		<u>2,805,833</u>
Total	\$	<u><u>7,745,750</u></u>

(b) Lessor Operating Leases

The Authorities have developed several properties in which they own the land and buildings. These properties were developed with the purpose of entering into lease agreements to private companies. These lease agreements, whose terms range from 1 to 25 years, are made to increase the economic activity of the City. The following schedule shows the composition of the Authorities' investment in property in operating leases at June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Land	\$ 8,283,512	\$ 8,283,512
Buildings	124,616,518	124,616,518
Improvements & Parking Lots	6,044,826	6,007,081
Less accumulated depreciation	<u>(41,054,072)</u>	<u>(38,034,912)</u>
Net investment in property held for lease	<u><u>\$ 97,890,784</u></u>	<u><u>\$ 100,872,199</u></u>

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(7) Operating Leases (continued)

(b) Lessor Operating Leases (continued)

Income from operating leases for years ending June 30, 2018 and 2017 is \$8,691,694 and 8,679,419, respectively. Minimum future rental income from operating leases as of June 30, 2018 is as follows:

Year ending June 30:		
2019	\$	6,862,362
2020		4,998,024
2021		4,243,648
2022		4,131,540
2023		1,248,143
2024-2028		5,543,585
2029-2031		1,625,440
		<hr/>
Total	\$	<u>28,652,742</u>

(8) Industrial Revenue Bonds and Note Payable

Industrial Revenue Bonds and Note Payable (the “Bonds and Note”) have been issued in the name of the Authorities to finance construction projects. The Bonds and Note, both as to principal and interest, are payable generally from lease proceeds. In the event of default by the lessee, the holders of the Bonds and Note have no recourse against the Authorities, but must look to the property and lessee for indemnity. In 2018 and 2017, approximately \$17.8 million and \$21.1 million, respectively, of the Bonds and Note are considered a moral obligation of the City. A moral obligation of the City is a contingent guarantee of a third party’s debt. It is referred to as a “moral” obligation because it is not a legal obligation of the City but a good faith obligation, which, if called upon, would require appropriations by City Council of amounts sufficient to pay the guaranteed amounts. Since 1995, when the first moral obligation was issued by the Authorities, there has never been a need to call upon the City to appropriate any funds on morally obligated debt.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(8) Industrial Revenue Bonds and Note Payable (continued)

The Bonds and Note at June 30, 2018 and June 30, 2017 and related changes for the years then ended are comprised of the following:

	Issue date	Maturity date	Effective interest rates*	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amount due within one year
SEARS	03/01/98	10/01/2018	5.40%	\$ 1,381,968	—	\$ (1,097,836)	\$ 284,132	\$ 284,132
VSS	03/01/98	10/01/2018	5.40%	1,254,385	—	(996,509)	257,876	257,876
Downtown Eng	04/05/00	07/01/2031	2.58%	13,660,000	—	(1,060,000)	12,600,000	3,220,000
Merchant's Walk	12/21/10	12/1/2020	2.70%	3,576,000	—	(894,000)	2,682,000	894,000
CITI A '07	02/26/07	08/01/2022	2.86%	v 1,630,428	—	(277,107)	1,353,321	296,977
CITI B '07	02/26/07	08/01/2022	2.74%	v 335,496	—	(58,615)	276,881	62,024
Series 2012A	10/12/12	7/1/2030	4.00%	25,390,000	—	—	25,390,000	—
Series 2012B	10/12/12	7/1/2031	0.76%	23,780,000	—	(2,670,000)	21,110,000	2,625,000
A-School Garage	07/23/15	9/1/2027	3.80%	10,746,152	—	(976,924)	9,769,228	976,924
Series 2015	07/23/15	9/1/2027	3.48%	4,575,000	—	(915,000)	3,660,000	1,140,000
				<u>86,329,429</u>	<u>—</u>	<u>(8,945,991)</u>	<u>77,383,438</u>	<u>9,756,933</u>
Premium on bonds payable - 2012				2,979,848	—	(330,391)	2,649,457	330,391
Premium on bonds payable - 2015				271,095	—	(32,208)	238,887	24,872
Total bonds payable, net				<u>89,580,372</u>	<u>—</u>	<u>(9,308,590)</u>	<u>80,271,782</u>	<u>10,112,196</u>
Notes payable:								
809 Omni Blvd	08/31/07	7/1/2022	3.49%	1,500,000	—	(150,000)	1,350,000	150,000
Sherwood Note A	11/23/16	01/01/2032	3.14%	4,900,000	—	(326,666)	4,573,334	326,667
Sherwood Note B	11/23/16	01/01/2032	3.14%	3,100,000	—	(206,667)	2,893,333	206,667
				<u>9,500,000</u>	<u>—</u>	<u>(683,333)</u>	<u>8,816,667</u>	<u>683,334</u>
Total bonds and note payable				<u>\$ 99,080,372</u>	<u>\$ —</u>	<u>\$ (9,991,923)</u>	<u>\$ 89,088,449</u>	<u>\$ 10,795,530</u>

* v denotes variable rate bonds

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(8) Industrial Revenue Bonds and Note Payable (continued)

	Issue date	Maturity date	Effective interest rates*	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amount due within one year
SEARS	03/01/98	10/01/2018	5.40%	\$ 2,421,835	—	\$ (1,039,867)	\$ 1,381,968	\$ 1,098,250
VSS	03/01/98	10/01/2018	5.40%	2,198,276	—	(943,891)	1,254,385	996,886
Downtown Eng	04/05/00	07/01/2031	2.58%	14,720,000	2,640,000	(3,700,000)	13,660,000	1,060,000
Merchant's Walk	12/21/10	12/1/2020	2.70%	4,470,000	—	(894,000)	3,576,000	894,000
Fountain Way	12/07/04	07/01/2031	4.75%	670,000	—	(670,000)	—	—
Hotel Promissory	12/07/04	07/01/2031	4.75%	205,000	—	(205,000)	—	—
Conference Center	06/30/06	07/01/2031	4.00%	1,110,000	—	(1,110,000)	—	—
CITI A '07	02/26/07	08/01/2022	2.00%	v 1,888,995	—	(258,567)	1,630,428	277,107
CITI B '07	02/26/07	08/01/2022	2.34%	v 390,888	—	(55,392)	335,496	58,615
Series 2012A	10/12/12	7/1/2030	4.00%	25,390,000	—	—	25,390,000	—
Series 2012B	10/12/12	7/1/2031	0.76%	25,610,000	—	(1,830,000)	23,780,000	2,670,000
A-School Garage	07/23/15	9/1/2027	3.80%	11,723,076	—	(976,924)	10,746,152	976,924
Series 2015	07/23/15	9/1/2027	3.48%	4,575,000	—	—	4,575,000	915,000
				<u>95,373,070</u>	<u>2,640,000</u>	<u>(11,683,641)</u>	<u>86,329,429</u>	<u>8,946,782</u>
Premium on bonds payable				7,495	—	(7,495)	—	—
Discount on bonds payable				(615)	—	615	—	—
Premium on bonds payable - 2012				3,310,240	—	(330,392)	2,979,848	330,391
Premium on bonds payable - 2015				309,329	—	(38,234)	271,095	38,235
Add interest rate swap fair value				90,311	—	(90,311)	—	—
Total bonds payable, net				<u>99,089,830</u>	<u>2,640,000</u>	<u>(12,149,458)</u>	<u>89,580,372</u>	<u>9,315,408</u>
Notes payable:								
809 Omni Blvd	08/31/07	07/01/2017	1.30%	v 1,500,000	—	—	1,500,000	1,500,000
Sherwood Note A	11/23/16	01/01/2032	3.14%	—	4,900,000	—	4,900,000	326,666
Sherwood Note B	11/23/16	01/01/2032	3.14%	—	3,100,000	—	3,100,000	206,667
				<u>1,500,000</u>	<u>8,000,000</u>	<u>—</u>	<u>9,500,000</u>	<u>2,033,333</u>
Total bonds and note payable				<u>\$ 100,589,830</u>	<u>\$ 10,640,000</u>	<u>\$ (12,149,458)</u>	<u>\$ 99,080,372</u>	<u>\$ 11,348,741</u>

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

Maturities of industrial revenue bonds and note payable for succeeding fiscal years are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2019	\$ 10,440,267	\$ 2,804,523
2020	7,567,964	2,533,714
2021	7,774,788	2,313,060
2022	6,864,285	2,098,139
2023	7,023,192	1,875,208
2024-2028	30,671,275	6,167,888
2029-2032	<u>15,858,334</u>	<u>1,143,442</u>
Totals	\$ <u>86,200,105</u>	\$ <u>18,935,974</u>

A significant portion of the Authorities' outstanding debt is payable solely from lease proceeds. Lease agreements are set up to, at the very least, cover the principal and interest payments of the outstanding debt associated with that specific lease.

In 2017, the Authorities financed the acquisition of 13785 Warwick Boulevard, 360 Tabbs Lane, 13795 Warwick Boulevard, 13795 B Warwick Boulevard, 13791 Warwick Boulevard, and 13783 B Warwick Boulevard in the amount of \$4,900,000 and the acquisition of 13771 Warwick Boulevard in the amount of \$3,100,000. Both sites are financed with a loan totaling \$8,000,000 with a fixed interest rate of 3.14% payable over a term of fifteen years, maturing on January 1, 2032.

In 2017, the Authorities refinanced the Series 2000 A bonds in the amount of \$2,640,000 for the Downtown Engineering Center at a fixed rate of 2.58% for three years with remaining principal due on the maturity date of July 1, 2019. The 2000 A bond had an interest rate swap that matured on July 1, 2016. The fixed rate credit facility was negotiated with Wells Fargo bank.

In 2018, the Authorities refinanced the remaining balance of \$1,500,000 of its note with Bank of America to finance the 809 Omni Boulevard facility with a five-year fixed rate at 3.49% amortized over 10 years.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(9) Conduit Debt Obligations

From time to time, the Authorities have issued Industrial Revenue Bonds (the “Bonds”) to provide financial assistance to private sector and nonprofit entities for the acquisition and construction of industrial, commercial and residential facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the Bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the Commonwealth, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Furthermore, in the event of default by the lessee, the holders of the Bonds have no recourse against the Authorities, but must look to the property and lessee for indemnity. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements.

In June 30, 2018 and June 30, 2017, there were eleven Bonds outstanding with an aggregate principal amount payable of \$472,976,729 and \$438,476,178 million, respectively. Conduit debt at June 30, 2018 and 2017 is listed in the accompanying schedule after the Notes to Financial Statements.

(10) Transactions with Related Parties

By resolution passed in June 1998, the EDA shall repay the City the sum of \$16.4 million representing City financing of the construction of the Applied Research Center (ARC). The repayment of this debt includes interest at 2.79% (previously 3.729% and 5.125% before City’s refinancing of the bonds). The payment is in annual principal and interest payments representing the net revenues of the ARC after operating expenses, building reserves and short-term debt repayment. In 2018 and 2017, the outstanding balance was \$10,155,757 and 10,155,757.

The City provides certain financial management and accounting services to the Authorities. There were no charges for these services during the years ended June 30, 2018 and 2017.

(11) Commitment and Contingencies

The Authorities are exposed to various risks of loss related to theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For all of these risks, the Authorities maintain casualty and liability coverage through a commercial insurer and are also named as additional insured as their interests may appear on many of the properties leased to private companies.

In 2014, the EDA entered into a performance agreement with CCOP Thimble Shoals One, LLC related to the Tourism Zone Incentive program. In this agreement, the EDA agreed to restrict \$1.5 million of cash on the Authorities’ Statement of Net Position and provide real property collateral with an approximate value of \$3,000,000 to assist in securing the Developer Gap financing loan.

In June 2017, Ferguson Enterprises announced that it would expand its Newport News presence and create an additional campus at City Center at Oyster Point. The Authorities have committed to provide the necessary land for the new campus and plans to construct an approximately 1500-space parking garage and related infrastructure improvements, consistent with the City Center master plan.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2018 and 2017

(13) Subsequent Events

(a) *Additional leased space in Rouse Tower*

The Authorities leased an additional 3,862 square feet of space in Rouse Tower to the City of Newport News Department of Human Services making the total lease space 118,058 square feet consistent with current lease terms.

(b) *Co-working Space*

The Authorities were awarded a \$480,000 Industrial Revitalization Fund grant from the Virginia Department of Housing and Community Development to fund and renovate 2506 Jefferson Avenue as a location for a co-working space which is identified as a Critical Community Improvement in the Housing and Urban Development Choice Neighborhood Initiative Transformation Plan that the City is undertaking. This co-working space will provide small businesses and entrepreneurs with technical assistance, business management workshops and expert advice on various topics such as business planning, industry research, accounting and capital sources.

(c) *Request for Qualifications for Endview tract*

The EDA authorized the issuance of a Request for Qualifications seeking a highly experienced design/development/build team to plan, design, build and market a premier residential community at the 285-acre EDA-owed Endview tract located at 350 Yorktown Road.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA**

(Component Units of the City of Newport News, Virginia)

Schedule of Conduit Debt Obligations

Years ended June 30, 2018 and 2017

Bond	Date Issued	Outstanding Balance June 30, 2018	Outstanding Balance June 30, 2017
Industrial Revenue Bonds - Christopher Newport University Warwick, LLC	7/1/2004	\$ 19,340,000	\$ 20,405,000
Industrial Revenue Bonds - Riverside Health Systems Series 2011A	12/20/2011	-	17,995,000
Industrial Revenue Bonds - Riverside Health Systems Series 2011B	12/20/2011	10,582,918	14,302,918
Industrial Revenue Bonds - Riverside Health Systems Series 2011C	12/20/2011	-	54,299,553
Industrial Revenue Bonds - Riverside Health Systems Series 2012	12/20/2011	69,000,000	70,200,000
Industrial Revenue Bonds - Christopher Newport University Rappahannock Hall - Series 2013	12/20/2013	32,994,165	34,628,278
New Opportunity, LLC - Series 2013	11/12/2013	9,125,646	9,868,429
Industrial Revenue Bonds - Christopher Newport University Foundation - Series 2015	6/24/2015	6,399,000	6,597,000
Industrial Revenue Bond - Riverside Health Systems Series 2015A	7/1/2015	100,000,000	100,000,000
Industrial Revenue Bonds - Riverside Health Systems Series 2015B	7/1/2015	24,600,000	24,800,000
Industrial Revenue Bonds - LifeSpire of Virginia - Residential Care Facility - Series 2016	10/12/2016	82,380,000	85,380,000
Industrial Revenue Bonds - Riverside Health Systems Series 2017A	9/7/2017	50,000,000	-
Industrial Revenue Bonds - Riverside Health Systems Series 2017B	9/7/2017	68,555,000	-
		\$ 472,976,729	\$ 438,476,178

**Report of Independent Auditor 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 and Industrial Development Authorities of
the City of Newport News, Virginia

We have audited, in accordance with the 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 the *Specifications for Audits of Authorities, Boards and Commissions* (the Specifications) issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Economic and Industrial Development Authorities of the City of Newport News, Virginia (the "Authorities"), component units of the City of Newport News, Virginia, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authorities' basic financial statements, and have issued our report thereon dated November 21, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authorities' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authorities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Authorities' 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 Authorities' financial statements are free from 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* or the Specifications.

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.

A handwritten signature in blue ink that reads "Cheryl Behrnt CP". The signature is written in a cursive style.

Richmond, Virginia
November 21, 2018