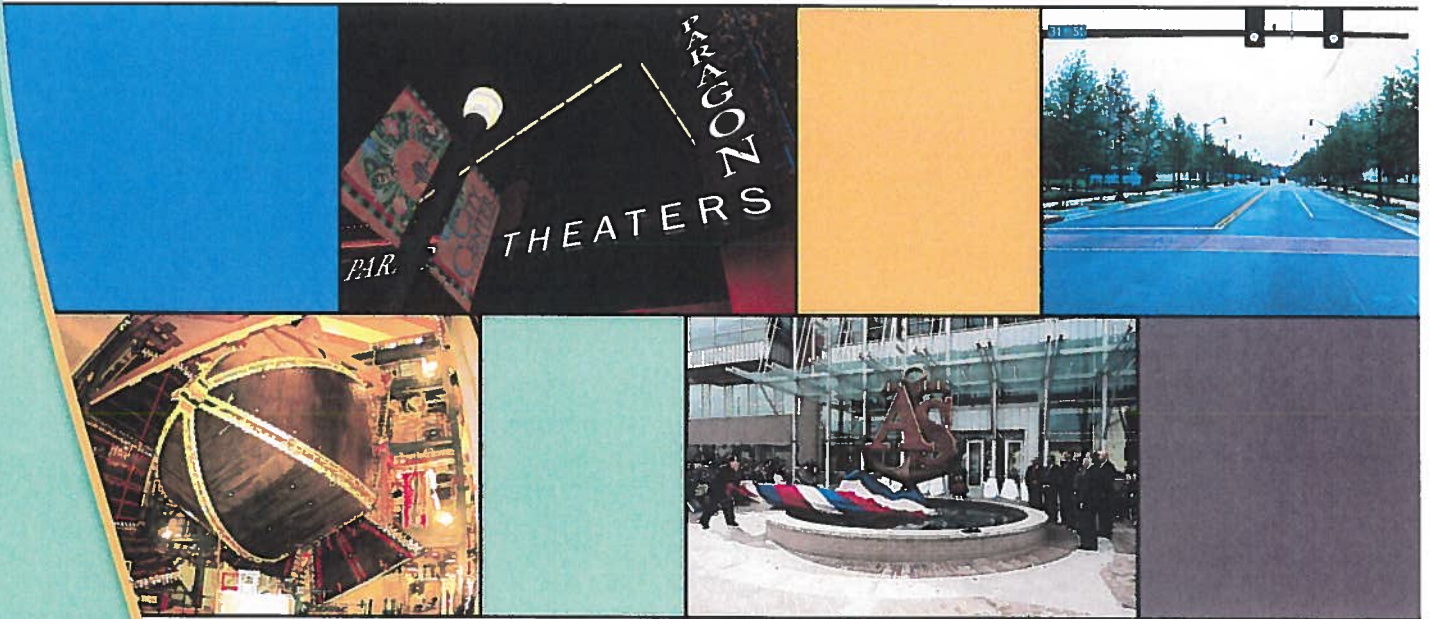


Economic and Industrial Development Authorities City of Newport News, Virginia

Component Units of the
City of Newport News, Virginia



Financial Statements and Schedule
Fiscal Years Ended June 30, 2014 and 2013
(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, 2014 and 2013

(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)

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

Members

Thomas P. Herbert, P.E.	Chairman
Wendy Drucker	Vice Chairman
Cary Epes	Director
C. Gary Minter	Director
Arthur P. Henderson, Jr.	Director
Alonzo R. Bell, Jr.	Director
Cassandra Pulley Greene	Director

Officials

Jim Bourey	City Manager (ex officio)
Florence G. Kingston	Secretary/Treasurer (ex officio)
Cherry L. Croushore	Assistant Secretary

Other Support Staff

Sharon Baker	Recording Secretary
Sam Workman	Assistant Director
Carol Meredith	Assistant Director
N. Douglas Winstead	Manager of Special Projects
Zoe Lumpkin, CPA	Financial Services Administrator
Chris Morello	Administrator of Development Projects
Joy Robison	Administrative Services Manager
George Schraudt	Economic Analyst
Bryan Witt	Senior Project Coordinator
Marc Rodgers	Senior Project Coordinator
Derek Perry	Project Coordinator
Tricia F. Wilson	Business Development Specialist
Robin Boyd	Marketing Coordinator
Andy Wilks	Property Manager
Matt Johnson	Business Retention Coordinator
Robin Boyd	Marketing Coordinator
Stephanie Hancock	Accounting Specialist
Jared Midkiff	Marketing and Development Coordinator
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

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, 2014 and 2013, 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 audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audit 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 entities' 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 entities' 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, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1 to the financial statements, in 2014 the Authorities adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July, 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–9 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 management's discussion and analysis 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 Economic and Industrial Development Authorities of the City of Newport News, Virginia's financial statements. The Schedule of Conduit Debt is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Conduit Debt 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 25, 2014, on our consideration of the Economic and Industrial Development Authorities of the City of Newport News, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Economic and Industrial Development Authorities of the City of Newport News, Virginia's internal control over financial reporting and compliance.



Richmond, Virginia
November 25, 2014

**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, 2014 and 2013

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 June 30, 2014 and 2013. A comparative analysis is presented. Please read it in conjunction with the Authorities' financial statements, which follow this section.

Financial Highlights for Fiscal Year 2014

At the end of the fiscal year, the Authorities' assets and deferred outflows of resources exceeded liabilities and deferred inflow of resources by \$99.65 million. This amount represents an increase of \$1.89 million over prior year's ending balance of 97.76 million. Total operating revenues increased by approximately \$613,000 in FY 2014. Total operating expenses in FY 2014 decreased by \$1.7 mostly due to a decrease in cost of land sold. Net non-operating expenses increased by \$7.8 million due to the write down of land in the amount of \$3.2 million, recognition of the deduction for the pay down of the Achievable Dream funding with debt service reserve funds of \$3.6 million, along with a write down of the loan due to the City of Newport News, Virginia (the "City") for the construction of the Applied Research Center of \$1 million.

During the year, the Industrial Development Authority (the "IDA") received the second of five grant payments 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 Industrial Development Authority, Huntington Ingalls Incorporated, Armada Hoffler, and the Commonwealth of Virginia. The project is a significant mixed-use redevelopment in the City's 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. On December 6, 2013 a grand opening ceremony of the Apprentice School was celebrated. The IDA continued to lease the 382-space parking garage and 91 spaces of surface parking under the Parking Lease Agreement during the year.

During the year, the Economic Development Authority (the "EDA") dispersed a Governor's Opportunity Fund grant in the amount of \$250,000 to High Liner Foods, Inc., a Canadian publicly-owned processor and marketer of frozen seafood. The company plans to invest a total of \$6.6 million to expand its U.S. foodservice production in the City and create 57 new jobs.

Under the State and Local Tourism Zone Incentive programs, eligible businesses can qualify for a reimbursement of a portion of new taxes generated by the program. Two projects have been approved by the State, City and EDA for tourism zone incentives. One is Second Street Bistro, LLC, which is approved for the local tourism incentive and the second is CCOP Thimble Shoals One, LLC, approved for a combination of both the local program and the Commonwealth's Tourism Development Financing Program. Under the local tourism incentive, Second Street Bistro, LLC is entitled to an amount equal to 40% of Food and Beverage tax generated and remitted to the City. During the year, a portion of this incentive was earned. The second project, which is approved for a combination of the local incentive and the Commonwealth's Tourism Development Financing Program, is associated with the entertainment district which includes Tucanos Brazilian Grill, The Cove Tavern, Toby Keith's I Love This Bar and Grill, Travinia Italian Kitchen & Wine Bar and Paragon Theaters. Under the Commonwealth's Tourism Development Financing Program, a percentage of the taxes collected for periods during FY 2014 were remitted to the EDA by the State, the City and the Developer. The EDA has the fiduciary responsibility to transfer this incentive to Towne Bank with the express purpose of making payments to the Gap

**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, 2014 and 2013

Financing Loan. As of June 30, 2014, there is an account receivable from the State of \$11,032 and an account payable to Towne Bank of \$33,096 related to this Tourism Zone Project.

In June 2014, the City agreed to write down the amount the Authorities owe for the financing of the construction of the Applied Research Center by \$1,000,000. The balance owed to the City at June 30, 2014, after the write down and annual payment on the loan by the Authorities', is \$10,156,140.

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, followed by \$300,000 funded by the City in FY 2013. In FY 2014, this program continued with funding of \$200,000 from the City Economic Development fund and \$100,000 from the Authorities' Economic Development CIP projects and has benefited over 35 properties City-wide with grants in the amount of \$749,409.

In March 2014, the Authorities entered into a contribution agreement with W.M. Jordan Company which is a preliminary step in the implementation of a large mixed-use economic development project consisting of a corporate research center, retail and commercial construction and 250 luxury apartments. In the contribution agreement, the EDA agrees to contribute to necessary road and sewer improvements and to further negotiate in good faith all necessary components of the larger project. This development is located adjacent to one of the top ten US national science laboratories, Jefferson Lab, which has major facility upgrade plans that will be meshed with the corporate research development. To facilitate the corporate research center, the Authorities, the City, and Newport News Public Schools have begun planning for necessary land transactions for the relocation of the School Division's Service Center for Operations and Transportation. During the year, the Authorities sold to W. M. Jordan a parcel considered necessary to the infrastructure of the project located at 12098 Jefferson Avenue.

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, 2014 and 2013

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, 2014, 2013 and 2012
(in millions)

	2014	2013*	2012*
Current and other assets	\$ 54.70	\$ 54.97	\$ 55.76
Capital assets, net	<u>155.89</u>	<u>162.92</u>	<u>166.55</u>
Total assets	<u>210.59</u>	<u>217.89</u>	<u>222.31</u>
Deferred swap	\$ 2.89	\$ 3.69	\$ 5.14
Deferred refunding	<u>7.45</u>	<u>8.17</u>	<u>—</u>
Total Deferred outflows of resources	<u>10.34</u>	<u>11.86</u>	<u>5.14</u>
Current and other liabilities	\$ 11.10	\$ 10.53	\$ 10.24
Long-term liabilities	<u>110.18</u>	<u>121.46</u>	<u>127.67</u>
Total liabilities	<u>121.28</u>	<u>131.99</u>	<u>137.91</u>
Net investment in capital assets	\$ 58.80	\$ 57.90	\$ 58.49
Restricted	12.87	16.83	16.90
Unrestricted	<u>27.98</u>	<u>23.03</u>	<u>14.15</u>
Total Net Position	<u>\$ 99.65</u>	<u>\$ 97.76</u>	<u>\$ 89.54</u>

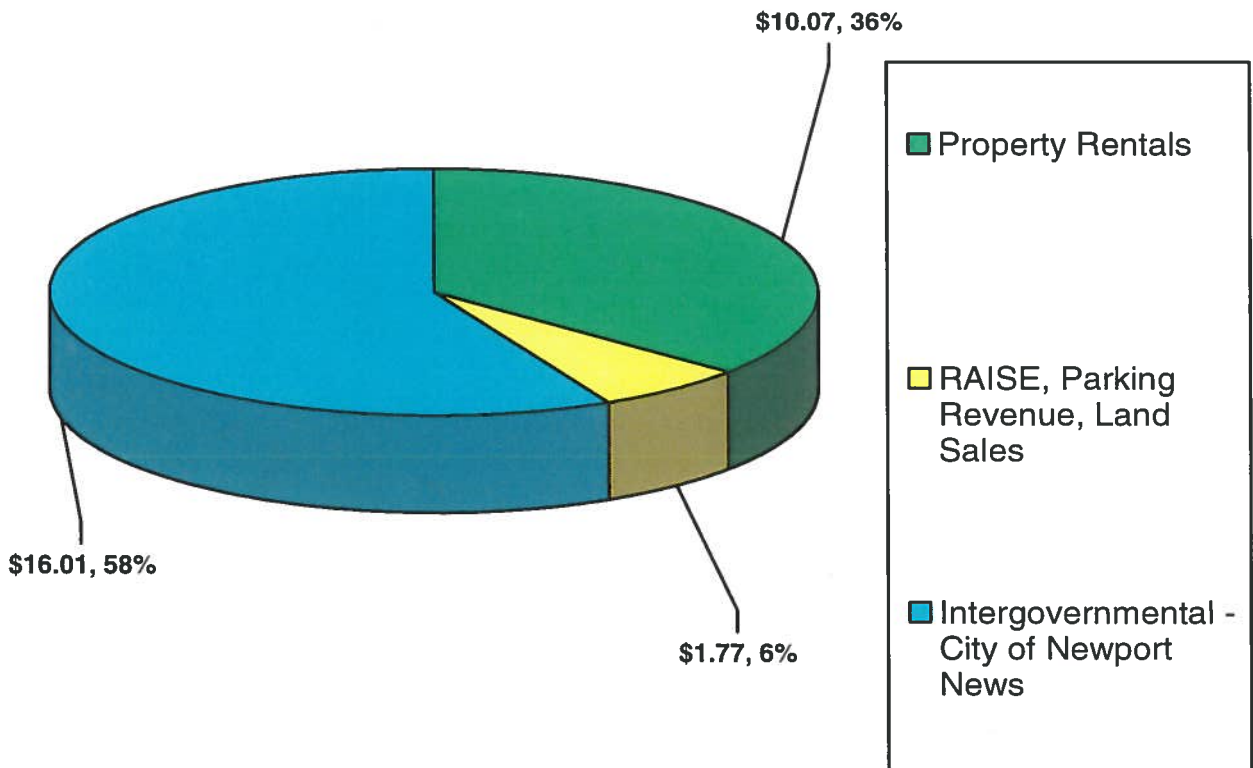
* Balances were restated to reflect implementation of GASB 65

Total asset and deferred outflows of resources of the Authorities exceeded recorded liabilities and deferred inflows of resources by \$99.65 million as of June 30, 2014 and \$97.76 million as of June 30, 2013 (restated). Approximately \$12.87 million in fiscal year 2014 and \$16.83 million in fiscal year 2013 of net position is restricted as to the purpose for which it may be used.

**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, 2014 and 2013

The Authorities' total operating revenues were \$27.85 million for the fiscal year ending June 30, 2014. Property rentals comprised of both operating and capital lease revenues represented 36% of total operating revenues. Intergovernmental revenue from the City approximated \$16 million in fiscal year 2014. Land sales in FY 2014 were \$862,409.

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, 2014 and 2013

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

For the year ended June 30, 2014, 2013 and 2012
(in millions)

	2014	2013*	2012*
Revenues and expenses:			
Operating revenues:			
Property rentals	\$ 10.07	\$ 10.41	\$ 10.20
Parking contributions	0.14	0.15	0.15
Land sales	0.86	2.60	—
Intergovernmental - Regional Air Service Enhancement Fund	0.14	0.15	0.15
Intergovernmental - Parking Authority	0.62	0.46	0.41
Intergovernmental - City of Newport News	16.01	13.46	14.83
Total operating revenues	27.84	27.23	25.74
Operating expenses:			
Cost of land sold	0.16	2.32	0.41
Contractual services	6.05	6.13	4.27
Depreciation and amortization	4.77	4.81	4.79
Materials and supplies	0.53	0.49	0.50
Rental expenses	2.87	2.44	0.92
Salaries and wages	0.64	0.64	0.60
Miscellaneous	0.54	0.44	0.42
Total operating expenses	15.56	17.27	11.91
Operating income	12.28	9.96	13.83
Nonoperating expenses, net	(6.82)	(1.74)	(6.03)
Special items:			
Achievable Dream	(3.57)	—	—
Total Special items:	(3.57)	—	—
Change in net position	1.89	8.22	7.80
Net position, beginning (restated)	97.76	89.54	81.74
Net position, ending	\$ 99.65	\$ 97.76	\$ 89.54

The net position (assets and deferred outflows over liabilities and deferred inflows), increased in fiscal year 2014 by approximately \$1.89 million compared to an increase in fiscal year 2013 (restated) of \$8.22 million. Total operating revenues increased by approximately \$600,000. There was a reduction in land sales of \$1.7 million, however intergovernmental transfers from the City increased by \$2.5 million. The reduction in operating expenses in fiscal year 2014 as compared to fiscal year 2013 (restated) was \$1.7 million mostly due to the reduction in cost of land sold. The change in net non-operating expenses in fiscal year 2014 as compared to 2013 is due to the write down of land to lower of cost or market and the write down of the loan from the City for financing the Applied Research Center. The deduction for the pay down of the Achievable Dream financing using the debt reserve escrow funds is reported as a special item.

**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, 2014 and 2013

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, 2014, 2013, and 2012
(net of depreciation, in millions)

	2014	2013	2012
Buildings	\$ 183.72	\$ 183.48	\$ 183.48
Improvements, machinery and equipment	14.36	14.36	14.19
Infrastructure	2.54	2.54	2.54
Construction in progress	5.39	7.91	7.45
Accumulated depreciation	(50.12)	(45.36)	(40.60)
Total	<u>\$ 155.89</u>	<u>\$ 162.93</u>	<u>\$ 167.06</u>

At the end of 2014, the Authorities had \$155.89 million invested in capital assets. During the year, Construction in Progress decreased by \$2.5 million and Buildings increased by \$243,899. The decrease was caused by the transfer of a Southeast parcel to the land account and the increase in Buildings resulted from renovations to the Rouse Tower building. Additional information on the Authorities' capital assets can be found in Note 6 of the basic financial statements.

The following table summarizes debt outstanding:

Table A-4
Authorities' Outstanding Debt
As of June 30, 2014, 2013 and 2012
(In millions)

	2014	2013	2012
Industrial Revenue Bonds - IDA	\$ 5.29	\$ 6.81	\$ 8.93
Industrial Revenue Bonds - EDA	95.78	102.63	105.30
Bond Premiums (Discounts)	4.06	4.39	0.57
Notes payable	1.50	1.50	2.00
Interest Rate Swap fair value	2.89	3.69	5.14
Total	<u>\$ 109.52</u>	<u>\$ 119.02</u>	<u>\$ 121.94</u>

**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, 2014 and 2013

As of year-end, the Authorities had \$109.52 million of debt outstanding in bonds and notes payable. Additional information on the Authorities' long-term debt can be found in Note 9 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 Financial Services Administrator 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, 2014 and 2013

Assets and Deferred Outflows

	2014	2013*
Current assets:		
Cash (note 2)	\$ 8,989,674	\$ 9,410,344
Restricted cash and cash equivalents (note 3)	11,210,763	16,677,677
Receivables:		
Newport News Capital Fund Revolving Loan Program	74,906	77,046
Mortgages	—	36,091
Other	1,525,449	968,027
Net investment in direct financing leases - current portion (note 7)	959,905	937,955
Total current assets	22,760,697	28,107,140
Noncurrent assets:		
Restricted cash and cash equivalents (note 3)	1,665,177	153,083
Restricted investment	473	1,391
Receivables:		
Newport News Capital Fund Revolving Loan Program	457,954	534,012
Notes Receivable (note 5)	3,037,590	3,037,590
Mortgages	—	50,228
Land held for lease or resale (note 4)	26,696,686	22,042,088
Non depreciable Capital Assets (Note 6)	5,390,234	7,913,943
Depreciable Capital Assets, net (Note 6)	150,497,429	155,015,932
Net investment in direct financing leases (note 7)	80,999	1,040,915
Total noncurrent assets	187,826,542	189,789,182
Total assets	210,587,239	217,896,322
Deferred outflows of resources:		
Deferred swap	2,887,589	3,688,883
Debt refunding losses	7,451,793	8,166,786
Total deferred outflows of resources	10,339,382	11,855,669

Liabilities

Current liabilities:		
Trade accounts payable and accrued liabilities	1,198,452	1,041,636
Construction accounts payable	159,570	60,928
Unearned revenue	144,203	—
Due to City of Newport News - current portion (note 11)	280,987	419,988
Industrial revenue bonds payable - due within one year (note 9)	8,871,710	8,698,324
Liabilities payable from restricted assets	101,946	307,948
Total current liabilities	10,756,868	10,528,824
Notes Payable (note 9)	1,500,000	1,500,000
Due to City of Newport News (note 11)	9,875,153	11,143,651
Industrial revenue bonds payable (note 9)	99,142,509	108,819,366
Total liabilities	121,274,530	131,991,841

Net Position

Net Investment in capital assets	58,798,438	57,900,987
Restricted for:		
Capital projects	11,431,488	15,393,151
Capital loans	1,444,925	1,439,000
Unrestricted	27,977,240	23,027,012
Total net position	\$ 99,652,091	\$ 97,760,150

* Balances were restated to reflect implementation of GASB 65 - note 1

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, 2014 and 2013

	2014	2013*
Operating revenues:		
Property rentals	\$ 10,071,317	\$ 10,411,933
Parking contributions	139,363	148,410
Land sales	862,409	2,600,000
Parking Authority revenues	624,916	461,957
Intergovernmental - Regional Air Service Enhancement Fund	143,194	153,194
Intergovernmental - City of Newport News	16,006,256	13,458,159
Total operating revenues	27,847,455	27,233,653
Operating expenses:		
Cost of land sold	164,547	2,325,880
Contractual services	6,050,673	6,125,481
Depreciation and amortization	4,769,148	4,809,288
Materials and supplies	533,671	494,588
Rental expenses (note 8)	2,870,098	2,437,435
Commissions	2,707	3,234
Salaries and wages	638,901	636,258
Miscellaneous	538,236	436,319
Total operating expenses	15,567,981	17,268,483
Operating income	12,279,474	9,965,170
Nonoperating revenues (expenses):		
Interest income	151,097	184,115
Interest expense (note 9)	(5,317,350)	(4,699,390)
Interest expense - City of Newport News	(322,626)	(397,846)
Bond and administrative fee income	304,907	300,472
Contribution from City	1,000,000	2,168,776
Governor's opportunity grants	250,000	500,000
Governor's opportunity grants	(250,000)	—
Letter of credit and trustee fees	(84,898)	(85,069)
Gain (Loss) on Fixed assets	(3,200,194)	—
Other	647,413	284,269
Nonoperating expenses, net	(6,821,651)	(1,744,673)
Special Items:		
Achievable Dream	(3,565,882)	—
Total Special Items	(3,565,882)	—
Change in net position	1,891,941	8,220,497
Net position at beginning of year - (Restated - note 1)	97,760,150	89,539,653
Net position at end of year	\$ 99,652,091	\$ 97,760,150

* Balances were restated to reflect implementation of GASB 65 - note 1

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from leased properties	\$ 9,658,098	\$ 10,392,054
Receipts from Regional Air Service Enhancement Fund	143,194	153,194
Receipts from Parking Authority	624,916	461,957
Parking contributions received from developers	139,363	148,410
Receipts from City of Newport News	16,006,256	13,458,159
Receipts from land sales, net of settlement charges	862,409	2,600,000
Receipts from loans and mortgages	164,517	187,309
Issuance of new loans	—	(241,500)
Payments to suppliers	(10,430,360)	(11,268,695)
Payments to employees	(638,901)	(636,258)
Net cash provided by operating activities	<u>16,529,492</u>	<u>15,254,630</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(816,425)	(999,230)
Land held for resale	—	365,891
Repayment and retirement of industrial revenue bonds and notes payable	(8,366,495)	(5,294,127)
Payments to City of Newport News	(1,730,125)	(3,093,936)
Proceeds from City of Newport News	322,626	2,566,622
Bond issuance costs	—	(7,876,202)
Interest paid	(5,267,412)	(1,611,275)
Payment of Achievable Dream debt service reserve escrow	(3,656,882)	—
Other revenue and expenses	(2,480,250)	999,672
Net cash used in capital and related financing activities	<u>(21,994,963)</u>	<u>(14,942,585)</u>
Cash flows from investing activities:		
Interest received	152,015	183,614
Receipt of direct financing lease principal	937,966	916,519
Net cash provided by investing activities	<u>1,089,981</u>	<u>1,100,133</u>
Increase in cash and restricted cash and cash equivalents	(4,375,490)	1,412,178
Cash and restricted cash and cash equivalents at beginning of year	<u>26,241,104</u>	<u>24,828,926</u>
Cash and restricted cash and cash equivalents at end of year	<u>\$ 21,865,614</u>	<u>\$ 26,241,104</u>
Reported as:		
Cash	\$ 8,989,674	\$ 9,410,344
Restricted cash and cash equivalents (Current)	11,210,763	16,677,677
Restricted cash and cash equivalents (Non-Current)	1,665,177	153,083
Cash and restricted cash and cash equivalents at end of year	<u>\$ 21,865,614</u>	<u>\$ 26,241,104</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,279,474	\$ 9,965,170
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	4,769,148	4,809,288
Changes in assets and liabilities:		
Land inventory	(319,884)	854,242
Loan receivable	—	(241,500)
Mortgages receivable	164,517	187,309
Other receivables	(557,422)	(19,879)
Trade accounts payable and accrued liabilities	49,456	(256,889)
Unearned revenue	144,203	(43,111)
Net cash provided by operating activities	<u>\$ 16,529,492</u>	<u>\$ 15,254,630</u>
Non-Cash Transactions		
Forgiveness of Debt	\$ 1,000,000	—
Contributed land, net of lower of cost or market writedown	4,334,715	—

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, 2014 and 2013

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

Notes to Financial Statements

Years ended June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies (continued)

(b) Basis of Accounting (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 and included in construction in progress at June 30, 2014 and 2013, respectively. 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. If specific identification is not practicable, capitalized interest costs are allocated to each parcel benefited, based on relative fair value before construction. As land is sold, all costs associated with that land are charged to cost of land sold.

(e) Capitalized Leases

The net investment in direct financing leases includes the total minimum lease payments (set up as a receivable) less the unamortized unearned income, which is the difference in the total minimum lease payments and the carrying value of the asset at inception. The lease payments received decrease the outstanding receivable and the unearned income is amortized over the life of the lease.

(f) 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 2012 refunding bonds exceeded the net carrying amount of the refunded debt. The deferred outflow is being amortized over the remaining life of the refunded debt.

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Notes to Financial Statements

Years ended June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies (continued)

(g) 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.

Restricted Investments

Restricted investments consist of common stock equity in Waterside Capital Corporation (WSCC). In January 1998, WSCC changed its name from Eastern Virginia Small Business Investment Corporation to Waterside Capital Corporation and completed its initial public offering to raise additional equity to support its growth strategy. The goal of WSCC is to provide equity financing for new ventures that will bring new jobs and additional revenue to the area. By investing in the WSCC, the Authorities are providing capital through the WSCC to the new ventures, which they could not get from other lending institutions. All investments of the Authorities are stated at fair value at June 30, 2014 and 2013.

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 and equipment loans 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.

Swap Agreements

The Authorities have entered into various interest rate swap agreements to modify the interest rate on outstanding debt. Note 12 addresses the risk associated with the swap agreements.

Change in Accounting Principles

Effective July 1, 2012, the Authorities adopted the provisions of Governmental Accounting Standards Board GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement No. 65). This implementation required the Authorities to recognize cost of issuance of bonds as an expense; therefore, the adoption of this statement resulted in an increase to the cost of issuance expense and a decrease to unamortized bond issuance costs for fiscal year ended June 30, 2013. The restatement of prior period net position for fiscal

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
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Notes to Financial Statements
Years ended June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies (continued)

year ended June 30, 2013 decreased both the net position and unamortized costs (bond issuance costs) by \$465,901 for the Authorities. As a result, net position as of June 30, 2013 has been adjusted accordingly:

	Statement of Net Position		
	Net Position	Deferred Refunding Loss	Other Assets
June 30, 2012 Balance as Previously Reported	90,343,757	-	804,104
Restatement:			
Write-off deferred financing costs	(804,104)	-	(804,104)
June 30, 2012 Balance, Restated	89,539,653	-	-
	Statement of Net Position		
	Net Position	Other Assets	Deferred Refunding Loss
June 30, 2013 Balance as Previously Reported	98,226,051	8,632,687	-
Restatement:			
Write-off of deferred financing costs	(465,901)	(465,901)	-
Reclass deferred losses to deferred outflows	-	(8,166,786)	8,166,786
June 30, 2013 Balance, Restated	97,760,150	-	8,166,786
June 30, 2013 Interest Expense as Previously Reported	(5,037,593)		
Restatement due to change in accounting principle	338,203		
June 30, 2013 Balance, Restated	(4,699,390)		

In addition, the Authorities previously reported the difference between the principal and premium of the 2012 refunding bonds and the net carrying amount of the refunded debt in other assets. With implementation of GASB 65, this difference is now reported as a deferred outflow on the balance sheet.

Net position policies

Net position is classified as net investment in capital assets, restricted, and unrestricted. 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.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
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Notes to Financial Statements

Years ended June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies (continued)

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, 2014 and 2013, there was no allowance for doubtful accounts.

(2) Cash

Cash and cash equivalents consist of cash on hand, deposits in banks (including certificates of deposit) and short-term investments: repurchase agreements, commercial paper, Local Government Investment Pool (LGIP) and the State Non-Arbitrage Program (SNAP). 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 State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The state 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

On June 30, 2014 and June 30, 2013, the Authorities did not have any funds invested in mutual fund money market accounts. The Authorities hold common stock equity in Waterside Capital Corporation (WSSC). The investment is stated at approximate fair value based on quoted market prices at June 30, 2014 and 2013, valued at \$473 and \$1,391, respectively.

(c) Credit Risk

The Authorities had no credit risk at June 30, 2014.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
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Notes to Financial Statements

Years ended June 30, 2014 and 2013

(3) Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents dedicated for specific projects and activities at June 30, 2014 and 2013 are as follows:

	2014	2013
Applied Research Center Fund	\$ 1,732,608	\$ 1,687,847
Air Service Enhancement Fund	1,088,720	1,536,370
City Center at Oyster Point	6,245,525	6,706,430
Bond escrow funds	164,083	153,083
Newport News Capital Fund	885,860	787,658
Micro Loan Fund	24,908	38,300
Rouse Tower Fund	1,890,229	1,478,720
City Center Garage Escrow accts and imprest fund	90,200	90,200
Achievable Dream	—	3,653,349
Parking Authority Fund	728,802	698,803
Brooks Crossing	25,000	25,000
Total	<u>\$ 12,875,935</u>	<u>\$ 16,855,760</u>
Classified as:		
Current	\$ 11,210,763	\$ 16,677,677
Noncurrent	1,665,177	153,083
	<u>\$ 12,875,940</u>	<u>\$ 16,830,760</u>

(4) Land Held for Lease or Resale

Land held for lease or resale at June 30, 2014 and 2013 is comprised of the following tracts:

	2014	2013
Oakland Industrial Park	\$ 4,250,022	\$ 4,250,022
Jefferson Avenue/Habersham (formerly HRSD/Jefferson)	2,246,598	2,246,598
Jefferson Center - Research and Technology	4,486,797	—
Oyster Point of Newport News	2,454,796	2,534,704
Patrick Henry Commerce Center	1,897,080	1,897,080
Sears and VSS Land	929,943	929,943
Port Warwick/Light Rail	1,036,640	1,056,244
Downtown Engineering Center	753,600	753,600
809 Omni Blvd	433,900	433,900
Southeast Corridor	3,006,000	2,821,800
Oriana Road	1,066,900	1,066,900
Rouse Tower Land	1,164,800	1,164,800
Miscellaneous parking lots	874,323	874,323
Miscellaneous parcels	2,095,288	2,012,174
Total	<u>\$ 26,696,686</u>	<u>\$ 22,042,088</u>

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(4) Land Held for Lease or Resale (continued)

During 1996, the Authorities purchased the Carleton Farm property using bond proceeds transferred from the City. The property, valued at approximately \$4.5 million, and the related debt are included in the assets and liabilities of the City.

During 1997, the Authorities purchased the Endview property using bond proceeds transferred from the City. The property, with a negotiated purchase price of approximately \$9 million, and related liability are included in the assets and liabilities of the City. Proceeds from the sale of Endview properties will be used to pay down the debt incurred by the City. In 1998, the Authorities conveyed 25.3 acres to the City for historic preservation purposes by the City's Parks and Recreation Department.

(5) Other Note Receivable

The major component of receivables, as of June 30, 2014, 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, 2014 was \$3,037,590, plus accrued interest of \$748,578.59. The balance of this note as of June 30, 2013 was \$3,037,590 plus accrued interest of \$642,262.95. On June 14, 2006, the EDA and OPHA, LLC and Newport News-Oyster Point Hotel, LLC entered into a loan assumption agreement. This agreement transferred the property and improvements associated with this loan and the liability and obligations of OPHA to the Newport News-Oyster Point Hotel, LLC. Newport News-Oyster Point Hotel, LLC agreed to pay and perform all obligations of OPHA, LLC under the note. Therefore, on final closing date of the City Center Hotel and Conference Center, as defined in the Condominium Purchase Agreements, Newport News-Oyster Point Hotel, LLC will pay to the Authority an amount equal to the positive difference, if any, between \$32,700,000 and the Total Project Cost up to an amount equal to the accrued interest and outstanding principal balance due on the note. This note bore no interest until December 15, 2006. Thereafter, 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 2014, Newport News-Oyster Point Hotel, LLC was not required to make a payment of principal or accrued interest due to the inability to satisfy a preferred return to its members on the total project. Management believes this note to be fully collectible.

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(6) Capital Assets

Capital assets at June 30, 2014 and 2013 and related changes for the years then ended are as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated -				
Construction in progress	\$ 7,913,943	\$ 818,967	\$ (3,342,676)	\$ 5,390,234
Other capital assets:				
Buildings	183,476,933	243,897	—	183,720,830
Improvements	14,274,715	—	—	14,274,715
Infrastructure	2,543,500	—	—	2,543,500
Machinery and equipment	84,674	—	—	84,674
	200,379,822	243,897	—	200,623,719
Less accumulated depreciation for:				
Buildings	(37,860,693)	(4,291,662)	—	(42,152,355)
Improvements	(6,700,685)	(372,970)	—	(7,073,655)
Infrastructure	(717,838)	(97,768)	—	(815,606)
Machinery and equipment	(84,674)	—	—	(84,674)
	(45,363,890)	(4,762,400)	—	(50,126,290)
Total capital assets, being depreciated, net	155,015,932	(4,518,501)	—	150,497,429
Capital assets, net	\$ 162,929,875	\$ (3,699,536)	\$ (3,342,676)	\$ 155,887,663

**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, 2014 and 2013

(6) Capital Assets (continued)

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated -				
Construction in progress	\$ 7,448,863	\$ 830,971	\$ (365,891)	\$ 7,913,943
Other capital assets:				
Buildings	183,476,933	—	—	183,476,933
Improvements	14,106,455	168,260	—	14,274,715
Infrastructure	2,543,500	—	—	2,543,500
Machinery and equipment	84,674	—	—	84,674
	200,211,562	168,260	—	200,379,822
Less accumulated depreciation for:				
Buildings	(33,569,031)	(4,291,662)	—	(37,860,693)
Improvements	(6,328,445)	(372,240)	—	(6,700,685)
Infrastructure	(620,070)	(97,768)	—	(717,838)
Machinery and equipment	(84,674)	—	—	(84,674)
	(40,602,220)	(4,761,670)	—	(45,363,890)
Total capital assets, being depreciated, net	159,609,342	(4,593,410)	—	155,015,932
Capital assets, net	\$ 167,058,205	\$ (3,762,439)	\$ (365,891)	\$ 162,929,875

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Notes to Financial Statements
Years ended June 30, 2014 and 2013

(7) Net Investment in Direct Financing Leases

In fiscal year 2014 and 2013, the Authorities were lessors in one direct financing lease on a property within the City. The lease agreement, whose remaining term range is 2 years, is an agreement with a private company, the objective of which is to increase the economic activity in the City. The following schedule lists the composition of the net investment in direct financing leases as of June 30, 2014 and 2013:

	2014	2013
Minimum lease payments to be received	\$ 1,055,029	\$ 2,028,902
Less unearned income	<u>14,125</u>	<u>50,032</u>
Net investment in direct financing leases	<u>\$ 1,040,904</u>	<u>\$ 1,978,870</u>
Classified as:		
Current	\$ 959,905	\$ 937,955
Noncurrent	<u>80,999</u>	<u>1,040,915</u>
	<u>\$ 1,040,904</u>	<u>\$ 1,978,870</u>

Minimum future rental receipts on these direct financing leases as of June 30, 2014 are as follows:

Year ending June 30:		
2015		\$ 973,873
2016		<u>81,157</u>
Total		<u>\$ 1,055,029</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, 2014 and 2013

(8) 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 for the year approximated \$2,870,000.

Future minimum lease payments on these non-cancelable operating leases, as of June 30, 2014, are as follows:

Year ending June 30:		
2015	\$	1,346,593
2016		1,171,330
2017		1,007,885
2018		1,009,833
2019		1,011,817
2020-2024		4,795,353
2025-2027		1,895,833
Total	\$	<u>12,238,644</u>

In FY 2014, the Authorities were leasing the Apprentice School Parking Garage for \$1.5 million. The Authorities are purchasing the parking garage in FY 15 and will no longer have this long term lease obligation.

(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, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Land	\$ 5,496,625	\$ 5,012,230
Buildings	109,372,320	109,128,421
Improvements & Parking Lots	3,813,459	3,813,459
Less accumulated depreciation	<u>32,111,084</u>	<u>29,576,313</u>
Net investment in property held for lease	<u>\$ 86,571,320</u>	<u>\$ 88,377,797</u>

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
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(Component Units of the City of Newport News, Virginia)

Notes to Financial Statements

Years ended June 30, 2014 and 2013

(8) Operating Leases (continued)

(b) Lessor Operating Leases (continued)

Income from operating leases for the year approximated \$10,071,000. Minimum future rental income on operating leases as of June 30, 2014 is as follows:

Year ending June 30:	
2015	\$ 9,629,076
2016	8,731,436
2017	8,257,381
2018	6,079,940
2019	2,565,306
2020-2024	7,538,382
2025-2029	5,768,655
2030	434,875
	<hr/>
Total	\$ 49,005,051
	<hr/> <hr/>

(9) Industrial Revenue Bonds and Notes Payable

Industrial Revenue Bonds and Notes Payable (the "Bonds and Notes") have been issued in the name of the Authorities to finance construction projects. The Bonds and Notes, 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 Notes have no recourse against the Authorities but must look to the property and lessee for indemnity. In 2014 and 2013, approximately \$25.4 million and \$27.8 million, respectively, of the Bonds and Notes 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.

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(Component Units of the City of Newport News, Virginia)
Notes to Financial Statements
Years ended June 30, 2014 and 2013

(9) Industrial Revenue Bonds and Notes Payable (continued)

The Bonds and Notes at June 30, 2014 and June 30, 2013 and related changes for the years then ended are comprised of the following:

	Issue date	Maturity date	Effective interest rates*	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amount due within one year
UPS, 04	06/04/04	07/01/2015	5.58%	\$ 1,836,963	\$ —	\$ (892,733)	\$ 944,230	\$ 944,230
SEARS	03/01/98	10/01/2018	5.40%	5,220,990	—	(882,709)	4,338,281	932,269
VSS	03/01/98	10/01/2018	5.40%	4,739,078	—	(801,238)	3,937,840	846,223
Downtown Eng	04/05/00	07/01/2031	7.64%	17,900,000	—	(1,060,000)	16,840,000	1,060,000
Merchant's Walk	12/21/10	12/1/2020	2.70%	7,152,000	—	(894,000)	6,258,000	894,000
Printpack	08/15/03	9/1/2018	2.65%	1,860,000	—	(360,000)	1,500,000	360,000
City Operations Ctr	12/07/04	07/01/2026	3.50%	220,000	—	(110,000)	110,000	110,000
Fountain Way	12/07/04	07/01/2031	4.75%	2,680,000	—	(670,000)	2,010,000	670,000
Conference Center	12/07/04	07/01/2031	4.75%	2,105,000	—	(1,080,000)	1,025,000	1,025,000
Hotel Promissory	12/07/04	07/01/2031	4.75%	820,000	—	(205,000)	615,000	205,000
Rouse Project	12/29/05	1/15/2031	5.14%	1,060,000	—	(345,000)	715,000	355,000
Mariner's Row	12/29/05	1/15/2031	5.14%	2,465,000	—	(805,000)	1,660,000	820,000
Conference Center	06/30/06	07/01/2031	4.00%	6,930,000	—	—	6,930,000	35,000
CITI A '07	02/26/07	08/01/2022	6.85%	2,569,110	—	(214,062)	2,355,047	225,148
CITI B '07	02/26/07	08/01/2022	5.59%	539,400	—	(46,753)	492,647	49,473
Series 2012A	10/12/17	7/1/2030	4.00%	25,390,000	—	—	25,390,000	—
Series 2012B	10/12/17	7/1/2031	0.76%	25,950,000	—	—	25,950,000	—
				109,437,541	—	(8,366,495)	101,071,045	8,531,343
Premium on bonds payable				102,939	—	(12,037)	90,901	12,010
Discount on bonds payable				(13,087)	—	6,748	(6,339)	(2,034)
Premium on bonds payable - 2012				4,301,414	—	(330,391)	3,971,023	330,391
Add interest rate swap fair value				3,688,883	—	(801,294)	2,887,589	—
Total bonds payable, net				117,517,690	—	(9,503,470)	108,014,219	8,871,710
Notes payable:								
809 Omni Blvd	08/31/07	07/01/2017	1.30%	v 1,500,000	—	—	1,500,000	—
				1,500,000	—	—	1,500,000	—
Total bonds and notes payable				\$ 119,017,690	\$ —	\$ (9,503,470)	\$ 109,514,219	\$ 8,871,710

* v denotes variable rate bonds

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
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(Component Units of the City of Newport News, Virginia)
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Years ended June 30, 2014 and 2013

(9) Industrial Revenue Bonds and Notes Payable (continued)

	Issue date	Maturity date	Effective interest rates*	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Amount due within one year
UPS, 04	06/04/04	07/01/2015	5.58%	\$ 2,680,706	\$ —	\$ (843,743)	\$ 1,836,963	\$ 892,859
SEARS	03/01/98	10/01/2018	5.40%	6,056,774	—	(835,784)	5,220,990	882,709
VSS	03/01/98	10/01/2018	5.40%	5,497,722	—	(758,644)	4,739,078	801,238
Coats and Clark	01/01/99	12/01/2018	4.23%	685,724	—	(685,724)	—	—
Downtown Eng	04/05/00	07/01/2031	7.64%	18,960,000	—	(1,060,000)	17,900,000	1,060,000
Merchant's Walk	12/21/10	12/1/2020	2.70%	8,046,000	—	(894,000)	7,152,000	894,000
Printpack	08/15/03	9/1/2018	2.70%	2,220,000	—	(360,000)	1,860,000	360,000
City Operations Ctr	12/07/04	07/01/2026	3.50%	1,610,000	—	(1,390,000)	220,000	110,000
Fountain Way	12/07/04	07/01/2031	4.75%	13,335,000	—	(10,655,000)	2,680,000	670,000
Conference Center	12/07/04	07/01/2031	4.75%	3,185,000	—	(1,080,000)	2,105,000	1,080,000
Hotel Promissory	12/07/04	07/01/2031	4.75%	3,040,000	—	(2,220,000)	820,000	205,000
Rouse Project	12/29/05	1/15/2031	5.14%	14,545,000	—	(13,485,000)	1,060,000	345,000
Mariner's Row	12/29/05	1/15/2031	5.14%	12,125,000	—	(9,660,000)	2,465,000	805,000
Conference Center	06/30/06	07/01/2031	4.00%	18,900,000	—	(11,970,000)	6,930,000	—
CITI A '07	02/26/07	08/01/2022	6.85%	2,761,160	—	(192,050)	2,569,110	210,084
CITI B '07	02/26/07	08/01/2022	5.59%	583,583	—	(44,183)	539,400	46,753
Series 2012A	10/12/17	7/1/2030	4.00%	—	25,390,000	—	25,390,000	—
Series 2012B	10/12/17	7/1/2031	0.76%	—	25,950,000	—	25,950,000	—
				<u>114,231,669</u>	<u>51,340,000</u>	<u>(56,134,128)</u>	<u>109,437,541</u>	<u>8,362,643</u>
Premium on bonds payable				624,854	—	(521,915)	102,939	12,037
Discount on bonds payable				(57,752)	—	44,665	(13,087)	(6,748)
Premium on bonds payable - 2012				—	4,369,328	(67,914)	4,301,414	330,391
Add interest rate swap fair value				5,136,002	—	(1,447,119)	3,688,883	—
Total bonds payable, net				<u>119,934,773</u>	<u>55,709,328</u>	<u>(58,126,411)</u>	<u>117,517,690</u>	<u>8,698,324</u>
Notes payable:								
809 Omni Blvd	08/31/07	07/01/2017	1.38%	v 2,000,000	—	(500,000)	1,500,000	—
				<u>2,000,000</u>	<u>—</u>	<u>(500,000)</u>	<u>1,500,000</u>	<u>—</u>
Total bonds and notes payable				<u>\$ 121,934,773</u>	<u>\$ 55,709,328</u>	<u>\$ (58,626,411)</u>	<u>\$ 119,017,690</u>	<u>\$ 8,698,324</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, 2014 and 2013

(9) Industrial Revenue Bonds and Notes Payable (continued)

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

Year ending June 30:	<u>Principal</u>	<u>Interest</u>
2015	\$ 8,531,343	\$ 4,399,014
2016	8,010,097	3,982,140
2017	9,926,721	3,610,516
2018	8,526,418	3,192,527
2019	6,650,607	2,879,738
2020-2024	27,480,859	10,995,081
2025-2029	23,600,000	5,457,587
2029-2032	<u>9,845,000</u>	<u>611,935</u>
Totals	\$ <u>102,571,045</u>	\$ <u>35,128,538</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 FY 2013, the Authorities refunded a portion of its Economic Development Revenue bonds Series 2004 A and B, Series 2005 A and B, and Series 2006, which were used to fund design and development of the area surrounding the City's Operation Center, the construction and equipping of the parking facilities in City Center, the Conference Center and the acquisition and renovation of Rouse Tower. This refunding took advantage of favorable market conditions and will deliver debt service savings with no extension of maturity. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt is \$2,641,014. The economic gain from the transaction, which is the difference between the present value of the old debt service and the present value of the refunded debt service, is \$2,234,606. The new 2012 Series Bonds are secured with a Payment Agreement with the City.

In FY 2013, the Authorities paid off the Coats and Clark notes payable due to Old Point National Bank.

In addition, in FY 2013, the Authorities amended the Printpack note with Bank of America to extend the maturity for five years. The corresponding lease agreement with Printpack was also amended.

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Years ended June 30, 2014 and 2013

(10) 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 State, 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, 2014 and June 30, 2013, there were six and five of the Bonds outstanding with an aggregate principal amount payable of approximately \$264 and \$223 million, respectively. Conduit debt at June 30, 2014 is listed in the accompanying schedule after the Notes to Financial Statements.

(11) 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 addition, in FY 2014 and 2013, the balance of the ARC note was written down by \$1,000,000 and \$2,168,776, respectively. The outstanding balance at June 30, 2014 and 2013 is \$10,156,140 and \$11,156,140.

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, 2014 and 2013.

(12) Interest Rate Swap Agreements

Interest rate swaps are derivative instruments associated with hedging interest expense that is determined to be effective in reducing exposures to identified financial risks. Effectiveness is determined by considering whether the changes in cash flows or fair values of the interest rate swap substantially offset the changes in cash flows or fair values of the bond interest expense. In these instances, hedge accounting should be applied. Under hedge accounting, the changes in fair values of the interest rate swap are reported as either deferred inflows or deferred outflows in the Statement of Net Position. Interest rate swaps are evaluated for effectiveness as of the end of each reporting period. As of June 30, 2014 and 2013, management has determined that the interest rate swaps are effective.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
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Notes to Financial Statements
Years ended June 30, 2014 and 2013

(12) Interest Rate Swap Agreements (continued)

Objective of the interest rate swaps. As a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance, the Authorities have entered into multiple interest rate swaps in connection with various revenue bond issuances. The intention of the swaps was to effectively change the Authorities' variable interest rate on the bonds to a synthetic fixed rate. Following is a summary of significant information pertaining to each swap.

Notional value at 6/30/14	2,960,000	14,375,017	1,020,979	2,373,307	496,677
Effective Date	6/1/2001	6/1/2001	5/1/2004	3/1/2007	3/1/2007
Termination (maturity) date	7/1/2016	7/1/2016	7/1/2015	8/1/2022	8/1/2022
Bond maturity date	7/1/2016	7/1/2016	7/1/2015	8/1/2022	8/1/2022
Fixed rate	7.64%	7.64%	5.58%	6.85%	5.59%
Floating leg	Libor	Libor	Libor	Libor	Libor
	Weekly index	Weekly index	Weekly index	Weekly index	Weekly index
Floating rate at 6/30/14	0.20%	0.15%	1.10%	1.10%	1.76%
Fair value at 6/30/14	\$ (414,193)	\$ (2,419,956)	\$ (27,204)	\$ (23,025)	\$ (3,211)
Settlement	Monthly	Monthly	Monthly	Monthly	Monthly

Terms. Under the swaps, the Authorities pay the counterparty the above fixed rate and receive a variable rate payment based on LIBOR indexes. The Series 2000A and Series 2000B variable rate is determined weekly by the Remarketing Agent at a rate equal to the rate of interest certified to the Trustee by the Remarketing Agent on and as of each Wednesday (the "Determination Date") as the minimum rate of interest which, in the judgment of the Remarketing Agent taking into account market conditions prevailing at the Determination Date, would be necessary to enable the Remarketing Agent to arrange for the sale of all of the Bonds in the secondary market on the Determination Date at a price equal to the principal amount thereof. A weighted average of the weekly rates is calculated to determine the variable rate for a specific month. The Series 2004 and CITI 2007A variable rate is calculated using the prevailing weekly LIBOR rate plus 0.95%. The CITI 2007B variable rate is calculated using the prevailing weekly LIBOR rate of 65% of one month LIBOR plus 1.66%. In all five instances, the bonds' variable rate coupons are based on the same index as the variable rate paid by the counterparty.

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Years ended June 30, 2014 and 2013

(12) Interest Rate Swap Agreements (continued)

Fair value. Because interest rates have declined since the execution of the swaps, the swaps had a combined negative fair value of \$2,887,589 as of June 30, 2014 and \$3,688,883 as of June 30, 2013. If the Series 2000A or 2000B interest rate swaps were terminated, the Authorities would be required to pay a termination payment in the amount of the fair value of the swap as of the termination date. This fair value estimate is based on expected forward LIBOR swap rates and discounted expected cash flows and is derived from independent market valuations.

Credit risk. As of June 30, 2014, the Authorities were not exposed to credit risk because the swaps had a negative value. However, should interest rates change and the fair value of the swaps become positive, the Authorities would be exposed to credit risk in the amount of the derivative's fair value.

Basis risk. Basis risk arises when the variable rate on the interest rate swap and rate on the bonds are based on different indexes. In all five swaps held by the Authorities, the coupon rate of the bonds and the interest rate on the swap are based on the same index; therefore, the Authorities are not exposed to any basis risk.

Interest rate risk. The Authorities have implemented a strategy on the swaps designed to provide a synthetic fixed rate and it is not anticipated that, as a result of the strategy, the Authorities have assumed any additional interest rate risk.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. If a swap were terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authorities would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover risk. The Authorities are exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, the Authorities will no longer realize the synthetic rate offered by the swaps on the underlying debt issue.

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(12) Interest Rate Swap Agreements (continued)

As of June 30, 2014, debt service requirements of the five variable-rate debt and swap payments, assuming current interest rates remain the same for their term were as follows. As rates vary, variable-rate bond interest payments will vary.

2000A

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate Swap	
	Principal	Interest	Principal	Interest
2015	\$ 160,000	\$ 5,747	\$ 160,000	\$ 219,530
2016	2,800,000	5,442	2,800,000	207,867
	<u>\$ 2,960,000</u>	<u>\$ 11,188</u>	<u>\$ 2,960,000</u>	<u>\$ 427,398</u>

2000B

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate Swap	
	Principal	Interest	Principal	Interest
2015	\$ 900,000	\$ 28,586	\$ 900,000	\$ 1,023,226
2016	12,980,000	26,786	12,980,000	957,042
	<u>\$ 13,880,000</u>	<u>\$ 55,372</u>	<u>\$ 13,880,000</u>	<u>\$ 1,980,266</u>

2004

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate Swap	
	Principal	Interest	Principal	Interest
2015	\$ 944,230	\$ 5,618	\$ 925,071	\$ 29,283
2016	-	-	19,160	92
	<u>\$ 944,230</u>	<u>\$ 5,618</u>	<u>\$ 944,230</u>	<u>\$ 29,374</u>

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Notes to Financial Statements

Years ended June 30, 2014 and 2013

(12) Interest Rate Swap Agreements (continued)

2007 A

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate Swap	
	Principal	Interest	Principal	Interest
2015	357,210	24,474	225,149	156,536
2016	361,218	20,466	241,293	140,391
2017	365,267	16,417	258,570	123,114
2018	369,548	12,136	278,668	103,016
2019	373,637	8,047	298,367	83,317
2020	377,771	3,913	319,459	62,225
2021	150,395	399	342,043	39,641
2022	-	-	366,222	15,462
2023	-	-	25,276	144
	<u>\$ 2,355,047</u>	<u>\$ 85,850</u>	<u>\$ 2,355,047</u>	<u>\$ 723,845</u>

2007 B

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate Swap	
	Principal	Interest	Principal	Interest
2015	49,473	8,384	49,474	26,658
2016	52,286	7,480	52,352	23,780
2017	55,392	6,431	55,394	20,738
2018	58,615	5,432	58,875	17,257
2019	62,024	4,374	62,251	13,880
2020	65,605	3,255	65,822	10,310
2021	69,449	2,070	69,597	6,535
2022	73,489	817	73,589	2,543
2023	6,315	9	5,293	25
	<u>\$ 492,647</u>	<u>\$ 38,254</u>	<u>\$ 492,647</u>	<u>\$ 121,726</u>

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
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(Component Units of the City of Newport News, Virginia)
Notes to Financial Statements
Years ended June 30, 2014 and 2013

(13) Achievable Dream

The EDA has worked with the City, the Newport News School Board (the “NNSB”) and An Achievable Dream, Inc. (ADI) to address the poor performance of Briarfield Elementary School and finance a plan to expand the successful Achievable Dream program to include Briarfield Students and a new secondary school. The Briarfield Elementary facility has been renovated, expanded and leased to Achievable Dream, Inc. to accomplish this. The conversion cost approximated \$13,000,000. Under this plan, the Achievable Dream would construct the necessary new improvements on the property and lease the entire parcel to the EDA. On July 27, 2006, the EDA entered into a lease with An Achievable Dream Middle & High School, Inc. (AM&HS, Inc.). Under the lease, the EDA pays \$37,917 per month for 84 months beginning August 27, 2006 and \$80,000 per month starting with the 85th month of the lease term and ending on the 240th month of the lease. On this same date, July 27, 2006, the EDA in turn leased the property to the NNSB for \$1 for the entire term of the lease. In addition, the EDA will make an annual deposit of \$500,000 into an interest bearing debt service reserve fund during the first seven years of the lease, which may be used to pay a portion of the Purchase Option Price if the EDA exercises the Purchase Option under the EDA lease. The balance of this interest bearing debt service reserve fund at June 30, 2014 and 2013 was zero and \$3,653,349 respectively. This amount was included within the restricted net position on the Statement of Net Position at June 30, 2013.

The necessary funding to the EDA to provide both the payments of rents under its lease and the purchase price of the new improvements at the end of seven years is provided by a Grant Agreement between the City and the EDA. Under the Grant Agreement, the City, subject to annual appropriation, agrees to make the grants to the EDA in amounts sufficient to pay the EDA’s rental obligation and to fund the debt service reserve. The EDA, ADI, City and NNSB also entered into a cost sharing agreement on July 27, 2006 to outline the payment obligations required for the \$13,000,000 in capital improvements.

In July 2013, the EDA opted not to exercise its purchase option under the EDA lease but instead, along with the City, the NNSB and ADI, modified the original lease and financing of the Achievable Dream project to allow ADI to pay down the debt using the debt reserve funds, thereby reducing the annual lease payments from \$960,000 to \$910,000 annually for the remaining term of the lease. This pay down is recorded as a special item on the Statement of Revenues, Expenses and Changes in Net Position. At the end of the lease term, the NNSB will have the option to purchase the improvements of the property for a nominal amount.

(14) 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 addition, during the year the Economic Development Authority entered into a performance agreement with CCOP Thimble Shoals One, LLC related to the Tourism Zone Incentive program. In this agreement, the EDA has agreed to restrict \$1.5 million of cash on the Authorities balance

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Notes to Financial Statements
Years ended June 30, 2014 and 2013

sheet and provide real property collateral with an approximate value of \$3,000,000 to assist in securing the Developer Gap financing loan.

(15) Subsequent Events

(a) *Acquisition of Apprentice School Parking Facilities*

On July 22, 2014, the IDA exercised its purchase option under the Apprentice School garage lease to purchase the parking facilities located at 150 33rd Street for \$12,759,580. The IDA financed the purchase with a \$12.7 million taxable revenue bond through Towne Bank secured by a Payment Agreement with the City.

(b) *Acquisition of property*

On September 4, 2014, the EDA purchased the properties located at 15401, 15407 & 15411 Warwick Boulevard in the amount of \$928,775 to continue Upper Warwick Boulevard acquisition for future development and revitalization.

(c) *Conduit Debt*

The Authorities authorized an Inducement Resolution to issue Industrial Revenue Bonds for the benefit of Eagle Land II, LLC to facilitate the financing of the acquisition, renovation and equipping of an approximately 196,232 square foot facility located at 7505 Warwick Boulevard which will be leased by its affiliate, Eagle Aviation Technologies, LLC in the amount of \$5,500,000.

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(Component Units of the City of Newport News, Virginia)
Schedule of Conduit Debt Obligations
Years ended June 30, 2014

Bond	Date issued	Outstanding balance June 30, 2014
Industrial Revenue Bond – CNU Warwick, LLC	07/01/04	\$22,930,000
Industrial Revenue Bond – CNU University Foundation	07/15/06	7,050,000
Industrial Revenue Bond – Riverside Health Systems – Series 2011A	12/20/11	22,395,000
Industrial Revenue Bond – Riverside Health Systems – Series 2011B	12/20/11	26,610,000
Industrial Revenue Bond – Riverside Health Systems – Series 2011C	12/20/11	61,115,000
Industrial Revenue Bond – Riverside Health Systems - Series	12/20/11	73,800,000
Industrial Revenue Bond – CNU Rappahannock Hall – Series	12/20/13	40,300,336
New Opportunity LLC – Series 2013	11/12/13	<u>10,242,172</u>
		<u>264,442,508</u>

**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*, 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authorities' basic financial statements, and have issued our report thereon dated November 25, 2014. That report recognizes that the Authorities implemented a new accounting standard effective July 1, 2012.

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 entities' 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 for Audits of Authorities, Boards and Commissions*.

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 Authorities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authorities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cheryl Behrman CPA". The signature is written in a cursive style.

Richmond, Virginia
November 25, 2014