

# 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, 2017 and 2016  
(With Independent Auditor's Report Thereon)



**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, 2017 and 2016

(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)  
Listing of Members, Officials, and Other Support Staff

**Members**

C. Gary Minter	Chairman
Cassandra Pully Greene	Vice Chairman
Cary B. Epes	Director
Jennifer Smith-Brown	Director
Mary Aldrich	Director
Jeffrey C. Verhoef	Director
Alonzo R. Bell, Jr.	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	Financial Services Administrator
Joy Robison	Administrative Services Manager
Derek Perry	Senior Economic Analyst
Matt Johnson	Senior Project Coordinator
Marc Rodgers	Senior Project Coordinator
Kalia Walker	Senior Project Coordinator
Macon Whitson	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 Conner	Accountant II
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

### **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, 2017 and 2016, 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 financial position of the Economic and Industrial Development Authorities of the City of Newport News, Virginia, as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the years 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 on pages 3 through 10 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authorities' basic financial statements. The List of Members, Officials, Other Support Staff and the Schedule of Conduit Debt Obligations are presented for purposes of additional analysis and are not a required part of the basic financial statements. The List of Members, Officials, Other Support Staff and the Schedule of Conduit Debt Obligations have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017, 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 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 Authorities' internal control over financial reporting and compliance.



Richmond, Virginia  
November 21, 2017

**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, 2017 and 2016

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, 2017, 2016 and 2015. A comparative analysis is presented. Please read it in conjunction with the Authorities' financial statements, which follow this section.

**Financial Highlights for Fiscal Year 2017**

At the end of the fiscal year, the Authorities' assets and deferred outflows of resources exceeded liabilities and deferred inflow of resources by \$127.42 million. This amount represents an increase of \$4.38 million over prior year's ending balance of \$123.04 million which was an increase of \$17.96 million over fiscal year 2015 ending balance. Total operating revenues decreased by approximately \$12.04 million in fiscal year 2017 due to a decrease in intergovernmental transfers from the City of Newport News, Virginia (the "City"). In the prior year, the City transferred funding for the Authorities to purchase the South Police Precinct and to facilitate funding for a southeast community grocery store and parking field. Total operating expenses in 2017 increased by approximately \$3.86 million due to an increase in cost of land sold. Total operating expenses increased in 2016 from the previous year by approximately \$4.96 mostly due to an increase in cost of land sold. Net non-operating expenses decreased by \$2.32 million due to a reduction in interest expense and an increase in grant revenues. Net non-operating expenses remained comparatively level in 2016, increasing by \$38,444 from the previous year.

During the year, 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 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.

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.

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.

In 2017, the construction of the Brooks Crossing Grocery store and parking field was completed. The EDA had entered into a New Market Tax Credit (NMTC) transaction in 2016 with Brooks Crossing Grocery Store, LLC whose sole member is the Newport News Redevelopment and Housing Authority. The EDA provided the \$4.3 million leveraged loan to facilitate the construction of a 29,290 square foot grocery store in the Southeast Community, which lacked access to a full-service grocery store. The grocery store serves as an anchor to the Brooks Crossing mixed-use development project. A collaborative partnership was announced to construct a 95,000-square foot office building in Brooks Crossing.

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Southeast Commerce Center Associates, will develop, construct and own a building and Newport News Shipbuilding, a division of Huntington Ingalls plans to lease a majority of the building.

Leibherr Mining Equipment Company, a manufacturer of mining equipment, located in southern Copeland Industrial Park continues to invest in its Newport News facility. Much needed improvements to City Line road are underway with joint funding from the company, available grants, and the City which will improve the transportation of finished goods from its facility to accommodate not only its expansion but increase in production.

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.

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 86 properties City-wide with grants distributed of approximately \$1.9 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**  
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Management's Discussion and Analysis  
Years ended June 30, 2017 and 2016

**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, 2017, 2016 and 2015  
(in millions)

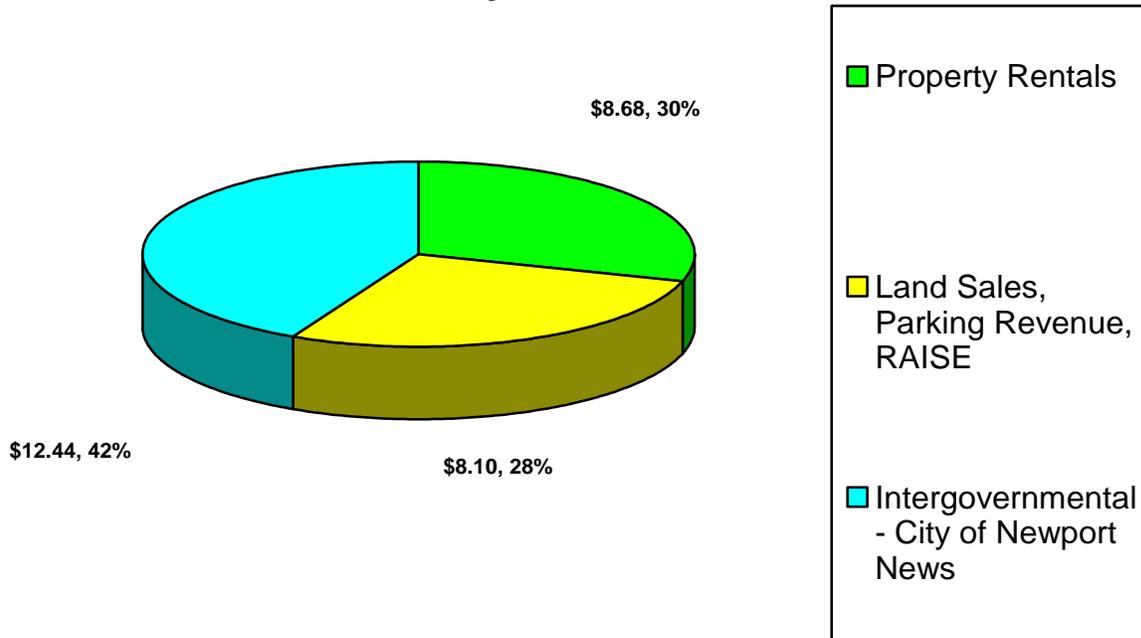
	2017	2016	2015
Current and other assets	\$ 63.62	\$ 59.64	\$ 56.01
Capital assets, net	168.27	171.16	164.05
Total assets	<u>231.89</u>	<u>230.80</u>	<u>220.06</u>
Deferred swaps	\$ —	\$ 0.09	\$ 1.23
Deferred refunding	5.58	6.25	6.79
Total deferred outflows of resources	<u>5.58</u>	<u>6.34</u>	<u>8.02</u>
Current and other liabilities	\$ 19.62	\$ 14.37	\$ 10.66
Long-term liabilities	90.42	99.72	112.31
Total liabilities	<u>110.04</u>	<u>114.09</u>	<u>122.97</u>
Deferred inflows of resources	\$ 0.01	\$ 0.01	\$ 0.03
Net investment in capital assets	\$ 77.80	\$ 79.96	\$ 61.85
Restricted	14.35	14.94	13.78
Unrestricted	35.27	28.14	29.45
Total Net Position	<u>\$ 127.42</u>	<u>\$ 123.04</u>	<u>\$ 105.08</u>

Total assets and deferred outflows of resources of the Authorities exceeded recorded liabilities and deferred inflows of resources by \$127.42 million as of June 30, 2017, \$123.04 million as of June 30, 2016 and \$105.08 million as of June 30, 2015. Approximately \$14.35 million in fiscal year 2017, \$14.94 million in fiscal year 2016, and \$13.78 million in fiscal year 2015 of net position is restricted for various specific economic development projects and programs.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES  
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The Authorities' total operating revenues were \$29.22 million for the fiscal year ending June 30, 2017. Property rentals comprised of both operating and capital lease revenues represented 30% of total operating revenues. Intergovernmental revenue from the City approximated \$12.44 million in fiscal year 2017. Land sales in FY 2017 were \$7.07 million.

**Revenues by Source in Millions**



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

**Table A-2**  
**Changes in Authorities' Position**  
For the years ended June 30, 2017, 2016 and 2015  
(in millions)

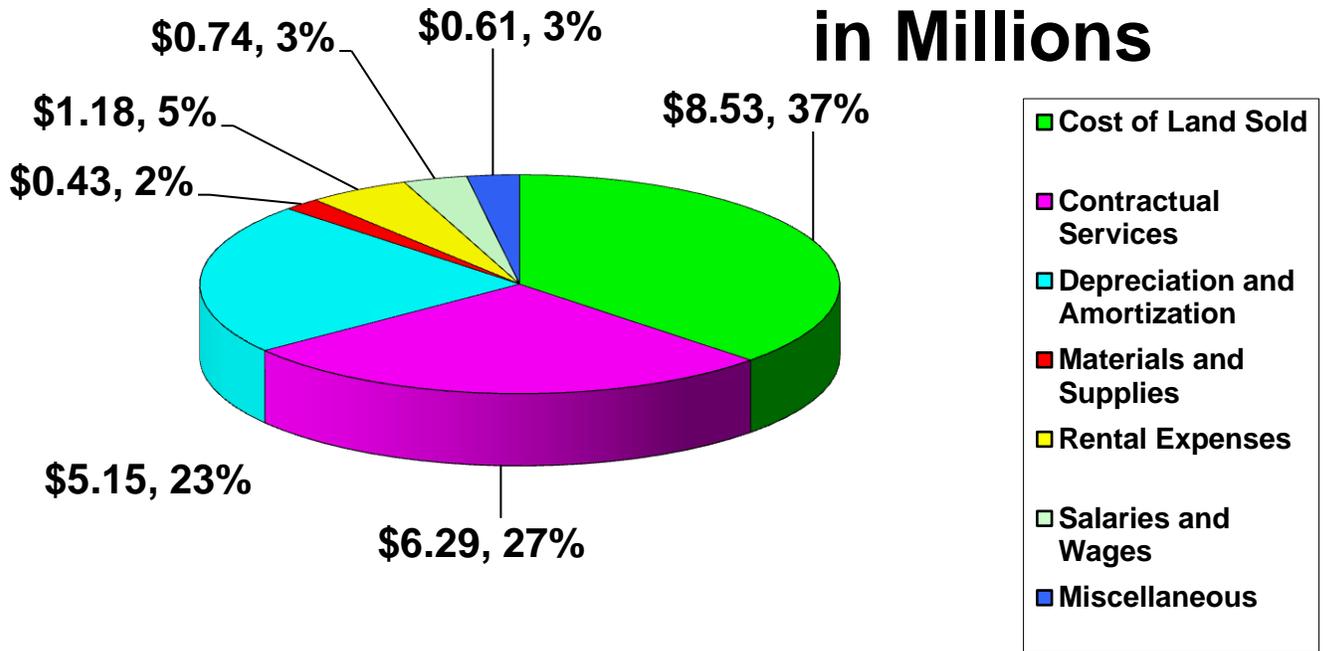
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues and expenses:			
Operating revenues:			
Property rentals	\$ 8.68	\$ 9.58	\$ 9.89
Parking contributions	0.20	0.18	0.18
Land sales	7.07	4.27	0.24
Parking Revenues	0.75	0.69	0.69
Intergovernmental - Regional Air Service Enhancement Fund	0.08	0.13	0.13
Intergovernmental - City of Newport News	12.44	26.41	12.60
Total operating revenues	<u>29.22</u>	<u>41.26</u>	<u>23.73</u>
Operating expenses:			
Cost of land sold	8.53	5.00	0.24
Contractual services	6.29	5.84	5.73
Depreciation and amortization	5.15	5.09	5.03
Materials and supplies	0.43	0.50	0.48
Rental expenses	1.18	1.43	1.48
Salaries and wages	0.74	0.66	0.67
Miscellaneous	0.61	0.55	0.48
Total operating expenses	<u>22.93</u>	<u>19.07</u>	<u>14.11</u>
Operating income	6.29	22.19	9.62
Nonoperating expenses, net	<u>(1.91)</u>	<u>(4.23)</u>	<u>(4.19)</u>
Change in net position	4.38	17.96	5.43
Net position, beginning	<u>123.04</u>	<u>105.08</u>	<u>99.65</u>
Net position, ending	<u>\$ 127.42</u>	<u>\$ 123.04</u>	<u>\$ 105.08</u>

The net position (assets and deferred outflows over liabilities and deferred inflows), increased in fiscal year 2017 by approximately \$4.38 million compared to an increase in fiscal year 2016 of \$17.96 million and an increase in fiscal year 2015 of \$5.43 million. Total operating revenues decreased by approximately \$12.04 million, primarily due to the decrease in intergovernmental transfers from the City. The additional transfers in FY 16 were for the purchase of the South Police Precinct and the construction and infrastructure in the Brooks Crossing project. The increase in land/building sales in FY 2017 reflects the sales of facilities to both Printpack and UPS. The increase in operating expenses in fiscal year 2017 as

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES  
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Years ended June 30, 2017 and 2016

compared to fiscal year 2016 was approximately \$3.86 million predominantly because of the increase in the cost of land/building sold. The decrease in net non-operating expenses in fiscal year 2017 is mostly due to an increase in grant revenues and a reduction in interest expense. The increase in net non-operating expenses in fiscal year 2016 as compared to 2015 is minimal.

## Operating Expenses in Millions



**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES  
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**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, 2017, 2016, and 2015  
(net of depreciation, in millions)

	2017	2016	2015
Buildings	\$ 201.59	\$ 202.15	\$ 195.90
Improvements, machinery and equipment	19.32	14.41	14.41
Infrastructure	2.54	2.54	2.54
Construction in progress	7.92	12.30	6.35
Accumulated depreciation	(63.10)	(60.24)	(55.15)
Total	<u>\$ 168.27</u>	<u>\$ 171.16</u>	<u>\$ 164.05</u>

At the end of 2017, the Authorities had \$168.27 million invested in capital assets as compared to \$171.16 in 2016 and \$164.05 in 2015. During the year, Construction in Progress decreased by \$4.38 million and Improvements, machinery and equipment increased by \$4.91 million. The decrease in Construction in Progress 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. The increase in Construction in Progress in FY 16 from FY 15 was due to these construction projects in process as well as the UPS Parking improvements which were sold to UPS during 2017. Additional information on the Authorities' capital assets can be found in Note 6 of the basic financial statements.

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The following table summarizes debt outstanding:

**Table A-4**  
**Authorities' Outstanding Debt**  
As of June 30, 2017, 2016 and 2015  
(In millions)

	2017	2016	2015
Industrial Revenue Bonds - IDA	\$ 12.71	\$ 14.00	\$ 16.41
Industrial Revenue Bonds - EDA	73.62	81.37	88.82
Bond Premiums (Discounts)	3.25	3.63	3.72
Notes payable	9.50	1.50	1.50
Interest Rate Swap fair value	—	0.09	1.24
Total	<u>\$ 99.08</u>	<u>\$ 100.59</u>	<u>\$ 111.69</u>

As of June 30, 2017, the Authorities had \$99.08 million of debt outstanding in bonds and notes payable as compared to debt outstanding in June 2016 and June 2015, of \$100.59 million and \$111.69 million, respectively. 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 Financial Services Administrator at (757) 926-8428 of the Authorities, c/o Department of Development, 2400 Washington Avenue, 3<sup>rd</sup> 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, 2017 and 2016

**Assets and Deferred Outflows**

	<b>2017</b>	<b>2016</b>
Current assets:		
Cash (note 2)	\$ 8,472,362	\$ 3,721,959
Restricted cash and cash equivalents (note 3)	12,353,065	12,940,121
Receivables:		
Newport News Capital Fund Revolving Loan Program	63,239	96,729
Accounts, Notes & Grants	312,242	177,489
Other	1,123,487	1,060,504
Total current assets	22,324,395	17,996,802
Noncurrent assets:		
Restricted cash and cash equivalents (note 3)	2,071,512	2,003,008
Receivables:		
Newport News Capital Fund Revolving Loan Program	1,059,728	1,139,968
Notes Receivable (note 5)	3,037,590	3,037,590
Accounts, Notes & Grants	5,607,169	5,284,494
Other	48,061	—
Land held for lease or resale (note 4)	29,471,249	30,176,588
Non depreciable Capital Assets (Note 6)	7,924,130	12,298,009
Depreciable Capital Assets, net (Note 6)	160,345,925	158,867,435
Total noncurrent assets	209,565,364	212,807,092
Total assets	231,889,759	230,803,894
Deferred outflows of resources:		
Deferred swap (Note 11)	—	90,311
Debt refunding losses	5,577,422	6,252,879
Total deferred outflows of resources	5,577,422	6,343,190

**Liabilities**

Current liabilities:		
Trade accounts payable and accrued liabilities	569,415	1,104,342
Construction accounts payable	160,315	2,087,316
Notes Payable - current portion (note 8)	2,033,333	1,500,000
Due to City of Newport News - current portion (note 10)	383	383
Industrial revenue bonds payable - due within one year (note 8)	9,315,408	9,525,041
Liabilities payable from restricted assets	76,472	154,190
Total current liabilities	12,155,326	14,371,272
Note Payable (note 8)	7,466,667	—
Due to City of Newport News (note 10)	10,155,374	10,155,757
Industrial revenue bonds payable (note 8)	80,264,964	89,564,789
Total liabilities	110,042,331	114,091,818

Deferred inflows of resources:

Unearned revenues	4,806	13,906
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**Net Position**

Net Investment in capital assets	77,804,694	79,956,396
Restricted for:		
Capital projects	12,782,477	13,432,069
Capital loans	1,565,628	1,511,060
Unrestricted	35,267,245	28,141,835
Total net position	\$ 127,420,044	\$ 123,041,360

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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Operating revenues:		
Property rentals ( Note 7)	\$ 8,679,419	\$ 9,575,024
Parking contributions	197,811	181,645
Land/building sales	7,067,601	4,265,841
Parking Authority revenues	754,612	692,334
Intergovernmental - Regional Air Service Enhancement Fund	78,232	133,194
Intergovernmental - City of Newport News	12,441,230	26,409,271
Total operating revenues	<u>29,218,905</u>	<u>41,257,309</u>
Operating expenses:		
Cost of land/building sold	8,526,273	4,999,103
Contractual services	6,294,070	5,841,294
Depreciation and amortization	5,145,481	5,092,454
Materials and supplies	428,287	496,250
Rental expenses (note 7)	1,180,817	1,431,825
Salaries and wages	743,300	655,672
Miscellaneous	607,404	554,784
Total operating expenses	<u>22,925,632</u>	<u>19,071,382</u>
Operating income	<u>6,293,273</u>	<u>22,185,927</u>
Nonoperating revenues (expenses):		
Interest income	332,356	252,801
Interest expense (note 8)	(3,370,444)	(4,533,580)
Interest expense - City of Newport News	(283,356)	(283,356)
Bond and administrative fee income	288,570	366,129
Governor's opportunity grants	150,000	—
Governor's opportunity grants	(650,000)	—
Letter of credit and trustee fees	(59,937)	(92,579)
Loss on disposal of Capital assets	—	(334)
Other	1,678,222	64,286
Nonoperating expenses, net	<u>(1,914,589)</u>	<u>(4,226,633)</u>
Change in net position	4,378,684	17,959,294
Net position at beginning of year	<u>123,041,360</u>	<u>105,082,066</u>
Net position at end of year	<u>\$ 127,420,044</u>	<u>\$ 123,041,360</u>

See accompanying notes to financial statements.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES  
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Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Receipts from leased properties	\$ 8,896,573	\$ 9,801,089
Receipts from Regional Air Service Enhancement Fund	78,232	133,194
Receipts from Parking Authority	754,612	692,334
Parking contributions received from developers	197,811	181,645
Receipts from City of Newport News	12,441,230	26,409,271
Receipts from land sales, net of settlement charges	7,067,601	4,265,841
Receipts from loans and mortgages	113,730	167,604
Payments to suppliers	(18,982,202)	(10,746,488)
Payments to employees	(743,300)	(655,672)
Net cash provided by operating activities	<u>9,824,287</u>	<u>30,248,818</u>
Cash flows used in capital and related financing activities:		
Acquisition of capital assets	(2,256,972)	(12,203,205)
Repayment and retirement of industrial revenue bonds and note payable	(12,059,147)	(14,441,631)
Proceeds from issuance of debt	10,640,000	4,884,329
Payments to City of Newport News	(283,739)	(283,356)
Proceeds from City of Newport News	283,356	283,356
Interest paid	(3,653,800)	(4,816,936)
Cost of Issuing Bonds	682,337	532,753
Other revenue and expenses	1,406,855	(62,443)
Net cash used in capital and related financing activities	<u>(5,241,110)</u>	<u>(26,107,133)</u>
Cash flows from investing activities:		
Interest received	332,356	252,801
Loans issued	(683,682)	(4,619,345)
Other Investments	—	334
Receipt of direct financing lease principal	—	80,987
Net cash used in investing activities	<u>(351,326)</u>	<u>(4,285,223)</u>
Increase (decrease) in cash and restricted cash and cash equivalents	4,231,851	(143,538)
Cash, restricted cash and cash equivalents at beginning of year	<u>18,665,088</u>	<u>18,808,626</u>
Cash, and restricted cash and cash equivalents at end of year	<u>\$ 22,896,939</u>	<u>\$ 18,665,088</u>
Reported as:		
Cash	\$ 8,472,362	\$ 3,721,959
Restricted cash and cash equivalents (Current)	12,353,065	12,940,121
Restricted cash and cash equivalents (Non-Current)	<u>2,071,512</u>	<u>2,003,008</u>
Cash and restricted cash and cash equivalents at end of year	<u>\$ 22,896,939</u>	<u>\$ 18,665,088</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,293,273	\$ 22,185,927
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	5,145,481	5,092,454
Changes in assets and liabilities:		
Land inventory	705,339	479,087
Mortgages receivable	113,730	167,604
Other receivables	115,210	120,866
Trade accounts payable and accrued liabilities	(2,539,646)	2,223,612
Unearned revenues	(9,100)	(20,732)
Net cash provided by operating activities	<u>\$ 9,824,287</u>	<u>\$ 30,248,818</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, 2017 and 2016

**(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.

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**(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 and included in construction in progress at June 30, 2017 and 2016, 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. All direct financing leases were expired by 7/1/16.

**(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 change in value of their effective derivative instruments at the end of the reporting period and 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

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Notes to Financial Statements

Years ended June 30, 2017 and 2016

**(1) Summary of Significant Accounting Policies (continued)**

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.

**(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.

**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, 2017 and 2016, there was no allowance for doubtful accounts.

**Swap Agreements**

The Authorities had 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. As of June 30, 2017, all interest rate swap agreements entered by the Authority have terminated or matured.

**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.

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**(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 Local Government Investment Pool is reported at amortized cost, which approximates fair value..

**(c) Credit Risk**

**Custodial Credit Risk:** The Authorities deposits at June 30, 2017 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).

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Years ended June 30, 2017 and 2016

**(2) Cash (continued)**

**(c) Credit Risk (continued)**

Credit Risk of Debt Securities of Primary Government: The Authorities rated debt investments as of June 30, 2017, 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 2017	\$ 15,238,398.00	AAAm	0.16
LGIP - Year ending 2016	\$ 13,792,526.00	AAAm	0.08

**(3) Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents dedicated for specific projects and activities at June 30, 2017 and 2016 are as follows:

	2017	2016
Applied Research Center Fund	\$ 250,158	\$ 2,358,531
Air Service Enhancement Fund	1,235,473	1,435,456
City Center at Oyster Point	4,194,614	4,671,157
Bond escrow funds	86,369	186,083
Newport News Capital Fund	424,062	268,318
Micro Loan Fund	18,599	6,045
Rouse Tower Fund	3,070,780	2,811,244
City Center Garage Escrow accts and imprest fund	90,200	90,200
Parking Authority Fund	978,802	978,802
Brooks Crossing	25,303	25,114
Tourism Zones	1,985,143	1,816,925
LTD Oyster Point	1,421,294	—
FIG Grant	643,780	295,254
Total	<u>\$ 14,424,577</u>	<u>\$ 14,943,129</u>
Classified as:		
Current	\$ 12,353,065	\$ 12,940,121
Noncurrent	2,071,512	2,003,008
	<u>\$ 14,424,577</u>	<u>\$ 14,943,129</u>

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

Land held for lease or resale at June 30, 2017 and 2016 is comprised of the following tracts:

	2017	2016
Oakland Industrial Park	\$ 4,043,163	\$ 4,286,083
Jefferson Avenue/Habersham (formerly HRSD)	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	2,211,096
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	1,036,640
Downtown Engineering Center	753,600	753,600
809 Omni Blvd	433,900	433,900
Southeast Corridor	1,674,200	2,121,400
Oriana Road	1,066,900	1,066,900
Rouse Tower Land	1,164,800	1,164,800
UPS	—	2,526,732
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	—
Chase	110,000	—
Miscellaneous parking lots	874,323	874,323
Miscellaneous parcels	1,790,987	1,790,987
	<u>                    </u>	<u>                    </u>
Total	\$ <u>29,471,249</u>	\$ <u>30,176,588</u>

In fiscal year 2016, the Authorities purchased the South Police Precinct land and building from Armada Hoffler after completion of construction. The Authorities entered into a lease with the City for the facility for a period of 10 years with a rental fee of \$1.00 per year.

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Years ended June 30, 2017 and 2016

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

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, 2017 and 2016, 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, 2017 and 2016 was \$3,037,590, plus accrued interest of \$1,067,526 and \$961,210 for June 30, 2017 and 2016, 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 2016, 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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Years ended June 30, 2017 and 2016

**(6) Capital Assets**

Capital assets at June 30, 2017 and 2016 and related changes for the years then ended are as follows:

	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

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Notes to Financial Statements

Years ended June 30, 2017 and 2016

**(6) Capital Assets (continued)**

	Balance July 1, 2015	Increases	Decreases/Transfers	Balance June 30, 2016
	<u>2015</u>	<u>Increases</u>	<u>Decreases/Transfers</u>	<u>2016</u>
Capital assets not being depreciated -				
Construction in progress	\$ 6,352,470	\$ 10,060,042	\$ (4,114,503)	\$ 12,298,009
Other capital assets:				
Buildings	195,895,590	6,257,666	—	202,153,256
Improvements	14,327,640	—	—	14,327,640
Infrastructure	2,543,500	—	—	2,543,500
Machinery and equipment	84,674	—	—	84,674
	<u>212,851,404</u>	<u>6,257,666</u>	<u>—</u>	<u>219,109,070</u>
Less accumulated depreciation for:				
Buildings	(46,727,899)	(4,666,092)	—	(51,393,991)
Improvements	(7,425,079)	(326,749)	—	(7,751,828)
Infrastructure	(913,374)	(97,768)	—	(1,011,142)
Machinery and equipment	(84,674)	—	—	(84,674)
	<u>(55,151,026)</u>	<u>(5,090,609)</u>	<u>—</u>	<u>(60,241,635)</u>
Total capital assets, being depreciated, net	<u>157,700,378</u>	<u>1,167,057</u>	<u>—</u>	<u>158,867,435</u>
Capital assets, net	\$ <u>164,052,848</u>	\$ <u>11,227,099</u>	\$ <u>(4,114,503)</u>	\$ <u>171,165,444</u>

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**(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 for the year was \$1,180,817.

Future minimum lease payments on these non-cancelable operating leases, as of June 30, 2017, are as follows:

Year ending June 30:		
2018	\$	1,022,657
2019		1,024,641
2020		1,026,679
2021		1,028,772
2022		949,825
2023-2027		<u>3,715,833</u>
Total	\$	<u><u>8,768,407</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, 2017 and 2016.

		<u>2017</u>		<u>2016</u>
Land	\$	8,283,512	\$	6,495,567
Buildings		124,616,518		127,804,745
Improvements & Parking Lots		6,007,081		3,866,383
Less accumulated depreciation		<u>(38,034,912)</u>		<u>(37,841,588)</u>
Net investment in property held for lease	\$	<u><u>100,872,199</u></u>	\$	<u><u>100,325,107</u></u>

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Years ended June 30, 2017 and 2016

**(7) Operating Leases (continued)**

**(b) Lessor Operating Leases (continued)**

Income from operating leases for the year is \$8,679,419. Minimum future rental income from operating leases as of June 30, 2017 is as follows:

Year ending June 30:	
2018	\$ 8,506,881
2019	5,887,248
2020	4,015,659
2021	3,796,104
2022	3,670,124
2023-2027	5,640,748
2028-2031	<u>2,698,116</u>
Total	<u>\$ 34,214,880</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 2017 and 2016, approximately \$21.1 million and \$15.1 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.

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Years ended June 30, 2017 and 2016

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

The Bonds and Note at June 30, 2017 and June 30, 2016 and related changes for the years then ended are comprised of the following:

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

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

	Issue date	Maturity date	Effective interest rates*	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amount due within one year
SEARS	03/01/98	10/01/2018	5.40%	3,406,011	—	(984,176)	2,421,835	1,039,867
VSS	03/01/98	10/01/2018	5.40%	3,091,617	—	(893,341)	2,198,276	943,891
Downtown Eng	04/05/00	07/01/2031	7.64%	15,780,000	—	(1,060,000)	14,720,000	1,020,000
Merchant's Walk	12/21/10	12/1/2020	2.70%	5,364,000	—	(894,000)	4,470,000	894,000
Printpack	08/15/03	9/1/2018	2.93% v	1,140,000	—	(1,140,000)	—	—
Fountain Way	12/07/04	07/01/2031	4.75%	1,340,000	—	(670,000)	670,000	670,000
Hotel Promissory	12/07/04	07/01/2031	4.75%	410,000	—	(205,000)	205,000	205,000
Rouse Project	12/29/05	1/15/2031	5.14%	360,000	—	(360,000)	—	—
Mariner's Row	12/29/05	1/15/2031	5.14%	840,000	—	(840,000)	—	—
Conference Center	06/30/06	07/01/2031	4.00%	6,895,000	—	(5,785,000)	1,110,000	1,110,000
CITI A '07	02/26/07	08/01/2022	1.41% v	2,129,900	—	(240,905)	1,888,995	314,151
CITI B '07	02/26/07	08/01/2022	1.96% v	443,173	—	(52,285)	390,888	55,392
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%	25,950,000	—	(340,000)	25,610,000	1,830,000
A-School Garage	07/23/15	9/1/2027	3.80%	12,700,000	—	(976,924)	11,723,076	976,924
Series 2015	07/23/15	9/1/2027	3.48%	—	4,575,000	—	4,575,000	—
				<u>105,239,701</u>	<u>4,575,000</u>	<u>(14,441,631)</u>	<u>95,373,070</u>	<u>9,059,225</u>
Premium on bonds payable				78,891	—	(71,396)	7,495	7,495
Discount on bonds payable				(2,458)	—	1,843	(615)	(615)
Premium on bonds payable - 2012				3,640,633	—	(330,393)	3,310,240	330,391
Premium on bonds payable - 2015				—	309,329	—	309,329	38,234
Add interest rate swap fair value				1,236,300	—	(1,145,989)	90,311	90,311
Total bonds payable, net				<u>110,193,067</u>	<u>4,884,329</u>	<u>(15,987,566)</u>	<u>99,089,830</u>	<u>9,525,041</u>
Notes payable:								
809 Omni Blvd	08/31/07	07/01/2017	1.30% v	1,500,000	—	—	1,500,000	1,500,000
				<u>1,500,000</u>	<u>—</u>	<u>—</u>	<u>1,500,000</u>	<u>1,500,000</u>
Total bonds and note payable				<u>\$ 111,693,067</u>	<u>\$ 4,884,329</u>	<u>\$ (15,987,566)</u>	<u>\$ 100,589,830</u>	<u>\$ 11,025,041</u>

\* v denotes variable rate bonds

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

	Principal	Interest
Year ending June 30:		
2018	\$ 10,980,115	\$ 2,972,106
2019	10,289,474	2,742,970
2020	7,417,963	2,659,832
2021	7,624,787	2,257,811
2022	6,714,284	2,050,464
2023-2027	31,039,216	7,197,553
2028-2032	21,763,590	1,920,939
Totals	\$ 95,829,429	\$ 21,801,675

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 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 FY 17, 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 FY 2016, the Authorities refunded a portion of its 2006 tax exempt Conference Center bonds with a Series 2015 GO bond in the amount of \$4,575,000. 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 \$596,782. 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 \$562,329.

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**(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, 2017 and June 30, 2016, there were eleven and ten Bonds outstanding with an aggregate principal amount payable of \$438,476,178 and \$367,556,937 million, respectively. Conduit debt at June 30, 2017 and 2016 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 2017 and 2016, the outstanding balance was \$10,155,757 and 10,156,140.

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, 2017 and 2016.

**(11) 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. During 2015, the 2007A and 2007B swaps were terminated without penalty and reverted to a variable rate of 30-day LIBOR plus .95% and 65% of LIBOR plus 1.66% respectively. In addition, the 2004 debt was paid off at June 30, 2015, leaving only the 2000A and 2000B swaps remaining. Both the 2000A and 2000B interest rate swaps matured on July 1, 2016. A fixed rate credit facility has been negotiated with Wells Fargo Bank for the 2000A Bond with closing scheduled for July 1, 2016. The 2000B bond swap reverted to a variable rate on July 1, 2016, the date of swap maturity. As of June 30, 2016, management determined that the remaining interest rate swaps were effective.

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Notes to Financial Statements

Years ended June 30, 2017 and 2016

**(11) 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 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:

	2000A	2000B
Original notional value	\$ 5,000,000	\$ 25,000,000
Notional value at 6/30/17	-	-
Effective Date	6/1/2001	6/1/2001
Termination (maturity) date	7/1/2016	7/1/2016
Bond maturity date	7/1/2031	7/1/2031
Fixed rate	7.64%	7.64%
Floating leg	Libor Weekly index	Libor Weekly index
Floating rate at 6/30/17	0.00%	0.00%
Floating rate at 6/30/16	0.50%	0.44%
Fair value at 6/30/17	\$ -	\$ -
Fair value at 6/30/16	\$ (15,450)	\$ (74,861)

*Terms:* Under the swaps, the Authorities paid the counterparty the above fixed rate and receive a variable rate payment based on LIBOR indexes. The Series 2000A and Series 2000B variable rate was 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. In both 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, 2017 and 2016

**(11) 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 \$90,311 as of June 30, 2016. Both swaps matured on July 1, 2016 therefore there was no value as of June 30, 2017. If the Series 2000A or 2000B interest rate swaps had been terminated prior to maturity, the Authorities would have been 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 was based on expected forward LIBOR swap rates and discounted expected cash flows and was derived from independent market valuations.

*Credit risk:* As of June 30, 2016, the Authorities were not exposed to credit risk because the swaps had a negative value. As July 1, 2016, the swaps matured.

*Basis risk:* Basis risk arises when the variable rate on the interest rate swap and rate on the bonds are based on different indexes. The coupon rate of the bonds and the interest rate on the swap are based on the same index; therefore, the Authorities were not exposed to any basis risk.

*Interest rate risk:* The Authorities implemented a strategy on the swaps designed to provide a synthetic fixed rate and, as a result of the strategy, the Authorities did not assume 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 have been liable to the counterparty for a payment equal to the swap's fair value.

*Rollover risk:* These swaps have terminated; therefore, as of July 1, 2016, the Authorities no longer realize any rollover risk.

**(12) 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 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 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.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES  
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Years ended June 30, 2017 and 2016

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 a 1500-space parking garage and related infrastructure improvements, consistent with the City Center master plan.

**(13) Subsequent Events**

**(a) Acquisition of properties**

On August 14, 2017, the Authorities purchased the property at 2914 West Avenue in the amount of \$101,686 for downtown redevelopment initiatives.

On July 14, 2017, the EDA closed on the property located at 1300 Marshall Avenue known as the Chase Bag Property located in southeast Newport News. The EDA was the successful bidder at the June 14, 2017 auction with a successful bid of \$1,000,000 plus the required 10% buyer's premium of \$100,000 for a total of \$1,100,000.

**(b) Conduit Debt**

In August 2017, the EDA issued on behalf of Riverside Healthcare Association, Inc. revenue refunding bonds in the amount not to exceed \$68,580,000 for the refinancing of the previously issued 2011 revenue bonds issued to finance several projects in Newport News, James City County, Gloucester County and Essex County.

**(c) Refinance of 809 Omni Boulevard**

On August 13, 2017, the EDA of the City of Newport News refinanced the remaining balance of \$1,500,000 of its note on 809 Omni Boulevard with Bank of America with a five year fixed rate of 3.49% amortized over 10 years.

**(d) Ferguson Expansion**

On October 6, 2017, the EDA in association with a planned Ferguson Enterprises, Inc. expansion project, which includes approximately \$82.8 million in investment and 350 new jobs, has authorized an Amendment to the Second Amended and Restated Development Agreement between the EDA and Newport News Town Center. This amendment allows the EDA to pay the Developer, \$981,933, in exchange for the exclusive right to develop 11829 Canon Boulevard and, in addition, release to the EDA the rights to develop 760 Town Center Drive at no cost. Furthermore, to support the planned expansion, the EDA authorized an Expansion/Relocation Cost Reduction Enterprise Zone Incentive Agreement with Ferguson Enterprises.

**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, 2017 and 2016

Bond	Date Issued	Outstanding Balance June 30, 2017	Outstanding Balance June 30, 2016
Industrial Revenue Bonds - Christopher Newport University Warwick, LLC	7/1/2004	\$20,405,000	\$21,350,000
Industrial Revenue Bonds - Riverside Health Systems Series 2011A	12/20/2011	17,995,000	19,485,000
Industrial Revenue Bonds - Riverside Health Systems Series 2011B	12/20/2011	14,302,918	19,615,000
Industrial Revenue Bonds - Riverside Health Systems Series 2011C	12/20/2011	54,299,553	56,840,000
Industrial Revenue Bonds - Riverside Health Systems Series 2012	12/20/2011	70,200,000	71,400,000
Industrial Revenue Bonds - Christopher Newport University Rappahannock Hall - Series 2013	12/20/2013	34,628,278	36,391,585
New Opportunity, LLC - Series 2013	11/12/2013	9,868,429	10,589,352
Industrial Revenue Bonds - Christopher Newport University Foundation - Series 2015	6/24/2015	6,597,000	6,886,000
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	24,800,000	25,000,000
Industrial Revenue Bonds - LifeSpire of Virginia - Residential Care Facility - Series 2016	10/12/2016	85,380,000	-
		<u>\$ 438,476,178</u>	<u>\$ 367,556,937</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, 2017 and 2016, 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, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audits 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 audits, 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* and one instance of noncompliance that is required to be reported under the *Specifications for Audits of Authorities, Boards, and Commissions* as follows:

**Criteria:** Section 2.2-3115(A) of the Code of Virginia requires persons holding positions of trust appointed or employed by the governing body, if the governing body has passed an ordinance requiring them to file, must file a State and Local Statement of Economic Interest ("SOEI") with the office of the Virginia Conflict of Interest and Ethics Advisory Council (the "Council") annually by January 15th.

Further, Section 2.2-3115(A) and (B) of the Code of Virginia specifies that certain members, listed below, of local entities must file a Financial Disclosure Statement with the Council annually by January 15<sup>th</sup>, which for the 2016 calendar year filing, was January 17, 2017 because of a weekend and the holiday:

- Members of the governing body of any authority established in a county or city with the power to issue bonds or expend funds in excess of \$10,000 in any fiscal year, unless required to file the SOEI by the governing body of the appointing jurisdiction.
- Non-salaried citizen members of local boards, commissions, and councils if the governing body has designated them to file.

**Condition:** We noted three instances where Authority Board members filed a Financial Disclosure Statement after the Council's deadline.

**Cause:** Completed Financial Disclosure Statements were not filed by January 17, 2017.

**Effect:** Non-compliance may result in action by the Commonwealth.

**Recommendation:** Board members of the Authority should complete the Financial Disclosure Statements in accordance with prescribed requirements.

**Management's Response:**

All three Board members have complied with the annual Financial Disclosure Statement. In the future staff will ensure that the Authorities' Board members submit the Financial Disclosure Statements upon assuming office and annually thereafter. The City is committed to ensuring this requirement is met in accordance with the *Code of Virginia*.

**The Authorities' response to finding**

The Authorities' response to the finding identified in our audit is included herein. The Authorities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the 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.



Richmond, Virginia  
November 21, 2017