

# 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, 2020 and 2019

(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, 2020 and 2019  
(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**

Alonzo R. Bell, Jr.	Chairman
Jennifer S. Smith-Brown	Vice Chairman
Cassandra P. Greene	Director
Jeffrey C. Verhoef	Director
Mary C. Aldrich	Director
Johnathan P. Skinner	Director
Howard H. Hoege, III	Director

**Officials**

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

**Other support staff**

Joy Robison	Acting Recording Secretary
Sam Workman	Assistant Director
Carol Meredith	Assistant Director
Zoe Lumpkin, CPA	Chief of Fiscal Operations
Derek Perry	Economic Development Manager
Matt Johnson	Economic Development Manager
Marc Rodgers	Senior Project Coordinator
Kalila Walker	Senior Project Coordinator
Macon Whitson	Senior Project Coordinator
Priscilla Green	Senior Project Coordinator
Tricia F. Wilson	Business Development Specialist
Robin Boyd	Marketing Coordinator
Andy Wilks	Property Manager
Shakir Johnson	Business Retention Coordinator
Stephanie Hancock	Accounting Specialist
Saejin Connor	Accountant II
Mallory Butler	Senior Economic Analyst
Jared Midkiff	Marketing and Development Coordinator
Elizabeth McCoury	Redevelopment Project Manager
Keith Ferguson	Budget Department



## Report of Independent Auditor

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Economic and Industrial Development Authorities of the City of Newport News, Virginia (the "Authorities"), component units of the City of Newport News, Virginia, as of and for the years ended June 30, 2020 and 2019, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Economic and Industrial Development Authorities of the City of Newport News, Virginia, as of June 30, 2020 and 2019, 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.

### ***Emphasis of Matter***

As discussed in Note 11 to the financial statements, during 2020, an outbreak of a novel coronavirus emerged globally. As a result of the global pandemic, economic uncertainties have arisen that could negatively impact the Authorities' operations for an indeterminable time period. Other financial impacts could occur that are unknown at this time. 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 Listing of Members, Officials, and Other Support Staff and the Schedule of Conduit Debt Obligations, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2020, on our consideration of the Authorities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authorities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authorities' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Eckert LLP". The signature is written in a cursive, flowing style.

Richmond, Virginia  
November 30, 2020

**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 (Unaudited)  
Years ending June 30, 2020 and 2019**

This section of the Economic and Industrial Development Authorities of the City of Newport News, Virginia (collectively, the "Authorities") annual financial report presents management's discussion and analysis of the financial performance during the fiscal years ended June 30, 2020, 2019 and 2018. A comparative analysis is presented. Please read it in conjunction with the Authorities' financial statements, which follow this section.

**Financial Highlights**

At the end of the fiscal year, the Authorities' assets and deferred outflows of resources exceeded liabilities and deferred inflow of resources by \$145.61 million. This amount represents an increase of \$5.19 million over prior year's ending balance of \$140.42 million, which was an increase of \$8.20 million over fiscal year 2018 ending balance. Total operating revenues decreased by approximately \$4.54 million in fiscal year 2020 due to a decrease in intergovernmental transfers. Total operating revenues increased in fiscal year 2019 compared to 2018 by \$2.99 million. This increase occurred primarily because of an increase in intergovernmental transfers in 2019.

Total operating expenses in 2020 decreased by approximately \$6 million due to the establishment of an allowance for doubtful accounts in 2019 and a reduction in contractual services in 2020. Total operating expenses increased in 2019 from 2018 by approximately \$3.64 million again due to the establishment of the allowance account. Total operating expenses decreased in 2018 from the previous year by approximately \$7.54 million mostly due to a decrease in cost of land sold. Net non-operating expenses decreased in 2020 by a net of \$5.82 million, primarily due to the delivery of the Foundry grant to Huntington Ingalls Industries in the amount of \$6 million in fiscal year 2019. Similarly, this payment of the Foundry Grant in 2019 caused the increase in net non-operating expenses in 2019 over 2018 by approximately \$6 million.

In December 2018, the Authorities funded a grant in the amount of \$6 million to Huntington Ingalls Industries ("HII") to support HII's modernization of its Foundry facility. The Foundry improvements, once complete, are expected to cost over \$43 million and will enable HII to receive a share of the work for the Columbia Class Submarine Program and maintain 120 full-time jobs within the Foundry. The grant also serves as a match for the Commonwealth of Virginia's initial HII grant of \$6 million awarded in October 2018. The Authorities financed the grant through a borrowing from Citizens & Farmers Bank at the rate of 3.40% amortized over a five-year period. The borrowing is supported by a payment agreement with the City of Newport News, Virginia (the "City").

The Economic Development Authority (the "EDA") provided support for the Choice Neighborhood Initiative ("CNI") Planning grant from the US Department of Housing and Urban Development and partnered with the City and the Newport News Redevelopment and Housing Authority in the application for a CNI Implementation Grant in 2017 and the reapplication in 2018 which was successful in an award of \$30 million for a Transformation Plan. The City is using the new CNI Implementation Grant to transform the neighborhood surrounding the Marshall-Ridley Place public housing complex into a neighborhood of opportunity. This grant is leveraged by \$128 million in private investment and \$146.80 million in public investment.

In November 2017, the EDA was awarded a \$0.50 million Virginia Brownfields Restoration and Economic Assistance competitive grant by the Virginia Economic Development Partnership to accelerate the continued cleanup of the former Chase Packaging site (a 26-acre parcel) purchased by the EDA. This new funding has helped speed up redevelopment in the Marshall-Ridley Choice Neighborhood, the focus of the CNI Implementation grant application. Two above ground and five underground storage tanks, along with their contents, have been assessed, removed and recycled. Work on this site continued in fiscal year 2020 on removal of the remaining concrete slab of the previously demolished building on the property.

In fiscal year 2019, the debt due to the City for the construction of the Applied Research Center ("ARC") in the amount of \$10.16 million was written off by both the City and the Authorities. The annual repayment of the debt, of principal and interest, was to equal net revenues of the ARC after operating expenses, building reserves, and short-term debt repayment. In fiscal year 2020, the Authorities passed a resolution to authorize conveyance of the ARC building to the United States Department of Energy (DOE) subject to negotiations between the two entities. The transaction terms continue to be negotiated.

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



**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES  
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In June 2018, Ferguson Enterprises held a groundbreaking ceremony and construction began in fiscal year 2019 for an eight-story, 260,000 square-foot campus that will house 1,600 employees working in Marketing and Communications, Human Resources, Information Technology, Security and other corporate functions. The company will invest nearly \$83 million and create 350 new jobs. The Authorities facilitated by providing support through land and in fiscal year 2020 construction continued on the approximately 1500-space parking garage and related infrastructure improvements, consistent with the City Center master plan.

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

Construction was completed in 2019 of the 105,000 square-foot office building in the Brooks Crossing mixed-use development project. Southeast Commerce Center Associates owns the building and Newport News Shipbuilding, a division of Huntington Ingalls, leases a majority of the building which houses approximately 600 employees in information technology, engineering and design and integrated planing and production control departments. In August 2019, a ribbon cutting was held for the Brooks Crossing Innovation and Opportunity Center which is housed in the first floor of the building leased by the Authorities. The first floor facility is a collaborative space for innovation and new ventures, including STEM education and entrepreneurial initiatives. It enables workforce development and STEM education services to be readily available to citizens, students, and businesses.

In fiscal year 2020, the EDA authorized the award of a bid in the amount of \$1.78 million for building rehabilitation and parking lot and hardscape improvements at 2506 Jefferson Avenue to create a co-working space which will include business management workshops, technical assistance and coaching. The project is funded through the appropriated City Capital Improvement Plan and the Industrial Revitalization Fund Grant of \$0.48 million. Renovation continued throughout the fiscal year and in June 2020, the board of the Authorities authorized a contract with Point Management Group, LLC. for operations and management of the co-working space in the amount of approximately \$0.12 million for a one-year term.

Leibherr Mining Equipment Company, a manufacturer of mining equipment, located in southern Copeland Industrial Park continues to invest in its Newport News facility. In March 2018, Liebherr announced plans to invest \$45 million in an expansion which includes three new buildings adjacent to the company's current manufacturing facility. The project was near completion in June 2020 and totals over 251,000 square feet of manufacturing, distribution, warehouse, and office space occupied by Liebherr USA, Co., the umbrella for eight divisions positioned across the United States. Much needed improvements to City Line road were completed with joint funding from the company, available grants, and the City, which improved the transportation of finished goods from its facility to accommodate not only its expansion but increase in production. Infrastructure improvements to a public pump station and public sanitary sewer improvements, which benefit the broader Copeland Industrial Park business community, support this expansion.

The Authorities continued throughout fiscal year 2020 the planning of the development of a premier, predominately residential community at its 285-acre Enview tract located at 350 Yorktown Road. In November 2019, WeldenField Development, LLC was selected as the preferred developer and a letter of intent was authorized by the Authorities' Board.

In June 2020, the Authorities, in conjunction with the City, established a grant program to support eligible small businesses impacted by a novel strain of coronavirus ("COVID-19") pandemic. The COVID-19 Resiliency grant, up to \$5,000 per applicant, was designed to provide financial assistance to eligible for-profit, small businesses in Newport News. Initial funding of \$0.5 million was provided by the City but was processed and administered by EIDA staff. This widely popular program was expected to be exhausted in early fiscal year 2021. Additional grant programs and funding were established in July 2020.

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 \$0.30 million in FY 2012. Because of its huge success, the next year, the City contributed half of the funding to support the program and did so through fiscal year 2018. The EDA has continued funding the program which has benefited over 126 properties City-wide with grants distributed of approximately \$3.11 million.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES  
OF THE CITY OF NEWPORT NEWS, VIRGINIA**  
(Component Units of the City of Newport News, Virginia)  
Management's Discussion and Analysis (Unaudited)  
Years ending June 30, 2020 and 2019

**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.

**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, 2020, 2019 and 2018  
(in Millions)

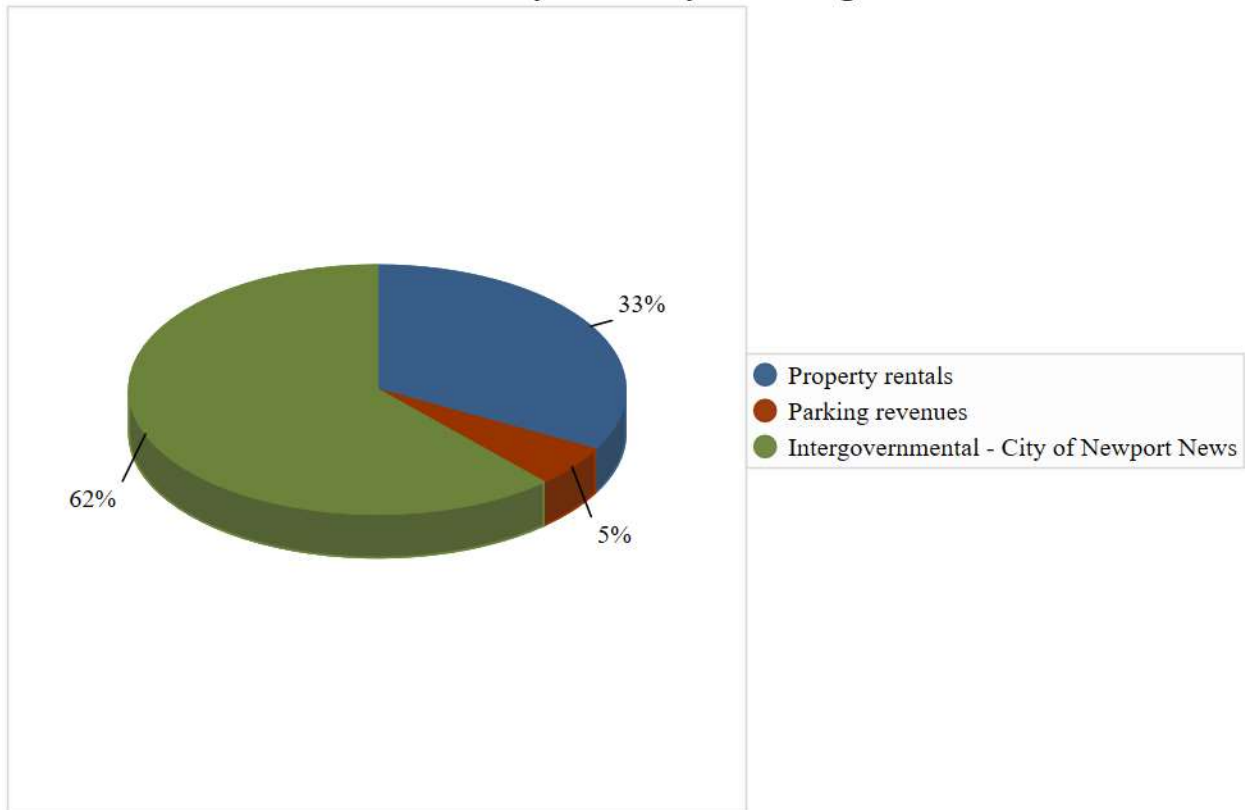
	2020	2019	2018
Current and other assets	\$ 65.77	65.17	64.39
Capital assets, net	153.66	158.58	163.49
Total assets	219.43	223.75	227.88
Deferred refunding	3.66	4.27	4.92
Total deferred outflows of resources	3.66	4.27	4.92
Current and other liabilities	\$ 11.06	11.48	12.12
Long-term liabilities	66.38	76.12	88.46
Total liabilities	77.44	87.60	100.58
Deferred inflows of resources	\$ 0.04	-	-
Net Position			
Net investment in capital assets	\$ 81.18	77.15	82.35
Restricted	15.57	14.36	12.91
Unrestricted	48.86	48.91	36.96
Total net position	\$ 145.61	140.42	132.22

Total assets and deferred outflows of resources of the Authorities exceeded recorded liabilities and deferred inflows of resources by \$145.61 million as of June 30, 2020, \$140.42 million as of June 30, 2019 and \$132.22 million as of June 30, 2018. Approximately \$15.57 million in fiscal year 2020, \$14.36 million in fiscal year 2019, and \$12.91 million in fiscal year 2018 of net position is restricted for various specific economic development projects and programs.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES  
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Years ending June 30, 2020 and 2019**

The Authorities' total operating revenues were \$20.18 million for the fiscal year ending June 30, 2020. Property rentals comprised of both operating and capital lease revenues represented 33% of total operating revenues. Intergovernmental revenue from the City approximated \$12.45 million or 62% in fiscal year 2020. Parking contributions and parking fund revenues in FY 2020 were approximately \$1 million or 5% of total operating revenues.

**Revenues by Source by Percentages**



**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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Years ending June 30, 2020 and 2019

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

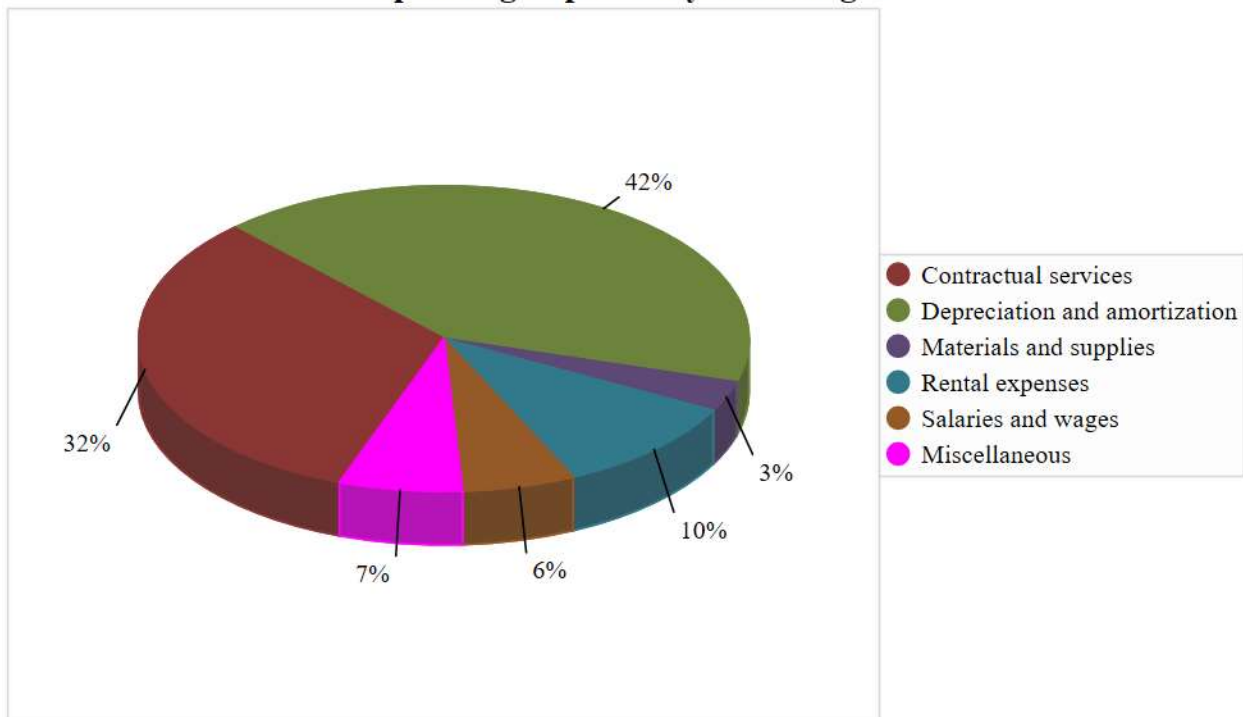
**Table A-2**  
**Changes in Authorities' Position**  
For the years ended June 30, 2020, 2019 and 2018  
(in Millions)

	2020	2019	2018
<b>Revenues and expenses:</b>			
Operating revenues:			
Property rentals	\$ 6.66	7.07	8.69
Parking contributions	0.18	0.20	0.18
Land sales	-	-	0.03
Parking Fund revenues	0.90	0.85	0.72
Intergovernmental - City of Newport News	12.45	16.60	12.11
Total operating revenues	20.18	24.72	21.73
Operating expenses:			
Cost of land/building sold	-	-	0.86
Contractual services	4.27	6.21	5.93
Depreciation	5.49	5.48	5.43
Materials and supplies	0.42	0.45	0.66
Rental expenses	1.35	1.16	1.17
Salaries and wages	0.79	0.79	0.76
Miscellaneous	0.85	4.94	0.58
Total operating expenses	13.16	19.03	15.39
Operating income	7.02	5.69	6.34
Non-operating revenues (expenses)	(1.83)	(7.65)	(1.54)
Change in net position, before extraordinary items	5.19	(1.96)	4.80
Extraordinary item: Contribution - Primary Government	-	10.16	-
Net position, beginning	140.42	132.22	127.42
Net position, ending	\$ 145.61	140.42	132.22

**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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The net position (assets and deferred outflows of resources over liabilities and deferred inflows of resources), increased in fiscal year 2020 by approximately \$5.19 million compared to a decrease in fiscal year 2019 of \$(1.96) million before extraordinary items and an increase in fiscal year 2018 of \$4.80 million. Total operating revenues decreased by approximately \$4.54 million, primarily due to a decrease of intergovernmental transfers. In fiscal year 2019, intergovernmental transfers reflected transfers for the purchase of the former Kroger property and for the transfer of 12005 Canon Boulevard. The decrease in operating expenses in fiscal year 2020 as compared to fiscal year 2019 was approximately \$5.87 million primarily due to the establishment of an allowance for doubtful accounts in 2019 and a reduction of contractual services in 2020. Net non-operating expenses decreased in 2020 by approximately \$5.82 million. This decrease was the result of the funding of the Foundry grant in fiscal year 2019 to Huntington Ingalls Industries in the amount of \$6 million. The extraordinary item in fiscal year 2019 of \$10.16 million represents the extinguishment of the Applied Research Center debt due to the City. The increase in operating expenses in fiscal year 2019 as compared to fiscal year 2018 was approximately \$3.64 million due to the establishment of the allowance in 2019 and the increase in net non-operating expenses in fiscal year 2019 as compared to 2018 was due to the disbursement of the Foundry grant in 2019.

**Operating Expenses by Percentages**



**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, 2020, 2019 and 2018  
(In millions)

	2020	2019	2018
Buildings	\$ 201.67	201.67	201.59
Improvements, machinery and equipment (IME)	19.79	19.79	19.68
Infrastructure	2.54	2.54	2.54
Construction in progress (CIP)	9.18	8.62	8.21
Accumulated depreciation	(79.52)	(74.03)	(68.54)
Total	<u>\$ 153.66</u>	<u>158.59</u>	<u>163.48</u>

At the end of 2020, the Authorities had \$153.66 million in capital assets as compared to \$158.59 in 2019 and \$163.48 in 2018. During the year, Buildings, IME, and Infrastructure remained unchanged. In fiscal year 2020, CIP increased by \$564,051 due to renovation of the co-working space, continued work at the former Chase packaging site and the Ferguson Expansion. In fiscal year 2019, CIP increased by \$404,342 due to the Liebher, Chase, and Ferguson expansion projects. In fiscal year 2018, CIP had a net increase of \$287,192, which was caused by an increase in projects such as Patrick Henry Parkway, Liehber and the Ferguson expansion of approximately \$2.7 million netted against the transfer of Patrick Henry Parkway to the City at year-end of \$2.1 million and capitalization of the improvements of \$363,354. 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, 2020, 2019 and 2018  
(in millions)

	2020	2019	2018
Industrial revenue bonds - IDA	\$ 12.45	15.31	11.40
Industrial revenue bonds - EDA	54.04	59.73	65.98
Bond premiums	2.19	2.53	2.89
Notes payable	7.45	8.13	8.82
Total	<u>\$ 76.13</u>	<u>85.70</u>	<u>89.09</u>

As of June 30, 2020, the Authorities had \$76.13 million of debt outstanding in bonds and notes payable as compared to debt outstanding in June 2019 and June 2018, of \$85.70 million and \$89.09 million, respectively. In fiscal year 2019, the Authorities paid off the 20-year debt associated with the Virginia Specialty Stores and Sears buildings issued in 1998. Additionally, in 2019, the Industrial Development Authority financed the Huntington Ingalls Foundry grant with a borrowing from Citizens & Farmers bank at a rate of 3.40% for \$6 million amortized over five years. In 2018, the Authorities refinanced the remaining balance on the note payable, related to 809 Omni Boulevard, with a five year fixed rate at 3.49% amortized over ten years. Additional information on the Authorities' long-term debt can be found in Note 8 to the basic financial statements.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES  
OF THE CITY OF NEWPORT NEWS, VIRGINIA  
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Management's Discussion and Analysis (Unaudited)  
Years ending June 30, 2020 and 2019**

**Contacting the Authorities' Financial Management**

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

**Statement of Net Position**

**June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Current assets:		
Cash (note 2)	\$ 6,319,085	\$ 7,405,827
Restricted cash and cash equivalents (note 3)	12,957,652	11,993,707
Receivables:		
Newport News Capital Fund - revolving loans	79,941	76,477
Accounts, notes & grants, net of allowance	579,830	353,445
Other	169,913	187,578
Total current assets	<u>20,106,421</u>	<u>20,017,034</u>
Noncurrent assets:		
Restricted cash and cash equivalents (note 3)	2,567,724	2,457,376
Deposits with Management Company	90,000	90,000
Receivables:		
Newport News Capital Fund - revolving loans	1,017,887	1,187,313
Accounts, notes & grants, net of allowance	6,727,415	6,725,682
Land held for lease or resale (note 4)	35,258,659	34,694,532
Capital assets:		
Non depreciable capital assets: (note 6)		
Construction in progress	9,179,715	8,615,664
Depreciable capital assets: (note 6)		
Buildings	201,667,374	201,667,374
Improvements	19,700,793	19,700,793
Machinery and equipment	84,674	84,674
Infrastructure	2,543,500	2,543,500
Accumulated depreciation	<u>(79,519,311)</u>	<u>(74,027,866)</u>
Depreciable capital assets	<u>144,477,030</u>	<u>149,968,475</u>
Total noncurrent assets	<u>199,318,430</u>	<u>203,739,042</u>
Total assets	<u>219,424,851</u>	<u>223,756,076</u>
<b>Deferred Outflows of Resources</b>		
Deferred amount on debt refunding	<u>3,659,425</u>	<u>4,271,542</u>
<b>Liabilities</b>		
Current Liabilities:		
Trade accounts payable and accrued liabilities	1,240,850	1,798,649
Construction accounts payable	9,035	54,666
Notes payable - current portion (note 8)	683,333	683,334
Industrial revenue bonds payable-current (note 8)	9,074,149	8,895,824
Liabilities payable from restricted assets	50,030	50,537
Total current liabilities	<u>11,057,397</u>	<u>11,483,010</u>
Notes payable (note 8)	6,766,653	7,449,985
Industrial revenue bonds payable (note 8)	<u>59,610,652</u>	<u>68,673,761</u>
Total liabilities	<u>77,434,702</u>	<u>87,606,756</u>
<b>Deferred Inflows of Resources</b>		
Deferred revenues	43,742	1,000
<b>Net Position</b>		
Net investment in capital assets	81,181,384	77,150,525
Restricted:		
Capital projects	13,969,414	12,706,754
Capital loans	1,595,931	1,654,991
Unrestricted	<u>48,859,103</u>	<u>48,907,592</u>
Total net position	<u>\$ 145,605,832</u>	<u>\$ 140,419,862</u>

See accompanying notes to financial statements.



**Economic and Industrial Development Authorities of the City of Newport News, Virginia**  
**(Component Units of the City of Newport News, Virginia)**

**Statements of Revenues, Expenses and Changes in Net Position**

**Years ended June 30, 2020 and 2019**

	2020	2019
<b>Operating revenues:</b>		
Property rentals (note 7)	\$ 6,659,742	\$ 7,067,031
Parking contributions	175,266	199,601
Parking Fund revenues	900,641	849,556
Intergovernmental - City of Newport News	<u>12,446,406</u>	<u>16,597,783</u>
Total operating revenues	<u>20,182,055</u>	<u>24,713,971</u>
<b>Operating expenses:</b>		
Contractual services	4,273,621	6,209,473
Depreciation (note 6)	5,491,444	5,484,341
Materials and supplies	422,562	450,322
Rental expenses (note 7)	1,347,949	1,155,804
Salaries and wages	790,889	789,740
Miscellaneous	<u>837,614</u>	<u>4,933,681</u>
Total operating expenses	<u>13,164,079</u>	<u>19,023,361</u>
Operating income	<u>7,017,976</u>	<u>5,690,610</u>
<b>Non-operating revenues (expenses):</b>		
Interest Income	559,481	701,934
Interest expense (note 8)	(2,930,684)	(3,138,049)
Bond and administrative fee income	277,839	229,342
Governor's opportunity grants	-	2,000,000
Governor's opportunity grants	-	(2,000,000)
Foundry grants	-	(6,000,000)
Letter of credit and trustee fees	(51,650)	(51,650)
Other income (expenses), net	<u>313,008</u>	<u>613,414</u>
Expenses, net	<u>(1,832,006)</u>	<u>(7,645,009)</u>
Change in net position, before extraordinary item	5,185,970	(1,954,399)
Extraordinary item: Contribution - Primary Government	<u>-</u>	<u>10,155,757</u>
Change in net position	<u>5,185,970</u>	<u>8,201,358</u>
Net position at beginning of year	<u>140,419,862</u>	<u>132,218,504</u>
Net position at end of year	<u><u>\$ 145,605,832</u></u>	<u><u>\$ 140,419,862</u></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)

**Statement of Cash Flows**

**Years ended June 30, 2020 and 2019**

	2020	2019
<b>Cash flows from operating activities:</b>		
Receipts from leased properties	\$ 6,941,457	\$ 7,297,384
Receipts from Parking Authority	900,641	849,556
Parking contributions received from developers	175,266	199,601
Receipts from City of Newport News	12,446,406	16,597,783
Receipts from loans and mortgages	165,961	111,065
Payments to suppliers	(8,032,144)	(12,793,122)
Payments to employees	(790,889)	(789,740)
Net cash provided by operating activities	<u>11,806,698</u>	<u>11,472,527</u>
<b>Cash flows used in capital and related financing activities:</b>		
Acquisition of capital assets	(564,050)	(583,030)
Repayment and retirement of industrial revenue bonds and note payable	(9,568,117)	(3,385,545)
Proceeds from debt refunding	612,117	643,637
Payment of foundry grant	-	(6,000,000)
Interest paid	(2,930,684)	(3,138,049)
Other revenue and expenses	539,196	791,106
Net cash used in capital and related financing activities	<u>(11,911,538)</u>	<u>(11,671,881)</u>
<b>Cash flows from investing activities:</b>		
Interest received	559,481	701,934
Loans issued	(467,090)	(126,137)
Net cash provided by investing activities	<u>92,391</u>	<u>575,797</u>
Increase (decrease) in cash and restricted cash and cash equivalents	(12,449)	376,443
Cash and cash equivalents at beginning of year	21,856,910	21,480,467
Cash and cash equivalents at end of period	<u>\$ 21,844,461</u>	<u>\$ 21,856,910</u>
<b>Reported as:</b>		
Cash	\$ 6,319,085	\$ 7,405,827
Restricted cash and cash equivalents (current)	12,957,652	11,993,707
Restricted cash and cash equivalents at end of year (non-current)	2,567,724	2,457,376
Cash and restricted cash and cash equivalents at end of year	<u>\$ 21,844,461</u>	<u>\$ 21,856,910</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 7,017,976	\$ 5,690,610
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	5,491,444	5,484,341
Changes in assets and liabilities:		
Land inventory	(564,126)	(4,865,439)
Mortgages receivable	165,961	111,065
Other receivables, net	256,638	4,472,045
Trade accounts payable and accrued liabilities	(603,937)	578,905
Deferred Revenue	42,742	1,000
	<u>4,788,722</u>	<u>5,781,917</u>
Net cash provided by operating activities	<u>\$ 11,806,698</u>	<u>\$ 11,472,527</u>
<b>Supplemental disclosure:</b>		
<b>Noncash investing and financing activities:</b>		
Write off associated with the ARC.	<u>\$ -</u>	<u>\$ 10,155,757</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 the Financial Statements  
Years ended June 30, 2020 and 2019**

**(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.

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 acquisition 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 greater than one year. 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.

**Economic and Industrial Development Authorities  
of the City of Newport News, Virginia  
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**(1) Summary of Significant Accounting Policies (continued)**

***(c) Capital Assets (continued)***

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, but not in excess of net realizable value. Capitalized costs of projects are assigned to individual components of the projects based on specific identification. As land is sold, all costs associated with that land are charged to cost of land sold.

***(e) Deferred Outflows and Inflows of Resources***

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

***(f) Miscellaneous***

**Cash Equivalents**

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

**Loans and Mortgages Receivable**

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

**Allowance for Doubtful Accounts**

The allowance for doubtful accounts reflects management's best estimate of probable losses in the accounts receivable balance. The allowance is determined based on known troubled accounts, historic experience, and other currently available evidence. As of June 30, 2020 and 2019, there was \$4,320,000 for allowance for doubtful accounts.

**Restricted Resources**

The Authorities do not have a policy for the use of its unrestricted resources, but in practice restricted resources are reduced first, followed by unrestricted resources when expenditures are incurred for purposes for which amounts in which unrestricted could be used.

**Economic and Industrial Development Authorities  
of the City of Newport News, Virginia  
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Notes to the Financial Statements  
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**(1) Summary of Significant Accounting Policies (continued)**

**(f) Miscellaneous (continued)**

**Restricted Resources (continued)**

**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.

**(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 "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 un-observable inputs. The Virginia LGIP is reported at amortized cost, which approximates fair value.

**(c) Credit Risk**

**Custodial Credit Risk:** The Authorities deposits at June 30, 2020 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).

**Credit Risk of Debt Securities of Primary Government:** The Authorities rated debt investments as of June 30, 2020, were rated by Standard & Poors. The rating for the LGIP is presented below using the Standard & Poors rating scale.

**Economic and Industrial Development Authorities  
of the City of Newport News, Virginia  
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Years ended June 30, 2020 and 2019**

**(2) Cash (continued)**

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

<u>Assets held by the Treasurer</u>	<u>Fair value</u>	<u>Credit rating</u>	<u>Average maturity (years)</u>
LGIP - year ending 2020	\$ 11,635,676	AAAm	0.16
LGIP - year ending 2019	\$ 15,862,008	AAAm	0.16

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

Restricted cash and cash equivalents dedicated for specific projects and activities at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Applied research center fund	\$ 876,818	\$ 606,311
Air service enhancement fund	1,241,865	1,228,474
City Center at Oyster Point	4,117,470	3,975,952
Bond escrow funds	186,369	131,369
Newport News capital fund	475,546	377,234
Micro loan fund	22,558	13,967
Rouse tower fund	4,355,818	4,102,999
City Center garage escrow accts and imprest fund	25	90,025
Parking authority fund	1,295,583	1,145,583
Brooks Crossing	26,730	26,302
Tourism zones	2,381,355	2,326,007
LTD Oyster Point	-	117,657
FIG grant	416,067	296,704
Animal shelter reserve	129,172	102,499
Total	<u>\$ 15,525,376</u>	<u>\$ 14,541,083</u>
<b>Classified as:</b>		
Current	\$ 12,957,652	\$ 12,083,707
Noncurrent	2,567,724	2,457,376
	<u>\$ 15,525,376</u>	<u>\$ 14,541,083</u>

Certain prior year amounts have been reclassified for consistency with the current year presentation. Accordingly, \$90,000 has been reclassified from restricted cash and cash equivalents to deposits with management company, on the Statement of Net Position as of June 30, 2019. This reclassification has no effect on the reported total net position or the Statement of Revenues, Expenses, and Changes in Net Position as of and for the period ended June 30, 2019.

**Economic and Industrial Development Authorities  
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**(4) Land Held for Lease or Resale**

Land held for lease or resale at June 30, 2020 and 2019 is comprised of the following tracts:

	2020	2019
Oakland Industrial Park	\$ 4,043,163	\$ 4,043,163
Jefferson Avenue/Habersham	2,246,598	2,246,598
Jefferson Center - Research and Technology	4,486,797	4,486,797
Oyster Point of Newport News	3,641,103	3,641,103
Patrick Henry Commerce Center	1,431,942	1,431,942
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
Southest Corridor	1,666,090	1,395,399
Oriana Road	1,066,900	1,066,900
Rouse Tower Land	1,164,800	1,164,800
Apprentice School Garage Land	641,700	641,700
South Police Precinct Land	357,200	357,200
Upper Warwick Corridor	1,350,809	1,350,809
Sherwood	2,529,606	2,529,606
Chase	1,105,938	1,105,938
Kroger	3,226,075	2,932,639
351 25th Street	347,500	347,500
Miscellaneous parking lots	874,323	874,323
Miscellaneous parcels	1,924,032	1,924,032
Total	<u>\$ 35,258,659</u>	<u>\$ 34,694,532</u>

**(5) Other Notes Receivable**

The major component of receivables, as of June 30, 2020 and 2019, 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, 2020 and 2019 was \$3,037,590, plus accrued interest of \$1,386,472 and \$1,280,157 for June 30, 2020 and 2019, 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 2020, Newport News-Oyster Point Hotel, LLC was not required to make a payment of principal or accrued interest due to the inability to satisfy the preferred return to its members on the total project.

**Economic and Industrial Development Authorities  
of the City of Newport News, Virginia  
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Notes to the Financial Statements  
Years ended June 30, 2020 and 2019**

**(6) Capital Assets**

Capital assets at June 30, 2020 and 2019 and related changes for the years then ended are as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
<b>Capital assets, not being depreciated:</b>				
Construction in progress	\$ 8,615,664	\$ 564,051	\$ -	\$ 9,179,715
<b>Capital assets, being depreciated:</b>				
Buildings	201,667,374	-	-	201,667,374
Improvements	19,700,793	-	-	19,700,793
Infrastructure	2,543,500	-	-	2,543,500
Machinery and equipment	84,674	-	-	84,674
Total capital assets, being depreciated	223,996,341	-	-	223,996,341
<b>Less accumulated depreciation for:</b>				
Buildings	(63,426,275)	(4,774,525)	-	(68,200,800)
Improvements	(9,212,472)	(619,153)	-	(9,831,625)
Infrastructure	(1,304,445)	(97,767)	-	(1,402,212)
Machinery and equipment	(84,674)	-	-	(84,674)
Total accumulated depreciation	(74,027,866)	(5,491,445)	-	(79,519,311)
Total capital assets being depreciated, net	149,968,475	(5,491,445)	-	144,477,030
Capital assets, net	<u>\$ 158,584,139</u>	<u>\$ (4,927,394)</u>	<u>\$ -</u>	<u>\$ 153,656,745</u>



**Economic and Industrial Development Authorities  
of the City of Newport News, Virginia  
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Notes to the Financial Statements  
Years ended June 30, 2020 and 2019**

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

	July 1, 2018	Increases	Decreases	June 30, 2019
<b>Capital assets, not being depreciated:</b>				
Construction in progress	\$ 8,211,322	\$ 509,630	\$ (105,288)	\$ 8,615,664
<b>Capital assets, being depreciated:</b>				
Buildings	201,593,974	73,400	-	201,667,374
Improvements	19,595,505	105,288	-	19,700,793
Infrastructure	2,543,500	-	-	2,543,500
Machinery and equipment	84,674	-	-	84,674
Total capital assets, being depreciated	223,817,653	178,688	-	223,996,341
<b>Less accumulated depreciation for:</b>				
Buildings	(58,653,584)	(4,772,691)	-	(63,426,275)
Improvements	(8,598,590)	(613,882)	-	(9,212,472)
Infrastructure	(1,206,677)	(97,768)	-	(1,304,445)
Machinery and equipment	(84,674)	-	-	(84,674)
Total accumulated depreciation	(68,543,525)	(5,484,341)	-	(74,027,866)
Total capital assets being depreciated, net	155,274,128	(5,305,653)	-	149,968,475
Capital assets, net	\$ 163,485,450	\$ (4,796,023)	\$ (105,288)	\$ 158,584,139

**(7) Operating Leases**

**(a) Lessee Operating Leases**

The Authorities lease land and property in Newport News. Lease terms range from 1 to 20 years. Rent expense at June 30, 2020 and 2019 was \$1,347,949 and \$1,155,804.

Future minimum lease payments on these non-cancelable operating leases, as of June 30, 2020, are as follows:

2021	\$ 1,383,152
2022	1,310,341
2023	1,276,773
2024	1,283,156
2025	1,289,667
2026-2029	2,504,410
Total	<u>\$ 9,047,499</u>

**Economic and Industrial Development Authorities  
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**(7) Operating Leases (continued)**

**(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 with 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, 2020 and 2019.

	2020	2019
Land	\$ 8,283,512	8,283,512
Buildings	124,616,518	124,616,518
Improvements & parking lots	6,150,113	6,150,113
Less accumulated depreciation	<u>(47,965,065)</u>	<u>(44,105,838)</u>
Net investment in property held for lease	<u>\$ 91,085,078</u>	<u>94,944,305</u>

Income from operating leases for years ending June 30, 2020 and 2019 is \$6,659,742 and \$7,067,031, respectively. Minimum future rental income from operating leases as of June 30, 2020 is as follows:

Year ending June 30:	
2021	\$ 5,363,153
2022	4,892,841
2023	2,763,170
2024	1,476,935
2025	1,235,456
2026-2030	5,128,771
2030-2031	<u>88,620</u>
Total	<u>\$ 20,948,946</u>

**(8) 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 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 Notes have no recourse against the Authorities, but must look to the property and lessee for indemnity. In 2020 and 2019, approximately \$18.0 million and \$21.0 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.

At June 30, 2020 and June 30, 2019, the Authorities have outstanding bonds and notes from direct borrowings in the amount of \$31,276,859 and \$36,774,823. Significant events of default are the presence of falsifying or misleading information in the financing documents, assignment without prior consent, or non-payment. The CITI A and B notes are secured by a perfected deed of trust on the land and improvements at 120 Enterprise Drive. Sherwood A & B notes are payable from revenues pledged and derived from leases related to the properties less the Authorities expenses plus any payments made to the Authorities pursuant to a support agreement with the City. The Authorities have no lines of credit.

**Economic and Industrial Development Authorities  
of the City of Newport News, Virginia  
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Notes to the Financial Statements  
Years ended June 30, 2020 and 2019**

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

The Bonds and Notes at June 30, 2020 and June 30, 2019 and related changes for the years then ended are comprised of the following:

	Issue date	Maturity date	Effective interest rates *	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Amount due within one year
<b>Bonds payable:</b>								
Series 2012A	10/12/12	07/01/2030	4.00%	\$ 25,390,000	\$ -	\$(1,780,000)	\$ 23,610,000	\$ 2,070,000
Series 2012B	10/12/12	07/01/2031	0.76%	18,485,000	-	(1,950,000)	16,535,000	1,840,000
Series 2015	07/23/15	09/01/2027	3.48%	2,520,000	-	-	2,520,000	-
Total bonds payable				46,395,000	-	(3,730,000)	42,665,000	3,910,000
Premium on bonds payable - 2012				2,319,066	-	(319,351)	1,999,715	301,892
Premium on bonds payable - 2015				214,015	-	(20,802)	193,213	20,802
Total bonds payable, net				48,928,081	-	(4,070,153)	44,857,928	4,232,694
<b>Direct borrowings:</b>								
<b>Bonds payable:</b>								
Downtown Eng	04/05/00	07/01/2031	2.58%	11,540,000	-	(1,060,000)	10,480,000	1,060,000
Merchant's Walk	12/21/10	12/1/2020	2.70%	1,788,000	-	(894,000)	894,000	894,000
CITI A '07	02/26/07	08/01/2022	2.86%	1,056,343	-	(318,102)	738,241	341,082
CITI B '07	02/26/07	08/01/2022	2.74%	214,857	-	(65,605)	149,252	69,449
A-School garage	07/23/15	09/01/2027	3.80%	8,792,304	-	(976,924)	7,815,380	976,924
Foundry Bond	12/18/18	1/15/23	3.40	5,250,000	-	(1,500,000)	3,750,000	1,500,000
Total direct borrowing bonds payable				28,641,504	-	(4,814,631)	23,826,873	4,841,455
<b>Notes payable:</b>								
809 Omni Blvd	08/31/07	07/01/2022	3.49%	1,199,985	-	(150,000)	1,049,985	150,000
Sherwood note A	11/23/16	01/01/2032	3.14%	4,246,667	-	(326,667)	3,920,000	326,667
Sherwood note B	11/23/16	01/01/2032	3.14%	2,686,667	-	(206,666)	2,480,001	206,666
Total direct borrowing notes payable				8,133,319	-	(683,333)	7,449,986	683,333
Total direct borrowings				36,774,823	-	(5,497,964)	31,276,859	5,524,788
Total bonds and notes payable				\$ 85,702,904	\$ -	\$(9,568,117)	\$ 76,134,787	\$ 9,757,482

\* v denotes variable rate bonds

**Economic and Industrial Development Authorities  
of the City of Newport News, Virginia  
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Notes to the Financial Statements  
Years ended June 30, 2020 and 2019**

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

	Issue date	Maturity date	Effective interest rates *	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Amount due within one year
<b>Bonds payable:</b>								
Series 2012A	10/12/12	07/01/2030	4.00%	\$ 25,390,000	\$ -	\$ -	\$ 25,390,000	\$ 1,780,000
Series 2012B	10/12/12	07/01/2031	0.76%	21,110,000	-	(2,625,000)	18,485,000	1,950,000
Series 2015	07/23/15	09/01/2027	3.48%	3,660,000	-	(1,140,000)	2,520,000	-
Total bonds payable				50,160,000	-	(3,765,000)	46,395,000	3,730,000
Premiums on bonds payable - 2012				2,649,457	-	(330,391)	2,319,066	330,391
Premiums on bonds payable - 2015				238,887	-	(24,872)	214,015	20,802
Total bonds payable, net				53,048,344	-	(4,120,263)	48,928,081	4,081,193
<b>Direct borrowings:</b>								
<b>Bonds payable:</b>								
SEARS	03/01/98	10/01/2018	5.40%	284,132	-	(284,132)	-	-
VSS	03/01/98	10/01/2018	5.40%	257,876	-	(257,876)	-	-
Downtown Eng	04/05/00	07/01/2031	2.58%	12,600,000	-	(1,060,000)	11,540,000	1,060,000
Merchant's Walk	12/21/10	12/01/2020	2.70%	2,682,000	-	(894,000)	1,788,000	894,000
Fountain Way	12/07/04	07/01/2031	4.75%	-	-	-	-	-
Hotel Promissory	12/07/04	07/01/2031	4.75%	-	-	-	-	-
Conference Center	06/30/06	07/01/2031	4.00%	-	-	-	-	-
CITI A '07	02/26/07	08/01/2022	2.00%	v 1,353,321	-	(296,978)	1,056,343	318,102
CITI B '07	02/26/07	08/01/2022	2.34%	v 276,881	-	(62,024)	214,857	65,605
A-school garage	07/23/15	09/01/2027	3.80%	9,769,228	-	(976,924)	8,792,304	976,924
Foundry bond	12/18/180	1/15/23	3.40	-	6,000,000	(750,000)	5,250,000	1,500,000
Total direct borrowing bonds payable				27,223,438	6,000,000	(4,581,934)	28,641,504	4,814,631
<b>Notes payable:</b>								
809 Omni Blvd	08/31/07	07/01/2017	1.30%	v 1,350,000	-	(150,015)	1,199,985	150,000
Sherwood note A	11/23/16	01/01/2032	3.14%	4,573,334	-	(326,667)	4,246,667	326,667
Sherwood note B	11/23/16	01/01/2032	3.14%	2,893,333	-	(206,666)	2,686,667	206,667
Total direct borrowings notes payable				8,816,667	-	(683,348)	8,133,319	683,334
Total direct borrowings				36,040,105	6,000,000	(5,265,282)	36,774,823	5,497,965
Total bonds and notes payable				<u>\$ 89,088,449</u>	<u>\$ 6,000,000</u>	<u>\$(9,385,545)</u>	<u>\$ 85,702,904</u>	<u>\$ 9,579,158</u>

\* v denotes variable rate bonds

**Economic and Industrial Development Authorities  
of the City of Newport News, Virginia  
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Notes to the Financial Statements  
Years ended June 30, 2020 and 2019**

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

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

	Bonds		Direct Borrowings		Total Bonds and Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 3,910,000	\$ 1,531,699	\$ 5,524,788	\$ 801,302	\$ 9,434,788	\$ 2,333,001
2022	3,865,000	1,438,407	4,659,285	745,297	8,524,285	2,183,704
2023	3,825,000	1,321,421	4,108,177	582,656	7,933,177	1,904,077
2024	3,795,000	1,202,245	3,930,257	486,535	7,725,257	1,688,780
2025	3,775,000	1,080,627	2,410,257	360,700	6,185,257	1,441,327
2026-2030	18,120,000	3,174,770	9,577,428	764,775	27,697,428	3,939,545
2031-2032	5,375,000	189,051	1,066,667	42,378	6,441,667	231,429
Totals	<u>\$42,665,000</u>	<u>\$ 9,938,220</u>	<u>\$31,276,859</u>	<u>\$ 3,783,643</u>	<u>\$73,941,859</u>	<u>\$13,721,863</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 2018, the Authorities refinanced the remaining balance of \$1,500,000 of its note with Bank of America to finance the 809 Omni Boulevard facility with a five-year fixed rate at 3.49% amortized over 10 years.

In July 2018, the Authorities refinanced the Downtown Engineering Center Series 2000A bonds with a five-year fixed rate of 3.52% amortized over 10 years with Wells Fargo Bank in the amount of \$2,160,000.

In December 2018, the Authorities funded a grant of \$6 million to Huntington Ingalls Industries ("HII") with a borrowing from Citizens & Farmers Bank at the rate of 3.40% amortized over five years. The borrowing is supported by a payment agreement with the City. The Foundry grant was to support the construction, expansion and renovation of the Foundry by HII who met the criteria of the grant by receiving a share of the work for the Columbia Class Submarine Program, maintaining 120 full-time jobs within the Foundry and receiving funding commitments from the United States Department of the Navy and the Commonwealth of Virginia ("the Commonwealth"). The grant also serves as a match for the Commonwealth's initial HII grant of \$6 million in October 2018.

**(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.

At June 30, 2020, there were fifteen bonds outstanding and at June 30, 2019, there were thirteen bonds outstanding with an aggregate principal balance of \$474,987,852 and \$467,257,663, respectively. Conduit debt at June 30, 2020 and 2019 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 was to 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 included interest at 2.79% (previously 3.729% and 5.125% before City's refinancing of the bonds). The annual principal and interest payments represented the net revenues of the ARC after operating expenses, building reserves and short-term debt repayment. In

**Economic and Industrial Development Authorities  
of the City of Newport News, Virginia  
(Component Units of the City of Newport News, Virginia)  
Notes to the Financial Statements  
Years ended June 30, 2020 and 2019**

**(10) Transactions with Related Parties (continued)**

the past three years, significant maintenance costs, primarily HVAC and roof replacements, and declining tenants have resulted in the Authorities inability to make principal payments. In addition, the Department of Energy ("DOE") has notified the Authorities that Jefferson Lab will no longer be able to lease space within the ARC, but must move into space owned by DOE. Due to these factors, and the inability to gain new tenants, the net revenues of the ARC are insufficient to support the repayment of the debt. In fiscal year 2019, the debt was forgiven by the City and the \$10,155,757 was written off.

Intergovernmental revenues from the City were \$12,446,406 and \$16,597,783 for the year ended June 30, 2020 and June 30, 2019, respectively.

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, 2020 and 2019.

**(11) Commitment and Contingencies**

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

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

During 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result of the spread of COVID-19, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The Authorities provided the ability for some rent and loan deferral which resulted in an increase in rent and loan receivables as of June 30, 2020. The ultimate impact of COVID-19 on the Authorities' revenue and operations is not reasonably quantifiable at this time.

**(12) Subsequent Events**

***(a) Sears Renovation Financing***

On July 30, 2020, the EDA financed the Sears building renovation located at 2700 Huntington Avenue in an amount not to exceed \$1,050,000. The Towne Bank loan was fixed at an interest rate of 2.39%. The loan will have interest-only payments of six months, while renovation work is performed. The principal will be paid by the tenant, Huntington Ingalls, Inc., by amortizing the debt costs over 7.5 years of the remaining lease term.

***(b) Voter Registrar***

In July 2020, a new lease between the EDA and the City was executed for space in the Sherwood Shopping Center located at 13771 Warwick Boulevard for 2,422 square feet. The space will be used for the Newport News Office of Voter Registrar for storing equipment and training volunteer staff for various elections held throughout the year in Newport News. The lease is for a five-year term with two one year options to renew with a total rent of \$7.07 per square foot or \$17,123.54 annually.

**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  
For the Years Ended June 30, 2020 and 2019**

Bond	Date issued	Outstanding balance June 30, 2020	Outstanding balance June 30, 2019
Industrial revenue bonds - Christopher Newport University Warwick, LLC	07/01/2004	\$ -	18,150,000
Industrial revenue bonds - Riverside Health Systems Series 2011B	12/20/2011	2,867,918	6,772,918
Industrial revenue bonds - Riverside Health Systems Series 2012	12/20/2011	66,725,000	67,875,000
Industrial revenue bonds - Christopher Newport University Rappahannock Hall - series 2013	12/20/2013	31,457,465	32,164,964
New Opportunity, LLC - series 2013	11/12/2013	7,572,473	8,360,339
Industrial revenue bonds - Christopher Newport University Foundation - series 2015	06/24/2015	5,909,500	6,127,500
Industrial revenue bond - Riverside Health Systems Series 2015A	07/01/2015	100,000,000	100,000,000
Industrial revenue bonds - Riverside Health Systems Series 2015B	07/01/2015	24,200,000	24,400,000
Industrial revenue bonds - LifeSpire of Virginia - residential care facility - series 2016	10/12/2016	77,580,000	80,230,000
Industrial revenue bonds - Riverside Health Systems Series 2017A	09/07/2017	50,000,000	50,000,000
Industrial revenue bonds - Riverside Health Systems Series 2017B	09/07/2017	60,680,000	64,670,000
Industrial revenue bonds - Christopher Newport University Student Housing Project - Series 2018A	11/30/2018	5,045,280	5,419,020
Industrial revenue bonds - Christopher Newport University Student Housing Project - Series 2018B	11/30/2018	2,874,946	3,087,922
Educational revenue bonds - Christopher Newport University Real Estate Foundation - Series 2019	12/18/2019	10,182,816	-
Industrial revenue bonds - Christopher Newport University Real Estate Foundation - Series 2020A	01/28/2020	19,709,638	-
Industrial revenue bonds - Christopher Newport University Real Estate Foundation - Series 2020B	01/28/2020	10,182,816	-
		<u>\$ 474,987,852</u>	<u>467,257,663</u>

See Report of Independent Auditor



**Report of Independent Auditor on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards and Commissions* (the "Specifications") issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Economic and Industrial Development Authorities of the City of Newport News, Virginia (the "Authorities"), component units of the City of Newport News, Virginia, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authorities' basic financial statements, and have issued our report thereon dated November 30, 2020.

**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") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authorities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Authorities' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits 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 financial statements. 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* or the Specifications.



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authorities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Belmont LLP". The signature is written in a cursive, flowing style.

Richmond, Virginia  
November 30, 2020