

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, 2021 and 2020

(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, 2021 and 2020
(With Report of Independent Auditor Thereon)

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

PAGE

Introductory Section:

List of Members, Officials, Other Support Staff.....	i
--	---

Financial Section:

Report of Independent Auditor.....	1
Management's Discussion and Analysis (Unaudited).....	3 - 10

Basic Financial Statements:

Statements of Net Position.....	11
Statements of Revenues, Expenses and Changes in Net Position.....	12
Statement of Cash Flows.....	13
Notes to the Financial Statements.....	14

Supplementary Section:

Schedule of Conduit Debt Obligations.....	27
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Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance <i>with Government Auditing Standards</i>	27
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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

Jennifer S. Smith-Brown	Chairman
Howard H. Hoege, III	Vice Chairman
Alonzo C. Bell, Jr.	Director
Faye P. Gargiulo	Director
Jameka R. Johnson	Director
Johnathan P. Skinner	Director
Cathy T. Williams	Director

Officials

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

Other support staff

Jameson LeClaire	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

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

Opinion on the Financial Statements

We 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, for the years ended June 30, 2021 and 2020, 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.

Obtaining reasonable assurance 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 risk 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 opinion on the internal control. 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.

In

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, 2021 and 2020, and the changes in its financial position and its cash flows thereof for the years ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 23, 2021, on our consideration of the Authorities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authorities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authorities' internal control over financial reporting and compliance.



Richmond, Virginia
November 23, 2021

**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, 2021 and 2020**

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, 2021, 2020 and 2019. 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 \$149.51 million. This amount represents an increase of \$3.90 million over prior year's ending balance of \$145.61 million, which was an increase of \$5.19 million over fiscal year 2019 ending balance. Total operating revenues increased by approximately \$0.85 million in fiscal year 2021 due to a increase in intergovernmental transfers. Total operating revenues decreased in fiscal year 2020 compared to 2019 by \$4.54 million. This decrease occurred primarily because of a decrease in intergovernmental transfers in 2020.

Total operating expenses in 2021 increased by approximately \$3.01 million due to an increase in contractual services in 2021. Total operating expenses decreased in 2020 from 2019 by approximately \$6 million due to the establishment of an allowance account. Net non-operating expenses decreased in 2021 by a net of \$.87 million, primarily due to reduced interest expenses. The payment of the Foundry Grant in 2019 caused the decrease in net non-operating expenses in 2020 over 2019 by approximately \$5.82 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 to the Newport News Redevelopment and Housing Authority and the City in obtaining the Choice Neighborhood Initiative ("CNI") grant of \$30 million from the US Department of Housing and Urban Development for a Transformation Plan for the area surrounding the Marshall-Ridley choice neighborhood. 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, focusing on housing, people development, small business growth, and neighborhood investments. This grant is leveraged by \$128.5 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 2021 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 timing of this transaction has been pushed forward by the DOE and the transaction terms continue to be negotiated.

In fiscal year 2019, Ferguson began construction of an eight-story, 260,000 square-foot campus to 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 and 2021 construction continued on the approximately 1,350-space parking garage and related infrastructure improvements, consistent with the City Center master plan. At the end of fiscal year 2021, Ferguson

**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, 2021 and 2020**

began moving employees into their new office space and the parking garage was nearing completion.

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. Monthly over 300 visitors access the center to develop job skills, career research, expand education or utilize new technologies.

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. 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. A grand opening of the co-working space, now named *The Offices of Two Five & J*, was held in June 2021 providing a hub for business assistance services, aiding start ups, entrepreneurs, and home-based businesses.

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 completed in fiscal year 2021 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 continues the planning of the development of a premier, predominately residential community at its 285-acre Envieu 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. This new development is adjacent to the historic Endview development and Newport News Park. The project continued in the planning stages throughout fiscal year 2021.

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, the Back to Business Grant up to \$5,000 per applicant, and Grow Your eBusiness Grant up to \$2,500 per applicant were designed to provide one-time financial assistance to eligible for-profit, small businesses in Newport News. Funding was provided by the City but was processed and administered by EIDA staff. Nearly 600 applications were submitted and \$2.1 million in grants were awarded.

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 180 properties City-wide with grants distributed of approximately \$3.32 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

**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, 2021 and 2020**

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, 2021, 2020 and 2019
(in Millions)

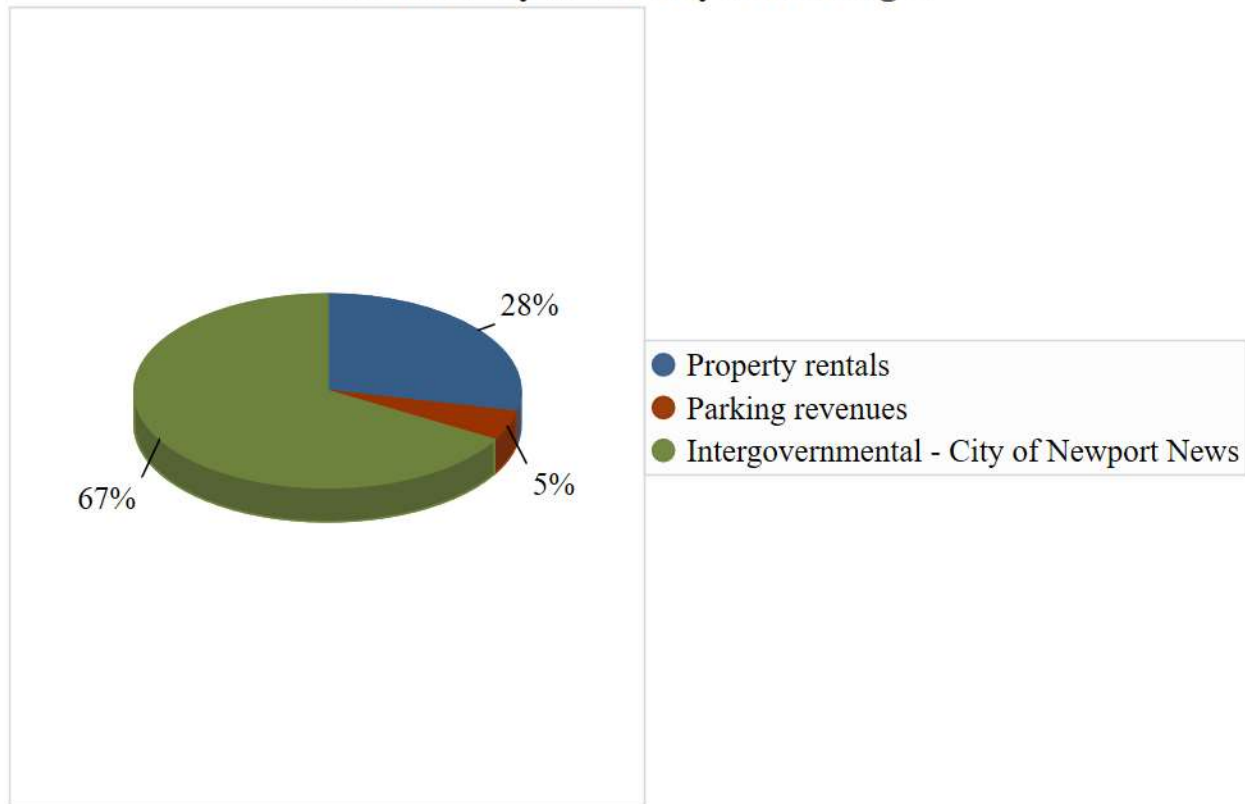
	2021	2020	2019
Current and other assets	\$ 66.81	65.77	65.17
Capital assets, net	149.14	153.66	158.58
Total assets	215.95	219.43	223.75
Deferred refunding	3.00	3.66	4.27
Current and other liabilities	\$ 11.60	11.06	11.48
Long-term liabilities	57.84	66.38	76.12
Total liabilities	69.44	77.44	87.60
Deferred inflows of resources	\$ -	0.04	-
Net Position			
Net investment in capital assets	\$ 85.01	81.18	77.15
Restricted	17.76	15.57	14.36
Unrestricted	46.74	48.86	48.91
Total net position	\$ 149.51	145.61	140.42

Total assets and deferred outflows of resources of the Authorities exceeded recorded liabilities and deferred inflows of resources by \$149.51 million as of June 30, 2021, \$145.61 million as of June 30, 2020 and \$140.42 million as of June 30, 2019. Approximately \$17.76 million in fiscal year 2021, \$15.57 million in fiscal year 2020, and \$14.36 million in fiscal year 2019 of net position is restricted for various specific economic development projects and programs.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA
(Component Units of the City of Newport News, Virginia)
Management's Discussion and Analysis (Unaudited)
Years ending June 30, 2021 and 2020**

The Authorities' total operating revenues were \$21.04 million for the fiscal year ending June 30, 2021. Property rentals comprised of both operating and capital lease revenues represented 28% of total operating revenues. Intergovernmental revenue from the City was \$14.00 million, or 67% in fiscal year 2021. Parking contributions and parking fund revenues in FY 2021 were approximately \$1 million, or 5% of total operating revenues. In prior year FY 2020, total operating revenues were \$20.19 million, comprised of lease revenue of 33%, intergovernmental revenue of 62%, and parking revenue of 5%. In fiscal year 2019, total operating revenues equaled \$24.72 million, comprised of lease revenue of 29%, intergovernmental of 67%, and parking revenue of 4%.

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)
Management's Discussion and Analysis (Unaudited)
Years ending June 30, 2021 and 2020

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

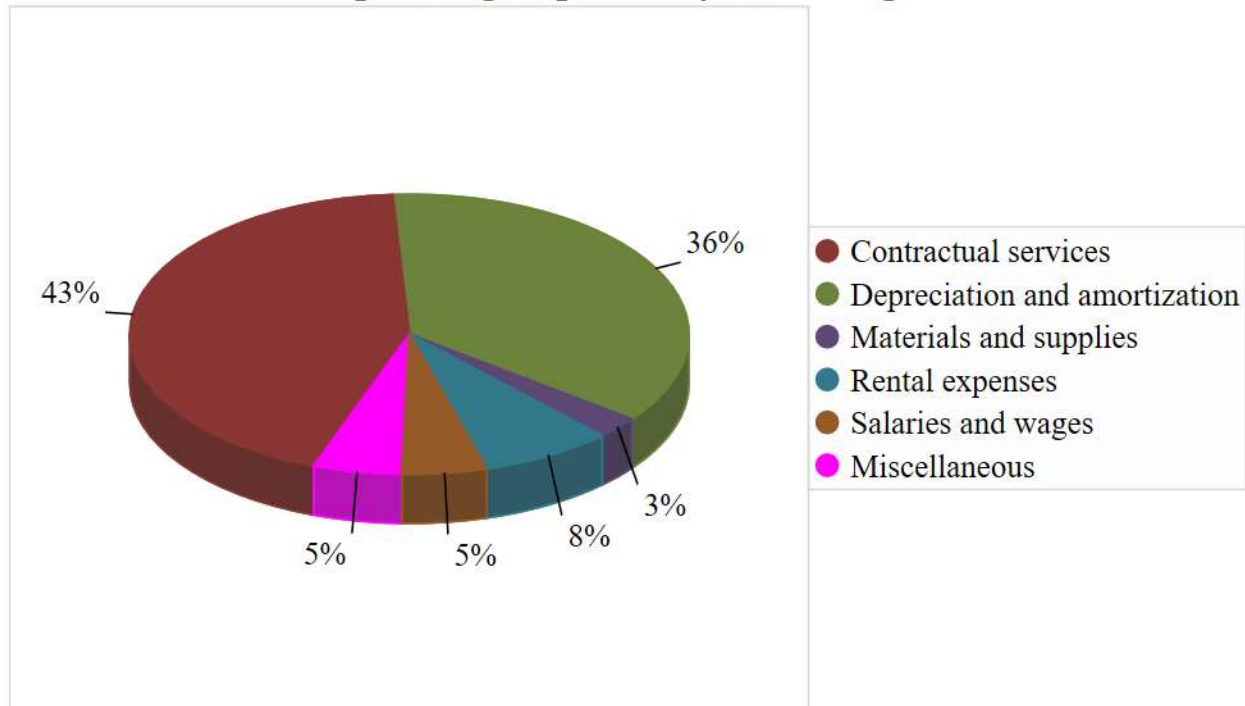
Table A-2
Changes in Authorities' Position
For the years ended June 30, 2021, 2020 and 2019
(in Millions)

	2021	2020	2019
Revenues and expenses:			
Operating revenues:			
Property rentals	\$ 6.00	6.66	7.07
Parking contributions	0.18	0.18	0.20
Parking Fund revenues	0.86	0.90	0.85
Intergovernmental - City of Newport News	14.00	12.45	16.60
Total operating revenues	21.04	20.19	24.72
Operating expenses:			
Contractual services	7.04	4.27	6.21
Depreciation and Amortization	5.88	5.49	5.48
Materials and supplies	0.41	0.42	0.45
Rental expenses	1.24	1.35	1.16
Salaries and wages	0.79	0.79	0.79
Miscellaneous	0.82	0.85	4.94
Total operating expenses	16.18	13.17	19.03
Operating income	4.86	7.02	5.69
Non-operating revenues (expenses)	(0.96)	(1.83)	(7.65)
Change in net position, before extraordinary items	3.90	5.19	(1.96)
Extraordinary item: Contribution - Primary Government	-	-	10.16
Net position, beginning	145.61	140.42	132.22
Net position, ending	\$ 149.51	145.61	140.42

**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, 2021 and 2020**

The net position (assets and deferred outflows of resources over liabilities and deferred inflows of resources), increased in fiscal year 2021 by approximately \$3.90 million compared to an increase in fiscal year 2020 of \$5.19 million and a decrease in fiscal year 2019 of \$1.96 million before extraordinary items. Total operating revenues increased by approximately \$0.85 million, primarily due to an increase of intergovernmental transfers. In fiscal year 2021, intergovernmental transfers increased predominantly due to an increase in Enterprise Zone incentives. The increase in operating expenses in fiscal year 2021 as compared to fiscal year 2020 was \$3.01 million due to an increase in contractual services caused by an increase in Enterprise Zone incentives granted and increase in repairs at various Authority facilities. Net non-operating expenses decreased in 2021 by approximately \$.87 million due to a reduction in interest expense. The decrease in net operating expenses in 2020 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.

Operating Expenses by Percentages



**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, 2021 and 2020

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, 2021, 2020 and 2019
(In millions)

	2021	2020	2019
Buildings	\$ 201.67	201.67	201.67
Improvements, machinery and equipment (IME)	19.79	19.79	19.79
Infrastructure	2.54	2.54	2.54
Construction in progress (CIP)	10.16	9.18	8.62
Accumulated depreciation	(85.01)	(79.52)	(74.03)
Total	<u>\$ 149.15</u>	<u>153.66</u>	<u>158.59</u>

At the end of 2021, the Authorities had \$149.15 million in capital assets as compared to \$153.66 in 2020 and \$158.59 in 2019. During the year, Buildings, IME, and Infrastructure remained unchanged. In fiscal year 2021, CIP had a net increase of approximately \$1 million due to increases for the renovation of the Sears building, continued work at the former Chase packaging site and the transfer of the costs of the *Offices @ Two Five & J* to the Authorities, less the decrease for the transfer of infrastructure costs related to the Liebherr project to the City. In fiscal year 2020, CIP increased by \$.56 million and in fiscal year 2019 by \$.40 million due to the Liebherr, Chase and Ferguson expansion projects. 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, 2021, 2020 and 2019
(in millions)

	2021	2020	2019
Industrial revenue bonds - IDA	\$ 9.57	12.45	15.31
Industrial revenue bonds - EDA	49.45	54.04	59.73
Bond premiums	0.51	2.19	2.53
Notes payable	7.60	7.45	8.13
Total	<u>\$ 67.13</u>	<u>76.13</u>	<u>85.70</u>

As of June 30, 2021, the Authorities had \$67.13 million of debt outstanding in bonds and notes payable as compared to debt outstanding in June 2020 and June 2019, of \$76.13 million and \$85.70 million, respectively. In fiscal year 2021, the City refinanced general obligation debt including the Authorities' 2012A bonds. This refinancing occurred due to favorable market conditions that allowed debt service savings of proximately \$2.2 million. In addition, in FY 2021, the Authorities financed the renovation of the Sears building with a \$1.05 million loan through Towne Bank at 2.39% of which .88 million has been drawn in FY 2021. The borrowing is supported by Huntington Ingalls Industries, Inc. ("HII") lease of the building. In fiscal year 2019, the Authorities financed the HII Foundry grant with a borrowing from Citizens & Farmers bank at a rate of 3.40% for \$6 million amortized over five years. Additionally in fiscal year 2019, 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

**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, 2021 and 2020**

\$2.16 million. Additional information on the Authorities' long-term debt can be found in Note 8 to the basic financial statements.

Economy and the Coronavirus pandemic

The impact of the Coronavirus disease 2019 (COVID-19) pandemic resulted in lockdown orders issued in the Hampton Roads area as well as other parts of the country to prevent the spread of the disease. These measures as well as general fears of the virus, caused swift demand and supply shocks that resulted in a deep economic downturn in the United States. The federal government approved several policies to address the effects of COVID-19 and provide assistance to households and small businesses which have had positive effects on the economy. In addition, to support businesses in the community, the City and Authorities implemented various grant programs. The roll out of vaccinations began in FY 2021 but measures to contain the virus still remain in place and economic activity is not expected to fully return until the pandemic has sufficiently subsided. Although the economy has begun to show signs of recovery, how long it will take for full recovery is uncertain.

Contacting the Authorities' Financial Management

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

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

Statement of Net Position

June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash (note 2)	\$ 4,498,485	\$ 6,319,085
Restricted cash and cash equivalents (note 3)	15,191,141	12,957,652
Receivables:		
Newport News Capital Fund - revolving loans	66,032	79,941
Accounts, notes & grants, net of allowance	666,950	579,830
Other	458,764	169,913
Total current assets	<u>20,881,372</u>	<u>20,106,421</u>
Noncurrent assets:		
Restricted cash and cash equivalents (note 3)	2,626,377	2,567,724
Deposits with Management Company	322,022	90,000
Receivables:		
Newport News Capital Fund - revolving loans	970,901	1,017,887
Accounts, notes & grants, net of allowance	6,641,654	6,727,415
Land held for lease or resale (note 4)	35,363,639	35,258,659
Capital assets:		
Non depreciable capital assets: (note 6)		
Construction in progress	10,159,625	9,179,715
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>(85,010,754)</u>	<u>(79,519,311)</u>
Depreciable capital assets	<u>138,985,587</u>	<u>144,477,030</u>
Total noncurrent assets	<u>195,069,805</u>	<u>199,318,430</u>
Total assets	<u>215,951,177</u>	<u>219,424,851</u>
Deferred Outflows of Resources		
Deferred amount on debt refunding	<u>2,995,968</u>	<u>3,659,425</u>
Liabilities		
Current liabilities:		
Trade accounts payable and accrued liabilities	2,195,068	1,240,850
Construction accounts payable	57,400	9,035
Notes payable - current portion (note 8)	816,301	683,333
Industrial revenue bonds payable-current (note 8)	8,477,342	9,074,149
Liabilities payable from restricted assets	48,672	50,030
Total current liabilities	<u>11,594,783</u>	<u>11,057,397</u>
Notes payable (note 8)	6,785,459	6,766,653
Industrial revenue bonds payable (note 8)	51,052,194	59,610,652
Total liabilities	<u>69,432,436</u>	<u>77,434,702</u>
Deferred Inflows of Resources		
Deferred revenues	-	43,742
Net Position		
Net investment in capital assets	85,009,885	81,181,384
Restricted:		
Capital projects	16,124,180	13,969,414
Capital loans	1,644,666	1,595,931
Unrestricted	46,735,978	48,859,103
Total net position	<u>\$ 149,514,709</u>	<u>\$ 145,605,832</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, 2021 and 2020

	2021	2020
Operating revenues:		
Property rentals (note 7)	\$ 5,995,216	\$ 6,659,742
Parking contributions	183,762	175,266
Parking Fund revenues	864,323	900,641
Intergovernmental - City of Newport News (note 10)	13,999,220	12,446,406
Total operating revenues	21,042,521	20,182,055
Operating expenses:		
Contractual services	7,036,403	4,273,621
Depreciation and Amortization	5,877,699	5,491,444
Materials and supplies	414,931	422,562
Rental expenses (note 7)	1,240,269	1,347,949
Salaries and wages	794,150	790,889
Miscellaneous	812,700	837,614
Total operating expenses	16,176,152	13,164,079
Operating income	4,866,369	7,017,976
Non-operating revenues (expenses):		
Interest Income	279,977	559,481
Interest expense (note 8)	(2,045,543)	(2,930,684)
Bond and administrative fee income	134,972	277,839
Industrial revitalization fund grant	480,000	-
Letter of credit and trustee fees	(51,650)	(51,650)
Other income (expenses), net	244,752	313,008
Non-operating expenses, net	(957,492)	(1,832,006)
Change in net position	3,908,877	5,185,970
Net position at beginning of year	145,605,832	140,419,862
Net position at end of year	\$ 149,514,709	\$ 145,605,832

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from leased properties	\$ 6,742,564	\$ 6,941,457
Receipts from Parking Authority	864,323	900,641
Parking contributions received from developers	183,762	175,266
Receipts from City of Newport News	13,999,220	12,446,406
Receipts from loans and mortgages	60,895	165,961
Payments to suppliers	(9,128,931)	(8,032,144)
Payments to employees	(794,150)	(790,889)
Net cash provided by operating activities	<u>11,927,683</u>	<u>11,806,698</u>
Cash flows used in capital and related financing activities:		
Acquisition of capital assets	(979,910)	(564,050)
Repayment and retirement of industrial revenue bonds and note payable	(28,563,594)	(9,568,117)
Proceeds from issuance of industrial bonds and notes payable	19,560,102	-
Proceeds from primary government	480,000	-
Proceeds from debt refunding	277,202	612,117
Interest paid	(2,045,543)	(2,930,684)
Other revenue and expenses	328,074	539,196
Net cash used in capital and related financing activities	<u>(10,943,669)</u>	<u>(11,911,538)</u>
Cash flows from investing activities:		
Interest received	279,977	559,481
Loans issued	(792,449)	(467,090)
Net cash provided (used in) investing activities	<u>(512,472)</u>	<u>92,391</u>
Increase (decrease) in cash and restricted cash and cash equivalents	471,542	(12,449)
Cash and cash equivalents at beginning of year	21,844,461	21,856,910
Cash and cash equivalents at end of period	<u>\$ 22,316,003</u>	<u>\$ 21,844,461</u>
Reported as:		
Cash	\$ 4,498,485	\$ 6,319,085
Restricted cash and cash equivalents (current)	15,191,141	12,957,652
Restricted cash and cash equivalents at end of year (non-current)	2,626,377	2,567,724
Cash and restricted cash and cash equivalents at end of year	<u>\$ 22,316,003</u>	<u>\$ 21,844,461</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,866,369	\$ 7,017,976
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	5,877,699	5,491,444
Changes in assets and liabilities:		
Land inventory	(104,980)	(564,126)
Mortgages receivable	60,895	165,961
Other receivables, net	270,217	256,638
Trade accounts payable and accrued liabilities	1,001,225	(603,937)
Deferred revenues	(43,742)	42,742
	<u>7,061,314</u>	<u>4,788,722</u>
Net cash provided by operating activities	<u>\$ 11,927,683</u>	<u>\$ 11,806,698</u>

Supplemental disclosure:

Noncash investing and financing activities:

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, 2021 and 2020**

(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
(Component Units of the City of Newport News, Virginia)
Notes to the Financial Statements
Years ended June 30, 2021 and 2020**

(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 2021B, 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, 2021 and 2020, there was \$4,727,734 and \$4,320,000, respectively, 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
(Component Units of the City of Newport News, Virginia)
Notes to the Financial Statements
Years ended June 30, 2021 and 2020**

(1) Summary of Significant Accounting Policies (continued)

(f) Miscellaneous (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"). Deposits with Management companies are held by property management companies and authorized use on behalf of the Authorities is provided through our management agreements with these companies. 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, 2021 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, 2021, 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
(Component Units of the City of Newport News, Virginia)
Notes to the Financial Statements
Years ended June 30, 2021 and 2020**

(2) Cash (continued)

(c) Credit Risk (continued)

Assets held by the Treasurer	Fair value	Credit rating	Average maturity (years)
LGIP - year ending 2021	\$ 12,015,786	AAAm	0.16
LGIP - year ending 2020	\$ 11,635,676	AAAm	0.16

(3) Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents dedicated for specific projects and activities at June 30, 2021 and 2020 are as follows:

	2021	2020
Applied research center fund	\$ 1,093,838	\$ 876,818
Air service enhancement fund	1,244,084	1,241,865
City Center at Oyster Point	4,701,821	4,117,470
Bond escrow funds	241,369	186,369
Newport News capital fund	566,560	475,546
Micro loan fund	42,082	22,558
Rouse tower fund	4,133,075	4,355,818
City Center garage escrow accts and imprest fund	25	25
Parking Authority Fund	1,440,544	1,295,583
Brooks Crossing	26,771	26,730
Tourism zones	2,385,008	2,381,355
Reserve for Incentive	1,149,134	-
FIG grant	438,836	416,067
Animal shelter reserve	154,371	129,172
Sherwood reserves	200,000	-
Total	<u>\$ 17,817,518</u>	<u>\$ 15,525,376</u>
Classified as:		
Current	\$ 15,191,141	\$ 12,957,652
Noncurrent	<u>2,626,377</u>	<u>2,567,724</u>
	<u>\$ 17,817,518</u>	<u>\$ 15,525,376</u>

**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, 2021 and 2020**

(4) Land Held for Lease or Resale

Land held for lease or resale at June 30, 2021 and 2020 is comprised of the following tracts:

	2021	2020
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
Southeast Corridor	1,771,070	1,666,090
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
K-Mart	3,226,075	3,226,075
351 25th Street	347,500	347,500
Miscellaneous parking lots	874,323	874,323
Miscellaneous parcels	1,924,032	1,924,032
Total	<u>\$ 35,363,639</u>	<u>\$ 35,258,659</u>

(5) Other Notes Receivable

The major component of receivables, as of June 30, 2021 and 2020, 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, 2021 and 2020 was \$3,037,590, plus accrued interest of \$1,492,788 and \$1,386,472 for June 30, 2021 and 2020, 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 2021, 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
(Component Units of the City of Newport News, Virginia)
Notes to the Financial Statements
Years ended June 30, 2021 and 2020**

(6) Capital Assets

Capital assets at June 30, 2021 and 2020 and related changes for the years then ended are as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital assets, not being depreciated:				
Construction in progress	\$ 9,179,715	\$ 2,971,425	\$ (1,991,515)	\$ 10,159,625
Capital assets, being depreciated:				
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
Less accumulated depreciation for:				
Buildings	(68,200,800)	(4,774,526)	-	(72,975,326)
Improvements	(9,831,625)	(619,152)	-	(10,450,777)
Infrastructure	(1,402,212)	(97,765)	-	(1,499,977)
Machinery and equipment	(84,674)	-	-	(84,674)
Total accumulated depreciation	(79,519,311)	(5,491,443)	-	(85,010,754)
Total capital assets being depreciated, net	144,477,030	(5,491,443)	-	138,985,587
Capital assets, net	<u>\$ 153,656,745</u>	<u>\$ (2,520,018)</u>	<u>\$ (1,991,515)</u>	<u>\$ 149,145,212</u>

**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, 2021 and 2020**

(6) Capital Assets (continued)

	July 1, 2019	Increases	Decreases	June 30, 2020
Capital assets, not being depreciated:				
Construction in progress	\$ 8,615,664	\$ 564,051	\$ -	\$ 9,179,715
Capital assets, being depreciated:				
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
Less accumulated depreciation for:				
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	\$ 158,584,139	\$ (4,927,394)	\$ -	\$ 153,656,745

(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, 2021 and 2020 was \$1,240,269 and \$1,347,949.

Future minimum lease payments on these non-cancelable operating leases, as of June 30, 2021, are as follows:

2022	\$ 1,310,341
2023	1,276,773
2024	1,283,156
2025	1,289,667
2026	1,296,308
2027-2029	1,208,102
Total	<u>\$ 7,664,347</u>

**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, 2021 and 2020**

(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, 2021 and 2020.

	2021	2020
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>(50,205,117)</u>	<u>(47,965,065)</u>
Net investment in property held for lease	<u>\$ 88,845,026</u>	<u>91,085,078</u>

Income from operating leases for years ending June 30, 2021 and 2020 is \$5,995,216 and \$6,659,742, respectively. Minimum future rental income from operating leases as of June 30, 2021 is as follows:

Year ending June 30:	
2022	\$ 4,952,342
2023	2,778,689
2024	1,516,600
2025	1,482,097
2026	1,413,904
2027-2031	<u>4,186,233</u>
Total	<u>\$ 16,329,865</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 2021 and 2020, approximately \$15.0 million and \$18.0 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, 2021 and June 30, 2020, the Authorities have outstanding bonds and notes from direct borrowings in the amount of \$26,587,175 and \$31,276,859. 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
(Component Units of the City of Newport News, Virginia)
Notes to the Financial Statements
Years ended June 30, 2021 and 2020**

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

The Bonds and Notes at June 30, 2021 and June 30, 2020 and related changes for the years then ended are comprised of the following:

	Issue date	Maturity date	Effective interest rates *	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Amount due within one year
Bonds payable:								
Series 2012A	10/12/12	07/01/30	4.00%	\$ 23,610,000	\$ -	\$ (19,480,000)	\$ 4,130,000	\$ 2,065,000
Series 2012B	10/12/12	07/01/31	0.76%	16,535,000	-	(1,840,000)	14,695,000	1,800,000
Series 2015	07/23/15	09/01/27	3.48%	2,520,000	-	-	2,520,000	-
Series 2021B	02/09/21	07/01/30	3.00%	-	18,685,000	-	18,685,000	365,000
Total bonds payable				42,665,000	18,685,000	(21,320,000)	40,030,000	4,230,000
Premium on bonds payable - 2012				1,999,715	-	(1,658,005)	341,710	250,588
Premium on bonds payable - 2015				193,213	-	(20,802)	172,411	20,802
Total bonds payable, net				44,857,928	18,685,000	(22,998,807)	40,544,121	4,501,390
Direct borrowings:								
Bonds payable:								
Downtown Eng	04/05/00	07/01/31	2.58%	10,480,000	-	(1,060,000)	9,420,000	1,060,000
Merchant's Walk	12/21/10	12/1/20	2.70%	894,000	-	(894,000)	-	-
CITI A '07	02/26/07	08/01/22	1.04%	738,241	-	(341,083)	397,158	365,539
CITI B '07	02/26/07	08/01/22	1.72%	149,252	-	(69,450)	79,802	73,489
A-School garage	07/23/15	09/01/27	3.80%	7,815,380	-	(976,925)	6,838,455	976,924
Foundry Bond	12/18/18	01/15/23	3.40%	3,750,000	-	(1,500,000)	2,250,000	1,500,000
Total direct borrowing bonds payable				23,826,873	-	(4,841,458)	18,985,415	3,975,952
Notes payable:								
809 Omni Blvd	08/31/07	07/01/22	3.49%	1,049,985	-	(150,000)	899,985	150,000
Sherwood note A	11/23/16	01/01/32	3.14%	3,920,000	-	(326,667)	3,593,333	326,667
Sherwood note B	11/23/16	01/01/32	3.14%	2,480,001	-	(206,666)	2,273,335	206,666
Sears Renovation	07/31/20	07/31/28	2.39%	-	875,102	(39,995)	835,107	132,968
Total direct borrowing notes payable				7,449,986	875,102	(723,328)	7,601,760	816,301
Total direct borrowings				31,276,859	875,102	(5,564,786)	26,587,175	4,792,253
Total bonds and notes payable				\$ 76,134,787	\$ 19,560,102	\$ (28,563,593)	\$ 67,131,296	\$ 9,293,643

* v denotes variable rate bonds

**Economic and Industrial Development Authorities
of the City of Newport News, Virginia
(Component Units of the City of Newport News, Virginia)
Notes to the Financial Statements
Years ended June 30, 2021 and 2020**

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

	Issue date	Maturity date	Effective interest rates *	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Amount due within one year
Bonds payable:								
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
Premiums on bonds payable - 2012				2,319,066	-	(319,351)	1,999,715	301,892
Premiums on bonds payable - 2015				214,015	-	(20,801)	193,214	20,802
Total bonds payable, net				48,928,081	-	(4,070,152)	44,857,929	4,232,694
Direct borrowings:								
Bonds payable:								
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	12/01/2020	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	12/18/180	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
Notes payable:								
809 Omni Blvd	08/31/07	07/01/2017	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 borrowings 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				<u>\$ 85,702,904</u>	<u>\$ -</u>	<u>\$(9,568,116)</u>	<u>\$ 76,134,788</u>	<u>\$ 9,757,482</u>

* v denotes variable rate bonds

**Economic and Industrial Development Authorities
of the City of Newport News, Virginia
(Component Units of the City of Newport News, Virginia)
Notes to the Financial Statements
Years ended June 30, 2021 and 2020**

(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
2022	\$ 4,230,000	\$ 845,040	\$ 4,792,253	\$ 700,819	\$ 9,022,253	\$ 1,545,859
2023	4,165,000	753,563	4,245,479	551,662	8,410,479	1,305,225
2024	4,105,000	664,710	4,070,885	458,862	8,175,885	1,123,572
2025	4,025,000	604,108	2,554,353	336,414	6,579,353	940,522
2026	3,935,000	533,510	2,557,874	264,918	6,492,874	798,428
2027-2031	17,790,000	1,423,699	7,832,998	471,403	25,622,998	1,895,102
2032	1,780,000	34,722	533,333	12,700	2,313,333	47,422
Totals	<u>\$ 40,030,000</u>	<u>\$ 4,859,352</u>	<u>\$ 26,587,175</u>	<u>\$ 2,796,778</u>	<u>\$ 66,617,175</u>	<u>\$ 7,656,130</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 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.

In July 2020, the Authorities entered into an agreement with Towne Bank to finance the renovation of the Sears Building located at 2700 Huntington Avenue which is leased by Huntington Ingalls Industries, Inc. ("HII"). The renovation will total approximately \$1,050,000, financed with a loan from Towne Bank at a rate of 2.39%, with interest only for six months and the remaining principal to be paid over 7.5 years. As of June 30, 2021, \$875,102 has been drawn from the bank. The borrowing is supported by HII's lease with terminates in October 2028. The lease payments will be equal to the debt service payments of the Towne Bank financing.

In February of 2021, the Authority refinanced a portion of the Series 2012A bonds with an advance refunding of Series 2021B Bonds in the amount of \$18,685,000. This refunding took advantage of favorable market conditions and will deliver debt service savings with no extension of the maturity. Gain on the advance refunding is \$1,037,961 and will be amortized over the remaining life of the old debt. The difference between cash flows required to service the old debt and cash flows to service the new debt is \$2,253,225.

(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

**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, 2021 and 2020**

(9) Conduit Debt Obligations (continued)

for indemnity. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements.

At June 30, 2021, there were thirteen bonds outstanding and at June 30, 2020, there were fourteen bonds outstanding with an aggregate principal balance of \$448,131,394 and \$464,805,035, respectively. Conduit debt at June 30, 2021 and 2020 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 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 \$13,999,220 and \$12,446,406 for the year ended June 30, 2021 and June 30, 2020, 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, 2021 and 2020.

(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 and June 30, 2021. The ultimate impact of COVID-19 on the Authorities' revenue and operations is not reasonably quantifiable at this time.

(12) Subsequent Events

(a) Boathouse Live

In July 2021, there were ongoing negotiations resulting in a verbal agreement with the Boathouse Live, LLC owner regarding a plan of repayment for the \$108,177 Newport News Capital Fund loan. The Authority Board was informed and legal counsel for the EIDA is preparing a settlement agreement to formalize the terms. The balance is expected to be repaid in full by monthly payments.

(b) Sale of 3700 Marshal Avenue

In July 2021, the Authorities authorized the sale of 700 Marshall Avenue to Cornelius Carter Group, LLC., trading as C.C. Carter Funeral Home at a price of \$400,000, for construction of a funeral home facility and related improvements

**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, 2021 and 2020**

(12) Subsequent Events (continued)

(b) Sale of 3700 Marshal Avenue (continued)

on the property.

(c) Department of Transportation Small Community Air Service Development Program Grant

In FY 2022, the Newport News-Williamsburg International Airport was awarded a Department of Transportation Small Community Air Service Development Program Grant (SCASDP) in the amount of \$847,646. The Authorities committed matching funds of \$600,000 which are on hand.

**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, 2021 and 2020**

Bond	Date issued	Outstanding balance June 30, 2021	Outstanding balance June 30, 2020
Industrial revenue bonds - Riverside Health Systems Series 2011B	12/20/2011	\$ -	2,867,918
Industrial revenue bonds - Riverside Health Systems Series 2012	12/20/2011	65,545,000	66,725,000
Industrial revenue bonds - Christopher Newport University Rappahannock Hall - series 2013	12/20/2013	30,709,465	31,457,465
New Opportunity, LLC - series 2013	11/12/2013	6,760,068	7,572,473
Industrial revenue bonds - Christopher Newport University Foundation - series 2015	06/24/2015	5,681,500	5,909,500
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	24,000,000	24,200,000
Industrial revenue bonds - LifeSpire of Virginia - residential care facility - series 2016	10/12/2016	74,850,000	77,580,000
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	52,002,746	60,680,000
Industrial revenue bonds - Christopher Newport University Student Housing Project - Series 2018A	11/30/2018	4,671,540	5,045,280
Industrial revenue bonds - Christopher Newport University Student Housing Project - Series 2018B	11/30/2018	2,661,970	2,874,946
Educational revenue bonds - Christopher Newport University Real Estate Foundation - Series 2019	12/18/2019	12,668,712	10,182,816
Industrial revenue bonds - Christopher Newport University Real Estate Foundation - Series 2020A	01/28/2020	18,580,393	19,709,638
		<u>\$ 448,131,394</u>	<u>464,805,036</u>

See Report of Independent Auditor