

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, 2024 and 2023

(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, 2024 and 2023

(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

Howard H. Hoege III	Chair
Cathy T. Williams	Vice Chair
Alonzo C. Bell, Jr.	Director
Faye P. Gargiulo	Director
Jameka R. Johnson	Director
Renard C. Miller	Director
Jonathan P. Skinner	Director

Officials

Alan K. Archer	City Manager (ex officio)
Florence G. Kingston	Secretary/Treasurer (ex officio)
Joy Robison	Assistant Secretary

Other support staff

Jessica Jacobs	Recording Secretary
Derek Perry	Assistant Director
Christopher Morello	Assistant Director
Priscilla Green	Chief of Fiscal Operations
Milissa Story	Economic Development Manager
Mallory Butler	Economic Development Manager
Thomas O'Grady	Economic Development Manager
Jameson LeClair	Real Estate Coordinator
Brittany Thompson	Project Coordinator
Darius Turner	Project Coordinator
Jordan Wilson	Project Coordinator
Tricia F. Wilson	Business Development Specialist
Robin Boyd	Senior Marketing Coordinator
Andy Wilks	Property Manager
Shakir Johnson	Business Retention Coordinator
Lizabeth Meier	Accountant
Jared Midkiff	Marketing and Development Coordinator
Elizabeth McCoury	Redevelopment Project Manager

Report of Independent Auditor

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Economic and Industrial Development Authorities of the City of Newport News, Virginia (the "Authorities"), a component unit of the City of Newport News, Virginia, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Authorities' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authorities as of June 30, 2024 and 2023, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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* (the "Specifications"), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards and Specifications are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Authorities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authorities' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Specifications will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Specifications, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authorities' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authorities' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 accompanying Schedule of Conduit Debt Obligations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2024, 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.

Cherry Bekaert LLP

Tysons Corner, Virginia
November 1, 2024

**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 ended June 30, 2024 and 2023**

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, 2024, 2023 and 2022. 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 \$159.80 million. This amount represents an increase of \$2.81 million from prior year's ending balance of \$156.99 million, which was an increase of \$2.14 million over the fiscal year 2022 ending balance. Total operating revenues increased by approximately \$6.12 million in fiscal year 2024 due to an increase in intergovernmental transfers as a result of the delivery of Defense Production Zone incentives. Total operating revenues increased in fiscal year 2023 compared to 2022 by approximately \$4.28 million. This increase occurred primarily because of an increase in intergovernmental transfers in 2023.

Total operating expenses in 2024 decreased by approximately \$1.72 million due to a decrease in contractual services, cost of land sold, materials and supplies, and depreciation and amortization in 2024. Total operating expenses increased in 2023 over 2022 by \$3.32 million due to an increase in contractual services. Net non-operating revenues/expenses were a net expense of \$7.38 million in 2024 versus net revenue of \$2.16 million in 2023. This was mostly a result of the transfer of the ARC building to the U.S. Department of Energy as disclosed in Note 6 of the accompanying notes to the financial statements.

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 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 2024 on removal of the remaining concrete slab of the previously demolished building on the property.

In fiscal year 2020, the Authorities passed a resolution to authorize conveyance of the Applied Research Center building to the United States Department of Energy (DOE), subject to negotiations between the two entities. The timing of this transaction was pushed back by the DOE as the transaction terms were being negotiated. Following the announcement for the High Performance Data Facility project at Jefferson Lab, and to support the growth and mission of the lab, in October 2023, the EDA donated the Applied Research Center to the DOE. With the transfer to the DOE, the building will be leveraged to enhance Jefferson Lab's continued growth, including serving as a visitor and STEM education outreach center for the federal facility.

In fiscal year 2023, the EDA authorized the award of a bid in the amount of \$2.86 million, which included contingencies, for the parcel adjacent and attached to 2506 Jefferson Avenue, 2510 Jefferson Avenue, for rehabilitation. This rehabilitation was included as a Critical Community Improvement for Choice Neighborhood recognizing the need for additional commercial space within the neighborhood, supporting entrepreneurship, as well as eliminating blight & preserving the character of the existing building. This project was funded through Choice Neighborhood Initiatives funds, Virginia Department of Housing and Community Development's Industrial Revitalization Fund and Port Host Community Revitalization Fund grants awarded in fiscal year 2022, and the City's Capital Improvement Plan. The project is anticipated to be completed in fiscal year 2025.

Liebherr Mining Equipment Company, a manufacturer of mining equipment, located in southern Copeland Industrial Park, made substantial investments in its Newport News facility. The project was completed in 2021 and added 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

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
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Years ended June 30, 2024 and 2023**

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, supported this expansion. In June 2024, it was announced that Liebherr Mining Equipment Manufacturer will expand manufacturing capabilities once again and create 175 new jobs. A grant from the Commonwealth's Opportunity fund was approved to assist with the project.

The Authorities continue the planning of the development of a premier, predominantly residential community at its 285-acre Endview tract located at 350 Yorktown Road. D.R. Horton 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 House and Newport News Park. The project continued in the planning stages throughout fiscal year 2024.

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 200 properties City-wide with grants distributed of approximately \$4.05 million. In 2023, the Authorities expanded the program with a Modified Façade Improvement Grant for commercial properties located within the Marshall-Ridley Choice Neighborhood and in 2024 expanded it even further to commercial properties located in the Southeast area of the City. The Modified Façade Improvement Grant supports the Neighborhood Plan goals connected with the Transformation Plan for the Marshall-Ridley Choice Neighborhood.

In 2016, the Authorities were an integral partner in establishing the grocery store at Brooks Crossing located at 3101 Jefferson Avenue. In order to facilitate financing and leverage New Markets Tax Credits (NMTC) to help provide the needed gap funding to construct a building at 3101 Jefferson Avenue to be leased to a grocery store operator, Brooks Crossing Grocery Store LLC (BCGS) was established by the Newport News Redevelopment and Housing Authority, which had solely owned BCGS. BCGS LLC was the owner and landlord of 3101 Jefferson Avenue. The New Markets Tax Credits had a seven (7) year compliance period that ended March 1, 2023. At the end of the compliance period, the debt related to the NMTC was forgiven. In 2023, once the debt was forgiven, BCGS LLC was dissolved and the Authorities were conveyed all the assets and liabilities of BCGS LLC by the Newport News Redevelopment and Housing Authority. The primary reason for the conveyance at this time was to simplify the ownership structure of the property at 3101 Jefferson Avenue now that the necessary period to take advantage of the New Market Tax Credits had passed. The Authorities are now the owners and landlord of 3101 Jefferson Avenue and will receive revenue from the lease agreement in place.

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. Throughout these financial statements, the economic resources measurement focus is used.

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

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA
(Component Units of the City of Newport News, Virginia)
Management's Discussion and Analysis (Unaudited)
Years ended June 30, 2024 and 2023**

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, 2024, 2023 and 2022
(in Millions)

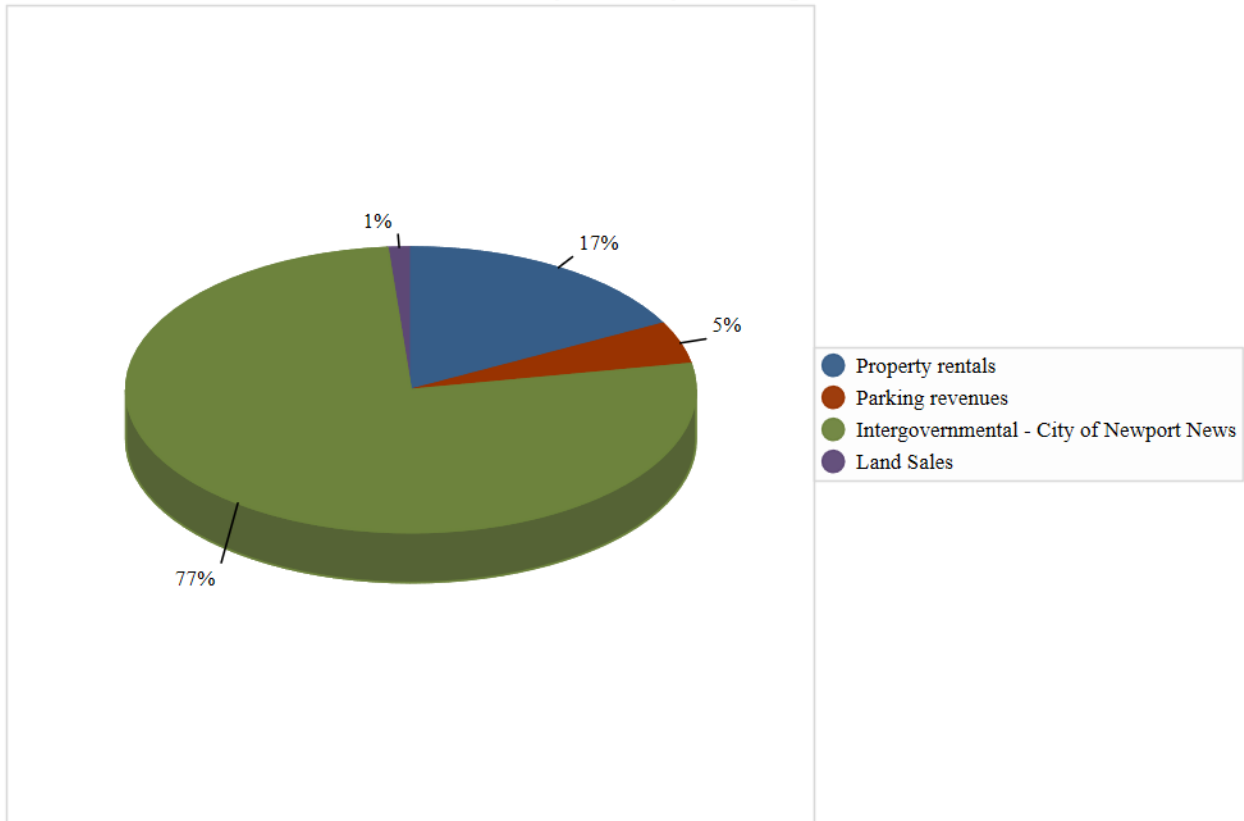
	2024	2023	2022
Current and other assets	\$ 103.40	88.17	96.61
Capital assets, net	129.81	140.41	143.46
Total assets	<u>233.21</u>	<u>228.58</u>	<u>240.07</u>
Deferred refunding	1.65	2.08	2.53
Current and other liabilities	12.53	12.52	14.43
Long-term liabilities	36.96	44.74	54.13
Total liabilities	<u>49.49</u>	<u>57.26</u>	<u>68.56</u>
Deferred inflows of resources	25.57	16.41	19.19
Net Position			
Net investment in capital assets	85.26	90.35	82.27
Restricted	18.64	20.41	19.39
Unrestricted	<u>55.90</u>	<u>46.23</u>	<u>53.19</u>
Total net position	<u>\$ 159.80</u>	<u>156.99</u>	<u>154.85</u>

Total assets and deferred outflows of resources of the Authorities exceeded recorded liabilities and deferred inflows of resources by \$159.80 million as of June 30, 2024, \$156.99 million as of June 30, 2023 and \$154.85 million as of June 30, 2022. Approximately \$18.64 million in fiscal year 2024, \$20.41 million in fiscal year 2023, and \$19.39 million in fiscal year 2022 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 ended June 30, 2024 and 2023**

The Authorities' total operating revenues were \$29.83 million for the fiscal year ending June 30, 2024. Property rentals comprised of both operating and capital lease revenues represented 17% of total operating revenues. Intergovernmental revenue from the City was \$22.84 million, or 77% of total operating revenues in fiscal year 2024. Parking contributions and parking fund revenues in FY 2024 were approximately \$1.42 million, or 5% of total operating revenues. In FY 2023, total operating revenues were \$23.71 million, comprised of lease revenue of 26%, intergovernmental revenue of 66%, parking revenue of 6% and land sales of 2%. In fiscal year 2022, total operating revenues equaled \$19.43 million, comprised of lease revenue of 29%, intergovernmental of 56%, land sales of 9%, parking revenue of 6%.

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 ended June 30, 2024 and 2023

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

Table A-2
Changes in Authorities' Position
For the years ended June 30, 2024, 2023 and 2022
(in Millions)

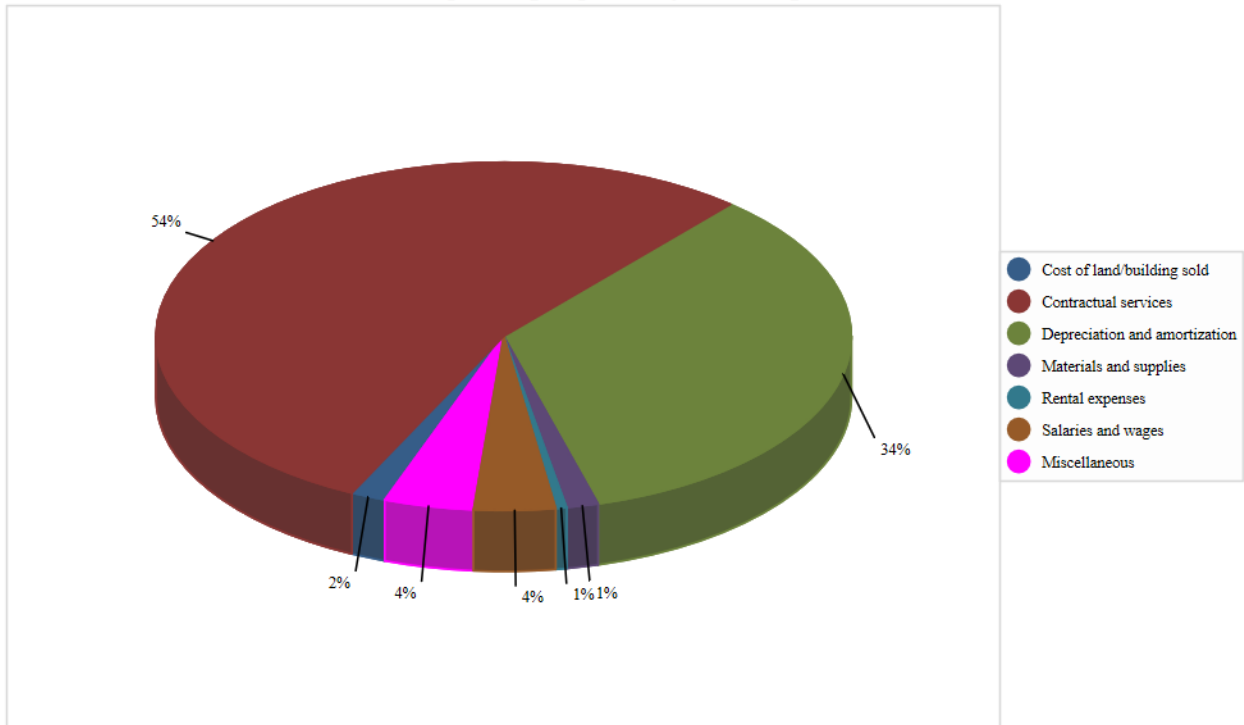
	2024	2023	2022
Revenues and expenses:			
Operating revenues:			
Property rentals	\$ 5.17	6.17	5.71
Parking contributions	0.20	0.20	0.18
Land sales	0.40	0.50	1.78
Parking Fund revenues	1.22	1.18	0.93
Intergovernmental - City of Newport News	22.84	15.66	10.83
Total operating revenues	<u>29.83</u>	<u>23.71</u>	<u>19.43</u>
Operating expenses:			
Cost of land sold	0.32	0.67	0.41
Contractual services	10.63	11.35	8.19
Depreciation and amortization	6.74	7.20	7.15
Materials and supplies	0.29	0.53	0.48
Rental expenses	0.10	0.20	0.30
Salaries and wages	0.74	0.66	0.77
Miscellaneous	0.82	0.75	0.74
Total operating expenses	<u>19.64</u>	<u>21.36</u>	<u>18.04</u>
Operating income	<u>10.19</u>	<u>2.35</u>	<u>1.39</u>
Non-operating revenues (expenses), net	<u>(7.38)</u>	<u>2.16</u>	<u>3.63</u>
Change in net position, before extraordinary items	2.81	4.51	5.02
Net position, beginning**	156.99	152.48	149.83
Net position, ending	<u>\$ 159.80</u>	<u>156.99</u>	<u>154.85</u>

** Net position at the beginning of the year for Fiscal Year 2023 has been adjusted downward by \$2,371,958 due to the government merger discussed in note (1)(h). See the Notes to the Financial Statements for more details.

**ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITIES
OF THE CITY OF NEWPORT NEWS, VIRGINIA
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Management's Discussion and Analysis (Unaudited)
Years ended June 30, 2024 and 2023**

The net position (assets and deferred outflows of resources over liabilities and deferred inflows of resources), increased in fiscal year 2024 by approximately \$2.81 million compared to an increase in fiscal year 2023 of \$4.51 million and an increase in fiscal year 2022 of \$5.02 million. Total operating revenues increased by approximately \$6.12 million, primarily due to an increase of intergovernmental transfers. In fiscal year 2023, intergovernmental transfers increased predominantly due to an increase in the Defense Production Zone incentive. The decrease in operating expenses in fiscal year 2024 as compared to fiscal year 2023 was \$1.72 million due to a decrease in contractual services, cost of land sold, materials and supplies, and depreciation and amortization. In fiscal year 2024, net non-operating revenues (expenses) decreased significantly as a result of the transfer of the ARC building to the U.S. Department of Energy disclosed in Note 6 of the accompanying notes to financial statements.

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 ended June 30, 2024 and 2023

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, 2024, 2023 and 2022
(In millions)

	2024	2023	2022
Buildings	\$ 186.57	203.52	198.28
Improvements, machinery and equipment (IME)	21.09	24.33	21.94
Infrastructure	2.54	2.54	2.54
Right to use asset	8.20	8.14	8.14
Construction in progress (CIP)	5.78	2.13	2.88
Accumulated depreciation/amortization	(94.38)	(100.25)	(90.33)
Total	<u>\$ 129.80</u>	<u>140.41</u>	<u>143.45</u>

At the end of fiscal year 2024, the Authorities had \$129.80 million in capital assets as compared to \$140.41 in 2023 and \$143.45 in 2022. During the year, Buildings, IME, and accumulated depreciation decreased, mainly due to the transfer of assets to the Department of Energy disclosed in Note 6 of the accompanying notes to financial statements. In fiscal year 2023, Buildings & IME increased by \$7.63 million, mainly due to the transfer of assets as a result of the government merger disclosed in note (1)(h) of the accompanying notes to financial statements. 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, 2024, 2023 and 2022
(in millions)

	2024	2023	2022
Industrial revenue bonds - IDA	\$ 3.91	4.88	6.61
Industrial revenue bonds - EDA	33.81	37.21	44.16
Bond premiums	0.11	0.13	0.24
Notes payable	4.90	5.29	6.96
Leases (as Lessee)	3.47	4.62	5.81
Total	<u>\$ 46.20</u>	<u>52.13</u>	<u>63.78</u>

As of June 30, 2024, the Authorities had \$46.20 million of debt outstanding in bonds, notes payable and leases (as lessee) as compared to debt outstanding in June 2023 and June 2022, of \$52.13 million and \$63.78 million, respectively. In fiscal year 2023, the 2012A, 809 Omni Boulevard and the Foundry bonds were paid off.

**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 ended June 30, 2024 and 2023**

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 or the Authorities, c/o Department of Development, 2400 Washington Avenue, 3rd Floor, Newport News, Virginia 23607.

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

Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets		
Current assets:		
Cash (note 2)	\$ 15,058,685	\$ 11,442,413
Restricted cash and cash equivalents (note 3)	18,264,970	17,773,477
Receivables:		
Newport News Capital Fund - revolving loans	126,374	158,737
Accounts, notes & grants, net of allowance (note 5)	349,978	310,726
Other Receivables (Current)	102,571	143,886
Lease Receivable (Current) (note 7)	3,918,943	1,757,515
Total current assets	37,821,521	31,586,754
Noncurrent assets:		
Restricted cash and cash equivalents (note 3)	406,369	2,669,472
Deposits with Management Company	449,271	616,221
Receivables:		
Newport News Capital Fund - revolving loans	537,099	664,111
Accounts, notes & grants, net of allowance (note 5)	2,804,354	1,059,424
Lease Receivable (note 7)	22,164,882	15,011,062
Land held for lease or resale (note 4)	39,217,130	36,557,286
Capital assets:		
Non depreciable capital assets: (note 6)		
Construction in progress	5,784,535	2,125,433
Depreciable capital assets: (note 6)		
Buildings	186,569,115	203,519,114
Improvements	18,622,450	21,868,846
Machinery and equipment	2,462,464	2,464,831
Infrastructure	2,543,500	2,543,500
Lease Right to Use Asset	8,203,110	8,144,259
Accumulated depreciation/amortization	(94,379,542)	(100,253,507)
Depreciable capital assets	124,021,097	138,287,043
Total noncurrent assets	195,384,737	196,990,052
Total assets	233,206,258	228,576,806
Deferred Outflows of Resources		
Deferred amount on debt refunding	1,653,024	2,075,914
Liabilities		
Current liabilities:		
Trade accounts payable and accrued liabilities	3,246,506	5,018,633
Construction accounts payable	7,513	67,800
Notes payable - current portion (note 8)	659,419	389,696
Industrial revenue bonds payable-current (note 8)	7,322,726	5,797,726
Liabilities payable from restricted assets	33,226	29,335
Leases (as Lessee) (note 8)	1,264,279	1,204,657
Total current liabilities	12,533,669	12,507,847
Notes payable (note 8)	4,240,574	4,900,238
Industrial revenue bonds payable (note 8)	30,504,965	36,427,690
Leases (as Lessee) (note 8)	2,209,591	3,415,019
Total liabilities	49,488,799	57,250,794
Deferred Inflows of Resources		
Deferred revenues	230	-
Lease Related	25,567,223	16,414,088
Total deferred inflows of resources	25,567,453	16,414,088
Net Position		
Net investment in capital assets	85,257,101	90,353,365
Restricted:		
Capital projects	16,908,229	18,721,876
Capital loans	1,729,884	1,691,738
Unrestricted	55,907,816	46,220,859
Total net position	\$ 159,803,030	\$ 156,987,838

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, 2024 and 2023

	2024	2023
Operating revenues:		
Property rentals	\$ 5,168,020	\$ 6,173,593
Parking contributions	201,731	199,708
Land sales	398,184	495,255
Parking Fund revenues	1,221,616	1,176,518
Intergovernmental - City of Newport News (note 10)	22,837,470	15,659,088
Total operating revenues	29,827,021	23,704,162
Operating expenses:		
Cost of land sold	319,190	665,302
Contractual services	10,629,123	11,347,664
Depreciation and amortization	6,742,873	7,196,059
Materials and supplies	286,157	533,970
Rental expenses	97,376	203,255
Salaries and wages	737,253	655,366
Miscellaneous	817,630	759,535
Total operating expenses	19,629,602	21,361,151
Operating income	10,197,419	2,343,011
Non-operating revenues (expenses):		
Interest Income	2,308,790	1,645,343
Interest expense	(1,498,602)	(1,962,535)
Gain/(Loss) on lease termination	(4,872)	-
Bond and administrative fee income	202,025	268,873
Housing and Community Development Grants	28,000	-
Resurgence Grant	75,250	-
Micro Enterprise Grants	(48,500)	55,500
e-Commerce grant	15,000	15,000
Letter of credit and trustee fees	(65,200)	(65,200)
Debt forgiveness-BCGS	-	2,120,169
Other income (expenses), net	146,924	85,848
Gain/(Loss) disposal of assets	1,044,570	-
Land Donation (see note 6)	4,695,300	-
Gain/(Loss) sale of assets (see note 6)	(14,280,912)	-
Non-operating revenues (expenses), net	(7,382,227)	2,162,998
Change in net position	2,815,192	4,506,009
Net position at beginning of year, as previously reported	156,987,838	154,853,788
Restatement (see note 1.h.)	-	2,371,959
Net position at beginning of year, as restated	156,987,838	152,481,829
Net position at end of year	\$ 159,803,030	\$ 156,987,838

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Receipts from leased properties	\$ 2,323,891	\$ 4,041,369
Receipts from Parking Authority	1,221,616	1,176,518
Parking contributions received from developers	201,731	199,708
Receipts from City of Newport News	22,837,470	15,992,991
Receipts from land sales, net of settlement charges	398,184	485,220
(Amounts lent)/payments received from loans and mortgages	159,375	(135,657)
Payments to suppliers	(16,400,371)	(12,854,292)
Payments to employees	(737,253)	(655,366)
	<u>10,004,643</u>	<u>8,250,491</u>
Cash flows used in capital and related financing activities:		
Acquisition of capital assets	(7,249,403)	(1,019,255)
Net proceeds from sale of capital assets	2,631,183	-
Repayment and retirement of industrial revenue bonds and note payable	(4,787,666)	(10,459,162)
Interest paid	(1,075,760)	(1,509,852)
Lease liability principal payments made	(1,204,657)	(1,189,163)
Other revenues	353,499	360,020
	<u>(11,332,804)</u>	<u>(13,817,412)</u>
Cash flows from investing activities:		
Interest received	2,279,630	1,647,402
Lease receivable payments received	3,072,689	3,035,666
Loans issued	(2,179,496)	(312,197)
	<u>3,172,823</u>	<u>4,370,871</u>
Net cash provided by investing activities		
	<u>3,172,823</u>	<u>4,370,871</u>
Increase (decrease) in cash and restricted cash and cash equivalents	1,844,662	(1,196,050)
Cash and cash equivalents at beginning of year	31,885,362	33,081,412
Cash and cash equivalents at end of period	<u>\$ 33,730,024</u>	<u>\$ 31,885,362</u>
Reported as:		
Cash	\$ 15,058,685	\$ 11,442,413
Restricted cash and cash equivalents (current)	18,264,970	17,773,477
Restricted cash and cash equivalents at end of year (non-current)	406,369	2,669,472
Cash and restricted cash and cash equivalents at end of year	<u>\$ 33,730,024</u>	<u>\$ 31,885,362</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 10,197,419	\$ 2,343,011
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	6,742,873	7,196,059
Deferred lease revenue recognized	(3,239,675)	(3,021,646)
Noncash intergovernmental - City of Newport News	-	1,671,182
Changes in assets and liabilities:		
Land inventory	(2,659,845)	(682,012)
Mortgages receivable	159,375	(135,657)
Other receivables, net	632,740	547,538
Trade accounts payable and accrued liabilities	(1,828,474)	332,666
Deferred revenues	230	(650)
	<u>(192,776)</u>	<u>5,907,480</u>
Net cash provided by operating activities	<u>\$ 10,004,643</u>	<u>\$ 8,250,491</u>

Non-Cash Investing and Financing Activities:

1. In FY24, the Authorities entered into a lessee lease, acquiring a right to use asset in exchange for a lease liability in the amount of \$58,851.
2. In FY24, the Authorities entered into a lessor lease, acquiring a lease receivable in exchange for a deferred inflows of resources in the amount of \$12,453,302.

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, 2024 and 2023**

(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 Annual Comprehensive 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) Measurement Focus and 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 the timing of 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 used in operations 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. In addition, leases in which the Authorities are the lessee may create an intangible right to use assets, which is also treated as capital asset - see note (1)(g) for more detail.

**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, 2024 and 2023**

(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
Lease right to use assets	Shorter of lease term or asset useful life

(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 assets 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. Deferred inflows of resources represent revenues that are not available until a future period. The deferred inflows will be recognized as inflows of resources in a future reporting periods when they become available.

(f) Miscellaneous

Cash Equivalents

For purposes of the Statements 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, 2024 and 2023, there was \$5,020,274 and \$4,984,713 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 restricted resources could not 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, 2024 and 2023**

(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.

(g) Leases

Lessee: The Authorities engage in various lease agreements throughout the year in which they are the lessee. The Authorities recognize a lease liability and an intangible right-to-use lease asset (lease asset) in the financial statements presented herein to account for these leases.

At the commencement of a lease, the Authorities initially measure the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to lessee leases include how the Authorities determine (1) the discount rate they use to discount the expected lease payments to present value, (2) the lease term, and (3) the lease payments.

- The Authorities use the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authorities generally use their estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and the exercise price of any purchase options that the Authorities are reasonably certain to exercise.

The Authorities monitor changes in circumstances that would require a remeasurement of their leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the Statement of Net Position.

Lessor: The Authorities engage in various lease agreements throughout the year in which they are the lessor. The Authorities recognize a lease receivable and a deferred inflow of resources in the financial statements presented herein to account for these leases.

At the commencement of a lease, the Authorities initially measure the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources is recognized as revenue over the life of the lease term.

**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, 2024 and 2023**

(1) Summary of Significant Accounting Policies (continued)

(g) Leases (continued)

Key estimates and judgments related to lessor leases include how the Authorities determine (1) the discount rate they use to discount the expected lease receipts to present value, (2) the lease term, and (3) the lease receipts.

- The Authorities use their estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.
- The Authorities monitor changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

(h) Government Merger

Effective June 30, 2023, the Authorities were conveyed all the assets and liabilities of what was Brooks Crossing Grocery Store, LLC by the Newport News Redevelopment and Housing Authority, which had solely owned Brooks Crossing Grocery Store, LLC. Brooks Crossing Grocery Store, LLC was originally created to facilitate the construction of a building at 3101 Jefferson Avenue in Newport News to be leased to a grocery store operator, and to take advantage of the New Market Tax Credit Program. The primary reason for conveyance at this time is to simplify the ownership structure of the property at 3101 Jefferson Avenue now that the necessary period to take advantage of the New Market Tax Credits has passed.

This conveyance of property to the Authorities is treated as a government merger. As such, for financial reporting purposes, the merger date is the beginning of the reporting period in which the combination occurs, regardless of the actual date of the merger. Thus, the assets and liabilities of Brooks Crossing Grocery Store, LLC have been added to the beginning balances of the Authorities as of July 1, 2022, and the activity of Brooks Crossing Grocery Store, LLC for fiscal year 2023 has been included in the financial statements for the Authorities presented herein.

**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, 2024 and 2023**

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

(h) Government Merger (continued)

The amounts recognized by the Authorities as of July 1, 2022 related to the merger described above are:

	<u>As of July 1, 2022</u>
Current Assets	
Cash	\$ 43,817
Prepaid Assets	12,015
Total Current Assets	55,832
Land held for resale	244,000
Capital Assets:	
Buildings	5,135,986
Improvements	13,500
Machinery and Equipment	2,380,157
Accumulated Depreciation	(2,730,603)
Total Capital Assets	4,799,040
Total Assets	5,098,872
Current Liabilities	
Trade Accounts Payable and Accrued Liabilities	9,600
Other Payable	48,061
Total Current Liabilities	57,661
Long-Term Liabilities	
Notes payable	7,413,169
Total Long-Term Liabilities	7,413,169
Total Liabilities	7,470,830
Net Position	
Net investment in capital assets	(2,614,129)
Unrestricted	242,171
Total Net Position	(2,371,958)

There were no significant adjustments made to bring into conformity the individual accounting policies of either entity or to adjust for impairment of capital assets upon the merger.

**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, 2024 and 2023**

(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 their 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, 2024 and June 30, 2023 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, 2024 and June 30, 2023, were rated by Standard & Poors. The rating for the LGIP is presented below using the Standard & Poors rating scale.

<u>Assets held by the Treasurer</u>	<u>Fair value</u>	<u>Credit rating</u>	<u>Average maturity (years)</u>
LGIP - year ending 2024	\$ 12,535,441	AAAm	0.16
LGIP - year ending 2023	\$ 13,535,885	AAAm	0.16

**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, 2024 and 2023**

(3) Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents dedicated for specific projects and activities at June 30, 2024 and 2023 are as follows:

	2024	2023
Applied Research Center Fund	\$ 1,202,750	\$ 1,305,766
Air Service Enhancement Fund	1,165,206	1,134,552
City Center at Oyster Point	6,919,053	6,061,428
Bond Escrow Funds	406,369	351,369
Newport News Capital Fund	1,057,477	844,755
Micro Loan Fund	12,410	24,135
Rouse Tower Fund	4,452,086	4,403,297
City Center Garage Escrow Accts and Imprest Fund	25	25
Parking Authority Fund	1,945,545	1,695,545
Brooks Crossing	29,475	27,907
Tourism Zones (non-current)	-	2,318,105
Tourism Zones (Current)	373,925	-
Reserve for Incentive	-	1,149,134
FIG Grant	608,335	665,063
Animal Shelter Reserve	248,683	211,868
Sherwood Reserves	250,000	250,000
	<u>\$ 18,671,339</u>	<u>\$ 20,442,949</u>
Total		
Classified as:		
Current	\$ 18,264,970	\$ 17,773,477
Noncurrent	406,369	2,669,472
	<u>\$ 18,671,339</u>	<u>\$ 20,442,949</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, 2024 and 2023**

(4) Land Held for Lease or Resale

Land held for lease or resale at June 30, 2024 and 2023 is comprised of the following tracts:

	2024	2023
Oakland Industrial Park	\$ 3,786,991	\$ 3,786,991
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	674,943	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	2,745,445	2,809,635
Oriana Road	1,066,900	1,066,900
Rouse Tower Land	1,164,800	1,164,800
11008 Warwick Blvd/89 Nelson Drive	2,845,950	-
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	2,696,860	2,696,860
Chase	1,105,938	1,105,938
K-Mart	3,226,075	3,226,075
351 25th Street	347,500	347,500
3101 Jefferson Ave (BCGS)	244,000	244,000
Miscellaneous parking lots	874,323	874,323
Miscellaneous parcels	2,057,116	1,924,032
Total	<u>\$ 39,217,130</u>	<u>\$ 36,557,286</u>

(5) Other Notes Receivable

The largest component of receivables, as of June 30, 2024 and 2023, is two promissory notes. The first 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, 2024 and 2023 was \$3,037,590, plus accrued interest of \$1,811,735 and \$1,705,419 for June 30, 2024 and 2023, 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 2024, 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.

In addition, in December 2023, The IDA acquired the GAP financing loan related to the Tourism Zone Incentive Program performance agreement with CCOP Thimble Shoals One, LLC. The original amount of the note acquired was \$2,139,757 and the balance of the note as of June 30, 2024 was \$2,044,927. The repayment terms are for ten (10) years at an interest rate of three percent (3%) per annum.

**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, 2024 and 2023**

(6) Capital Assets

Capital assets at June 30, 2024 and 2023 and related changes for the years then ended are as follows:

	Balance July 1, 2023	Increases	Decreases	Balance June 30, 2024
Capital assets, not being depreciated:				
Construction in progress	\$ 2,125,433	\$ 4,248,011	\$ (588,909)	\$ 5,784,535
Capital assets, being depreciated**:				
Buildings	203,519,114	3,590,301	(20,540,300)	186,569,115
Improvements	21,868,846	-	(3,246,396)	18,622,450
Infrastructure	2,543,500	-	-	2,543,500
Machinery and equipment	2,464,831	-	(2,367)	2,462,464
Right to use asset - Buildings	8,144,259	58,851	-	8,203,110
Total capital assets, being depreciated**	<u>238,540,550</u>	<u>3,649,152</u>	<u>(23,789,063)</u>	<u>218,400,639</u>
Less accumulated depreciation/amortization for **:				
Buildings	(80,741,306)	(4,755,473)	10,933,329	(74,563,450)
Improvements	(11,833,974)	(613,288)	1,681,144	(10,766,118)
Infrastructure	(1,695,516)	(97,768)	-	(1,793,284)
Machinery and equipment	(2,382,201)	(70,825)	2,366	(2,450,660)
Right to use asset - Buildings	(3,600,510)	(1,205,520)	-	(4,806,030)
Total accumulated depreciation/amortization**	<u>(100,253,507)</u>	<u>(6,742,873)</u>	<u>12,616,839</u>	<u>(94,379,542)</u>
Total capital assets being depreciated, net	<u>138,287,043</u>	<u>(3,093,722)</u>	<u>(11,172,224)</u>	<u>124,021,097</u>
Capital assets, net	<u>\$ 140,412,476</u>	<u>\$ 1,154,289</u>	<u>\$ (11,761,133)</u>	<u>\$ 129,805,632</u>

**In October 2023, the Authorities sold the land and associated building to the U.S Department of Energy (DOE). The Authorities did not receive any monetary consideration from DOE as part of the sale. The building will be leveraged to enhance Jefferson Lab's continued growth, including serving as a visitor and STEM education outreach center for the federal facility. In October 2023, as part of this sale agreement, the College of William and Mary donated the land associated with the building to the Authorities.

	July 1, 2022	Increases	Decreases	June 30, 2023
Capital assets, not being depreciated:				
Construction in progress	\$ 2,876,406	\$ 949,218	\$ (1,700,191)	\$ 2,125,433
Capital assets, being depreciated*:				
Buildings	203,420,069	99,045	-	203,519,114
Improvements	21,868,846	-	-	21,868,846
Infrastructure	2,543,500	-	-	2,543,500
Machinery and equipment	2,464,831	-	-	2,464,831
Right to use assets	8,144,259	-	-	8,144,259
Total capital assets, being depreciated*	<u>238,441,505</u>	<u>99,045</u>	<u>-</u>	<u>238,540,550</u>
Less accumulated depreciation/amortization for*:				
Buildings	(75,895,770)	(4,845,536)	-	(80,741,306)
Improvements	(11,121,414)	(712,560)	-	(11,833,974)
Infrastructure	(1,597,745)	(97,771)	-	(1,695,516)
Machinery and equipment	(2,042,179)	(340,022)	-	(2,382,201)
Right to Use Asset	(2,400,340)	(1,200,170)	-	(3,600,510)
Total accumulated depreciation/amortization	<u>(93,057,448)</u>	<u>(7,196,059)</u>	<u>-</u>	<u>(100,253,507)</u>
Total capital assets being depreciated, net	<u>145,384,057</u>	<u>(7,097,014)</u>	<u>-</u>	<u>138,287,043</u>
Capital assets, net	<u>\$ 148,260,463</u>	<u>\$ (6,147,796)</u>	<u>\$ (1,700,191)</u>	<u>\$ 140,412,476</u>

*Balances at the beginning of the year for Fiscal Year 2022 have been adjusted due to the government merger discussed in note (1)(h).

**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, 2024 and 2023**

(7) Lease Agreements

(a) The Authorities as Lessee

During Fiscal Year 2024, the Authorities were engaged in 3 (three), and during Fiscal Year 2023, the Authorities were engaged in 2 (two) leases as the lessee. The underlying assets for all of these leases were buildings and ranged in lease terms from 16 months to just under 6 (six) years as of the beginning of Fiscal Year 2024. In addition, certain leases have extension and/or termination options, for which the Authorities have made determinations as to if those options are reasonably certain to be exercised, and those determinations are reflected in the calculations presented, in accordance with GAAP. During Fiscal Years 2023 and 2024, the Authorities were engaged in one sublease transaction involving a lease in which the Authorities were the lessee. In this case, the Authorities are the lessee of a building (5720 Marshall Ave), and then the Authorities sublease that building, via a non-GAAP lease, to the Newport News Public Schools. The sublease is a non-GAAP lease as it is a non-exchange transaction (the lease is for \$1 of consideration). Thus, since the sublease is not a GAAP lease, only the original lease where the Authorities are the lessee is included in the disclosures and calculations below, in accordance with GAAP.

The Authorities are not aware of any variable payments made or required to be made in relation to their lessee leases which are not included in the measurement of the lease liability.

The Authorities do not believe there are any residual value guarantees, either needing to be included in the measurement of the lease liability or otherwise, in their lessee leases.

The Authorities did not have any other outflows of resources in Fiscal Year 2024 or 2023 for other payments related to their lessee leases, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability.

(b) The Authorities as Lessor

During Fiscal Year 2024, the Authorities were engaged in 23 (twenty-three), and during Fiscal Year 2023, the Authorities were engaged in 27 (twenty-seven) leases as the lessor. These leases were for various underlying assets, and ranged from the lease of land that the City's Regional Animal Shelter sits on to leases of various cell towers and buildings throughout the City. The lease terms of these leases ranged from 12 months to just over 29 years as of the beginning of Fiscal Year 2024. In addition, certain leases have extension and/or termination options, for which the Authorities have made determinations as to if those options are reasonably certain to be exercised, and those determinations are reflected in the calculations presented, in accordance with GAAP. See the lessee disclosures below for information on any sublease transactions in which the Authorities are engaged.

**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, 2024 and 2023**

(7) Lease Agreements (continued)

(b) The Authorities as Lessor (continued)

The Authorities engage as the lessor in certain leases in which the payments required to be made by the lessee are, in part, tied to the amounts the Authorities owe on certain debts associated with the buildings being leased. On one particular lease agreement, the principal payments on that debt is fixed, but the interest payments are variable, with the interest rate being adjusted at least annually based on current market conditions as determined by a "Remarketing Agent" as defined in the debt documents. In accordance with GAAP, the lease receivable for that lease was determined using expected payments based on rates as of the date of GAAP implementation (since this lease was already in effect at the time of GAAP implementation). In Fiscal Year 2023, the inflows of resources due to these variable payments that were previously included in the measurement of the lease receivable were \$139,343, but due to adjustments in the rate used to determine those variable payments, actual inflows of resources due to these variable payments collected during Fiscal Year 2023 were \$217,329. In Fiscal Year 2024, the inflows of resources due to these variable payments that were previously included in the measurement of the lease receivable were \$119,408, but due to adjustments in the rate used to determine those variable payments, actual inflows of resources due to these variable payments collected during Fiscal Year 2024 were \$285,063. In addition, the Authorities engage in one lease where variable payments were scheduled to begin in Fiscal Year 2024 based on a percentage of gross sales of the tenant, but those variable payments were not enforced as the Authorities continue to renegotiate the lease with the tenant. The Authorities are not aware of further variable payments made or required to be made in relation to their lessor leases which are not included in the measurement of the lease receivable.

The total amount of inflows of resources from the Authorities' lessor leases during Fiscal Year 2024 are as follows:

<u>Lease Revenue</u>	<u>Interest Revenue</u>	<u>Other*</u>
\$ 3,239,674	\$ 564,234	\$ 165,655

*The "Other" amount above represents the difference between the variable payments expected to be received as inflows of resources during the fiscal year when the lease receivable was measured and those actually received during the fiscal year. This amount changed due to adjustments in the underlying rate used to calculate the payments. See paragraph above regarding variable payments for more details.

The total amount of inflows of resources from the Authorities' lessor leases during Fiscal Year 2023 are as follows:

<u>Lease Revenue</u>	<u>Interest Revenue</u>	<u>Other*</u>
\$ 3,021,647	\$ 359,200	\$ 77,986

*The "Other" amount above represents the difference between the variable payments expected to be received as inflows of resources during the fiscal year when the lease receivable was measured and those actually received during the fiscal year. This amount changed due to adjustments in the underlying rate used to calculate the payments. See paragraph above regarding variable payments for more details.

There were no inflows of resources recognized in Fiscal Years 2024 or 2023 for variable or other payments not previously included in the measurement of the lease receivable (other than those disclosed above), to include any inflows of resources related to residual value guarantees or termination penalties.

**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, 2024 and 2023**

(7) Lease Agreements (continued)

(b) The Authorities as Lessor (continued)

The principal and interest expected to be collected on the Authorities' lease receivables for lessor leases for the succeeding Fiscal Years are as follows:

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2025	\$ 3,918,943	\$ 648,732	\$ 4,567,675
2026	3,941,306	534,660	4,475,966
2027	4,285,981	415,374	4,701,355
2028	3,977,714	288,159	4,265,873
2029	2,448,881	179,015	2,627,896
2030 - 2034	2,236,673	645,526	2,882,199
2035- 2039	1,864,415	460,029	2,324,444
2040 - 2044	1,621,693	278,883	1,900,576
2045 - 2049	1,657,769	96,477	1,754,246
2050 - 2053	130,450	6,796	137,246
	<u>\$ 26,083,825</u>	<u>\$ 3,553,651</u>	<u>\$ 29,637,476</u>

The Authorities have issued certain debt for which the principal and interest payments are secured by lease payments. In the event of default by the lessee on those leases which secure debt payments, the holders of the Bonds and Notes have no recourse against the Authorities, but must look to the property and lessee for indemnity.

The Authorities are the lessor in four (4) leases with related parties. All of these leases are with the City, which reports the Authorities as a discretely presented component unit within its annual comprehensive financial report. Relevant information on these leases is provided in the following table:

<u>Description of Leased Property</u>	<u>Counterparty to Lease</u>	<u>Lease Expiration*</u>	<u>Lease Receivable**</u>	<u>Deferred Inflows of Resources**</u>
Coats & Clark Building - 5849 Jefferson Ave	City of Newport News	7/31/2039	\$ 1,266,678	\$ 1,144,865
Rouse Tower - 6060 Jefferson Ave	City of Newport News	11/30/2028	11,130,708	11,000,417
Animal Shelter Site - 5843 Jefferson Ave	City of Newport News	10/31/2052	836,763	803,521
Sherwood Shopping Center - 13771 Warwick Blvd Unit 29	City of Newport News	6/30/2026	12,696	12,443
			<u>13,246,845</u>	<u>12,961,246</u>

* To include reasonably certain options

** As of the end of the fiscal year

**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, 2024 and 2023**

(8) Long-Term Liabilities

The Authorities' long-term liabilities consist of Industrial Revenue Bonds, Notes Payable and Lease Liabilities. Industrial Revenue Bonds and Notes Payable (the "Bonds and Notes") have been issued in the name of the Authorities to finance construction projects. The Bonds and Notes, both as to principal and interest, are payable generally from lease proceeds. In the event of default by the lessee, the holders of the Bonds and Notes have no recourse against the Authorities, but must look to the property and lessee for indemnity. In 2024 and 2023, approximately \$8.2 million and \$9.5 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, 2024 and June 30, 2023, the Authorities have outstanding bonds and notes from direct borrowings in the amount of \$15,087,677 and \$17,474,542. Significant events of default are the presence of falsifying or misleading information in the financing documents, assignment without prior consent, or non-payment. 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. Bonds 2012A, 809 Omni Boulevard, and Foundry were paid off during fiscal year 2023. The Authorities have no lines of credit.

At June 30, 2024 and June 30, 2023, the Authorities had lease liabilities of approximately \$3.5 million and \$4.6 million, respectively.

**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, 2024 and 2023**

(8) Long-Term Liabilities (continued)

A summary of changes in bonds, notes and lease liabilities at June 30, 2024 and June 30, 2023 are comprised of the following:

	Issue date	Maturity date	Effective interest rates	Balance July 1, 2023	Additions	Reductions	Balance June 30, 2024	Amount due within one year
Lease liability	Various	Various	Various	\$ 4,619,676	\$ 58,851	\$ (1,204,657)	\$ 3,473,870	\$ 1,264,279
Bonds payable								
Series 2012B	10/12/12	07/01/31	0.76%	9,410,000	-	-	9,410,000	1,690,000
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%	17,980,000	-	(2,380,000)	15,600,000	2,335,000
Total bonds payable				29,910,000	-	(2,380,000)	27,530,000	4,025,000
Premium on bonds payable - 2015				130,808	-	(20,801)	110,007	20,802
Total bonds payable, net				30,040,808	-	(2,400,801)	27,640,007	4,045,802
Direct borrowings:								
Bonds payable:								
Downtown Eng	04/05/00	07/01/31	2.58%	7,300,000	-	(1,020,000)	6,280,000	2,300,000
A-School garage	07/23/15	09/01/27	3.80%	4,884,608	-	(976,924)	3,907,684	976,924
Total direct borrowing bonds payable				12,184,608	-	(1,996,924)	10,187,684	3,276,924
Notes payable:								
Sherwood note A	11/23/16	01/01/32	3.14%	2,776,667	-	(163,334)	2,613,333	326,667
Sherwood note B	11/23/16	01/01/32	3.14%	1,756,666	-	(103,333)	1,653,333	206,667
Sears Renovation	07/31/20	07/31/28	2.39%	756,601	-	(123,274)	633,327	126,085
Total direct borrowing notes payable				5,289,934	-	(389,941)	4,899,993	659,419
Total direct borrowings				17,474,542	-	(2,386,865)	15,087,677	3,936,343
Total bonds, notes payable and lease liabilities				\$ 52,135,026	\$ 58,851	\$ (5,992,323)	\$ 46,201,554	\$ 9,246,424

**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, 2024 and 2023**

(8) Long-Term Liabilities (continued)

	Issue date	Maturity date	Effective interest rates *	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Amount due within one year
Lease liability	Various	Various	Various	\$ 5,808,839	\$ -	\$ (1,189,163)	\$ 4,619,676	\$ 1,204,657
Bonds payable								
Series 2012A	10/12/12	07/01/2030	4.00%	2,065,000	-	(2,065,000)	-	-
Series 2012B	10/12/12	07/01/2031	0.76%	12,895,000	-	(3,485,000)	9,410,000	-
Series 2015	07/23/15	09/01/2027	3.48%	2,520,000	-	-	2,520,000	-
Series 2021B	02/09/21	07/1/2030	3.00%	18,320,000	-	(340,000)	17,980,000	2,380,000
Total bonds payable				35,800,000	-	(5,890,000)	29,910,000	2,380,000
Premiums on bonds payable - 2012				91,121	-	(91,121)	-	-
Premiums on bonds payable - 2015				151,609	-	(20,801)	130,808	20,802
Total bonds payable, net				36,042,730	-	(6,001,922)	30,040,808	2,400,802
Direct borrowings:								
Bonds payable:								
Downtown Eng	04/05/00	07/01/2031	2.58%	8,360,000	-	(1,060,000)	7,300,000	2,420,000
A-school garage	07/23/15	09/01/2027	3.80%	5,861,530	-	(976,922)	4,884,608	976,924
Foundry bond	12/18/180	1/15/23	3.40%	750,000	-	(750,000)	-	-
Total direct borrowing bonds payable				14,971,530	-	(2,786,922)	12,184,608	3,396,924
Notes payable:								
809 Omni Blvd	08/31/07	07/01/2017	3.49%	749,985	-	(749,985)	-	-
Sherwood note A	11/23/16	01/01/2032	3.14%	3,266,666	-	(489,999)	2,776,667	163,333
Sherwood note B	11/23/16	01/01/2032	3.14%	2,066,669	-	(310,003)	1,756,666	103,333
Sears Renovation	7/31/20	07/31/28	2.39%	876,932	-	(120,331)	756,601	123,030
CDF COCRF Loan B**	03/01/16	03/01/23	1.00	1,160,250	-	(1,160,250)	-	-
CDF Loan B**	03/01/16	03/01/23	1.00	959,919	-	(959,919)	-	-
Total direct borrowings notes payable				9,080,421	-	(3,790,487)	5,289,934	389,696
Total direct borrowings				24,051,951	-	(6,577,409)	17,474,542	3,786,620
Total bonds, notes payable, and lease liabilities				\$ 65,903,520	\$ -	\$ (13,768,494)	\$ 52,135,026	\$ 7,392,079

* v denotes variable rate bonds

**This debt was conveyed to the Authorities due to the government merger discussed in note (1)(h). The debt was related to New Markets Tax Credits and at the end of the New Markets Tax Credits Compliance period the debt was forgiven.

**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, 2024 and 2023**

(8) Long-Term Liabilities (continued)

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

	Lessee Leases		Bonds		Direct Borrowings		Total Leases, Bonds and Notes	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 1,264,279	\$ 24,671	\$ 4,025,000	\$ 604,108	\$ 3,936,343	\$ 429,526	\$ 9,225,622	\$ 1,058,305
2026	1,251,406	14,049	3,935,000	533,510	2,539,425	340,470	7,725,831	888,029
2027	339,771	7,407	3,915,000	441,158	2,788,329	251,183	7,043,100	699,748
2028	349,890	4,232	3,555,000	357,370	2,410,245	158,433	6,315,135	520,035
2029	268,524	1,033	3,490,000	283,052	1,433,333	91,579	5,191,857	375,664
2030-2034	-	-	8,610,000	376,842	1,980,002	91,497	10,590,002	468,339
Totals	\$ 3,473,870	\$ 51,392	\$ 27,530,000	\$ 2,596,040	\$ 15,087,677	\$ 1,362,688	\$ 46,091,547	\$ 4,010,120

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 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 January 2023 the foundry grant was paid in full.

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 was completed in fiscal year 2022 and totaled \$1,035,368. The renovation was 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. 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. In 2023, the authorities paid the balance remaining on Series 2012A bonds.

In September 2022, the Authorities paid off the remaining debt on the 809 Omni Boulevard property located in City Center.

**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, 2024 and 2023**

(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, 2024 and June 30, 2023 there were twelve (12) bonds outstanding with an aggregate principal balance of \$363,483,658 and \$370,772,938, respectively. Conduit debt at June 30, 2024 and 2023 is listed in the accompanying schedule after the Notes to Financial Statements.

(10) Transactions with Related Parties

Intergovernmental revenues from the City were \$22,837,470 and \$15,659,088 for the year ended June 30, 2024 and June 30, 2023, 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, 2024 and 2023.

(11) Commitment and Contingencies

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

In 2014, the EDA entered into a performance agreement with CCOP Thimble Shoals One, LLC related to the Tourism Zone Incentive program. In this agreement, the EDA agreed to restrict \$1.5 million of cash on the Authorities’ Statement of Net Position and provide real property collateral with an approximate value of \$3,000,000 to assist in securing the Developer Gap financing loan. In 2024, the IDA acquired the GAP financing loan in the amount of \$2,139,757 and entered into an agreement with CCOP Thimble Shoals One, LLC for repayment of the GAP financing loan. The repayment terms are for ten (10) years at an interest rate of three percent (3%) per annum.

(12) Subsequent Events

We have evaluated subsequent events through the date of the audit report, and no significant subsequent events requiring adjustment or disclosure in the financial statements were identified.

**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, 2024 and 2023**

Bond	Date issued	Outstanding balance June 30, 2024	Outstanding balance June 30, 2023
Industrial revenue bonds - Christopher Newport University Rappahannock Hall - series 2013	12/20/2013	\$ 28,086,465	29,077,465
New Opportunity, LLC - series 2013	11/12/2013	4,172,406	5,060,609
Industrial revenue bonds - Christopher Newport University Foundation - series 2015	06/24/2015	3,350,587	3,643,920
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	19,000,000	21,000,000
Industrial revenue bonds - LifeSpire of Virginia - residential care facility - series 2016	10/12/2016	66,115,000	69,060,000
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	40,487,850	44,364,482
Industrial revenue bonds - Christopher Newport University Real Estate Foundation - Series 2019	12/18/2019	10,758,504	11,200,401
Industrial revenue bonds - Christopher Newport University Real Estate Foundation - Series 2020A	01/28/2020	14,314,829	16,233,214
Industrial revenue bonds - Christopher Newport University Real Estate Foundation - Administrative Building Project- Series 2022B	08/19/2022	21,272,376	14,666,294
Industrial revenue bonds - Christopher Newport University Real Estate Foundation - University Apartments Project (Refunding) Series 2022A	08/19/2022	5,925,641	6,466,553
		<u>\$ 363,483,658</u>	<u>370,772,938</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"), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Authorities' basic financial statements, and have issued our report thereon dated November 1, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Authorities' internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Authorities' financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Specifications.

Purpose of This Report

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

Cherry Bekaert LLP

Tysons Corner, Virginia
November 1, 2024