

**ECONOMIC DEVELOPMENT AUTHORITY OF
THE COUNTY OF CHESTERFIELD
(A Component Unit of the County of
Chesterfield, Virginia)**

Annual Financial Report

Year Ended June 30, 2020

**ECONOMIC DEVELOPMENT AUTHORITY OF
THE COUNTY OF CHESTERFIELD
(A Component Unit of the County of Chesterfield, Virginia)**

**DIRECTORY OF OFFICIALS
JUNE 30, 2020**

Board Members

Arthur Heinz, Chairman

John V. Cogbill, III, Vice-Chairman

Harril Whitehurst, Treasurer

Terri Cofer Beirne, Secretary

John W. Hughes, Assistant Secretary

Steven Micas

Dale Patton

**ECONOMIC DEVELOPMENT AUTHORITY OF
THE COUNTY OF CHESTERFIELD
(A Component Unit of the County of Chesterfield, Virginia)**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2020**

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Report of Independent Auditor

To the Board of Directors
Economic Development Authority of the County of Chesterfield
Chesterfield, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Economic Development Authority of the County of Chesterfield (the “Authority”), a component unit of the County of Chesterfield, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Economic Development Authority of the County of Chesterfield, as of June 30, 2020, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Directory of Officials is presented for purposes of additional information and is not a required part of the basic financial statements. The Directory of Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Authority's 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 Authority's internal control over financial reporting and compliance.



Richmond, Virginia
September 28, 2020

**ECONOMIC DEVELOPMENT AUTHORITY OF
THE COUNTY OF CHESTERFIELD
(A Component Unit of the County of Chesterfield, Virginia)**

**Management's Discussion and Analysis
(unaudited)**

This section of the annual financial report of the Economic Development Authority of the County of Chesterfield (the "Authority") presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended June 30, 2020. Please read it in conjunction with the Authority's financial statements and accompanying notes, which follow this section.

Financial Highlights

- Total net position increased by \$8,659,502 (117.4%) to \$16,033,706.
- Capital assets net of accumulated depreciation increased by \$1,264,597 (7.2%) to \$18,782,525.
- Long-term debt outstanding decreased \$2,043,686 (9.8%) to \$18,910,039.
- Revenues increased by \$8,844,523 (409.8%).
- Expenses increased by \$841,162 (56.0%).

Overview of the Financial Statements

The Authority's annual report consists of two parts – management's discussion and analysis (this section) and the financial statements. The financial statements offer financial information about the Authority's activities and additional information about its cash flows. The activities of the Authority are accounted for as an enterprise fund, which is used to account for governmental operations intended to recover all or a significant portion of its costs through user fees. Accordingly, the Authority's financial statements are presented in accordance with the economic resources measurement focus and the accrual basis of accounting.

The basic financial statements include three required statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. The Statement of Net Position is designed to display the financial position of the Authority. The net position of the Authority is reported in two categories:

- 1) *Net Investment in Capital Assets* – Represents the balance of capital assets, net of related debt.
- 2) *Unrestricted Net Position* – Represents those funds used at the discretion of the Authority to provide for the Authority's operations.

The Statement of Revenues, Expenses and Changes in Net Position is designed to display the operating results of the Authority. The Statement of Cash Flows is designed to display the cash inflows and outflows for the operating and financing activities of the Authority. The direct method of cash flows is utilized. The notes, a component of the financial statements, provide additional details for understanding the information presented in the statements.

Analysis of the Authority

Net Position. The Authority's assets exceeded liabilities by \$16,033,706 at the end of the current fiscal year. The Authority's net position increased by \$8,659,502 (117.4%) from the prior year (see Table 1).

**ECONOMIC DEVELOPMENT AUTHORITY OF
THE COUNTY OF CHESTERFIELD
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**Management's Discussion and Analysis, Continued
(unaudited)**

**Table 1
Condensed Summary of Net Position
As of June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Assets:		
Current and other assets	\$31,573,743	\$31,754,334
Capital assets	<u>18,782,525</u>	<u>17,517,928</u>
Total assets	<u>50,356,268</u>	<u>49,272,262</u>
Liabilities:		
Long-term debt outstanding	18,910,039	20,953,725
Other liabilities	<u>15,412,523</u>	<u>20,944,333</u>
Total liabilities	<u>34,322,562</u>	<u>41,898,058</u>
Net position:		
Net investment in capital assets	13,803,193	11,583,919
Unrestricted	<u>2,230,513</u>	<u>(4,209,715)</u>
Total net position	<u>\$16,033,706</u>	<u>\$ 7,374,204</u>

The largest portion of the Authority's net position reflects its investment in capital assets (e.g. land, land improvement, improvements other than buildings, and infrastructure), less any related debt used for acquisitions. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Authority has entered into a Development Agreement for Meadowville Technology Park Series 2005 Revenue Bonds with the County of Chesterfield, Virginia (the "County") where the County has agreed to make debt payments on behalf of the Authority. The remaining net position is an unrestricted balance.

Changes in Net Position. The Authority's total revenues increased from the prior fiscal year by \$8,844,523 (409.8%). In fiscal year 2020, approximately 51.8% of the Authority's revenues were gain on sale of capital asset and approximately 46.7% were received from the County. The remaining revenues are bond interest subsidy, interest income and other revenues. The Authority's total expenses increased from the prior year by \$841,162 (56.0%). In fiscal year 2020, approximately 23.5% were incentives, 21.6% were project related expenses, 16.3% were depreciation, 14.8% related to Meadowville operating expenses, 12.7% related to bond amortization and interest, and 8.6% related to professional fees. The remaining 2.5% were other debt related expenses, director's fees and miscellaneous expenses (see Table 2).

**ECONOMIC DEVELOPMENT AUTHORITY OF
THE COUNTY OF CHESTERFIELD
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**Management's Discussion and Analysis, Continued
(unaudited)**

**Table 2
Condensed Summary of Changes in Net Position
Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Revenues:		
Chesterfield County appropriations	\$ 5,136,375	\$2,027,438
Gain on sale of capital asset	5,701,311	-
Bond interest subsidy	88,197	94,362
Interest income	26,728	2,279
Other revenues	<u>50,386</u>	<u>34,395</u>
Total revenues	<u>11,002,997</u>	<u>2,158,474</u>
Expenses:		
Project expenses	505,732	237,293
Meadowville operating expenses	347,729	334,329
Bond amortization and interest expense	297,632	350,349
Other debt related expenses	39,466	44,652
Incentives	550,000	50,000
Professional fees	201,576	90,412
Directors' fees	9,150	11,550
Other expenses	9,414	953
Depreciation expense	<u>382,796</u>	<u>382,795</u>
Total expenses	<u>2,343,495</u>	<u>1,502,333</u>
Change in net position	<u>\$ 8,659,502</u>	<u>\$ 656,141</u>

The Authority's revenues increased by \$8,844,523 (409.8%) and total expenses increased by \$841,162 (56.0%) compared to prior fiscal year financial activity. Current year's revenues and expenses were not impacted by the COVID-19 pandemic. Management cannot predict the impact of the pandemic on future financial activity. Key elements contributing to these results are as follows:

- In the current year, the Authority reported a \$5,701,311 gain on the sale of land in Meadowville for economic development. No assets were sold in the prior year.
- County funding to the Authority increased by \$3,108,937 (153.3%) mainly due to the transfer of \$3.0 million from the County's Business and Professional License (BPOL) reserved by the County Board of Supervisors to promote economic development within the County.
- Incentive expenses increased by \$500,000 (1000.0%). In the current year, the Authority reported a Chesterfield Opportunity Fund incentive in the amount of \$375,000 and three Business Expansion Incentives totaling \$175,000 due to an increase in the number of businesses awarded grants to incentivize creating jobs and expanding infrastructure in the County. In the prior year, only one Business Expansion Incentive was reported in the amount of \$50,000.
- Project expenses increased by \$268,439 (113.1%) mainly due to an increase in scope of the design of additional roadways, storm water, waterline and related infrastructure in support of economic prospects interested in Meadowville.
- Professional fees increased by \$111,164 (123.0%) mainly due to activity related to pursuing potential economic development prospects for the County.

**ECONOMIC DEVELOPMENT AUTHORITY OF
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**Management's Discussion and Analysis, Continued
(unaudited)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2020, the Authority had invested \$18,782,525 for land and land improvements, improvements other than buildings and infrastructure. This amount represents a net increase of \$1,264,597 (7.2%) from fiscal year 2019 (see Table 3).

**Table 3
Summary of Capital Assets
(Net of Depreciation)
Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$12,724,554	\$11,077,161
Improvements other than buildings	1,191,003	1,317,792
Infrastructure	<u>4,866,968</u>	<u>5,122,975</u>
Total capital assets	<u>\$18,782,525</u>	<u>\$17,517,928</u>

Capital assets increased \$1,264,597 due to the purchase of land in the amount of \$2,995,582, sale of land valued at \$1,348,189 and annual depreciation expense of \$382,796. More detailed information about the Authority's capital assets is presented in Note 4 to the financial statements.

Long Term Debt

At year-end, the Authority had \$9,129,331 in net bonds outstanding and \$9,780,708 in notes outstanding, a decrease in long-term debt of \$2,043,686 (9.8%) compared to the previous fiscal year. During the year, the Authority made bond principal payments in the amount of \$1,370,000, amortized bond discount of \$322, and made note principal payments in the amount of \$674,008. More detailed information about the Authority's revenue bonds and tax-exempt revenue note is presented in Notes 5 and 6 to the basic financial statements, respectively.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chesterfield County Economic Development Department, 9401 Courthouse Road, Centre Court – Suite B, Chesterfield, Virginia 23832.

**ECONOMIC DEVELOPMENT AUTHORITY OF
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**Statement of Net Position
June 30, 2020**

Assets:

Current assets:

Cash and cash equivalents (Note 3)	\$ 6,489,530
Due from Chesterfield County (Note 8)	34,545
Accounts receivable	2,767

Restricted:

Cash equivalents with trustee (Note 3)	42,905
Cash and cash equivalents (Notes 3 & 8)	15,093,349
Due from Chippenham Place CDA (Note 6 & 8)	763,766
Due from Chesterfield County (Note 8)	<u>59,660</u>

Total current assets 22,486,522

Noncurrent assets:

Due from Chippenham Place CDA (Note 6 & 8)	9,087,221
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Capital assets (Note 4):

Land and land improvements	12,724,554
Improvements other than buildings	1,936,873
Infrastructure	6,159,269
Accumulated depreciation	<u>(2,038,171)</u>

Net capital assets 18,782,525

Total noncurrent assets 27,869,746

Total assets 50,356,268

Liabilities:

Current liabilities:

Accounts payable	20,951
Accrued expenses	95,824
Retainage payable	5,000
Deferred revenues	25,000

Liabilities payable from restricted assets:

Accrued expenses (Note 5, 6 & 8)	269,750
Due to Chesterfield County (Note 8)	14,995,998
Note payable (Note 6)	693,487
Bonds payable, net of discounts (Note 5)	<u>1,384,740</u>

Total current liabilities 17,490,750

Noncurrent liabilities:

Note payable (Note 6)	9,087,221
Bonds payable, net of discounts (Note 5)	<u>7,744,591</u>

Total noncurrent liabilities 16,831,812

Total liabilities 34,322,562

Net Position:

Net investment in capital assets	13,803,193
Unrestricted	<u>2,230,513</u>

Total net position \$16,033,706

See accompanying notes to financial statements.

**ECONOMIC DEVELOPMENT AUTHORITY OF
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**Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020**

Operating revenues:	
County of Chesterfield appropriations (Note 8)	\$ 517,796
Other revenues	<u>35,186</u>
Total operating revenues	<u>552,982</u>
Operating expenses:	
Meadowville expenses	347,729
Incentives	175,000
Professional service fees	201,576
Directors' fees	9,150
Other general and administrative expenses	9,414
Depreciation expense (Note 4)	<u>382,796</u>
Total operating expenses	<u>1,125,665</u>
Operating loss	<u>(572,683)</u>
Non-operating revenues (expenses):	
County of Chesterfield appropriations (Note 8)	4,618,579
Gain on sale of capital asset	5,701,311
Bond interest credit payment	88,197
Capital contribution	15,200
Interest income	26,728
Project expenses	(505,732)
Incentives	(375,000)
Bond amortization and interest expense (Note 5)	(297,632)
Other debt-related expenses	<u>(39,466)</u>
Net non-operating revenues	<u>9,232,185</u>
Change in net position	8,659,502
Net position, July 1, 2019	<u>7,374,204</u>
Net position, June 30, 2020	<u>\$16,033,706</u>

See accompanying notes to financial statements.

**ECONOMIC DEVELOPMENT AUTHORITY OF
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**Statement of Cash Flows
Year Ended June 30, 2020**

Cash flows from operating activities:	
Receipt of funds from Chesterfield County	\$ 520,506
Receipt of miscellaneous revenues	35,186
Payments for operating expenses	<u>(751,202)</u>
Net cash used in operating activities	<u>(195,510)</u>
Cash flows from capital and related financing activities:	
Receipt of funds from Chesterfield County	4,621,340
Receipt of proceeds from sale of capital asset	7,074,500
Receipt of contributions for Chesterfield Arts Center	500,000
Receipt of bond subsidy	88,197
Payment of project expenses	(422,657)
Payments for capital assets	(2,983,149)
Payments for Chesterfield Arts Center	(5,560,690)
Payments for Tomahawk Creek Trunk Sewer Line	(587,102)
Payment of incentives	(375,000)
Payments of principal on bonds	(1,370,000)
Payment of interest on bonds	(313,199)
Payment of debt related expenses	<u>(39,466)</u>
Net cash provided by capital and related financing activities	<u>632,774</u>
Cash flows from investing activities:	
Proceeds from maturity of investments	1,400,000
Interest received	26,737
Interest received for Chesterfield Arts Center	48,777
Interest received for Tomahawk Creek Trunk Sewer Line	<u>9,491</u>
Net cash provided by investing activities	<u>1,485,005</u>
Net increase in cash and cash equivalents	1,922,269
Cash and cash equivalents, July 1, 2019	<u>19,703,515</u>
Cash and cash equivalents, June 30, 2020	<u>\$21,625,784</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (572,683)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	382,796
Change in assets and liabilities:	
Decrease in due from Chesterfield County	2,710
Decrease in accounts payable	<u>(8,333)</u>
Net cash used in operating activities	<u>\$ (195,510)</u>
Noncash transactions related to capital and related financing activities are as follows:	
Debt service on Special Assessment Revenue Note	\$ (976,149)
Amortization of bond discount	(322)
Contributed capital	15,200

See accompanying notes to financial statements.

**ECONOMIC DEVELOPMENT AUTHORITY OF
THE COUNTY OF CHESTERFIELD**
(A Component Unit of the County of Chesterfield, Virginia)

Notes to the Financial Statements
June 30, 2020

1. DESCRIPTION OF THE AUTHORITY AND ITS ACTIVITIES

The Economic Development Authority of the County of Chesterfield (the “Authority”), a political subdivision of the Commonwealth of Virginia, was created in December 1968 by the County of Chesterfield, Virginia (the “County”) pursuant to the Industrial Development and Revenue Bond Act, Chapter 49 of Title 15.2, Code of Virginia. This Act empowers the Authority, among other activities, to issue tax-exempt bonds to bond issuers so that they may acquire, improve, maintain, equip, own, lease or dispose of properties by inducing manufacturing and industrial enterprises to locate or remain in the Commonwealth of Virginia. The County Board appoints the seven members of the Authority’s Board and pursuant to the terms of a Support Agreement, the County has agreed, subject to appropriation, to provide funds sufficient to pay the Authority’s debt service obligations. The Authority is presented as a component unit in the County’s Comprehensive Annual Financial Report (the “CAFR”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Model

The financial statements presented for the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (the “GAAP”) applicable to governmental units, as prescribed by the Governmental Accounting Standard Board (the “GASB”). GAAP sets the reporting model requirements for the annual financial reports of state and local governments. For entities like the Authority that are engaged solely in business-type activities, the annual financial report includes:

- Management’s Discussion and Analysis – GAAP requires that financial statements be accompanied by a narrative introduction and analytical overview of the Authority’s financial activities in the form of “management’s discussion and analysis.”
- Statement of Net Position – The Statement of Net Position is designed to display the financial position of the Authority. The net position of the Authority is broken down into two categories: (1) net investment in capital assets and (2) unrestricted.
- Statement of Revenues, Expenses and Changes in Net Position – The Statement of Revenues, Expenses and Changes in Net Position is designed to display the financial activities of the Authority for the period under audit.
- Statement of Cash Flows – The Statement of Cash Flows is designed to display the cash inflows and outflows for the operating, capital and related financing, and investing activities of the Authority. The direct method of presenting cash flows is utilized.

B. Basis of Accounting and Financial Statement Presentation

The Authority uses the accrual basis of accounting and the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred. Operating expenses include the net cost of services incurred for administrative expenses, contractual services and operating expenses related to Meadowville. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**ECONOMIC DEVELOPMENT AUTHORITY OF
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**Notes to the Financial Statements
June 30, 2020**

- C. Cash and Cash Equivalents
All highly liquid investments, including restricted assets, with a maturity of three months or less when purchased are considered to be cash equivalents.
- D. Restricted Assets
Certain assets are classified as restricted assets on the Statement of Net Position because their use is limited by revenue bond covenants or contractual agreements. The Trustee maintains funds reserved for debt service in the amount of \$42,905 and the Authority maintains funds reserved for the construction of the Chesterfield Arts Center and Tomahawk Creek Trunk Sewer Line in the amount of \$15,093,349. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as they are needed.
- E. Bond Discount
Authority bond discount is amortized over the life of the bonds based on the balance of bonds outstanding.
- F. Capital Assets
Capital assets include land and land improvements, improvements other than buildings, infrastructure assets (i.e. drainage, roads and irrigation systems) and construction in progress. All capital assets are stated at cost. The standard for capitalization of tangible property is \$5,000 or more per unit with an expected life of greater than one year. Depreciation has been provided over estimated useful lives using the straight-line method. Land and construction in progress are not depreciated. The estimated useful lives of capital assets are as follows:
- | | |
|-----------------------------------|---------------|
| Improvements other than buildings | 15 - 25 years |
| Infrastructure | 20 - 25 years |
- G. Risk Management
The Authority maintains all-risk property insurance on certain improvements at Meadowville at replacement cost. Meadowville is located in the Bermuda District of the County adjacent to the James River and is in the process of being developed as an industrial and office park. In addition, the Authority obtains general liability insurance to cover the operations pertaining to Meadowville. The amount of settlements in each of the past three years did not exceed the amount of insurance coverage.
- H. Income Taxes
The Authority qualifies under the Internal Revenue Code for exemption from Federal income taxes. Accordingly, no provisions for income taxes have been made in the accompanying financial statements.
- I. Administrative Functions
The County provides certain administrative services to the Authority at a minimum charge.

**ECONOMIC DEVELOPMENT AUTHORITY OF
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**Notes to the Financial Statements
June 30, 2020**

3. DEPOSITS AND INVESTMENTS

As of June 30, 2020, the carrying value of the Authority's deposits, with their respective credit rating, was as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>
Demand deposits	\$21,625,784	N/A

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. According to the Authority's investment policy (the "Policy"), credit risk will be minimized by limiting investments to the types of securities allowed by State statute and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

The Virginia Security for Public Deposits Act (the "Act") requires financial institutions holding public deposits in excess of amounts covered by Federal insurance to pledge collateral to a pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the requirements of the Act and for notifying local governments of compliance by banks and savings and loans. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Accordingly, all deposits in banks and savings and loans are considered to be insured.

As required by State statute, the Policy requires that commercial paper, with a maturity of 270 days or less, shall be rated by at least two of the following: Moody's Investors Service, within its NCO/Moody's rating of prime 1, by Standard & Poor's, within its rating of "A-1", by Fitch Investor's Services, within its rating of "F-1", by Duff and Phelps, within its rating of "D-1", or by their corporate successors. Corporate notes, with a maturity of no more than five years, shall have a rating of at least "Aa" by Moody's Investors Service, and a rating of at least "AA" by Standard & Poor's. Negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service, and for maturities over one year and not exceeding five years, a rating of at least "AA" by Standard & Poor's and "Aa" by Moody's Investor Service. Asset-backed securities with a duration of no more than five years and a rating of no less than "AAA" by two rating agencies, one of which must be either Moody's Investors Service or Standard & Poor's. Deposits and investments not exposed to credit quality risk, as defined by GAAP, are designated as "N/A" in the credit rating column in the table.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2020, \$446 of the Authority's \$21,625,784 demand deposits was exposed to custodial credit risk since the funds were invested in money market accounts that were uncollateralized and not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. Although the money market accounts seek to preserve the value of the investments, it is possible to lose money.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. According to the Authority's Policy, the Authority will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity. In addition, as a means of limiting exposure to fair value losses arising from interest rates, the

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**Notes to the Financial Statements
June 30, 2020**

Policy limits the investment of funds to investments with a stated maturity of no more than five years from the date of purchase. As of June 30, 2020, excluding demand deposits, the Authority had no investments that exposes the Authority to interest rate risk.

Concentration of Credit Risk: According to the Authority's Policy, to eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets shall be diversified. In establishing specific diversification strategies, portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity. Diversification strategies shall be determined and revised periodically by the investment officer.

Fair Value Measurements: GAAP has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is based on the valuation inputs used to measure the fair value of investments. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of June 30, 2020, excluding demand deposits, the Authority had no investments.

4. **CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020 was as follows:

	Balance <u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2020</u>
Capital assets not being depreciated:				
Land and land improvements	\$11,077,161	\$2,995,582	\$1,348,189	\$12,724,554
Total capital assets not being depreciated	<u>11,077,161</u>	<u>2,995,582</u>	<u>1,348,189</u>	<u>12,724,554</u>
Capital assets being depreciated:				
Improvements other than buildings	1,936,873	-	-	1,936,873
Infrastructure	<u>6,159,269</u>	<u>-</u>	<u>-</u>	<u>6,159,269</u>
Total capital assets being depreciated	<u>8,096,142</u>	<u>-</u>	<u>-</u>	<u>8,096,142</u>
Less accumulated depreciation for:				
Improvements other than buildings	619,081	126,789	-	745,870
Infrastructure	<u>1,036,294</u>	<u>256,007</u>	<u>-</u>	<u>1,292,301</u>
Total accumulated depreciation	<u>1,655,375</u>	<u>382,796</u>	<u>-</u>	<u>2,038,171</u>
Net capital assets being depreciated	<u>6,440,767</u>	<u>(382,796)</u>	<u>-</u>	<u>6,057,971</u>
Total	<u>\$17,517,928</u>	<u>\$2,612,786</u>	<u>\$1,348,189</u>	<u>\$18,782,525</u>

5. **REVENUE BONDS**

On January 27, 2005, the Authority issued \$18,120,000 in Variable Rate Revenue Bonds, Series 2005A and Taxable Series 2005B (the "Bonds"), to provide funds for the acquisition of real property for Meadowville, including areas to be preserved as wetlands and used to build a system of streets and roads and other infrastructure improvements within Meadowville, and certain infrastructure improvements. The Bonds are limited obligations of the Authority, payable solely from payments to be made by the County, pursuant to an Amended and Restated Development Agreement, dated January 1, 2005. The County is required under the terms of the Agreement to make payments on behalf of the Authority on a periodic basis in an amount equal to the debt service, including fees and expenses, on the bonds. If the Authority is unable to make payment, the outstanding bonds contain a provision that in an event of default, the timing or repayment of the

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outstanding amounts may become immediately due if requested in writing by the registered owners of not less than 25% in aggregate principal amount outstanding.

The Bonds bear interest at a variable rate or a medium term rate. The Bonds of each Series were initially issued at a weekly rate. The method of determining the interest rate may be changed from time to time to a daily, weekly, or monthly commercial paper, medium term, or fixed rate. At June 30, 2020, the interest rates for the Series 2005 A and B Bonds were 0.22% and 0.58%, respectively. The Authority entered into a Standby Bond Purchase Agreement with Wells Fargo Bank, National Association, to purchase from time to time an aggregate principal amount of bonds and related interest.

On October 14, 2010, the Authority issued \$8,345,000 in Taxable Recovery Zone Economic Development (RZED) Revenue Bonds, Series 2010B, to finance a portion of the costs of the acquisition of real property for an interchange with Interstate I-295 and the construction of such interchange connecting Meadowville with Interstate I-295. The Bonds are limited obligations of the Authority, payable solely from payments to be made by the County, pursuant to a Support Agreement, dated September 1, 2010. The County is required under the terms of the Agreement to make payments on behalf of the Authority on a periodic basis in an amount equal to the debt service on the bonds. If the Authority is unable to make payment, the outstanding bonds contain a provision that in an event of default, the timing or repayment of the outstanding amounts may become immediately due if requested in writing by the registered owners of not less than 25% in aggregate principal amount outstanding.

The Series 2010B Bonds were issued as Taxable Recovery Zone Economic Development Bonds under Section 1400U-2 of the Internal Revenue Code of 1986, which was added by the provisions of the American Recovery and Reinvestment Act of 2009 (the "ARRA"). Pursuant to the ARRA, the Authority will receive a cash subsidy payment from the United States Treasury equal to 45% of the interest payable on the Series 2010B Bonds on each interest payment date. The cash payment does not constitute a guarantee by the United States Treasury or a pledge of the faith and credit of the United States of America, but is required to be paid by the United States Treasury under the ARRA. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the subsidy was subject to a 5.9% reduction during the current fiscal year.

Revenue bonds outstanding at June 30, 2020 are as follows:

	<u>Original Issue Amount</u>	<u>Interest Rates</u>	<u>Annual Principal Requirements</u>	<u>Amount Outstanding</u>
2005 revenue bonds, due 2025	\$18,120,000	Variable	\$970,000-\$1,020,000	\$4,980,000
2010 RZED revenue bonds, due 2030	8,345,000	3.933%-5.265%	\$415,000	<u>4,150,000</u>
Total revenue bonds				9,130,000
Less: Discounts				<u>669</u>
Net revenue bonds				<u><u>\$9,129,331</u></u>

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Debt service requirements to maturity for the revenue bonds are as follows. As noted above, the Series 2005 revenue bonds bear interest at a variable rate and future interest payments will vary, the interest scheduled below for these bonds was calculated using the interest rate in effect at June 30, 2020.

Year Ended				
June 30,	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>	<u>Total</u>
2021	\$1,385,000	\$ 219,055	\$(90,241)	\$ 1,513,814
2022	1,400,000	198,285	(82,896)	1,515,389
2023	1,415,000	176,825	(75,271)	1,516,554
2024	1,420,000	154,502	(67,273)	1,507,229
2025	1,435,000	131,491	(58,994)	1,507,497
2026-2030	<u>2,075,000</u>	<u>327,746</u>	<u>(147,488)</u>	<u>2,255,258</u>
Total	<u>\$9,130,000</u>	<u>\$1,207,904</u>	<u>\$(522,163)</u>	<u>\$9,815,741</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2020:

	Balance		Balance	Amounts
	<u>July 1, 2019</u>	<u>Decrease</u>	<u>June 30, 2020</u>	<u>Due Within</u>
Bonds payable	\$10,500,000	\$1,370,000	\$9,130,000	\$1,385,000
Less: Discounts	<u>991</u>	<u>322</u>	<u>669</u>	<u>260</u>
Net bonds payable	<u>\$10,499,009</u>	<u>\$1,369,678</u>	<u>\$9,129,331</u>	<u>\$1,384,740</u>

For the year ended June 30, 2020, the Authority reported total bond amortization and interest expense in the amount of \$297,632. This includes \$97,170 of interest paid on the Series 2005A and B Bonds by the County, \$124,697 of interest paid on the Series 2010B Bonds by the County, \$91,332 of bond interest credits applied to the Series 2010B Bonds, \$322 of bond discount amortization, and \$102,119 of interest accrued at year-end less \$118,008 interest accrued in the prior year.

6. SPECIAL ASSESSMENT REVENUE NOTE

On October 1, 2011, the Authority entered into a Financing Agreement with the Chippenham Place Community Development Authority (the "CDA"). In accordance with the Financing Agreement, the Authority issued a Special Assessment Revenue Note in an amount up to \$8 million and loaned the proceeds of the note to the CDA to finance the infrastructure improvements at the Cloverleaf Mall (the "Mall") site. The outstanding amount of the Special Assessment Revenue Note, Series 2011, at December 1, 2014 was \$6,670,000.

On December 1, 2014, the Authority entered into a new Financing Agreement with the CDA. In accordance with the new Financing Agreement, the Authority issued a Tax-Exempt Revenue Note, Series 2014B, in an amount of \$12,577,548, the proceeds of which were used to pay the outstanding balance of the Special Assessment Revenue Note, Series 2011; reimburse the County for infrastructure improvements; and pay the costs of issuing the Note. The outstanding amount of the Special Assessment Revenue Note, Series 2011, at May 1, 2017 was \$11,746,424.

On May 1, 2017, the Authority entered into a new Financing Agreement with the CDA. In accordance with the new Financing Agreement, the Authority issued a Special Assessment Revenue Note, Series 2017, in an amount of \$11,774,028, the proceeds of which were used to pay

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the outstanding balance and interest accrued on the Tax-Exempt Revenue Note, Series 2014B. In accordance with the Financing Agreement, the CDA promises to pay the outstanding principal balance and interest on the Authority's Note solely from the revenues and other property pledged to the payment of this Note. The Note is a limited obligation of the Authority secured by pledged revenues consisting of incremental tax and special assessment revenues collected by the County. The County intends to make annual appropriations sufficient to cover the required annual debt service. The Note will be repaid with the incremental tax revenues and, to the extent incremental tax revenues are not sufficient, special assessment revenues. The current year's pledged revenues were not impacted by the COVID-19 pandemic. Management cannot predict the impact of the pandemic on future revenues. As of June 30, 2020, the Authority reported total accrued interest of \$70,279 related to the Note, which will be paid by the CDA. The balance of the Note is included in Due from Chippenham Place CDA on the Statement of Net Position.

Revenue notes outstanding at June 30, 2020 are as follows:

	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Annual Principal Requirements</u>	<u>Amount Outstanding</u>
Note issued, due 2032	\$11,774,028	2.89%	\$693,487 - \$948,731	<u>\$9,780,708</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2020:

	<u>Balance July 1, 2019</u>	<u>Decrease</u>	<u>Balance June 30, 2020</u>	<u>Amounts Due Within One Year</u>
Note payable	<u>\$10,454,716</u>	<u>\$674,008</u>	<u>\$9,780,708</u>	<u>\$693,487</u>

Debt service requirements to maturity for the revenue note are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 693,487	\$ 282,662	\$ 976,149
2022	713,528	262,621	976,149
2023	734,150	241,999	976,149
2024	755,367	220,782	976,149
2025	777,197	198,952	976,149
2026-2030	4,236,165	644,583	4,880,748
2031-2032	<u>1,870,814</u>	<u>81,486</u>	<u>1,952,300</u>
Total	<u>\$9,780,708</u>	<u>\$1,933,085</u>	<u>\$11,713,793</u>

7. COMMITMENTS

At June 30, 2020, uncompleted contracts totaled \$4,642,750 for the development of Meadowville, construction of the Chesterfield Arts Center, sewer line improvements and other Authority projects. Commitments in the amount of \$830,165 will be made from restricted assets and in the amount of \$3,812,585 will be made from unrestricted assets.

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8. RELATED PARTY TRANSACTIONS

Acquisition of the Mall Property: On October 18, 2004, the Authority sold Taxable Redevelopment Facility Note, Series 2004, on behalf of the County, in an amount of \$9,225,000 for the acquisition of the Mall property for redevelopment by the County. On August 21, 2008, the principal amount of the Taxable Redevelopment Facility Note was increased by \$7,371,199 for the purchase of the ground lease interest at the Mall. In October 2011, the Authority sold 28.4 acres of the Mall property to the developer and used the proceeds for infrastructure improvements. In July 2013, the Authority sold an additional 16.81 acres of the Mall property to the developer and applied \$3,453,705 of the proceeds to pay a portion of the outstanding note. At December 1, 2014, the balance of the Series 2004 Note was \$13,142,494.

On December 19, 2014, the Authority issued Taxable Revenue Note, Series 2014A, on behalf of Chesterfield County, in an amount of \$7,484,947. The Series 2014A Note proceeds, along with a \$5,657,547 reimbursement of infrastructure improvements from the CDA to the County, were applied against the outstanding balance of the Series 2004 Note.

On December 1, 2015, the Authority exercised its option to convert the Series 2014A Note balance of \$7,484,947 to a term note. The interest rate on the converted Series 2014 Note is 3.65%. Principal and interest on the Note shall be payable on April 1 and October 1 in each of the years 2016 through 2020. The County accounts for this lease as a capital lease and has reported an asset and redevelopment note liability. Therefore, the related asset and liability are not reflected in the Authority's financial statements. During the year, the County made payments for principal and interest in the amounts of \$211,567 and \$244,725, respectively, bringing the outstanding note balance to \$6,545,637.

Chesterfield Arts Center: On December 18, 2015, the Authority issued Revenue Bond (Chesterfield Arts Center), Series 2015, for the County in the amount of \$6,899,800. The Series 2015 Bond proceeds are to be used to finance the costs for the acquisition, development, construction and equipping the Chesterfield Center for the Arts (the "Project"). The interest rate on the Series 2015 Bond is 3.09%. Interest is payable on each January 15 and July 15, beginning July 15, 2016, and principal shall be payable annually on July 15, beginning July 15, 2017 and continuing to and including July 15, 2031. During the year, the County made payments for principal and interest in the amounts of \$459,986 and \$177,670, respectively, bringing the outstanding balance to \$5,519,842. At June 30, 2020, the Authority reported a restricted cash balance of \$681,712, accrued expense of \$96 and a liability to the County of \$681,617. The restricted cash balance and liability to the County represents total interest earned on the bond proceeds and capital contributions received from the Chester Arts Foundation. The following is a summary of restricted cash transactions for the year ended June 30, 2020:

	Series 2015 <u>Bonds</u>	Foundation <u>Contributions</u>	<u>Total</u>
Cash balance, July 1, 2019	\$ 5,407,329	\$ 301,377	\$ 5,708,706
Capital contribution	-	500,000	500,000
Interest income received	32,211	1,485	33,696
Project expenses	<u>(5,345,662)</u>	<u>(215,028)</u>	<u>(5,560,690)</u>
Cash balance, June 30, 2020	\$ <u>93,878</u>	\$ <u>587,834</u>	\$ <u>681,712</u>

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On November 15, 2017, the County participated in the Virginia Resources Authority Infrastructure and State Moral Obligation Revenue Bonds, County Project VRA Special Fund Revenue Bond (Series 2017C) in the amount of \$2,675,000. The Series 2017C Bond proceeds are to be used to finance a portion of the costs of acquisition, development, construction and equipping the Chesterfield Arts Center. The interest rate on the Series 2017C Bond is 3.125% to 5.125%. Interest is payable on each April 1 and October 1, beginning April 1, 2018, and principal shall be payable annually on October 1, beginning October 1, 2018 and continuing to and including October 1, 2036. The County has reported the related asset and liability; therefore, they are not reflected in the Authority's financial statements. During the year, the County made payments for principal and interest in the amount of \$140,000 and \$111,656, respectively, bringing the outstanding note balance to \$2,395,000.

On November 14, 2018, the County participated in the Virginia Resources Authority Infrastructure and State Moral Obligation Revenue Bonds, County Project VRA Special Fund Revenue Bond (Series 2018B) in the amount of \$4,710,000. The Series 2018B Bond proceeds are to be used to finance a portion of the costs of acquisition, development, construction and equipping the Chesterfield Arts Center. The interest rate on the Series 2018B Bond is 2.914% to 4.407%. Interest is payable on each April 1 and October 1, beginning April 1, 2019, and principal shall be payable annually on October 1, beginning October 1, 2019 and continuing to and including October 1, 2038. The County has reported the related asset and liability; therefore, they are not reflected in the Authority's financial statements. During the year, the County made payments for principal and interest in the amount of \$240,000 and \$179,114, respectively, bringing the outstanding note balance to \$4,470,000.

Tomahawk Creek Trunk Sewer Line: On May 30, 2019, the Authority issued Tax-Exempt Revenue Bond (Watkins Sewer Project), Series 2019, for the County in the amount of \$15,000,000. The Series 2019 Bond proceeds are to be used to finance sewer line improvements in the County. The interest rate on the Series 2019 Bond is 2.35%. Interest is payable on each February 1 and August 1, beginning February 1, 2020, and principal shall be payable annually on August 1, beginning August 1, 2020 and continuing to and including August 1, 2031. During the year, the County made interest payments in the amounts of \$235,979. The Authority maintains the bond proceeds and makes payments for the costs of the project on behalf of the County. At June 30, 2020, the Authority reported a restricted cash balance of \$14,411,637, a liability to the County of \$14,314,381 and accrued expenses of \$97,256. During the year, the Authority received \$9,491 of interest earned on the bond proceeds and made payments of \$587,102 for project costs.

Receivable from the CDA: The Authority had a receivable from the CDA in the amount of \$9,850,987 for proceeds loaned to the CDA from the Series 2017 Note issued by the Authority.

County Appropriations: For the year ended June 30, 2020, the Authority reported total appropriations from the County in the amount of \$5,136,375. This includes \$5,141,846 received during the year, \$94,205 receivable accrued at year-end less \$99,676 receivable accrued in the prior year.

County Support: The County provides certain administrative services to the Authority, which includes maintaining the general ledger, preparing financial statements and coordinating the annual financial statement audit. During the year ended June 30, 2020, the Authority made payments of \$6,400 to the County.

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9. CLAIMS AND LAWSUITS

At June 30, 2020, there were no claims or lawsuits pending involving the Authority that are considered material to the financial statements.

10. SUBSEQUENT EVENTS

- A. On August 3, 2020, the County issued a request for proposals for approximately \$14,575,000 in loans to refund the Authority's Series 2005 Bonds and Series 2010 Bond related to Meadowville projects, and the County's Series 2014A Note related to the purchase of Cloverleaf Mall. The issuance of the refunding bonds is scheduled to take place on September 28, 2020.
- B. On August 21, 2020, the Authority sold 6.808 acres in Meadowville for \$609,975.
- C. On August 26, 2020, the County Board granted authorization for a financing plan to fund certain public school and road maintenance projects. The plan includes requesting the Authority to issue revenue bonds in an amount up to \$95 million and a public hearing has been set for September 23, 2020. The County will report the related asset and liability; therefore, they will not be reflected in the Authority's financial statements.

**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 Development Authority of the County of Chesterfield
Chesterfield, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Economic Development Authority of the County of Chesterfield (the "Authority"), a component unit of the County of Chesterfield, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's 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 for Audits of Authorities, Boards, and Commissions*.

Purpose of this Report

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

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

Richmond, Virginia
September 28, 2020