

**Economic Development Authority
of James City County, Virginia**

(A Component Unit of the County of James City, Virginia)



Financial Statements and Supplemental Information
(With Independent Auditor's Report Thereon)

June 30, 2019 and 2018

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)

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Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)

Authority Officials

June 30, 2019

Board Members

Robin Bledsoe, Chairman

Christopher Odle, Vice Chairman

Vincent Campana, III

Jeffrey Scott

Carlton Stockton

Thomas G. Tingle

William Turner

Other Officials

P. Sue Sadler, Board of Supervisor Liaison

Christopher Johnson, Secretary

Jennifer Tomes, Treasurer

Max Hlavin, Legal Counsel



INDEPENDENT AUDITOR'S REPORT

To the Members
Economic Development Authority of James City County, Virginia

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Economic Development Authority of James City County, Virginia as of and for the year ended June 30, 2019 and the related notes to the financial statements, as listed in the table of contents. These financial statements are the responsibility of the Economic Development Authority of James City County, Virginia's management.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Economic Development Authority of James City County, Virginia as of June 30, 2019, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2018 Financial Statements

The financial statements of Economic Development Authority of James City County, Virginia as of and for the year ended June 30, 2018, were audited by other auditors whose report dated September 20, 2018, expressed an unmodified opinion on those statements.

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 - 5 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

The Schedules of Revenue Bonds Outstanding - Conduit Debt on page 22 have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2019, on our consideration of the Economic Development Authority of James City County, Virginia'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 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 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 Economic Development Authority of James City County, Virginia's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 1, 2019

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)
Management's Discussion and Analysis
June 30, 2019 and 2018

This section of the ***Economic Development Authority of James City County, Virginia's*** (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2019 and 2018.

Financial Highlights

The Authority had a decrease in net position of (\$32,341) for fiscal year 2019, primarily as a result of the planned use of net position to fund community development and promotional expenses. For fiscal year 2018, the Authority had an increase in net position of \$696,981, which was primarily a result of the County's capital contribution of two properties.

Overview of the Financial Statements

The financial section of this report has two components - Management's Discussion and Analysis (this section) and the basic financial statements. The basic financial statements are comprised of the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows, and Notes to the Financial Statements. The Statement of Net Position presents information on the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between these two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. However, it is also important to consider other nonfinancial factors, such as changes in economic conditions, population and service area growth, and new or changed legislation. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and Management's Discussion and Analysis.

The Authority is a self-supporting entity and follows enterprise fund accounting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Authority.

Financial Analysis

Summary of Statement of Net Position

	6/30/2019	6/30/2018	6/30/2017
Current and other assets	\$ 425,505	\$ 381,655	\$ 610,903
Capital assets, net of accumulated depreciation	1,906,816	1,933,778	1,050,835
Total assets	\$ 2,332,321	\$ 2,315,433	\$ 1,661,738
Current liabilities	\$ 50,959	\$ 1,730	\$ 45,016
Net position			
Net investment in capital assets	1,906,816	1,933,778	1,050,835
Unrestricted	374,546	379,925	565,887
Total net position	2,281,362	2,313,703	1,616,722
Total liabilities and net position	\$ 2,332,321	\$ 2,315,433	\$ 1,661,738

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)
Management's Discussion and Analysis
June 30, 2019 and 2018

Total assets experienced an increase of \$16,888 for fiscal year 2019, primarily due to a receivable from the County for funding of a performance based agreement. Total assets experienced an increase of \$653,695 for fiscal year 2018, primarily due to the County's capital contribution of two properties.

Current liabilities experienced an increase of \$49,229 and a decrease of (\$43,286) at June 30, 2019 and 2018, respectively. The increase in 2019 was primarily as a result of an amount owed to a business by the Authority under a performance based agreement, whereas the decrease in 2018 was primarily as a result of the work on the marina property being completed.

At June 30, 2019 and 2018, assets exceeded liabilities by \$2,281,362 and \$2,313,703, respectively.

Summary of Statement of Revenues, Expenses and Changes in Net Position for the Year Ended			
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	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Intergovernmental - County contribution	\$ 79,427	\$ 111,768	\$ 455,038
Other operating revenues	97,807	82,437	116,287
Total operating revenues	<u>177,234</u>	<u>194,205</u>	<u>571,325</u>
Community development & Launchpad	127,361	213,400	280,800
Other expenses	85,284	93,029	82,535
Total operating expenses	<u>212,645</u>	<u>306,429</u>	<u>363,335</u>
Operating income (loss)	<u>(35,411)</u>	<u>(112,224)</u>	<u>207,990</u>
Net nonoperating revenues (expenses)	3,070	809,205	(76,984)
Change in net position	(32,341)	696,981	131,006
Net position - beginning of year	<u>2,313,703</u>	<u>1,616,722</u>	<u>1,485,716</u>
Net position - end of year	<u>\$ 2,281,362</u>	<u>\$ 2,313,703</u>	<u>\$ 1,616,722</u>

Revenues represented the County's contribution to the Authority and other operating revenues from bond fees, and lease income from the Mainland Farm and marina property. For fiscal year 2019, the County contribution decreased by (\$32,341), primarily as a result of the conclusion of the work on the marina property. In fiscal year 2018, the County contributions decreased by (\$343,270) primarily as a result of the development of the marina property being completed. In 2019 and 2018, other operating revenues increased by \$15,370 and decreased by (\$33,850), respectively. The increase in 2019 was primarily attributable to the incremental increase in lease income on the marina property and the recovery of bad debt from a previous year. The decrease in 2018 was primarily attributable to the Authority no longer being the fiscal agent for Launchpad.

Community development and Launchpad consists primarily of contributions toward local business efforts, grants awarded to local businesses for exceeding certain investment figures, performance agreements, and costs associated with Launchpad, while other expenses include costs such as advertising and professional fees. Community development and Launchpad expenses reflect a decrease of (40.3%) for fiscal year 2019, mainly because the County made a contribution directly to an outside agency to support regional economic collaboration, which had been a cost paid by the Authority in prior fiscal years. Community development and Launchpad expenses reflected a decrease of (24.0%) for fiscal year 2018, given that the Authority had a full fiscal year of not being the Launchpad fiscal agent.

For fiscal year 2019, other expenses decreased by (\$7,745), primarily due to a reduction in promotion costs. For fiscal year 2018, other expenses increased by \$10,494, primarily due to marina property expenses and the depreciation on the project.

Net nonoperating revenues (expenses) consist of interest income, loss on the disposal of capital assets, and capital contributions. The decrease of (\$806,135) in 2019 was primarily due to no capital contributions during the fiscal year. The increase of \$886,189 in 2018 was due to capital contributions of two properties from the County.

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)
Management's Discussion and Analysis
June 30, 2019 and 2018

Total net position decreased (\$32,341) and increased \$696,981 in 2019 and 2018, respectively. The decrease in 2019 primarily resulted from a planned use of net position to cover expenses in the fiscal year, and the 2018 increase resulted from the County's capital contribution of two properties.

Capital Assets			
	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Nondepreciable	\$ 1,238,661	\$ 1,238,661	\$ 1,048,745
Depreciable	668,155	695,117	2,090
Capital assets, net	<u>\$ 1,906,816</u>	<u>\$ 1,933,778</u>	<u>\$ 1,050,835</u>

During fiscal year 2019, net capital assets decreased primarily as a result of depreciation. During fiscal year 2018, the Authority received capital contributions of two properties from the County, representing the increase in nondepreciable capital assets from 2017. Also in 2018, the increase in depreciable assets was due to the completion of the marina property construction.

Additional information can be found in Note 6 to the basic financial statements.

Debt Administration

The Authority has issued Economic Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. It should be noted this represents conduit debt and although conduit debt obligations bear the name of the governmental issuer, which is the Authority, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued. Additional information can be found in the Other Information section on the Schedules of Revenue Bonds Outstanding – Conduit Debt (Unaudited).

Requests for Financial Information

This financial report is designed to provide our citizens, taxpayers, 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. Questions concerning this report or requests for additional information should be directed to the James City County Department of Financial and Management Services, 101-F Mounts Bay Road, P.O. Box 8784, Williamsburg, Virginia 23187-8784.

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Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)

Statements of Net Position

	<u>6/30/2019</u>	<u>6/30/2018</u>
Assets		
Current assets		
Cash and short-term investments (Note 2)	\$ 341,040	\$ 350,083
Due from James City County (Note 4)	48,116	3,544
Accounts receivable	8,146	-
Bond fee receivable	3,203	3,028
Total current assets	<u>400,505</u>	<u>356,655</u>
Notes receivable, net allowance (Note 5)	<u>25,000</u>	<u>25,000</u>
Capital assets (Note 6)		
Nondepreciable	1,238,661	1,238,661
Depreciable, net	668,155	695,117
Capital assets, net	<u>1,906,816</u>	<u>1,933,778</u>
Total assets	<u>\$ 2,332,321</u>	<u>\$ 2,315,433</u>
Liabilities and Net Position		
Current liabilities		
Accounts payable	<u>\$ 50,959</u>	<u>\$ 1,730</u>
Net position		
Net investment in capital assets	1,906,816	1,933,778
Unrestricted	374,546	379,925
Total net position	<u>2,281,362</u>	<u>2,313,703</u>
Total liabilities and net position	<u>\$ 2,332,321</u>	<u>\$ 2,315,433</u>

See accompanying notes to financial statements.

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended	
	6/30/2019	6/30/2018
Operating revenues		
Intergovernmental - County contribution (Note 4)	\$ 79,427	\$ 111,768
Lease income (Note 7)	76,225	64,725
Bond fees	17,671	17,712
Miscellaneous	3,911	-
Total operating revenues	<u>177,234</u>	<u>194,205</u>
Operating expenses		
Community development	127,361	213,400
Depreciation	25,896	17,435
Note forgiveness (Note 5)	-	2,573
Other	337	553
Promotion	39,866	55,585
Professional fees	19,185	16,883
Total operating expenses	<u>212,645</u>	<u>306,429</u>
Operating loss	<u>(35,411)</u>	<u>(112,224)</u>
Nonoperating revenue (expenses)		
Interest income	4,136	4,360
Loss on disposal of capital assets	(1,066)	-
Capital contribution	-	804,845
Total nonoperating revenue (expenses), net	<u>3,070</u>	<u>809,205</u>
Change in net position	(32,341)	696,981
Net position, beginning of year	<u>2,313,703</u>	<u>1,616,722</u>
Net position, end of year	<u>\$ 2,281,362</u>	<u>\$ 2,313,703</u>

See accompanying notes to financial statements.

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)

Statements of Cash Flows

	Years Ended	
	6/30/2019	6/30/2018
Cash flows from operating activities		
Receipts from County and customers	\$ 124,341	\$ 215,063
Payments to suppliers	(137,520)	(332,280)
Net cash used in operating activities	(13,179)	(117,217)
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	-	(95,533)
Cash flows from investing activities		
Interest received	4,136	4,360
Net decrease in cash	(9,043)	(208,390)
Cash and short-term investments, beginning of year	350,083	558,473
Cash and short-term investments, end of year	\$ 341,040	\$ 350,083
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (35,411)	\$ (112,224)
Adjustments to reconcile operating loss to cash used for in operating activities:		
Depreciation	25,896	17,435
Note forgiveness (Note 5)	-	2,573
Changes in assets and liabilities:		
Bond fee receivable	(175)	(3,028)
Due from James City County	(44,572)	16,588
Accounts receivable	(8,146)	-
Notes receivable	-	4,725
Accounts payable	49,229	(43,286)
Net cash used in operating activities	\$ (13,179)	\$ (117,217)
Schedule of non-cash capital and related financing activities		
Capital contributions	\$ -	\$ 804,845

See accompanying notes to financial statements.

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2019 and 2018

1) Summary of Significant Accounting Policies

The Economic Development Authority of James City County, Virginia (the Authority) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the governing body of James City County (County) on July 9, 1979, pursuant to the provisions of the Economic Development and Revenue Bond Act (Chapter 33, Section 15.1-1373, et seq., of the Code of Virginia (1950), as amended). The Authority is governed by a seven-member board appointed by the Board of Supervisors of James City County, Virginia. The essential purpose of the Authority is to promote industrial and commercial development in the County.

The Reporting Entity

The Authority has been determined to be a component unit of the County in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. Component units are legally separate entities for which a primary government is financially accountable. The County is financially accountable given the significance of the Authority's fiscal dependence on and financial relationship with the County. As a result of the County's financial accountability for the Authority, the information included in these financial statements is included in the financial statements of the County.

Implementation of these reporting requirements in no way infringes upon the independence of the Authority nor otherwise impairs the Authority's power to perform its functions under state law.

Basis of Accounting and Presentation

The Authority utilizes the economic resources measurement focus and the accrual basis of accounting as an enterprise fund. Accordingly, revenues are recognized in the period earned and expenses are recognized when they are incurred. Enterprise funds are used to account for the ongoing activities that are financed and operated similar to those often found in the private sector. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the Authority's ongoing operations. Operating revenues include revenue from the County, bond fees, and lease income. Operating expenses include the costs related to promoting and developing the County and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The Authority generally first uses restricted net position for expenses incurred for which both restricted and unrestricted net position are available. The Authority may defer the use of restricted net position based on a review of the specific transaction.

Cash Equivalents

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

Capital Assets

The Authority's policy is to capitalize assets with a cost basis or acquisition value at time of donation of \$5,000 or greater. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the life of an asset, are expensed. When appropriate, the Authority provides for depreciation of capital assets using the straight-line method at amounts estimated to amortize the cost or other basis of the assets over their estimated useful lives.

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2019 and 2018

1) Summary of Significant Accounting Policies, Continued

The Authority's capital assets consist of land, land improvements, buildings and improvements, infrastructure, construction in progress, and furniture and equipment. Depreciation is taken over the capital assets estimated useful lives as follows:

	<u>No. of Years</u>
Land improvements	20
Building and improvements	40
Infrastructure	25-30
Furniture and equipment	10

Pass-Through Financing Leases

Some activities of the Authority represent pass-through leases. The Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities within the County. These agreements provide for periodic rental payments in amounts, which are equal to the principal and interest payments due to project bondholders. The Authority has assigned all rights to the rental payments to the trustees of the bondholders, and the lessees have assumed responsibility for all operating costs, such as utilities, repairs, and property taxes. In such cases, the Authority neither receives nor disburses funds.

Although title to these properties rests with the Authority, bargain purchase options or other lease provisions eliminate any equity interest that would otherwise be retained. Deeds of trust secure outstanding obligations, and title will revert to the lessee when the bonds are fully paid.

Therefore, while the Authority provides a conduit to execute such transactions, it does not retain either the benefits of asset ownership or the liability for bond liquidation. Accordingly, the Authority does not recognize associated assets, liabilities, deferred inflows or outflows of resources, rental income, or interest expense in its financial statements.

Advertising Costs

Advertising costs (promotion expenses) are expensed in the period in which they are incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

2) Cash and Short-Term Investments

The Authority's cash and short-term investments consisted of:

	<u>6/30/2019</u>	<u>6/30/2018</u>
Bank deposits	\$ 102,551	\$ 115,729
Investments	238,489	234,354
	<u>\$ 341,040</u>	<u>\$ 350,083</u>

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia*.

Economic Development Authority of James City County, Virginia
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Notes to Financial Statements
June 30, 2019 and 2018

2) Cash and Short-Term Investments, Continued

The Authority's investments were as follows:

Investment Type	6/30/2019		6/30/2018	
	Amount	Maturity	Amount	Maturity
Certificate of deposit (cost-based)	\$ 119,118	2021	\$ 117,053	2021
Certificate of deposit (cost-based)	119,118	2021	117,053	2021
LGIP (amortized cost)	253	1 day	248	1 day
	<u>\$ 238,489</u>		<u>\$ 234,354</u>	

The Authority utilizes the Investment Policy (Policy) of the County, which is enforced by the James City County Treasurer. In accordance with the Code of Virginia and other applicable law, including regulations, the Authority's Policy permits investments in U.S. government obligations, municipal obligations, commercial paper, and certain corporate notes, bankers' acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, which measures its investments at amortized cost). The Treasury Board of the Commonwealth of Virginia has regulatory oversight of the LGIP.

The Policy establishes limitations on the holdings of non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security is as follows:

U.S. Treasury obligations	100% maximum
Federal Agency obligations	100% maximum
Registered money market mutual funds	100% maximum
Commonwealth of Virginia LGIP	100% maximum
Bank deposits	100% maximum
Repurchase agreements	50% maximum
Bankers' acceptances	40% maximum
Commercial paper	35% maximum
Negotiable certificates of deposit/bank notes	20% maximum
Municipal obligations	20% maximum
Corporate notes	15% maximum

Credit Risk

As required by state statute, the Policy requires commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's, Fitch Investor's Service, and Duff and Phelps. Corporate notes must have a minimum of "Aa" long-term debt rating by Moody's Investors Service and a minimum of "AA" long-term debt rating by Standard & Poor's. Negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investors Service. Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances, or money market mutual funds, the Authority has established stringent credit standards for these investments to minimize portfolio risk.

As of June 30, 2019 and 2018, the Authority's investment in LGIP was rated AAAM by Standard & Poor's.

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2019 and 2018

2) Cash and Short-Term Investments, Continued

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Authority's portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
Commonwealth of Virginia LGIP	100% maximum
Each bank deposit institution	100% maximum
Each money market mutual fund	50% maximum
Each federal agency	35% maximum
Each repurchase agreement counterparty	25% maximum

Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the Authority's Policy limits the investment of short-term operating funds to an average weighted maturity of no more than 180 days, with a portion of the portfolio continuously invested in readily available funds. The operating fund core portfolio will be invested in permitted investments with a stated maturity of no more than five years from the date of purchase. To control the volatility of the core portfolio, the Treasurer will determine a duration target, not to exceed three years.

Custodial Credit Risk

The Policy requires all investment securities purchased by the Authority or held as collateral on deposits or investments shall be held by the Authority or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2019 and 2018, all of the Authority's investments are held in a bank's trust department in the Authority's name.

3) Conduit Debt Obligations

From time to time, the Authority has issued Economic Revenue Bonds (the Bonds) to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial 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 County, the Commonwealth, nor any political subdivision thereof is obligated in any manner for repayment of the Bonds. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2019 and 2018, there were 15 series of Economic Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$190 million and \$181 million, respectively.

4) Transactions with Related Parties

Certain financial management and accounting services are provided to the Authority by the County. Services were provided at no charge during the years ended June 30, 2019 and 2018. In addition, certain personnel costs in 2019 and 2018 were incurred by the County for the benefit of the Authority at no charge to the Authority.

Certain legal services are provided to the Authority by the County. The charges for these services amounted to \$6,000, respectively for the years ended June 30, 2019 and 2018, and are included in professional fees in the accompanying statements of revenues, expenses, and changes in net position.

At June 30, 2019, the County owed \$48,116 to the Authority for its contribution to fund an incentive to a business under a performance based agreement. At June 30, 2018, the County owed \$3,544 to the Authority for its contribution for enterprise zone incentive payments.

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements
June 30, 2019 and 2018

4) Transactions with Related Parties, Continued

The Authority negotiates tax abatements as part of the Enterprise Zone Grant Program, the purpose of which is to bring new commercial and industrial businesses to the County. The County provided \$12,231 and \$19,787 to the Authority to cover the costs of these payments in fiscal years 2019 and 2018, respectively.

In fiscal year 2016, the Authority entered into a performance agreement with a business to provide incentive payments based on their investment in machinery and tools, and the County agreed to fund the incentive payments. The Authority paid \$48,116 and \$47,052 during fiscal years 2019 and 2018, respectively, for this incentive and the funding was provided by the County. These payments are included in community development expenses in the accompanying statements of revenues, expenses, and changes in net position.

The County also provided the Authority with reimbursement for expenses incurred for the James River Commerce Center, including costs for surveys and wetland mitigation credits. For fiscal year 2019, the County paid the Authority \$19,080 to reimburse these costs. During fiscal year 2018, the County paid the Authority \$44,929 to reimburse expenses incurred for work at the marina property.

5) Notes Receivable

A summary of notes receivable for fiscal years 2019 and 2018 is below.

	<u>6/30/2019</u>	<u>6/30/2018</u>
Regina Enterprises, LLC	\$ 73	\$ 2,573
MODU System America, LLC	25,000	25,000
Subtotal	25,073	27,573
Allowance for doubtful accounts	(73)	(2,573)
Total notes receivable	<u>\$ 25,000</u>	<u>\$ 25,000</u>
Reconciliation to Statements of Net Position:		
Notes receivable, current	\$ -	\$ -
Notes receivable, non-current	25,000	25,000
Total notes receivable	<u>\$ 25,000</u>	<u>\$ 25,000</u>

On October 13, 2010, the Authority entered into a loan forgiveness agreement with Regina Enterprises, LLC for \$5,000, and on August 11, 2016, the Authority extended the loan forgiveness date to March 31, 2019 at 0% interest. During fiscal year 2018, Regina Enterprises, LLC closed, the remaining loan balance of \$2,573 became due, and an allowance for doubtful accounts was established for this amount. During fiscal year 2019, the Authority collected \$2,500 of the balance due, and the allowance for doubtful accounts was reduced accordingly.

On May 24, 2016, the Authority entered into an agreement with MODU System America, LLC and OKS International, LLC, in which the Authority made a one-time grant of \$25,000 to the businesses in exchange for specified performance. Per the agreement, the grant was in the form of a zero-interest loan to be forgiven at the end of seven years if the terms were satisfied in full. On May 10, 2019, the Authority entered into a supplemental agreement with these businesses to cure defaults that had occurred in the original agreement and provide a method to cure potential future defaults.

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2019 and 2018

6) Capital Assets

A summary of the capital asset activity for fiscal years 2019 and 2018 is below.

	Balance 7/1/2018	Additions	Reductions	Balance 6/30/2019
Capital assets, nondepreciable:				
Land	\$ 1,037,951	\$ -	\$ -	\$ 1,037,951
Land improvements	34,200	-	-	34,200
Construction in progress	166,510	-	-	166,510
Total capital assets, nondepreciable	1,238,661	-	-	1,238,661
Capital assets, depreciable:				
Land improvements	237,988	-	-	237,988
Buildings and improvements	290,095	-	-	290,095
Infrastructure	182,379	-	-	182,379
Furniture and equipment	5,119	-	5,119	-
Total capital assets, depreciable	715,581	-	5,119	710,462
Less accumulated depreciation:				
Buildings and improvements	4,835	7,252	-	12,087
Land improvements	7,933	11,899	-	19,832
Infrastructure	4,155	6,233	-	10,388
Furniture and equipment	3,541	512	4,053	-
Total accumulated depreciation	20,464	25,896	4,053	42,307
Total capital assets, depreciable, net	695,117	(25,896)	1,066	668,155
Total capital assets, net	\$ 1,933,778	\$ (25,896)	\$ 1,066	\$ 1,906,816

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018
Capital assets, nondepreciable:				
Land	\$ 233,106	\$ 804,845	\$ -	\$ 1,037,951
Land improvements	-	34,200	-	34,200
Construction in progress	815,639	-	649,129	166,510
Total capital assets, nondepreciable	1,048,745	839,045	649,129	1,238,661
Capital assets, depreciable:				
Land improvements	-	237,988	-	237,988
Buildings and improvements	-	290,095	-	290,095
Infrastructure	-	182,379	-	182,379
Furniture and equipment	5,119	-	-	5,119
Total capital assets, depreciable	5,119	710,462	-	715,581
Less accumulated depreciation:				
Buildings and improvements	-	4,835	-	4,835
Land improvements	-	7,933	-	7,933
Infrastructure	-	4,155	-	4,155
Furniture and equipment	3,029	512	-	3,541
Total accumulated depreciation	3,029	17,435	-	20,464
Total capital assets, depreciable, net	2,090	693,027	-	695,117
Total capital assets, net	\$ 1,050,835	\$ 1,532,072	\$ 649,129	\$ 1,933,778

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2019 and 2018

7) Commitment of Operating Subsidies

The following operating subsidy agreements were in effect for fiscal years 2019 and 2018.

- On October 8, 2012, the Authority entered into a Memorandum of Understanding (MOU) with the Economic Development Authority of the City of Williamsburg, Virginia (EDA-WMSBG) and the Economic Development Authority of York County, Virginia (EDA-YORK) regarding the operation of a regional business incubator, later referred to as "Launchpad." In fiscal year 2017, Launchpad along with all other regional economic development initiatives were transferred to the Greater Williamsburg Partnership (GWP).

On November 12, 2014, the Authority entered into a new MOU with EDA-WMSBG and EDA-YORK regarding the operation of Launchpad. Per this MOU, the parties involved agreed that \$103,500 was a reasonable estimate of the annual costs to operate Launchpad. Accordingly, the Authority, EDA-WMSBG, and EDA-YORK each became responsible for one-third of the annual cost. During fiscal years 2018 and 2019, the Authority made annual contributions to Launchpad of \$34,500.

On May 1, 2015, the Authority, along with EDA-WMSBG and EDA-YORK, entered into a lease agreement for the Launchpad location. The initial term is for five years and one month, with the option to extend the term of the lease for one period of five years from the expiration date of the initial lease term. In accordance with the 2014 MOU, the annual contributions from the Authority, EDA-WMSBG, and EDA-YORK are used by Launchpad to pay for this lease. On July 29, 2019, the Launchpad gave notice that they intend to terminate their occupancy at 4345 New Town Avenue and relocate to 103 Tribe Square in October 2019. The three parties are responsible for paying the monthly lease payments of the property through the end of the lease term on May 31, 2020. As a party to the lease agreement, the Authority's minimum future lease payment under this lease at June 30, 2019 was \$24,818.

- During fiscal year 2013, the Authority entered into an agreement with Renwood Farms, Inc. (Renwood) commencing on February 1, 2013 and ending on January 31, 2016. Under the agreement, Renwood would be compensated from the proceeds from the sale of farm goods, and Renwood would pay the Authority \$14,725 on December 31 each year during the term of the agreement.

In October 2013, the Authority transferred ownership of the farm property to the County, and the County assigned the rights to the lease income earned from the property to the Authority to maintain the terms of the Authority's agreement with Renwood.

The agreement was renewed on November 1, 2016 and ends on December 31, 2019, with the ability to renew for two additional two-year terms. In fiscal years 2018 and 2019, the Authority received \$14,725 from Renwood annually.

- On August 25, 2015, the Authority along with EDA-WMSBG, and EDA-York entered into a memorandum of agreement for the creation of the Greater Williamsburg Partnership (GWP) recognizing the importance of regional economic collaboration. Per the agreement, the Authority would contribute \$0.95 per capita to support the joint effort. During fiscal year 2018, the Authority contributed \$69,659. In fiscal year 2019, the County assumed responsibility for the contribution to GWP.
- On August 2, 2016, the Authority entered into an agreement to lease a marina to Billsburg Brewery (the "Brewery"). The initial term of the lease is ten years with an annual base rent of \$60,000, increasing by 3% for each of the first five subsequent years and remaining an annual rent of \$70,000 for the last four years of the initial term. The lease came with the understanding that the Authority would construct a warehouse facility up to 10,000 square feet adjacent to the building and lease it to the Brewery.

Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)
Notes to Financial Statements
June 30, 2019 and 2018

7) Commitment of Operating Subsidies, Continued

In connection with the lease, on August 2, 2016, the parties also entered into a performance agreement including certain incentives provided by the Authority in exchange for the Brewery's performance and investments in machinery and equipment. If the Brewery's performance qualified, such incentives included waiving a portion of the rent under the lease and the Authority incurring the construction costs of the warehouse facility suitable for alteration by the Brewery. Construction began in fiscal year 2017 and was completed during fiscal year 2018.

The Authority collected \$61,500 and \$50,000 of rent during fiscal years 2019 and 2018, respectively.

8) Subsequent Event

On July 31, 2019, the Authority sold a parcel of land located at 1716 Endeavor Drive resulting in a net settlement of \$214,007. The land was reflected in the Authority's capital assets at June 30, 2019 with a cost of \$327,156. As a result, this transaction was a net loss on the sale of land of \$113,149 during July 2019.

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Compliance Section



**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 Members
Economic Development Authority of James City County, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Economic Development Authority of James City County, Virginia as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the Economic Development Authority of James City County, Virginia's basic financial statements, and have issued our report thereon dated October 1, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Economic Development Authority of James City County, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Economic Development Authority of James City County, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Economic Development Authority of James City County, Virginia'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 over financial reporting 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 Economic Development Authority of James City County, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

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 purposes.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 1, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH COMMONWEALTH OF VIRGINIA LAWS, REGULATIONS,
CONTRACTS AND GRANTS**

To the Members
Economic Development Authority of James City County, Virginia

We have audited the financial statements of the Economic Development Authority of James City County, Virginia, as of and for the year ended June 30, 2019, and have issued our report thereon dated October 1, 2019.

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 *Specifications for Audits of Boards, Commissions and Authorities*, 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 general-purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the Economic Development Authority of James City County, Virginia, is the responsibility of the Economic Development Authority of James City County, Virginia's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Economic Development Authority of James City County, Virginia's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts and grants for which we performed tests of compliance:

Code of Virginia

- Cash and Investments
- Conflicts of Interest
- Procurement
- Unclaimed Property

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Economic Development Authority of James City County, Virginia had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Members and management of Economic Development Authority of James City County, Virginia and the Auditor of Public Accounts and all applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 1, 2019

ECONOMIC DEVELOPMENT AUTHORITY OF JAMES CITY COUNTY, VIRGINIA
(A Component unit of the County of James City, Virginia)

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

1. Summary of Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) There were no deficiencies noted in internal control to disclose.
- (c) The audit disclosed no items of noncompliance material to the financial statements.

2. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*

None

3. State Compliance Findings

None

4. Status of Prior Year State Compliance Findings

None

Other Information

**Economic Development Authority of James City County, Virginia
(A Component Unit of the County of James City, Virginia)**

Schedules of Revenue Bonds Outstanding - Conduit Debt (Unaudited)

Bond	Date Issued	6/30/2019	6/30/2018
Build America Lease Revenue Bonds - James City County	9/23/2009	\$ -	\$ 9,555,000
Lease Revenue Bonds, Series 2011 - James City County	9/30/2011	2,001,000	2,668,000
Lease Revenue Bonds, Virginia Capital Projects - James City County	9/11/2012	14,860,000	16,845,000
Lease Revenue Refunding Bonds, Series 2014 - James City County	8/4/2014	8,595,000	9,640,000
Lease Revenue Refunding Bonds, Series 2015 - James City County	8/5/2016	31,180,000	35,700,000
Lease Revenue Bonds, Series 2016 - James City County	5/6/2016	23,860,000	24,860,000
Lease Revenue Bonds, Series 2018 - James City County	11/29/2018	21,015,000	-
Economic Development Revenue Bond - Christopher Newport University Educational Foundation	5/18/2001	2,426,119	2,486,119
Revenue Bond, Series B 2003 - Williamsburg Landing Inc.	9/1/2003	5,590,000	5,590,000
Revenue and Refunding Bond, Residential Care Facility - First Mortgage	5/11/2005	17,810,000	17,850,000
Revenue Refunding Bond, William and Mary Foundation, Series 2011 (Refunding Variable Rate Revenue Bond - William and Mary Foundation, Series 2006, issued 12/1/2006)	1/17/2012	8,090,000	8,090,000
Virginia United Methodist Homes of Williamsburg, Inc., Series 2013A Senior	5/31/2013	29,525,000	29,715,000
Virginia United Methodist Homes of Williamsburg, Inc., Series 2013A Subordinated	5/31/2013	9,897,733	9,897,733
Virginia United Methodist Homes of Williamsburg, Inc., Series 2013B Senior	5/31/2013	6,500,000	6,500,000
Virginia United Methodist Homes of Williamsburg, Inc., Series 2013C Senior	5/31/2013	1,620,000	1,755,000
Virginia United Methodist Homes of Williamsburg, Inc., Series 2016	9/29/2016	6,885,744	232,957
		\$ 189,855,596	\$ 181,384,809

See accompanying independent auditors' report.