

**ECONOMIC DEVELOPMENT AUTHORITY
OF YORK COUNTY, VIRGINIA**

(A Component Unit of the County of York, Virginia)

Financial Statements and Supplemental Information

Years Ended June 30, 2017 and 2016

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
Financial Statements and Supplemental Information
Years Ended June 30, 2017 and 2016

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Report of Independent Auditor

Authority Members and Officials
Economic Development Authority of York County, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Economic Development Authority of York County, Virginia (the "Authority"), a component unit of the County of York, Virginia, as of and for the years ended June 30, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the 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 Authority, as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

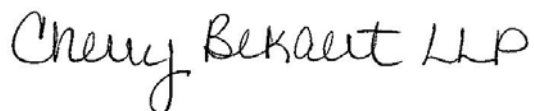
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 Schedules of Conduit Debt Outstanding are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Conduit Debt Outstanding are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, 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 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 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.

A handwritten signature in cursive script that reads "Cheryl Bekaert LLP".

Virginia Beach, Virginia
September 29, 2017

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
Management's Discussion and Analysis

This section of the Economic Development Authority of York County, Virginia's (the "Authority") annual financial report presents a discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the Authority's financial statements following this section.

FINANCIAL HIGHLIGHTS

- The Authority initiated a Route 17 Revitalization Program with the adoption of a Property Acquisition Program to stimulate higher levels of commercial investment in the corridor. After being approved by the Board of Supervisors and imbedded in their Strategic Priorities, the Authority implemented the first property acquisition in April 2017.
- In February 2017, the Authority approved two significant grants for existing York County companies - ITA International and Snow Companies LLC. The ITA grant will help stimulate the construction of a new office building in Commonwealth Green to serve as ITA's new corporate headquarters. The Snow Companies grant will facilitate their acquisition and renovation of a 40,000 sq. ft. office building on Waller Mill Rd. In both cases, these grants will improve the county's commercial tax base and foster the growth of existing businesses.
- The Authority executed purchase agreements in Busch Industrial Park for speculative flex space development on a 4.28 acre parcel, and a 1.42 acre parcel for a manufacturing/warehousing end user. After subdividing out these parcels and the land sale to Marina Electrical Equipment in FY16, roughly 20 acres of the original 30 acres remained available.
- The Authority had an increase in total Net Position during FY2017 of \$690,296 or 22.3%. A significant portion of the FY2017 Authority's net position, \$3,076,384, remains unrestricted.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Statement of Net Position presents information on all Authority assets and liabilities, with the difference between the 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.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how net position changed during the most recent 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 the Management's Discussion and Analysis.

**ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA**

Management's Discussion and Analysis

FINANCIAL ANALYSIS

| Summary of Statement of Net Position at: | <u>6/30/2017</u> | <u>6/30/2016</u> | <u>6/30/2015</u> |
|---|-------------------------|-------------------------|-------------------------|
| Current assets | \$ 781,268 | \$ 625,518 | \$ 563,403 |
| Noncurrent assets | 2,543,701 | 2,095,940 | 2,136,235 |
| Capital assets | <u>701,341</u> | <u>730,282</u> | <u>759,224</u> |
| Total assets | <u>\$ 4,026,310</u> | <u>\$ 3,451,740</u> | <u>\$ 3,458,862</u> |
| Current liabilities | \$ 77,997 | \$ 181,977 | \$ 82,741 |
| Noncurrent liabilities | <u>170,588</u> | <u>182,334</u> | <u>205,857</u> |
| Total liabilities | <u>248,585</u> | <u>364,311</u> | <u>288,598</u> |
| Net investment in capital assets | 701,341 | 730,282 | 759,224 |
| Unrestricted | <u>3,076,384</u> | <u>2,357,147</u> | <u>2,411,040</u> |
| Total net position | <u>3,777,725</u> | <u>3,087,429</u> | <u>3,170,264</u> |
| Total liabilities and net position | <u>\$ 4,026,310</u> | <u>\$ 3,451,740</u> | <u>\$ 3,458,862</u> |

At the close of the 2017 and 2016 fiscal years, the Authority's assets exceeded liabilities by \$3,777,725 and \$3,087,429, respectively. In fiscal year 2017, the Authority's total net position increased by \$690,296, primarily due to significant contributions by the County of York, Virginia (the "County") offset by increased economic development incentives. A significant portion of the Authority's net position, \$3,076,384, remains unrestricted and may be used to meet the Authority's ongoing objectives and obligations.

In fiscal year 2016, the Authority's total net position decreased by \$82,835. An increase in accounts payable for the installation of a storm-water pond and economic incentives contributed to this decrease. A significant portion of the Authority's net position, \$2,357,147, was unrestricted.

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
Management's Discussion and Analysis

FINANCIAL ANALYSIS, Continued

Summary of Statement of Revenues, Expenses and Changes in Net Position for the year ended:

| | <u>6/30/2017</u> | <u>6/30/2016</u> | <u>6/30/2015</u> |
|-------------------------------------|---------------------|---------------------|---------------------|
| Operating Revenues | | | |
| Intergovernmental | \$ 901,250 | \$ 49,250 | \$ 46,250 |
| Waterfront rent | 238,481 | 251,840 | 243,098 |
| Gain on land held for resale | - | 12,840 | 12,306 |
| Administrative fees | 139,509 | 139,668 | 140,798 |
| Miscellaneous | 206,662 | 156,020 | 3,000 |
| Total operating revenues | <u>1,485,902</u> | <u>609,618</u> | <u>445,452</u> |
| Operating Expenses | | | |
| Waterfront operations | 232,481 | 230,421 | 218,097 |
| Economic development | 479,844 | 373,689 | 374,610 |
| Other fees and miscellaneous | 85,287 | 88,654 | 64,352 |
| Total operating expenses | <u>797,612</u> | <u>692,764</u> | <u>657,059</u> |
| Operating Income (Loss) | <u>688,290</u> | <u>(83,146)</u> | <u>(211,607)</u> |
| Total Nonoperating Revenues | <u>2,006</u> | <u>311</u> | <u>93</u> |
| Capital Contribution | <u>-</u> | <u>-</u> | <u>369,000</u> |
| Change in Net Position | <u>690,296</u> | <u>(82,835)</u> | <u>157,486</u> |
| Net position, beginning of the year | <u>3,087,429</u> | <u>3,170,264</u> | <u>3,012,778</u> |
| Net position, end of the year | <u>\$ 3,777,725</u> | <u>\$ 3,087,429</u> | <u>\$ 3,170,264</u> |

The County contributes to the operations of the Authority on an annual basis and makes economic development contributions for certain incentives, which vary from one year to the next. These contributions are reflected as intergovernmental revenues. The County contributed \$901,250 in fiscal year 2017 for property on George Washington Memorial Highway and other economic development. In fiscal year 2016, the County contributed \$49,250 for operations.

Rental and lease income decreased due to the end of a temporary lease and expenses increased from 2016 due to higher than normal repair and maintenance expenditures for Riverwalk Landing. Two nonrefundable deposits were received in 2017 as a result of terminated contracts. Miscellaneous revenue increased from 2016 as a result of contributions for the Greater Williamsburg Partnership (GWP) which equal the expenses incurred in fiscal year 2017 for the GWP.

The Authority continues to work cooperatively and receive significant funding from the County. As a result of this relationship, the Authority's fiscal position continues to remain positive and stable.

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
Management's Discussion and Analysis

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

| | <u>6/30/2017</u> | <u>6/30/2016</u> | <u>6/30/2015</u> |
|-------------------|-------------------|-------------------|-------------------|
| Land improvements | \$ 6,083 | \$ 6,723 | \$ 7,364 |
| Infrastructure | 695,258 | 723,559 | 751,860 |
| Total | <u>\$ 701,341</u> | <u>\$ 730,282</u> | <u>\$ 759,224</u> |

Capital assets at June 30, 2017 reflect assets that provide water and sewer access to property owned by the Authority. Additional information can be found in note 4 to the basic financial statements.

NOTES PAYABLE TO PRIMARY GOVERNMENT - YORK COUNTY

| <u>6/30/2017</u> | <u>6/30/2016</u> | <u>6/30/2015</u> |
|-------------------|-------------------|-------------------|
| <u>\$ 116,667</u> | <u>\$ 136,667</u> | <u>\$ 156,667</u> |

At June 30, 2017 and 2016, the notes payable to the County relates to the Riverwalk Landing direct financing lease.

Additional information on these can be found in Notes 3 and 5 to the basic financial statements.

ECONOMIC FACTORS

- The Office of Economic Development (OED), in partnership with the Authority and the York County Chamber of Commerce, co-hosted the area's second Home-Based Business Resource Fair & Conference (HBBRFC).
- The new regional economic development marketing organization, The GWP, continued to mature in FY17, hiring an Executive Director, forming as a 501c6, and receiving formal recognition from the Virginia Economic Development Partnership.
- The Authority's efforts toward building our entrepreneurial eco system were exemplified, with continued funding and staff support of the Greater Williamsburg Business Incubator, "Launchpad" and START Peninsula.

REQUESTS FOR INFORMATION

This financial report is designed to provide users (citizens, taxpayers, bondholders, 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 the report or requests for additional information should be directed to Director of Economic Development, York County Economic Development Authority, 224 Ballard Street, Yorktown, Virginia 23690 or telephone (757) 890-3317.

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA

Statements of Net Position

| | <u>6/30/2017</u> | <u>6/30/2016</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and equivalents | \$ 723,042 | \$ 440,866 |
| Accounts receivable | 38,226 | 164,015 |
| Due from Primary Government - York County | - | 637 |
| Investment in direct finance lease, current | 20,000 | 20,000 |
| Total current assets | <u>781,268</u> | <u>625,518</u> |
| Noncurrent assets: | | |
| Restricted cash and equivalents | 14,510 | 14,510 |
| Land held for resale | 2,432,396 | 1,964,578 |
| Prepaid expense | 17 | 18 |
| Investment in Waterside Capital Corporation | 111 | 167 |
| Investment in direct finance lease, net current | 96,667 | 116,667 |
| Depreciable capital assets: | | |
| Land improvements | 9,604 | 9,604 |
| Infrastructure | 850,913 | 850,913 |
| Accumulated depreciation | <u>(159,176)</u> | <u>(130,235)</u> |
| Total noncurrent assets | <u>3,245,042</u> | <u>2,826,222</u> |
| Total assets | <u>\$ 4,026,310</u> | <u>\$ 3,451,740</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 45,173 | \$ 111,059 |
| Retainage payable | - | 5,218 |
| Due to Primary Government - York County | 12,824 | - |
| Collaborative project deposit | - | 45,700 |
| Note payable to Primary Government - York County, current | 20,000 | 20,000 |
| Total current liabilities | <u>77,997</u> | <u>181,977</u> |
| Noncurrent liabilities: | | |
| Deposits payable | 16,510 | 16,510 |
| Unearned revenues | 57,411 | 49,157 |
| Note payable to Primary Government - York County, net current | 96,667 | 116,667 |
| Total noncurrent liabilities | <u>170,588</u> | <u>182,334</u> |
| Total liabilities | <u>248,585</u> | <u>364,311</u> |
| NET POSITION | | |
| Net investment in capital assets | 701,341 | 730,282 |
| Unrestricted | <u>3,076,384</u> | <u>2,357,147</u> |
| Total net position | <u>3,777,725</u> | <u>3,087,429</u> |
| Total liabilities and net position | <u>\$ 4,026,310</u> | <u>\$ 3,451,740</u> |

The accompanying notes are an integral part of the basic financial statements.

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
Statements of Revenues, Expenses and Changes in Net Position

| | Year Ended | |
|---|----------------------------|----------------------------|
| | <u>6/30/2017</u> | <u>6/30/2016</u> |
| Operating Revenues | | |
| Intergovernmental | \$ 901,250 | \$ 49,250 |
| Waterfront and other rent | 232,480 | 230,420 |
| Gain on sale of land held for resale | - | 12,840 |
| Lease income | 6,001 | 21,420 |
| Industrial revenue bond administrative fees | 139,509 | 139,668 |
| Miscellaneous | <u>206,662</u> | <u>156,020</u> |
| Total operating revenues | <u>1,485,902</u> | <u>609,618</u> |
| Operating Expenses | | |
| Waterfront operations | 138,498 | 91,769 |
| Waterfront rentals | 93,983 | 138,652 |
| Economic development incentives | 479,844 | 373,689 |
| Professional fees | 23,178 | 18,848 |
| Board member fees | 3,900 | 4,700 |
| Miscellaneous | 29,268 | 36,164 |
| Depreciation | <u>28,941</u> | <u>28,942</u> |
| Total operating expenses | <u>797,612</u> | <u>692,764</u> |
| Operating Gain (Loss) | <u>688,290</u> | <u>(83,146)</u> |
| Nonoperating Revenues (Expenses) | | |
| Interest income | 8,286 | 6,591 |
| Interest expense | <u>(6,280)</u> | <u>(6,280)</u> |
| Total nonoperating revenues, net | <u>2,006</u> | <u>311</u> |
| Change in Net Position | 690,296 | (82,835) |
| Total net position, beginning of year | <u>3,087,429</u> | <u>3,170,264</u> |
| Total net position, end of year | <u><u>\$ 3,777,725</u></u> | <u><u>\$ 3,087,429</u></u> |

The accompanying notes are an integral part of the basic financial statements.

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA

Statements of Cash Flows

| | Year Ended | |
|---|--------------------|--------------------|
| | <u>6/30/2017</u> | <u>6/30/2016</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Primary Government - York County | \$ 901,250 | \$ 49,250 |
| Receipts from rental income | 384,161 | 94,748 |
| Receipt from the net proceeds of land held for resale | - | 33,541 |
| Other receipts | 335,171 | 295,688 |
| Payments for land held for resale | (467,818) | - |
| Payments to suppliers for goods and services | (868,750) | (557,311) |
| Payments to Board members for services | (3,900) | (4,700) |
| Net cash provided by (used in) operating activities | <u>280,114</u> | <u>(88,784)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Interest paid on debt | (6,280) | (6,280) |
| Net cash used in capital and related financing activities | <u>(6,280)</u> | <u>(6,280)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | 8,342 | 6,758 |
| Net cash provided by investing activities | <u>8,342</u> | <u>6,758</u> |
| Net change in cash and cash equivalents | 282,176 | (88,306) |
| Cash and cash equivalents, beginning of year | 455,376 | 543,682 |
| Cash and cash equivalents, end of year | <u>\$ 737,552</u> | <u>\$ 455,376</u> |
| Reconciliation of cash and cash equivalents to the Statement of Net Position: | | |
| Cash and equivalents | \$ 723,042 | \$ 440,866 |
| Restricted cash and equivalents | 14,510 | 14,510 |
| Cash and cash equivalents, end of year | <u>\$ 737,552</u> | <u>\$ 455,376</u> |
| Reconciliation of operating gain (loss) to net cash provided by (used in) operating activities: | | |
| Operating gain (loss) | \$ 688,290 | \$ (83,146) |
| Adjustments to reconcile operating gain (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 28,941 | 28,942 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 125,789 | (150,358) |
| Due from Primary Government - York County | 637 | (637) |
| Prepaid expense | 1 | 1 |
| Land held for resale | (467,818) | 20,701 |
| Accounts payable | (65,886) | 106,562 |
| Retainage payable | (5,218) | 5,218 |
| Unearned revenues | 8,254 | (6,097) |
| Deposits payable | - | 2,574 |
| Collaborative project deposit | (45,700) | (7,035) |
| Due to Primary Government - York County | 12,824 | (5,509) |
| Net cash provided by (used in) operating activities | <u>\$ 280,114</u> | <u>\$ (88,784)</u> |
| Noncash capital and financing activities: | | |
| Change in direct financing lease and corresponding change in note payable to primary government - York County | <u>\$ (20,000)</u> | <u>\$ (20,000)</u> |
| Change in fair value of Waterside Capital Corporation investment | <u>\$ (56)</u> | <u>\$ (167)</u> |

The accompanying notes are an integral part of the basic financial statements.

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA

Notes to Basic Financial Statements
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Economic Development Authority of York County, Virginia (the "Authority") was created as a tax-exempt political subdivision of the Commonwealth of Virginia by ordinance of the Board of Supervisors of the County of York, Virginia (the "County") on July 6, 1972, pursuant to the provisions of the Industrial Development and Revenue Bond Act of the Commonwealth of Virginia, duly enacted into law as Chapter 33, Section 15.1-1373, et seq., of the *Code of Virginia* (1950), as amended. The Authority is governed by seven directors appointed by the Board of Supervisors of the County. It is authorized to acquire, own, lease and dispose of properties in order to promote industry and develop trade by inducing enterprises to locate and remain in Virginia. In addition, the Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities. Liability under such bonds may be retained by the Authority, or it may be assumed by the enterprises for which the facilities are constructed. Collection of revenues pledged to liquidate the bonds may be assigned to the bond trustee. The revenue bonds are not deemed to constitute a debt or pledge of the faith and credit of the County, the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease of the facilities constructed and may be collateralized by a deed of trust on those facilities.

The Reporting Entity

The Authority is considered a component unit of the County. Component units are legally separate entities for which a Primary Government is financially accountable. The information in these financial statements will also be included in the County's basic financial statements because of the significance of the Authority's financial relationship with the County.

The Authority exists as a legal entity with a Board of Directors appointed by the County's Board of Supervisors. The Board of Directors manages and allocates operating and marketing budgets and capital funds recorded on the books of the Authority.

Basis of Accounting

The Authority's operations are accounted for as a proprietary fund used to account for the activities of the Authority as noted above. The financial statements are presented on the accrual basis of accounting, using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations.

Net Position

Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Authority first applies restricted resources when an expense is incurred for which both restricted and unrestricted net position is available.

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA

Notes to Basic Financial Statements
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted under 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 these estimates.

Pass-thru Financing Leases

Most activities of the Authority represent pass-through leases. These agreements provide for periodic rental payments in amounts 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 collateralize outstanding bond obligations and title will revert to the lessee when the bonds are fully paid.

Although 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 or liabilities. Outstanding conduit debt amounted to \$80,812,250 and \$81,649,500 at June 30, 2017 and 2016, respectively.

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.

Restricted Cash and Equivalents

At June 30, 2017 and 2016, restricted cash consisted of tenant security deposits of \$14,510.

Receivables

At June 30, 2017, receivables consisted of Riverwalk Landing rental payments and interest of \$38,226. At June 30, 2016, receivables consisted of contributions for the Greater Williamsburg Partnership, Riverwalk Landing rental payments, bondholder administration fees and interest of \$164,015. All outstanding receivables at June 30 have been subsequently collected; therefore, an allowance was not deemed necessary.

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA

Notes to Basic Financial Statements
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Land Held for Resale

Land is stated at acquisition cost plus improvements, not to exceed net realizable value. As land is sold, all costs associated with that land are charged to cost of land sold.

Capital Assets

Capital assets are capitalized at historical cost, if purchased. Contributed capital assets are recorded at their acquisition value at the date of donation. The Authority utilizes the County's capitalization threshold of \$5,000 or more for recording equipment, land improvements and infrastructure and \$30,000 for buildings and building improvements, for assets with useful lives greater than one year. Capital assets are depreciated over their estimated useful lives using the straight-line, half-year convention method. The estimated useful lives are as follows: equipment (3-20), land improvements (15-20), buildings and improvements (10-50), and infrastructure (10-50).

Unearned Revenues

At June 30, 2017 unearned revenues consisted of bond administrative fees paid in advance of \$49,354 and lease payments paid in advance of \$8,057. At June 30, 2016 unearned revenues consisted of bond administrative fees paid in advance of \$47,139 and lease payments paid in advance of \$2,018.

2. DEPOSITS AND INVESTMENTS

The Authority's cash and investments consisted of:

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|--|----------------------|----------------------|
| Bank deposits | \$ 337,457 | \$ 307,057 |
| Local Government Investment Pool (LGIP) | 400,095 | 148,319 |
| Waterside Capital Corporation Stock | 111 | 167 |
| | <u>\$ 737,663</u> | <u>\$ 455,543</u> |
| <u>Reconciliation to Statement of Net Position:</u> | | |
| Cash and equivalents | \$ 723,042 | \$ 440,866 |
| Restricted cash and equivalents | 14,510 | 14,510 |
| Investment in Waterside Capital Corporation (WSCC) | 111 | 167 |
| | <u>\$ 737,663</u> | <u>\$ 455,543</u> |

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia*. Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
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Notes to Basic Financial Statements
June 30, 2017 and 2016

2. DEPOSITS AND INVESTMENTS, Continued

for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements and the LGIP. LGIP is managed in a manner consistent with the "2a7 like pool" requirements of GAAP with the portfolio securities valued by the amortized cost method.

The Authority holds common stock equity in WSCC. In January 1998, WSCC changed its name from Eastern Virginia Small Business Investment Corporation to Waterside Capital Corporation and completed its initial public offering to raise additional equity to support growth strategy. The goal of WSCC is to provide equity financings for new ventures that will bring new jobs and additional revenue to the area.

By originally investing in WSCC prior to its' initial public offering, the Authority was able to provide capital through the WSCC to the new ventures, which they could not get from other lending institutions. The investment is stated at approximate fair value. The Authority does not intend to actively trade the investment and, when approved by management, the investment will be sold.

Credit Risk

As of June 30, 2017 and 2016, the Authority's investment in the LGIP was rated AAAm by Standard & Poor's.

3. INVESTMENT IN DIRECT FINANCE LEASE

In November 2012, the Authority executed a property lease for the Riverwalk Restaurant and an adjacent vacant space for another restaurant to a new private company. As part of the negotiations, the Authority also entered into an equipment lease. The lease is for \$200,000, with repayment over 120 months and with interest on the outstanding balance of 3.14% per annum. Repayments began on May 1, 2013.

The following schedule reflects the net investment in the direct financing lease:

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|--|----------------------|----------------------|
| Minimum lease payments to be received | \$ 153,300 | \$ 179,580 |
| Less unearned revenues | <u>(36,633)</u> | <u>(42,913)</u> |
| Net investment in direct finance lease | <u>\$ 116,667</u> | <u>\$ 136,667</u> |
| Classified as: | | |
| Current | \$ 20,000 | \$ 20,000 |
| Noncurrent | <u>96,667</u> | <u>116,667</u> |
| Total | <u>\$ 116,667</u> | <u>\$ 136,667</u> |

**ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
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Notes to Basic Financial Statements
June 30, 2017 and 2016

3. INVESTMENT IN DIRECT FINANCE LEASE, Continued

Minimum future rental receipts under the direct financing lease as of June 30, 2017 are:

| | | |
|-------|----|----------------|
| 2018 | \$ | 26,280 |
| 2019 | | 26,280 |
| 2020 | | 26,280 |
| 2021 | | 26,280 |
| 2022 | | 26,280 |
| 2023 | | 21,900 |
| Total | \$ | <u>153,300</u> |

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

| | <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2017</u> |
|---|---------------------------------------|--------------------|-------------------|--|
| Capital assets being depreciated: | | | | |
| Land improvements | \$ 9,604 | \$ - | \$ - | \$ 9,604 |
| Infrastructure | <u>850,913</u> | <u>-</u> | <u>-</u> | <u>850,913</u> |
| Total capital assets being depreciated | <u>860,517</u> | <u>-</u> | <u>-</u> | <u>860,517</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (2,881) | (640) | - | (3,521) |
| Infrastructure | <u>(127,354)</u> | <u>(28,301)</u> | <u>-</u> | <u>(155,655)</u> |
| Total accumulated depreciation | <u>(130,235)</u> | <u>(28,941)</u> | <u>-</u> | <u>(159,176)</u> |
| Total capital assets being depreciated, net | <u>\$ 730,282</u> | <u>\$ (28,941)</u> | <u>\$ -</u> | <u>\$ 701,341</u> |

Capital asset activity for the year ended June 30, 2016 is as follows:

| | <u>Balance</u> <u>July 1, 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2016</u> |
|---|---------------------------------------|--------------------|-------------------|--|
| Capital assets being depreciated: | | | | |
| Land improvements | \$ 9,604 | \$ - | \$ - | \$ 9,604 |
| Infrastructure | <u>850,913</u> | <u>-</u> | <u>-</u> | <u>850,913</u> |
| Total capital assets being depreciated | <u>860,517</u> | <u>-</u> | <u>-</u> | <u>860,517</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (2,240) | (641) | - | (2,881) |
| Infrastructure | <u>(99,053)</u> | <u>(28,301)</u> | <u>-</u> | <u>(127,354)</u> |
| Total accumulated depreciation | <u>(101,293)</u> | <u>(28,942)</u> | <u>-</u> | <u>(130,235)</u> |
| Total capital assets being depreciated, net | <u>\$ 759,224</u> | <u>\$ (28,942)</u> | <u>\$ -</u> | <u>\$ 730,282</u> |

**ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA**

Notes to Basic Financial Statements
June 30, 2017 and 2016

5. NOTE PAYABLE TO PRIMARY GOVERNMENT - YORK COUNTY

The Authority has one remaining note payable to the County. Details on the loan can be found in note 3, Investment in Direct Finance Lease.

At June 30, 2017 and 2016, the outstanding principal balance on the note payable was \$116,667 and \$136,667 respectively.

The following is a summary of changes in notes payable to the County:

| <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2017</u> | <u>Due Within</u> <u>One Year</u> |
|---------------------------------------|------------------|-------------------|--|--------------------------------------|
| \$ 136,667 | \$ - | \$ (20,000) | \$ 116,667 | \$ 20,000 |

| <u>Balance</u> <u>July 1, 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2016</u> | <u>Due Within</u> <u>One Year</u> |
|---------------------------------------|------------------|-------------------|--|--------------------------------------|
| \$ 156,667 | \$ - | \$ (20,000) | \$ 136,667 | \$ 20,000 |

The following is a summary of the repayment schedules for fiscal years:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> |
|-------------|------------------|-----------------|
| 2018 | \$ 20,000 | \$ 6,280 |
| 2019 | 20,000 | 6,280 |
| 2020 | 20,000 | 6,280 |
| 2021 | 20,000 | 6,280 |
| 2022 | 20,000 | 6,280 |
| 2023 | 16,667 | 5,233 |
| Total | \$ 116,667 | \$ 36,633 |

6. TRANSACTIONS WITH PRIMARY GOVERNMENT - YORK COUNTY

Intergovernmental revenues received from York County and related due to and due from the Primary Government consisted of the following:

| <u>Purpose</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|---|----------------------|----------------------|
| Operating contributions | \$ 51,250 | \$ 49,250 |
| Contribution for purchase of land | 500,000 | - |
| Contribution for capital commitments | 350,000 | - |
| Due from Primary Government - York County | - | 637 |
| Due to Primary Government - York County | 12,824 | - |

In fiscal year 2016, \$637 due from the County and in fiscal year 2017, \$12,824 due to the County were primarily due to the Riverwalk Landing Lease agreement.

ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
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Notes to Basic Financial Statements
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7. WATERFRONT RENTAL INCOME

In March 2003, the Authority executed a lease agreement with the County for the Yorktown Waterfront property for \$1 per year with a term of 30 years. Under the terms of the agreement, the Authority revitalized the property to include a restaurant, office and retail space, parking facilities, travel ways, landscaping and other improvements. Upon completion of the Yorktown Revitalization Project, there were 11 facilities for lease within the development, referred to as Riverwalk Landing. The Authority executed subleases for the facilities with annual rents of \$232,480 and \$230,420, respectively, for the fiscal years ended June 30, 2017 and 2016. Section 4 of the lease provides that the Authority will remit all rents and profits realized from any such sublease to the County to be managed and made available for expenditures for maintenance of the property and redemption of the bonds issued for the development.

8. CONTINGENT LIABILITY

In fiscal year 2016, the Authority passed a resolution at its January 26, 2016 meeting authorizing the execution of a Financing Agreement for the acquisition of a 248-acre tract of land and the investment in the necessary infrastructure improvements. The Financing Agreement required approval of a Support Agreement by the Authority and the County's Board of Supervisors, which was approved on February 16, 2016. The principal and interest shall be payable from the revenues derived by the Authority from the sale or leasing of the project and payments made to the Authority by the County pursuant to the Support Agreement dated as of February 1, 2016 between the Authority and the County. A line of credit of \$8,000,000 was approved with Towne Bank and was structured as an interest-only line of credit that can be drawn-down as needed, without subordinating the land. The interest will be billed and paid monthly, with a maturity date of three years after the closing date of the line of credit. At maturity, any remaining principal balance on the line of credit may be converted to permanent repayment for up to a 10-year term. As of June 30, 2017, the available balance of the line of credit remains at \$8,000,000.

SUPPLEMENTAL INFORMATION

**ECONOMIC DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA**

Schedules of Conduit Debt Outstanding

| <u>Issue Name</u> | <u>Facility Description</u> | <u>Date of Original Issue</u> | <u>Trustee</u> | <u>Bonds Aggregate Amount at Issue</u> | <u>Aggregate Outstanding Payable at 6/30/2017</u> | <u>Aggregate Outstanding Payable at 6/30/2016</u> |
|---|--|---------------------------------------|-------------------------|--|---|---|
| Pollution Control Revenue Bonds (VEPCO), Series 2009A | Pollution control equipment and facility related to the conversion of the Yorktown Power Station | 5/19/2009 | Bank of New York Mellon | \$ 70,000,000 | 70,000,000 | 70,000,000 |
| Educational Facilities Revenue Bonds, Series 2009 | York River Academy Mixed Use Project | 7/1/2009 | Towne Bank | \$ 3,000,000 | 881,250 | 987,500 |
| Qualified Non-Profit Revenue and Refunding Bond, Series 2013 | Colonial Community Services, Inc. Project | 7/19/2013 | Bank of Lancaster | \$ 2,750,000 | 2,136,000 | 2,297,000 |
| Lease Revenue Refunding Bonds (County of York, Virginia), Series 2014 | Yorktown Waterfront Revitalization project; communication system improvements; fire and rescue equipment | 2/27/2014 | Wells Fargo Bank | \$ 9,865,000 | <u>7,795,000</u> | <u>8,365,000</u> |
| | | | | Total | <u>\$ 80,812,250</u> | <u>\$ 81,649,500</u> |

**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***

Authority Members and Officials
Economic Development Authority of York County, Virginia

We have audited, 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, the financial statements of the Economic Development Authority of York County, Virginia, (the "Authority"), a component unit of the County of York, Virginia, as of and for the years ended June 30, 2017 and 2016, and have issued our report thereon dated September 29, 2017.

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") to determine the 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 grants, 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 required to be reported under *Government Auditing Standards* and one instance of noncompliance required to be reported under the *Specifications for Audits of Authorities, Boards, and Commissions*:

Criteria: The Code of Virginia, Section 2.2-3115, requires that local officials file a semi-annual disclosure form by January 15th of each year.

Condition: While performing our audit procedures to ensure compliance with Section 2-8 of the *Specifications for Audits of Authorities, Boards, and Commissions*, we noted one Statement of Economic Interest form was filed after January 15, 2017.

Cause: The official forgot the date of the deadline to submit their disclosure form.

Effect: The Authority is not in compliance with the State's conflict of interest disclosure filing requirement and will be fined for late filing.

Auditor's Recommendation: We recommend board members file their conflict of interest disclosure upon receipt of their reminder letter and reminder phone call to ensure they are not fined for late filing.

Management's Response: The County of York has a long standing procedure in place to ensure that the Board of Supervisor members, Economic Development Authority, Marquis Community Development Authority and all other filers, file their conflict of interest statements on time. The procedure currently includes sending letters that contain the filing due date and the code sections requiring the filing along with the necessary forms to the board members. We then follow up with a phone call to remind them of the need to file and the due date by which their statements must be filed in the Board Clerk's Office.

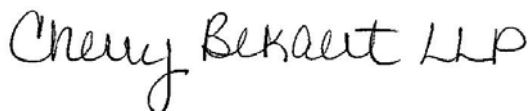
As of November 1, 2015, the Virginia Conflict of Interest and Ethics Advisory Council (Council) has taken over responsibility for the State and Local Conflicts of Interests Act. Currently, the Council's website does not have an e-filing login for local government officials as the site has not been fully developed. The Council's attention has been focused first on lobbyists and state officials but we anticipate that soon guidance will be provided to local officials. The Virginia Association of Counties (VACO) has been assisting local governments by attempting to gather information to share with its membership on the filing requirements. During this time of transition, we will continue our proactive process to monitor the guidance provided by the Council and to provide forms and reminder notices to our Board members.

The Authority's response to finding

The Authority's response to the finding identified in our audit is included herein. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Cheryl Bekant LLP".

Virginia Beach, Virginia
September 29, 2017