



**INDUSTRIAL DEVELOPMENT AUTHORITY (IDA)**  
**INVESTMENT REVENUE BONDS - BALLSTON SKATING FACILITY PROJECT**  
*(A Private-Purpose Trust Fund of Arlington County, Virginia)*

**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013**  
**(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**

## INDEPENDENT AUDITORS' REPORT

Trustees of the Industrial Development  
Authority of Arlington County  
Arlington County, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Industrial Development Authority Investment Revenue Bonds - Ballston Skating Facility Project (Skating Facility) (A private purpose trust fund of Arlington County, Virginia), which consists of the statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Skating Facility'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.

### ***Auditors' 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 the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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 auditors' 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 Skating Facility as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Skating Facility and do not purport to, and do not, present fairly the financial position of Arlington County, Virginia, as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of the Skating Facility'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 result 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 Skating Facility's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

Arlington, Virginia  
October 31, 2014

**INDUSTRIAL DEVELOPMENT AUTHORITY - INVESTMENT BOND FUND**  
**BALLSTON SKATING FACILITY FUND**

(A Private Purpose Trust Fund of Arlington County, Virginia)

STATEMENT OF NET POSITION  
 June 30, 2014 and 2013

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS:</b>		
Unrestricted -		
Cash and cash equivalents	\$2,084,327	\$2,225,471
Accounts receivable	581,231	590,784
Total current assets	<u>2,665,558</u>	<u>2,816,255</u>
<b>CAPITAL ASSETS:</b>		
Building and improvements	28,837,666	28,837,666
Less-Accumulated depreciation	(4,790,122)	(4,149,285)
Net capital assets	<u>24,047,544</u>	<u>24,688,381</u>
Total assets	<u>26,713,102</u>	<u>27,504,636</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Loss on refunding bonds, net of		
Accumulated amortization of \$76,320 and \$61,056	<u>248,664</u>	<u>263,928</u>
Total assets and deferred outflows of resources	<u>\$26,961,766</u>	<u>\$27,768,564</u>

See accompanying notes to financial statements

**Industrial Development Authority - Investment Bond Fund**  
**BALLSTON SKATING FACILITY FUND**  
(A Private Purpose Trust Fund of Arlington County, Virginia)

STATEMENT OF NET POSITION  
June 30, 2014 and 2013

***LIABILITIES AND NET POSITION***

	<u>2014</u>	<u>2013</u>
<b>SHORT-TERM LIABILITIES:</b>		
Interest payable	\$581,231	\$590,784
Vouchers payable	5,000	41,144
Revenue bonds payable	995,000	970,000
Total short-term liabilities	\$1,581,231	\$1,601,928
<b>LONG-TERM LIABILITIES:</b>		
Revenue bonds payable	26,280,000	27,275,000
Total long-term liabilities	26,280,000	27,275,000
Total liabilities	27,861,231	28,876,928
<b>NET POSITION:</b>		
Net investment in capital assets,	(3,227,456)	(3,556,619)
Unrestricted	2,327,991	2,448,255
Total net position	(\$899,465)	(\$1,108,364)

See accompanying notes to financial statements

**INDUSTRIAL DEVELOPMENT AUTHORITY - INVESTMENT BOND FUND**  
**BALLSTON SKATING FACILITY FUND**  
(A Private Purpose Trust Fund of Arlington County, Virginia)

**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**  
For the years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>REVENUES:</b>		
Rent income	<u>\$2,382,492</u>	<u>\$2,380,204</u>
<b>OPERATING EXPENSES:</b>		
Administrative expenses/other	-	36,144
Depreciation	640,837	640,837
Amortization of loss of refunding & bond issuance cost	<u>15,264</u>	<u>15,264</u>
Total operating expenses	<u>656,101</u>	<u>692,245</u>
 Operating income	 <u>1,726,391</u>	 <u>1,687,959</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest expense	(1,412,492)	(1,435,203)
Finance charges	(5,000)	(5,000)
Contributions to developers and other sources	<u>(100,000)</u>	<u>(826,368)</u>
Total non-operating expenses	<u>(1,517,492)</u>	<u>(2,266,571)</u>
 Net income	 208,899	 (578,612)
  Net position, beginning of year, restated	  <u>(1,108,364)</u>	  <u>(529,752)</u>
Net position, end of year	<u>(\$899,465)</u>	<u>(\$1,108,364)</u>

See accompanying notes to financial statements

**INDUSTRIAL DEVELOPMENT AUTHORITY - INVESTMENT BOND FUND**  
**BALLSTON SKATING FACILITY FUND**

(A Private Purpose Trust Fund of Arlington County, Virginia)

**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Receipts from Tenant	\$2,382,492	\$2,380,204
Cash paid to administrative expenses/other	(\$36,144)	-
Net cash provided by operating activities:	<u>2,346,348</u>	<u>2,380,204</u>
Cash Flows from Capital and Related Financing Activities:		
Principal payment	(970,000)	(945,000)
Interest and other financing charges paid	(1,517,492)	(2,266,571)
Net cash used in capital and related financing activities	<u>(2,487,492)</u>	<u>(3,211,571)</u>
Net decrease in cash and cash equivalents	(141,144)	(831,367)
Cash and Cash Equivalents at Beginning of Year	<u>2,225,471</u>	<u>3,056,838</u>
Cash and Cash Equivalents at End of Year	<u>\$2,084,327</u>	<u>\$2,225,471</u>
Reconciliation of Operating Income to Net Cash Provided by (used in) Operating Activities:		
Operating Income	\$1,726,391	\$1,687,959
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	656,101	656,101
Effect of changes in operating assets and liabilities		
Vouchers payable	<u>(36,144)</u>	<u>36,144</u>
Net Cash Flows Provided by (used in) Operating Activities	<u>\$2,346,348</u>	<u>\$2,380,204</u>

See accompanying notes financial statements

**INDUSTRIAL DEVELOPMENT AUTHORITY (IDA)  
INVESTMENT REVENUE BONDS  
BALLSTON SKATING FACILITY PROJECT  
(A Private-Purpose Trust Fund of Arlington County, Virginia)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014 and 2013**

**I. ORGANIZATION AND BUSINESS CONDITIONS**

The County is committed to encouraging continuing economic development, including the area around Ballston, including the relocation to the County of private businesses to strengthen the business climate, and to making sports and recreation facilities available to the citizens of the County. To further these ends, on December 14, 2004, the County Board approved a resolution to assist the Washington Capitals Hockey Club (the "Capitals"), a professional team of the National Hockey League, in the development and construction of a skating facility and related improvements (the "Skating Facility"). The Skating Facility was built on the eighth (top) level of the existing Ballston Public Parking Garage (the "Garage"), which is owned by the County, adjacent to the Ballston Commons Mall. In 1984, the County had assisted in the development of Ballston Commons Mall, by constructing the existing seven-level parking garage. Under the current arrangements, the County leases the land on which the Garage is built and owns certain rights in the Garage pursuant to a ground lease between the May Department Stores Company ("May"), as lessor, and the County, as lessee. In July 2005, May was acquired by Federated Department Stores, Inc. ("FDS").

The Skating Facility contains approximately 95,000 square feet of constructed space and houses, among other amenities, two ice sheets suitable for National Hockey League use, one of which is convertible to host sports and events that do not require the ice surface; locker rooms and other training facilities for the Capitals; changing rooms for youth and adult hockey teams and figure skaters; a pro shop; rooms for public use; and corporate office space for the Capitals. The development also includes public parking (the "Parking Facilities").

As part of the agreement, the County agreed to construct an eighth level slab (the "Eighth Level Slab") on top of the Garage, to lease the Eighth Level Slab to the Industrial Development Authority of Arlington County, Virginia (the "IDA"), and to acquire the rights necessary to assist the development and construction of the project on the Garage pursuant to a Skating Facility Agreement (the "Skating Facility Agreement"), among the County, FDS, and certain other parties.

The IDA agreed to acquire the rights necessary to undertake development and construction of the Skating Facility pursuant to the Deed of Lease and Grant of Air Rights, and, as third party beneficiary, under the Skating Facility Agreement. The County is currently leasing the Eighth Level Slab to the IDA and the IDA is leasing back to the County a portion of the Eighth Level Slab on which the County is operating the Parking Facilities.

In 2005, the IDA negotiated a Development Agreement with the Capitals under which the IDA developed and constructed the Skating Facility. The IDA issued \$35,700,000 Series 2005 IDA Skating Facility Taxable Revenue Bonds (the "Bonds") to provide financing for the Skating Facility and, if necessary, the Parking Facilities.

On April 22, 2010 the IDA issued \$30,120,000 Series 2010 IDA Taxable Revenue Refunding Bonds ("Refunding Bonds") with an average interest rate of 5.37% to refund \$35,200,000 of outstanding Bonds. The net proceeds of \$29,781,467 (after payment of \$338,533 in underwriting fees, insurance, and other issuance costs) plus an additional \$5,418,533 debt service reserve fund and debt service fund monies were used as payment on the Bonds. The 2005 Bonds were issued as a floating rate obligation, with interest payable monthly based off of a spread to the London Interbank Offered Rate (LIBOR). The Bonds were redeemed in full at par on May 3, 2010 without penalty and there was no Net Present Value (NPV) savings given that the Bonds were floating rate obligation callable at any time.

A Cooperation Agreement between the County and the IDA states that, subject to appropriation of funds by the County Board, the County will deliver to the IDA sufficient funds so that the IDA can, among other things, make payments with respect to the Bonds and otherwise carry out its obligations under the Development Agreement if necessary.



The IDA owns the Skating Facility and is currently leasing it to the Capitals, or an affiliate, pursuant to a Deed of Lease (the "Capitals Lease"), between the IDA and the Capitals, under which the Capitals have furnished, equipped and are operating the Skating Facility. Under the Capitals Lease, the Capitals will make annual payments of rent that are equal to debt service on the Bonds. Under the Cooperation Agreement, the IDA agrees to remit to the County all revenues received from the leasing of the Skating Facility, including those derived under the Capitals Lease.

To further secure its obligations to make payments with respect to the Bonds, the IDA will, if required, grant a lien on and security interest in all of its right, title and interest in the Project, including its leasehold interest in the Eighth Level Slab, under a Leasehold Deed of Trust and Security Agreement between the IDA and certain individual trustees for the benefit of the trustee for the Bonds.

## **II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### Financial Reporting Entity

The IDA-Skating Facility Project is included in the financial reporting entity of the County.

### Basis of Presentation

The County, of which the Trust is a private-purpose trust fund, maintains its accounting system in accordance with the specifications required by the Auditor of Public Accounts of the Commonwealth of Virginia. The accompanying financial statements were prepared in conformity with generally accepted accounting principles for local government entities.

### Measurement Focus and Basis of Accounting

The Fund's financial statements have been prepared following the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues which include interest and other investment income on invested funds are recorded at the time they are earned. Expenses, including interest, are recorded when the related liability is incurred.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results could differ from those estimates.

### Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of three years. Capital assets are stated at cost for the Ice Skating facility building. Depreciation is calculated using the straight-line method over the 45-year life for the building, depreciation is calculated monthly, starting the month followed the acquisition.

### Deferred Outflows

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of the resources (expenditure) until the future period. At June 30, 2014 and 2013 the Skating Facility had deferred outflows of resources of \$248,664 and 263,928 respectively, representing a loss on the refunding of bonds.

### Deferred Bond Issuance Cost

The net position, beginning of year balance for fiscal year 2013 was restated for the bond issuance cost balance of \$306,731 incurred in connection with the \$30,120,000 Refunding Bonds per GASB 65.

### Deferred Loss on Refunding Bond

The \$324,984 difference in requisition price and net carrying amount are being amortized by the straight line method over the life of the bonds. Annual amortization of the difference on the deferred loss on refinancing bond for 2014 and 2013 was \$15,264.

### Bonds Payable

The Bonds currently outstanding including interest are as follow:

<b>Period Ending</b>	<b>Outstanding Balance</b>	<b>Principal</b>	<b>Interest</b>	<b>Annual Debt Service</b>
06/30/2015	26,280,000	995,000	1,396,195	2,391,195
06/30/2016	25,255,000	1,025,000	1,365,198	2,390,198
06/30/2017	24,195,000	1,060,000	1,329,052	2,389,052
06/30/2018	23,095,000	1,100,000	1,287,302	2,387,302
06/30/2019	21,945,000	1,150,000	1,239,834	2,389,834
06/30/2020	20,740,000	1,205,000	1,186,569	2,391,569
06/30/2021	19,480,000	1,260,000	1,128,067	2,388,067
06/30/2022	18,155,000	1,325,000	1,064,443	2,389,443
06/30/2023	16,760,000	1,395,000	995,125	2,390,125
06/30/2024	15,290,000	1,470,000	919,962	2,389,962
06/30/2025	13,740,000	1,550,000	839,010	2,389,010
06/30/2026	12,100,000	1,640,000	752,142	2,392,142
06/30/2027	10,365,000	1,735,000	656,427	2,391,427
06/30/2028	8,525,000	1,840,000	551,966	2,391,966
06/30/2029	6,575,000	1,950,000	441,222	2,391,222
06/30/2030	4,510,000	2,065,000	323,904	2,388,904
06/30/2031	2,320,000	2,190,000	199,573	2,389,573
06/30/2032	-	2,320,000	67,790	2,387,790
		<b>\$27,275,000</b>	<b>\$15,743,781</b>	<b>\$43,018,781</b>

### Implementation of New GASB Pronouncement

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the reporting period ending June 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Several account balances were reclassified as of and for the year ended June 30, 2013, as previously reported. These reclassifications were required for comparability to the financial statements as of and for the year ended June 30, 2013. Comparative statements for 2013 are presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

## **III. CASH AND INVESTMENTS**

### Deposits

The carrying value of the funds totaled \$2,084,327 and \$2,225,471 and the bank balance totaled \$2,184,327 and \$3,051,839 at June 30, 2014 and 2013 respectively. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The bank balances exceeding those covered by Federal Insurance are protected under the

provisions of the Virginia Security for Public Deposits Act. These deposits are invested in the Cash and Short Term investments by the Bank of New York Mellon as trustee for the IDA Ballston Skating Facility Project.

#### IV. Capital Assets

Capital asset activity for the year ended June 30, 2014:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Skating Facility	<u>\$28,837,666</u>	<u>\$-</u>	<u>\$-</u>	<u>\$28,837,666</u>
Total capital assets	<u>28,837,666</u>	<u>-</u>	<u>-</u>	<u>28,837,666</u>
Less accumulated depreciation for:				
Skating Facility	<u>4,149,285</u>	<u>640,837</u>	<u>-</u>	<u>4,790,122</u>
Total accumulated depreciation	<u>4,149,285</u>	<u>640,837</u>	<u>-</u>	<u>4,790,122</u>
Capital assets, net	<u>\$24,688,381</u>	<u>\$640,837</u>	<u>\$-</u>	<u>\$24,047,544</u>

Capital asset activity for the year ended June 30, 2013:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Skating Facility	<u>\$28,837,666</u>	<u>\$-</u>	<u>\$-</u>	<u>\$28,837,666</u>
Total capital assets	<u>28,837,666</u>	<u>-</u>	<u>-</u>	<u>28,837,666</u>
Less accumulated depreciation for:				
Skating Facility	<u>3,508,448</u>	<u>640,837</u>	<u>-</u>	<u>4,149,285</u>
Total accumulated depreciation	<u>3,508,448</u>	<u>640,837</u>	<u>-</u>	<u>4,149,285</u>
Capital assets, net	<u>\$25,329,218</u>	<u>\$640,837</u>	<u>\$-</u>	<u>\$24,688,381</u>



**INDEPENDENT AUDITORS' REPORT 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**

Trustees of the Industrial Development  
Authority of Arlington County  
Arlington 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 and *Specifications of Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Industrial Development Authority Investment Revenue Bonds – Ballston Skating Facility (Skating Facility), a private purpose trust fund of Arlington County, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Skating Facility'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 Skating Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Skating Facility'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 Skating Facility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Skating Facility'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 Skating Facility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

Arlington, Virginia  
October 31, 2014