

Preliminary Financial Analysis

Comprehensive Financial Review and Preliminary Financial Analysis
Related to the Meadows Project for the Town of Abingdon, VA



Prepared by: Davenport & Company LLC

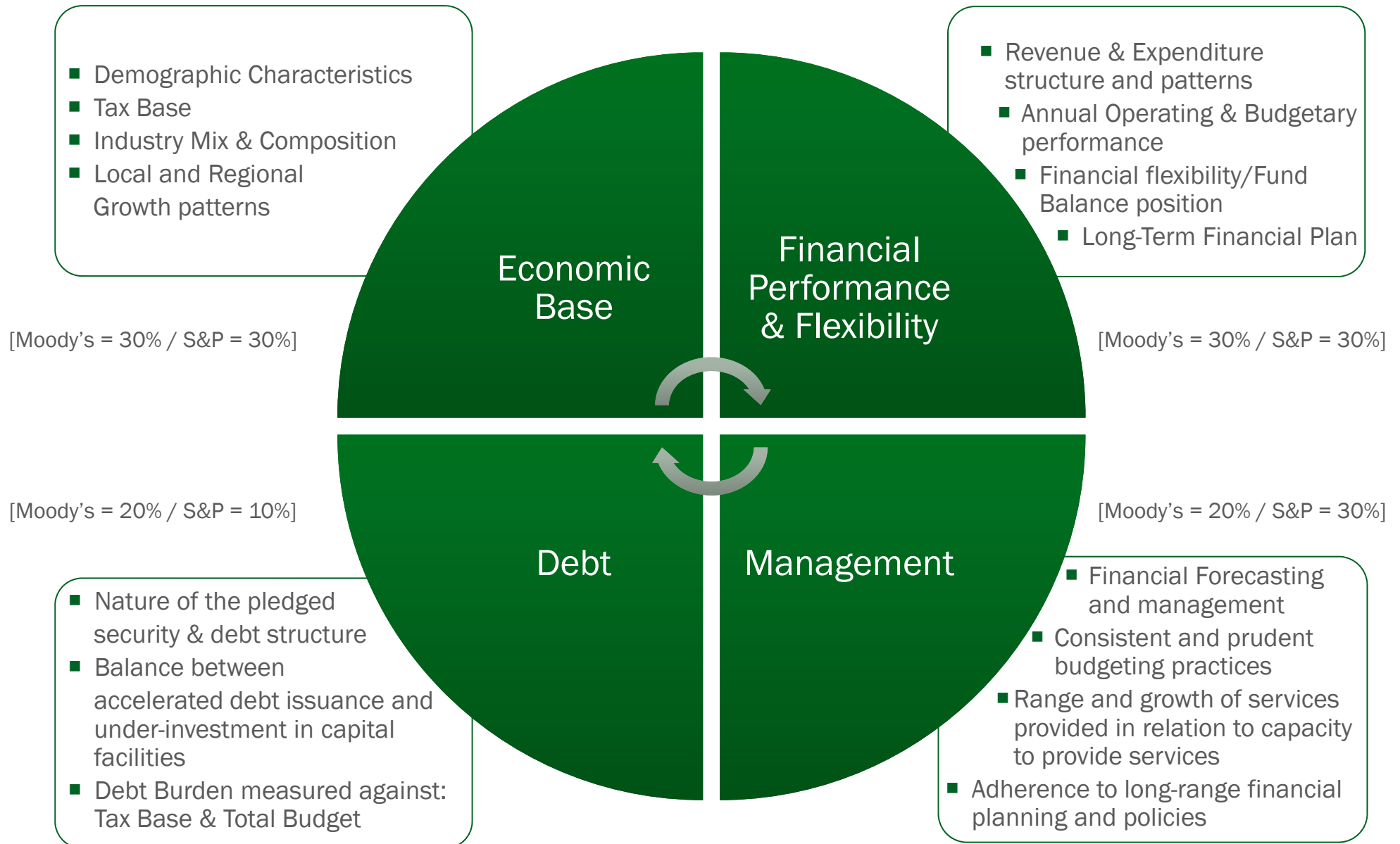
July 26, 2018

Goals & Objectives



- 1) Provide an update to Town Council on Town's financial status.
- 2) Inform Town Council on the Town's current credit ratings – from two national credit rating agencies (Moody's and Standard & Poor's) and the significance of these ratings.
- 3) Reiterate the importance of the Town adhering to the existing Fiscal Policy Guideline regarding Unassigned Fund Balance.
- 4) The Town, as part of its long term sustainability plan/capital improvement plan, has identified approximately \$10 million of borrowing for the Meadows Project.
 - Davenport has evaluated the effects of the potential borrowing(s) of the Meadows Project on the Town's Key Debt Ratios/Fiscal Policy Guidelines. As demonstrated herein, the Town will continue to meet all of the Town's self-imposed Fiscal Policy Guidelines, which are critical to maintaining the Town's excellent credit standing.

Key Drivers to a Credit Rating



Credit Rating Scale



	Moody's	S&P	
Top Tier "Highest Possible Rating"	Aaa	AAA	
2 nd Tier "Very Strong"	Aa1	AA+	(Highest)
	Aa2	AA	(Middle)
	Aa3	AA-	(Lowest)
3 rd Tier "Strong"	A1	A+	(Highest)
	A2	A	(Middle)
	A3	A-	(Lowest)
4 th Tier "Adequate Capacity to Repay"	Baa1	BBB+	(Highest)
	Baa2	BBB	(Middle)
	Baa3	BBB-	(Lowest)
5 th – 10 th Tiers "Below Investment Grade"	BB, B, CCC, CC, C, D		

Current Town Ratings

Considered Investment Grade

Below Investment Grade



- “The Aa3 rating incorporates the Town’s modestly-sized tax base, stable tourism and agriculture-based local economy, average resident wealth levels, strong reserves and liquidity supported by conservative fiscal management, and manageable debt and pension burdens.

- **FACTORS THAT COULD LEAD TO AN UPGRADE**
 - Significant tax base growth
 - Enhancement of socioeconomic indicators

- **FACTORS THAT COULD LEAD TO A DOWNGRADE**
 - Deterioration of reserves and liquidity
 - Inability of planned economic development project to generate sufficient revenues to cover debt service of new debt issuance, placing pressure on General Fund finances.”



- “The 'AA' GO rating reflects our opinion of the town's:
 - Adequate economy, with projected per capita effective buying income at 95.4% of the national level;
 - Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
 - Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 29% of operating expenditures; and
 - Very strong liquidity, with total government available cash at 62.4% of total governmental fund expenditures and 16.2x governmental debt service.
- **UPSIDE SCENARIO**
 - Holding all other factors equal, improvements in the economy and budgetary performance score could lead to a higher rating.
- **DOWNSIDE SCENARIO**
 - Should the town experience fiscal pressures and use reserves to bridge any imbalances (either for operations or capital purposes), which would significantly lower current levels, we may lower the rating.”

Fiscal Year 2017 Financial Results (Audited)



- The Town's Fiscal Year 2017 CAFR confirms the Town's continued positive financial results which leads to the national credit rating agencies viewing the Town favorably.

- The Town finished Fiscal Year 2017 in a strong financial position.
 - The Town maintained its total fund balance above \$5,000,000 and its Unassigned Fund Balance at \$4,926,546. This amount is within \$75,000 of the Town's policy to maintain a minimum Unassigned Fund Balance of \$5,000,000.

 - The Town's Utility Enterprise Fund continues to be self-supporting (i.e. users of the system pay for the system).

- Note, Fiscal Year 2018 ended on June 30. Initial results (unaudited) are expected by end of August/early September.



Existing Debt Profile

Debt Outstanding as of 6/30/2018



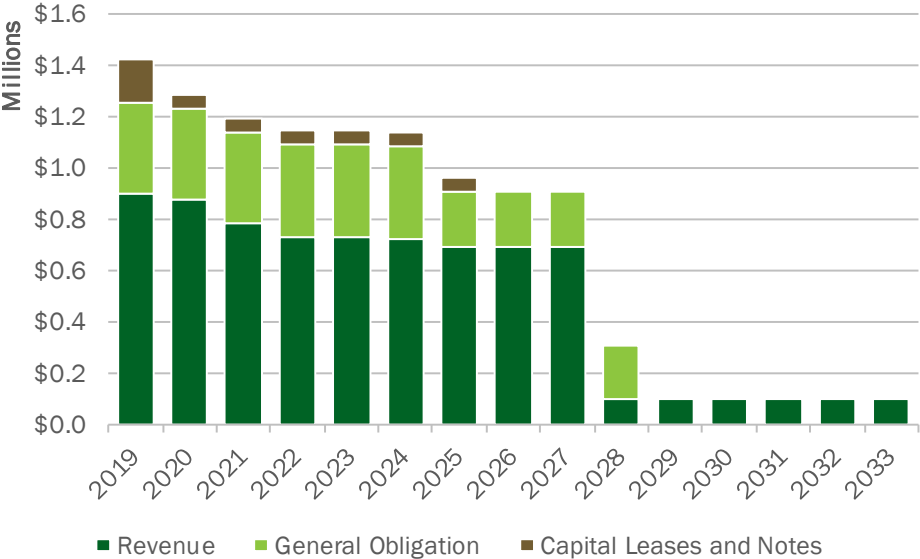
Bonds Outstanding	Amount Outstanding
General Obligation (Tax-Supported)	\$2,646,270
Revenue (Self-Supporting)	7,356,663
Capital Leases and Notes	459,972
Total	\$10,462,905

- The Town has paid down approximately \$3.5 million in total debt since 2014.

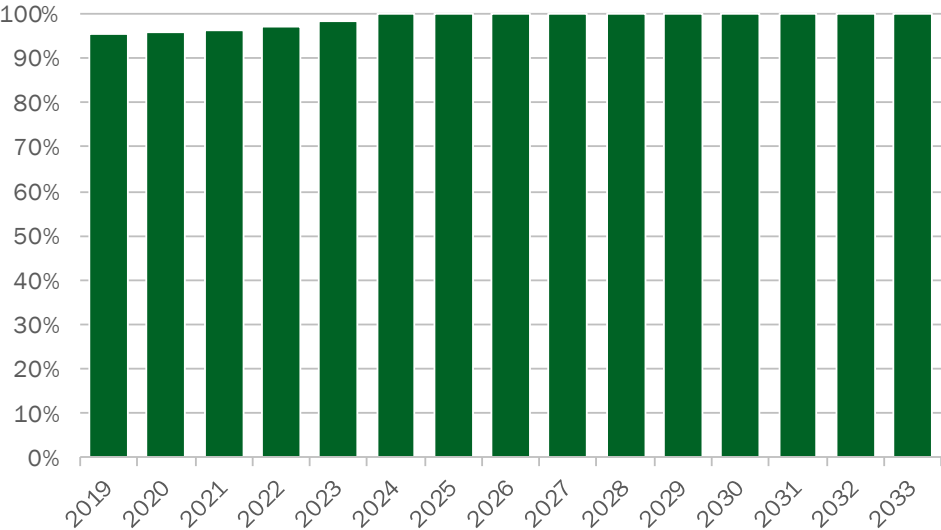
Total Existing Debt Service



Debt Service by Type



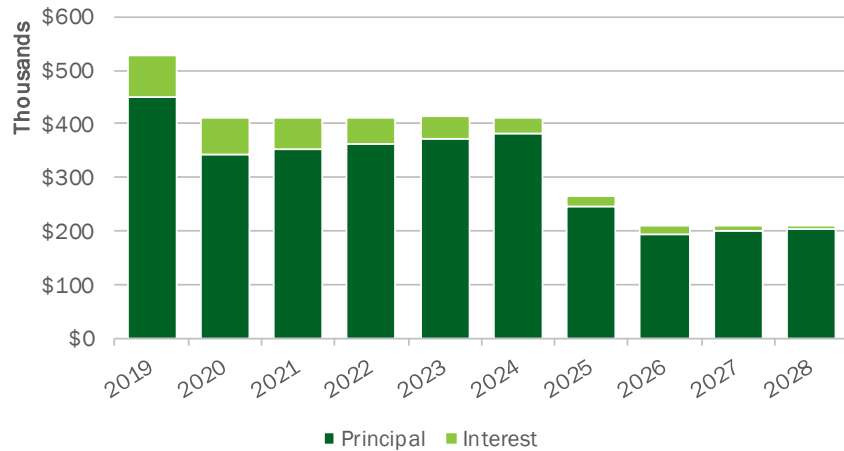
10-Year Payout Ratio



Existing Tax-Supported Debt Service



Tax-Supported Debt Service



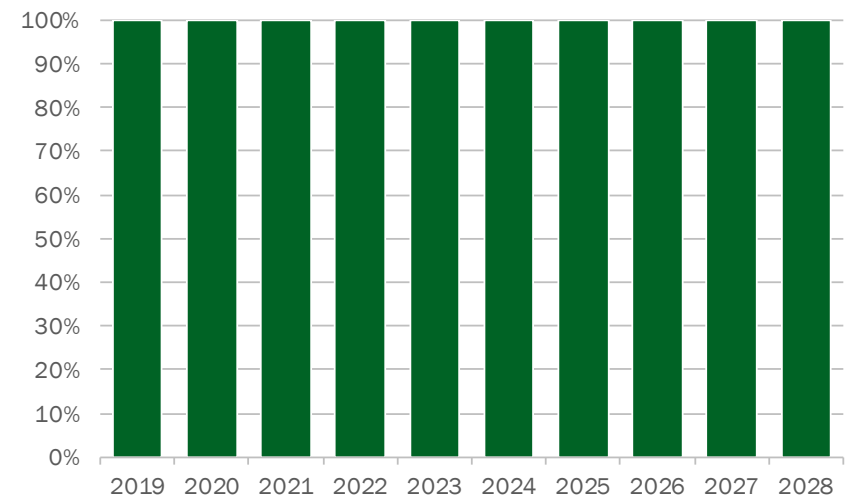
Tax-Supported Debt Service

FY	Principal	Interest	Total	10-Year Payout Ratio
Total	3,106,242	378,855	3,485,097	
2019	450,193	77,066	527,259	100%
2020	344,442	68,007	412,450	100%
2021	352,795	59,218	412,013	100%
2022	362,212	50,209	412,421	100%
2023	371,928	40,724	412,652	100%
2024	380,655	31,054	411,709	100%
2025	244,273	22,343	266,616	100%
2026	194,999	14,994	209,993	100%
2027	199,874	10,119	209,993	100%
2028	204,871	5,122	209,993	100%

Outstanding Governmental Funds Debt (6/30/2018)

Series 2013 Carter Bank Loan	\$1,837,870
Series 2013 Refunding	808,400
Capital Leases and Notes	459,972
Total	\$3,106,242

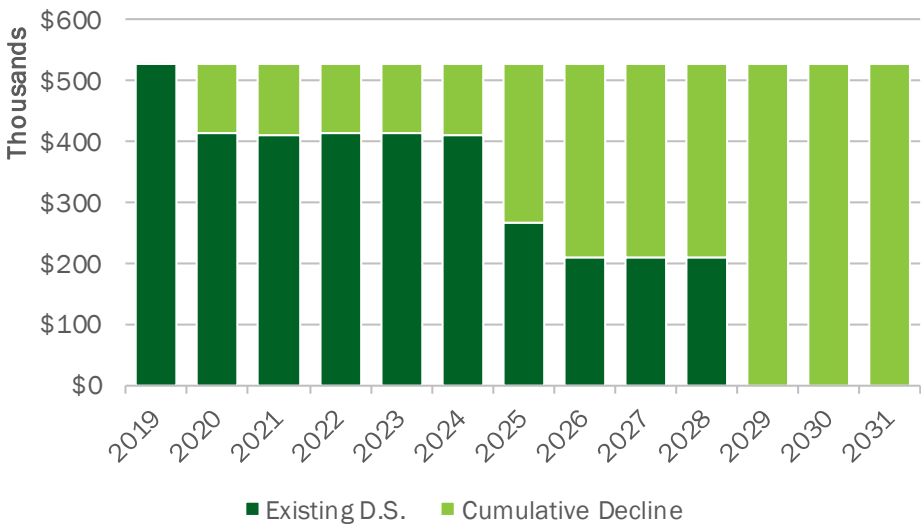
Payout Ratio: Tax-Supported Debt



Decline in Tax-Supported Debt Service



Tax-Supported Debt Service



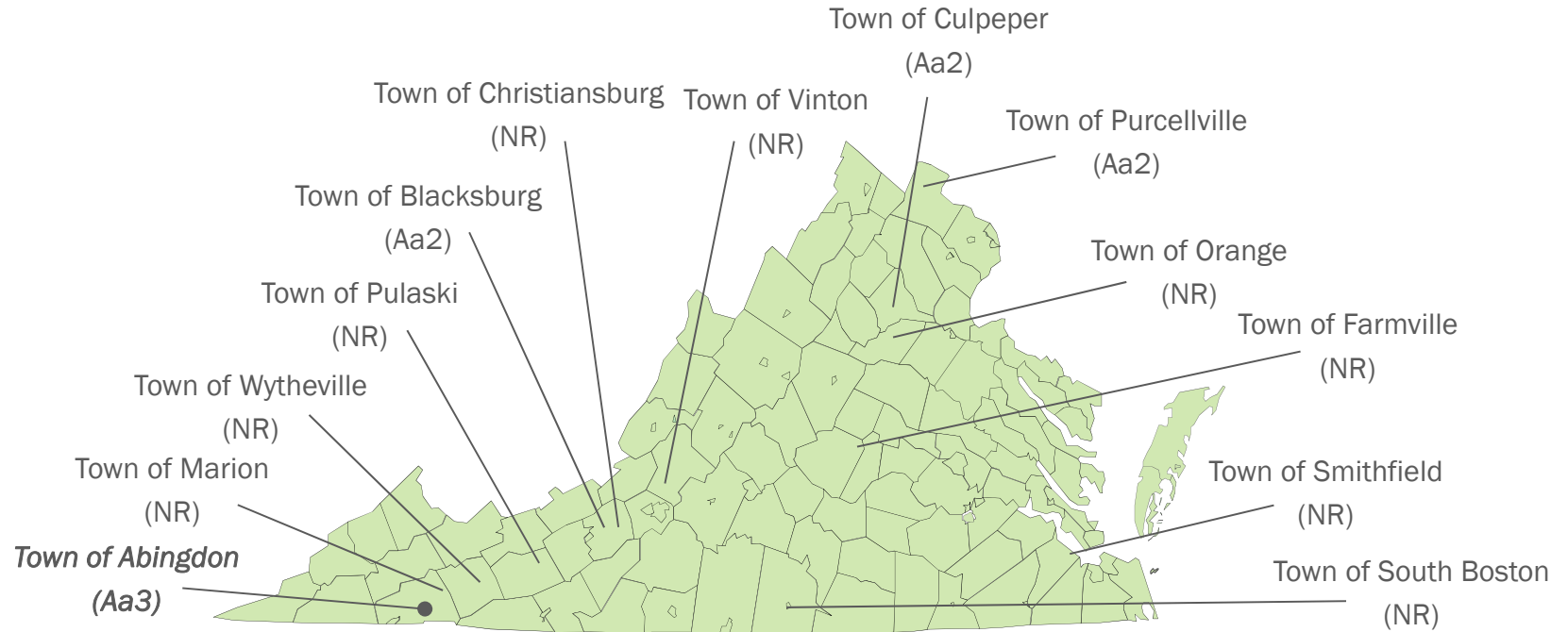
Tax-Supported Debt Service

FY	Existing D.S.	Cumulative Decline
Total	3,485,097	
2019	527,259	590
2020	412,450	115,399
2021	412,013	115,835
2022	412,421	115,428
2023	412,652	115,197
2024	411,709	116,140
2025	266,616	261,233
2026	209,993	317,856
2027	209,993	317,856
2028	209,993	317,856



Peer Comparison

Peer Group Overview

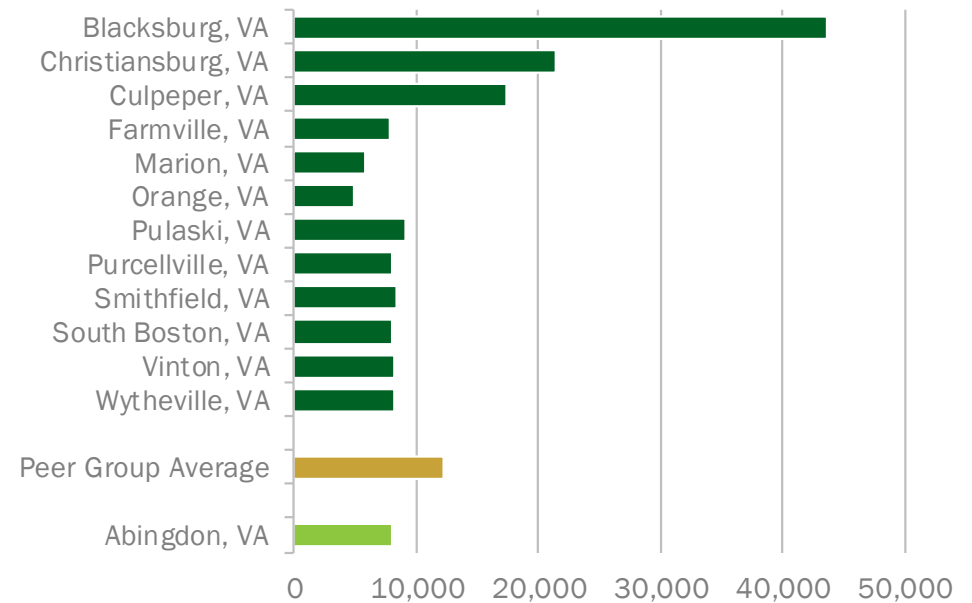


- This Peer Group has been selected taking into account the following:
 - Credit Rating(s)
 - Population
 - Budget Size
 - Similar Services Provided to Citizenry
 - Town Staff and Council may desire to provide input as to which localities are representative of Town Peers
- Data for Abingdon is most recent available; for other localities the data is as of the dates shown in the charts.

Population



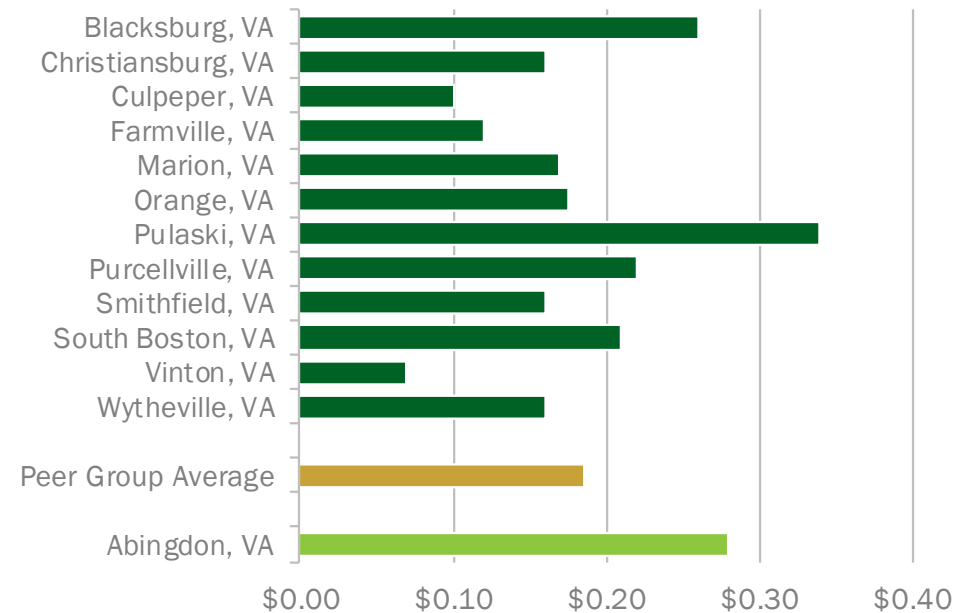
Town	Credit Rating (Moody's)	Population Estimate
Blacksburg	Aa2	43,609
Christiansburg	NR	21,458
Culpeper	Aa2	17,411
Farmville	NR	7,831
Marion	NR	5,855
Orange	NR	4,813
Pulaski	NR	9,086
Purcellville	Aa2	7,975
Smithfield	NR	8,287
South Boston	NR	7,950
Vinton	NR	8,185
Wytheville	NR	8,211
Abingdon	Aa3	7,981
Peer Average	-	12,204



Real Estate Tax Rate



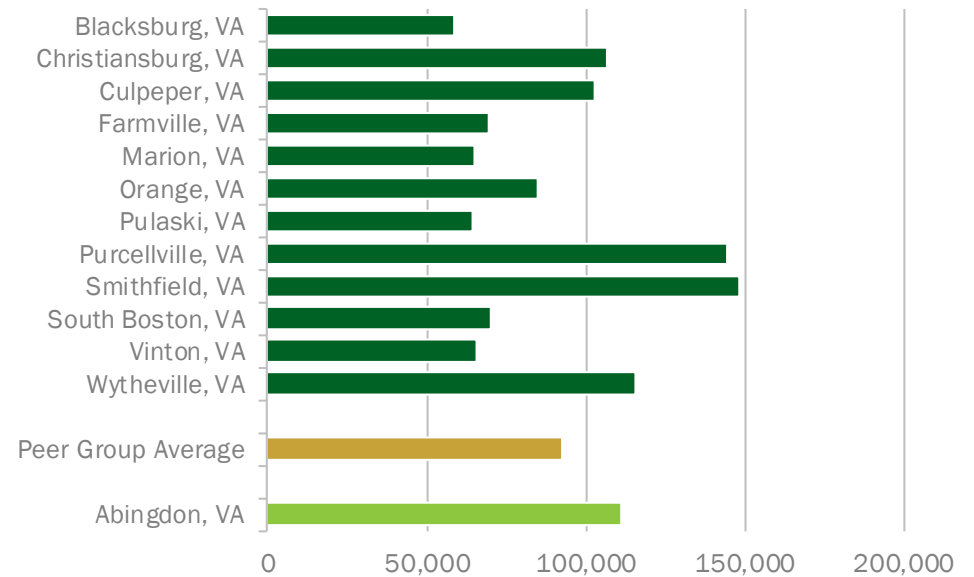
Town	Real Estate 2018 Tax Rate
Blacksburg	\$0.26
Christiansburg	\$0.16
Culpeper	\$0.10
Farmville	\$0.12
Marion	\$0.17
Orange	\$0.18
Pulaski	\$0.34
Purcellville	\$0.22
Smithfield	\$0.16
South Boston	\$0.21
Vinton	\$0.07
Wytheville	\$0.16
Abingdon	\$0.28
Peer Average	\$0.19



Assessed Value per Capita



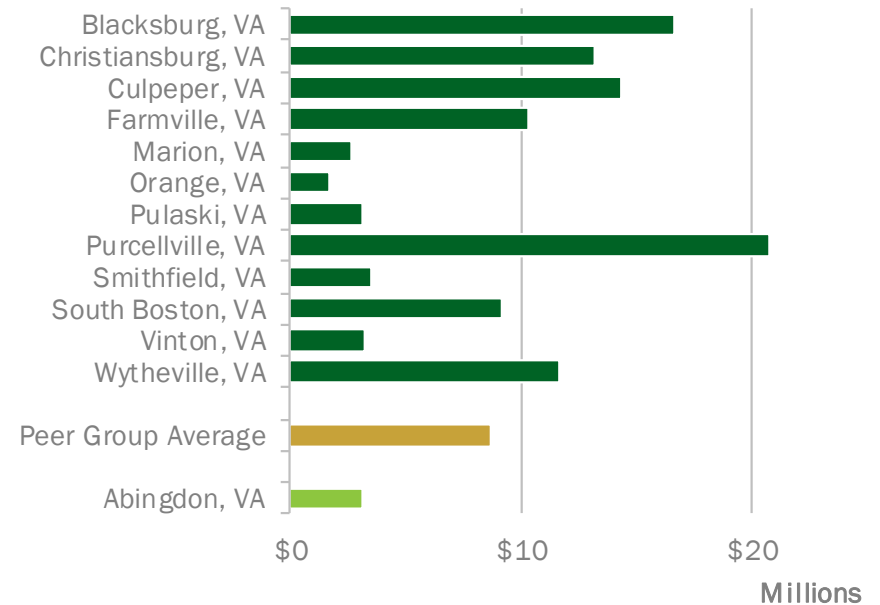
Town	Full Value per Capita
Blacksburg	58,435
Christiansburg	106,511
Culpeper	103,029
Farmville	69,427
Marion	65,184
Orange	85,194
Pulaski	64,401
Purcellville	144,278
Smithfield	148,208
South Boston	70,199
Vinton	65,681
Wytheville	115,385
Abingdon	111,118
Peer Average	92,850



Tax-Supported Debt Outstanding



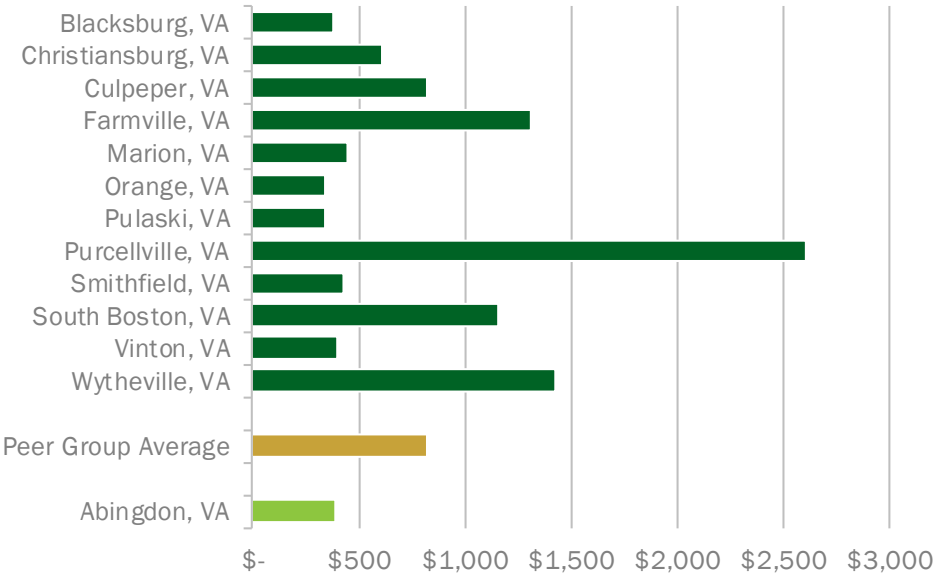
Town	Tax-Supported Debt Outstanding
Blacksburg	\$16,609,678
Christiansburg	\$13,160,180
Culpeper	\$14,351,169
Farmville	\$10,274,806
Marion	\$2,598,721
Orange	\$1,660,048
Pulaski	\$3,121,453
Purcellville	\$20,747,757
Smithfield	\$3,509,832
South Boston	\$9,182,966
Vinton	\$3,240,559
Wytheville	\$11,658,740
Abingdon	\$3,106,242
Peer Average	\$8,709,396



Tax-Supported Debt per Capita



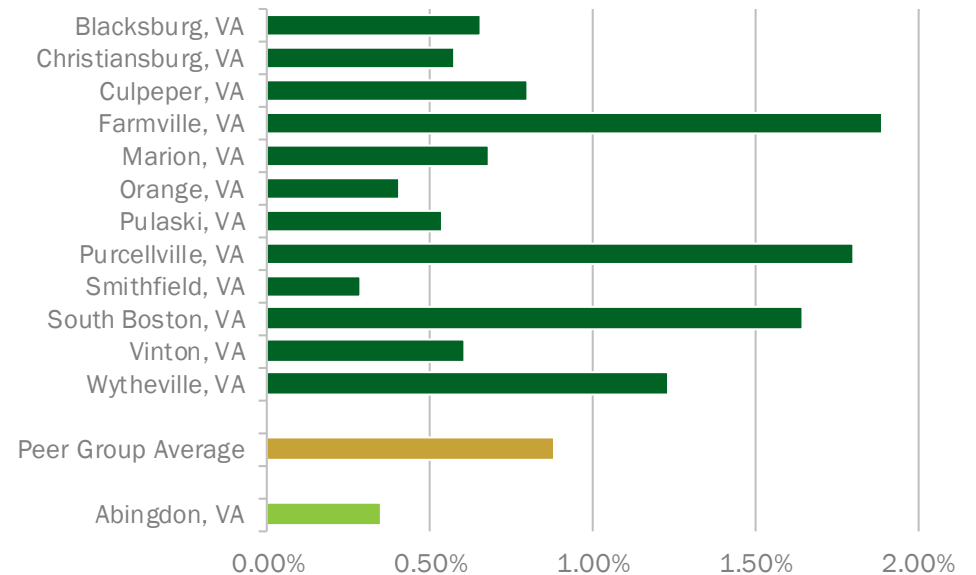
Town	Tax-Supported Debt per Capita
Blacksburg	\$381
Christiansburg	\$591
Culpeper	\$784
Farmville	\$1,312
Marion	\$444
Orange	\$345
Pulaski	\$344
Purcellville	\$2,602
Smithfield	\$424
South Boston	\$1,155
Vinton	\$396
Wytheville	\$1,420
Abingdon	\$389
Peer Average	\$819



Tax-Supported Debt vs. Assessed Value



Town	Debt to Assessed Value
Blacksburg	0.65%
Christiansburg	0.58%
Culpeper	0.80%
Farmville	1.89%
Marion	0.68%
Orange	0.40%
Pulaski	0.53%
Purcellville	1.80%
Smithfield	0.29%
South Boston	1.65%
Vinton	0.60%
Wytheville	1.23%
Abingdon	0.35%
Peer Average	0.88%



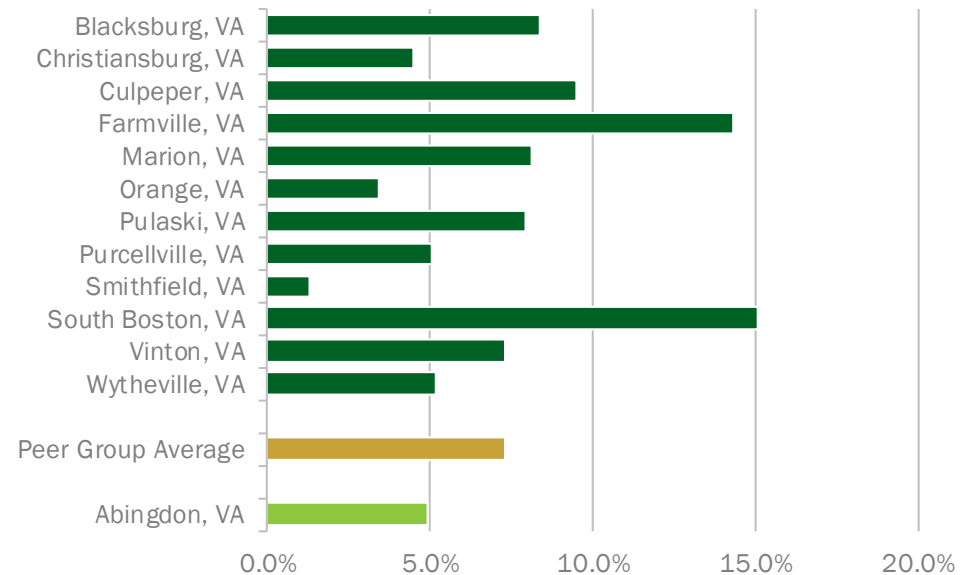
- The Town's Legal Debt Margin is 10% of the Assessed Value or over 20x larger than the Town's actual debt level.

Tax-Supported Debt Service vs. Expenditures



Town	Debt Service to Expenditures (%)*
Blacksburg	8.4%
Christiansburg	4.5%
Culpeper	9.5%
Farmville	14.3%
Marion	8.14%
Orange	3.4%
Pulaski	7.9%
Purcellville	5.0%
Smithfield	1.3%
South Boston	15.1%
Vinton	7.3%
Wytheville	5.2%
Abingdon	4.9%
Peer Average	7.3%

*General Fund Expenditures.



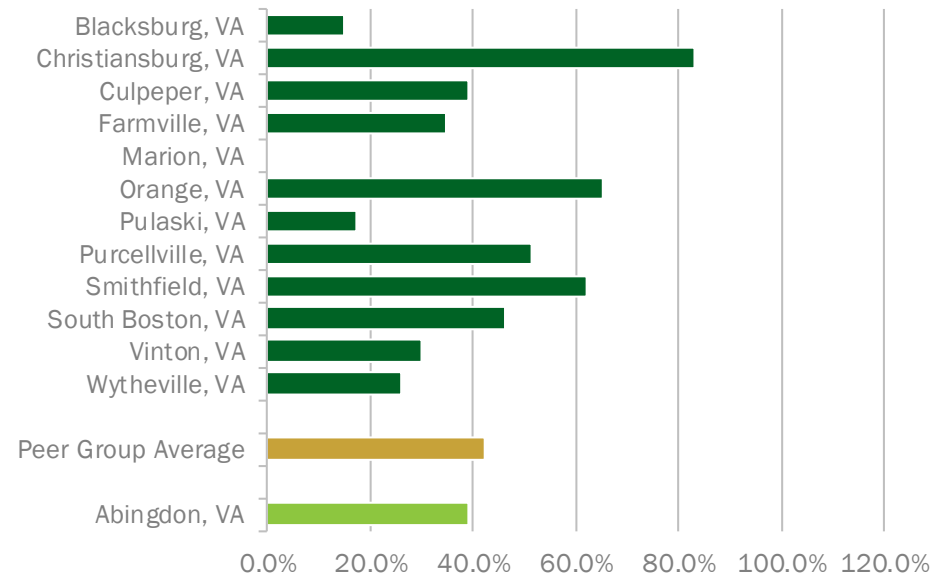
Unassigned Fund Balance as % of Revenue



Town	Unassigned Fund Balance as a % of Revenue *
Blacksburg	14.8%
Christiansburg	83.0%
Culpeper	39.0%
Farmville	34.6%
Marion	N/A
Orange	65.2%
Pulaski	17.4%
Purcellville	51.2%
Smithfield	62.1%
South Boston	46.1%
Vinton	29.8%
Wytheville	26.0%
Abingdon	39.1%
Peer Average	42.4%**

*General Fund Expenditures.

**Peer Average Excludes Marion.



Background – The Meadows Project



- Davenport, in our capacity as Financial Advisor to the Town, reviewed the potential cash flow impact of the Meadows Project (the “Project”) on the Town beginning in mid-2015.
- For the remainder of 2015, Davenport and Town Staff met with Food City representatives to review the Project and discuss the Town’s interest in purchasing approximately 40 acres for a Sports Complex.
- Subsequently, Davenport worked with Town Staff and Food City to refine the financial impact to the Town and presented financial analysis to the Town for discussion.
- In addition, the Town, with Davenport, presented the plan and financial strength of the Town to national rating agencies in March 2016. The Town received excellent ratings following that thorough review.

Background – The Meadows Project (Cont.)



- In July 2016, with ratings secured, the Town obtained a line of credit from Carter Bank & Trust with the following terms:
 - Drawdown line of credit;
 - Up to \$10,000,000;
 - 1.40% fixed interest rate (not subject to change);
 - No bank fee for any unused portion of the line of credit;
 - Prepayable anytime with no penalty; and
 - July 13, 2021 Final Maturity.
 - Can be used to pay:
 - A. Public sports and recreation complex;
 - B. Road, storm drain, and other infrastructure improvements; and
 - C. Renovating historic landmarks, structures, or Town buildings.

The Meadows Project – Assumptions (as of 2015)



<i>Retail Unit Mix:</i>	Acreage	Square Footage	Vertical Cost	Projected Annual Sales	Jobs	FFE
Food City	8.16	62,000	\$3,627,000	\$34,000,000	250	\$4,200,000
Junior Anchor (Auto)	1.05	8,000	600,000	1,800,000	15	250,000
Sporting Goods	0.66	5,000	425,000	800,000	12	100,000
Local Misc. Retail	0.53	4,000	340,000	300,000	15	75,000
Fast Casual Restaurant	0.39	3,000	255,000	1,750,000	30	350,000
National Wing User	0.26	2,000	170,000	975,000	12	250,000
National Sandwich User	0.24	1,800	153,000	750,000	12	150,000
National Branded Salon	0.21	1,600	136,000	275,000	8	50,000
Misc. Office Uses	0.30	2,250	191,250	200,000	6	35,000
	11.80	89,650	\$5,897,250	\$40,850,000	360	\$5,460,000
<i>Outparcel Unit Mix:</i>						
Hotel (Class A)	5.70	45,000	\$6,800,000	\$2,372,500	20	\$800,000
Hotel (Class B)	3.70	36,000	4,875,000	1,387,913	18	552,500
Restaurant (Casual)	1.90	5,000	1,050,000	3,500,000	75	450,000
Restaurant (Casual)	2.40	6,500	1,365,000	4,000,000	85	450,000
Restaurant (QSR)	1.20	3,200	560,000	1,750,000	35	300,000
Restaurant (QSR)	0.80	2,800	490,000	2,000,000	50	300,000
Flex Use / Restaurant	1.00	3,000	525,000	1,750,000	45	300,000
	16.70	101,500	\$15,665,000	\$16,760,413	328	\$3,152,500
Stabilized Project Totals:	28.50	191,150	\$21,562,250	\$57,610,413	688	\$8,612,500

The Meadows Project – Current Status



- No material changes from 2015 Assumptions.
- Grading of site underway with vertical construction expected to begin in September 2018.
- Completion of the shopping center is expected in Spring of 2019 (FY 2019) with out-parcel completion slated for Summer of 2020.
- Over 90% of the shopping center is currently leased with sale of out-parcels and letters of intent in place for New Businesses to Abingdon with one exception to locate a second location.

Developer Proposal/Town Commitment (2015 vs. Now)



- Food City will purchase and grade approximately 70 acres (**Done**).
- Approx. 30 acres would be retained by Food City for development of Commercial Components (**On Target**).
- The remaining 40 to be graded acres conveyed to the Town for purposes of constructing a Sports Complex (**Done**).
- The Town would be responsible for the following estimated costs (**On Target**):

Land Acquisition	\$ 0
Road Improvements (50% of total)	2,500,000
Construction ⁽¹⁾	7,500,000
	\$ 10,000,000

⁽¹⁾ Estimated cost based on Town CIP.

- Note: The \$2,500,000 road improvement is the Town's 50% share of the total estimated cost assuming VDOT's Revenue Sharing Program (**On Target**).

Potential Additional Revenue to the Town



- The Project is anticipated to generate revenues for the Town from the following sources, among others:
 - 1. Real Estate Taxes (\$0.28 per \$100)
 - 2. Meals Tax (7%)
 - 3. Lodging Tax (7%)

- Additional revenue may be generated from Sales Tax, Personal Property Tax, and BPOL Taxes. Sales Tax revenues are shared with the County and other Towns and are less significant than the taxes above.

- Additionally, no other revenue is assumed from the Sports Complex.

Projected Revenue



- The amount of Net New revenue to the Town is difficult to project.
 - Ultimate absorption rate and exact project mix are uncertain; however, the Project has contracts/Letters of Intent on all parcels.
 - The amount of revenues generated by the Project and which are offset by reduced revenues at other businesses is uncertain.
- To gauge the potential outcome, Davenport has run an analysis that assumes of the total anticipated revenue 50%, 75%, or 100% is Net New to the Town.

Total Revenue Over Time (in Millions)			
% of Total Revenue	100%	75%	50%
5-Year	\$5.6	\$4.2	\$2.8
10-Year	13.3	10.0	6.7
15-Year	21.4	16.0	10.7

Note: Assumes 1% growth rate per year.

Cases Analyzed



- Based on the Net New revenue estimates, Davenport has analyzed the following cases:

Assumptions and Cases			
Case	1	2	3
% of Total Revenue	100%	75%	50%
Assumes	No discount of revenue estimates based on Project assumptions provided by Food City	Revenue estimates are discounted 25%	Revenue estimates are discounted 50%
Financing Date	July 2018 – All cases		
Interest Rate	4.25% - All cases		
Amortization	20 Years – All cases		

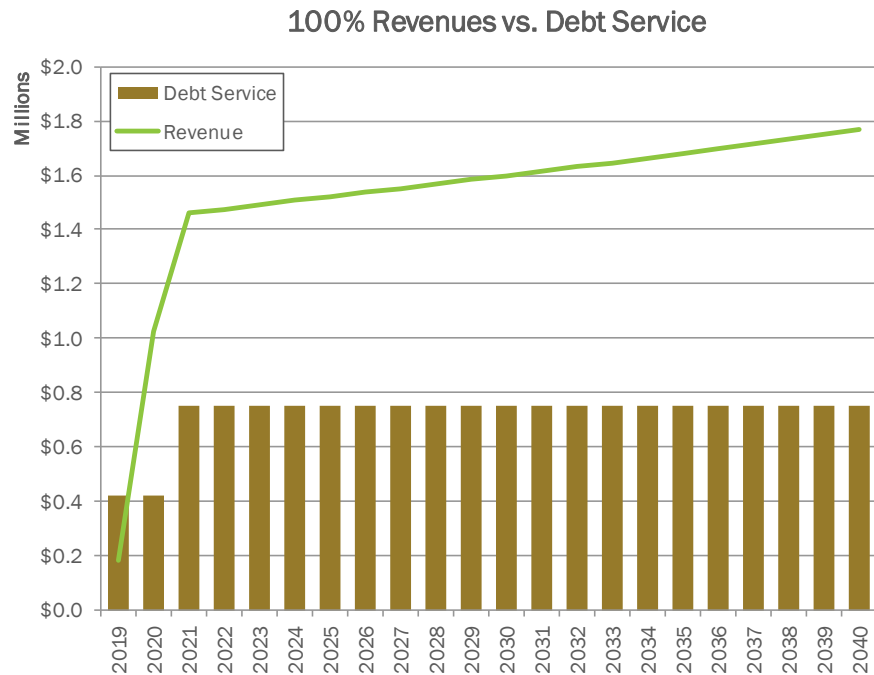
- Debt service assumes level principal and interest payments over 20 years.

Case 1: Cash Flow Benefit to the Town - 100% of Total Revenue



- The Town can utilize the annual Net New revenue of the Project to finance road improvements and the Sports Complex.
- The table below is a summary of the projected revenues compared to projected debt service.

Amount Borrowed			Rate		Amortization	
10,000,000			4.25%		20 Years	
	FY	Growth	Revenues	Debt Service*	Surplus (Deficit)	
1	2019	0.0%	183,972	425,000	(241,028)	
2	2020	0.0%	1,023,361	425,000	598,361	
3	2021	0.0%	1,461,760	752,198	709,561	
4	2022	1.0%	1,476,377	752,198	724,179	
5	2023	1.0%	1,491,141	752,198	738,943	
6	2024	1.0%	1,506,052	752,198	753,854	
7	2025	1.0%	1,521,113	752,198	768,915	
8	2026	1.0%	1,536,324	752,198	784,126	
9	2027	1.0%	1,551,687	752,198	799,489	
10	2028	1.0%	1,567,204	752,198	815,006	
11	2029	1.0%	1,582,876	752,198	830,678	
12	2030	1.0%	1,598,705	752,198	846,507	
13	2031	1.0%	1,614,692	752,198	862,494	
14	2032	1.0%	1,630,839	752,198	878,641	
15	2033	1.0%	1,647,147	752,198	894,949	
16	2034	1.0%	1,663,619	752,198	911,420	
17	2035	1.0%	1,680,255	752,198	928,057	
18	2036	1.0%	1,697,058	752,198	944,859	
19	2037	1.0%	1,714,028	752,198	961,830	
20	2038	1.0%	1,731,168	752,198	978,970	
21	2039	1.0%	1,748,480	752,198	996,282	
22	2040	1.0%	1,765,965	752,198	1,013,767	
Total					17,499,857	

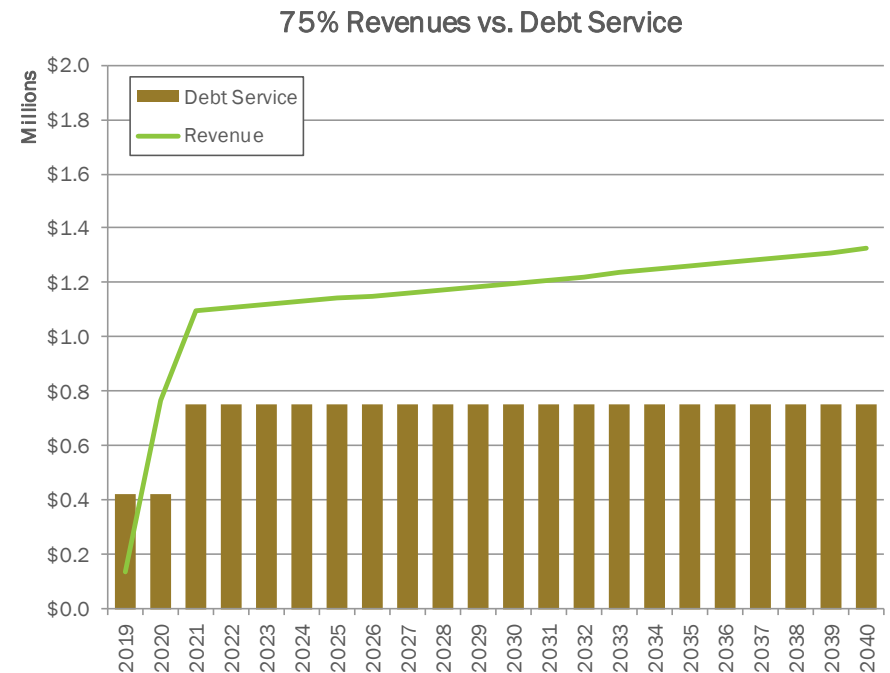


Case 2: Cash Flow Benefit to the Town - 75% of Total Revenue



- The Town can utilize the annual Net New revenue of the Project to finance road improvements and the Sports Complex.
- The table below is a summary of the projected revenues compared to projected debt service.

Amount Borrowed		Rate	Amortization		
10,000,000		4.25%	20 Years		
	FY	Growth	Revenues	Debt Service*	Surplus (Deficit)
1	2019	0.0%	137,979	425,000	(287,021)
2	2020	0.0%	767,521	425,000	342,521
3	2021	0.0%	1,096,320	752,198	344,121
4	2022	1.0%	1,107,283	752,198	355,085
5	2023	1.0%	1,118,356	752,198	366,157
6	2024	1.0%	1,129,539	752,198	377,341
7	2025	1.0%	1,140,835	752,198	388,636
8	2026	1.0%	1,152,243	752,198	400,045
9	2027	1.0%	1,163,765	752,198	411,567
10	2028	1.0%	1,175,403	752,198	423,205
11	2029	1.0%	1,187,157	752,198	434,959
12	2030	1.0%	1,199,029	752,198	446,830
13	2031	1.0%	1,211,019	752,198	458,821
14	2032	1.0%	1,223,129	752,198	470,931
15	2033	1.0%	1,235,360	752,198	483,162
16	2034	1.0%	1,247,714	752,198	495,516
17	2035	1.0%	1,260,191	752,198	507,993
18	2036	1.0%	1,272,793	752,198	520,595
19	2037	1.0%	1,285,521	752,198	533,323
20	2038	1.0%	1,298,376	752,198	546,178
21	2039	1.0%	1,311,360	752,198	559,162
22	2040	1.0%	1,324,474	752,198	572,275
Total			9,151,401		

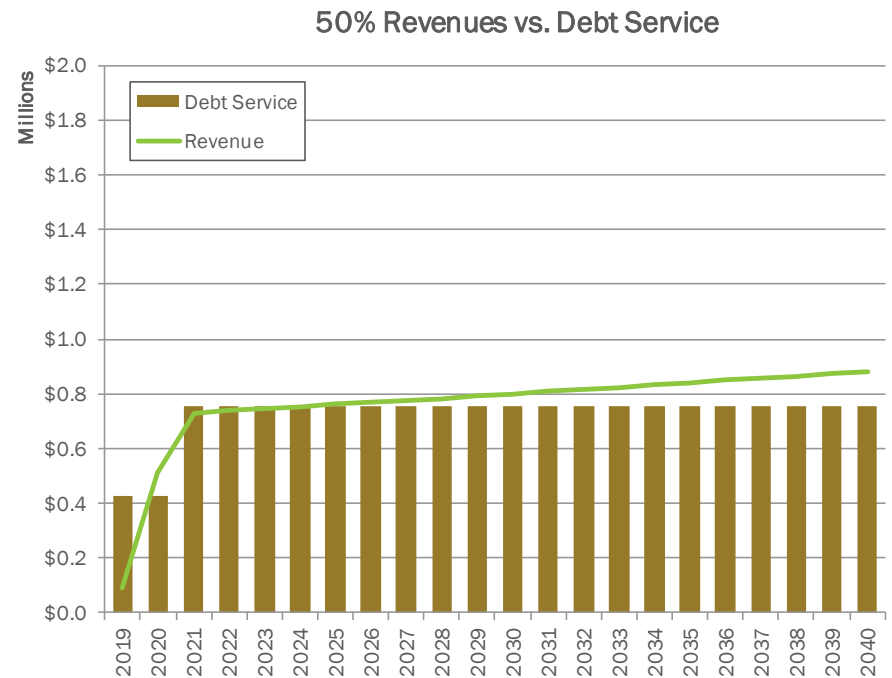


Case 3: Cash Flow Benefit to the Town - 50% of Total Revenue



- The Town can utilize the annual Net New revenue of the Project to finance road improvements and the Sports Complex.
- The table below is a summary of the projected revenues compared to projected debt service.

Amount Borrowed		Rate		Amortization	
10,000,000		4.25%		20 Years	
	FY	Growth	Revenues	Debt Service*	Surplus (Deficit)
1	2019	0.0%	91,986	425,000	(333,014)
2	2020	0.0%	511,681	425,000	86,681
3	2021	0.0%	730,880	752,198	(21,319)
4	2022	1.0%	738,189	752,198	(14,010)
5	2023	1.0%	745,570	752,198	(6,628)
6	2024	1.0%	753,026	752,198	828
7	2025	1.0%	760,556	752,198	8,358
8	2026	1.0%	768,162	752,198	15,964
9	2027	1.0%	775,844	752,198	23,645
10	2028	1.0%	783,602	752,198	31,404
11	2029	1.0%	791,438	752,198	39,240
12	2030	1.0%	799,352	752,198	47,154
13	2031	1.0%	807,346	752,198	55,148
14	2032	1.0%	815,419	752,198	63,221
15	2033	1.0%	823,574	752,198	71,375
16	2034	1.0%	831,809	752,198	79,611
17	2035	1.0%	840,127	752,198	87,929
18	2036	1.0%	848,529	752,198	96,330
19	2037	1.0%	857,014	752,198	104,816
20	2038	1.0%	865,584	752,198	113,386
21	2039	1.0%	874,240	752,198	122,042
22	2040	1.0%	882,982	752,198	130,784
Total					802,945



Summary Observations



- The Town currently has a Sports Complex in its CIP in the coming years.
- The Meadows Project offers an opportunity to partner with the private sector to accelerate the Sports Complex and mitigate potential costs to the Town.
- The Town can finance approximately \$10 million of the total costs of the Project based on the amount of Net New revenue, discounted to 50% of expected net new revenue generation that the Project generates, without negatively impacting the cash flow's of the general fund.

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