

**BEDFORD COUNTY ECONOMIC  
DEVELOPMENT AUTHORITY**

**FINANCIAL REPORT  
(A Component Unit of the County of Bedford)**

**June 30, 2011**

BOARD OF DIRECTORS

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the Bedford County Economic Development Authority (the "Authority"), a component unit of the County of Bedford, Virginia, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for the Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bedford County Economic Development Authority as of June 30, 2011, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, 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 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* and should be considered in assessing the results of our audit.

The Bedford County Economic Development Authority has not presented a management discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the financial statements.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
October 14, 2011

**BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY**

**STATEMENT OF NET ASSETS**  
**June 30, 2011**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents (Note 1)	\$ 1,124,947
Inventory (Note 3)	8,240,086
Restricted Assets:	
Cash and cash equivalents (Note 2)	130,074
Total current assets	<u>9,495,107</u>

**NONCURRENT ASSETS**

Capital assets (Note 4)	
Nondepreciable	1,252,205
Depreciable, net	510,565
Total noncurrent assets	<u>1,762,770</u>
Total assets	<u>11,257,877</u>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable	34,058
Total current liabilities	<u>34,058</u>
Total liabilities	<u>34,058</u>

**NET ASSETS**

Invested in capital assets	1,762,770
Restricted	130,074
Unrestricted	9,330,975
Total net assets	<u>\$ 11,223,819</u>

**BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**Year Ended June 30, 2011**

Operating revenues		
Proceeds from sale of land	\$	42,500
Operating lease revenue		41,166
Other (Note 7)		24,350
		<hr/>
Total operating revenues		108,016
		<hr/>
Operating expenses		
General and administrative		10,061
Incentive and performance grants		4,552
Leased property operating expense		1,584
Park maintenance		34,703
Cost of land sold		42,500
Depreciation		38,183
		<hr/>
Total operating expenses		131,583
		<hr/>
Operating loss		(23,567)
		<hr/>
Nonoperating revenues		
Interest income		6,598
Subsidies from the County of Bedford		429,365
		<hr/>
Nonoperating revenues		435,963
		<hr/>
Income before contributions		412,396
Capital contributions		313,015
		<hr/>
Increase in net assets		725,411
		<hr/>
Net assets, beginning of year		10,498,408
		<hr/>
Net assets, end of year	\$	<u>11,223,819</u>

**BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY**

**STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2011**

**OPERATING ACTIVITIES**

Lease revenue	\$ 41,166
Proceeds from sale of land	42,000
Other cash receipts	9,979
Payments to suppliers	(49,036)
Incentive and performance grant payments	(281,049)
Payments for acquisition and construction of land and building for resale	<u>(9,766)</u>
Net cash used in operating activities	<u>(246,706)</u>

**NONCAPITAL FINANCING ACTIVITIES**

Subsidies from the County of Bedford	<u>87,225</u>
Net cash provided by noncapital financing activities	<u>87,225</u>

**CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of capital assets	(335,717)
Subsidies from the County of Bedford	<u>342,140</u>
Net cash used in capital and related financing activities	<u>6,423</u>

**INVESTING ACTIVITIES**

Interest received	<u>6,598</u>
Net decrease in cash and cash equivalents	(146,460)

Cash and cash equivalents, beginning of year	<u>1,401,481</u>
Cash and cash equivalents, end of year	<u>\$ 1,255,021</u>

**RECONCILIATION TO STATEMENT OF NET ASSETS**

Current assets	\$ 1,124,947
Restricted assets	<u>130,074</u>
	<u>\$ 1,255,021</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES**

Operating loss	\$ (23,567)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	38,183
(Increase) decrease in assets	
Inventory	29,989
Increase (decrease) in liabilities	
Accounts payable and other liabilities	57
Incentive and performance grants payable	(290,868)
Land sale deposits	<u>(500)</u>
Net cash used in operating activities	<u>\$ (246,706)</u>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

Contributions of capital assets from non governmental entities	<u>\$ 313,015</u>
Capital asset additions financed by accounts payable	<u>\$ 28,280</u>

# BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### Note 1. Summary of Significant Accounting Policies

#### Reporting entity:

The Bedford County Economic Development Authority (the "Authority") was created as a governmental subdivision of the Commonwealth of Virginia by ordinance of the Board of Supervisors of Bedford County on October 12, 1970, pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373, *et. seq.*, of the *Code of Virginia* 1950, as amended). The Authority is governed by seven directors appointed by the Board of Supervisors. It is authorized to acquire, own, lease, and dispose of properties to the extent that such activities may promote industry and develop trade by encouraging 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 the bonds may be retained by the Authority or it may be assumed by the enterprises for whom facilities are constructed. Collection of revenues pledged to liquidate the bonds may be assigned to a trustee. The revenue bonds are not deemed to constitute a debt or pledge of the faith and credit of the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease or sale of the facilities constructed and may be secured by a deed of trust on those facilities.

The Authority is classified as a discretely presented component unit of the County of Bedford because its members are appointed by the Board of Supervisors, and the County provides significant funding to the Authority. Thus, the County is financially accountable for the Authority.

#### Measurement focus and basis of accounting:

The Authority's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority also has the option of the following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority generally result from operating leases, financing leases, and proceeds of land and buildings held for sale. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement focus and basis of accounting: (Continued)

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and cash equivalents:

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Inventory:

The cost of land (including acquisition costs) is allocated to subdivided areas for the purpose of accumulating costs to match with sales revenues. Where practical, land improvement costs are charged to the appropriate subdivided area on a specific identification basis. Other improvement, carrying, and amenity costs are allocated based on acreage. Building costs are accumulated and matched to sales revenues.

Capital assets:

Capital assets purchased or constructed are stated at historical cost. Donated property is recorded at the fair value prevailing at the date of donation. Depreciation for capital assets has been provided over the following estimated useful lives under the straight-line method:

Buildings and improvements	15-30 years
Equipment	3-15 years

Net assets:

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. The Authority's restricted net assets represent a reserve account for utility construction costs.

Asset impairment:

The Authority reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There was no impairment during the current year.

Estimates:

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ from those estimates.

**BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Performance grants payable:

Performance grants payable are recorded when, in management's opinion, failure by the grantee to meet the performance criteria is unlikely. Refunds of performance grants are reflected as revenues when collection is determined to be likely.

Subsequent events:

Management has evaluated subsequent events through October 14, 2011, the date the financial statements were available to be issued.

**Note 2. Deposits and Investments**

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize the Authority 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 for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Pursuant to Section 2.1-234.7 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than one year from the date of purchase. The carrying amount of investments in LGIP at June 30, 2011 was \$662,524, which approximates fair value.

**BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 2. Deposits and Investments (Continued)**

Investments: (Continued)

At June 30, all of the Authority's investments were held in LGIP. LGIP was rated by Standard & Poor's and has been assigned an AAAM rating. Also, all investment activity during the year was with LGIP.

	Fair Value
	<u>          </u>
Investments:	
LGIP	\$ 662,524
Deposits	<u>592,397</u>
Total deposits and investments	<u>\$ 1,254,921</u>

Statement of Net Assets:

Cash and cash equivalents, less \$100 cash on hand	\$ 1,124,947
Cash and cash equivalents, restricted	<u>130,074</u>
	<u>\$ 1,255,021</u>

Restricted cash and cash equivalents represent a reserve account for utility construction costs in the New London Business and Technology Center. In August 2011, \$26,154 was released. The remaining balance, \$103,920, is still being held. The Authority is in discussions with the utility company to determine how the remaining balance will be handled.

**Note 3. Inventory**

Inventory consists of the following:

Land held for lease:	
Lake Vista	\$ 42,628
New London Business and Technology Center	<u>474,417</u>
Total land held for lease	<u>517,045</u>
Land held for sale:	
Montvale Center for Commerce	1,127,362
New London Business and Technology Center	<u>6,595,679</u>
Total land held for sale	<u>7,723,041</u>
	<u>\$ 8,240,086</u>

**BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 4. Capital Assets**

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 317,137	\$ -	\$ -	\$ 317,137
Construction in Progress	303,702	631,366	-	935,068
Total capital assets, not depreciated	620,839	631,366	-	1,252,205
Capital assets, depreciated:				
Buildings and improvements	822,908	-	-	822,908
Equipment	19,670	-	-	19,670
Total capital assets, depreciated	842,578	-	-	842,578
Less accumulated depreciation for:				
Buildings and improvements	274,160	38,183	-	312,343
Equipment	19,670	-	-	19,670
Total accumulated depreciation	293,830	38,183	-	332,013
Net capital assets, depreciated	548,748	(38,183)	-	510,565
Total net capital assets	<u>\$ 1,169,587</u>	<u>\$ 593,183</u>	<u>\$ -</u>	<u>\$ 1,762,770</u>

The construction in progress consists of the construction of the Center for Advanced Engineering and Research Center (CAER).

**Note 5. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority is insured through the County's insurance policies. There were no significant reductions in insurance coverages from the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 6. Related Party Transactions**

The County provides office space and management services in the form of employees to the Authority at no charge. The Authority provides parking to the County at no charge.

**Note 7. Incentive and Performance Grants Payable**

**Incentive Grants**

In 2007 Innovative Wireless Technologies, Inc. (IWT) worked with the EDA on an expansion project that involved the purchase of a lot in the New London Business and Technology Center and the construction of a new building for themselves and additional space to lease out to other technology companies. The project included outside grants from the Governor's Opportunity Fund and the Tobacco Regional Opportunity Fund. Although the grant funds were disbursed in a prior fiscal year to be used in the design phase of the project, less than \$10,000 was actually spent before it became apparent that the building would not be able to proceed in 2008-09.

**BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 7. Incentive and Performance Grants Payable (Continued)**

The Authority requested that the balance of the unspent grant funds \$240,598 be returned and held in escrow until the project either moved ahead or the 36 month grant period expired. On November 7, 2010, the grant expired and all funding was returned to the appropriate state agencies.

**Performance Grants**

The Authority has awarded certain performance grants to businesses within the County; normally these grants are disbursed within the first three years of the five year performance period. There were no outstanding grants payable at June 30, 2011.

In addition, during 2011, it was determined that a business that had previously been awarded a grant would not be able to meet the criteria within the grant. The board voted to terminate the contract, and \$24,350 was recognized as other revenue.

**Note 8. Commitments and Other**

The Authority entered into a memorandum of understanding with the Center for Advanced Engineering and Research Center (CAER) on October 13, 2009. The memorandum addresses the development of a ground lease for the construction of a common area at New London Business and Technology Center. The Authority has agreed to reimburse CAER up to fifty percent of certain construction costs not to exceed \$500,000. At June 30, 2011 the amount spent to date by the Authority was \$451,805. No other amount is owed by the Authority for the CAER.

In fiscal year 2008 the Authority sold Lot 3A containing 4.238 acres in the New London Business and Technology Center to MKGCGWVA for construction of a building. The cost of the land is \$69,000 and is linked to an agreement between MKGCGWVA and the Authority. If construction on the property has not begun by December 2011 then the Authority has the option of repurchasing the land at the original sale value or entering into a second extension agreement to extend the time period for construction to commence.

**Note 9. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

GASB Statement No. 61 *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the “substantively the same governing body” criterion, it additionally requires that a financial benefit or financial burden relationship exist or management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

**BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 9. New Accounting Standards (Continued)**

GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements. This statement will be effective for the year ending June 30, 2013.

Management has not yet evaluated the effects, if any, of adopting these standards.



**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**

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

We have audited the financial statements of the Bedford County Economic Development Authority (the "Authority") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including certain provisions of the compliance matters described in the Summary of Compliance Matters, 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*.**

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies, and pass-through entities. It is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
October 14, 2011

**BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2011**

As more fully described in the "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*," we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts and grant agreements, and other matters shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

Cash and Investment Laws  
Conflicts of Interest Act  
Local Retirement Systems  
Procurement Laws

LOCAL COMPLIANCE

Authority By-Laws