

**BEDFORD COUNTY ECONOMIC
DEVELOPMENT AUTHORITY**

FINANCIAL REPORT
(A Component Unit of the County of Bedford, Virginia)

June 30, 2014

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BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS

BOARD OF DIRECTORS

Craig S. Coker, Chairman
Matthew J. Braud, Vice Chairman
Raymond P. Sellers
Wyatt H. Walton, III
James A. Lusk
Kimberly A. McCabe
Paul C. Kelbaugh

OFFICIALS

Rebecca C. Jones, Treasurer
Traci Blido, Secretary
G. Carl Boggess, Attorney



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which 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 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 the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the 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 net position of the Authority, as of June 30, 2014, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted a 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 this missing information.

Other Information

The directory of principal officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2014 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, 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
October 2, 2014

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note 2)	\$ 1,351,771
Receivables	100,000
Due from County of Bedford	397,723
Inventory (Note 3)	<u>8,840,498</u>
Total current assets	<u>10,689,992</u>

NONCURRENT ASSETS

Receivables	331,980
Capital assets (Note 4)	
Nondepreciable	491,203
Depreciable, net	<u>2,995,589</u>
Total noncurrent assets	<u>3,818,772</u>
Total assets	<u>14,508,764</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	404,981
Performance grants payable (Note 7)	<u>125,000</u>
Total current liabilities	<u>529,981</u>

NONCURRENT LIABILITIES

Performance grants payable	<u>300,000</u>
Total liabilities	<u>829,981</u>

NET POSITION

Invested in capital assets	3,486,792
Unrestricted	<u>10,191,991</u>
Total net position	<u>\$ 13,678,783</u>

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2014

Operating revenues	
Gain on sale of land	\$ 140,790
Operating lease revenue	38,365
Other	20,029
	<hr/>
Total operating revenues	199,184
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Operating expenses	
General and administrative	54,533
Incentive and performance grants	456,000
Leased property operating expense	6,655
Park maintenance	37,209
Construction of electrical substation	1,074,765
Depreciation	87,551
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Total operating expenses	1,716,713
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Operating loss	(1,517,529)
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Nonoperating revenues	
Interest income	4,009
Subsidies from the County of Bedford	1,236,895
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Nonoperating revenues	1,240,904
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Loss before contributions	(276,625)
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Capital contributions	2,858,338
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Increase in net position	2,581,713
	<hr/>
Net position, beginning of year	11,097,070
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Net position, end of year	\$ 13,678,783
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BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOW
Year Ended June 30, 2014

OPERATING ACTIVITIES

Lease revenue	\$ 38,365
Other cash receipts	20,029
Payments to suppliers	(93,987)
Incentive and performance grant payments	(93,500)
Payments for construction of electrical substation	(676,104)
Net cash used in operating activities	<u>(805,197)</u>

NONCAPITAL FINANCING ACTIVITIES

Subsidies from the County of Bedford	839,172
Dissolution of the Bedford Joint Economic Development Authority	316,638
Net cash provided by noncapital financing activities	<u>1,155,810</u>

INVESTING ACTIVITIES

Interest received	4,009
Net increase in cash and cash equivalents	354,622

Cash and cash equivalents, beginning of year

997,149

Cash and cash equivalents, end of year

\$ 1,351,771

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (1,517,529)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	87,551
(Increase) decrease in assets	
Receivables	(431,980)
Prepays	2,139
Inventory	291,189
Increase (decrease) in liabilities	
Accounts payable and other liabilities	400,933
Performance grants payable	362,500
Net cash used in operating activities	<u>\$ (805,197)</u>

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

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.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing grant and incentive 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 resale. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014**

Note 1. Summary of Significant Accounting Policies (Continued)

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 position:

Net position is the difference between assets and liabilities. Net position invested in capital assets represent capital assets, less accumulated depreciation. Restricted net position 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.

Asset impairment:

The Authority reviews long-lived assets, including land inventory and capital 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.

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.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

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). At June 30 there were no investments.

Note 3. Inventory

Inventory consists of the following:

Land held for lease:

Lake Vista	\$ 42,628
New London Business and Technology Center	<u>478,265</u>
Total land held for lease	<u>520,893</u>

Land held for sale:

Bedford Center for Business	600,495
Montvale Center for Commerce	1,127,362
New London Business and Technology Center	<u>6,591,748</u>
Total land held for sale	<u>8,319,605</u>

Total inventory	<u><u>\$ 8,840,498</u></u>
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BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014**

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 353,931	\$ 137,272	\$ -	\$ 491,203
Total capital assets, not depreciated	<u>353,931</u>	<u>137,272</u>	<u>-</u>	<u>491,203</u>
Capital assets, depreciated:				
Buildings and improvements	1,736,900	3,475,130	-	5,212,030
Equipment	<u>43,239</u>	<u>-</u>	<u>-</u>	<u>43,239</u>
Total capital assets, depreciated	<u>1,780,139</u>	<u>3,475,130</u>	<u>-</u>	<u>5,255,269</u>
Less accumulated depreciation for:				
Buildings and improvements	478,775	1,755,291	-	2,234,066
Equipment	<u>22,157</u>	<u>3,457</u>	<u>-</u>	<u>25,614</u>
Total accumulated depreciation	<u>500,932</u>	<u>1,758,748</u>	<u>-</u>	<u>2,259,680</u>
Net capital assets, depreciated	<u>1,279,207</u>	<u>1,716,382</u>	<u>-</u>	<u>2,995,589</u>
Total net capital assets	<u>\$1,633,138</u>	<u>\$1,853,654</u>	<u>\$ -</u>	<u>\$3,486,792</u>

Note: Increases in capital assets include transfers of capital assets and related accumulated depreciation from the Bedford Joint Economic Development Authority, further discussed in Note 9.

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 coverage 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. Performance Grants Payable and Other Commitments

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. Outstanding grants payable total \$425,000.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014**

Note 7. Performance Grants Payable and Other Commitments (Continued)

During fiscal year 2014, the Authority entered into an agreement with Southside Electric Co-Op regarding the construction of an electrical substation in New London Business Park. The County also entered into a contract with a contractor for necessary improvements to the site for the substation. The total commitment for the project is \$3,127,835, of which the Authority had incurred \$1,074,765 as of June 30, 2014. The outstanding commitment was \$2,053,070 at year end.

Note 8. Conduit Debt Obligations

From time to time, the Authority has been associated with the issuance of Lease Revenue Bonds to provide financial assistance for the acquisition and construction of facilities deemed to be in the public interest. The conduit debt obligations are secured by the property financed and are payable solely from payments received on the underlying loan. The Authority is not obligated in any manner for repayment of the obligations. Accordingly, the obligations are not reported as liabilities in the accompanying financial statements. As of June 30, the Authority had the following conduit debt arrangements:

Bedford County Courthouse and Social Services Building Refunding Revenue Bonds, Series 2005 – The \$7,785,000 Series 2005 bonds provided funds to refund a portion of the Series 1999 Courthouse and Social Services Building Lease Revenue Bonds. As of June 30, \$5,305,000 remains outstanding.

Bedford County Jefferson Forest High School, Group Homes and Nursing Home Lease Revenue and Revenue Refunding Bonds, Series 2006 – The \$44,635,000 Series 2006 bonds provided funds to renovate and expand Jefferson Forest High School, build the Bedford County Group Homes, and refund the Bedford County Nursing Home Series 2005 lease. As of June 30, \$8,820,000 remains outstanding.

Note 9. Other Matters

On July 1, 2013 the City of Bedford, Virginia reverted to Town status. The reversion agreement provides for dissolution of the Bedford Joint Economic Development Authority (BJEDA) upon retirement of the BJEDA's long-term debt. The BJEDA Board voted and approved the dissolution effective June 30, 2014. Upon dissolution, all assets and liabilities of the BJEDA were transferred to the Bedford County Economic Development Authority. Amounts have been recorded by the Authority at their carrying value in BJEDA immediately prior to the transfer.

Assets transferred were as follows:

Cash and cash equivalents	\$ 316,638
Inventory	600,495
Capital assets	<u>1,941,205</u>
	<u>\$ 2,858,338</u>

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

Note 9. Other Matters (Continued)

As part of the dissolution of BJEDA and transfer of property, the Authority assumed leases for tenants occupying BJEDA facilities. All of the leases end in fiscal year 2015. The Authority expects to collect rents totaling approximately \$203,000 and to negotiate new leases with tenants in fiscal year 2015.

Note 10. New Accounting Standards

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

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

INDEPENDENT AUDITOR’S 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 Honorable Members of the Board of Directors
Bedford County Economic Development Authority
Bedford, 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 Bedford County Economic Development Authority (the “Authority”), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which comprise the Authority’s basic financial statements, and have issued our report thereon dated October 2, 2014.

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 Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
October 2, 2014

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

SUMMARY OF COMPLIANCE MATTERS

June 30, 2014

As more fully described in the “Independent Auditor’s 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
Procurement Laws
Unclaimed Property

LOCAL COMPLIANCE

Authority By-Laws