

**BEDFORD COUNTY ECONOMIC
DEVELOPMENT AUTHORITY**

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

June 30, 2018

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BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS

BOARD OF DIRECTORS

Mickey Johnson, Chairman
Kelly Harmony, Vice Chairman
Dennis V. Novitzke
Wyatt H. Walton, III
Matthew J. Braud
James A. Lusk
Jim Messier

OFFICIALS

Kim J. Snow, Treasurer
Traci Blido, Secretary
Patrick J. Skelley, II, Attorney



INDEPENDENT AUDITOR'S REPORT

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

Report on 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, 2018, 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, 2018, 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 December 19, 2018 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
December 19, 2018

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note 2)	\$ 1,348,188
Receivables (Note 3)	311,148
Inventory (Note 4)	8,815,831
Restricted Assets:	
Cash and cash equivalents (Note 2)	<u>42,034</u>
Total current assets	<u>10,517,201</u>
NONCURRENT ASSETS	
Receivables (Note 3)	1,331,708
Capital assets: (Note 5)	
Nondepreciable	467,831
Depreciable, net	<u>1,407,127</u>
Total noncurrent assets	<u>3,206,666</u>
Total assets	<u>13,723,867</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	18,023
Performance grants payable (Note 10)	403,000
Unearned revenue	128,232
Notes payable (Note 6)	<u>10,761</u>
Total current liabilities	<u>560,016</u>
NONCURRENT LIABILITIES	
Performance grants payable (Note 10)	650,000
Notes payable (Note 6)	<u>680,488</u>
Total noncurrent liabilities	<u>1,330,488</u>
Total liabilities	<u>1,890,504</u>

NET POSITION

Invested in capital assets	1,874,958
Restricted	42,034
Unrestricted	<u>9,916,371</u>
Total net position	<u>\$ 11,833,363</u>

The Notes to Financial Statements are an integral part of this statement.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2018

Operating revenues	
Operating lease revenue	\$ 323,752
Other	39,905
	<hr/>
Total operating revenues	363,657
	<hr/>
Operating expenses	
General and administrative	28,435
Incentive and performance grants	105,000
Leased property operating expense	63,398
Park maintenance	44,054
Depreciation	212,359
	<hr/>
Total operating expenses	453,246
	<hr/>
Operating loss	(89,589)
	<hr/>
Nonoperating revenues	
Interest income	3,756
Interest expense	(36,754)
Subsidies from the County of Bedford	163,055
	<hr/>
Nonoperating revenues	130,057
	<hr/>
Income before contributions	40,468
	<hr/>
Capital contributions	10,300
	<hr/>
Increase in net position	50,768
	<hr/>
Net position, beginning of year	11,782,595
	<hr/>
Net position, end of year	<u><u>\$ 11,833,363</u></u>

The Notes to Financial Statements are an integral part of this statement.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

OPERATING ACTIVITIES	
Lease revenue	\$ 427,070
Other cash receipts	3,404
Payments to suppliers	(211,958)
Incentive and performance grant payments	(20,000)
Payments for acquisition and construction of inventory	(716,152)
Net cash used in operating activities	<u>(517,636)</u>
NONCAPITAL FINANCING ACTIVITIES	
Proceeds from notes	13,833
Principal paid on note	(8,751)
Interest paid on note	(36,754)
Subsidies from the County of Bedford	163,055
Net cash provided by noncapital financing activities	<u>131,383</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	<u>(116,206)</u>
Net cash used in capital and related financing activities	<u>(116,206)</u>
INVESTING ACTIVITIES	
Interest received	<u>3,756</u>
Net decrease in cash and cash equivalents	(498,703)
Cash and cash equivalents, beginning of year	<u>1,888,925</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,390,222</u></u>
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and cash equivalents	\$ 1,348,188
Cash and cash equivalents, restricted	42,034
	<u><u>\$ 1,390,222</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (89,589)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	212,359
(Increase) decrease in assets	
Receivables	157,144
Inventory	(715,464)
Increase (decrease) in liabilities	
Accounts payable and other liabilities	(76,760)
Performance grants payable	(65,000)
Unearned revenue	59,674
Net cash used in operating activities	<u><u>\$ (517,636)</u></u>
Schedule of Noncash Activity	
Inventory additions financed by accounts payable	<u><u>\$ 9,597</u></u>

The Notes to Financial Statements are an integral part of this statement.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 consist of a single enterprise fund and 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

The Authority’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities three months or less from the date of acquisition.

Notes receivable

Notes receivable consist of amounts owed to the Authority from sales of property and a sales-type lease.

(Continued)

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

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 acquisition value 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

Unearned revenues

Unearned revenues consist of operating lease payments and prepayments that have been received but not earned at year end.

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.

(Continued)

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

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. Notes Receivable

Notes receivable consist of various Authority loans to companies. Balances are due over time and are not expected to be collected in full within one year. Approximately \$950,000 of the loans outstanding at June 30, 2018, will be forgiven if performance requirements are met by the recipients.

Based on the Authority’s analysis of loans at June 30, 2018, no allowance was recorded. Management evaluates the performance and payment history of companies annually in determining the required allowance.

	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Receivable		
Liberty University, Inc. (see Note 10)	\$ 650,000	\$ -
Nanotouch Materials, LLC (see Note 10)	300,000	-
Sales-type Lease Receivable		
Bedford Brewing, LLC	692,856	311,148
	<hr/>	<hr/>
Total receivables	<u>\$ 1,642,856</u>	<u>\$ 311,148</u>

(Continued)

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

Note 4. Inventory

Inventory consists of the following:

Land held for lease:		
Lake Vista	\$	42,628
Land held for sale:		
Bedford Center for Business		600,495
Montvale Center for Commerce		1,127,362
New London Business and Technology Center		<u>7,045,346</u>
Total land held for sale		<u>8,773,203</u>
Total inventory	\$	<u><u>8,815,831</u></u>

Note 5. 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	\$ 454,409	\$ -	\$ -	\$ 454,409
Construction in progress	<u>-</u>	<u>13,422</u>	<u>-</u>	<u>13,422</u>
Total capital assets, not depreciated	<u>454,409</u>	<u>13,422</u>	<u>-</u>	<u>467,831</u>
Capital assets, depreciated				
Buildings and improvements	4,036,494	126,506	-	4,163,000
Equipment	<u>30,670</u>	<u>-</u>	<u>-</u>	<u>30,670</u>
Total capital assets, depreciated	<u>4,067,164</u>	<u>126,506</u>	<u>-</u>	<u>4,193,670</u>
Less accumulated depreciation				
Buildings and improvements	2,545,531	210,342	-	2,755,873
Equipment	<u>28,653</u>	<u>2,017</u>	<u>-</u>	<u>30,670</u>
Total accumulated depreciation	<u>2,574,184</u>	<u>212,359</u>	<u>-</u>	<u>2,786,543</u>
Net capital assets depreciated	<u>1,492,980</u>	<u>(85,853)</u>	<u>-</u>	<u>1,407,127</u>
Total net capital assets	<u>\$ 1,947,389</u>	<u>\$ (72,431)</u>	<u>\$ -</u>	<u>\$ 1,874,958</u>

(Continued)

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	\$ 700,000	\$ -	\$ 8,751	\$ 691,249	\$ 10,761

The annual requirements to amortize long-term debt and related interest are as follows:

Fiscal Year	Notes Payable		
	Principal	Interest	Total
2019	\$ 10,761	\$ 33,057	\$ 43,818
2020	11,199	32,620	43,819
2021	11,841	31,978	43,819
2022	12,424	31,395	43,819
2023	13,035	30,783	43,818
2024-2028	631,989	121,170	753,159
	<u>\$ 691,249</u>	<u>\$ 281,003</u>	<u>\$ 972,252</u>

Details of long-term indebtedness are as follows:

Purpose	Date Issued	Interest Rates	Amount Issued	Amount Outstanding
Fund Development Projects:				
Virginia Community Capital Bank	2016	4.75%	\$ 700,000	\$ 691,249

Note 7. Sales-Type Leasing Arrangements

The Authority entered into a lease agreement with Bedford Brewing, LLC, which is owned by Waukeshaw Development, Inc. in June 2016. In October 2016 the lease was amended, and executed simultaneously with the amendment, was a tenant's work letter agreement. The lease agreement provides for periodic rental payments in amounts which are equal to the principal and interest payments due for the Virginia Community Capital Bank Note Payable. Terms of the lease stipulate that Bedford Brewing, LLC will make monthly lease payments in the amount of \$3,652 beginning November 1, 2017. The tenant's work letter agreement addressed the construction of leasehold improvements, specifically a brewery and restaurant on the leased premises.

In October 2016, the Authority also entered into an option to purchase contract with Waukeshaw Development, Inc. The option is exercisable after 10 years from November 1, 2017 and may be extended for two one year periods. The purchase price for the property shall be the unpaid balance, if any, on the Virginia Community Capital Bank Note Payable.

(Continued)

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 8. 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 9. 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 10. Performance Grants Payable and Other Commitments

The Authority has awarded performance grants to companies within the County to foster economic development. Disbursements under these grants vary based on the performance requirements and period in which the company has to perform. Outstanding grants payable total \$1,053,000.

In May 2017, the Authority entered into a performance agreement with Liberty University, whereby the University acquired Lot 1, approximately 28 acres, of the New London Business and Technology Center for a purchase price of \$800,000. The Authority holds a promissory note with an original amount of \$800,000 as payment of the full amount of the purchase price (see Note 3). The University agreed to construct the remainder of the circular drive and parking spaces per the Development Master Plan by April 30, 2018. Upon substantial completion of the circular drive, the Authority agrees to grant a credit of \$150,000 toward the outstanding note. The University will construct a New Facility and certain other improvements and relocate its Engineering School to the new facility. The New Facility consisting of approximately 30,000 square feet of finished floor space, shall be located on the property by April 30, 2019. Upon substantial completion of the New Facility, the Authority agrees to grant a credit of \$150,000 toward the outstanding balance due on the note. The University agrees to relocate the primary campus of its Engineering School to the New Facility by September 1, 2019. Upon substantial relocation the Authority agrees to grant a credit of \$220,000 toward the outstanding balance due on the note. The Authority also agrees to grant credits of up to \$280,000 toward the outstanding balance due on the note, at the rate of one dollar for each dollar of revenue, to the extent of all revenues paid to the County of Bedford, Virginia during the five-year period commencing on the date of the agreement attributable to the current and contemplated development on Lot 1. Because the Authority has no expectation that the University will not meet the terms of the agreement, the Authority has also recognized incentive expense and an accompanying performance grant payable of \$800,000. As the terms are met the Authority will reduce the associated receivables and payables. During the fiscal year ended June 30, 2018, the University met the requirements for the circular drive and parking spaces and was granted the \$150,000 credit for doing so.

(Continued)

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 10. Performance Grants Payable and Other Commitments (Continued)

In May 2017, the Authority entered into a performance agreement with Nanotouch Materials, LLC, whereby the Company acquired Lot 3A, approximately 4.24 acres, of the New London Business and Technology Center for a purchase price of \$1. In addition, the Company agreed to construct and occupy a new technology facility consisting of approximately 5,000 square feet of floor space with an estimated construction value of \$500,000 to be located on the property, with construction to commence by March 31, 2018, weather permitting. The Authority holds a purchase money deed of trust note in the amount of \$300,000 representing the revised purchase price if Company defaults under the terms of the performance agreement or accompanying agreement of sale. The purchase money note will be held by the Authority for a period of five years and will be without interest. If the Company completes the construction and occupies the facility within two calendar years from closing, the deed of trust shall be released. If the Company abandons this project without completing the construction of the new facility, the sum owed shall be accelerated and shall be due and payable in full. Under the agreement, the Authority paid \$100,000 to the Company in May of 2017 as an incentive. Because the Authority has no expectation that the Company will not meet the terms of the agreement, the Authority has recognized the incentive expense in the current year, including an accompanying performance grant payable of \$300,000. As the terms are met the Authority will reduce the associated receivables and payables.

Other performance grants payable include \$18,000 to Blue Ridge Optics, LLC and \$25,000 to KMR Aviation.

Note 11. 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 arrangement:

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, 2018, \$2,230,000 remains outstanding.

Note 12. Subsequent Event

In late October 2018, Liberty University announced plans to build a technology park behind the Center for Energy Research & Education (CERE) and put its School of Engineering on the University's main campus instead of the New London Business and Technology Center as originally planned. Plans are in the works to construct 10 additional buildings, over a longer period of time, behind CERE, which will be called LUTECH. The campus will be Liberty's technology park and home for business and industry partners to the school. The Authority anticipates this to be a better arrangement for the County in the long-term and will be renegotiating with the University the terms of the performance agreement discussed in Note 10.

(Continued)

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Net Position

Restricted net position at June 30, 2018 consists of \$42,034 of cash held by Bedford Regional Water Authority (the “BRWA”) pursuant to an agreement whereby BRWA collects and holds lease proceeds until the Authority requests to use them for projects.

Note 14. New Accounting Standards

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

Statement No. 83, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

Statement No. 87, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

(Continued)

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

Note 14. New Accounting Standards (Continued)

Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies the reporting for a majority equity interest in a legally separate organization.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on future financial statements.

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, 2018, and the related notes to the financial statements, which comprise the Authority’s basic financial statements, and have issued our report thereon dated December 19, 2018.

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
December 19, 2018

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

**SUMMARY OF COMPLIANCE MATTERS
June 30, 2018**

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