

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY
(A Component Unit of Montgomery County, Virginia)**

FINANCIAL REPORT

June 30, 2019

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

TABLE OF CONTENTS

INTRODUCTORY SECTION

| | Page |
|--|------|
| Directory of Principal Officials | i |

FINANCIAL SECTION

| | |
|---|---|
| Independent Auditor's Report | 1 |
| Basic Financial Statements | |
| Exhibit 1 – Statement of Net Position..... | 4 |
| Exhibit 2 – Statement of Revenues, Expenses, and Changes in Fund Net Position | 5 |
| Exhibit 3 – Statement of Cash Flows..... | 6 |
| Notes to Financial Statements | 7 |

INTRODUCTORY SECTION

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2019**

DIRECTORS

John P. Tuttle – Chairman
Thomas A. Loflin – Vice Chairman

Steven M. Baffuto
Eric K. Johnsen
James C. Taylor, III

N. Ray Tuck, Jr.
Tessa L. Wright

OFFICIALS

Brian T. Hamilton Secretary/Treasurer
Martin M. McMahon Attorney

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

**Financial Section contains the
Basic Financial Statements.**

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Economic Development Authority of Montgomery County
Christiansburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Economic Development Authority of Montgomery County (the "Authority"), a discretely presented component unit of Montgomery County, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively 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. 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Economic Development Authority of Montgomery County, Virginia, as of June 30, 2019, and the changes in financial 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 the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Authority’s 2018 financial statements, on which, in our report dated November 30, 2018, we expressed an unmodified opinion. The 2018 financial information is provided for comparative purposes only. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority’s basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 15, 2019

BASIC FINANCIAL STATEMENTS

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**STATEMENT OF NET POSITION
June 30, 2019**

| | 2019 | (For Comparative Purposes Only) 2018 |
|--|-------------|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents (Note 2) | \$ 205,178 | \$ 56,115 |
| Other accounts receivable | 12,916 | 14,515 |
| Due from County | 173,950 | 35,603 |
| Due from other governments | 9,587 | - |
| Total current assets | 401,631 | 106,233 |
| Noncurrent assets | | |
| Inventory (Note 3) | 5,310,888 | 5,376,728 |
| Capital assets (Note 4) | | |
| Nondepreciable | - | 6,784 |
| Depreciable, net | 8,647,662 | 8,903,199 |
| Lease incentives (Note 8) | 243,234 | 321,568 |
| Total noncurrent assets | 14,201,784 | 14,608,279 |
| Total assets | 14,603,415 | 14,714,512 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 259,698 | 115,281 |
| Deposits | 10,000 | 10,000 |
| Current portion of noncurrent liabilities (Note 5) | 418,563 | 407,745 |
| Total current liabilities | 688,261 | 533,026 |
| Noncurrent liabilities | | |
| Due in more than one year (Note 5) | 13,838,104 | 14,256,667 |
| Total noncurrent liabilities | 13,838,104 | 14,256,667 |
| Total liabilities | 14,526,365 | 14,789,693 |
| COMMITMENTS AND CONTINGENCIES (Notes 8 and 9) | - | - |
| NET POSITION | | |
| Net investment in capital assets | 533,731 | 388,307 |
| Unrestricted | (456,681) | (463,488) |
| Total net position | \$ 77,050 | \$ (75,181) |

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

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION**

For the Year Ended June 30, 2019

| | 2019 | (For Comparative Purposes Only) 2018 |
|--|------------------|---|
| OPERATING REVENUES | | |
| Bond fees | \$ 2,000 | \$ - |
| Lease revenue: | | |
| Technology Manufacturing Building (Note 8) | 938,745 | 946,386 |
| Proceeds from sale of land | 67,500 | - |
| Miscellaneous | 100 | - |
| Total operating revenues | <u>1,008,345</u> | <u>946,386</u> |
| OPERATING EXPENSES | | |
| Contributions and incentives | 351,471 | 300,015 |
| Professional services | 41,781 | 19,365 |
| Repairs and maintenance | 97,063 | 135,112 |
| Insurance | 15,922 | 14,816 |
| Utilities | 222,609 | 226,805 |
| Other charges | 36,870 | 35,380 |
| Depreciation | 363,197 | 363,109 |
| Cost of land sold | 65,840 | - |
| Total operating expenses | <u>1,194,753</u> | <u>1,094,602</u> |
| Operating loss | <u>(186,408)</u> | <u>(148,216)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 349 | 457 |
| County contributions | 542,707 | 2,810,624 |
| Other contributions | 9,587 | 23,051 |
| Interest expense | (214,004) | (224,564) |
| Total net nonoperating revenue | <u>338,639</u> | <u>2,609,568</u> |
| Change in net position | 152,231 | 2,461,352 |
| Net position beginning at July 1 | <u>(75,181)</u> | <u>(2,536,533)</u> |
| Net position ending at June 30 | <u>\$ 77,050</u> | <u>\$ (75,181)</u> |

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

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019**

| | 2019 | (For Comparative Purposes Only) 2018 |
|---|--------------|---|
| OPERATING ACTIVITIES | | |
| Receipts from lessees | \$ 1,018,678 | \$ 1,025,248 |
| Receipts from others | (145,834) | 129,893 |
| Receipts from sale of inventory | 67,500 | - |
| Payments to suppliers | (621,299) | (898,818) |
| Payments for purchase of inventory | - | (2,552,194) |
| Net cash provided by (used in) operating activities | 319,045 | (2,295,871) |
| CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Contributions from the County | 542,707 | 2,810,624 |
| Contributions from others | 9,587 | 23,051 |
| Repayment of debt | (407,745) | (365,659) |
| Purchase of capital assets | (100,876) | (6,784) |
| Interest paid on debt | (214,004) | (224,564) |
| Net cash provided by (used in) capital and related financing activities | (170,331) | 2,236,668 |
| INVESTING ACTIVITIES | | |
| Interest received | 349 | 457 |
| Net cash provided by investing activities | 349 | 457 |
| Net increase (decrease) in cash and cash equivalents | 149,063 | (58,746) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning at July 1 | 56,115 | 114,861 |
| Ending at June 30 | \$ 205,178 | \$ 56,115 |
| Reconciliation of operating loss to net cash provided by (used in) operating activities: | | |
| Operating loss | \$ (186,408) | \$ (148,216) |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 363,197 | 363,109 |
| (Increase)/decrease in inventory | 65,840 | (2,552,194) |
| (Increase)/decrease in other accounts receivable | 1,599 | 529 |
| (Increase)/decrease in due from County | (147,934) | 129,893 |
| (Increase)/decrease in prepaid expenses | - | 3,704 |
| Decrease in lease incentives | 78,334 | 78,333 |
| Increase/(decrease) in accounts payable and accrued liabilities | 144,417 | (171,029) |
| Net cash provided by (used in) operating activities | \$ 319,045 | \$ (2,295,871) |

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

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 1. Summary of Significant Accounting Policies

Reporting entity

The Economic Development Authority of Montgomery County, Virginia (the “Authority”) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Montgomery County Board of Supervisors on March 1, 1971 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 end that such activities may promote industry and develop trade by inducing 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 faith and credit of the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease of facilities constructed and may be secured by a deed of trust on those facilities.

For financial reporting purposes, the Authority is a discretely presented component unit of the County of Montgomery, Virginia (the “County”). The Authority is so classified 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 accrues revenue for services rendered but not yet billed at the end of the fiscal year.

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 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 are sale of property and lease revenue. Operating expenses include contributions to industries, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating.

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

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Other accounts receivable

Other accounts receivable consists of amounts due from lessees for reimbursement of utility charges.

Inventory – land and buildings

The cost of land (including acquisition costs) is allocated to subdivided areas for the purpose of accumulating costs to match with sales revenues. Improvement, carrying, and amenity costs are allocated based on acreage. Inventory donated to the Authority is recorded at fair value on the date of donation. Inventory is valued at the lower of cost or market.

Capital assets

Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | |
|---------------------------------|------------|
| Buildings | 40 years |
| Land improvements | 20 years |
| Equipment and intangible assets | 5-10 years |

Lease incentives

At times, to incentivize organizations to lease space at Authority facilities, incentives such as rent holidays on build out (upfit) allowances are provided. The effect of these incentives are recognized over the term of the lease.

Deposits

Deposits consist of amounts received from lessees that may be used to offset future lease payments or any damages that may occur to the property during the lease term.

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 1. Summary of Significant Accounting Policies (Continued)

Net position

Net position is the difference between assets and liabilities. Net investment in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets.

At June 30, the Economic Development Authority had a deficit in unrestricted net position of \$456,681. This deficit is anticipated to be recovered through future revenues, as well as possible contributions from the Primary Government.

Estimates

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

Pass-through financing leases

One activity of the Authority involves the facilitation of pass-through leases. These agreements provide for periodic rental payments in amounts which are equal to the principal and interest payments due to bond holders. The Authority has assigned all rights to the rental payments to the trustees of the bond holders and the lessees have assumed responsibility for all operating costs such as utilities, repairs, and property taxes.

Comparative data

The financial statements include certain prior year summarized comparative information in total but not presented at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the prior year from which the summarized information was derived.

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 from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 2. Deposits and Investments (Continued)

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”).

All investment activity during the year was in money market accounts.

Note 3. Inventory

Inventory consists of the following:

| | |
|---|---------------------|
| Falling Branch Industrial Park: | |
| Land and land improvements (59.506 acres) | \$ 2,729,425 |
| Cox Property Development Costs | <u>2,581,463</u> |
| | <u>\$ 5,310,888</u> |

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 4. Capital Assets

Capital asset activity for the year was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-----------------|---------------------|
| Capital assets, not depreciated: | | | | |
| Construction in process | \$ 6,784 | \$ - | \$ 6,784 | \$ - |
| Total capital assets, not depreciated | 6,784 | - | 6,784 | - |
| Capital assets, being depreciated: | | | | |
| Land improvements | 566,330 | 79,111 | - | 645,441 |
| Building | 12,121,191 | - | - | 12,121,191 |
| Equipment | 169,371 | 28,549 | - | 197,920 |
| Intangible assets: | | | | |
| Website | 20,980 | - | - | 20,980 |
| Total capital assets being depreciated | 12,877,872 | 107,660 | - | 12,985,532 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 198,268 | 31,866 | - | 230,134 |
| Building | 3,630,476 | 322,774 | - | 3,953,250 |
| Equipment | 124,949 | 8,557 | - | 133,506 |
| Intangible assets | 20,980 | - | - | 20,980 |
| Total accumulated depreciation | 3,974,673 | 363,197 | - | 4,337,870 |
| Total capital assets being depreciated, net | 8,903,199 | (255,537) | - | 8,647,662 |
| Total capital assets, net | <u>\$ 8,909,983</u> | <u>\$ (255,537)</u> | <u>\$ 6,784</u> | <u>\$ 8,647,662</u> |

Note 5. Long-Term Liabilities

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

| | Beginning Balance | Issuances | Retirements | Ending Balance | Due within One Year |
|--------------------------|----------------------|-------------|-------------------|----------------------|------------------------|
| Notes payable | \$ 49,899 | \$ - | \$ 14,672 | \$ 35,227 | \$ 15,268 |
| Revenue bonds | 8,471,777 | - | 393,073 | 8,078,704 | 403,295 |
| Advances payable, County | 5,626,109 | - | - | 5,626,109 | - |
| Note payable, County | 516,627 | - | - | 516,627 | - |
| | <u>\$ 14,664,412</u> | <u>\$ -</u> | <u>\$ 407,745</u> | <u>\$ 14,256,667</u> | <u>\$ 418,563</u> |

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 5. Long-Term Liabilities (Continued)

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

| Fiscal Year | Notes Payable | | Revenue Bonds | |
|-------------|------------------|-----------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2020 | \$ 15,268 | \$ 1,182 | \$ 403,295 | \$ 202,894 |
| 2021 | 15,888 | 562 | 7,675,409 | 65,315 |
| 2022 | 4,071 | 41 | - | - |
| | <u>\$ 35,227</u> | <u>\$ 1,785</u> | <u>\$ 8,078,704</u> | <u>\$ 268,209</u> |

Details of long-term indebtedness are as follows:

| | Issue Date | Maturity Date | Authorized and Issued | Interest Rate | Amount Outstanding |
|--|------------|---------------|-----------------------|---------------|---------------------|
| <u>Note Payable:</u> | | | | | |
| MBC Development Corporation | 12/01/14 | 2021 | \$ 100,000 | 4.00% | <u>\$ 35,227</u> |
| Revenue Bonds | 01/01/15 | 2020 | \$ 10,572,518 | 2.57% | <u>\$ 8,078,704</u> |
| <u>Advances payable, County:</u> | | | | | |
| Construction/Improvements to the Falling Branch Corporate Park | - | - | - | - | \$ 3,525,943 |
| Improvements to the Elliston Lafayette Industrial Park | - | - | - | - | 1,093 |
| Repayment of indebtedness | - | - | - | - | <u>2,099,073</u> |
| | | | | | <u>\$ 5,626,109</u> |
| Note Payable, County | 06/17/97 | - | \$ 1,274,620 | - | <u>\$ 516,627</u> |

Advances payable, County

Non-interest bearing advances for the purchase of capital items are to be repaid from the sale of land and other revenues of the Authority. There is no deed of trust held by the County for the properties. Therefore, there is opportunity for these properties to be encumbered with additional financing upon approval by the County.

Note payable, County

The Authority agreed to remit to the County all funds received pursuant to property sales or payments received on property leases from the Falling Branch Industrial Park, less reasonable costs, in repayment of this note upon demand by the County.

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 6. 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 participates with other localities in a public entity risk pool for their coverage of general liability with the Virginia Municipal League Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay, and discharge any liability. The Authority pays the Virginia Municipal League Liability Pool contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims, and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from these risks have not exceeded commercial insurance coverage and there have not been any significant reductions in insurance coverage over the previous year.

Note 7. Related Party Transactions

The County provides personnel and office space to the Authority at no charge.

Note 8. Leases

On October 1, 2014, the Authority entered into a lease agreement for a portion of the Technology Manufacturing Building with a private company. The lease commenced October 15, 2014, originally expired December 31, 2020, but was amended and extended through December 31, 2024. Monthly lease payments are \$38,408. This lease includes a rent holiday and an upfit allowance of \$1,600,000; \$500,000 of which was used in 2015.

On October 2, 2014, the Authority entered into a lease agreement for a portion of the Technology Manufacturing Building with a private company. The lease commenced October 16, 2014, and expires December 31, 2022. Monthly lease payments are \$33,152.50 plus utilities. This lease includes a rent holiday and an upfit allowance of \$400,000, which was used in 2015.

Future minimum lease payments

| | | |
|------|----|---------|
| 2020 | \$ | 858,726 |
| 2021 | | 858,726 |
| 2022 | | 858,726 |
| 2023 | | 659,811 |
| 2024 | | 460,896 |

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 9. Commitments and Contingencies

Performance agreements

Performance agreement incentives not yet earned as of June 30, 2019 by recipient companies were \$1,317,146. Payments will be made from Montgomery County tax revenues generated from the grantees, but only after agreements are met.

Conduit debt

Although obligations under conduit revenue bonds are secured by lease proceeds on the underlying properties and the Authority retains no liability on pass-through leases, the Authority and the County may choose to assume responsibility for the bonds in the event of default by lessees to preserve the credit rating of the Authority.

Note 10. Subsequent Event

On August 20, 2019, the Authority entered into a performance agreement with a developer that will provide an incentive grant of up to \$2.5 million over a 10-year period. The grant will be funded by the County and pass through the Authority as an incentive grant.

Note 11. New Accounting Standards

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

The GASB issued **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.

The GASB issued **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.

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 11. New Accounting Standards (Continued)

The GASB issued **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 that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

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.

The GASB issued **Statement No. 91**, *Conduit Debt Obligations* in May 2019. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

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