ECONOMIC DEVELOPMENT AUTHORITY

OF PULASKI COUNTY, VIRGINIA

(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2020

Economic Development Authority of County of Pulaski, Virginia
Financial Report
Year Ended June 30, 2020

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FINANCIAL SECTION

Independent Auditors' Report

To the Honorable Members of
Economic Development Authority of Pulaski County
Pulaski, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Economic Development Authority of Pulaski County (the Authority), a component unit of the County of Pulaski, Virginia, as of and for the year ended June 30, 2020, 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.

Auditors' 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 auditors' 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 financial position of the business-type activities of the Authority, as of June 30, 2020, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Economic Development Authority of Pulaski County's 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 Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox, Associates
Blacksburg, Virginia
December 30, 2020

ECONOMIC DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020

This report offers readers of the financial statements of the Economic Development Authority of Pulaski County (EDA) with a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2020. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audit.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: (1) enterprise fund financial statements and (2) notes to the financial statements. This report also contains other background and supplementary information providing a context for the basic financial statements themselves. Enterprise fund financial statements such as that of the EDA are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* (Exhibit 1) presents information on all of the Authority's a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* (Exhibit 2) presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* (Exhibit 3) provides information regarding the Authority's cash receipts and cash disbursements during the year. This statement differs from the *Statement of Revenues, Expenses, and Changes in Net Position* statement in that it accounts only for transactions that result in cash receipts and cash disbursements.

The *Notes to Financial Statements* beginning on page 9 provide additional information that is essential to a full understanding of the data provided in the financial statements. They provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

FY 2019-20 HIGHLIGHTS

1. As noted in Exhibit 1, the total assets of the EDA exceeded its total liabilities by $13,251,097 (net position) as of June 30, 2020.
2. As reported in Exhibit 2, the total net position of the EDA decreased by $1,314,384 from $14,565,481 in fiscal year 2019 to $13,251,097 in fiscal year 2020.
3. Operating revenues in Exhibit 2 of $2,222,854 primarily consisted of building rental fees, recovered costs and state economic development funding.
4. Operating expenditures in Exhibit 2 of $2,104,440 include EDA board compensation, property maintenance, insurance, utilities, depreciation, and economic development expenses in the amount of $1,404,440. Also included in this figure are tax grants and rebates totaling $700,000.
5. From the cash perspective (described in Exhibit 3), EDA cash flows were provided from operations in the amount of $245,328 and cash flows were provided from investing activities in the amount of $9,954 totaling $255,282 prior to being offset by $435,401 in cash flows used in noncapital financing activities and $92,526 in cash flows used in capital and related financing activites resulting in a net decrease of $272,645 in cash at June 30, 2020.

FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of an entity's financial position. The Economic Development Authority of Pulaski County serves as an economic development facilitator and as a leaser or seller of industrial property for the County of Pulaski, Virginia. Thus, industrial properties acquired by the Board of Supervisors are often transferred to the Authority for the purpose of negotiated sale with a specific employer or development. Likewise, the Authority also serves as a conduit for financing of industrial activity by local employers and the support of those employers by the Board of Supervisors. Finally, the Authority serves as a conduit making possible the tax exempt financing of local industrial activities. In each of these situations, the financial obligations of the Authority are secured by a third party.

The following table provides a summary comparison of net position for the 2020 and 2019 fiscal years:

	FY 2019-20	FY 2018-19
Current Assets	$ 3,824,417	$ 2,835,760
Noncurrent Assets	46,350,332	35,626,322
Total Assets	$ 50,174,749	$ 38,462,082
Current Liabilities	$ 4,655,322	$ 2,719,039
Noncurrent Liabilities	32,268,330	21,177,562
Total Liabilities	$ 36,923,652	$ 23,896,601
Net investment in capital assets	$ 10,168,813	$ 10,582,101
Unrestricted	3,082,284	3,983,380
Total Net Position	$ 13,251,097	$ 14,565,481

As included in Exhibit 1 and Exhibit 2 and summarized above, the total net position of the Authority decreased by $1,314,384 from $14,565,481 on June 30, 2019 to $13,251,097 on June 30, 2020.

The following table provides a summary comparison of the change in net position for the 2020 and 2019 fiscal years:

	FY 2019-20	FY 2018-19
Operating revenues	$ 2,222,854	$ 1,444,989
Operating expenses	(2,104,440)	(4,786,383)
Income/(Loss) from Operations	$ 118,414	$ (3,341,394)
Nonoperating revenues	$ 13,597	$ 65,696
Nonoperating expenses	(1,446,395)	(875,607)
Nonoperating Income (expenses)	$ (1,432,798)	$ (809,911)
Change in Net Position	$ (1,314,384)	$ (4,151,305)

As noted in the above table, the 2020 fiscal year resulted in a decrease in net position in the amount of $1,314,384. Operating revenues increased by $777,865 while nonoperating revenues decreased by $52,099 due to decreases in recovered costs and State grants and contributions from the County while operating expenses decreased by $2,681,943. The Authority had a net gain from operations in the amount of $118,414 for the 2020 fiscal year prior to the addition of non-operating revenues and expenses which nets to $1,432,798 in expenses resulting in an overall change in net position of $1,314,384.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling $13,689,582 and $10,582,101 for fiscal years 2020 and 2019, respectively. These assets consist primarily of the ownership of the Bob White Building, DeHaven Park (a Claytor Lake property formerly known as Harry's Point), undeveloped portions of the Pulaski County Corporate Center, Maple Shade Center, the former Dublin Primary School, the former Riverlawn Elementary School, the former Draper Elementary Cottage and the former Claremont Elementary School. More information about the IDA's capital assets can be found in Notes 2 and 5 to the Financial Statements.

DEBT ADMINISTRATION

At the end of the fiscal year ending June 30, 2020 the Authority had long-term debt of $34,410,055 with $2,641,725 due during fiscal year 2021. More detailed information about the Authority's indebtedness, including annual debt service requirements, is presented in Note 7 to the financial statements.

As in prior years, the largest portion of the Authority's liabilities consisted of debt on a note payable for Hiwassee Fire Department (June 30, 2020 balance of $196,140), Commerce Park debt (June 30, 2020 balance of $5,200,000), Snowville and Critzer Elementary Schools debt (June 30, 2020 balance of $372,566), Dublin Elementary School debt (June 30, 2020 balance of $2,402,300), Pulaski Adult Day Services Center debt (June 30, 2020 balance of $113,639), two notes payable for Falls Stamping (June 30, 2020 balance of $2,222,209), two notes payable for Koinonia (June 30, 2020 balance of $3,520,769), and three revenue bonds and two notes payable for Phoenix Packaging (June 30, 2020 balances totaling $20,389,834). All Authority debt is reimbursed either through lease agreements or contributions from the Pulaski County Board of Supervisors and is secured by property lease proceeds and underlying properties.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The condition of the economy and the state of private-sector investment are ongoing major factors in determining the Authority's activity level. Economic development is currently very active in Pulaski County. A primary factor in economic development is the extremely competitive nature of economic development projects. Another factor is the need for the County to invest in a diverse business community and provide the incentives required to successfully locate or expand significant projects such as Volvo, James Hardie Building Products, Phoenix Packaging, Red Sun Farms, Korona Candles, and Koinonia within the County. The Authority now considers Pulaski County the center for international businesses locating in southwest Virginia. The Pulaski County Economic Development office continually strives to lease or sell all industrial space owned by the Economic Development Authority.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Authority's finances. Questions regarding this report or requests for additional financial information should be directed to Michael Solomon, EDA Executive Director, Pulaski County, Virginia, 143 Third Street NW, Suite 1, Pulaski, VA 24301.

ECONOMIC DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)

Statement of Net Position
At June 30, 2020

Assets:		
Unrestricted Current Assets:		
Cash and cash equivalents	$	213,776
Accounts receivable		382,885
Interest receivable		140,959
Rent receivable		89,053
Prepaid expenses		3,235
Capital lease receivable-current portion		412,102
Notes receivable-current portion		2,068,309
Total Unrestricted Current Assets	$	3,310,319
Restricted Current Assets:		
Amounts held for Virginia's First IFA	$	514,098
Total Current Assets	$	3,824,417
Noncurrent Assets:		
Capital lease receivable-long-term portion	$	4,128,086
Notes receivable-long-term portion		28,532,664
Capital assets, net of depreciation:		
Capital assets		20,745,804
Accumulated depreciation		(7,056,222)
Capital assets, net of depreciation	$	13,689,582
Total Noncurrent Assets	$	46,350,332
Total Assets	$	50,174,749
Liabilities:		
Current Liabilities:		
Accounts payable	$	108,315
Interest payable		38,606
Unearned revenue		19,628
Cash held for others		514,098
Due to Pulaski County-current portion		1,332,950
Notes payable-current portion		740,940
Revenue bonds payable-current portion		1,252,219
Bonds payable-current portion		648,566
Total Current Liabilities	$	4,655,322
Noncurrent Liabilities:		
Due to Pulaski County-noncurrent portion	$	500,000
Notes payable-noncurrent portion		7,859,149
Revenue bonds payable-noncurrent portion		21,782,881
Bonds payable-noncurrent portion		2,126,300
Total Noncurrent Liabilities	$	32,268,330
Total Liabilities	$	36,923,652
Net Position:		
Net investment in capital assets	$	10,168,813
Unrestricted		3,082,284
Total Net Position	$	13,251,097

The accompanying notes to the financial statements are an integral part of this statement.

ECONOMIC DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020

Operating Revenues:		
Lease/rental fees	$	718,403
Recovered costs		1,504,451
Total operating revenues	$	2,222,854
Operating Expenses:		
Board compensation	$	3,714
Materials and maintenance		61,816
Contractual services		316,756
Insurance		73,698
Tax grants and rebates		700,000
Utilities		310,534
Miscellaneous		132,108
Depreciation		505,814
Total operating expenses	$	2,104,440
Operating Income (Loss)	$	118,414
Nonoperating Revenues and (Expenses):		
Interest income	$	13,547
Miscellaneous		50
Interest expense		(1,446,395)
Total nonoperating revenues and expenses	$	(1,432,798)
Change in net position	$	(1,314,384)
Net Position, beginning of year		14,565,481
Net Position, end of year	$	13,251,097

The accompanying notes to the financial statements are an integral part of this statement.

ECONOMIC DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)

Statement of Cash Flows
Year Ended June 30, 2020

Cash flows from operating activities:		
Cash received from lessees	$	297,039
Cash received from others		1,692,295
Cash paid to suppliers for goods and services		(1,744,006)
Net cash provided by (used for) operating activities	$	245,328
Cash flows from noncapital financing activities:		
Contribution from Pulaski County	$	927,469
Notes receivable issued		(10,333,716)
Payments received on notes and capital leases receivable		1,687,737
Miscellaneous income		50
Retirement of indebtedness		(1,611,646)
Issuance of indebtedness		10,333,716
Interest and loan costs paid on debt		(1,439,011)
Net cash provided by (used for) noncapital financing activities	$	(435,401)
Cash flows from capital and related financing activities:		
Purchase of capital assets	$	(3,613,295)
Issuance of indebtedness		3,565,000
Retirement of indebtedness		(44,231)
Net cash provided by (used for) capital and related financing activities	$	(92,526)
Cash flows from investing activities:		
Interest income	$	9,954
Increase (decrease) in cash and cash equivalents	$	(272,645)
Cash and cash equivalents at beginning of year (including $517,691 restricted cash)		1,000,519
Cash cash equivalents at end of year (including $514,098 restricted cash)	$	727,874
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Operating income (loss)	$	118,414
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		505,814
(Increase) decrease in receivables		(530,732)
(Increase) decrease in prepaid expenses		(1,120)
(Increase) decrease in due from Pulaski County		300,000
Increase (decrease) in unearned revenue		(2,788)
Increase (decrease) in operating accounts payable		(144,260)
Net cash provided by (used for) operating activities	$	245,328

The accompanying notes to the financial statements are an integral part of this statement.

NOTE 1-ORGANIZATION, DESCRIPTION OF THE ENTITY:

The Economic Development Authority of Pulaski, Virginia (the Authority) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Board of Supervisors on September 26, 1967 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 of Pulaski County, Virginia. 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 which 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.

A. Financial Reporting Entity

For financial reporting purposes, in conformance with the principles of the Governmental Accounting Standards Board, the Economic Development Authority of Pulaski County, Virginia is a component unit of the County of Pulaski, Virginia. The Authority is classified as a component unit 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. The Authority is reported as a discretely presented component unit in the County's financial report.

B. Basic Financial Statements

Pass-through Financing Leases – Most activities of the Authority represent pass-through leases. These agreements provide for periodic rental payments in amounts which are equal to the principal and interest payments due to project bondholders. The Authority has assigned all rights to the rental payments to the trustees of the bondholders and the lessees have assumed responsibility for all operating costs such as utilities, repairs and property taxes. In such cases, the Authority recognizes associated assets, liabilities, and rental income or interest expense in its financial statements.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Cash and Cash Equivalents

For purposes of the statement of cash flows and the balance sheet, cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Unearned Revenue

Contributions are recognized as income of the Authority when the activities for which the contributions were designated have been completed.

C. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority does not have any deferred outflows of resources as of June 30, 2020.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any deferred inflows of resources as of June 30, 2020.

D. Net Position

For proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

E. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) 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 acquisition value at the date of donation.

The cost 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during year ended June 30, 2020.

Property, plant, equipment, and infrastructure of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Asset Type	Years
Buildings and improvements	20-40
Machinery and equipment	4-30

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

NOTE 3-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.

NOTE 3-DEPOSITS AND INVESTMENTS: (Continued)

Investments
Statutes authorize local governments and other public bodies 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 that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard and Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Authority does not have an investment policy.

The Authority's rated debt investments at June 30, 2020 were rated by Standard and Poor and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investment Value

Rated Debt Investments	**Fair Quality Ratings**
	AAAm
Money Market Mutual Fund	$ 514,098

Custodial Credit Risk
For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds are not considered to have custodial credit risk. The Authority invests only in those investments authorized by the *Code of Virginia*. Therefore, the custodial credit risk is minimized.

Concentration of Credit Risk
If certain investments in any one issuer represent 5 percent of total investments, there must be a disclosure for the amount and issuer. Investments issued or explicitly guaranteed by the US government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Therefore, the Authority does not have any investments for this disclosure requirement.

Interest Rate Risk
The Authority manages its exposure to declines in fair values by limiting the maturity of its investments.

	Investment Maturities	
Investment Type	**Fair Value**	**< 1 year**
Money Market Mutual Fund	$ 514,098	$ 514,098

NOTE 4-FAIR VALUE MEASUREMENTS:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Authority maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The Authority has the following recurring fair value measurements as of June 30, 2020:

	Fair Value	Level 1
Money Market Mutual Fund	$ 514,098	$ 514,098

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NOTE 5-CAPITAL ASSETS:

A summary of changes in capital assets is presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, not being depreciated:				
Land	$ 2,283,812	$ 285,060	$ -	$ 2,568,872
Construction in progress	277,400	-	(277,400)	-
Total capital assets not being depreciated	$ 2,561,212	$ 285,060	$ (277,400)	$ 2,568,872
Capital assets, being depreciated:				
Buildings and improvements	$ 14,505,802	$ 3,605,635	$ -	$ 18,111,437
Machinery and equipment	65,495	-	-	65,495
Total capital assets being depreciated	$ 14,571,297	$ 3,605,635	$ -	$ 18,176,932
Accumulated depreciation:				
Buildings and improvements	$ (6,532,165)	$ (495,827)	$ -	$ (7,027,992)
Machinery and equipment	(18,243)	(9,987)	-	(28,230)
Total accumulated depreciation	$ (6,550,408)	$ (505,814)	$ -	$ (7,056,222)
Total capital assets being depreciated, net	$ 8,020,889	$ 3,099,821	$ -	$ 11,120,710
Business-Type Activities capital assets, net	$ 10,582,101	$ 3,384,881	$ (277,400)	$ 13,689,582

NOTE 6-CONTINGENCIES AND EVENTS OF DEFAULT:

Although obligations under the revenue bonds issued to date are secured by lease proceeds and the underlying properties, the Authority retains no liability on pass-through leases. However, the Authority and the Board of Supervisors of Pulaski County, Virginia, may choose, at their option, to assume responsibility for the bonds in the event of default by lessees to preserve the credit rating of the Authority for future issues.

NOTE 7- LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2020:

	Beginning Balance	Issuances	Retirements	Ending Balance
Direct Borrowings and Placements:				
Revenue bonds	$ 10,037,231	$ 7,978,219	$ (172,948)	$ 17,842,502
Notes payable	3,271,911	5,920,497	(592,319)	8,600,089
Bonds payable	3,420,476	-	(645,610)	2,774,866
Revenue bonds	5,445,000	-	(245,000)	5,200,000
Unamortized bond discounts	(7,792)	-	390	(7,402)
Total	$ 22,166,826	$ 13,898,716	$ (1,655,487)	$ 34,410,055

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending	Direct Placements and Borrowings							
	Revenue Bonds		Notes Payable		Bonds Payable		Revenue Bonds	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	$ 1,002,219	$ 913,323	$ 740,940	$ 357,204	$ 648,566	$ 57,483	$ 250,000	$ 252,579
2022	1,072,128	858,605	804,039	350,337	282,600	47,045	260,000	243,519
2023	1,129,788	800,943	819,688	302,687	289,400	40,266	270,000	233,707
2024	1,190,550	740,181	635,558	254,819	296,300	33,325	280,000	223,112
2025	1,254,581	676,151	1,743,453	169,585	303,400	26,219	295,000	211,705
2026-2030	7,360,575	2,293,080	3,770,965	537,135	954,600	34,294	1,360,000	856,358
2031-2035	4,832,661	395,923	85,446	1,147	-	-	1,235,000	542,338
2036-2039	-	-	-	-	-	-	1,250,000	171,999
Totals	$ 17,842,502	$ 6,678,206	$ 8,600,089	$ 1,972,914	$ 2,774,866	$ 238,632	$ 5,200,000	$ 2,735,317

NOTE 7- LONG-TERM OBLIGATIONS: (Continued)

Details of long-term obligations:

	Interest Rate(s)	Issue Date	Maturity Date	Original Issue	Business-Type Activities	Due Within One Year
Direct Borrowings and Placements:						
Revenue Bonds:						
2018B - $10M Phoenix Packaging	5.25% (A)	5/30/2018	2035	$ 10,000,000	$ 8,717,067	$ 519,361
2018C - $6M Phoenix Packaging	5.25% (A)	5/30/2018	2035	6,000,000	5,230,240	311,619
2018A - $4M Phoenix Packaging	5.25% (B)	5/30/2018	2035	4,000,000	3,895,195	171,239
Total Revenue Bonds					$ 17,842,502	$ 1,002,219
Notes Payable:						
Falls Stamping (E)	2.44%	12/22/2015	2031	$ 1,100,325	$ 827,166	$ 50,950
VSBFA PADS Loan	2.44%	6/28/2016	2026	175,000	113,639	17,159
Falls Stamping- First Bank	(D)	5/17/2019	2024	2,000,000	1,395,043	395,043
Hiwassee FD	2.47%	12/6/2013	2027	293,900	196,140	25,987
Phoenix Packing - VSBFA	4.12%	5/13/2019	2029	2,000,000	1,965,736	99,777
VSBFA Koinonia Loan (C), (E)	4.12%	7/2/2019	2030	2,000,000	1,979,077	43,949
First Bank Koinonia	5.35%	7/1/2019	2024	1,565,000	1,541,692	41,310
VSBFA Phoenix Loan	4.12%	3/17/2020	2030	1,000,000	581,596	66,765
Total Notes Payable					$ 8,600,089	$ 740,940
Bonds Payable:						
Dublin Elem. School	2.37%	10/1/2015	2028	$ 3,443,000	$ 2,402,300	$ 276,000
Snowville Critzer	2.05%	6/27/2013	2027	2,680,534	372,566	372,566
Total Bonds Payable					$ 2,774,866	$ 648,566
Total Direct Borrowings and Placements					$ 29,217,457	$ 2,391,725
Revenue Bonds:						
Commerce Park Refinance	0.77-5.38%	6/27/2013	2039	$ 6,810,000	$ 5,200,000	$ 250,000
Unamortized Discount	n/a	6/27/2013	2039	(10,132)	(7,402)	-
Total Revenue Bonds					$ 5,192,598	$ 250,000
Total					$ 34,410,055	$ 2,641,725

(A) 5.25% for the first 5 years, adjustable in 5 year increments to the average yield US Treasury plus a margin of 2.75%.
(B) 5.25% for the first 5 years, adjustable in 5 year increments to the average yield US Treasury plus a margin of 2.875%.
(C) Loan is in the drawdown phase still and any amounts due in the next year could change as a result of subsequent issuances.
(D) Variable daily at prime interest rate plus 2.5%.
(E) Amounts are in a 6-month deferral period commencing in March 2020. Payments will resume in October 2020, interest will continue to accrue during this time and will be added to the unpaid principal upon maturity.

The direct bonds and notes payable are collateralized by the underlying real and personal property purchased using proceeds of the issuances. In the event of default, the issuer can declare the entire unpaid principal and interest balances due on direct borrowings and placements immediately due and payable.

NOTE 8-DUE TO COUNTY OF PULASKI:

As of June 30, 2020, $500,000 is due to the County related to a 1990 revenue bond originally due April 15, 2005. No firm repayment schedule has been set by the Board of Supervisors for this obligation.

NOTE 9-NOTES RECEIVABLE:

At June 30, 2020, the Authority had the following notes receivable:

Due From	Fiscal Year Due	Interest Rate	Principal Outstanding	Amount Due Within One Year
Falls Stamping	2023	5.00%	$ 1,567,638	$ -
Pulaski County	2028	2.50-5.25%	2,402,300	276,000
Hiwasee Fire Department	2027	2.47%	196,140	25,987
West Main Development	2028	5.00%	53,933	-
Snowville and Critzer	2021	2.50%	372,566	372,566
Phoenix Packaging	2025	3.00%	275,983	53,020
Commerce Park	2040	0.00%	5,200,000	250,000
Falls Stamping	2019	10.00%	2,000,000	-
Phoenix Packaging	(C)	4.00%	1,488,267	-
Pulaski Adult Day Services	2026	2.44%	115,238	17,145
Phoenix - Loan 2018A	2035	(A)	3,910,369	186,428
Phoenix - Loan 2018B	2035	(B)	8,759,656	450,388
Phoenix - Loan 2018C	2035	(B)	5,255,794	270,233
Phoenix Packaging-VSBFA	2030	4.12%	597,865	66,765
Phoenix Packaging-VSBFA	2029	4.12%	1,972,862	99,777
Less: Allowance for Doubtful Accounts			(3,567,638)	-
			$ 30,600,973	$ 2,068,309

(A) 5.25% for the first 5 years, adjustable in 5 year increments to the average yield US Treasury plus a margin of 2.875%.

(B) 5.25% for the first 5 years, adjustable in 5 year increments to the average yield US Treasury plus a margin of 2.75%.

(C) The initial maturity date was 2016. Terms of the agreement are being negotiated to establish an updated maturity date.

NOTE 10-LEASE PURCHASE RECEIVABLES:

Due From	Balance Outstanding	Amount Due Within One Year
Phoenix Packaging Operations, LLC	$ 1,187,500	$ 150,000
Volvo	2,006,400	120,150
Korona	1,346,288	141,952
Total	$ 4,540,188	$ 412,102

A lease purchase agreement was entered into with Phoenix Packaging Operations, LLC for the purchase of a building and land. Payments are required to be made based on an agreed upon schedule originally maturing in fiscal year 2028. At the end of the lease term, the lessee has the option to purchase both the land and building for the remaining balance due.

A lease purchase agreement was entered into with Korona Candles, Inc. for the purchase of a building and land. Korona Candles, Inc. is required to make payments based on an agreed upon schedule until fiscal year 2029. At the end of the lease term, the lessee has the option to purchase both the land and building for the remaining balance due.

A lease purchase agreement was entered into with Volvo for the purchase of land. Volvo is required to make payments based on an agreed upon schedule until fiscal year 2039. At the end of the lease term, Volvo has the option to purchase the land for $100. As of April 2020, the Authority and Volvo are working toward an agreement to transfer the asset and terminate the receivable. No payments have been made since negotiations for same began and the entities are still in the process of negotiating.

NOTE 11-LITIGATION:

As of June 30, 2020, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should a court decision on pending matters not be favorable.

NOTE 12-UPCOMING PRONOUNCEMENTS:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

NOTE 12-UPCOMING PRONOUNCEMENTS: (Continued)

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No, 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 91, *Conduit Debt Obligations*, 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, 2021.

Statement No. 92, *Omnibus 2020*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics such as leases, assets related to pension and postemployment benefits, and reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. The effective dates differ by topic, ranging from January 2020 to periods beginning after June 15, 2021.

Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement, except for removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate and the requirements related to lease modifications, are effective for reporting periods beginning after June 15, 2020. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All requirements related to lease modifications in this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

NOTE 12-UPCOMING PRONOUNCEMENTS: (Continued)

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement. No 32,* (1) increases consistency and comparability related to reporting of fiduciary component units in certain circumstances; (2) mitigates costs associated with the reporting of certain plans as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans. The effective dates differ based on the requirements of the Statement, ranging from June 2020 to reporting periods beginning after June 15, 2021.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

NOTE 13-SUBSEQUENT EVENTS:

The full impact of the COVID-19 outbreak continues to evolve as of the release date of this report. As such, the full magnitude that the pandemic will have on the Authority's financial condition, liquidity, and future results of operations is uncertain. Management is monitoring the global situation and impact that it may have on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and global responses to curb its spread, the Authority is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

The Authority agreed during September 2020 to accept loans from another entity totaling $1,950,901 in principal balances. The loans are collateralized by underlying property which will also convey to the Authority at the time of transfer, the reporting value for which has not been determined.

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

CPAs | CONSULTANTS

Independent Auditors' 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
Economic Development Authority of Pulaski County
Pulaski, Virginia

We have audited, in accordance with the 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 business-type activities of the Economic Development Authority of Pulaski County (the Authority), a component unit of the County of Pulaski, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 30, 2020.

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) as a basis for designing 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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox, Associates

Blacksburg, Virginia
December 30, 2020