



**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA**

(A COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2016

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA**

(A COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2016

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
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June 30, 2016**

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SECTION I
INTRODUCTORY SECTION

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
LIST OF MEMBERS
June 30, 2016**

Chairman
Vice-Chairman

Don Ashley
R. Dean Tillson
Paul Conco
Ted Ellis
William Lester
Diana Oxendine
Kelly Robinson

SECTION II
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the
Industrial Development Authority
City of Bristol, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Industrial Development Authority of the City of Bristol, Virginia (the IDA), a discretely presented component unit of the City of Bristol, Virginia, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the IDA'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 opinions 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 and 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 Councils*, 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.

Industrial Development Authority
of the City of Bristol, Virginia
Independent Auditors' Report

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the IDA as of June 30, 2016, and the respective changes in financial position for the fiscal 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 5 through 12 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the IDA'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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016, on our consideration of the IDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 IDA's internal control over financial reporting and compliance.



BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 29, 2016

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

As management of the Industrial Development Authority of the City of Bristol, Virginia (IDA), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Industrial Development Authority of the City of Bristol, Virginia for fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the basic audited financial statements.

Financial Highlights

- The total liabilities and deferred inflows of resources for the IDA exceeded its total assets and deferred outflows of resources at June 30, 2016 resulting in a negative net position of \$10.4 million.
- The IDA's total net position decreased by \$22.3 million of which \$21.9 million was from the current fiscal year.
- At the close of the current year, the IDA's governmental fund had a restricted fund balance of \$7.4 million.
- Operating revenues of \$1.4 million primarily consisted of funds for economic development received from other governmental agencies (namely the City of Bristol, VA) and investment earnings.
- Operating expenditures of \$22.9 million primarily consisted of capital project expenditures, economic development expenses and debt service expenses.
- The IDA's total outstanding long-term debt is \$33,855,000 and is for construction costs related to "The Falls" retail development project.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the IDA's basic financial statements. The IDA's basic financial statements are comprised of three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

Government-wide Financial Statements - *Government-wide financial statements* are designed to provide readers with a broad overview of the IDA's finances on a long term basis using the full accrual basis of accounting, which is the method used by most private-sector enterprises.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Statement of Net Position - presents information on all of the IDA's assets, liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the whether the financial position of the IDA is improving or deteriorating.

Statement of Activities - presents information showing how the IDA'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 result in cash flows in future fiscal periods.

In the Statement of Net Position and the Statement of Activities, the IDA's fund-based activity is classified as a *governmental activity* which includes the IDA's basic services such as general government administration and economic development.

The government-wide financial statements can be found on pages 13 - 14 of this report.

Fund Financial Statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The IDA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The IDA is classified as a *governmental fund* and reports the IDA's basic services. Fund based financial statements focus on how resources flow into and out of those funds and the balances left at year-end that are available for future spending. Unlike the government-wide financial statements, governmental fund financial statements provide a detailed short-term overview that helps the reader determine the financial resources that can be spent in the near future.

Because the focus of governmental funds is narrower than that of the government-wide financial statements; it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *government-wide financial statements*.

The IDA maintains an operating fund. Information for the operating fund is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance and can be found on pages 15 - 17 of this report.

Notes to the Financial Statements The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 – 25 of this report.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Government-Wide Financial Analysis

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the IDA at the close of the most recent fiscal year, total liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources resulting in a negative net position of \$10.4 million.

A comparative analysis of Summary of Net Position is provided below.

The IDA's Net Position (in thousands 000's)		
	Governmental Activities	
	2015	2016
Current Assets	\$ 156	\$ 120
Restricted Assets	29,369	7,332
Capital Assets	16,792	16,377
Total Assets	\$ 46,317	\$ 23,829
Deferred Outflows of Resources	\$ -	\$ -
Current & Other Liabilities	\$ 575	\$ 352
Long-Term Liabilities	33,855	33,855
Total Liabilities	\$ 34,430	\$ 34,207
Deferred Inflows of Resources	\$ -	\$ -
Net Position		
Restricted For Capital Projects	\$ 11,887	\$ -
Unrestricted	-	(10,378)
Total Net Position	\$ 11,887	\$ (10,378)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Statement of Activities

During the current fiscal year, net position for the IDA decreased \$21.9 million from the prior year. A prior period adjustment of \$0.4 million decreased the net position for an ending balance of \$(10.4) million. The IDA's total revenues and expenses for governmental activities are reflected in the following table.

The IDA's Changes in Net Position (in thousands 000's)		
	Governmental Activities	
	2015	2016
Revenues		
Program Revenue		
Charges for Services	\$ 67	\$ -
General Revenues		
Payments from Primary Government		
Economic Development	3,970	245
Development of Regional Impact	-	1,057
Unrestricted Investment Earnings	23	62
Miscellaneous Income	-	-
Loss on Sale of Property	(3,692)	(925)
Total Revenues	\$ 368	\$ 439
Expenses		
Economic Development	\$ 470	\$ 276
Economic Development-DRI	3,896	18,518
Interest & Long-Term Debt	759	2,135
Total Expenses	\$ 5,125	\$ 20,929
Special Items		
Conveyance of Property from the City of Bristol	\$ 14,869	\$ -
Conveyance of Property to the City of Bristol	\$ -	\$ (1,425)
Change in Net Position	\$ 10,112	\$ (21,915)
Net Position, Beginning	\$ 1,775	\$ 11,887
Prior Period Adjustment	-	(350)
Net Position, Beginning-Restated	\$ 1,775	\$ 11,537
Net Position, Ending	\$ 11,887	\$ (10,378)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Governmental Activities-Statement of Activities-Overview

The IDA's governmental activities are comprised of an operating fund. The IDA's net position decreased by \$21.9 million during the current fiscal year. A prior period adjustment of \$0.4 million decreased the net position for an overall decrease of \$22.3 million.

Revenue highlights-Governmental Activities:

Revenues for the IDA increased approximately \$70,000. The IDA received \$1.1 million in sales tax revenues and "additional revenues" generated by the retailers in Phase I of "The Falls" development.

Expenses highlights-Governmental Activities:

Expenses for governmental activities totaled \$20.9 million. Of this amount, \$18.5 million or 88% was related to economic development of "The Falls" retail development.

Special Items-Governmental Activities:

In the current year \$1.4 million of infrastructure consisting mainly of public roads and right of ways was transferred back to the City of Bristol, Virginia for maintenance and oversight.

Fund Financial Analysis

As noted earlier, the IDA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds The focus of the IDA's *governmental fund* is to provide information on near-term inflows and outflows, of *spendable* resources, as well as balances of spendable resources available at year end. Such information is useful in assessing the IDA's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The IDA's has one governmental/operating fund. At the end of the current fiscal year, the IDA's operating fund reported an ending fund balance of \$7.4 million. This is a decrease of \$21.5 million in comparison with the prior year. The entire fund balance is shown as *restricted* to indicate that it is not available for new spending because it represents revenues that must be used for capital projects.

Operating revenues which includes funds received from other governmental entities totaled \$1.4 million. Included in this amount is \$1.1 million in sales tax revenues and "additional revenues" generated by the retailers in Phase I of "The Falls" development. Operating expenditures totaled \$22.9 million. Of this amount \$20.4 million or 89% was related to the construction of a 1.5 million square foot commercial development at Exit 5 of I-81 known as "The Falls".

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Capital Assets

The IDA's capital assets as of June 30, 2016 totaled \$16.4 million (net of accumulated depreciation).

The following table shows the major categories of capital assets for June 30, 2015 and 2016.

The IDA's Capital Assets Net of Depreciation		
	Governmental Activities	
	2015	2016
Land	\$ 2,359,961	\$ 1,418,040
Construction In Progress	\$ 14,431,868	\$ 14,958,807
IDA Capital Assets	\$ 16,791,829	\$ 16,376,847

The IDA's capital assets decreased in the current fiscal year by \$414,982.

The following are the major changes to the IDA's net assets:

- Conveyance of land as an economic incentive for "The Falls" retail development decreased capital assets by approximately \$900,000.
- Conveyance of infrastructure from the IDA to the City of Bristol, Virginia as it related to public roads and right of ways decreased capital assets by \$1.4 million.
- Construction in progress for "The Falls" retail development increased capital assets by \$1.9 million.

Additional information on the IDA's capital assets can be found in Note II.D on page 23 of this report.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Debt Administration

At the end of the current fiscal year, the IDA had total debt outstanding of \$33,855,000.

The IDA's Long-Term Debt Obligations As of June 30, 2015 and 2016		
	Governmental Activities	
	2015	2016
Series 2014A Revenue Bonds	\$ 6,355,000	\$ 6,355,000
Series 2014B Revenue Bonds	\$ 27,500,000	\$ 27,500,000
Total	\$ 33,855,000	\$ 33,855,000

The Series 2014A revenue bonds and Series 2014B revenue bonds were issued in December 2014 to finance construction costs cost related to “The Falls” retail development project. These revenue bonds will be repaid with sales tax revenues and “additional revenues” generated from Phase 1 of “The Falls” retail development project.

Additional information on the IDA’s long-term debt can be found in Note II.F on pages 24 - 25 of this report.

Economic Factors Impacting Next Fiscal Year

- The completion of Phase I of the “The Falls” Project in the next fiscal year and collection of sales tax revenues and “additional taxes”.
- The construction of additional phases in “The Falls” retail development.
- Economic trends and their impact on sales tax revenue and restaurant/meals taxes.
- For the month of June 2016, the City of Bristol, Virginia’s unemployment rate was 5.4%, compared to the State’s 4.0% and Federal rate of 4.8%.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Requests for Information

This financial report is designed to provide a general overview of the IDA's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Bristol, Virginia (276) 645-7358.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
STATEMENT OF NET POSITION
June 30, 2016**

ASSETS

Cash and Cash Equivalents	\$ 4,074
Notes Receivable	58,000
Due from Primary Government	57,319
Restricted Assets	
Cash and Cash Equivalents	2,900,153
Investments	4,432,219
Capital Assets	<u>16,376,847</u>

TOTAL ASSETS	<u>23,828,612</u>
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LIABILITIES

Accounts Payable and Accrued Liabilities	1,850
Accrued Liabilities	349,953
Long-Term Liabilities	
Due in More Than One Year	<u>33,855,000</u>

TOTAL LIABILITIES	<u>34,206,803</u>
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NET POSITION

Unrestricted	<u>(10,378,191)</u>
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TOTAL NET POSITION	<u><u>\$ (10,378,191)</u></u>
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See accompanying notes to the financial statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016**

Functions/Programs	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Economic Development	\$ 275,837	-	-	-	(275,837)
Economic Development - Development of Regional Impact	18,518,621	-	-	-	(18,518,621)
Interest on Long-Term Debt	2,134,713	-	-	-	(2,134,713)
Total Governmental Activities	<u>\$ 20,929,171</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(20,929,171)</u>
General Revenues					
Payments from Primary Government					
Economic Development					244,312
Development of Regional Impact					1,057,189
Unrestricted Investment Earnings					61,793
Miscellaneous Income					110
Loss on Sale of Property					(924,734)
Special Item - Conveyance of Property to City of Bristol					<u>(1,425,049)</u>
Total General Revenues and Special Item					<u>(986,379)</u>
Change in Net Position					(21,915,550)
Net Position, Beginning					11,887,312
Prior Period Adjustment					<u>(349,953)</u>
Net Position, Beginning - Restated					<u>11,537,359</u>
Net Position, Ending					<u>\$ (10,378,191)</u>

See accompanying notes to the financial statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016**

ASSETS	
Cash and Cash Equivalents	\$ 4,074
Cash and Cash Equivalents, Restricted	2,900,153
Investments, Restricted	4,432,219
Receivables	58,000
Due From Primary Government	<u>57,319</u>
 TOTAL ASSETS	 <u><u>\$ 7,451,765</u></u>
LIABILITIES	
Accounts Payable	<u>\$ 1,850</u>
FUND BALANCE	
Restricted for Capital Projects	<u>7,449,915</u>
 TOTAL FUND BALANCE	 <u><u>7,449,915</u></u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 7,451,765</u></u>

Amounts reported for governmental activities in the Statement of Net Position are different because:

Fund Balance of Governmental Fund	\$ 7,449,915
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	16,376,847
Interest on long-term debt is not accrued in the funds as in the government-wide statements.	(349,953)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the fund.	<u>(33,855,000)</u>
Net Position of Governmental Activities	<u><u>\$ (10,378,191)</u></u>

See accompanying notes to the financial statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2016**

REVENUES	
Intergovernmental	
City of Bristol, Virginia	
Economic Development	\$ 244,312
Development of Regional Impact	1,057,189
Investment Earnings	61,794
Miscellaneous Income	110
TOTAL REVENUES	1,363,405
EXPENDITURES	
Economic Development	275,837
Capital Projects	20,453,423
Debt Service	
Interest and Fiscal Charges	2,134,713
TOTAL EXPENDITURES	22,863,973
Excess (Deficiency) of Revenues	
Over (Under) Expenditures	(21,500,568)
FUND BALANCE, JULY 1, 2015	28,950,483
FUND BALANCE, JUNE 30, 2016	\$ 7,449,915

See accompanying notes to the financial statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balance of Governmental Fund	\$ (21,500,568)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over the useful lives. This is the amount by which capital outlays exceeded depreciation expense in the current period.

526,939

The net effect of various transactions involving capital assets (contributions and sales) is to decrease net position.

(941,921)

Change in Net Position of Governmental Activities

\$ (21,915,550)

See accompanying notes to the financial statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Industrial Development Authority (the IDA) of the City of Bristol, Virginia (the City) was established to promote industry and develop trade within the City. The IDA is governed by a seven member Board of Directors appointed by the City Council. The IDA is reported as a discretely presented component unit of the City because the City Council appoints its governing body. The IDA is authorized to acquire, own, lease and dispose of properties to the extent that such activities foster and stimulate industrial development.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of the IDA. The IDA has only *governmental activities*, which are normally supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers, who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items which do not meet this definition are reported as *general revenues*.

Separate financial statements are provided for the one governmental fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all of the IDA's assets, liabilities, including capital assets and long-term liabilities, are included in the accompanying statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the IDA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental fund. Issuance of long-term debt is reported as an other financing source.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position/Fund Balance

1. Deposits and Investments

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

Investments are reported at fair value.

2. Restricted Assets

Restricted cash and cash equivalents and investments are funds from the revenue bond issue for capital projects.

3. Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the IDA as having an initial, individual cost of more than \$5,000, and are recorded at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are comprised of land and construction in progress for the fiscal year ended June 30, 2016. The IDA did not own any other depreciable assets during the fiscal year.

4. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position/Fund Balance (Continued)

5. Fund Balance

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – amounts that cannot be spent either because they are not in spendable form or because of legal/contractual requirements.

Restricted – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.

Committed – includes amounts that can only be used for specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the government that can, by adoption of an ordinance, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned – amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Amounts can be assigned by the Board of Directors.

Unassigned – amounts that are available for any purpose.

When expenditures are incurred for purposes for which both restricted and unrestricted resources are available, the IDA considers restricted funds to have been spent first, unless legal requirements disallow it or components of unrestricted funds will be lost if not utilized. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the IDA considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the IDA has provided otherwise in its commitment or assignment actions.

6. Net Position

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

7. Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue and expenditures. Actual results may differ from these estimates.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE II - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

All cash of the IDA is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

The IDA does not have any formally adopted deposit and investment policies that limit allowable deposits or investments, other than following the Commonwealth of Virginia guidelines.

B. Investments

Statutes authorize the IDA to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivision 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, 2016, the IDA's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Cash with Investment Firm	\$ 1,845,418	N/A
Money Market Funds	1,054,735	N/A
Fixed Rate Agency Securities	1,058,342	0.06
Treasury Securities	<u>3,366,663</u>	0.51
Total Fair Value	7,325,158	
Net Investment Premiums	<u>7,214</u>	
Total Value of Investments	<u><u>\$ 7,332,372</u></u>	
Portfolio Weighted Average Maturity		0.28

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE II - DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Investments (Continued)

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at June 30, 2016:

		Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
	Total			
U.S. Treasuries	\$ 3,366,663	3,366,663	-	-
Mortgage-backed securities:				
Residential	1,058,342	1,058,342	-	-
Cash and Cash Equivalents Held for Long-Term Investment	2,900,153	2,900,153	-	-
Total Investments Reported at Fair Value	<u>\$ 7,325,158</u>	<u>7,325,158</u>	<u>0</u>	<u>0</u>

Credit quality distribution for investments, with credit exposure as a percentage of total investments (total investments include cash and money market accounts held with the investment firm, which are not represented in this table), are as follows:

Investment Type	Rating	Rating Agency	Fair Value	Percentage
U.S. Treasury Bills	AA+	Standard & Poor's	\$ 3,366,663	76%
Federal Home Loan Mortgage Corporation	AA+	Standard & Poor's	1,058,342	24%
			<u>\$ 4,425,005</u>	

Interest Rate Risk

The IDA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE II - DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Investments (Continued)

Credit Risk

As of June 30, 2016, all of the IDA's investments were rated AA+ by Standard & Poor's.

Concentration of Credit Risk

More than 5.00% of the IDA's investments are in the Federal Home Loan Mortgage Corporation.

C. Notes Receivable

During fiscal year 2015, the City transferred a building to the IDA for economic development purposes. Subsequent to the receipt of the property, the IDA sold the building to a start-up business as part of an economic performance agreement. The business signed a note receivable in the amount of \$80,000. The note is due in monthly payments ranging from \$1,000 to \$2,000 and a final lump sum payment of \$22,000 due in December 2017. All monthly payments on the note are paid to the IDA and remitted to the City as they are collected. The outstanding balance on this note was \$58,000 at June 30, 2016. Future maturities for the fiscal years ended June 30: 2017 - \$20,500, and 2018 - \$37,500.

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

Industrial Development Authority	Beginning Balance	Increases	Decreases	Transfers/ Adjustments	Ending Balance
Capital Assets, Not Depreciated					
Land	\$ 2,359,961	-	924,734	(17,187)	1,418,040
Construction in Progress	14,431,868	1,934,801	-	(1,407,862)	14,958,807
IDA Capital Assets, Not Depreciated	<u>\$ 16,791,829</u>	<u>1,934,801</u>	<u>924,734</u>	<u>(1,425,049)</u>	<u>16,376,847</u>

In the prior year, the City transferred land to the IDA related to "The Falls" project. The IDA had certain tracts of land re-surveyed, which changed the value of those tracts. The net effect of this change in value decreased the IDA's capital assets by \$17,187. In the current year, the IDA transferred \$1,407,862 of construction in progress related to "The Falls" project to the City. These capital expenditures were related to construction of various public domain items (i.e. streets, sidewalks, and signage), which will be held and maintained by the City.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE II - DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Due To/From Primary Government

Certain sales, property and meals taxes from entities located in The Falls development are considered Development of Regional Impact (DRI) revenues which will be used for payment of IDA's revenue bonds. These funds are received by the City and then remitted to the IDA into an account held by a trustee. During the fiscal year ended June 30, 2016, the City remitted \$1,057,189 of DRI revenues to the IDA. At June 30, 2016, \$115,319 was due to the IDA from the City's General fund for these revenues.

Under the provisions of the economic development agreement described in Note II.C, \$58,000 was due to the City's General fund at June 30, 2016, for the outstanding note receivable.

F. Long-Term Debt

In December 2014, the IDA issued taxable revenue bond Series 2014A of \$6,355,000 with an interest rate of 6.75% and maturity date of November 1, 2033. The IDA also issued revenue bonds Series 2014B in two amounts. One is for \$3,000,000 with an interest rate of 5.00% and a maturity date of November 1, 2029, and the other is for \$24,500,000 with an interest rate of 6.35% and a maturity date of November 1, 2044. The revenue bonds were issued to finance construction costs related to Phase I of "The Falls" project and the cost of issuance of the bonds. Interest is due May 1 and November 1, beginning May 1, 2015. At June 30, 2016, \$33,855,000 was outstanding.

The revenue bonds will be repaid with sales tax revenues and "additional revenues" generated from Phase I of "The Falls" project that will be passed from the City to the IDA.

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

Fiscal Year Ended June 30	Revenue Bonds	
	Principal	Interest
2017	\$ 1,010,000	2,134,712
2018	1,080,000	2,068,987
2019	1,560,000	1,991,087
2020	1,655,000	1,895,225
2021	1,780,000	1,802,800
2022-2026	11,155,000	7,124,938
2027-2031	14,630,000	2,840,930
2032-2035	985,000	112,726
	<u>\$ 33,855,000</u>	<u>19,971,405</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE II - DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

Details of long-term indebtedness are as follows:

Revenue Bonds	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Governmental Activities
Series 2014A Revenue Bonds	6.75%	12-14	11-33	6,355,000	\$ 6,355,000
Series 2014B Revenue Bonds	5.00-6.35%	12-14	11-44	27,500,000	27,500,000
					<u>\$ 33,855,000</u>

G. Net Position

The IDA has a negative net position of \$10,378,192. The deficit is primarily due to the capital assets held by the IDA are less than the revenue bonds payable. The IDA plans to reduce the deficit as the City conveys additional parcels of land to the IDA for economic development.

H. Prior Period Adjustment

Accrued interest of \$349,953 was not properly reflected in the Statement of Net Position at June 30, 2015. Accordingly, the IDA restated its financial statements for the fiscal year ended June 30, 2015 and the effect of this restatement was to decrease net position by \$349,953.

I. Subsequent Events

On October 3, 2016, through media reports, the IDA was made aware of the reported purchase of Cabela's Inc. by Bass Pro Shops. At this time, the IDA is unaware of any potential impacts to the Cabela's located within The Falls development related to the purchase of Cabela's by Bass Pro Shop.

SECTION III
INTERNAL CONTROL AND
COMPLIANCE SECTION

**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**

The Honorable Members of
the Industrial Development Authority
City of Bristol, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and 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 Councils*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities and major fund of the Industrial Development Authority of the City of Bristol, Virginia (the IDA), a discretely presented component unit of the City of Bristol, Virginia as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the IDA's basic financial statements, and have issued our report thereon dated November 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the IDA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IDA's internal control. Accordingly, we do not express an opinion on the effectiveness of the IDA'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.

Industrial Development Authority
of the City of Bristol, Virginia
Independent Auditors' Report on
Internal Control and on Compliance

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the IDA'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 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.



BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 29, 2016

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE CITY OF BRISTOL, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2016**

SECTION I - CURRENT FISCAL YEAR

None Reported.

SECTION II - PRIOR FISCAL YEAR FINDINGS IMPLEMENTED

None Reported.