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

FINANCIAL REPORT

June 30, 2018

**ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY**

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ECONOMIC DEVELOPMENT AUTHORITY OF MONTGOMERY COUNTY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2018

DIRECTORS

Thomas A. Loflin – Chairman
Norman D. Winstead – Vice Chairman

Steven M. Baffuto
Eric K. Johnsen
James C. Taylor, III
N. Ray Tuck, Jr.
John P. Tutle

OFFICIALS

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

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

Financial Section contains the Basic Financial Statements.

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Economic Development Authority of Montgomery County (the "Authority"), a discretely presented component unit of Montgomery County, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Economic Development Authority of Montgomery County, Virginia, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Authority's 2017 financial statements, on which, in our report dated November 17, 2017, we expressed an unmodified opinion. The 2017 financial information is provided for comparative purposes only. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2018

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY

STATEMENT OF NET POSITION
June 30, 2018

	2018	(For Comparative Purposes Only) 2017
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 56,115	$ 114,861
Other accounts receivable	14,515	15,044
Due from County	35,603	165,496
Prepaid expenses	-	3,704
Total current assets	106,233	299,105
Noncurrent assets		
Inventory (Note 3)	5,376,728	2,824,534
Capital assets (Note 4)		
Nondepreciable	6,784	-
Depreciable, net	8,903,199	9,266,308
Lease incentives (Note 8)	321,568	399,901
Total noncurrent assets	14,608,279	12,490,743
Total assets	14,714,512	12,789,848
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	115,281	286,310
Deposits	10,000	10,000
Current portion of noncurrent liabilities (Note 5)	407,745	365,658
Total current liabilities	533,026	661,968
Noncurrent liabilities		
Due in more than one year (Note 5)	14,256,667	14,664,413
Total noncurrent liabilities	14,256,667	14,664,413
Total liabilities	14,789,693	15,326,381
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)	-	-
NET POSITION		
Net investment in capital assets	388,307	378,973
Unrestricted	(463,488)	(2,915,506)
Total net position	$ (75,181)	$ (2,536,533)

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

ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY

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

	2018	(For Comparative Purposes Only) 2017
OPERATING REVENUES		
Lease revenue:		
Technology Manufacturing Building (Note 8)	$ 946,386	$ 986,158
Blacksburg Industrial Park Building (Note 8)	-	191,707
Miscellaneous	-	5,000
Total operating revenues	946,386	1,182,865
OPERATING EXPENSES		
Contributions and incentives	300,015	738,390
Professional services	19,365	26,489
Repairs and maintenance	135,112	133,201
Insurance	14,816	16,698
Utilities	226,805	227,247
Other charges	35,380	31,999
Depreciation	363,109	426,243
Total operating expenses	1,094,602	1,600,267
Operating loss	(148,216)	(417,402)
NONOPERATING REVENUES (EXPENSES)		
Interest income	457	342
County contributions	2,810,624	363,855
Other contributions	23,051	-
Gain on disposal of fixed asset	-	81,628
Interest expense	(224,564)	(306,125)
Total net nonoperating revenue	2,609,568	139,700
Change in net position	2,461,352	(277,702)
Net position beginning at July 1	(2,536,533)	(2,258,831)
Net position ending at June 30	$ (75,181)	$ (2,536,533)

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

EXHIBIT 3

ECONOMIC DEVELOPMENT AUTHORITY
OF MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

	2018	(For Comparative Purposes Only) 2017
OPERATING ACTIVITIES		
Receipts from lessees	$ 1,025,248	$ 1,255,824
Receipts from others	129,893	5,000
Payments to others	-	(111,379)
Payments to suppliers	(898,818)	(1,044,577)
Payments for purchase of inventory	(2,552,194)	(29,268)
Net cash provided by (used in) operating activities	(2,295,871)	75,600
CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions from the County	2,810,624	363,855
Contributions from others	23,051	-
Proceeds from issuance of debt	-	133,476
Repayment of debt	(365,659)	(3,125,236)
Proceeds from sale of capital assets	-	3,200,000
Purchase of capital assets	(6,784)	(301,611)
Interest paid on debt	(224,564)	(306,125)
Net cash provided by (used in) capital and related financing activities	2,236,668	(35,641)
INVESTING ACTIVITIES		
Interest received	457	342
Net cash provided by investing activities	457	342
Net increase (decrease) in cash and cash equivalents	(58,746)	40,301
CASH AND CASH EQUIVALENTS		
Beginning at July 1	114,861	74,560
Ending at June 30	$ 56,115	$ 114,861
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	$ (148,216)	$ (417,402)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	363,109	426,243
Increase in inventory	(2,552,194)	(29,268)
(Increase)/decrease in other accounts receivable	529	(374)
(Increase)/decrease in due from County	129,893	(111,379)
(Increase)/decrease in prepaid expenses	3,704	(3,704)
Decrease in lease incentives	78,333	78,333
Increase/(decrease) in accounts payable and accrued liabilities	(171,029)	133,151
Net cash provided by (used in) operating activities	$ (2,295,871)	$ 75,600

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

Note 1. Summary of Significant Accounting Policies

Reporting entity

The Economic Development Authority of Montgomery County, Virginia (the "Authority") was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Montgomery County Board of Supervisors on March 1, 1971 pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373 *et seq.,* of the *Code of Virginia* (1950) as amended). The Authority is governed by seven directors appointed by the Board of Supervisors. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Virginia.

In addition, the Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities. Liability under the bonds may be retained by the Authority or it may be assumed by the enterprises for whom facilities are constructed. Collection of revenues pledged to liquidate the bonds may be assigned to a trustee. The revenue bonds are not deemed to constitute a debt or pledge of faith and credit of the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease of facilities constructed and may be secured by a deed of trust on those facilities.

For financial reporting purposes, the Authority is a discretely presented component unit of the County of Montgomery, Virginia (the "County"). The Authority is so classified because its members are appointed by the Board of Supervisors and the County provides significant funding to the Authority; thus, the County is financially accountable for the Authority.

Measurement focus and basis of accounting

The Authority's financial statements are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority also has the *option* of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are sale of property and lease revenue. Operating expenses include contributions to industries, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating.

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

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

Other accounts receivable

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

Inventory – land and buildings

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

Capital assets

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

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

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

Capitalization of interest

The Authority capitalizes interest costs on funds borrowed to finance capital asset construction. For the current year, there was no capitalized interest.

Lease incentives

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

Deposits

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

Note 1. Summary of Significant Accounting Policies (Continued)

Net position

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

At June 30, the Economic Development Authority had a deficit in unrestricted net position of $463,488. This deficit is anticipated to be recovered through future revenues, as well as possible contributions from the Primary Government.

Estimates

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

Pass-through financing leases

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

Comparative data

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

Note 2. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 *et. seq*. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

(Continued)

Note 2. Deposits and Investments (Continued)

Investments

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof; obligations of the Commonwealth of Virginia or political subdivisions thereof; obligations of the International Bank for Reconstruction and Development (World Bank); the Asian Development Bank; the African Development Bank; "prime quality" commercial paper; and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool ("LGIP").

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

Note 3. Inventory

Inventory consists of the following:

Blacksburg Industrial Park:	
Land (2.228 acres)	$ 65,840
Falling Branch Industrial Park:	
Land and land improvements (59.506 acres)	2,729,425
Cox Property Development Costs	2,581,463
	$ 5,376,728

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Construction in process	$ -	$ 6,784	$ -	$ 6,784
Total capital assets, not depreciated	-	6,784	-	6,784
Capital assets, being depreciated:				
Land improvements	566,330	-	-	566,330
Building	12,121,191	-	-	12,121,191
Equipment	169,371	-	-	169,371
Intangible assets:				
Website	20,980	-	-	20,980
Total capital assets being depreciated	12,877,872	-	-	12,877,872
Less accumulated depreciation for:				
Land improvements	169,951	28,317	-	198,268
Building	3,307,702	322,774	-	3,630,476
Equipment	112,931	12,018	-	124,949
Intangible assets	20,980	-	-	20,980
Total accumulated depreciation	3,611,564	363,109	-	3,974,673
Total capital assets being depreciated, net	9,266,308	(363,109)	-	8,903,199
Total capital assets, net	$ 9,266,308	$ (356,325)	$ -	$ 8,909,983

Note 5. Long-Term Liabilities

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

	Beginning Balance	Issuances	Retirements	Ending Balance	Due within One Year
Notes payable	$ 63,999	$ -	$ 14,100	$ 49,899	$ 14,672
Revenue bonds	8,823,336	-	351,559	8,471,777	393,073
Advances payable, County	5,626,109	-	-	5,626,109	-
Note payable, County	516,627	-	-	516,627	-
	$ 15,030,071	$ -	$ 365,659	$ 14,664,412	$ 407,745

Note 5. Long-Term Liabilities (Continued)

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

	Notes Payable		Revenue Bonds	
Fiscal Year	Principal	Interest	Principal	Interest
2019	$ 14,672	$ 1,778	$ 393,073	$ 213,116
2020	15,268	1,182	403,295	202,894
2021	15,888	562	7,675,409	65,315
2022	4,071	41	-	-
	$ 49,899	$ 3,563	$ 8,471,777	$ 481,325

Details of long-term indebtedness are as follows:

	Issue Date	Maturity Date	Authorized and Issued	Interest Rate	Amount Outstanding
Note Payable:					
MBC Development Corporation	12/01/14	2021	$ 100,000	4.00%	$ 49,899
Revenue Bonds	01/01/15	2020	$ 10,572,518	2.57%	$ 8,471,777
Advances payable, County:					
Construction/Improvements to the Falling Branch Corporate Park	-	-	-	-	$ 3,525,943
Improvements to the Elliston Lafayette Industrial Park	-	-	-	-	1,093
Repayment of indebtedness	-	-	-	-	2,099,073
					$ 5,626,109
Note Payable, County	06/17/97	-	$ 1,274,620	-	$ 516,627

Advances payable, County

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

(Continued)

Note 5. Long-Term Liabilities (Continued)

Note payable, County

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

Note 6. Risk Management

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

Note 7. Related Party Transactions

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

Note 8. Leases

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

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

(Continued)

Note 8. Leases (Continued)

On October 10, 2014, a previous tenant of the Technology Manufacturing Building moved to the Blacksburg Industrial Park Building. The amended lease commenced at that time and was set to expire in April 2019. In May 2017, the Blacksburg Industrial Park Building was sold.

Future minimum lease payments:

2019	$	858,726
2020		858,726
2021		858,726
2022		858,726
2023		659,811

Note 9. Commitments and Contingencies

Performance agreements

Performance agreement incentives not yet earned as of June 30, 2018 by recipient companies were $1,829,879. Payments will be made from Montgomery County tax revenues generated from the grantees, but only after agreements are met.

Conduit debt

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

Note 10. Subsequent Event

In July 2018, the Authority entered into a contract with a contractor to perform stormwater pond forebay repairs totaling $62,500.