ECONOMIC DEVELOPMENT AUTHORITY

OF PULASKI COUNTY, VIRGINIA

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

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2019

Economic Development Authority of County of Pulaski, Virginia
Financial Report
Year Ended June 30, 2019

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

CPAs | CONSULTANTS

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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2019, and the changes in financial position, and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 14 to the financial statements, in 2019, the Authority adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 13 to the financial statements, in 2019, the Authority restated beginning balances to adjust for an error in the prior year report. Our opinion is not modified with respect to this matter.

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 November 24, 2019, 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
November 24, 2019

ECONOMIC DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019

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, 2019. 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 10 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 2018-19 HIGHLIGHTS

1. As noted in Exhibit 1, the total assets of the EDA exceeded its total liabilities by $14,565,481 (net position) as of June 30, 2019.
2. As reported in Exhibit 2, the total net position of the EDA decreased by $4,151,305 from $18,716,786 in fiscal year 2018 to $14,565,481 in fiscal year 2019.
3. Operating revenues in Exhibit 2 of $1,444,989 primarily consisted of building rental fees, recovered costs and state economic development funding.
4. Operating expenditures in Exhibit 2 of $4,786,383 include EDA board compensation, property maintenance, insurance, utilities, depreciation, and economic development expenses in the amount of $1,218,745. Also included in this figure are bad debt allowances totaling $3,567,638.
5. From the cash perspective (described in Exhibit 3), EDA cash flows were provided from operations in the amount of $431,676 and cash flows were provided from investing activities in the amount of $19,384 totaling $451,060 prior to being offset by $884,715 in cash flows used in noncapital financing activities and $9,595 in cash flows used to purchase capital assets resulting in a net decrease of $443,250 in cash at 06/30/2019.

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 2019 and 2018 fiscal years:

	FY 2018-19	FY 2017-18
Current Assets	$ 2,835,760	$ 5,031,024
Noncurrent Assets	35,626,322	32,070,046
Total Assets	$ 38,462,082	$ 37,101,070
Current Liabilities	$ 2,719,039	$ 4,156,609
Noncurrent Liabilities	21,177,562	14,011,742
Total Liabilities	$ 23,896,601	$ 18,168,351
Net investment in capital assets	$ 10,582,101	$ 10,949,332
Restricted	-	42,678
Unrestricted	3,983,380	7,940,709
Total Net Position	$ 14,565,481	$ 18,932,719

Amounts for FY2017-18 are as originally reported above and do not reflect the restatement disclosed in Note 13 to the financial statements.

As included in Exhibit 1 and Exhibit 2 and summarized above, the total net position of the Authority decreased by $4,151,305 from $18,716,786, as restated, on June 30, 2018 to $14,565,481 on June 30, 2018.

The following table provides a summary comparison of the change in net position for the 2019 and 2018 fiscal years:

	FY 2018-19	FY 2017-18
Operating revenues	$ 1,444,989	$ 708,616
Operating expenses	(4,786,383)	(1,706,339)
Income/(Loss) from Operations	$ (3,341,394)	$ (997,723)
Nonoperating revenues	$ 65,696	$ 3,669,703
Nonoperating expenses	(875,607)	(917,772)
Nonoperating Income (expenses)	$ (809,911)	$ 2,751,931
Change in Net Position	$ (4,151,305)	$ 1,754,208

As noted in the above table, the 2019 fiscal year resulted in a decrease in net position in the amount of $4,151,305. Operating revenues increased by $736,373 while nonoperating revenues decreased by $3,604,007 due to decreases in recovered costs and State grants and contributions from the County while operating expenses increased by $3,080,044 mainly due to allowances for bad debt. The Authority had a net loss from operations in the amount of $3,341,394 for the 2019 fiscal year prior to the addition of non-operating revenues and expenses which nets to $809,911 in expenses resulting in an overall change in net position of $4,151,305.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling $10,582,101and $10,949,332 for fiscal years 2019 and 2018, 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, 2019 the Authority had long-term debt of $22,166,826 with $1,489,264 due during fiscal year 2020. 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, 2019 balance of $221,492), Commerce Park debt (June 30, 2019 balance of $5,445,000), Snowville and Critzer Elementary Schools debt (June 30, 2019 balance of $748,676), Dublin Elementary School debt (June 30, 2019 balance of $2,671,800), Pulaski Adult Day Services Center debt (June 30, 2019 balance of $130,438), two notes payable for Falls Stamping (June 30, 2019 balance of $2,677,613 and three revenue bonds and one note payable for Phoenix Packaging (June 30, 2019 balances totaling $10,279,599). 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.

Financial Statements

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

Statement of Net Position
At June 30, 2019

Assets:		
Unrestricted Current Assets:		
Cash and cash equivalents	$	482,828
Accounts receivable		1,938
Interest receivable		28,803
Rent receivable		51,424
Prepaid expenses		2,115
Due from primary government		300,000
Capital lease receivable-current portion		387,195
Notes receivable-current portion		1,063,766
Total Unrestricted Current Assets	$	2,318,069
Restricted Current Assets:		
Amounts held for Virginia's First IFA	$	517,691
Total Current Assets	$	2,835,760
Noncurrent Assets:		
Capital lease receivable-long-term portion	$	4,510,905
Notes receivable-long-term portion		20,533,316
Capital assets, net of depreciation:		
Capital assets		17,132,509
Accumulated depreciation		(6,550,408)
Capital assets, net of depreciation	$	10,582,101
Total Noncurrent Assets	$	35,626,322
Total Assets	$	38,462,082
Liabilities:		
Current Liabilities:		
Accounts payable	$	252,575
Interest payable		31,612
Unearned revenue		22,416
Cash held for others		517,691
Due to Pulaski County-current portion		405,481
Notes payable-current portion		509,038
Revenue bonds payable-current portion		334,615
Bonds payable-current portion		645,611
Total Current Liabilities	$	2,719,039
Noncurrent Liabilities:		
Due to Pulaski County-long-term portion	$	500,000
Notes payable-noncurrent portion		2,762,873
Revenue bonds payable-noncurrent portion		15,139,824
Bonds payable-noncurrent portion		2,774,865
Total Noncurrent Liabilities	$	21,177,562
Total Liabilities	$	23,896,601
Net Position:		
Investment in capital assets	$	10,582,101
Unrestricted		3,983,380
Total Net Position	$	14,565,481

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, 2019

Operating Revenues:		
Lease/rental fees	$	654,611
Recovered costs		490,378
Governor's opportunity fund		300,000
Total operating revenues	$	1,444,989
Operating Expenses:		
Board compensation	$	3,888
Materials and maintenance		14,440
Contractual services		303,252
Insurance		77,329
Utilities		224,948
Miscellaneous		178,263
Bad debt expense		3,567,638
Depreciation		416,625
Total operating expenses	$	4,786,383
Operating Income (Loss)	$	(3,341,394)
Nonoperating Revenues and (Expenses):		
Gain (loss) on sale of property	$	(10,568)
Interest income		14,206
Contributions from County		50,367
Miscellaneous		1,123
Interest expense		(865,039)
Total nonoperating revenues and expenses	$	(809,911)
Change in net position	$	(4,151,305)
Net Position, beginning of year - as restated		18,716,786
Net Position, end of year	$	14,565,481

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, 2019

Cash flows from operating activities:		
Cash received from lessees	$	522,449
Cash received from others		487,849
Cash paid to suppliers for goods and services		(578,622)
Net cash provided by (used for) operating activities	$	431,676
Cash flows from noncapital financing activities:		
Contribution from Pulaski County	$	101,968
Notes receivable issued		(6,855,181)
Payments received on notes and capital leases receivable		1,261,668
Miscellaneous income		1,123
Retirement of indebtedness		(1,184,757)
Issuance of indebtedness		6,855,181
Interest and loan costs paid on debt		(1,064,717)
Net cash provided by (used for) noncapital financing activities	$	(884,715)
Cash flows from capital and related financing activities:		
Purchase of capital assets	$	(9,595)
Cash flows from investing activities:		
Interest income	$	19,384
Increase (decrease) in cash and cash equivalents	$	(443,250)
Cash and cash equivalents at beginning of year (including $855,191 restricted cash)		1,443,769
Cash cash equivalents at end of year (including $517,691 restricted cash)	$	1,000,519
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Operating income (loss)	$	(3,341,394)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		416,625
Bad debt related to loan receivable		3,567,638
(Increase) decrease in receivables		147,193
(Increase) decrease in prepaid expenses		7,189
(Increase) decrease in due from Pulaski County		(300,000)
Increase (decrease) in unearned revenue		(281,884)
Increase (decrease) in operating accounts payable		216,309
Net cash provided by (used for) operating activities	$	431,676
Noncash investing, capital, and financing activities:		
Noncash transfer of land	$	18,800
Noncash transfer of capital assets		
Gross value	$	522,113
Accumulated depreciation		(490,546)
Net book value	$	31,567
Noncash loss on disposal of capital assets	$	10,568

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 consist of cash on hand, demand deposits, certificate of deposits, and short term investments with original maturities of three months or less.

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, 2019.

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, 2019.

D. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding obligation related 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 obligation are also included in this component of net position.

E. Net Position Flow Assumption

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)

F. 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, 2019.

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

G. 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 and certain corporate notes, 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, 2019 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	$ 516,754

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	$ 516,754	$ 516,754

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, 2019:

	Fair Value	Level 1
Money Market Mutual Fund	$ 516,754	$ 516,754

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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	$ 2,265,012	$ 18,800	$ -	$ 2,283,812
Construction in progress	277,400	-	-	277,400
Total capital assets not being depreciated	$ 2,542,412	$ 18,800	$ -	$ 2,561,212
Capital assets, being depreciated:				
Buildings and improvements	$ 14,015,256	$ 490,546	$ -	$ 14,505,802
Machinery and equipment	50,747	41,162	(26,414)	65,495
Total capital assets being depreciated	$ 14,066,003	$ 531,708	$ (26,414)	$ 14,571,297
Accumulated depreciation:				
Buildings and improvements	$ (5,634,981)	$ (897,184)	$ -	$ (6,532,165)
Machinery and equipment	(24,102)	(9,987)	15,846	(18,243)
Total accumulated depreciation	$ (5,659,083)	$ (907,171)	$ 15,846	$ (6,550,408)
Total capital assets being depreciated, net	$ 8,406,920	$ (375,463)	$ (10,568)	$ 8,020,889
Business-Type Activities capital assets, net	$ 10,949,332	$ (356,663)	$ (10,568)	$ 10,582,101

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, 2019:

	Beginning Balance	Issuances	Retirements	Ending Balance
Direct Borrowings and Placements:				
Revenue bonds	$ 3,424,418	$ 6,612,813	$ -	$ 10,037,231
Notes payable	3,336,485	242,368	(306,942)	3,271,911
Bonds payable	4,063,291	-	(642,815)	3,420,476
Revenue bonds	5,680,000	-	(235,000)	5,445,000
Unamortized bond discounts	(8,182)	-	390	(7,792)
Total	$ 16,496,012	$ 6,855,181	$ (1,184,367)	$ 22,166,826

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

	Direct Placements and Borrowings							
Year Ending	Revenue Bonds		Notes Payable		Bonds Payable		Revenue Bonds	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 89,615	$ 1,049,025	$ 509,038	$ 166,493	$ 645,611	$ 71,621	$ 245,000	$ 260,351
2021	907,057	1,023,674	511,793	131,384	648,565	57,483	250,000	252,579
2022	955,840	974,892	514,558	96,616	282,600	47,045	260,000	243,519
2023	1,007,247	503,485	517,396	61,780	289,400	40,266	270,000	233,707
2024	1,061,419	475,414	320,263	26,300	296,300	33,325	280,000	223,112
2025-2029	6,227,300	3,426,359	528,204	45,390	1,258,000	60,513	1,445,000	923,207
2030-2034	8,091,958	1,561,703	128,291	2,518	-	-	1,170,000	605,225
2035-2039	1,659,564	44,542	-	-	-	-	1,525,000	253,969
Totals	$ 20,000,000	$ 9,059,094	$ 3,029,543	$ 530,481	$ 3,420,476	$ 310,253	$ 5,445,000	$ 2,995,669
Less:								
Amounts not drawn down	9,962,769	-	-	-	-	-	-	-
Totals	$ 10,037,231	$ 9,059,094	$ 3,029,543	$ 530,481	$ 3,420,476	$ 310,253	$ 5,445,000	$ 2,995,669

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	$ 3,773,269	$ -
2018C - $6M Phoenix Packaging	5.25% (A)	5/30/2018	2035	6,000,000	2,263,962	-
2018A - $4M Phoenix Packaging	5.25% (B)	5/30/2018	2035	4,000,000	4,000,000	89,615
Total Revenue Bonds					$ 10,037,231	$ 89,615
Notes Payable:						
Falls Stamping	2.44%	12/22/2015	2031	$ 1,100,325	$ 877,613	$ 66,939
VSBF PADS Loan	2.44%	6/28/2016	2026	175,000	130,438	16,746
Falls Stamping- First Bank	(D)	5/17/2019	2024	2,000,000	1,800,000	400,000
Hiwassee FD	2.47%	12/6/2013	2027	293,900	221,492	25,353
Phoenix Packing - VSBA (C)	2.65%	5/13/2019	2034	3,000,000	242,368	-
Total Notes Payable					$ 3,271,911	$ 509,038
Bonds Payable:						
Dublin Elem. School	2.37%	10/1/2015	2028	$ 3,443,000	$ 2,671,800	$ 269,500
Snowville Critzer	2.05%	6/27/2013	2027	2,680,534	748,676	376,111
Total Bonds Payable					$ 3,420,476	$ 645,611
Revenue Bonds:						
Commerce Park Refinance	0.77-5.38%	6/27/2013	2039	$ 6,810,000	$ 5,445,000	$ 245,000
Unamortized Discount	n/a	6/27/2013	2039	(10,132)	(7,792)	-
Total Revenue Bonds					$ 5,437,208	$ 245,000
Total					$ 22,166,826	$ 1,489,264

(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 an amortization schedule is not available until drawdowns are complete.

(D) Variable daily at prime interest rate plus 2.5%.

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, 2019, $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, 2019, 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	$ 98,021
Pulaski County	2028	2.50-5.25%	2,671,800	269,500
Hiwasee Fire Department	2027	2.47%	221,492	25,353
West Main Development	2028	5.00%	55,000	-
Snowville and Critzer	2021	2.50%	748,677	376,111
Phoenix Packaging	2025	3.00%	323,091	51,455
Commerce Park	2040	0.00%	5,680,000	235,000
Falls Stamping	2019	10.00%	2,000,000	2,000,000
Phoenix Packaging	(C)	4.00%	1,488,267	-
Pulaski Adult Day Services	2026	2.44%	129,156	16,732
Phoenix - Loan 2018A	2035	(A)	4,000,000	89,615
Phoenix - Loan 2018B	2035	(B)	3,773,269	-
Phoenix - Loan 2018C	2035	(B)	2,263,962	-
Phoenix Packaging-VSBA (D)	2034	2.65%	242,368	-
Less: Allowance for Doubtful Accounts			(3,567,638)	(2,098,021)
			$21,597,082	$ 1,063,766

(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.

(D) Loan is in the drawdown phase and an amortization schedule is not available. No amount has been recongnized as current as a result.

NOTE 10-LEASE PURCHASE RECEIVABLES:

Due From	Balance Outstanding	Amount Due Within One Year
Phoenix Packaging Operations, LLC	$ 1,325,000	$ 150,000
Volvo	2,090,400	100,800
Korona	1,482,700	136,395
Total	$ 4,898,100	$ 387,195

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 2036. At the end of the lease term, Volvo has the option to purchase the land for $100.

NOTE 11-LITIGATION:

As of June 30, 2019, 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-COMMITMENTS:

At June 30, 2019, the Authority had the following outstanding commitments:

Vendor	Original Contract	Contract Outstanding
Diversified Developers	$ 3,467,000	$ 3,151,800

NOTE 13-RESTATEMENT OF BEGINNING BALANCES:

Net position, as previously reported	$ 18,932,719
Adjustment for duplicate drawdown request on note receivable	(215,933)
Net position, as restated	$ 18,716,786

NOTE 14-ADOPTION OF ACCOUNTING PRINCIPLES:

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

NOTE 15-UPCOMING PRONOUNCEMENTS:

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 December 15, 2019.

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, 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, 2020.

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

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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pulaski County Economic Development Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
November 24, 2019

Pulaski County Economic Development Authority

Schedule of Findings and Responses
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2019-001

Criteria:	Per auditing standards, an auditee should have sufficient controls in place to produce financial statements in accordance with applicable standards. Furthermore, reliance on the auditor to propose adjustments necessary to comply with reporting standards is not a component of such controls.
Condition:	The financial statements as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements.
Effect of Condition:	There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal controls over financial reporting.
Cause of Condition:	The Authority does not have proper controls in place to detect and correct adjustments in closing their year end financial statements.
Recommendation:	The Authority should review the auditors' proposed audit adjustments for the fiscal year and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.
Management's Response:	The Authority will review the auditors' proposed audit adjustments for the fiscal year and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

Section III - Status of Prior Audit Findings

There were no prior year findings reported.