

**BEDFORD COUNTY ECONOMIC
DEVELOPMENT AUTHORITY**

FINANCIAL REPORT
(A Component Unit of the County of Bedford)

June 30, 2012

BOARD OF DIRECTORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bedford County Economic Development Authority
Bedford, Virginia

We have audited the accompanying basic financial statements of the Bedford County Economic Development Authority (the "Authority"), a component unit of the County of Bedford, Virginia, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 *Specifications for the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bedford County Economic Development Authority as of June 30, 2012, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Bedford County Economic Development Authority has not presented a management discussion and analysis that accounting principles generally accepted in the United States of America require to be present to supplement the financial statements. Such missing information, although not a part of financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not effected by the omitted information.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 17, 2012

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note 1)	\$ 998,393
Prepays	2,098
Inventory (Note 3)	8,531,192
Restricted Assets:	
Cash and cash equivalents (Note 2)	<u>103,961</u>

Total current assets 9,635,644

NONCURRENT ASSETS

Capital assets (Note 4)	
Nondepreciable	353,931
Depreciable, net	<u>1,356,318</u>

Total noncurrent assets 1,710,249

Total assets 11,345,893

LIABILITIES

CURRENT LIABILITIES

Accounts payable	126,836
Performance grants payable (Note 7)	<u>45,000</u>

Total current liabilities 171,836

Total liabilities 171,836

NET ASSETS

Invested in capital assets	1,710,249
Restricted	103,961
Unrestricted	<u>9,359,847</u>

Total net assets \$ 11,174,057

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2012

Operating revenues	
Operating lease revenue	\$ 42,826
Other	<u>1,681</u>
Total operating revenues	<u>44,507</u>
Operating expenses	
General and administrative	11,694
Incentive and performance grants	100,000
Leased property operating expense	15,614
Park maintenance	36,629
Depreciation	<u>80,808</u>
Total operating expenses	<u>244,745</u>
Operating loss	<u>(200,238)</u>
Nonoperating revenues	
Interest income	7,962
Subsidies from the County of Bedford	<u>114,227</u>
Nonoperating revenues	<u>122,189</u>
Loss before contributions	(78,049)
Capital contributions	<u>28,287</u>
Decrease in net assets	(49,762)
Net assets, beginning of year	<u>11,223,819</u>
Net assets, end of year	<u><u>\$ 11,174,057</u></u>

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOW Year Ended June 30, 2012

OPERATING ACTIVITIES

Lease revenue	\$ 42,826
Other cash receipts	1,681
Payments to suppliers	(44,700)
Incentive and performance grant payments	(55,000)
Payments for acquisition and construction of inventory	(189,661)
Net cash used in operating activities	<u>(244,854)</u>

NONCAPITAL FINANCING ACTIVITIES

Subsidies from the County of Bedford	84,225
Net cash provided by noncapital financing activities	<u>84,225</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(30,002)
Subsidies from the County of Bedford	30,002
Net cash used in capital and related financing activities	<u>-</u>

INVESTING ACTIVITIES

Interest received	7,962
Net decrease in cash and cash equivalents	(152,667)

Cash and cash equivalents, beginning of year

1,255,021

Cash and cash equivalents, end of year

\$ 1,102,354

RECONCILIATION TO STATEMENT OF NET ASSETS

Cash and cash equivalents	\$ 998,393
Cash and cash equivalents, restricted	103,961
	<u>\$ 1,102,354</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (200,238)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	80,808
(Increase) decrease in assets	
Prepays	(2,098)
Inventory	(291,106)
Increase (decrease) in liabilities	
Accounts payable and other liabilities	122,780
Performance grants payable	45,000
Net cash used in operating activities	<u>\$ (244,854)</u>

NONCASH, CAPITAL AND RELATED FINANCING ACTIVITIES

Contributions of capital assets from non governmental entities	<u>\$ 28,287</u>
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BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies

Reporting entity:

The Bedford County Economic Development Authority (the "Authority") was created as a governmental subdivision of the Commonwealth of Virginia by ordinance of the Board of Supervisors of Bedford County on October 12, 1970, 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 extent that such activities may promote industry and develop trade by encouraging 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 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.

The Authority is classified as a discretely presented component unit of the County of Bedford 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.

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 the 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 generally result from operating leases, financing leases and proceeds of land and buildings held for resale. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents:

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Inventory:

The cost of land (including acquisition costs) is allocated to subdivided areas for the purpose of accumulating costs to match with sales revenues. Where practical, land improvement costs are charged to the appropriate subdivided area on a specific identification basis. Other improvement, carrying, and amenity costs are allocated based on acreage. Building costs are accumulated and matched to sales revenues.

Capital assets:

Capital assets purchased or constructed are stated at historical cost. Donated property is recorded at the fair value prevailing at the date of donation. Depreciation for capital assets has been provided over the following estimated useful lives under the straight-line method:

Buildings and improvements	15-30 years
Equipment	3-15 years

Net assets:

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. The Authority's restricted net assets represent a reserve account for utility construction costs.

Asset impairment:

The Authority reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There was no impairment during the current year.

Estimates:

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

Performance grants payable:

Performance grants payable are recorded when, in management's opinion, failure by the grantee to meet the performance criteria is unlikely. Refunds of performance grants are reflected as revenues when collection is determined to be likely.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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).

Pursuant to Section. 2.1-234.7 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than one year from the date of purchase. The carrying amount of investments in LGIP at June 30 approximates fair value.

At June 30, all of investments were held in LGIP. LGIP was rated by Standard and Poor's and has been assigned an AAAM rating. Also, all investment activity during the year was with LGIP.

	Fair Value
Investments:	
LGIP	\$ 443,765
Deposits	658,589
	<u>\$ 1,102,354</u>
Statement of Net Assets:	
Cash and cash equivalents	\$ 998,393
Cash and cash equivalents, restricted	103,961
	<u>\$ 1,102,354</u>

Restricted cash and cash equivalents represent a reserve account for utility construction costs in the New London Business and Technology Center. In August 2012, \$103,961 was determined to be the final amount due. These funds were released and remitted to the utility company subsequent to year end.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 3. Inventory

Inventory consists of the following:

Land held for lease:

Lake Vista	\$ 42,628
New London Business and Technology Center	<u>478,265</u>
Total land held for lease	<u>520,893</u>

Land held for sale:

Montvale Center for Commerce	1,127,362
New London Business and Technology Center	<u>6,882,937</u>
Total land held for sale	<u>8,010,299</u>
	<u><u>\$ 8,531,192</u></u>

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 317,137	\$ 36,794	\$ -	\$ 353,931
Construction in progress	<u>935,068</u>	<u>28,287</u>	<u>963,355</u>	<u>-</u>
Total capital assets, not depreciated	1,252,205	65,081	963,355	353,931
Capital assets, depreciated:				
Buildings and improvements	822,908	913,992	-	1,736,900
Equipment	<u>19,670</u>	<u>12,569</u>	<u>-</u>	<u>32,239</u>
Total capital assets, depreciated	<u>842,578</u>	<u>926,561</u>	<u>-</u>	<u>1,769,139</u>
Less accumulated depreciation for:				
Buildings and improvements	312,343	79,761	-	392,104
Equipment	<u>19,670</u>	<u>1,047</u>	<u>-</u>	<u>20,717</u>
Total accumulated depreciation	<u>332,013</u>	<u>80,808</u>	<u>-</u>	<u>412,821</u>
Net capital assets, depreciated	<u>510,565</u>	<u>845,753</u>	<u>-</u>	<u>1,356,318</u>
Total net capital assets	<u><u>\$ 1,762,770</u></u>	<u><u>\$ 910,834</u></u>	<u><u>\$ 963,355</u></u>	<u><u>\$ 1,710,249</u></u>

(Continued)

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 5. 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 is insured through the County's insurance policies. There were no significant reductions in insurance coverages from the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 6. Related Party Transactions

The County provides office space and management services in the form of employees to the Authority at no charge. The Authority provides parking to the County at no charge.

Note 7. Performance Grants Payable

The Authority has awarded certain performance grants to businesses within the County; normally these grants are disbursed within the first three years of the 5 year performance period. Outstanding grants payable total \$45,000.

Note 8. New Accounting Standards

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

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for the inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the "substantively the same governing body" criterion, it additionally requires that a financial benefit or financial burden relationship exist or that management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 8. New Accounting Standards (Continued)

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

Management has not yet evaluated the effects, if any, of adopting these standards.

**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 Board of Directors
Bedford County Economic Development Authority
Bedford, Virginia

We have audited the financial statements of the Bedford County Economic Development Authority (the "Authority") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 17, 2012. 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 *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.**

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and federal awarding agencies and pass-through entities and it is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 17, 2012

BEDFORD COUNTY ECONOMIC DEVELOPMENT AUTHORITY

SUMMARY OF COMPLIANCE MATTERS

June 30, 2012

As more fully described in the "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*," we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts and grant agreements, and other matters shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

- Cash and Investment Laws
- Conflicts of Interest Act
- Local Retirement Systems
- Procurement Laws

LOCAL COMPLIANCE

Authority By-Laws