

**WESTERN VIRGINIA REGIONAL
INDUSTRIAL FACILITY AUTHORITY**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

WESTERN VIRGINIA REGIONAL INDUSTRIAL FACILITY AUTHORITY

Financial Report
For the Year Ended June 30, 2018

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of
Western Virginia Regional Industrial Facility Authority
Roanoke, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Western Virginia Regional Industrial Facility Authority, 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.

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 Western Virginia Regional Industrial Facility Authority, 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 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 affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2018, on our consideration of the Western Virginia Regional Industrial Facility 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 Western Virginia Regional Industrial Facility Authority'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 the Western Virginia Regional Industrial Facility Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 4, 2018

Basic Financial Statements

Statement of Net Position
As of June 30, 2018

ASSETS

| | |
|--|----------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 74,689 |
| Prepaid items | 939 |
| Due from participants (current portion) | <u>143,452</u> |
| Total current assets | <u>\$ 220,390</u> |
| Noncurrent assets: | |
| Inventory held for resale | \$ 5,280,954 |
| Due from participants (net of current portion) | 564,424 |
| Restricted assets: | |
| Cash and cash equivalents | <u>4,155,932</u> |
| Total noncurrent assets | <u>\$ 10,000,000</u> |
| Total assets | <u>\$ 10,220,390</u> |

LIABILITIES

| | |
|------------------------------|----------------------|
| Current liabilities: | |
| Accounts payable | \$ 26,458 |
| Accrued interest payable | <u>137,966</u> |
| Total current liabilities | <u>\$ 164,424</u> |
| Noncurrent liabilities: | |
| Bond payable | <u>\$ 10,000,000</u> |
| Total noncurrent liabilities | <u>\$ 10,000,000</u> |
| Total liabilities | <u>\$ 10,164,424</u> |

NET POSITION

| | |
|--------------------|-------------------------|
| Unrestricted | <u>\$ 55,966</u> |
| Total net position | <u><u>\$ 55,966</u></u> |

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

Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2018

| | |
|--|--------------------|
| Operating revenues: | |
| Annual dues | \$ 56,250 |
| Rental and miscellaneous income | 335 |
| Participant shares - Industrial Park | 377,899 |
| Grant revenue | 100,000 |
| | <hr/> |
| Total operating revenues | \$ 534,484 |
| | <hr/> |
| Operating expenses: | |
| Contracted Management and Staff | \$ 35,000 |
| Meeting expense | 86 |
| Insurance | 1,153 |
| Technical assistance | 788 |
| Contracted services | 209,737 |
| Computer services | 179 |
| Property acquisition costs | 5,447 |
| Legal Fees | 7,255 |
| | <hr/> |
| Total operating expenses | \$ 259,645 |
| | <hr/> |
| Operating income (loss) | \$ 274,839 |
| | <hr/> |
| Nonoperating revenues (expenses): | |
| Interest earned | \$ 33,990 |
| Interest expense | (300,091) |
| Total nonoperating revenues (expenses) | <hr/> \$ (266,101) |
| | <hr/> |
| Change in net position | \$ 8,738 |
| | <hr/> |
| Net position, beginning of period | 47,228 |
| | <hr/> |
| Net position, end of year | \$ 55,966 |
| | <hr/> <hr/> |

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

Statement of Cash Flows
For the year ended June 30, 2018

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Receipts from operating grants and participating jurisdictions | \$ 531,682 |
| Payments to suppliers | <u>(256,293)</u> |
| Net cash provided by (used for) operating activities | <u>\$ 275,389</u> |
| Cash flows from noncapital financing activities: | |
| Proceeds from revenue bonds | \$ 1,900,000 |
| Interest payments | <u>(375,245)</u> |
| Net cash provided by (used for) noncapital financing activities | <u>\$ 1,524,755</u> |
| Cash flows from investing activities: | |
| Interest received | <u>\$ 33,990</u> |
| Net cash provided by (used for) investing activities | <u>\$ 33,990</u> |
| Increase (decrease) in cash and cash equivalents | \$ 1,834,134 |
| Cash and cash equivalents at beginning of period (Includes restricted amount of \$2,347,742) | <u>2,396,487</u> |
| Cash and cash equivalents at end of year (Includes restricted amount of \$4,155,932) | <u><u>\$ 4,230,621</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ 274,839 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in prepaid items | 214 |
| (Increase) decrease in accounts receivable | (2,802) |
| Increase (decrease) in payables and accrued expenses | <u>3,138</u> |
| Net cash provided by (used for) operating activities | <u><u>\$ 275,389</u></u> |

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

WESTERN VIRGINIA REGIONAL INDUSTRIAL FACILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of more significant policies:

A. Financial Reporting Entity

Western Virginia Regional Industrial Facility Authority was created as a governmental subdivision of the Commonwealth of Virginia by concurrent resolutions of the Board of Supervisors of Botetourt, Franklin, and Roanoke Counties; the City Councils of Roanoke and Salem; and the Town Council of Vinton on December 11, 2013. The Authority was created pursuant to the provisions of the Virginia Regional Industrial Facilities Act (Chapter 64 of Title 15.2 of the Code of Virginia, 1950 as amended). The Authority is governed by up to twelve directors appointed by the participating localities. Each member government may appoint two members for a total of twelve members of the Board of Directors. The purpose of the Authority is to enhance the economic base for the member localities by developing, owning, and operating one or more facilities on a cooperative basis. As such, the Authority is authorized to expend such funds as may be available to it for the purpose of developing facilities, including but not limited to (i) purchasing real estate; (ii) grading sites; (iii) improving, replacing, and extending water, sewer, natural gas, electrical, and other utility lines; (iv) constructing, rehabilitating, and expanding buildings; (v) constructing parking facilities; (vi) constructing access roads, streets, and rail lines; (vii) purchasing or leasing machinery and tools; and (viii) making any other improvements deemed necessary by the Authority to meet its objectives. "Facility" means any structure or park, including real estate and improvements as applicable, for manufacturing, warehousing, distribution, office, or other industrial, residential, recreational or commercial purposes.

B. Basis of Accounting

The Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. 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 contributions, revenue sharing payments and land sale proceeds. Operating expenses include the cost of administrative expenses, economic incentive payments, and revenue sharing payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Inventory Valuation

Inventory held for resale consists of land on Wood Haven Road and is valued at cost, which the Authority believes approximates market.

Note 1-Summary of Significant Accounting Policies: (continued)

D. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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, 2018.

In addition to liabilities, the statement of net 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, 2018.

E. Cash and Cash Equivalents

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

F. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Net Position

Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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. The Authority's debt was issued for the purchase of capital assets and inventory held for resale. The Authority does not allocate debt between the two classes of assets purchased with same. Currently, outstanding debt exceeds the carrying value of inventory and capital assets.

WESTERN VIRGINIA REGIONAL INDUSTRIAL FACILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018 (continued)

Note 1-Summary of Significant Accounting Policies: (continued)

I. 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 Authority's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

J. 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 Authority 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 estimated 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 assets lives 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 the current or previous year. The Authority did not have any capital assets at June 30, 2018.

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 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).

WESTERN VIRGINIA REGIONAL INDUSTRIAL FACILITY AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 AS OF JUNE 30, 2018 (continued)

Note 2-Deposits and Investments: (continued)

Credit Risk of Debt Securities

The Authority has not adopted an investment policy for credit risk. The Authority's rated debt investments as of June 30, 2018 were rated by Standard and Poor's rating scale and the ratings are presented below.

Authority's Rated Debt Investments' Values

| <u>Rated Debt Investments</u> | <u>Fair Quality Ratings</u> |
|-------------------------------|-----------------------------|
| | <u>AAAm</u> |
| LGIP | \$ <u>4,155,932</u> |

Interest Rate Risk

The Authority has not adopted an investment policy for interest rate risk. Investments subject to interest rate risk are presented below along with their corresponding maturities.

| <u>Investment Maturities (in years)</u> | | | |
|---|---------------------|---------------------|------------------|
| <u>Investment Type</u> | <u>Fair Value</u> | <u>1 Year</u> | <u>1-5 Years</u> |
| Local Government Investment Pool | \$ <u>4,155,932</u> | \$ <u>4,155,932</u> | \$ <u>-</u> |
| Totals | \$ <u>4,155,932</u> | \$ <u>4,155,932</u> | \$ <u>-</u> |

External Investment Pools

The value of the positions in the external investment pools (Local Government Investment Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

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WESTERN VIRGINIA REGIONAL INDUSTRIAL FACILITY AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 AS OF JUNE 30, 2018 (continued)

Note 3-Long-term Obligations:

Changes in long-term obligations are as follows:

| | <u>Balance</u> <u>July 1, 2017</u> | <u>Issuances</u> | <u>Retirements</u> | <u>Balance</u> <u>June 30, 2018</u> |
|--------------|---------------------------------------|------------------|--------------------|--|
| Bond Payable | \$ 8,100,000 | \$ 1,900,000 | \$ - | \$ 10,000,000 |
| Total | \$ 8,100,000 | \$ 1,900,000 | \$ - | \$ 10,000,000 |

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

| For the Year Ended June 30, | Bond Payable | |
|-----------------------------------|------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2019 | \$ - | \$ 338,170 |
| 2020 | - | 370,000 |
| 2021 | - | 370,000 |
| 2022 | - | 370,000 |
| 2023 | 510,000 | 370,000 |
| 2024-2028 | 2,850,000 | 1,552,150 |
| 2029-2033 | 3,420,000 | 984,570 |
| 2034-2037 | 3,220,000 | 303,400 |
| Totals | \$ 10,000,000 | \$ 4,658,290 |

Details of long-term obligations

| | <u>Total Amount</u> | <u>Amount Due Within One Year</u> |
|---|-------------------------|---|
| \$10,000,000 bond issued on October 14, 2016 bearing interest at 3.70%. Interest is payable semi-annually beginning July 15, 2017 and on each July 15 and January 15 through the final maturity of the loan. Principal is payable annually beginning on January 15, 2023 and on each January 15 through the final maturity of the loan on January 15, 2037. | \$ 10,000,000 | \$ - |
| Total long-term obligations | \$ 10,000,000 | \$ - |

WESTERN VIRGINIA REGIONAL INDUSTRIAL FACILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018 (continued)

Note 4-Inventory Held for Resale:

Inventory held for resale totaling \$5,280,954 represent the estimated value of land on Wood Haven Road owned by the Authority. This inventory is valued at cost, which the Authority believes approximates market.

Note 5-Due from Participating Jurisdictions:

The Authority sells shares to participating jurisdictions in industrial development projects initiated by the Authority. Participating jurisdictions are entitled to profits generated by these industrial development projects, as presented in their participation agreements, to the extent taxes (real estate, business and personal property, and machinery and tools) generated by the projects exceed expenses related to the projects.

The amount reported in the statement of net position as due from participants represents the amount necessary to cover the net liabilities of the Wood Haven Industrial Development Project at year end. A portion of this amount is reported as a current asset as same will be necessary to cover current liabilities of the Project in the upcoming fiscal year.

Note 6-Restricted Cash and Cash Equivalents:

Restricted cash and cash equivalents consist of the following:

| | |
|---------------------------------|---------------------|
| Industrial Development Projects | \$ <u>4,155,932</u> |
|---------------------------------|---------------------|

Note 7-Risk Management:

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority participates with other entities in a public entity risk pool for their coverage of general liability, public officials liability, and property insurance with VML. Each member of the risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority makes contributions and assessments into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of the loss, deficit, or depletion of all available resources, the pool may assess all members in the proportion to 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 coverage in any of the past three fiscal years.

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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
Western Virginia Regional Industrial Facility Authority
Roanoke, 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 Western Virginia Regional Industrial Facility Authority as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Western Virginia Regional Industrial Facility Authority's basic financial statements and have issued our report thereon dated September 4, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Western Virginia Regional Industrial Facility 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 Western Virginia Regional Industrial Facility Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Western Virginia Regional Industrial Facility Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Western Virginia Regional Industrial Facility 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*.

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
September 4, 2018