

Carroll-Grayson-Galax Regional Industrial Facilities Authority



ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2014

BLUERIDGECROSSROADS
economic development authority



CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of
Carroll-Grayson-Galax Regional Industrial Facilities Authority
Galax, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Carroll-Grayson-Galax Regional Industrial Facilities Authority, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Carroll-Grayson-Galax Regional Industrial Facilities 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 Carroll-Grayson-Galax Regional Industrial Facilities Authority, as of June 30, 2014, 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 Matter

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 October 3, 2014, on our consideration of Carroll-Grayson-Galax Regional Industrial Facilities 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 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 Carroll-Grayson-Galax Regional Industrial Facilities Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
December 1, 2014

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
STATEMENT OF NET POSITION
For the Year Ended June 30, 2014

ASSETS

Current Assets:

Cash and cash equivalents	\$ 624,058
Grants Receivable	731,278

Total Current Assets	\$ 1,355,336
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Other Assets:

Land Held for Resale	\$ 12,418,821
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Total Other Assets	\$ 12,418,821
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Capital Assets:

Buildings	\$ 386,000
Equipment	7,880
Vehicles	42,396
Construction in Progress	2,806,665
Accumulated Depreciation	(67,481)

Net Capital Assets	\$ 3,175,460
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Total Assets	\$ 16,949,617
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LIABILITIES AND NET POSITION

Current Liabilities:

Accounts payable	\$ 525,244
Note payable, current portion	82,768

Total Current Liabilities	\$ 608,012
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Long-term Liabilities:

Note payable, net of current portion	\$ 4,992,151
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Total Liabilities	\$ 5,600,163
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Net Position:

Investment in capital assets	\$ 3,175,460
Unrestricted	8,173,994

Total Net Position	\$ 11,349,454
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Total Liabilities and Net Position	\$ 16,949,617
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The accompanying notes to financial statements are an integral part of this statement.

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2014

Operating Revenues		
Other income		\$ 16,125
		16,125
Total Operating Revenue		\$ 16,125
		16,125
Operating Expenses		
Salary expenses		\$ 57,101
Fringe benefits		20,120
Professional fees		37,583
Advertising		2,864
Dues		1,155
Rent		3,750
Office expense		4,674
Training		418
Special Events		2,273
Miscellaneous		15,200
Depreciation		19,255
Insurance		6,133
Travel		7,061
		7,061
Total Operating Expenses		\$ 177,587
		177,587
Net Operating Income (Loss)		\$ (161,462)
		(161,462)
Other nonoperating revenues (expenses):		
Interest expense		\$ (295,300)
Grant income		7,834,949
Local government contributions		782,123
		782,123
Total nonoperating revenue (expenses)		\$ 8,321,772
		8,321,772
Change in net position		\$ 8,160,310
		8,160,310
Net position, beginning of year		3,189,144
		3,189,144
Net position, end of year		\$ 11,349,454
		11,349,454

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

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

Cash flows from operating activities:	
Other revenue	\$ 16,125
Payments for employees	(77,221)
Payments to suppliers	(79,972)
	(141,068)
Net cash provided by (used for) operating activities	
	\$ (141,068)
Cash flows from capital and related financing activities:	
Principal payments on indebtedness	\$ (81,800)
Received from localities	782,123
Interest payments on indebtedness	(302,927)
Grant income	7,103,671
Purchase of inventory	(7,042,276)
	458,791
Net cash provided by (used for) capital and related financing activities	
	458,791
Change in cash and cash equivalents	
	\$ 317,723
Cash and cash equivalents at beginning of year	
	306,335
Cash and cash equivalents, at end of year	
	\$ 624,058
Reconciliation of operating income to net cash	
Provided by (used for) operating activities	
Net Operating Income (Loss)	\$ (161,462)
Adjustments to reconcile operating income to	
net cash provided by (used for) operating activities:	
Depreciation	19,255
Changes in operating assets and liabilities	
Accounts payable	1,139
	1,139
Net cash provided by (used for) operating activities	
	\$ (141,068)

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

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE A - ORGANIZATION, DESCRIPTION OF THE ENTITY, AND ACTIVITIES

The Carroll-Grayson-Galax Regional Industrial Facilities Authority was created as a joint venture between the County of Carroll, County of Grayson, and the City of Galax, Virginia. The Authority works with local businesses within the Twin Counties securing funding to create and preserve jobs, assisting with infrastructure projects, and industrial development.

In addition, the Authority is authorized to secure loans and grant funding for the purpose of obtaining and constructing facilities. Liability under the loans may be retained by the Authority or it may be assumed by the enterprises for whom facilities are constructed. The loans are payable solely from revenues generated from the contributions of the participating localities and may be secured by a deed of trust on those facilities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Carroll-Grayson-Galax Regional Industrial Facilities Authority have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

The Authority uses the accrual basis of accounting. Under this method revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

The Authority distinguishes operating revenues and expenses from non-operating 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 grants. Operating expenses include the cost of administration and related expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital Assets are defined by the Authority as assets with a historical cost of \$5,000 or more, and with an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not to be 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. There was no interest capitalized during the current or previous fiscal year.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Equipment	5
Vehicles	5

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.

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 debt 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 debt are also included in this component of net position.

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted 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.

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, 2014.

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 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, 2014.

NOTE C - 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.

At June 30, 2014, the Authority had no investments.

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 For the Year Ended June 30, 2014

NOTE D - NOTE PAYABLE

The Authority has one outstanding note with National Bank of Blacksburg. At June 30, 2014, the principal balance of the note outstanding was \$5,074,919. Interest payments are based on outstanding balance.

Summary of note payable activity:

	Balance July 1, 2013	Issuances	Retirements	Balance June 30, 2014
Note Payable	\$ 5,156,719	\$ -	\$ (81,800)	\$ 5,074,919
Total	\$ 5,156,719	\$ -	\$ (81,800)	\$ 5,074,919

Details of indebtedness:

	Balance at June 30, 2014	Amount Due Within One Year
<u>Note Payable</u>		
\$5,300,000 Note Payable with National Bank of Blacksburg, monthly principal and interest payments beginning June 11, 2011 due through May 11, 2042 in various amounts, with interest payable at 5.25% to 8.25%. Interest rates adjustable every three years. Interest rate may not change by more than 1.25% per change and not change by more than 3.0% over the terms of the loan. The floor interest rate is 5.25%.	\$ 5,074,919	\$ 82,768
Total Note Payable	\$ 5,074,919	\$ 82,768

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 For the Year Ended June 30, 2014

NOTE D - NOTE PAYABLE (CONTINUED)

Annual requirements to amortize the above note and related interest are as follows:

Year Ending June 30	Note Payable	
	Principal	Interest
2015	\$ 82,768	\$ 264,460
2016	87,219	260,009
2017	91,911	255,318
2018	96,854	250,375
2019	102,063	245,166
2020-2024	598,797	1,137,326
2025-2029	778,097	958,008
2030-2034	1,011,085	725,059
2035-2039	1,313,836	422,308
2040-2044	912,289	71,523
Totals	\$ 5,074,919	\$ 4,589,552

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CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2014

NOTE E - CAPITAL ASSETS

The Authority owns land that it prepares for use by prospective industries. The assets have been recorded at cost. At June 30, 2014, capital assets consisted of the following:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets, not being depreciated:				
Construction in Progress	\$ 1,014,071	\$ 1,792,594	\$ -	\$ 2,806,665
Total capital assets, not being depreciated	<u>\$ 1,014,071</u>	<u>\$ 1,792,594</u>	<u>\$ -</u>	<u>\$ 2,806,665</u>
Capital assets, being depreciated:				
Buildings	\$ 386,000	\$ -	\$ -	\$ 386,000
Equipment	7,880	-	-	7,880
Vehicles	42,396	-	-	42,396
Total capital assets, being depreciated	<u>\$ 436,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 436,276</u>
Accumulated Depreciation:				
Buildings	\$ (33,775)	\$ (9,650)	\$ -	\$ (43,425)
Equipment	(2,439)	(8,479)	-	(10,918)
Vehicles	(12,012)	(1,126)	-	(13,138)
Total accumulated depreciation	<u>\$ (48,226)</u>	<u>\$ (19,255)</u>	<u>\$ -</u>	<u>\$ (67,481)</u>
Total capital assets being depreciated, net	<u>\$ 388,050</u>	<u>\$ (19,255)</u>	<u>\$ -</u>	<u>\$ 368,795</u>
Net capital assets	<u>\$ 1,402,121</u>	<u>\$ 1,773,339</u>	<u>\$ -</u>	<u>\$ 3,175,460</u>

NOTE F - LAND HELD FOR RESALE

The Authority has invested \$390,000 in 55.58 acres located at Washington Mills. The land is being held for resale for redevelopment.

The Authority has invested \$12,028,821 in 167 acres located at Exit 19 off Interstate 77. The Park was named Wildwood Commerce Park to attract small to medium size manufacturers and service industries.

Land held for resale is recorded at the lower of cost or market. Cost is determined by the acquisition price, if purchased, and estimated fair value at the date of contribution, if contributed.

NOTE G - LITIGATION

The Authority is the defendant in a suit brought by a construction company requesting an award in arbitration in the amount of \$155,457, plus 5.5% APR interest from February 17, 2014, plus interest at the statutory rate from the date of judgment until paid.

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 the Board
Carroll-Grayson-Galax Regional Industrial Facilities Authority
Galax, 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 Carroll-Grayson-Galax Regional Industrial Facilities Authority as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements and have issued our report thereon dated October 3, 2014.

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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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
October 3, 2014