

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF WASHINGTON COUNTY
(A COMPONENT UNIT OF WASHINGTON COUNTY, VIRGINIA)
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY
(A COMPONENT UNIT OF WASHINGTON COUNTY, VIRGINIA)

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of
Industrial Development Authority of Washington County
Abingdon, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Industrial Development Authority of Washington County (Authority) as of and for the year ended June 30, 2016, 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 Industrial Development Authority of Washington County, as of June 30, 2016, 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 1 to the financial statements, in 2016, the Authority adopted new accounting guidance, GASB Statement No. 79 Certain External Investment Pools and Pool Participants. Our opinion is not modified with respect to this matter.

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 November 10, 2016, on our consideration of Industrial Development Authority of Washington County'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 Industrial Development Authority of Washington County's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
November 10, 2016

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY
(A COMPONENT UNIT OF WASHINGTON COUNTY, VIRGINIA)
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
Current Assets:	
Cash and cash equivalents	1,316,077
Rent receivable	16,865
Accounts receivable	107,387
Notes receivable, current portion	594,945
Due from other governments	<u>30,663</u>
Total Current Assets	<u>\$ 2,065,937</u>
Noncurrent Assets:	
Notes receivable, net of current portion	<u>12,211,360</u>
Capital Assets:	
Land	14,654,863
Buildings (net of accumulated depreciation)	1,004,272
Equipment (net of accumulated depreciation)	14,233
Leaseholder Improvements (net of accumulated depreciation)	<u>711,689</u>
Total Capital Assets	<u>\$ 16,385,057</u>
Total Noncurrent Assets	<u>\$ 28,596,417</u>
Total Assets	<u>\$ 30,662,354</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunded bond	<u>\$ 2,009,547</u>
LIABILITIES	
Current Liabilities:	
Accrued interest	61,776
Accounts payable	329,354
Bonds payable, current portion	<u>1,185,883</u>
Total Current Liabilities	<u>\$ 1,577,013</u>
Noncurrent Liabilities:	
Bonds payable, net of current portion	<u>16,910,977</u>
Total Noncurrent Liabilities	<u>\$ 16,910,977</u>
Total Liabilities	<u>\$ 18,487,990</u>
NET POSITION	
Investment in capital assets	\$ 16,385,057
Unrestricted	<u>(2,201,146)</u>
Total Net Position	<u>\$ 14,183,911</u>

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY
(A COMPONENT UNIT OF WASHINGTON COUNTY, VIRGINIA)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUES:	
Rent revenue	\$ 218,581
Grant revenue	312,000
Bond fees	5,905
Miscellaneous	<u>87,561</u>
TOTAL OPERATING REVENUES	<u>\$ 624,047</u>
OPERATING EXPENSES:	
Depreciation	\$ 87,266
Economic development payments	6,650
Grants to industries	1,870,785
Professional fees	51,123
Advertising	6,905
Meeting expenses	3,514
Meeting stipend	19,000
Other expenses	1,045
Insurance	3,689
Property management expenses	34,370
Secretary and operating expenses	36,000
Property maintenance expenses	10,368
Travel	<u>192</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,130,907</u>
OPERATING INCOME (LOSS)	<u>\$ (1,506,860)</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income	\$ 4,531
Interest expense	(50,098)
Bond issuance cost	<u>(212,427)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ (257,994)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>\$ (1,764,854)</u>
CAPITAL CONTRIBUTIONS:	
Contributions from Washington County	<u>1,290,485</u>
CHANGE IN NET POSITION	\$ (474,369)
NET POSITION AT BEGINNING OF YEAR	<u>14,658,280</u>
NET POSITION AT END OF YEAR	<u>\$ 14,183,911</u>

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY
(A COMPONENT UNIT OF WASHINGTON COUNTY, VIRGINIA)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from grant revenue	\$ 312,000
Cash received from other revenues	76,502
Cash received from rent revenue	201,716
Cash payments for operating expenses	<u>(1,370,843)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (780,625)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions from Washington County	\$ 1,289,485
Principal payments on notes and bonds	(15,446,500)
Interest payments on notes and bonds	(1,649,483)
Proceeds from the issuance of debt	17,603,178
Bond issuance costs	(414,523)
Purchase of property and construction	<u>(107,335)</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 1,274,822</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Issuance of note receivable	\$ (1,161,305)
Loan payments from Washington County	<u>365,000</u>
NET USED PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>\$ (796,305)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ (302,108)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR, INCLUDING CASH HELD BY TRUSTEE	<u>1,618,185</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,316,077</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Operating Income	\$ (1,506,860)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	87,266
Non-cash grants to industry	443,185
Changes in operating assets and liabilities:	
Accounts payable	249,613
Rent receivable	7,692
Accounts receivable	(41,521)
Due to other governments	<u>(20,000)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u><u>\$ (780,625)</u></u>

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 the more significant policies:

A. Financial Reporting Entity:

The Industrial Development Authority of Washington County, Virginia was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Washington County Board of Supervisors on November 14, 1966 pursuant to the provisions of the Industrial Development and Revenue Bond Act [Chapter 22, 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 Washington 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 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 of the facilities constructed and may be secured by a deed of trust on those facilities.

The Industrial Development Authority of Washington County has been included in the financial statements of Washington County, Virginia as a component unit, in accordance with Statement 14 of the Governmental Accounting Standards Board. The Authority was included as a component unit of the County due to its financial relationship with the County.

B. Basic Financial Statements:

Proprietary Funds

Account for operations that are financed in a manner similar to private business enterprises. The proprietary fund measurement focus is based upon determination of net income and financial position. The proprietary fund of the Authority is an Enterprise Fund which includes all of the Authority's operations.

Enterprise Fund

The Enterprise Fund accounts for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services.

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting:

The Enterprise Fund 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 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 interest, rent, and grants. Operating expenses include the cost of administration and related expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

D. Cash and Cash Equivalents:

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

E. Investments:

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

F. Prepaid Items

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

G. 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 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 if purchased or constructed. Donated capital assets are recorded at acquisition 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.

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets: (Continued)

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>
Leaseholder Improvements	20-50
Buildings	40
Equipment	5

H. 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.

I. 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 has deferred outflows of resources totaling \$2,009,547 as of June 30, 2016, which consist of deferred charges on bond refunding.

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, 2016.

J. 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.

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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.

L. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Authority’s financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 2.

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).

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY, VIRGINIA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Credit Risk of Debt Securities

The Authority's rated debt investments as of June 30, 2016 were rated by *Standard and Poor's* and the ratings are presented below using the *Standard and Poor's* rating scale.

Rated Debt Investments' Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
Local Government Investment Pool (LGIP)	\$ 584

Interest Rate Risk

The Authority invests funds in low risk investments backed by U.S. government agencies.

Investment Type	Investment Maturities	
	Fair Value	< 1 year
LGIP	\$ 584	\$ 584
Total	\$ 584	\$ 584

Custodial Credit Risk

Custodial credit 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. While the Authority does not have a policy regarding custodial credit risk, the Authority's investments at June 30, 2016 were held in the Authority's name by the custodial banks.

External Investment Pools

The fair value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage 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 the participants.

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 3 - NOTES RECEIVABLE

The Authority and Washington County entered into a receivable agreement relating to the \$14,790,000 revenue bond issued by the Authority. Washington County is responsible for 80.14% of the bond balance. The Authority received \$365,000 in note receivable payments from Washington County for the year ended June 30, 2016.

Description	Balance June 30, 2016
\$11,193,805 note receivable with County of Washington, Virginia issued June 2016. The County has agreed to pay 80.14% of the \$14,790,000 bond issued net of the related portion of the deferred amount on refunding and premium.	\$ 11,193,805
\$1,612,500 note receivable with County of Washington, Virginia issued September 2015. The County has agreed to pay 100% of the \$1,162,500 bond issued.	<u>1,612,500</u>
Total Notes Receivable	\$ <u><u>12,806,305</u></u>

NOTE 4 - DUE FROM OTHER GOVERNMENTS

The following amounts represent receivables from other governments at year-end:

Local Governments:	
Washington County	\$ 30,663
Total	<u><u>\$ 30,663</u></u>

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 5 - LONG-TERM DEBT

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2016:

	Balance July 1, 2015	Issuances	Retirements	Balance June 30, 2016
Revenue bonds	\$ 15,953,500	\$ 16,402,500	\$ (15,446,500)	\$ 16,909,500
Premium on bond issuance	-	1,187,360	-	1,187,360
Total	<u>\$ 15,953,500</u>	<u>\$ 17,589,860</u>	<u>\$ (15,446,500)</u>	<u>\$ 18,096,860</u>

Details of long-term debt:

<u>Revenue Bonds</u>	Balance at June 30, 2016	Amount Due Within One Year
\$1,721,000 Public Infrastructure Facilities Revenue Refunding Bonds Series 2013, issued April 2013, semi-annual principal and interest payments beginning July 2013 due through January 2018 in various amounts, with interest payable at 2.20%.	\$ 507,000	\$ 417,000
\$14,790,000 Public Infrastructure Facilities Revenue Refunding Bonds Series 2010, issued June 2016, semi-annual principal and interest payments beginning December 2016 due through June 2040 in various amounts.	14,790,000	665,000
\$1,612,500 Public Infrastructure Facilities Revenue Refunding Bonds Series 2015, issued September 2015, semi-annual principal and interest payments beginning January 2016 due through June 2027 in various amounts, with interest payable at 2.49%.	<u>1,612,500</u>	<u>-</u>
Subtotal	\$ 16,909,500	\$ 1,082,000
Plus: Premium on issuance	<u>1,187,360</u>	<u>103,883</u>
Total revenue bonds	<u>\$ 18,096,860</u>	<u>\$ 1,185,883</u>

INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY, VIRGINIA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

Year Ending	Revenue Bonds	
June 30	Principal	Interest
2017	\$ 1,185,883	\$ 521,336
2018	983,203	514,720
2019	914,991	492,517
2020	937,955	468,400
2021	971,294	443,441
2022-2026	5,213,348	1,771,381
2027-2031	4,089,413	895,016
2032-2036	2,000,927	426,700
2037-2040	1,799,846	113,281
Totals	\$ 18,096,860	\$ 5,646,792

The Authority issued \$15,977,360 (including a premium of \$1,187,360) of Public Facilities Lease Revenue and Refunding Bonds to provide resources to make open market purchases that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$23,523,021 on certain Public Facilities Lease Revenue and Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Authority's financial statements. The reacquisition price exceeded the carrying amount of the old debt by \$2,009,547. This amount is being shown as a deferred outflow of resources and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. The advanced refunding was undertaken to reduce total debt service payments over the next 24 years by \$3,348,535 and resulted in an economic gain of \$1,718,389 on a present value basis.

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INDUSTRIAL DEVELOPMENT AUTHORITY OF WASHINGTON COUNTY, VIRGINIA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 6 - CAPITAL ASSETS

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets, not being depreciated:				
Land	\$ 15,348,798	\$ -	\$ (693,935)	\$ 14,654,863
Construction in progress	562,508	-	-	562,508
Total capital assets, not being depreciated	<u>\$ 15,911,306</u>	<u>\$ -</u>	<u>\$ (693,935)</u>	<u>\$ 15,217,371</u>
Capital assets, being depreciated:				
Buildings	\$ 2,076,690	\$ -	\$ -	\$ 2,076,690
Equipment	15,619	14,335	-	29,954
Leaseholder improvements	233,755	93,000	-	326,755
Total capital assets, being depreciated	<u>\$ 2,326,064</u>	<u>\$ 107,335</u>	<u>\$ -</u>	<u>\$ 2,433,399</u>
Accumulated depreciation:				
Buildings	\$ (1,020,421)	\$ (51,997)	\$ -	\$ (1,072,418)
Equipment	(15,619)	(102)	-	(15,721)
Leaseholder improvements	(142,407)	(35,167)	-	(177,574)
Total accumulated depreciation	<u>\$ (1,178,447)</u>	<u>\$ (87,266)</u>	<u>\$ -</u>	<u>\$ (1,265,713)</u>
Total capital assets being depreciated, net	<u>\$ 1,147,617</u>	<u>\$ 20,069</u>	<u>\$ -</u>	<u>\$ 1,167,686</u>
Net capital assets	<u>\$ 17,058,923</u>	<u>\$ 20,069</u>	<u>\$ (693,935)</u>	<u>\$ 16,385,057</u>

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 Board of Directors
Industrial Development Authority of Washington County
Abingdon, 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 Industrial Development Authority of Washington County as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Industrial Development Authority of Washington County's basic financial statements and have issued our report thereon dated November 10, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Industrial Development Authority of Washington County'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Industrial Development Authority of Washington County's internal control. Accordingly, we do not express an opinion on the effectiveness of Industrial Development Authority of Washington County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Industrial Development Authority of Washington County'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
November 10, 2016