ECONOMIC DEVELOPMENT AUTHORITY

OF PULASKI COUNTY, VIRGINIA

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

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021

Economic Development Authority of County of Pulaski, Virginia
Financial Report
Year Ended June 30, 2021

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES, PLLC
Certified Public Accountants

CPAs | CONSULTANTS

Independent Auditors' Report

To the Honorable Members of
Economic Development Authority of Pulaski County
Pulaski, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Economic Development Authority of Pulaski County (the Authority), a component unit of the County of Pulaski, Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of June 30, 2021, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Economic Development Authority of Pulaski County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox, Associates

Blacksburg, Virginia
May 2, 2022

ECONOMIC DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2021

This report offers readers of the financial statements of the Economic Development Authority of Pulaski County (EDA) with a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2021. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audit.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: (1) enterprise fund financial statements and (2) notes to the financial statements. This report also contains other background and supplementary information providing a context for the basic financial statements themselves. Enterprise fund financial statements such as that of the EDA are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* (Exhibit 1) presents information on all of the Authority's a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* (Exhibit 2) presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* (Exhibit 3) provides information regarding the Authority's cash receipts and cash disbursements during the year. This statement differs from the *Statement of Revenues, Expenses, and Changes in Net Position* statement in that it accounts only for transactions that result in cash receipts and cash disbursements.

The *Notes to Financial Statements* beginning on page 9 provide additional information that is essential to a full understanding of the data provided in the financial statements. They provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

FY 2020-21 HIGHLIGHTS

1. As noted in Exhibit 1, the total assets of the EDA exceeded its total liabilities by $12,290,092 (net position) as of June 30, 2021.
2. As reported in Exhibit 2, the total net position of the EDA decreased by $961,005 from $13,251,097 in fiscal year 2020 to $12,290,092 in fiscal year 2021.
3. Operating revenues in Exhibit 2 are $3,301,501 and consist of lease and rental fees and recovered costs.
4. Operating expenses in Exhibit 2 are $5,369,689 include EDA board compensation, property maintenance, contractual services, insurance, utilities, depreciation, and economic development expenses including tax grant rebates and contributions to industry/loan forgiveness.
5. From the cash perspective (described in Exhibit 3), the following is a summary of cash inflows and outflows. EDA cash inflows provided from operations were $679,905 and $448 was provided from investing activities. Outflows of cash from noncapital financing activities of $530,180 included receipts on notes and capital leases, issuance of indebtedness, miscellaneous income, and contributions from Pulaski County.

Cash outflows from capital and related financing activities were $114,769 and included the purchase of capital assets and additional retirement of indebtedness. During FY-21, total outflows of cash were $8,988,333 which netted against $9,023,737 total inflows of cash for an increase in cash of $35,404. In FY-20, cash and cash equivalents totaled $727,874 and increased in FY-21 by $35,404 to $763,278. The EDA works diligently to pay all debt service and generate invoicing to corresponding projects for reimbursement of expenses.

FINANCIAL ANALYSIS

Net position over time may serve as a useful indicator of an entity's financial position. The Economic Development Authority of Pulaski County serves as an economic development facilitator and as seller or lessor of property for the County of Pulaski, Virginia. Thus, properties acquired by the Board of Supervisors are often transferred to the Authority for the purpose of negotiated sale with a specific employer or development. Likewise, the Authority also serves as a conduit for financing of economic development activity by local employers and the support of those employers by the Board of Supervisors. Finally, the Authority serves as a conduit making possible the tax-exempt financing of local business activities. In each of these situations, the financial obligations of the Authority are secured by a third party.

The following table provides a summary comparison of net position for the 2021 and 2020 fiscal years:

	FY 2020-21	FY 2019-20
Current Assets	$ 3,465,256	$ 3,824,417
Noncurrent Assets	46,297,448	46,350,332
Total Assets	$ 49,762,704	$ 50,174,749
Current Liabilities	$ 3,664,789	$ 4,655,322
Noncurrent Liabilities	33,807,823	32,268,330
Total Liabilities	$ 37,472,612	$ 36,923,652
Net investment in capital assets	$ 11,014,756	$ 10,168,813
Unrestricted	1,275,336	3,082,284
Total Net Position	$ 12,290,092	$ 13,251,097

As included in Exhibit 1 and Exhibit 2 and summarized above, the total net position of the Authority decreased by $961,005 from $13,251,097 on June 30, 2020 to $12,290,092 on June 30, 2021.

The following table provides a summary comparison of the change in net position for the 2021 and 2020 fiscal years:

	FY 2020-21	FY 2019-20
Operating revenues	$ 3,301,501	$ 2,222,854
Operating expenses	(5,369,689)	(2,104,440)
Income/(Loss) from Operations	$ (2,068,188)	$ 118,414
Nonoperating revenues	$ 2,915,318	$ 13,597
Nonoperating expenses	(1,808,135)	(1,446,395)
Nonoperating Income (expenses)	$ 1,107,183	$ (1,432,798)
Change in Net Position	$ (961,005)	$ (1,314,384)

As noted in the table on the previous page, the 2021 fiscal year resulted in a decrease in net position in the amount of $961,005. Operating revenues increased by $1,078,647 due to contributions from the County while nonoperating revenues increased by $2,901,721. Operating expenses increased by $3,265,249 from $2,104,440 in FY-20 to $5,369,689 in FY21. The Authority had a net loss from operations in the amount of $2,068,188 for the 2021 fiscal year. The addition of non-operating revenues and expenses, which nets to $1,107,183 in revenue, resulted in an overall decrease in net position of $961,005 for FY-21.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling $16,409,634 and $13,689,582 for fiscal years 2021 and 2020, respectively. These assets consist primarily of the ownership of the Bob White Building, DeHaven Park (a Claytor Lake property formerly known as Harry's Point), undeveloped portions of the Pulaski County Corporate Center, Maple Shade Center, the former Dublin Primary School, the former Riverlawn Elementary School, the former Draper Elementary Cottage, the former Claremont Elementary School, Innovation Center and Shae Dawn Industrial Park land and shell building. More information about the Authority's capital assets can be found in Notes 2 and 5 to the Financial Statements.

DEBT ADMINISTRATION

At the end of the fiscal year ending June 30, 2021 the Authority had long-term debt of $35,640,597 with $2,332,774 due during fiscal year 2022. As in the prior year, the Authority's liabilities consist of four revenue bonds, 9 notes payable, two loans payable and one bond payable. The Authority issued $1,849,684 in new debt and assumed $233,712 notes payable and $1,731,470 in loans payable with the addition of the Innovation Center for a total increase in debt of $3,814,866. The Authority retired $2,584,324 in debt during FY-21. More detailed information about the Authority's indebtedness, including annual debt service requirements, is presented in Note 7 to the financial statements. All Authority debt is reimbursed either through lease agreements or contributions from the Pulaski County Board of Supervisors and is secured by property lease proceeds and underlying properties.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The condition of the economy and the state of private-sector investment are ongoing major factors in determining the Authority's activity level. Economic development is currently very active in Pulaski County. A primary factor in economic development is the extremely competitive nature of economic development projects. Another factor is the need for the County to continue to invest in a diverse business community and provide the incentives required to successfully locate or expand significant projects such as Volvo, James Hardie Building Products, Phoenix Packaging, Red Sun Farms, and Korona Candles within the County. The Authority considers Pulaski County the center for international businesses locating in southwest Virginia and works tirelessly to attract both local, national and international businesses. The Pulaski County Economic Development office continually strives to lease or sell all industrial space owned by the Economic Development Authority.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Authority's finances. Questions regarding this report or requests for additional financial information should be directed to Michael Solomon, EDA Executive Director, Pulaski County, Virginia, 143 Third Street NW, Suite 1, Pulaski, VA 24301.

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

Statement of Net Position
At June 30, 2021

Assets:		
Current Assets:		
Cash and cash equivalents	$	161,167
Accounts receivable, net of allowance		397,178
Interest receivable, net of allowance		151,328
Rent receivable, net of allowance		63,801
Prepaid expenses		5,959
Capital lease receivable-current portion		297,735
Notes receivable-current portion		1,785,977
Total Current Assets	$	2,863,145
Restricted Current Assets:		
Cash held for Virginia's First IFA	$	513,178
Cash and cash equivalents - tenant deposits		26,893
Cash and cash equivalents - debt reserves		62,040
Total Restricted Current Assets	$	602,111
Total Current Assets	$	3,465,256
Noncurrent Assets:		
Capital lease receivable-long-term portion	$	1,944,083
Notes receivable-long-term portion, net of allowance		27,943,731
Capital assets, net of depreciation:		
Capital assets		27,186,930
Accumulated depreciation		(10,777,296)
Capital assets, net of depreciation	$	16,409,634
Total Noncurrent Assets	$	46,297,448
Total Assets	$	49,762,704
Liabilities:		
Current Liabilities:		
Accounts payable	$	41,884
Interest payable		123,302
Unearned revenue		37,067
Tenanat deposits		26,893
Due to Virginia's First IFA		513,178
Due to Pulaski County-current portion		589,691
Notes payable-current portion		761,938
Revenue bonds payable-current portion		1,228,842
Bonds payable-current portion		282,600
Loans payable-current portion		59,394
Total Current Liabilities	$	3,664,789
Noncurrent Liabilities:		
Due to Pulaski County-noncurrent portion	$	500,000
Notes payable-noncurrent portion		7,709,457
Revenue bonds payable-noncurrent portion		22,122,580
Bonds payable-noncurrent portion		1,843,700
Loans payable-noncurrent portion		1,632,086
Total Noncurrent Liabilities	$	33,807,823
Total Liabilities	$	37,472,612
Net Position:		
Net investment in capital assets	$	11,014,756
Unrestricted		1,275,336
Total Net Position	$	12,290,092

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

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

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2021

Operating Revenues:		
Lease/rental fees	$	1,030,252
Recovered costs		2,271,249
Total operating revenues	$	3,301,501
Operating Expenses:		
Board compensation	$	52,626
Benefits		11,785
Materials and maintenance		116,358
Contractual services		226,253
Insurance		56,815
Tax grants and rebates		300,000
Utilities		429,628
Economic stimulus program		1,377,631
Miscellaneous		159,563
Contribution to industry - loan forgiveness		2,006,402
Depreciation		632,628
Total operating expenses	$	5,369,689
Operating Income (Loss)	$	(2,068,188)
Nonoperating Revenues and (Expenses):		
Interest income	$	1,368
Contributions from County		1,377,631
Miscellaneous		46,597
Transfer of operations from New River Valley Development Corporation		1,489,722
Interest expense		(1,808,135)
Total nonoperating revenues and expenses	$	1,107,183
Change in net position	$	(961,005)
Net Position, beginning of year		13,251,097
Net Position, end of year	$	12,290,092

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

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

Statement of Cash Flows
Year Ended June 30, 2021

Cash flows from operating activities:		
Cash received from lessees	$	1,058,650
Cash received from others		2,421,069
Cash paid to suppliers for goods and services		(2,799,814)
Net cash provided by (used for) operating activities	$	679,905
Cash flows from noncapital financing activities:		
Contribution from Pulaski County	$	634,372
Notes receivable issued		(1,849,684)
Payments received on notes and capital leases receivable		3,012,917
Miscellaneous income		46,597
Retirement of indebtedness		(2,493,641)
Issuance of indebtedness		1,849,684
Interest and loan costs paid on debt		(1,730,425)
Net cash provided by (used for) noncapital financing activities	$	(530,180)
Cash flows from capital and related financing activities:		
Purchase of capital assets	$	(23,696)
Retirement of indebtedness		(91,073)
Net cash provided by (used for) capital and related financing activities	$	(114,769)
Cash flows from investing activities:		
Interest income	$	448
Increase (decrease) in cash and cash equivalents	$	35,404
Cash and cash equivalents at beginning of year (including $514,098 restricted cash)		727,874
Cash cash equivalents at end of year (including $602,111 restricted cash)	$	763,278
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Operating income (loss)	$	(2,068,188)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		632,628
Contribution to industry - loan forgiveness		2,006,402
Transfer of operations cash received		160,189
(Increase) decrease in receivables		590
(Increase) decrease in prepaid expenses		(2,724)
Increase (decrease) in unearned revenue		17,439
Increase (decrease) in operating accounts payable		(66,431)
Net cash provided by (used for) operating activities	$	679,905
Noncash investing, capital, and financing activities:		
Noncash loan forgiveness	$	2,006,402
Noncash transfer of operations assets and liabilities	$	1,329,533

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

NOTE 1-ORGANIZATION, DESCRIPTION OF THE ENTITY:

The Economic Development Authority of Pulaski, Virginia (the Authority) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Board of Supervisors on September 26, 1967 pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373 Et. Seq., of the Code of Virginia (1950), as amended). The Authority is governed by seven directors appointed by the Board of Supervisors of Pulaski County, Virginia. It is authorized to acquire, own, lease and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Virginia.

In addition, the Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities. Liability under the bonds may be retained by the Authority or it may be assumed by the enterprises for which facilities are constructed. Collection of revenues pledged to liquidate the bonds may be assigned to a trustee. The revenue bonds are not deemed to constitute a debt or pledge of the faith and credit of the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease or sale of the facilities constructed and may be secured by a deed of trust on those facilities.

A. Financial Reporting Entity

For financial reporting purposes, in conformance with the principles of the Governmental Accounting Standards Board, the Economic Development Authority of Pulaski County, Virginia is a component unit of the County of Pulaski, Virginia. The Authority is classified as a component unit because its members are appointed by the Board of Supervisors and the County provides significant funding to the Authority; thus, the County is financially accountable for the Authority. The Authority is reported as a discretely presented component unit in the County's financial report.

B. Basic Financial Statements

Pass-through Financing Leases – Most activities of the Authority represent pass-through leases. These agreements provide for periodic rental payments in amounts which are equal to the principal and interest payments due to project bondholders. The Authority has assigned all rights to the rental payments to the trustees of the bondholders and the lessees have assumed responsibility for all operating costs such as utilities, repairs and property taxes. In such cases, the Authority recognizes associated assets, liabilities, and rental income or interest expense in its financial statements.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Cash and Cash Equivalents

For purposes of the statement of cash flows and the balance sheet, cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

B. Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately $28,231, $660,620, $90,723, and $2,977,896 for rent receivable, interest receivable, accounts receivable, and notes receivable at June 30, 2021, respectively.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

C. Unearned Revenue

Contributions are recognized as income of the Authority when the activities for which the contributions were designated have been completed.

D. 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, 2021.

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, 2021.

E. Net Position

For proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable 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 included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during year ended June 30, 2021.

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

Asset Type	Years
Buildings and improvements	20-40
Machinery and equipment	4-30

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

NOTE 3-DEPOSITS AND INVESTMENTS:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

NOTE 3-DEPOSITS AND INVESTMENTS: (Continued)

Investments
Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard and Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Authority does not have an investment policy.

The Authority's rated debt investments at June 30, 2021 were rated by Standard and Poor and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investment Value

Rated Debt Investments	**Fair Quality Ratings**
	AAAm
Money Market Mutual Fund	$ 513,178

Custodial Credit Risk
For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds are not considered to have custodial credit risk. The Authority invests only in those investments authorized by the *Code of Virginia*. Therefore, the custodial credit risk is minimized.

Concentration of Credit Risk
If certain investments in any one issuer represent 5 percent of total investments, there must be a disclosure for the amount and issuer. Investments issued or explicitly guaranteed by the US government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Therefore, the Authority does not have any investments for this disclosure requirement.

Interest Rate Risk
The Authority manages its exposure to declines in fair values by limiting the maturity of its investments.

	Investment Maturities	
Investment Type	**Fair Value**	**< 1 year**
Money Market Mutual Fund	$ 513,178	$ 513,178

NOTE 4-FAIR VALUE MEASUREMENTS:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Authority maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date

- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices

- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The Authority has the following recurring fair value measurements as of June 30, 2021:

	Fair Value	Level 1
Money Market Mutual Fund	$ 513,178	$ 513,178

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NOTE 5-CAPITAL ASSETS:

A summary of changes in capital assets is presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, not being depreciated:				
Land	$ 2,568,872	$ 78,474	$ -	$ 2,647,346
Total capital assets not being depreciated	$ 2,568,872	$ 78,474	$ -	$ 2,647,346
Capital assets, being depreciated:				
Buildings and improvements	$ 18,111,437	$ 6,195,894	$ -	$ 24,307,331
Machinery and equipment	65,495	166,758	-	232,253
Total capital assets being depreciated	$ 18,176,932	$ 6,362,652	$ -	$ 24,539,584
Accumulated depreciation:				
Buildings and improvements	$ (7,027,992)	$ (3,423,842)	$ (121,429)	$ (10,573,263)
Machinery and equipment	(28,230)	(175,803)	-	(204,033)
Total accumulated depreciation	$ (7,056,222)	$ (3,599,645)	$ (121,429)	$ (10,777,296)
Total capital assets being depreciated, net	$ 11,120,710	$ 2,763,007	$ (121,429)	$ 13,762,288
Business-Type Activities capital assets, net	$ 13,689,582	$ 2,841,481	$ (121,429)	$ 16,409,634

NOTE 6-CONTINGENCIES AND EVENTS OF DEFAULT:

Although obligations under the revenue bonds issued to date are secured by lease proceeds and the underlying properties, the Authority retains no liability on pass-through leases. However, the Authority and the Board of Supervisors of Pulaski County, Virginia, may choose, at their option, to assume responsibility for the bonds in the event of default by lessees to preserve the credit rating of the Authority for future issues.

NOTE 7- LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2021:

	Beginning Balance	Issuances	Retirements	Ending Balance
Direct Borrowings and Placements:				
Revenue bonds	$ 17,842,502	$ 1,532,432	$ (966,500)	$ 18,408,434
Notes payable	8,600,089	550,964	(679,658)	8,471,395
Bonds payable	2,774,866	-	(648,566)	2,126,300
Loans payable	-	1,731,470	(39,990)	1,691,480
Revenue bonds	5,200,000	-	(250,000)	4,950,000
Unamortized bond discounts	(7,402)	-	390	(7,012)
Total	$ 34,410,055	$ 3,814,866	$ (2,584,324)	$ 35,640,597

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

Year Ending	Direct Borrowings and Placements		Not Direct Borrowings and Placements	
June 30,	Principal	Interest	Principal	Interest
2022	$ 2,073,164	$ 1,463,351	$ 260,000	$ 243,519
2023	2,200,009	1,345,424	270,000	233,707
2024	2,074,626	1,233,811	280,000	223,112
2025	3,253,473	1,077,395	295,000	211,705
2026	1,998,353	978,163	305,000	199,097
2027-2031	12,214,137	3,324,272	1,275,000	790,830
2032-2036	6,421,449	731,079	1,305,000	475,956
2037-2039	462,398	52,392	960,000	104,812
Totals	$ 30,697,609	$ 10,205,887	$ 4,950,000	$ 2,482,738

NOTE 7- LONG-TERM OBLIGATIONS: (Continued)

Details of long-term obligations:

	Interest Rate(s)	Issue Date	Maturity Date	Original Issue	Business-Type Activities	Due Within One Year
Direct Borrowings and Placements:						
Revenue Bonds:						
2018B - $10M Phoenix Packaging	5.25% (A)	5/30/2018	2035	$ 10,000,000	$ 9,187,820	$ 493,004
2018C - $6M Phoenix Packaging	5.25% (A)	5/30/2018	2035	6,000,000	5,512,690	295,805
2018A - $4M Phoenix Packaging	5.25% (B)	5/30/2018	2035	4,000,000	3,707,924	180,423
Total Revenue Bonds					$ 18,408,434	$ 969,232
Notes Payable:						
Falls Stamping (E)	2.44%	12/22/2015	2031	$ 1,100,325	$ 786,564	$ 69,491
VSBFA PADS Loan	2.44%	6/28/2016	2026	175,000	102,265	10,055
Falls Stamping- First Bank	(D)	5/17/2019	2024	2,000,000	995,043	400,000
Hiwassee FD	2.47%	12/6/2013	2027	293,900	170,153	26,637
Phoenix Packaging - VSBFA	4.12%	5/13/2019	2029	2,000,000	1,868,682	103,973
VSBFA Koinonia Loan (C), (E)	4.12%	7/2/2019	2030	2,000,000	1,979,077	45,022
First Bank Koinonia	5.35%	7/1/2019	2024	1,565,000	1,495,200	48,326
VSBFA Phoenix Loan	4.12%	3/17/2020	2030	1,000,000	845,290	51,002
NBB Note Payable (F)	5.75%	9/7/2005	2040	282,611	229,121	7,432
Total Notes Payable					$ 8,471,395	$ 761,938
Bonds Payable:						
Dublin Elem. School	2.37%	10/1/2015	2028	$ 3,443,000	$ 2,126,300	$ 282,600
Total Bonds Payable					$ 2,126,300	$ 282,600
Loans Payable:						
NBB Loan Payable (F)	5.25%	1/4/2002	2041	1,300,000	$ 997,685	$ 29,665
Rural Development Loan (F)	4.75%	4/1/1998	2038	1,100,000	693,795	29,729
Total Loans Payable					$ 1,691,480	$ 59,394
Total Direct Borrowings and Placements					$ 30,697,609	$ 2,073,164
Revenue Bonds:						
Commerce Park Refinance	0.77-5.38%	6/27/2013	2039	$ 6,810,000	$ 4,950,000	$ 260,000
Unamortized Discount	n/a	6/27/2013	2039	(10,132)	(7,012)	(390)
Total Revenue Bonds					$ 4,942,988	$ 259,610
Total					$ 35,640,597	$ 2,332,774

(A) 5.25% for the first 5 years, adjustable in 5 year increments to the average yield US Treasury plus a margin of 2.75%.

(B) 5.25% for the first 5 years, adjustable in 5 year increments to the average yield US Treasury plus a margin of 2.875%.

(C) Loan is in the drawdown phase still and any amounts due in the next year could change as a result of subsequent issuances.

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

(E) Amounts are in a 6-month deferral period commencing in March 2020. Payments will resume in October 2020, interest will continue to accrue during this time and will be added to the unpaid principal upon maturity.

(F) Issuances transferred from New River Development Corporation during fiscal year 2021.

NOTE 7- LONG-TERM OBLIGATIONS: (Continued)

The direct bonds and notes payable are collateralized by the underlying real and personal property purchased using proceeds of the issuances. In the event of default, the issuer can declare the entire unpaid principal and interest balances due on direct borrowings and placements immediately due and payable.

The rural development loan payable requires the establishment and funding of a debt reserve account equal to 10% of the annual payments until reserves are sufficient to cover one year of payments. The entity is considered to have sufficient funds on hand to meet the reserve requirements.

NOTE 8-DUE TO COUNTY OF PULASKI:

As of June 30, 2021, $500,000 is due to the County related to a 1990 revenue bond originally due April 15, 2005. No firm repayment schedule has been set by the Board of Supervisors for this obligation. An additional amount of $589,691 is reported as due to Pulaski County for an internal pooled cash reconciled overdraft balance.

NOTE 9-NOTES RECEIVABLE:

At June 30, 2021, the Authority had the following notes receivable:

Due From	Fiscal Year Due	Interest Rate	Principal Outstanding	Amount Due Within One Year
Falls Stamping	2023	5.00%	$ 1,567,638	$ -
Pulaski County	2028	2.50-5.25%	2,126,300	282,600
Hiwasee Fire Department	2027	2.47%	170,153	26,637
West Main Development	2028	5.00%	41,258	5,062
Phoenix Packaging	2025	3.00%	223,095	54,633
Commerce Park	2040	0.00%	4,950,000	260,000
Falls Stamping	2019	10.00%	1,410,258	-
Phoenix Packaging	(C)	4.00%	888,267	-
Pulaski Adult Day Services	2026	2.44%	109,643	17,568
Phoenix - Loan 2018A	2035	(A)	3,723,905	196,455
Phoenix - Loan 2018B	2035	(B)	9,227,066	490,810
Phoenix - Loan 2018C	2035	(B)	5,537,749	294,489
Phoenix Packaging-VSBFA	2030	4.12%	857,558	53,750
Phoenix Packaging-VSBFA	2029	4.12%	1,874,714	103,973
Less: Allowance for Doubtful Accounts			(2,977,896)	-
			$ 29,729,708	$ 1,785,977

(A) 5.25% for the first 5 years, adjustable in 5 year increments to the average yield US Treasury plus a margin of 2.875%.
(B) 5.25% for the first 5 years, adjustable in 5 year increments to the average yield US Treasury plus a margin of 2.75%.
(C) The initial maturity date was 2016. Terms of the agreement are being negotiated to establish an updated maturity date.

NOTE 10-LEASE PURCHASE RECEIVABLES:

Due From	Balance Outstanding	Amount Due Within One Year
Phoenix Packaging Operations, LLC	$ 1,037,500	$ 150,000
Korona	1,204,318	147,735
Total	$ 2,241,818	$ 297,735

A lease purchase agreement was entered into with Phoenix Packaging Operations, LLC for the purchase of a building and land. Payments are required to be made based on an agreed upon schedule originally maturing in fiscal year 2028. At the end of the lease term, the lessee has the option to purchase both the land and building for the remaining balance due.

A lease purchase agreement was entered into with Korona Candles, Inc. for the purchase of a building and land. Korona Candles, Inc. is required to make payments based on an agreed upon schedule until fiscal year 2029. At the end of the lease term, the lessee has the option to purchase both the land and building for the remaining balance due.

NOTE 11-LITIGATION:

As of June 30, 2021, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should a court decision on pending matters not be favorable.

NOTE 12-TRANSFER OF OPERATIONS:

On June 29, 2020, the New River Valley Development Corporation voted to transfer assets and liabilities of the not-for-profit organization to the Pulaski County Economic Development Authority. The transfer of operations took place on November 1, 2020, and resulted in the following assets, liabilities, and net position being recognized by the Authority during the year:

Transferred Assets:	
Cash and cash equivalents - unrestricted	$ 71,256
Restricted cash and cash equivalents - tenant deposits	26,893
Restricted cash and cash equivalents - debt reserves	62,040
Fixed assets	3,328,984
Total Transferred Assets	$ 3,489,173
Transferred Liabilities:	
Tenant deposits	$ 26,893
Interest payable	7,376
Notes payable	233,712
Loans payable	1,731,470
Total Transferred Liabilities	$ 1,999,451
Net Position of Transferred Operations:	
Transfer of Operations	$ 1,489,722

NOTE 13-UPCOMING PRONOUNCEMENTS:

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

Statement No. 92, *Omnibus 2020*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics such as leases, assets related to pension and postemployment benefits, and reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. The effective dates differ by topic, ranging from January 2020 to periods beginning after June 15, 2021.

Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement, except for removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate and the requirements related to lease modifications, are effective for reporting periods beginning after June 15, 2020. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All requirements related to lease modifications in this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement. No 32*, (1) increases consistency and comparability related to reporting of fiduciary component units in certain circumstances; (2) mitigates costs associated with the reporting of certain plans as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans. The effective dates differ based on the requirements of the Statement, ranging from June 2020 to reporting periods beginning after June 15, 2021.

NOTE 13-UPCOMING PRONOUNCEMENTS: (Continued)

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

NOTE 14-COVID-19 PANDEMIC:

The COVID-19 pandemic and its impact on operations continues to evolve. Specific to the Authority, COVID-19 impacted various parts of its 2021 operations and financial results including, but not limited to, costs for emergency preparedness and shortages of personnel at businesses with which the Authority provides economic incentives and assistance. Management believes the Authority is taking appropriate actions to mitigate the negative impact. The extent to which COVID-19 may impact operations in subsequent years remains uncertain, and management is unable to estimate the effects on future results of operations, financial condition, or liquidity for fiscal year 2022.

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

CPAs | CONSULTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of
Economic Development Authority of Pulaski County
Pulaski, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Economic Development Authority of Pulaski County (the Authority), a component unit of the County of Pulaski, Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 2, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 to be material weaknesses.

Compliance and Other Matters

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

Pulaski County Economic Development Authority's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox, Associates

Blacksburg, Virginia
May 2, 2022

Pulaski County Economic Development Authority

Schedule of Findings and Responses
Year Ended June 30, 2021

Section I - Summary of Auditors' Results

Financial Statements

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

Section II - Financial Statement Findings

2021-001

Criteria:	The general ledger should include all activity of the Authority during the year.
Condition:	The financial statements as presented for audit, did not contain any activity related to the transfer of operations from the New River Valley Development Corporation.
Effect of Condition:	The financial statements as presented for audit were materially misstated.
Cause of Condition:	Bank accounts transferred from the New River Valley Development Corporation have not been included in the ledger by the Authority; therefore, any related activity was not reported. Additionally, the transfer of tenant deposits, fixed assets, and long-term liabilities have not been recorded by the Authority.
Recommendation:	The assets and liabilities resulting from the transfer of operations should be incorporated in the Authority's ledger.
Management's Response:	The Authority will review the auditors' adjustments and incorporate the transfer of operations activity in the ledger.

2021-002

Criteria:	Bank reconciliations should be prepared in a timely manner each month and reviewed by someone outisde of the receipting and accounts payable functions. Additionally, activity in the accounts should be subject to the same internal controls as other Authority accounts.
Condition:	Activity for the bank account was not reported in the ledger and there was no evident review of the bank statements or balances throughout the year related to accounts transitioned from the New River Valley Development Corporation transfer of operations.

Section II - Financial Statement Findings (continued)

2021-002 (continued)

Effect of Condition:	The accounts were overdrawn several times throughout the year and there are no internal controls or segretation of duties over the related accounts.
Cause of Condition:	New River Valley Development Corporation bank accounts were under the control of one individual and were not incorporated in the ledger to ensure segregation of duties and to enable the Authority to prepare monthly bank reconciliations.
Recommendation:	Bank reconciliations related to the New River Valley Development Corporation transfer of assets should be prepared monthly under the same control process as other Authority bank accounts.
Management's Response:	Management will work to ensure that bank reconciliations are prepared on a monthly basis for all bank accounts under the Authority's control.

Section III - Status of Prior Audit Findings

There were no prior audit findings reported.