

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE TOWN OF FRONT ROYAL AND
THE COUNTY OF WARREN, VIRGINIA**

DBA

ECONOMIC DEVELOPMENT AUTHORITY

Front Royal, Virginia

FINANCIAL REPORT

JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board Members
Industrial Development Authority of the
Town of Front Royal and the County
of Warren, Virginia
Front Royal, Virginia

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia, dba Economic Development Authority, a component unit of the County of Warren, Virginia as of and for the years ended June 30, 2017 and 2016, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 Authority'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 Authority'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia as of June 30, 2017 and 2016, and the respective changes in its financial position and the cash flows for the years then ended in conformity 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 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 audits 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 November 28, 2017 on our consideration of the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia's internal control over financial reporting and compliance.



Winchester, Virginia
November 28, 2017

Management's Discussion and Analysis

As management of the Industrial Development Authority of the Town of Front Royal and the County of Warren DBA Economic Development Authority (EDA), Virginia, we offer the readers of the EDA's financial statements this narrative overview and analysis of the financial activities of the EDA for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- The assets of the EDA exceeded its liabilities at June 30, 2017 by \$3,725,979 (net position).
- In comparison with the prior fiscal year, the EDA's total net position decreased by \$88,466.
- During fiscal year 2017, the EDA's total liabilities increased by \$7,794,850 from \$24,277,117 to \$32,071,967. Several new debts were issued relating to the new market tax credit program that will be used for Ressie Jeffries Elementary School, West Main Street Extended, and several other local Town and County projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis serves as an introduction to the EDA's basic financial statements, including notes to the financial statements.

FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the EDA's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the EDA's assets and liabilities, using the accrual basis of accounting, with the difference between the two reported as net position. Over time, increases or decreases in net assets help determine whether the EDA's financial position is improving or deteriorating.

The Statement of Revenue, Expenditures, and Changes in Net Position presents information showing how the EDA's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The financial statements can be found on pages 8 through 12 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on pages 13 through 31 of this report.

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the EDA, assets exceeded liabilities by over \$3.7 million at the close of the most recent fiscal year. The following chart presents a summary of the EDA's Statements of Net Position.

Summary of Statement of Net Position June 30, 2017 and 2016

	<u>Fiscal Year 17</u>	<u>Fiscal Year 16</u>
Current and other assets	\$ 11,828,076	\$ 11,435,215
Construction in progress	13,241,798	3,914,467
Land investments	8,674,595	10,406,861
Property and equipment	2,053,477	2,058,801
Intangible assets	--	276,218
Total assets	<u>\$ 35,797,946</u>	<u>\$ 28,091,562</u>
Current and other liabilities	\$ 17,625,874	\$ 5,760,894
Long-term liabilities	14,446,093	18,516,223
Total liabilities	<u>\$ 32,071,967</u>	<u>\$ 24,277,117</u>
Net position:		
Unrestricted	\$ 2,625,149	\$ 2,729,568
Restricted	380	27,579
Invested in capital assets, net of related debt	<u>1,100,450</u>	<u>1,057,298</u>
Total net position	<u>\$ 3,725,979</u>	<u>\$ 3,814,445</u>

The EDA's combined net position totaled \$3,725,979 on June 30, 2017. The investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding amounted to \$1,100,450. The EDA uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the EDA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets and real estate investments are not liquid to pay liabilities. Net position includes \$380 that is restricted for scholarships. The remaining \$2,625,149 is unrestricted and may be used to meet the EDA's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the EDA is able to report positive balances in all three categories of net position.

CHANGES IN NET ASSETS

The following is a summary of the changes in net position for the current and prior fiscal year.

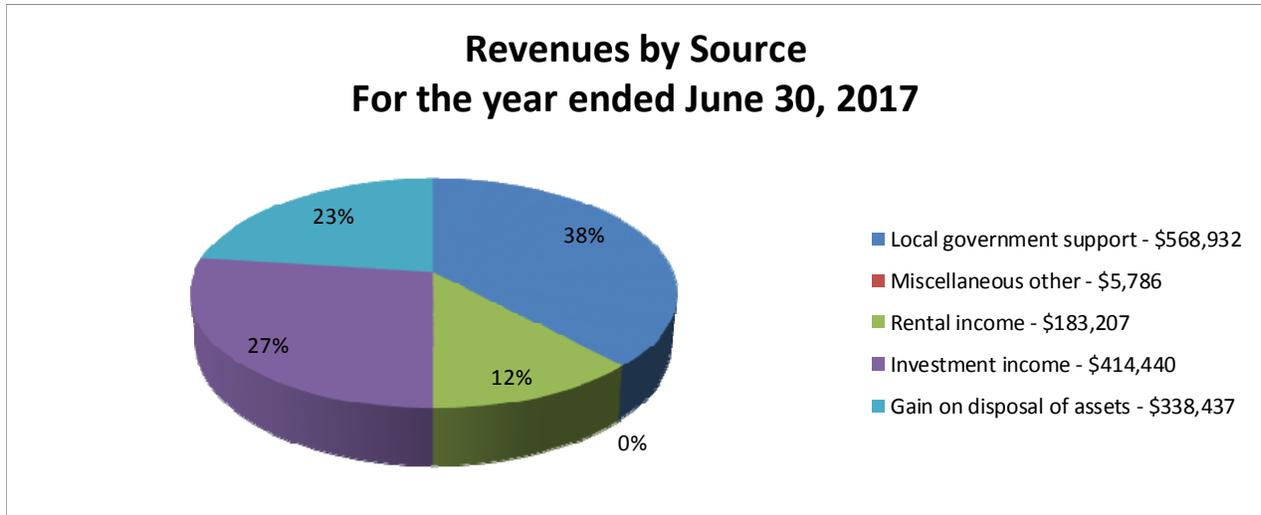
Summary of Changes in Net Assets June 30, 2017 and 2016

	<u>Fiscal Year 17</u>	<u>Fiscal Year 16</u>
Revenues		
Local government support	\$ 568,932	\$ 630,864
Miscellaneous other	5,786	9,415
Rental income	183,207	96,100
Investment income	414,440	265,520
Gain on disposal of assets	338,437	1,198,501
Total revenues	<u>\$ 1,510,802</u>	<u>\$ 2,200,400</u>
Expenses		
Personnel expenses	\$ 299,564	\$ 297,426
Scholarship expenses	3,559	500
Operating expenses	512,839	567,208
Depreciation	43,077	42,062
Interest expense	740,229	451,311
Total expenses	<u>\$ 1,599,268</u>	<u>\$ 1,358,507</u>
Change in Net Position	<u>\$ (88,466)</u>	<u>\$ 841,893</u>

ANALYSIS OF REVENUES

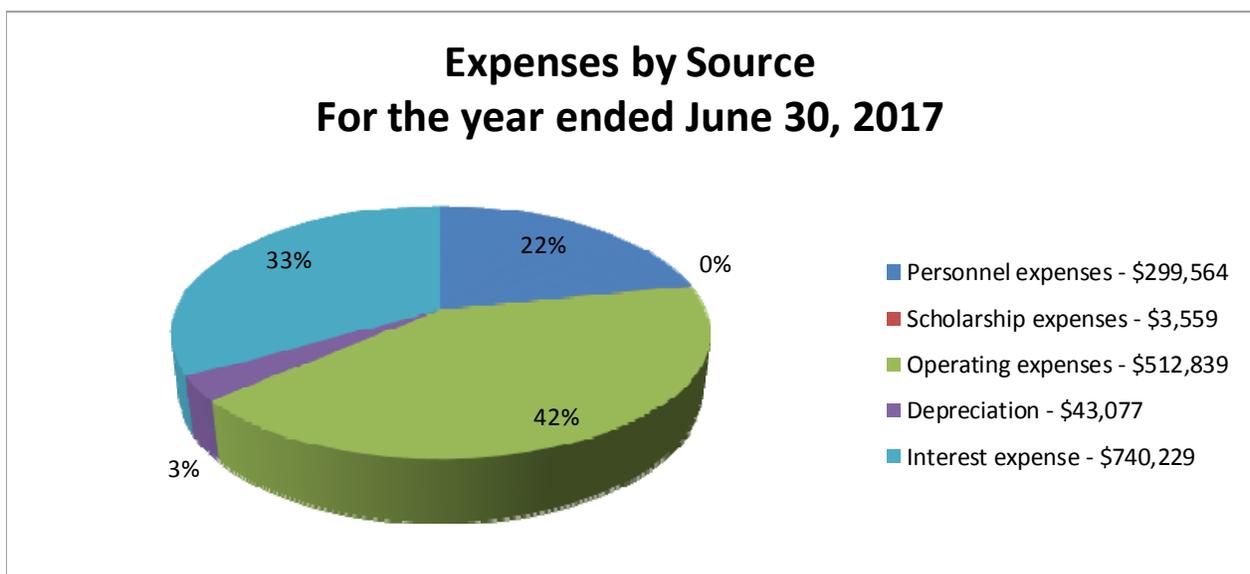
The EDA's revenues are comprised of governmental support, contributions, loan administration fees, rentals, interest income and gain on disposal of assets.

Operating Revenues totaled \$757,925 of which 75 percent is from local government support. The EDA annually receives an operating and capital appropriation from both the Town of Front Royal and County of Warren in support of the EDA's activities. The overall percentage of funds received from the Town of Front Royal and the County of Warren decreased due to refinancing of property for the Leach Run Parkway project. The following chart provides the allocation of revenues by source.



ANALYSIS OF EXPENSES

For year ending June 30, 2017, the Economic Development Authority decreased its operating expenditures from the previous fiscal year by a little over \$54,000. The following chart provides the allocation of expenses by source.



REVIEW OF LONG-TERM DEBT

The EDA continues to pay off loans secured by properties located in the Happy Creek Technology Park, Stephens Industrial Park, 404 Fairground Rd., Avtex property, Leach Run Properties, 506&514 E. Main Street, and Success Park.

The EDA continues repayment of a \$150,000 loan to renovate the Avtex Fibers Administration Building, which serves as the gateway to a 147-acre parcel of land slated for development within one to five years. The building was leased during the fiscal year 2016-2017 to Amerisist, Optimum Impact and Northern Shenandoah Valley Regional Commission. The EDA's offices are also located in this building as well as a space dedicated to the museum of artifacts for the Rayon plant.

ECONOMIC FACTORS

Warren County's unemployment rate for June 2017 was 3.7 percent, which was 0.1 percent decrease than the same period in fiscal year 2016. This compares to the State's unemployment rate of 3.7 percent and the national average rate of percent 4.4 percent for June 2017.

Front Royal-Warren County has experienced growth with the expansion of existing industries. These expansions are partly the result of economic development initiatives, which are focused on encouraging existing firms to remain and expand their facilities.

Economic development initiatives include the ongoing development of two industrial parks, one former superfund site and one "Technology" park. Recent industrial and commercial growth in the area includes:

- Toray expansion in the Stephens Industrial Park
- Expansion of Interbake Foods
- Several small companies were recruited over the past fiscal year, totaling 106 jobs.
- ITFederal started site work on the former Avtex site.
- Nature's Touch expanded in the Stephens Industrial Park.
- Schnabel Industries expanded their labor force.

The Economic Development Authority currently owns 418.5 of land zoned industrial in Front Royal and Warren County. As the EDA moves forward with its careful development of those various parcels of land, it is believed that private developers will be encouraged to continue making investments in Front Royal and Warren County.

The industrial portion of the Avtex site has been completely remediated and released by the EPA for future development. The vision for the former superfund site has changed over time and the EDA still continues to support the remediation efforts and future growth and development of the site. The EDA continues to work with developers interested in locating at the site.

Requests for Information

This financial report is designed to provide a general overview of the Industrial Development Authority's finances for those interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Economic Development Authority, P.O. Box 445, Front Royal, Virginia 22630, (540) 635-2182.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Statements of Net Position
Years Ended June 30, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash and cash equivalents, unrestricted	\$ 1,535,292	\$ 870,544
Cash and cash equivalents, restricted	380	27,579
Prepaid expenses	8,340	13,495
Accounts receivable	110	110
Accrued interest receivable	101,502	10,562
Current portion of notes receivable	<u>344,932</u>	<u>337,762</u>
Total current assets	<u>\$ 1,990,556</u>	<u>\$ 1,260,052</u>
Long-Term Notes Receivable , net of allowance	<u>\$ 9,837,520</u>	<u>\$ 10,175,163</u>
Construction in Progress	<u>\$ 13,241,798</u>	<u>\$ 3,914,467</u>
Land Investments	<u>\$ 8,674,595</u>	<u>\$ 10,406,861</u>
Property and Equipment	<u>\$ 2,526,359</u>	<u>\$ 2,488,606</u>
Less accumulated depreciation	<u>472,882</u>	<u>429,805</u>
Total property and equipment, net	<u>\$ 2,053,477</u>	<u>\$ 2,058,801</u>
Intangible Assets		
Easements, Leach Run Parkway, net	\$ --	\$ 57,833
Easement, New Covenant Church, net	--	10,519
Easement, New Hope Bible Church, net	<u>--</u>	<u>207,866</u>
Total intangible assets, net	<u>\$ --</u>	<u>\$ 276,218</u>
Total assets	<u>\$ 35,797,946</u>	<u>\$ 28,091,562</u>
 Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 2,051,276	\$ 233,606
Accrued interest payable	55,594	29,336
Accrued pension	2,988	2,848
Accrued expenses	50,477	25,289
Security deposits	7,806	7,306
Unearned revenue	3,146,859	3,234,706
Current portion of long-term notes payable	<u>12,310,874</u>	<u>2,227,803</u>
Total current liabilities	<u>\$ 17,625,874</u>	<u>\$ 5,760,894</u>
Long-Term Notes Payable ,		
less current maturities	<u>\$ 14,446,093</u>	<u>\$ 18,516,223</u>
Total liabilities	<u>\$ 32,071,967</u>	<u>\$ 24,277,117</u>
Net Position		
Unrestricted net position	\$ 2,625,149	\$ 2,729,568
Invested in capital assets, net of related debt	1,100,450	1,057,298
Restricted net position	<u>380</u>	<u>27,579</u>
Total net position	<u>\$ 3,725,979</u>	<u>\$ 3,814,445</u>
Total liabilities and net position	<u>\$ 35,797,946</u>	<u>\$ 28,091,562</u>

See Notes to Financial Statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Statements of Revenue, Expenditures, and Changes in Net Position
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Town of Front Royal, debt service	\$ 141,390	\$ 154,590
County of Warren, operating	117,261	117,261
County of Warren, debt service	310,281	359,013
Miscellaneous income	4,511	3,440
Contributions, industry scholarship	1,275	5,975
Rental income	183,207	96,100
Total revenues	<u>\$ 757,925</u>	<u>\$ 736,379</u>
 Expenditures		
Advertising	\$ 6,574	\$ 19,353
Amortization	276,219	276,219
Auto expense	6,000	6,000
Bad debt expense	16,847	9,619
Computer expenses	3,922	244
Community project	11,514	23,724
Contingency	2,030	1,000
Copier lease, supplies and printing	5,798	5,397
Deferred compensation	21,600	20,971
Depreciation	43,077	42,062
Dues and subscriptions	5,524	5,102
Employee benefits	45,263	45,273
Existing industry	5,156	2,798
Insurance	27,007	34,022
Miscellaneous	2,591	645
Office supplies	1,722	2,307
Payroll taxes	16,706	16,478
Subtotal expenditures carried forward	<u>\$ 497,550</u>	<u>\$ 511,214</u>

See Notes to Financial Statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

**Statements of Revenue, Expenditures, and Changes in Net Position
(Continued)**

Years Ended June 30, 2017 and 2016

	2017	2016
Subtotal expenditures carried forward	\$ 497,550	\$ 511,214
Personnel expenses	215,995	214,704
Postage and delivery	1,555	1,261
Professional fees	37,511	44,037
Prospect expenses	2,313	2,819
Refinanced loan costs	--	6,188
Scholarship expense	3,559	500
Telephone	8,023	8,473
Travel and training, general	3,885	5,071
Utilities and maintenance	88,648	112,929
Total operating expenditures	\$ 859,039	\$ 907,196
Operating (loss)	\$ (101,114)	\$ (170,817)
 Nonoperating Revenues and Expenses		
Interest income	\$ 414,440	\$ 265,520
Interest expense	(740,229)	(451,311)
Gain on disposal of assets	338,437	1,198,501
Net nonoperating income	\$ 12,648	\$ 1,012,710
Change in net position	\$ (88,466)	\$ 841,893
Net Position, beginning of year	3,814,445	2,972,552
Net Position, end of year	\$ 3,725,979	\$ 3,814,445

See Notes to Financial Statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from governmental support and grants	\$ 568,932	\$ 630,864
Cash received from loan program and administration	4,511	3,440
Cash received from contributions	1,275	5,975
Cash received from rental activities	154,904	239,689
Cash payments to suppliers for goods and services	(201,846)	(209,458)
Cash payments to employees for services	(299,424)	(297,061)
Net cash provided by operating activities	\$ 228,352	\$ 373,449
 Cash Flows from Capital and Related Financing Activities		
Cash paid for interest	\$ (713,971)	\$ (431,858)
Purchase of property and equipment	(37,753)	(604,126)
Proceeds from issuance of debt	7,925,055	10,750,000
Principal payments on long-term debt	(1,912,114)	(1,010,679)
Net cash provided by capital and related financing activities	\$ 5,261,217	\$ 8,703,337
 Cash Flows from Investing Activities		
Purchase of investments	\$ (60,316)	\$ (34,617)
Purchase of construction in progress (CIP)	(7,416,639)	(3,027,821)
Purchase of intangible assets	-	(110,000)
Proceeds from sale of investments	1,718,351	1,718,694
Principal payments received from notes receivable	363,217	230,005
Reimbursement received for CIP	269,458	2,115,358
Disbursements on notes receivable	(47,000)	(10,065,751)
Interest income	320,909	265,520
Net cash (used in) investing activities	\$ (4,852,020)	\$ (8,908,612)
 Increase in cash and cash equivalents	\$ 637,549	\$ 168,174
 Cash and Cash Equivalents		
Beginning of year	898,123	729,949
End of year	\$ 1,535,672	\$ 898,123

See Notes to Financial Statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Statements of Cash Flows
(Continued)
Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Operating (Loss) to Net Cash provided by Operating Activities		
Operating (loss)	\$ (101,114)	\$ (170,817)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Amortization	276,219	276,219
Depreciation	43,077	42,062
Bad debt expense	16,847	9,619
Changes in assets and liabilities:		
Decrease (increase) in prepaid expenses	5,155	(981)
(Decrease) increase in accounts payable	(8,857)	52,996
Increase in accrued expenses	25,188	20,397
Increase in accrued pension	140	365
Increase in security deposit	500	- -
(Decrease) increase in unearned revenue	(28,803)	143,589
Net cash provided operating activities	\$ 228,352	\$ 373,449
 Reconciliation of Cash		
Cash and cash equivalents, unrestricted	\$ 1,535,292	\$ 870,544
Cash and cash equivalents, restricted	380	27,579
	\$ 1,535,672	\$ 898,123

See Notes to Financial Statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies

The Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Town Council of the Town of Front Royal and the Board of Supervisors of the County of Warren to be effective on December 21, 1967 pursuant to the provisions of the Economic Development and Revenue Bond Act (Chapter 33, Section 15.1-1373 through 15.1-1390, et seq., of the Code of Virginia (1950), as amended.) The Authority is governed by directors appointed by the Town of Front Royal and County of Warren, Virginia. The Authority is considered a component unit of the County of Warren, Virginia, and is included as such in the County's Financial Statements.

The general purpose of the Authority is to foster and stimulate the development of industry in the Front Royal-Warren County area for the general good of its people and the Commonwealth of Virginia.

The Authority may acquire, own, lease, and dispose of properties to the end that the Authority may be able to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises and institutions of higher education to locate in or remain in this Commonwealth and further the use of its agricultural products and natural resources, and to vest the Authority with all powers that may be necessary to enable them to accomplish such purposes, which powers shall be exercised for the benefit of the inhabitants of the Commonwealth, either through the increase of their commerce, or through the promotion of their safety, health, welfare, convenience or prosperity. The Authority shall not operate any such manufacturing, industrial or commercial enterprise or any facility of an institution of higher education.

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.

Basis of Accounting

The Authority uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Notes to Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and certificates of deposit, regardless of maturity date.

Property and Equipment

The costs of major improvements and additions are capitalized in the year incurred. Normal repairs and maintenance are expensed as incurred.

The Authority depreciates its assets, using the straight line method, over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	20-40
Furniture, fixtures and equipment	5-10

Depreciation expense for the years ended June 30, 2017 and 2016 was \$43,077 and \$42,062, respectively.

Property and equipment as of June 30, 2017 and 2016 includes the following:

	<u>2017</u>	<u>2016</u>
Furniture, Fixtures and Equipment	\$ 131,080	\$ 129,292
Building, 404 Fairground Road	335,184	335,184
Building, 1325 Progress Drive	177,315	177,315
Land, 404 Fairground Road	90,000	90,000
Land, 1325 Progress Drive	38,579	38,579
Land, Stephens Industrial Park	470,607	470,607
Land, Royal Lane Property	577,511	577,511
Improvements, 404 Fairground Road	19,407	13,381
Improvements, 1325 Progress Drive	214,509	214,509
Improvements, 404 Kendrick Lane	135,000	133,000
Improvements, Stephens Industrial Park	279,544	279,544
Improvements, Workforce Housing Project	57,623	29,684
Total property and equipment	<u>\$ 2,526,359</u>	<u>\$ 2,488,606</u>

Notes to Financial Statements

Land Investments

The Authority purchases land for resale to fulfill its general purpose. Improvements to land are made to enhance development. The land investments and improvements are stated on the statements of net position at fair market value based on the most recent tax assessments, which approximates fair value.

Land investments as of June 30, 2017 and 2016 include the following:

	<u>2017</u>	<u>2016</u>
Land, Happy Creek Industrial Park	\$ 1,213,694	\$ 1,213,694
Land, Success Industrial Park	2,142,800	2,142,800
Avtex	3,568,888	3,604,454
Land, Ramsey Property	137,013	137,013
Land, Leach Run Property	432,800	432,800
Land, Benson Property	20,000	20,000
Land, 1425 Happy Creek Road	40,000	40,000
Land, 1433 Happy Creek Road	40,000	40,000
Land, 5262 Strasburg Road	--	1,696,700
Land, 1546 John Marshall Highway	153,600	153,600
Land, 1532 John Marshall Highway	88,500	88,500
Land, 1528 John Marshall Highway	99,000	99,000
Land and Improvements, Stokes Mart	477,000	477,000
Land, Afton Inn Property	261,300	261,300
Total land investments	<u>\$ 8,674,595</u>	<u>\$ 10,406,861</u>

Construction in Progress

Construction in progress as of June 30, 2017 and 2016 includes:

	<u>2017</u>	<u>2016</u>
Leach Run Parkway	\$ 5,985,671	\$ 3,448,311
Criminal Justice Academy	506,632	219,536
ITFederal Project	495,834	--
New Market Tax Credit Projects	5,770,036	--
West Main Extension Project	483,625	246,620
Total construction in progress	<u>\$ 13,241,798</u>	<u>\$ 3,914,467</u>

Notes to Financial Statements

Notes Receivable

The Authority occasionally finances a portion of the purchase price when selling real estate and improvements.

The Authority participates in the Intermediary Relending Program with the U.S. Department of Agriculture whereby federal funds are received by the Authority and passed through to rural businesses in the form of loans. Upon repayment of the loans, the Authority pays off the related note payable to the U.S. Department of Agriculture.

Notes receivable are stated at the amount of unpaid principal less an allowance for credit losses, as deemed necessary. The allowance for credit losses is increased through a provision for credit losses charged to income, and decreased by charge-offs, net of recoveries, when management determines that collectability of all amounts when due is unlikely. The allowance is based on management's estimate of the amount necessary to absorb losses on existing loans. Management's estimate is based on a review of specific loans. As of June 30, 2017 and 2016, management estimated an allowance of \$85,415 and \$77,484 for each of the years then ended. Cash collections on loans that are impaired are credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected.

Unearned Revenues

Unearned revenue represent amounts received, however, the Authority has not met all eligibility requirements in order to recognize them as income in the current period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accrued Sick and Vacation Leave

The Authority allows up to 12 days sick leave each calendar year. Sick days may be accumulated up to a maximum of 130 days. Sick leave accumulation shall be forfeited upon separation from employment. However, upon retirement at a minimum age of 55 years, employees shall receive one-half of their accumulated sick leave to a maximum of 60 days. Such payment shall be made at the employee's regular rate of pay at the time of retirement. There was no accrued sick leave as of June 30, 2017 and 2016. Accrued sick leave is estimated based on the employees who had reached the minimum retirement age as of June 30. Vacation leave is earned based on years of service. No vacation leave will be permitted to accrue from calendar year to calendar year. Upon termination or retirement, the Authority pays unused vacation leave based on the employee's regular rate that is in effect.

Notes to Financial Statements

Net Position

“Net assets invested in capital assets, net of related debt,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted net position can be designated by the Board of Directors. As of June 30, 2017 and 2016, the Authority has designated \$60,000 for both years to be distributed as Rural Business Loans.

New Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement 75) addresses accounting and financial reporting issues related to other postemployment benefits provided to employees of state and local government employers. Statement 75 will be effective for the Authority beginning with its fiscal year ending June 30, 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (Statement 81) aims to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement 81 will be effective for the Authority beginning with its fiscal year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* (Statement 82) addresses issues regarding 1) the presentation of payroll – related measures in required supplementary information, 2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement 82 will be effective for the Authority beginning with its fiscal year ending June 30, 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations* (Statement 83), addresses accounting and financial reporting for certain asset retirement obligations. This statement establishes criteria for determining the timing and pattern for recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. Statement 83 will be effective for the Authority beginning for its fiscal year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities* (Statement 84), provides guidance to improve the identification of fiduciary activities for accounting and financial report purposes and how those activities should be reported. Statement 84 will be effective for the Authority for fiscal year ending June 30, 2020.

Notes to Financial Statements

GASB Statement No. 85, *Omnibus 2017* (Statement 85), purpose is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Statement No. 85 will be effective for the Authority for fiscal year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* (Statement 86), objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Statement No. 86 will be effective for the Authority for fiscal year ending June 30, 2018.

GASB Statement No. 87, *Leases* (Statement 87), the objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring 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. No. 87 will be effective for the Authority for fiscal year ending June 30, 2021.

The Authority's management has not yet determined the effect these Statements will have on its financial statements.

Note 2. Cash and Investments

Cash and cash equivalents as of June 30, 2017 includes \$1,535,672 at two banks. Funds of the Authority on deposit in these banks are over the FDIC insured amount. Under the Virginia Security for Public Deposits Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits.

The Authority formally adopted an investment policy on January 20, 2006. The objective of the Authority's investment portfolio is to meet cash requirements for ongoing operations as well as long term investment strategy. Investments shall include only those that are authorized by the Code of Virginia.

Notes to Financial Statements

Note 3. Restricted Cash

Funds designated for scholarships are held as restricted funds. Amount restricted for scholarships as of June 30, 2017 and 2016 is \$380 for both years.

Funds related to the Strasburg Road property are held as a restricted fund. Amount restricted for future insurance premium payments as of June 30, 2017 and 2016 is \$0 and \$27,199, respectively.

Note 4. Commitments and Contingencies

The Authority is contingently liable for a bond entered into on May 1, 2010, revised in 2013, for \$7,635,000 with the County of Warren. In any year the County does not allocate bond payments, the Authority becomes liable for the County's portion of the bond payment. As of June 30, 2017, the remaining principal portion was approximately \$6,375,000.

The Authority entered into a contract for services related to the Ressie Jeffries Elementary School parking lot. The remaining commitment as of June 30, 2017 is \$110,342.

The Authority entered into a contract for services related to the Ressie Jeffries Elementary School. The remaining commitment as of June 30, 2017 is \$775,499.

The Authority entered into another contract for services related to the Criminal Justice Academy. The remaining commitment as of June 30, 2017 is \$173,931. Subsequent to year end, this contract was paid in full.

The Authority entered into a contract for services related to the Front Royal Police Headquarters. The remaining commitment as of June 30, 2017 is \$71,023.

The Authority entered into various contracts for wetland credits. As of June 30, 2017, the remaining commitment for wetland credits related to Leach Run Parkway is \$100,837.

The Authority is subject to routine litigation incidental to its business. Management does not expect that any of the routine litigation will result in a material loss to the Authority.

Notes to Financial Statements

Note 5. Notes Receivable

Notes receivable as of June 30, 2017 and 2016 are as follows:

	2017	2016
Note receivable from Judith Canterbury, \$10,000, interest at 6.5%, payable in monthly installments of \$196. Note was due in full April 10, 2013. Due to economic hardships, note holder is currently making installments of \$50 until they are able to pay the loan in full.	\$ 5,492	\$ 6,092
Note receivable from Daryl and Vicki Davison, \$75,000, interest at 6.5%, payable in monthly installments of \$653. Note was due in full June 25, 2013. The Authority negotiated new repayment terms in July 2013 as follows: interest at 4.5%, payable in monthly installments of \$593. Note receivable was paid in full in 2017.	--	44,360
Note receivable from Kathleen Helm-Soranzo, \$15,000, interest at 4.75%, payable in monthly installments of \$106. Note was due in full August 15, 2014. The Authority negotiated new repayment terms in August 2014 as follows: interest at 4.5%, payable in monthly installments of \$101.	10,282	10,599
Note receivable from Bruce Coulliette, \$50,000, interest at 6.5%, monthly installments of \$436 due in full December 2, 2013. The Authority negotiated new repayment terms in April 2014 as follows: interest at 6.5%, payable in monthly installments of \$436, payable in full March 18, 2019.	12,182	16,542
Note receivable from Anita Johnson and Jay Olexa, \$25,000, interest at 6.5%, payable in monthly installments of \$284, due in full November 3, 2018.	17,531	18,251
Note receivable from Terri and Thomas Eshelman, \$50,000, interest at 5.75%, payable in monthly installments of \$415. Note was due in full on July 7, 2014. The Authority negotiated new repayment terms in August 2014 as follows: interest at 4.5%, payable in monthly installments of \$423. Note receivable was paid in full in 2017.	--	30,720

Notes to Financial Statements

	2017	2016
Note receivable from Craig Laird, \$10,000, interest at 4.75%, payable in monthly installments of \$140, due in full February 17, 2018. Note receivable was paid in full in 2017.	--	1,568
Note receivable from Front Royal Cardinals, Inc., \$6,000, interest at 4.5%, payable in monthly installments of \$83, due in full June 14, 2018. The Authority negotiated new terms in February 2016 that increased the note receivable balance to \$8,211. The new repayment terms are as follows: interest at 4.5%, payable in monthly installments of \$153, due in full February 10, 2021.	6,123	7,644
Note receivable from Megan Sidorov, \$9,800, interest at 4.25%, payable in monthly installments of \$155, due in full February 15, 2019.	5,066	5,066
Note receivable from Patrick Ridgeley and Mike Bryzinski, \$9,500, interest at 4.5%, payable in monthly installments of \$132, due in full May 14, 2020. The Authority determined the note receivable to be uncollectible and wrote off the remaining balance in 2017.	--	8,915
Note receivable from Tammy Carlyle, \$9,000, interest at 4.5%, payable in monthly installments of \$125, due in full October 2, 2019.	6,611	6,810
Note receivable from Drivers Choice Training Center, LLC, \$14,000, interest at 4%, payable in monthly installments of \$316, due in full October 28, 2017. Note receivable was paid in full in 2017.	--	2,216
Note receivable from The Rusty Den, \$10,000, interest at 4.5%, payable in monthly installments of \$186, due in full April 17, 2019.	9,017	9,017
Note receivable from Michael Kitts and Eric Adamson, \$100,000, interest at 4%, payable in monthly installments of \$1,012, due in full May 28, 2024. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.	75,593	85,252
Note receivable from Fork Improvement Association, Inc., \$8,500, interest at 4.0%, payable in monthly installments of \$157, due in full May 1, 2020.	5,163	6,933

Notes to Financial Statements

	2017	2016
<p>Note receivable from Shenandoah Confections, \$7,000, interest at 4.5%, payable in monthly installments of \$131, due in full September 11, 2019. The Authority negotiated new terms in July 2015 that increased the note receivable balance to \$8,048. The new repayment terms are as follows: interest at 4.0%, payable in monthly installments of \$148, due in full July 2020.</p>	5,507	7,053
<p>Note receivable from Optimum Impact, LLC, \$10,000, interest at 4.0%, payable in monthly installments of \$137, due in full April 9, 2022.</p>	7,085	8,629
<p>Note receivable from Arthi Marti (AKM Properties), \$125,000, interest at 4.5%, payable in monthly installments of \$1,295, due in full September 25, 2024. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.</p>	96,016	106,972
<p>Note receivable from William Ellis (Keystone Transport Solutions, LLC), \$150,000, interest at 5.0%, payable in monthly installments of \$1,591, due in full December 18, 2024. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.</p>	125,671	133,019
<p>Note receivable from David and Stacy Gedney (J's Gourmet), \$150,000, interest at 4.5%, payable in monthly installments of \$1,555, due in full April 3, 2025. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.</p>	122,960	135,767
<p>Note receivable from HotShots Photography, \$3,500, interest at 4.5%, payable in monthly installments of \$65, due in full July 23, 2020.</p>	2,250	2,916
<p>Note receivable from Property Management Plus, LLC, \$10,000, interest at 4.5%, payable in monthly installments of \$186, due in full October 9, 2020.</p>	6,682	8,698
<p>Note receivable from B&G Goods, LLC, \$39,251, interest at 3.75%, payable in monthly installments of \$393, due in full February 10, 2026. Note receivable was paid in full in 2017.</p>	--	37,897

Notes to Financial Statements

	2017	2016
Note receivable from AMS, LLC, \$5,000, interest at 4.5%, payable in monthly installments of \$93, due in full October 23, 2020.	4,227	4,394
Note receivable from ITFederal, LLC, \$10,000,000, interest at 3.0%, payable in monthly installments of \$42,160 (including escrow of \$2,160), due in full September 16, 2045.	9,698,436	9,885,079
Note receivable from Adventure Enablers, \$40,000, interest at 4.0%, payable in monthly installments of \$405, due in full March 10, 2027.	39,182	--
Note receivable from Skyline Tech, \$7,000, interest at 4.5%, payable in monthly installments of \$131, due in full April 15, 2022.	6,791	--
	\$ 10,267,867	\$ 10,590,409
Less current maturities	(344,932)	(337,762)
Less allowance for doubtful accounts	(85,415)	(77,484)
	\$ 9,837,520	\$ 10,175,163

Annual principal requirements to amortize long-term notes receivable are as follows:

Year Ending June 30,		
2018	\$	344,932
2019		275,047
2020		275,573
2021		276,869
2022		282,581
Thereafter		8,812,865
Totals		\$ 10,267,867

Notes to Financial Statements

Note 6. Long-Term Debt

The following is a summary of the changes in long-term debt for the years ended June 30, 2017 and 2016:

	Balance			Balance
	June 30, 2016	Proceeds	Retirements	June 30, 2017
Avtex project	\$ 2,060,000	\$ --	\$ --	\$ 2,060,000
IRP Loan	500,000	--	--	500,000
United Bank (Line of Credit)	2,000,000	--	--	2,000,000
United Bank (Avtex Administration Building)	81,848	--	30,683	51,165
First Bank (Success Industrial Park)	191,623	--	3,649	187,974
First Bank (404 Fairground Road)	283,783	--	5,683	278,100
First Bank (Happy Creek Technology Park)	461,670	--	8,794	452,876
First Bank (Stephens Industrial Park)	635,872	--	12,110	623,762
First Bank (Baugh Drive)	354,457	--	6,751	347,706
First Bank (Ramsey)	869,961	--	22,503	847,458
First Bank (1497 Happy Creek)	328,752	--	9,861	318,891
First Bank (NVA)	242,366	--	4,613	237,753
First Bank (Benson)	26,000	--	717	25,283
First Bank (1425 Happy Creek)	138,344	--	4,141	134,203
First Bank (1433 Happy Creek)	372,987	--	11,145	361,842
First Bank (Strasburg Road)	1,725,871	--	1,725,871	--
First Bank (Stokes Building)	489,525	--	10,766	478,759
First Bank & Trust Company (ITFederal)	9,980,967	--	54,827	9,926,140
First Bank & Trust Company (Line of Credit)	--	7,925,055	--	7,925,055
	<u>\$ 20,744,026</u>	<u>\$ 7,925,055</u>	<u>\$ 1,912,114</u>	<u>\$ 26,756,967</u>

	Balance			Balance
	June 30, 2015	Proceeds	Retirements	June 30, 2016
Avtex project	\$ 2,060,000	\$ --	\$ --	\$ 2,060,000
IRP Loan	500,000	--	--	500,000
United Bank (Line of Credit)	2,000,000	750,000	750,000	2,000,000
United Bank (Avtex Administration Building)	111,309	--	29,461	81,848
First Bank (Success Industrial Park)	197,783	--	6,160	191,623
First Bank (404 Fairground Road)	293,375	--	9,592	283,783
First Bank (Happy Creek Technology Park)	476,513	--	14,843	461,670
First Bank (Stephens Industrial Park)	656,312	--	20,440	635,872
First Bank (Baugh Drive)	365,853	--	11,396	354,457
First Bank (Ramsey)	907,949	--	37,988	869,961
First Bank (1497 Happy Creek)	345,398	--	16,646	328,752
First Bank (NVA)	250,154	--	7,788	242,366
First Bank (Benson)	27,209	--	1,209	26,000
First Bank (1425 Happy Creek)	145,335	--	6,991	138,344
First Bank (1433 Happy Creek)	391,798	--	18,811	372,987
First Bank (Strasburg Road)	1,773,042	--	47,171	1,725,871
First Bank (Stokes Building)	502,675	--	13,150	489,525
First Bank & Trust Company (ITFederal)	--	10,000,000	19,033	9,980,967
	<u>\$ 11,004,705</u>	<u>\$ 10,750,000</u>	<u>\$ 1,010,679</u>	<u>\$ 20,744,026</u>

Notes to Financial Statements

Notes payable as of June 30, 2017 and 2016, are as follows:

	2017	2016
<p>Note payable to FMC Corporation, the Bankruptcy Trustee for Avtex Corporation and the U.S. Government related to the Avtex property, \$1,275,372 with interest at 6.50% payable in one lump sum installment due June 30, 2008. This note is secured by a deed of trust on real property. FMC Corporation did not require payment to be made on June 30, 2008. The Authority is waiting for a revised note payable to be received from FMC and the EPA. The terms of the new note could differ from the current terms but have not yet been determined.</p>	\$ 2,060,000	\$ 2,060,000
<p>Note payable to United Bank (Avtex Administration Building), \$400,000 with interest at 4.6%. This note was refinanced in January 2015 with interest at 3.98%, payable in monthly interest and principal payments of \$2,785 to January 2019 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	51,165	81,848
<p>Note payable to First Bank (Success Industrial Park), \$215,067 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$641 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	187,974	191,623
<p>Note payable to First Bank (404 Fairground Road), \$320,289 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$999 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	278,100	283,783
<p>Note payable to First Bank (Happy Creek Technology Park), \$518,165 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$1,546 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	452,876	461,670
<p>Note payable to First Bank (Stephens Industrial Park), \$713,949 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$2,129 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	623,762	635,872

Notes to Financial Statements

	2017	2016
<p>Note payable to First Bank (Baugh Drive), \$397,832 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$1,187 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	347,706	354,457
<p>Note payable to First Bank (Ramsey), \$1,013,405, with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$3,956 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	847,458	869,961
<p>Note payable to First Bank (1497 Happy Creek), \$391,530 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$1,734 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	318,891	328,752
<p>Note payable to First Bank (NVA Properties), \$271,869 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$811 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	237,753	242,366
<p>Note payable to First Bank (Benson), \$30,580 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$126 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	25,283	26,000
<p>Note payable to First Bank (1425 Happy Creek), \$164,710 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$728 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	134,203	138,344
<p>Note payable to First Bank (1433 Happy Creek), \$449,245 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$1,959 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	361,842	372,987

Notes to Financial Statements

	2017	2016
<p>Note payable to the U.S. Department of Agriculture as a result of the Authority entering into an intermediary relending program. Interest at 1%. Interest only payments beginning in April 2015. Principal and interest payments to begin in April 2018; to be paid in full by April 2048. Note is secured by related notes receivable and the equipment of the Authority.</p>	500,000	500,000
<p>The Authority borrowed against a \$2,000,000 line of credit. Interest at 2.05%. Interest only payments to begin in July 2014. Payment in full plus any accrued unpaid interest due in September 2017. Line of credit is unsecured.</p>	2,000,000	2,000,000
<p>Note payable to First Bank (5210 and 5262 Strasburg Rd.), \$1,850,000 with interest at 2.95%. This note was refinanced in January 2016 with interest at 2.95%, payable in monthly interest and principal payments of \$7,342 to December 2018 when the remaining balance is due. This note is secured by a deed of trust on the property. During 2017, the Authority paid off the note payable with proceeds from the sale of the property collateralizing the loan.</p>	--	1,725,871
<p>Note payable to First Bank (Stokes Property), \$510,000 with interest at 2.75%. This note was refinanced in January 2016 with interest at 2.75%, payable in monthly interest and principal payments of \$2,029 to December 2017 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	478,759	489,525
<p>Note payable to First Bank & Trust Company, \$10,000,000, with interest at 4.35% payable in monthly principal and interest payments of \$40,000 to December 2022 when the remaining balance is due. This note is secured by a deed of trust on property located in Front Royal, VA consisting of 117 acres known as the former Avtex site as well as a \$2,000,000 deed of trust in the name of the EPA and FMC. The purpose of the loan is to provide financing for the benefit of ITFederal, LLC in its relocation to the Avtex Site.</p>	9,926,140	9,980,967
<p>The Authority borrowed against a \$12,000,000 line of credit. Interest at 2.4375%. Interest only payments to begin in July 2017. Payment in full plus any accrued unpaid interest in December 2017. This line of credit is unsecured.</p>	<u>7,925,055</u>	<u>--</u>
<p>Total long-term debt</p>	\$ 26,756,967	\$ 20,744,026
<p>Less current maturities</p>	<u>(12,310,874)</u>	<u>(2,227,803)</u>
	<u>\$ 14,446,093</u>	<u>\$ 18,516,223</u>

Notes to Financial Statements

Annual principal requirements to amortize long-term debt are as follows:

Year Ending June 30,	Principal
2018	\$ 12,310,874
2019	84,775
2020	68,106
2021	70,608
2022	73,248
Thereafter	14,149,356
Total	\$ 26,756,967

Note 7. Leases

The Authority has entered into various leases as the lessor of properties.

On May 1, 2015, the Authority entered into a twelve month lease with Optimum Impact, LLC for 2,600 square feet in a building at 400-B Kendrick Lane with an expiration date of April 30, 2016. The lease has an option to renew for a one year period beginning May 1, 2016 to April 30, 2017. The Authority is scheduled to receive monthly payments of \$750 from May 1, 2016 to October 31, 2016 and \$1,000 from November 1, 2016 to April 30, 2017.

On August 1, 2015, the Authority renewed a twelve month lease with Visionary Optics, LLC for 6,000 square feet in a building at 1325 Progress Drive with an expiration date of July 31, 2016. The lease was renewed for the period August 1, 2016 to July 31, 2017. Under the lease, the Authority receives monthly payments of \$2,250.

On February 1, 2016, the Authority renewed a twelve month lease with Amerisist dba, (America House Assisted Living, LLC) for 3,330 square feet in a building at 400-A Kendrick Lane. The lease expired on January 31, 2017 with an option to renew for the one year period beginning February 1, 2017 to January 31, 2018. Under the lease, the Authority receives monthly payments of \$3,400.

On September 26, 2011, the Authority entered into a fifteen-year lease with Northern Shenandoah Valley Regional Commission for 3,620 square feet in a building at 400-E Kendrick Lane. The lease will expire on September 30, 2026. The authority will receive monthly payments of \$1,500 for the first two years, \$1,750 for years three to five, \$2,000 for years six through eight, \$2,250 for years nine through twelve, and \$2,500 for years thirteen through fifteen. The Authority will also receive, in addition to monthly rental payments, a fee for improvements to the space in monthly installments of \$375.

On February 10, 2017, the Authority entered into a six month contract with Anthony Dane for space at 404 Fairground Road. The lease expires on July 31, 2017. Under the lease, the Authority receives monthly payments of \$500.

Rental income for the years ending June 30, 2017 and 2016 was \$183,207 and \$96,100, respectively.

Notes to Financial Statements

Annual receivables under these leases are as follows:

<u>Year Ending June 30,</u>		
2018	\$	59,550
2019		33,000
2020		35,250
2021		36,000
2022		36,000
Thereafter		<u>162,000</u>
Total	\$	<u>361,800</u>

Note 8. Deferred Compensation

The Authority has a deferred compensation plan (the Plan) covering their three full-time employees. The Authority makes a discretionary contribution to the Plan each year. For 2017 and 2016, the contribution was equal to 10% of the participants' salary. Total expense for the years ended June 30, 2017 and 2016 was \$21,600 and \$20,971, respectively.

Note 9. Avtex

In March 2000, a deed of trust was executed which transferred the Front Royal site of Avtex Fibers to the Authority. The environmental contamination at the site was being remediated by FMC Corporation under a consent decree with the U.S. Department of Justice. The Authority is developing the 500-acre site into a 305-acre park and wildlife refuge, a 30-acre soccer complex and a 165-acre business park. The Authority is pursuing various Federal and state grants to assist with the redevelopment. The U.S. Department of Justice and the Environmental Protection Agency have entered into an agreement with the Authority for a covenant not-to-sue relating to the possible environmental liabilities. Additionally, the Authority purchased a \$10,000,000, three year third party Pollution Legal Liability policy to cover potential additional environmental exposure. The policy expired on August 30, 2013. At that time, the Authority decided not to renew insurance coverage as the remediation has been completed and coverage is no longer considered necessary. On the eighth anniversary of the transfer date, the Authority has the option to pay FMC Corporation an amount equal to the net proceeds that would have been payable to FMC Corporation had the unsold property been sold for fair market value. At this time, the Authority also has the option to convey the unsold property, with general warranties of title, to one or more persons, entities, bodies politic or political subdivisions designated by FMC Corporation upon which the Authority would receive payment of \$1,000.

Notes to Financial Statements

Note 10. Warren County Manager, LLC and Warren County Landlord, LLC

Warren County Manager, LLC and Warren County Landlord, LLC were incorporated as Virginia Limited Liability Companies on August 16, 2010. Warren County Manager, LLC is owned 100% by the Authority. Warren County Landlord, LLC is owned 97% by Warren County Manager, LLC and 3% by Anthem Health Plans of Virginia, Inc. The LLC's were created to obtain Historic Rehabilitation Tax Credits from the renovation of the Luray Avenue Middle School. Warren County Landlord, LLC was granted \$4,678,522 of Historic Rehabilitation Tax Credits in April 2011 from the Commonwealth of Virginia. The credits have been passed through to Warren County Public Schools.

Note 11. Fair Value Measurements

To the extent available, the Authority's land investments are recorded at fair value as of June 30, 2017 and 2016. GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as 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. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants used to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset (or liability), either directly or indirectly.
Level 3	Investments are classified as Level 3 have unobservable inputs for an asset (or liability) and may require a degree of professional judgment.

Notes to Financial Statements

The following summarizes the Authority's investments within the fair value hierarchy at June 30, 2017 and 2016:

	June 30, 2017			
	Fair Value	Level 1	Level 2	Level 3
Land investments	<u>\$ 8,674,595</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 8,674,595</u>

	June 30, 2016			
	Fair Value	Level 1	Level 2	Level 3
Land investments	<u>\$ 10,406,861</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 10,406,861</u>

Note 12. Subsequent Events

The Avtex note payable to FMC Corporation was due to be paid June 30, 2008. FMC did not require payment at that time, and has continued to not require payment through June 30, 2017. The Authority is waiting for a revised note payable to be received from FMC and the EPA. The terms of the new note could differ from the current terms but have not yet been determined.

On September 15, 2017, the Authority entered into a contract for the development and construction of route 340/522 turn lane improvements in Warren County, Virginia.

The Authority has evaluated all subsequent events through November 28, 2017, the date the financial statements were available to be issued. The Authority has determined there are no additional subsequent events that require recognition or disclosure.

INDEPENDENT AUDITOR’S 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 Members
Industrial Development Authority of the
Town of Front Royal and the County
of Warren, Virginia
Front Royal, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia’s basic financial statements, and have issued our report thereon dated November 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia’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 the Town of Front Royal and County of Warren, Virginia’s internal control. Accordingly, we do not express an opinion on the effectiveness of Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia’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 Authority’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 Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Grant, Hyde & Barbour, P.C." The signature is written in a cursive, flowing style.

Winchester, Virginia
November 28, 2017