

Elizabethtown Industrial Development Authority

Year Ended December 31, 2015

Elizabethtown Industrial Development Authority

Financial Statements with Supplementary Information - Cash Basis

Year Ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Authority Board Members
Elizabethtown Industrial Development Authority
Elizabethtown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the **Elizabethtown Industrial Development Authority**, Pennsylvania (the Authority), a component unit of the Borough of Elizabethtown, as of and for the year ended December 31, 2015, 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 the cash basis of accounting as described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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. 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 auditors consider 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the **Elizabethtown Industrial Development Authority** as of December 31, 2015, and the changes in its cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the **Elizabethtown Industrial Development Authority's** basic financial statements. The concise statement for publication on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The concise statement for publication is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the concise statement for publication is fairly stated, in all material respects, in relation to the basic financial statements as a whole, on the basis of accounting described in Note 1.

June 13, 2016
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP
TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Elizabethtown Industrial Development Authority

STATEMENT of NET POSITION

Cash Basis

December 31, 2015

ASSETS

Current Assets

Cash and Cash Equivalents	<u>\$ 60,794</u>
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LIABILITIES

-0-

NET POSITION

Unrestricted	<u>\$ 60,794</u>
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See notes to financial statements.

Elizabethtown Industrial Development Authority
 STATEMENT of REVENUES, EXPENSES, and CHANGE in NET POSITION -
 Cash Basis
 Year Ended December 31, 2015

OPERATING REVENUES

Administrative Fees	\$ 10,641
Debt Issuance Fees	7,430
Lease Rental Payments Received	<u>1,490,372</u>
Total Operating Revenues	1,508,443

OPERATING EXPENSES

Interest Paid on Long-Term Debt	643,716
Principal Paid on Long-Term Debt	846,656
Professional Services	4,250
Other Operating Expenses	<u>627</u>
Total Operating Expenses	1,495,249

Net Operating Income	13,194
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NONOPERATING REVENUES and EXPENSES

Proceeds from Long-Term Debt	7,430,000
Transfer to Private Organization for Project Costs and Debt Issuance Costs	(7,430,000)
Interest Income	<u>34</u>
Net Nonoperating Revenues	34

CHANGE in NET POSITION	13,228
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NET POSITION

Beginning	<u>47,566</u>
Ending	<u>\$ 60,794</u>

See notes to financial statements.

Elizabethtown Industrial Development Authority

NOTES to FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The **Elizabethtown Industrial Development Authority** (the Authority) incorporated under the Economic Development Financing Law. The Authority's function is to acquire, hold, construct, improve, maintain, own, finance, and lease projects as defined in the Economic Development Financing Law.

The Authority is composed of a five-member board.

The following is a summary of the Authority's significant accounting policies.

Reporting Entity

Consistent with guidance contained in Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, and as amended in Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, the criteria used by the Authority to evaluate the possible inclusion of related entities (authorities, boards, councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Authority reviews the applicability of the following criteria:

The Authority is financially accountable for:

1. Organizations that make up its legal entity.
2. Legally separate organizations if Authority officials appoint a voting majority of the organization's governing body and the Authority is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the Authority as defined below.

Impose its Will - If the Authority can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial Benefit or Burden - If the Authority (1) is entitled to the organization's resources or, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or, (3) is obligated in some manner for the debt of the organization.

3. Organizations which are fiscally dependent on the Authority and have a financial benefit or burden as defined above. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the Authority.

The Authority is part of the Borough of Elizabethtown's reporting entity based on the above criteria. These are the separate component unit financial statements of the Authority. No other entities need to be included based on the above criteria.

Elizabethtown Industrial Development Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Authority operates as an enterprise activity and keeps its records using the cash basis of accounting. Consequently, revenue and related assets are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. Also, a management discussion and analysis is not required. Accordingly, the accompanying financial statements are not intended to present financial position and results of operation in conformity with generally accepted accounting principles which would require the recording of accounts receivable, accounts payable, and other accrued items.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Basic Financial Statements

Since the Authority is engaged in business-type activities, it is required to present the financial statements required for enterprise funds. For the Authority, the basic financial statements consist of:

Enterprise Fund Financial Statements

- Statement of Net Position - Cash Basis
- Statement of Revenues, Expenses, and Change in Net Position - Cash Basis
- Notes to Financial Statements

Use of Estimates

The process of preparing financial statements in conformity with the cash basis of accounting requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Accordingly, actual results may differ from estimated amounts.

Cash and Cash Equivalents

The Authority considers all certificates of deposit and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. They are carried at cost, which approximates fair value.

Lease Rental Receivables and Long-Term Debt

Long-term debt is issued for the purpose of carrying out the projects entered into by the Authority for industrial development purposes. In accordance with the cash basis of accounting, long-term debt proceeds are recorded as income when received and project costs are recorded as expenses when paid. Therefore, lease rental receivables and long-term debt are not presented on the statement of net position - cash basis.

Net Position

Net position is the difference between assets and liabilities.

Classification of Revenues and Expenses

The Authority considers operating revenues and expenses in the statement of revenues, expenses, and change in net position - cash basis to be those revenues and expenses that result from exchange transactions or other activities that are connected directly to the Authority's primary functions. Exchange transactions include lease rental income and principal and interest expense on the related debt obligations.

Certain other transactions are reported as nonoperating revenues and expenses which include interest income on cash balances and cash flows related to the issuance or advance refunding of debt.

Elizabethtown Industrial Development Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to address accounting and financial reporting issues related to fair value measurements. The provisions of this statement are effective for the Authority's 2016 financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify the hierarchy of generally accepted accounting principles (GAAP) in the context of the current governmental financial reporting environment. The provisions of this statement are effective for the Authority's 2016 financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The statement amends GASB Statement No. 14, *The Financial Reporting Entity*, by specifying that a component unit should be included in the reporting entity using the blending method if the component unit is organized as a not-for-profit corporation, the primary government is the sole corporate member, and the component unit is included in the financial reporting entity pursuant to the provisions of paragraphs 21 through 37 of GASB Statement No. 14. The provisions of this statement are effective for the Authority's 2017 financial statements.

The effect of implementation of these standards has not yet been determined.

NOTE 2 - CASH and CASH EQUIVALENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of December 31, 2015, none of the Authority's bank balance of \$60,794 was exposed to custodial credit risk as it was all insured by federal depository insurance coverage.

NOTE 3 - INSURANCE

The Borough of Elizabethtown purchased an errors and omissions insurance policy covering all publicly elected and appointed officials for the Borough and the Authority. The insurance policy is renewed annually. Claims incurred did not exceed insurance coverage for the current year and the previous two years.

Elizabethtown Industrial Development Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 4 - CONDUIT DEBT

The Authority has issued revenue notes and bonds to provide financial assistance to private organizations for the construction and acquisition of industrial and commercial improvements deemed to be in the public interest. The notes and bonds are secured solely by the property financed and are payable solely from the payments received under the loan agreements and promissory notes. The Authority is not obligated in any manner for the repayment of the notes and bonds. The aggregate principal payable at December 31, 2015, was \$23,936,344.

NOTE 5 - SUBSEQUENT EVENT

In April 2016, the Authority approved modifications to two of the conduit debt loan agreements. See Note 4 for further information on the debt.

Elizabethtown Industrial Development Authority

CONCISE STATEMENT for PUBLICATION

STATEMENT of NET POSITION - Cash Basis

December 31, 2015

ASSETS

Cash and Cash Equivalents	<u>\$ 60,794</u>
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LIABILITIES

<u>-0-</u>

NET POSITION - Unrestricted

<u>60,794</u>

STATEMENT of REVENUES, EXPENSES, and CHANGE in NET POSITION - Cash Basis

Year Ended December 31, 2015

OPERATING REVENUES

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CHANGE in NET POSITION

13,228

NET POSITION

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Ending	<u>\$ 60,794</u>
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See independent auditors' report.