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**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF PULASKI COUNTY**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2002**

**ROBINSON, FARMER, COX ASSOCIATES**  
*A PROFESSIONAL LIMITED LIABILITY COMPANY*  
CERTIFIED PUBLIC ACCOUNTANTS

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF THE BOARD PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY PULASKI, VIRGINIA

We have audited the accompanying financial statements of the Pulaski County Industrial Development Authority, which is a component unit of the County of Pulaski, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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; 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pulaski County Industrial Development Authority as of June 30, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Robinson, Farmer, Cox Associates, P.C., a professional limited liability company, has audited the financial statements of the Pulaski County Industrial Development Authority for the year ended June 30, 2002, and has issued its report thereon on July 1, 2002.

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**Industrial Development Authority of Pulaski County**  
**Balance Sheet**  
**At June 30, 2002**

<u>Assets</u>		
Cash (Note 2)	\$	1,100,969
Notes Receivable (Schedule 1)		158,797
Accrued Interest Receivable		444
Accrued Rent Receivable		14,798
Amount due from primary government		164,691
Real Estate - Land		764,604
Real Estate - Building		6,285,688
Real Estate - Rental Facilities		<u>52,231</u>
<b>Total Assets</b>	<b>\$</b>	<b><u><u>8,542,222</u></u></b>
 <u>Liabilities and Equity</u>		
Liabilities:		
Notes Payable: (Schedule 2)		
Banks	\$	4,605,142
Local Government		883,096
First City Services		528,074
Accounts Payable		32,712
Accrued Interest Payable		<u>27,289</u>
<b>Total Liabilities</b>	<b>\$</b>	<b><u><u>6,076,313</u></u></b>
Equity:		
Retained Earnings	\$	<u>2,465,909</u>
<b>Total Liabilities and Equity</b>	<b>\$</b>	<b><u><u>8,542,222</u></u></b>

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



**Industrial Development Authority of Pulaski County**  
**Statement of Cash Flows and Reconciliation**  
**of Operating Income**  
**At June 30, 2002**

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<b>Cash flows from operating activities</b>	
Cash received from the State and others	\$ 802,072
Cash payments for local industry assistance	(648,310)
Cash payments for goods and services	(581,638)
Net cash provided (used) by operating activities	<u>\$ (427,876)</u>
<b>Cash flows from non-operating activities</b>	
Non-operating transfer from capital improvement fund	\$ 2,026,941
Non-operating transfer to County of Pulaski	(1,487,377)
Net cash provided (used) by non-operating activities	<u>\$ 539,564</u>
<b>Cash flows from investing activities:</b>	
Investment income	\$ 30,609
Collections on notes receivable	30,097
Net cash provided (used) by investing activities	<u>\$ 60,706</u>
<b>Cash flows from financing activities:</b>	
Principal payments on debt	\$ (508,249)
Interest payments on debt	(367,719)
Net cash provided (used) from financing activities	<u>\$ (875,968)</u>
Increase (Decrease) in cash and cash equivalents	\$ (703,574)
<i>Cash and Cash Equivalents, July 1, 2001</i>	1,804,543
<i>Cash and Cash Equivalents, June 30, 2002</i>	<u><u>\$ 1,100,969</u></u>

**Reconciliation to reconcile operating income to  
net cash provided (used) by operating activities**

**Years Ended June 30, 2002**

Operating Income	\$ (453,603)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Increase (decrease) in accounts payable	30,957
(Increase) decrease in rent receivable	<u>(5,230)</u>
<b>Net cash provided (used) by operating activities</b>	<u><u>\$ (427,876)</u></u>

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

# INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY

## NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2002

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### **NOTE 1—ORGANIZATION AND DESCRIPTION OF THE ENTITY AND ITS ACTIVITIES:**

The Industrial Development Authority of Pulaski County, Virginia, 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 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 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.

### **NOTE 2—ACCOUNTING POLICIES:**

#### Method of Accounting:

The Authority maintains its books and prepares its financial statements under the accrual method of accounting. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

#### Cash and Cash Equivalents:

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

#### Net Investment in Direct Financing Leases:

The Authority may acquire and improve properties and retain title to them. Where transfer of title at the completion of a lease to a tenant is not reasonably assured by bargain purchase options or other lease provisions, the Authority accounts for activities in its role as lessor as either capital leases or operating leases in accordance with the provisions of Financial Accounting Standard Number 13.

#### Passthrough Financing Leases:

Most activities of the Authority represent passthrough 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 neither receives nor disburses funds.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2002**

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**NOTE 2—ACCOUNTING POLICIES: (CONTINUED)**

Although title to these properties rests with the Authority, bargain purchase options of other lease provisions eliminate any equity interest that would otherwise be retained. Deeds of trust secure outstanding bond obligations and title will revert to the lessee when bonds are fully paid.

Although the Authority provides a conduit to execute such transactions, it does not retain either the benefits of asset ownership or the liability for bond liquidation. Accordingly, the Authority does not recognize associated assets, liabilities, rental income, or interest expense in its financial statements.

**Investment Income Recognition:**

Interest income from short-term cash investment of bond proceeds related to projects retained and managed by the Authority is restricted as to its disposition by the bond indentures and is deferred as a part of the basis of related properties.

**Contributions from Local Governments and Deferred Revenue:**

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

**NOTE 3— DEPOSITS AND INVESTMENTS:**

**Deposits:**

All cash of the Pulaski County Industrial Development Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et. seq. of the Code of Virginia or covered by federal depository insurance.

**Investments:**

Statutes authorize the Authority to invest in obligations of the United States of America or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes; banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Investments are categorized to give an indication of the level of risk assume by the entity at year-end. Category 1 investments include investments that are insured or registered or for which the securities are held by the government or its safekeeping agent in the government’s name. Category 2 investments include uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent in the government’s name. Category 3 investments include uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the government’s name.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2002**

**NOTE 3- DEPOSITS AND INVESTMENTS: (CONTINUED)**

	<u>1</u>	Category <u>2</u>	<u>3</u>	<u>Fair Value</u>
Investments subject to categorization:				
Repurchase Agreements	\$ -	\$1,100,969	\$ -	\$ <u>1,100,969</u>

**NOTE 4-NOTES AND MORTGAGES PAYABLE:**

Notes and Mortgages Payable are stated at the outstanding unpaid balance as of the Balance Sheet date. All outstanding obligations of the Industrial Development Authority were current as of the Balance Sheet dates.

**NOTE 5-REAL ESTATE - LEASE/PURCHASE AGREEMENTS:**

- A. The Authority entered into a lease/purchase agreement with Renfro Corporation on June 6, 1997, for real estate owned and to be constructed by the Authority. The lease calls for monthly installments equal to an amount necessary to amortize the Authority's total investment in the building and land at 6% per annum over fifteen years. The lease contains an option to purchase the real estate and improvements at or before the termination of the lease period for the balance of any accrued interest, principal, and any lease prepayment fee then due on the financing for the project. The lease became effective July 1, 1996 and requires monthly lease payments of \$50,902. It is reported as a purchase at a nominal sum, with recapture of prior years' accumulated depreciation. As of June 30, 2002, this agreement was in default. The remaining lease amount has been written off.
  
- B. The Authority entered into a lease/purchase agreement with LH Corporation on June 18, 1990, for real estate owned by the Authority having a cost of \$84,093 as of June 30, 1991.

The lease period began on October 1, 1990 for a period of two years. The Tenant may extend the lease for an additional period of eighteen years. The amount of the lease payments are to be determined at the time the option to extend the lease is exercised. The Tenant has exercised its option. The lease payments have been adjusted effective April 1, 1995, to \$715 per month, plus Pulaski County real estate taxes.

Since the Tenant has extended the lease for the additional eighteen years, then all lease payments, the two years plus the eighteen, shall be considered as purchase payments and the property shall be conveyed to the Tenant upon completion of all payments.

In 1994, the Authority entered into a lease/purchase agreement with LH Corporation for a building addition costing \$52,139. The lease payments are \$579 per month at 6% interest through March 1, 2005.



INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY

NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2002

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**NOTE 9—RESTATEMENT OF BEGINNING RETAINED EARNINGS:**

Retained Earnings as previously reported	\$ 2,563,422
Adjustment to Motion Control Note Receivable	<u>(14,000)</u>
Retained Earnings as restated	<u>\$ 2,549,422</u>



Industrial Development Authority of Pulaski County  
Schedule of Notes Payable  
At June 30, 2002

Description	Original Loan	Date of Loan	Date Due	Interest Rate	Monthly Payments	Outstanding at June 30, 2002
<b>Banks:</b>						
First Union, Pulaski, VA: Secured by: First Deed of Trust on 650 Acres of the New River Industrial Park (Volvo Assistance)	\$ 2,731,280	5/19/1995	8/15/2006	Variable	\$ 273,128 (1)	\$ 1,069,211
Bank of America, Abingdon, VA: Secured by: Deed of Trust on Real Estate Improvements on Bob White Blvd Building	2,733,197	6/6/1996	8/15/2006	7.50%	186,230	3,535,931
<b>Local Governments:</b>						
County of Pulaski, VA: Secured by: Real Estate interest in Bob White Blvd Bldg.	500,000	9/1/1990	Open	Open	Open	500,000
Town of Pulaski, VA: Secured by: Third deed of trust of Real Estate Improvements of Bob White Blvd. Bldg.	500,000	5/29/1996	2/29/02	7.50%	-	383,096
First City Services: (Bob White Blvd. Bldg) Secured by: Loan to Renfro Corporation, Mt. Airy, NC; Passthrough Loan Secured by: Loan to LH Corporation, Dublin, VA; Passthrough Loan	700,000 50,000	11/14/1996 4/7/1995	11/14/2002 4/7/2005	6.50% 6.00%	43,548 5,343	510,757 17,317
Total payable at June 30, 2002						<u>\$ 6,016,312</u>

(1) Quarterly Payment of interest due at year end

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### TO THE MEMBERS OF THE BOARD PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY PULASKI, VIRGINIA

We have audited the financial statements of the Pulaski County Industrial Development Authority, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 30, 2002, which was unqualified. We conducted our audit 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 and the Specifications for Audits of Authorities, Boards, and Commissions, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

#### Compliance

As part of obtaining reasonable assurance about whether the Pulaski County Industrial Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 that are required to be reported under Government Auditing Standards.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pulaski County Industrial Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of management and the Authority's Board. However, this report is a matter of public record and its distribution is not limited.

*Robinson, Farmer, Cox Associates*

Christiansburg, Virginia  
October 30, 2002

INDEX TO AFFIDAVITS

Pulaski Furniture Company  
Pulaski Retirement Community  
Mar Bal, Inc.