

INDUSTRIAL DEVELOPMENT AUTHORITY
OF PULASKI COUNTY, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's, basic financial statements.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia
October 29, 2004

BASIC FINANCIAL STATEMENTS

INDUSTRIAL DEVELOPMENT AUTHORITY OF COUNTY OF PULASKI, VIRGINIA

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004

Operating Revenues:	
Lease/Rental Fees	\$ 89,740
Sale of Property	119,115
Reimbursement from County	<u>1,279,109</u>
Total operating income	<u>\$ 1,487,964</u>
Expenditures:	
Board Compensation	\$ 2,300
Contractual Services	167,125
Local Industry Assistance	879,941
Utilities	55,340
Miscellaneous	14,819
Visitors Center	15,795
Depreciation	<u>151,000</u>
Total operating expenses	<u>\$ 1,286,320</u>
Operating income (loss)	<u>\$ 201,644</u>
Nonoperating Revenues (Expenses):	
Interest income	\$ 1,027
Interest on debt	<u>(199,628)</u>
Total nonoperating income (expenses)	<u>\$ (198,601)</u>
Income before contributions	<u>\$ 3,043</u>
Change in net assets	\$ 3,043
Net assets, beginning of year	<u>1,443,764</u>
Net assets, end of year	<u><u>\$ 1,446,807</u></u>

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF COUNTY OF PULASKI, VIRGINIA

Statements of Cash Flows
Year Ended June 30, 2004

Operating activities:	
Receipts from lessees	\$ 89,740
Receipts from others	1,398,225
Payments to suppliers	<u>(1,135,321)</u>
Net cash provided by operating activities	<u>\$ 352,644</u>
Capital and related financing activities:	
Payments received on notes receivable	\$ 62,277
Principal payments on indebtedness	(474,353)
Interest payments on indebtedness	<u>(200,222)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (612,298)</u>
Investing activities:	
Interest received	<u>\$ 1,870</u>
Net cash provided by (used in) investing activities	<u>\$ 1,870</u>
Increase (decrease) in cash and cash equivalents	\$ (257,784)
Cash and cash equivalents at beginning of year	<u>1,161,768</u>
Cash and cash equivalents at end of year	<u><u>\$ 903,984</u></u>
Reconciliation of operating income to net cash provided	
(used by operating activities):	
Operating income	\$ 201,644
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	<u>151,000</u>
Net cash provided by operating activities	<u><u>\$ 352,644</u></u>
Supplemental disclosure required:	
Interest paid during the year on indebtedness	<u>\$ 200,222</u>

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA

Notes to Financial Statements As of June 30, 2004

NOTE 1—ORGANIZATION, DESCRIPTION OF THE ENTITY:

The Industrial Development Authority of Pulaski, Virginia was created as a political subdivision of the Commonwealth of Virginia by ordinance of 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 the faith and credit of the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease or sale of the facilities constructed and may be secured by a deed of trust on those facilities.

A. Determination of the Reporting Entity

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

B. Basic Financial Statements

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

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA

Notes to Financial Statements (Continued)
As of June 30, 2004

NOTE 4—PROPERTY, PLANT, AND EQUIPMENT:

The Authority leases manufacturing facilities. The assets have been recorded at cost. The buildings and improvements are depreciated over an estimated useful life of 39 years using the straight-line method. Property, plant, and equipment consist of the following:

Property, plant, and equipment	\$ 7,146,826
Accumulated depreciation	(1,524,946)
Net property, plant, and equipment	<u>\$ 5,621,880</u>

Depreciation expense for the year amounted to \$151,000. Interest paid during construction was capitalized in accordance with generally accepted accounting principles. The Authority capitalizes interest applicable to that portion of indebtedness, the proceeds of which are used to construct new facilities. For the year ended June 30, 2004, no interest paid was capitalized and added to the cost of depreciable buildings and improvements.

NOTE 5—CONTINGENCIES AND EVENTS OF DEFAULT:

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

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INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA

**Notes to Financial Statements (Continued)
As of June 30, 2004**

NOTE 6—LONG TERM DEBT:

Annual requirements to amortize the Authority's long term debt and related interest are as follows:

Year Ending June 30,	Lease Revenue Bond	
	Principal	Interest
2005	988,876	247,228
2006	477,585	212,974
2007	240,454	188,330
2008	253,873	174,910
2009-2013	1,499,124	644,793
2014-2018	1,638,451	214,552
Totals	\$ 5,098,363	\$ 1,682,787

Changes in long term debt:

Balance outstanding July 1, 2003	\$ 5,572,716
Retirements:	
Revenue bond	(474,353)
Balance outstanding June 30, 2004	\$ 5,098,363

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INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA

Notes to Financial Statements (Continued)
As of June 30, 2004

NOTE 8—NOTES RECEIVABLE:

Changes in notes receivable:

Receivable balance July 1, 2003	\$ 62,277
Retirements:	
Notes receivable	<u>(62,277)</u>
Receivable balance June 30, 2004	<u>\$ -</u>

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COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

Certified Public Accountants

A Professional limited liability company

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

TO THE BOARD OF DIRECTORS INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY PULASKI, VIRGINIA

We have audited the financial statements of the business-type activities of the Industrial Development Authority of Pulaski County, Virginia, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Industrial Development Authority of Pulaski County, Virginia'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 an opinion 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 reportable 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 caused by error or fraud 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 operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Industrial Development Authority of Pulaski County, Virginia's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, the Board of Directors, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia
October 29, 2004