

INDUSTRIAL DEVELOPMENT AUTHORITY

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

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2008

**Pulaski County Industrial Development Authority
Annual Financial Report
Fiscal Year Ended June 30, 2008**

Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	2-5
Financial Statements:	
Statement of Net Assets.....	6
Statement of Revenues, Expenses, and Changes in Net Assets.....	7
Statement of Cash Flows.....	8
Notes to Financial Statements.....	9-14

COMPLIANCE SECTION

Compliance:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15-16
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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

**To the Board of the
Industrial Development Authority of Pulaski County
Pulaski, Virginia**

We have audited the accompanying financial statements of the business-type activities of the Industrial Development Authority of Pulaski County, a component unit of Pulaski County, Virginia, as of and for the year ended June 30, 2008. These basic financial statements are the responsibility of the Industrial Development Authority of Pulaski County'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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 business-type activities of the Industrial Development Authority of Pulaski County as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2009, on our consideration of the Industrial Development Authority of Pulaski County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreement 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia
March 30, 2009

**INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

~~This report offers readers of the financial statements of the Industrial Development Authority of Pulaski County, Virginia~~

County (IDA) with a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2008. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audit.

OVERVIEW OF FINANCIAL STATEMENTS

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

of space within the Bob White Building in 2007 and 2008. However, the increases in rent and utility payments still did not cover total debt service, utility and maintenance costs. During the fiscal year, three businesses occupied approximately 80,280 square feet or 39% of the total 204,000 square feet of space. Just prior to June 30th one lessee left the building leaving another 20,000 square feet vacant. Continued expansion of leased space in the building gives hope to eventually eliminating a long-term cash outlay related to the continued ownership of the building. It should be noted that the current amortization of the Bob White building debt will end in 2018 at which time the building will generate a net income assuming the Authority is able to continue leasing space in the building.

FINANCIAL ANALYSIS

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

The following table provides a summary comparison of the change net assets for the 2006-07 and 2007-08 fiscal years:

	FY 2006-07	FY 2007-08
Operating revenues	\$ 909,537	\$ 2,125,473
Operating expenses	(429,319)	(304,068)
Income from Operations	\$ 480,218	\$ 1,821,405
Non-operating revenues	\$ 87,579	\$ 952,415
Non-operating expenses	(594,065)	(1,041,725)
Non-operating Income (expenses)	\$ (506,486)	\$ (89,310)
Change in Net Assets	\$ (26,268)	\$ 1,732,095

As noted in the above table, the 2007-08 fiscal year resulted in a significantly better financial outcome than did the 2006-07 fiscal year. Operating revenues increased by \$1,215,936 largely due to an Economic Development Partnership Grant of \$1,000,000. Operating expenses decreased by \$125,251. This decrease was related to a corresponding decrease in local industry assistance of \$109,271.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling \$4,942,911 and \$5,100,054 for 2008 and 2007, respectively. These assets consisted of the ownership of the Bob White Building, the former Grisham Elementary School in New River, DeHaven Park, a Claytor Lake property (formerly known as Harry's Point), undeveloped portions of the Pulaski County Corporate Center, parcels of vacant land adjacent to New River Community College and the Heron's Landing housing development in Fairlawn. More information about the IDA's capital assets can be found in Note 4 to the Financial Statements.

DEBT ADMINISTRATION

In prior years, the largest portion of the Authority's liabilities consisted of debt on the former Renfro (now Bob White) building located on Bob White Boulevard (June 30, 2008 balance of \$2,883,876), two loans made in December 2005 and January 2007 to provide financial assistance to...

The IDA expenditures in the 2007-08 fiscal year show a significant increase in debt as a result of the Riverlawn Elementary School transaction. As previously noted, this debt service payments will be offset by corresponding contributions from the County. In addition, the IDA previously had a \$2 million investment in the James Hardie site preparation cost and an estimated \$2.2 million loan needed to complete the Shell Building for lease/purchase to Findlay Industries. The James Hardie debt will be offset by the appropriation of new tax revenues to the IDA by the Board of Supervisors and the additional debt on the Shell Building will be offset by lease-purchase payments from Findlay Industries. Finally, it is anticipated that the collection of rent and utility payments due the IDA for the lease of the Bob White building will continue to increase. As of the drafting of this document, the Commonwealth of Virginia has notified the IDA that the payment of the \$1 million toward the construction of the Center of Excellence training facility is being withdrawn. Thus, the IDA will be expected to return these funds by June 30, 2009.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Statement of Net Assets
June 30, 2008

Assets:

Unrestricted Current Assets:

Cash and cash equivalents	\$ 2,724,728
Accounts receivable	3,494
Interest receivable	324,156
Notes receivable-current portion	<u>542,899</u>

Total Unrestricted Current Assets \$ 3,595,277

Non-current Assets:

Notes receivable-long-term portion	\$ 25,383,529
Capital assets	7,212,362
Allowance for depreciation	<u>(2,269,451)</u>

Total Non-current Assets \$ 30,326,440

Total Assets \$ 33,921,717

Liabilities:

Current Liabilities:

Accounts payable	\$ 4,342
Interest payable	317,906
Notes payable-current portion	857,264
Due to County-current portion	<u>500,000</u>

Total Current Assets \$ 1,679,512

Non-current Liabilities:

Notes payable-long-term portion	\$ <u>26,000,046</u>
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Total Liabilities \$ 27,679,558

Net Assets:

Invested in capital assets, net of related debt	\$ 2,058,535
Unrestricted	<u>4,183,624</u>

Total Net Assets \$ 6,242,159

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008

Operating Revenues:	
Lease/rental fees	\$ 267,324
Local contribution	218,894
Sale of property	104,437
Economic stimulus program	525,318
Economic development partnership grant	1,000,000
Easement/right of ways	<u>9,500</u>
Total operating revenue	\$ <u>2,125,473</u>
Operating Expenses:	
Board compensation	\$ 1,400
Materials and maintenance	11,873
Contractual services	23,247
Insurance	14,504
Local industry assistance	5,000
Utilities	87,684
Miscellaneous	3,217
Depreciation	<u>157,143</u>
Total operating expenses	\$ <u>304,068</u>
Operating Income (Loss)	\$ <u>1,821,405</u>
Non-operating Revenues and (Expenses):	
Interest income	\$ 936,165
Interest on notes receivable	16,250
Interest expense	<u>(1,041,725)</u>
Total non-operating revenues and expenses	\$ <u>(89,310)</u>
Increase (decrease)	\$ <u>1,732,095</u>
Net Assets, Beginning of Year	\$ <u>4,510,064</u>
Net Assets, End of Year	\$ <u><u>6,242,159</u></u>

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Statement of Cash Flows
Year Ended June 30, 2008

Cash flows from operating activities:

Cash received from lessees	\$	280,809
Cash received from others		1,957,461

Cash paid to suppliers for goods and services		(146,954)
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Net cash provided (used) by operating activities	\$	<u>1,991,316</u>
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Cash flows from capital and related financing activities:

Proceeds of indebtedness		6,903,754
Notes receivable issued		(6,903,754)
Payments received on notes receivable		384,824
Retirement of indebtedness		(483,219)
Interest and loan cost paid on debt		<u>(990,142)</u>

Net cash provided (used) by capital and related financing activities	\$	<u>(1,088,537)</u>
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Cash flows from investing activities:

Interest income	\$	<u>894,582</u>
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Net increase (decrease) in cash	\$	1,797,361
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Cash at beginning of year	\$	<u>927,367</u>
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Cash at end of year	\$	<u><u>2,724,728</u></u>
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Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income (loss)	\$	<u>1,821,405</u>
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Adjustments to reconcile operating income to net cash provided by operating activities:

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2008

NOTE 2-DEPOSITS AND INVESTMENTS:

Deposits

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Code.

for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance. Under the 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. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments

Statutes authorizing the Authority to invest in obligations of the United States or agencies thereof

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2008

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:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 868,985	\$ -	\$ -	\$ 868,985
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,343,377	\$ -	\$ -	\$ 6,343,377
Less: accumulated depreciation for:				
Buildings and improvements	\$(2,112,308)	\$ (157,143)	\$ -	\$(2,269,451)
Total capital assets being depreciated, net	<u>\$ 4,231,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,073,926</u>
Business-Type activities capital assets, net	<u>\$ 5,100,054</u>	<u>\$ (157,143)</u>	<u>\$ -</u>	<u>\$ 4,942,911</u>

Depreciation expense for the year amounted to \$157,143. Interest paid during construction is 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, 2008, 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.

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2008

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.	<u>Revenue Bonds</u>		<u>Lease Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>

2011	570,182	237,297	678,986	547,957
2012	602,559	204,919	704,555	522,680
2013	636,785	170,694	730,709	495,782
2014-2018	2,745,650	322,821	2,595,245	2,131,975
2019-2023	-	-	3,251,940	1,451,981
2024-2028	-	-	3,581,337	565,649
2029	-	-	388,097	14,010

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2008

NOTE 6-LONG TERM DEBT: (Continued)

Details of indebtedness:

	<u>Interest Rate(s)</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-Type Activities</u>	<u>Amount Due Within One Year</u>
Revenue Bonds:						
Bobwhite Blvd. Bldg.	5.12%	6/6/2003	2018	\$ 3,882,000	\$ 2,883,876	\$ 229,896
Findlay Industries	5.75%	12/25/2005	2016	2,500,000	2,064,570	213,919
Findlay Industries	6.25%	1/1/2007	2016	750,000	656,861	66,763
Total Revenue Bonds					<u>\$ 5,605,307</u>	<u>\$ 510,578</u>
Lease Revenue Notes:						
Riverlawn Elem. School	3.5-5.25%	2/8/2007	2027	\$ 14,000,000	\$ 14,000,000	\$ 225,000
Unamortized Bond Premium	n/a	2/8/2007	2027	348,249	348,249	-
Riverlawn Elem. School	4.50%	5/15/2008	2029	5,255,000	5,255,000	-
Unamortized Bond Premium	n/a	5/15/2008	2029	348,754	348,754	-
Riverlawn Elem. School	2.92%	4/1/2008	2013	1,300,000	1,300,000	121,686
Total Lease Revenue Notes					<u>\$ 21,252,003</u>	<u>\$ -</u>
Total					<u>\$ 26,857,310</u>	<u>\$ 857,264</u>

NOTE 7 – DUE TO COUNTY OF PULASKI:

\$ 500,000 due to County related to a 1990 revenue bond originally due April 15, 2005. No firm repayment schedule has been set by the Board of Supervisors for this obligation.

NOTE 8 – NOTES RECEIVABLE:

At June 30, 2008, the Authority had the following notes receivable:

<u>Due From</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Principal Outstanding</u>
Medco	2016	0.00%	\$ 210,000
Nanochemonics	2008	6.00%	250,000

COMPLIANCE SECTION

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 Members of the Board
Industrial Development Authority of Pulaski County
Pulaski, Virginia

We have audited the financial statements of the Industrial Development Authority of Pulaski County, a

This report is intended solely for the information and use of management, the Board of Directors and others within the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Co. Associates

Christiansburg, Virginia

March 30, 2009