

INDUSTRIAL DEVELOPMENT AUTHORITY

OF PULASKI COUNTY, VIRGINIA

(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)

**FINANCIAL REPORT
YEAR ENDED JUNE 30, 2009**

FINANCIAL SECTION

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

**INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2009**

This report offers readers of the financial statements of the Industrial Development Authority of Pulaski County (IDA) with a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2009. 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.

The *Statement of Net Assets* (Exhibit 1) presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Assets* (Exhibit 2) presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* (Exhibit 3) provides information regarding the Authority's cash receipts and cash disbursements during the year. This statement differs from the *Statement of Revenues, Expenses, and Changes in Net Assets* statement in that it accounts only for transactions that result in cash receipts and cash disbursements.

The *Notes to Financial Statements* beginning on page 10 provide additional information that is essential to a full understanding of the data provided in the financial statements. They provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

FY 2008-09 HIGHLIGHTS

1. As noted in Exhibit 1, the assets of the IDA exceeded its liabilities by \$6,429,549 (net assets) as of June 30, 2009. Of this amount \$3,535,221 (unrestricted net assets) may be used to meet the IDA's ongoing obligations to customers and creditors. The remaining net assets consist of capital assets net of related debt.
2. As reported in Exhibit 2, the total net assets of the IDA decreased by \$178,612 from \$6,608,161 in

6. Operating revenues in Exhibit 2 of \$1,409,221 primarily consisted of building rental fees, local contributions (interest on loan repayments), and sale of property at Heron's Landing.

7. The Industrial Development Authority increased payments from industrial sector firms for the rental

of space within the Bob White Building again in 2009. However, the increases in rent and utility payments still did not cover total debt service, utility and maintenance costs by approximately \$98,900 for the building in addition to losing one rental business. During the fiscal year, two businesses occupied the Bob White building. 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

The following table provides a summary comparison of the change net assets for the 2007-08 and 2008-09 fiscal years:

	<u>FY 2007-08</u>	<u>FY 2008-09</u>
Operating revenues	\$ 2,125,473	\$ 1,409,221
Operating expenses	(304,068)	(2,203,295)
Income from Operations	\$ 1,821,405	\$ (794,074)
Non-operating revenues	\$ 952,415	\$ 1,822,468
Non-operating expenses	(1,041,725)	(1,207,006)
Non-operating Income (expenses)	\$ (89,310)	\$ 615,462
Change in Net Assets	\$ 1,732,095	\$ (178,612)

As noted in the above table, the 2008-09 fiscal year resulted in a decrease in Net Assets in the amount of \$178,612. Operating revenues decreased by \$716,252 largely due to an Economic Development Partnership Grant of \$1,000,000 that was received in fiscal year 2008 which in turn increased Operating Expenses during FY 2008-09 when the \$1,000,000 grant was refunded to the State of Virginia.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling \$5,100,054 and \$5,548,309 for 2008 and 2009, 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, 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, 2009 balance of \$2,653,981), two loans were made in December 2005 and January 2007 to provide Findlay Industries to promote industry growth (June 30, 2009 balances of \$1,850,650 and \$589,750, respectively), and a lease revenue note for Riverlawn Elementary School in the amount of \$13,775,000. The Board of Supervisors of the County will provide revenue in the form of contributions to cover the debt service of this school issuance. Offsetting this liability is a lease revenue note receivable in the same amount payable by the County. The Authority received information that Findlay was ceasing operations as of May 1, 2009. As a result, Findlay has defaulted on their loan to the Authority. More details concerning Findlay can be found in Note 11 Subsequent Events.

At the end of the fiscal year ending June 30, 2009, the Authority had long-term debt of \$20,255,011. More detailed information about the Authority's indebtedness, including annual debt service requirements, is presented in Note 9 to the financial statements.

41-50116 In addition, economic development efforts have been increased to lease the Shell building

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 Peter M. Huber,

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, 2009

Assets:*Unrestricted Current Assets:*

Cash and cash equivalents	\$ 432,057
Accounts receivable	7,792
Interest receivable	292,054
Rent receivable	16,917
Due from primary government	1,711,631
Notes receivable-current portion	<u>8,050,018</u>
 Total Unrestricted Current Assets	 \$ <u>10,510,469</u>

Non-current Assets:

Notes receivable-long-term portion	\$ 11,428,580
Capital assets	7,990,123
Allowance for depreciation	<u>(2,441,814)</u>
 Total Non-current Assets	 \$ <u>16,976,889</u>

Total Assets	\$ <u>27,487,358</u>
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Liabilities:*Current Liabilities:*

Accounts payable	\$ 14,494
Interest payable	288,304
Notes payable-current portion	8,544,266
Due to County-current portion	<u>500,000</u>
 Total Current Assets	 \$ <u>9,347,064</u>

Non-current Liabilities:

Notes payable-long-term portion	\$ <u>11,710,745</u>
 Total Liabilities	 \$ <u>21,057,809</u>

Net Assets:

Invested in capital assets, net of related debt	\$ 2,894,328
Unrestricted	<u>3,535,221</u>
 Total Net Assets	 \$ <u>6,429,549</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 Revenues, Expenses and Changes in Net Assets
 Year Ended June 30, 2009

Operating Revenues:

Lease/rental fees	\$	325,001
Sale of property		19,903
Contributions from County		252,301

Miscellaneous		<u>4,315</u>
Total operating revenue	\$	<u>1,409,221</u>

Operating Expenses:

Board compensation	\$	2,450
Materials and maintenance		9,207
Contractual services		67,151
Insurance		20,515
Local industry assistance		5,000
Utilities		105,025
Revenue refunds		1,009,030
Economic stimulus program		807,701
Miscellaneous		4,853
Depreciation		<u>172,363</u>

Total operating expenses	\$	<u>2,203,295</u>
Operating Income (Loss)	\$	<u>(794,074)</u>

Non-operating Revenues and (Expenses):

Interest income	\$	29,952
Gain on sale of property		106,741
Interest on notes receivable		169,484
Recovered costs		903,930
Assets contributed by County		612,361
Interest expense		<u>(1,207,006)</u>

Total non-operating revenues and expenses	\$	<u>615,462</u>
Increase (decrease)	\$	<u>(178,612)</u>

Net Assets, Beginning of Year - Restated	\$	<u>6,608,161</u>
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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	\$ 308,084
Cash received from others	272,221
Cash paid to suppliers for goods and services	<u>(2,020,780)</u>
Net cash provided (used) by operating activities	\$ <u>(1,440,475)</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	\$ 307,343
Payments received on notes receivable	844,076
Retirement of indebtedness	(981,133)
Interest and loan cost paid on debt	<u>(1,254,020)</u>
Net cash provided (used) by capital and related financing activities	\$ <u>(1,083,734)</u>
Cash flows from investing activities:	
Interest income	\$ <u>231,538</u>
Net increase (decrease) in cash	\$ <u>(2,292,671)</u>
Cash at beginning of year	\$ <u>2,724,728</u>
Cash at end of year	\$ <u><u>432,057</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
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Operating income (loss)	\$ <u>(794,074)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation/amortization	\$ 172,363
(Increase) decrease in receivables	(21,215)
Increase (decrease) in operating accounts payable	10,152
(Increase) decrease in amounts due from primary government	<u>(807,701)</u>
Net cash provided (used) by operating activities	\$ <u><u>(1,440,475)</u></u>

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

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements
At June 30, 2009

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 which 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 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, and 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 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.

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 (Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,234,987	\$ -	\$ (200,602)	\$ 1,034,385
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,343,377	\$ 612,361	\$ -	\$ 6,955,738
Less: accumulated depreciation for:				
Buildings and improvements	\$(2,269,451)	\$ (172,363)	\$ -	\$(2,441,814)
Total capital assets being depreciated, net	\$ 4,073,926	\$ -	\$ -	\$ 4,513,924
Business-Type activities capital assets, net	\$ 5,308,913	\$ 439,998	\$ (200,602)	\$ 5,548,309

Depreciation expense for the year amounted to \$172,363. 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, 2009, 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, 2009

NOTE 6-LONG TERM DEBT:

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

<u>Year Ending June 30,</u>	<u>Revenue Bonds</u>		<u>Lease Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 539,553	\$ 295,900	\$ 7,987,301	\$ 700,186
2011	570,182	267,925	504,782	306,013
2012	602,559	237,297	522,422	289,184
2013	636,785	204,919	540,289	271,118
2014	672,966	170,694	280,000	253,813
2015-2019	2,072,336	188,308	1,565,000	1,092,300
2020-2024	-	-	1,985,000	669,150
2025-2029	-	-	1,445,000	146,750
Totals	<u>\$ 5,094,381</u>	<u>\$ 1,365,043</u>	<u>\$ 14,829,794</u>	<u>\$3,728,514</u>

Changes in long-term debt:

	<u>Balance July 1, 2008</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>
Revenue bonds	\$ 5,605,307	\$ -	\$ (510,926)	\$ 5,094,381
Lease revenue notes	15,300,000	-	(470,206)	14,829,794
Unamortized bond premiums	348,248	-	(17,412)	330,836
Total	<u>\$ 21,253,555</u>	<u>\$ -</u>	<u>\$ (998,544)</u>	<u>\$ 20,255,011</u>

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PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2009

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	\$ 2,653,981	\$ 241,947
Findlay Industries	5.75%	12/25/2005	2016	2,500,000	1,850,650	226,549
Findlay Industries	6.25%	1/1/2007	2016	750,000	589,750	71,057
Total Revenue Bonds					\$ 5,094,381	\$ 539,553
Lease Revenue Notes:						
Riverlawn Elem. School	3.5-5.25%	2/8/2007	2027	\$ 14,000,000	\$ 13,775,000	\$ 7,735,000
Unamortized Bond Premium	n/a	2/8/2007	2027	348,248	330,836	17,412
Riverlawn Elem. School	2.92%	4/1/2008	2013	1,300,000	1,054,794	252,301
Total Lease Revenue Notes					\$ 15,160,630	\$ 8,004,713
Total					\$ 20,255,011	\$ 8,544,266

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, 2009, the Authority had the following notes receivable:

<u>Due From</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Principal Outstanding</u>
Mebco	2016	0.00%	\$ 210,000
Nanochemonics	2010	6.00%	250,000
Findlay Industries	2016	5.75%	2,479,768
Findlay Industries	2016	0.00%	1,378,200
Pulaski County	2027	3.5-5.25%	15,160,630
Total			\$ 19,478,598

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2009

NOTE 9 – DEFINED BENEFIT PENSION PLAN:

The Authority participates in the Virginia Retirement System through the County of Pulaski, Virginia. The Authority contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (System). Actuarial information, trend information and the funding status and progress of the plan are included in the comprehensive annual report for the County of Pulaski, Virginia.

NOTE 10 – RESTATEMENT OF BEGINNING NET ASSETS:

Beginning Net Assets - as previously reported	\$ 6,242,159
Assets added	<u>366,002</u>
Beginning Net Assets - as restated	\$ <u>6,608,161</u>

NOTE 11 – SUBSEQUENT EVENTS:

The Authority received information that Findlay was ceasing operations on May 1, 2009. As a result, they defaulted on their loan to the Authority. Payments on the note were received through November 2009, and a final settlement of \$365,000 was agreed upon and received during January 2010. The Authority is currently in the process of refinancing this note.

COMPLIANCE SECTION

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 or other matters that are required to be reported under *Government Auditing Standards*.

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.

Robert A. ...

Christiansburg, Virginia
May 6, 2010

Pulaski County IDA

Schedule of Findings and Responses
Year Ended June 30, 2009

2009-1

Condition: The Authority's 2009 adjusted trial balance required significant adjustments that were made by the auditors.

Criteria: Per Statement on Auditing Standards 112, an auditee should have sufficient expertise in the selection and application of accounting principles used in the preparation of the annual financial report. In addition, the auditee should have sufficient internal controls over the preparation of financial statements in accordance with generally accepted accounting principles. Furthermore, reliance on the auditors to post such transactions is not a component of the auditee's internal controls.

Effect: There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

Management's

Response: Management is dedicated to complying with the concepts set forth in Statement on Auditing Standards 112 and will make efforts in the future to eliminate material errors from its adjusted trial balance.