



INDUSTRIAL DEVELOPMENT AUTHORITY

OF PULASKI COUNTY, VIRGINIA

(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010

Pulaski County Industrial Development Authority
Annual Financial Report
Fiscal Year Ended June 30, 2010

Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis	2-4

Statement of Net Assets	5
Statement of Revenues, Expenses, and Changes in Net Assets	6
Statement of Cash Flows.....	7
Notes to Financial Statements.....	8-13

COMPLIANCE SECTION

GENERAL PRINCIPLES

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 Industrial Development Authority of Pulaski County, Virginia, for the year ended December 31, 2011, and the related notes to the financial statements, which collectively comprise the Industrial Development Authority of Pulaski County's financial statements. These 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 the standards of the American Institute of Certified Public Accountants. Our audit was not intended to provide assurance on the financial statements for the purpose of the Industrial Development Authority of Pulaski County's management. Our audit was not intended to provide assurance on the financial statements for the purpose of the Industrial Development Authority of Pulaski County's management.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2010**

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, 2010. 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 on the changes in the Authority's cash and cash equivalents during the fiscal year.

located in the Corporate Center, during fiscal year 2010 and is currently planning to lease a portion of the industrial space to James Hardie.

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 net assets for the 2008-09 and 2009-10 fiscal years:

	<u>FY 2008-09</u>	<u>FY 2009-10</u>
Current Assets	\$ 10,510,469	\$ 2,004,003
Noncurrent Assets	16,914,137	18,314,975
<u>Total Assets</u>	<u>\$ 27,424,606</u>	<u>\$ 20,318,978</u>
Current Liabilities	\$ 9,347,064	\$ 2,468,413
Noncurrent Liabilities	11,710,745	11,124,090
<u>Total Liabilities</u>	<u>\$ 21,057,809</u>	<u>\$ 13,592,503</u>
Invested in capital assets net of related debt	\$ 2,831,576	\$ 6,625,899
Unrestricted	3,535,221	100,576
<u>Total Net Assets</u>	<u>\$ 6,366,797</u>	<u>\$ 6,726,475</u>

As included in Exhibit 1 and summarized above, the net assets of the Authority increased by \$1,677,878, from \$6,366,797, on June 30, 2009 (as restated) to \$8,044,675 on June 30, 2010. The IDA's non current assets increased by \$2,719,038 due to the addition of two industrial properties during FY 2010. The notes payable current portion decreased significantly due to a principal payment in the amount of \$7,500,000 paid in February 2010 on the Riverlawn Elementary debt. It was anticipated that the Pulaski County Schools would receive a Literary Fund loan in FY 2009-2010 to cover the cost of this principal payment. However, the Commonwealth of Virginia discontinued all Literary Fund loans in FY 2010 thereby requiring the County of Pulaski to issue additional debt in

the amount of \$7,500,000 to cover the principal payment due in FY 2010 on the Riverlawn Elementary School original loan issued in 2007.

The following table provides a summary comparison of the change net assets for the 2008-08 and 2009-10 fiscal years:

As noted in the above table, the 2009-10 fiscal year resulted in a decrease in Net Assets in the amount of \$1,677,878. Operating revenues increased by \$475,035 while operating expenses increased by \$1,387,986.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling \$5,449,957 (as restated) and \$11,181,250 for 2009 and 2010, respectively. These assets consisted of the ownership of the Bob White Building, the former Gresham 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, Maple Shade Center, the former TMD building and the former Findlay building located in 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

At the end of the fiscal year ending June 30, 2010, the Authority had long-term debt of \$11,718,421 with \$1,094,331 due during the next fiscal year. More detailed information about the Authority's indebtedness, including annual debt service requirements, is presented in Note 6 to the financial statements.

As 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, 2010 balance of \$2,413,000), two loans made in December 2005 and January 2007 for Findlay Industries (June 30, 2010 balances of \$1,624,101 and \$518,250 respectively), and two lease revenue notes for Riverlawn Elementary School in the amount of \$6,849,646. During FY 2009, the Authority received information that Findlay Industries had ceased operations as of May 1, 2009. As a result, Findlay Industries defaulted on the balance of their loan due to the Authority. The IDA has continued to pay the Revenue Bonds for the Findlay property. In May 2010, the IDA was successful in securing a lease with Phoenix Packaging for the Findlay Industries property. Lease payments for Phoenix Packaging will begin in May 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The declining condition of the economy and the state of private-sector investment continue to be major factors in determining the Authority's activity level. Another primary factor is the competitive nature of economic development and the need for the County to invest in the incentives required to successfully locate significant projects such as James Hardie Building Products and Phoenix Packaging within the County. Finally, it is anticipated that the collection of rent and utility payments due to the IDA for the lease of the Bob White building will continue to increase as the County continues to increase efforts to rent additional space at this facility. The County Economic Development office continually strives to lease or sell all industrial space owned by the Industrial Development Authority.

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, County Administrator, Pulaski County, Virginia, 143 Third Street, Pulaski, VA 24301.

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INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Statement of Net Assets
June 30, 2010

Assets:*Current Assets:*

Cash and cash equivalents	\$	31,606
Accounts receivable		858,465
Interest receivable		251,829
Rent receivable		6,764
Prepaid expenses		19,378
Due from primary government		313,767
Notes receivable-current portion		<u>522,194</u>
 Total Current Assets	 \$	 <u>2,004,003</u>

Non-current Assets:

Notes receivable-long-term portion	\$	7,133,725
Capital assets		13,876,859
Less: Accumulated depreciation		<u>(2,695,609)</u>
 Total Non-current Assets	 \$	 <u>18,314,975</u>
 Total Assets	 \$	 <u>20,318,978</u>

Liabilities:*Current Liabilities:*

Accounts payable	\$	1,122,253
Interest payable		251,829
Notes payable-current portion		522,194
Bonds payable-current portion		<u>572,137</u>
 Total Current Liabilities	 \$	 <u>2,468,413</u>

Non-current Liabilities:

Notes payable-long-term portion	\$	6,640,876
Bonds payable-long-term portion		3,983,214
Due to County-long-term portion		<u>500,000</u>
 Total Non-current Liabilities	 \$	 <u>11,124,090</u>
 Total Liabilities	 \$	 <u>13,592,503</u>

Net Assets:

Invested in capital assets, net of related debt	\$	6,625,899
Unrestricted		<u>100,576</u>
 Total Net Assets	 \$	 <u>6,726,475</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)
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2010

Operating Revenues:	
Lease/rental fees	\$ 330,552
Sale of property	26,000
Contributions from County	588,898
Microenterprise grant	78,274
Governor's opportunity fund	850,000
Miscellaneous	<u>10,532</u>
Total operating revenue	\$ <u>1,884,256</u>
Operating Expenses:	
Board compensation	\$ 3,300
Materials and maintenance	18,429
Contractual services	229,049
Insurance	23,404
Training	17,860
Utilities	147,360
Microenterprise grant	65,000
Governor's opportunity grant	850,000
Miscellaneous	13,778
Depreciation	<u>253,795</u>
Total operating expenses	\$ <u>1,621,975</u>
Operating Income (Loss)	\$ <u>262,281</u>
Non-operating Revenues and (Expenses):	
Interest income	\$ 9,823
Gain (loss) on sale of property	1,780
Gain (loss) on write-off of receivable	259,194
Interest on notes receivable	326,588
Recovered costs	356,271
Interest expense	<u>(856,259)</u>
Total non-operating revenues and expenses	\$ <u>97,397</u>
Increase (decrease)	\$ <u>359,678</u>
Net Assets, Beginning of Year - As Restated	\$ <u>6,366,797</u>
Net Assets, End of Year	\$ <u><u>6,726,475</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)
Statement of Cash Flows
Year Ended June 30, 2010

Cash flows from operating activities:	
Cash received from lessees	\$ 340,705
Cash received from others	2,100,894
Cash paid to suppliers for goods and services	<u>(279,798)</u>
Net cash provided (used) by operating activities	<u>\$ 2,161,801</u>
Cash flows from capital and related financing activities:	
Proceeds (loss) from sale of capital assets	\$ 4,531
Purchase of Capital assets	(2,438,388)
Payments received on notes receivable	8,568,022
Recovered costs	356,271
Retirement of indebtedness	(8,536,590)
Interest and loan cost paid on debt	<u>(892,734)</u>
Net cash provided (used) by capital and related financing activities	<u>\$ (2,938,888)</u>
Cash flows from investing activities:	
Interest income	\$ 376,636
Net increase (decrease) in cash	<u>\$ (400,451)</u>
Cash and cash equivalents at beginning of year	<u>\$ 432,057</u>
Cash and cash equivalents at end of year	<u>\$ 31,606</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating income (loss)	\$ 262,281
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation/amortization	\$ 253,795
(Increase) decrease in receivables	(840,520)
Increase (decrease) in operating accounts payable	1,107,759
(Increase) decrease in amounts due from primary government	1,397,864
(Increase) decrease in prepaid expenses	<u>(19,378)</u>
Net cash provided (used) by operating activities	<u>\$ 2,161,801</u>

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

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PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements
At June 30, 2010

NOTE 1 – ORGANIZATION, DESCRIPTION OF THE ENTITY:

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 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 the 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, 2010

NOTE 3 – CAPITAL ASSETS:

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>
Capital assets, not being depreciated:				
Land	\$ 936,033	\$ 377,151	\$ -	\$ 1,313,184
Construction in progress	-	447,615	-	447,615
Total capital assets not being depreciated	<u>\$ 936,033</u>	<u>\$ 824,766</u>	<u>\$ -</u>	<u>\$ 1,760,799</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,955,738	\$ 5,160,322	\$ -	\$ 12,116,060
Total capital assets being depreciated, net	<u>\$ 6,955,738</u>	<u>\$ 5,160,322</u>	<u>\$ -</u>	<u>\$ 12,116,060</u>
Less: accumulated depreciation for:				
Buildings and improvements	\$ (2,441,814)	\$ (253,795)	\$ -	\$ (2,695,609)

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2010

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.

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,	Revenue Bonds		Lease Revenue Notes	
	Principal	Interest	Principal	Interest
2011	\$ 572,137	\$ 235,341	\$ 504,782	\$ 306,013
2012	604,623	202,855	522,423	289,184
2013	638,965	168,614	547,441	271,118
2014	675,267	132,211	280,000	253,813
2015	713,644	93,834	290,000	243,312
2016-2020	1,350,715	87,044	1,635,000	1,021,388
2021-2025	-	-	2,085,000	569,000
2026-2030	-	-	985,000	74,500
Totals	<u>\$ 4,555,351</u>	<u>\$ 919,899</u>	<u>\$ 6,849,646</u>	<u>\$3,028,328</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2010:

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
Revenue bonds	\$ 5,094,381	\$ -	\$ (539,030)	\$ 4,555,351
Lease revenue notes	14,829,794	-	(7,980,148)	6,849,646
Unamortized bond premiums	330,836	-	(17,412)	313,424
Total	<u>\$ 20,255,011</u>	<u>\$ -</u>	<u>\$ (8,536,590)</u>	<u>\$ 11,718,421</u>

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PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2010

NOTE 6-LONG TERM DEBT: (Continued)

Details of indebtedness:

	Interest Rate(s)	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-Type Activities	Amount Due Within One Year
Revenue Bonds:						
Bobwhite Blvd. Bldg.	5.12%	6/6/2003	2018	\$ 3,882,000	\$ 2,413,000	\$ 255,560
Findlay Industries	5.75%	12/25/2005	2016	2,500,000	1,624,101	240,950
Findlay Industries	6.25%	1/1/2007	2016	750,000	518,250	75,627
Total Revenue Bonds					\$ 4,555,351	\$ 572,137
Lease Revenue Notes:						
Riverlawn Elem. School	3.5-5.25%	2/8/2007	2027	\$ 14,000,000	\$ 6,040,000	\$ 245,000
Unamortized Bond Premium	n/a	2/8/2007	2027	348,248	313,424	17,412
Riverlawn Elem. School	2.02%	1/1/2008	2018	1,200,000	888,818	111,182

Total Lease Revenue Notes	\$ 7,163,070	\$ 522,194
Total Long-Term Debt	\$ 11,718,421	\$ 1,094,331

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.

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2010

NOTE 10 – FINDLAY BUILDING:

During the year, Findlay ceased operations and cancelled the capital lease that it had with the Authority. The Findlay building reverted back to the Authority and was included in the asset listing at the December assessed value of \$3,546,700. The transaction also resulted in the write-off of the note receivable in the amount of \$3,347,506 which resulted in a gain for the Authority of \$259,194.

NOTE 11 – CONDUIT DEBT:

The Authority has issued economic development revenue bonds for various purposes. All responsibility for the debt rests with the borrower. The Authority has no responsibility for the payment of this debt. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

NOTE 12 – RESTATEMENT OF BEGINNING NET ASSETS:

Beginning Net Assets, As Previously Reported	\$ 6,429,549
Loss on sale of assets	<u>62,752</u>
Net Assets, Restated	\$ 6,366,797

COMPLIANCE SECTION

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*

Pulaski County IDA

Schedule of Findings and Responses
Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2010-1

Criteria: Per Statement on Auditing Standards 115, 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.

Condition: The Authority's 2010 adjusted trial balance required significant adjustments that were made by the auditors.

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