

INDUSTRIAL DEVELOPMENT AUTHORITY

OF PULASKI COUNTY, VIRGINIA

(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)

**FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011**

**Pulaski County Industrial Development Authority
Annual Financial Report
Fiscal Year Ended June 30, 2011**

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FINANCIAL SECTION

FINANCIAL STATEMENTS

**INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2011**

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, 2011. 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 cash receipts and payments. This information is presented in Exhibit 2.

Pulaski County Department of Social Services in FY 2011-2012, and the Registrar and joint County/School IT department upon estimated completion in FY 2013-2014.

7. During the fiscal year 2011, three 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. Additionally, Dove Windows completed a lease purchase during FY 2011 on the former Warner-Lambert facility, a 75,000 square foot industrial facility located in the Pulaski County Corporate Center.
8. In FY 2010, Pulaski County was awarded a grant from the Virginia Department of Housing and Community Development Community Development Block Grant for Micro Solutions Microenterprise funding with grant management assistance provided by Beans and Rice, Inc., a local community economic development organization. At the end of fiscal year 2010-2011, the Grant had provided Micro Loans/Micro Credit Loans to a total of 6 local small business in the amount of \$150,300.

FINANCIAL ANALYSIS

Net assets may serve as a useful indicator of an entity's financial position. The Industrial

The following table provides a summary comparison of the change net assets for the 2009-10 and 2010-11 fiscal years:

	FY 2009-10	FY 2010-11
Operating revenues	\$ 1,884,256	\$ 4,451,060
Operating expenses	(1,621,975)	(1,125,956)
Income from Operations	\$ 262,281	\$ 3,325,104
Non-operating revenues	\$ 791,714	\$ 1,238,480
Non-operating expenses	(856,259)	(384,350)
Non-operating Income (expenses)	\$ (64,545)	\$ 854,130
Capital Contributions	-	-
Change in Net Assets	\$ 197,736	\$ 4,179,234

As noted in the above table, the 2010-11 fiscal year resulted in a increase in Net Assets in the amount of \$4,179,234. Operating revenues increased by \$2,566,804 while operating expenses decreased by

\$496,019.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling \$13,876,859 and \$11,550,864 for 2010 and 2011, respectively. These assets consisted of the ownership of the Bob White 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, County Administrator, Pulaski County, Virginia, 143 Third Street, Pulaski, VA 24301.

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, 2011

Operating Revenues:	
Lease/rental fees	\$ 383,065
Sale of property	146,000
Contributions from County	3,907,421
Microenterprise grant	5,610
Miscellaneous	<u>8,964</u>
Total operating revenues	\$ <u>4,451,060</u>
Operating Expenses:	
Board compensation	\$ 4,500
Materials and maintenance	56,226
Contractual services	107,360
Insurance	22,779
Training	20,303
Utilities	350,083
Governor's opportunity grant	23,072
Bad debt expense	250,000
Miscellaneous	71,695
Depreciation	<u>219,938</u>
Total operating expenses	\$ <u>1,125,956</u>
Operating Income (Loss)	\$ <u>3,325,104</u>
Non-operating Revenues and (Expenses):	
Gain (loss) on sale of property	\$ 770,230
Interest on notes receivable	302,919
Recovered costs	165,331
Interest expense	<u>(384,350)</u>
Total non-operating revenues and expenses	\$ <u>854,130</u>
Increase (decrease)	\$ <u>4,179,234</u>
Net Assets, Beginning of Year - as Restated	\$ <u>6,564,533</u>
Net Assets, End of Year	\$ <u><u>10,743,767</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
June 30, 2011

Cash flows from operating activities:	
Cash received from lessees	\$ 370,466
Cash received from others	5,187,322
Cash paid to suppliers for goods and services	<u>(1,513,429)</u>
Net cash provided (used) by operating activities	\$ <u>4,044,359</u>
Cash flows from capital and related financing activities:	
Proceeds (loss) from sale of capital assets	\$ 10,000
Purchase of Capital assets	(3,080,637)
Notes receivable issued	(735,300)
Payments received on notes receivable	1,195,004
Recovered costs	165,331
Retirement of indebtedness	(1,112,441)
Interest and loan cost paid on debt	<u>(517,922)</u>
Net cash provided (used) by capital and related financing activities	\$ <u>(4,075,965)</u>
Net increase (decrease) in cash	\$ <u>(31,606)</u>
Cash at beginning of year	\$ <u>31,606</u>
Cash at end of year	\$ <u><u>-</u></u>

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

Operating income (loss)	\$ <u>3,325,104</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation/amortization	\$ 219,938
Bad debt expense	250,000
(Increase) decrease in receivables	825,068
Increase (decrease) in operating accounts payable	(908,896)
(Increase) decrease in amounts due from primary government	313,767
(Increase) decrease in prepaid expenses	<u>19,378</u>
Net cash provided (used) by operating activities	\$ <u><u>4,044,359</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, 2011

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, 2011

NOTE 2-DEPOSITS AND INVESTMENTS:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States 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). The Authority does not have an investment policy.

Investments of the Authority are part of the County's pooled investments. GASB 40 disclosures can be found in the County's June 30, 2011 Financial Report.

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PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2011

NOTE 3 – 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	\$ 1,023,784	\$ 137,853	\$ (140,103)	\$ 1,021,534
Construction in progress	451,127	1,280,617	-	1,731,744
Total capital assets not being depreciated	<u>\$ 1,474,911</u>	<u>\$ 1,418,470</u>	<u>\$ (140,103)</u>	<u>\$ 2,753,278</u>
Capital assets, being depreciated:				
Buildings and improvements	<u>\$ 8,855,248</u>	<u>\$ 1,662,167</u>	<u>\$(1,719,829)</u>	<u>\$ 8,797,586</u>
Less: accumulated depreciation for:				
Buildings and improvements	<u>\$ (2,614,177)</u>	<u>\$ (219,938)</u>	<u>\$ 57,662</u>	<u>\$ (2,776,453)</u>
Total capital assets being depreciated, net	<u>\$ 6,241,071</u>	<u>\$ 1,442,229</u>	<u>\$(1,662,167)</u>	<u>\$ 6,021,133</u>
Business-Type activities capital assets, net	<u>\$ 7,715,982</u>	<u>\$ 2,860,699</u>	<u>\$(1,802,270)</u>	<u>\$ 8,774,411</u>

Depreciation expense for the year amounted to \$219,938. 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, 2011, no interest paid was capitalized and added to the cost of depreciable buildings and improvements.

NOTE 4 - 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, 2011

NOTE 5 - 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>
2012	\$ 576,200	\$ 188,469	\$ 522,423	\$ 289,184
2013	638,299	156,405	540,332	271,119
2014	672,220	122,484	280,000	253,813
2015	707,986	86,715	290,000	243,312
2016	685,241	49,004	300,000	231,712
2017-2021	692,267	31,788	1,715,000	943,174
2022-2026	-	-	2,185,000	464,750
2027-2030	-	-	505,000	25,250
Totals	\$ 3,972,213	\$ 634,865	\$ 6,337,755	\$2,722,314

Changes in long-term debt:

	<u>Balance July 1, 2010</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
Revenue bonds	\$ 4,555,351	\$ -	\$ (583,138)	\$ 3,972,213
Lease revenue notes	6,849,646	-	(511,891)	6,337,755
Unamortized bond premiums	313,424	-	(17,412)	296,012
Total	\$ 11,718,421	\$ -	\$ (1,112,441)	\$ 10,605,980

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PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2011

NOTE 5 - 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	\$ 2,145,415	\$ 241,618
Findlay Industries	5.75%	12/25/2005	2016	2,500,000	1,384,176	245,090
Findlay Industries	6.25%	1/1/2007	2016	750,000	442,622	80,492
Total Revenue Bonds					<u>\$ 3,972,213</u>	<u>\$ 567,200</u>
Lease Revenue Notes:						
Riverlawn Elem. School	3.5-5.25%	2/8/2007	2027	\$ 14,000,000	\$ 5,795,000	\$ 255,000
Unamortized Bond Premium	n/a	2/8/2007	2027	348,248	296,012	17,412
Riverlawn Elem. School	2.92%	4/1/2008	2013	1,300,000	542,755	267,423
Total Lease Revenue Notes					<u>\$ 6,633,767</u>	<u>\$ 539,835</u>
Total					<u>\$ 10,605,980</u>	<u>\$ 1,107,035</u>

NOTE 6 – 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 7 – NOTES RECEIVABLE:

At June 30, 2011, the Authority had the following notes receivable:

<u>Due From</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Principal Outstanding</u>
Dave Diesel	2011	0.00%	\$ 28,318
Pulaski County	2027	3.5-5.25%	6,633,767
Phoenix Packaging	2025	300%	650,000
Titan Wildlife	2016	5.00%	27,811
Platinum Tanz	2016	5.00%	25,159
<hr/>			
Grasshopper Lawn Care	2017	5.00%	28,163
Virginia Stone and Brick	2017	5.00%	41,901
Michael Lutz	2016	5.00%	9,669
Phillips' Used Auto Parts	2012	12.00%	1,244
Total			<u>\$ 7,446,032</u>

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
Notes to Financial Statements (Continued)
At June 30, 2011

NOTE 8 – 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 9 – LEASE PURCHASE RECEIVABLES:

<u>Due From</u>	<u>Balance Outstanding</u>	<u>Amount Due Within One Year</u>	<u>Interest Receivable</u>
Phoenix Packaging Operations, LLC	\$ 3,240,000	\$ 1	\$ -
Dove Properties Virginia, LLC	2,562,500	75,000	-
Total	<u>\$ 5,802,500</u>	<u>\$ 75,001</u>	<u>\$ -</u>

A lease purchase agreement was entered into with Phoenix Packaging Operations, LLC for the purchase of a building and land. Phoenix Packing Operations, LLC is required to make payments based on an agreed upon schedule until 2027. At the end of the lease term, the lessee has the option to purchase both the land and building for \$1.

A lease purchase agreement was entered into with Dove Properties Virginia, LLC for the purchase of a building and land. Dove Properties Virginia, LLC is required to make payments based on an agreed upon schedule until 2025. At the end of the lease term, the lessee has the option to purchase both the land and building for \$1.

NOTE 10 – RESTATEMENT OF BEGINNING BALANCES:

Net Assets, as Previously Stated	\$ 6,726,475
Loss on capital lease	(225,268)
Adjustment to notes receivable	63,326
Net Assets, as Restated	<u>\$ 6,564,533</u>

COMPLIANCE SECTION

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 Members of the Board
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, a component unit of Pulaski County, VA, as of and for the year ended June 30, 2011, and have issued our report thereon dated February 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Industrial Development Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Industrial Development Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (reference 2011-1).

Pulaski County IDA

Schedule of Findings and Responses
Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weaknesses identified?	Yes
Significant deficiencies?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2011-1

Criteria:

Per auditing standards, 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 2011 adjusted trial balance required significant adjustments that were made by the auditors.

Cause of Condition:

The Authority has historically relied on the auditors for assistance in preparing the financial statements and related adjustments.

Effect of Condition:

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.

Recommendation:

Management should continue to implement and follow review procedures in order to make adjustments in a timely manner.

Management's Response:

Management is dedicated to complying with the concepts set forth by auditing standards and will make efforts in the future to eliminate material errors from its adjusted trial balance.
