

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF PULASKI COUNTY, VIRGINIA  
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)**

**FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2014**

**Pulaski County Industrial Development Authority  
Annual Financial Report  
Fiscal Year Ended June 30, 2014**

---

**Table of Contents**

---

**FINANCIAL SECTION**

---

	<u>Page</u>
Independent Auditors' Report .....	1-2
Management's Discussion and Analysis .....	3-6
<b>Financial Statements:</b>	
Statement of Net Position .....	7
Statement of Revenues, Expenses, and Changes in Net Position .....	8
Statement of Cash Flows.....	9
Notes to Financial Statements .....	10-17

---

**COMPLIANCE SECTION**

---

**Compliance:**

Independent Auditors' 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> .....	18-19
Schedule of Findings and Responses .....	20

---

**FINANCIAL SECTION**

---

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Industrial Development Authority of Pulaski County, "Authority", as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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 Authority, as of June 30, 2014, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Industrial Development Authority of Pulaski, County internal control over financial reporting and compliance.

*Robinson, James G. Associates*

Blacksburg, Virginia  
February 6, 2015

**INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

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, 2014. 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 Position* (Exhibit 1) presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Position* (Exhibit 2) presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position 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 Position* 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 2013-14 HIGHLIGHTS**

1. As noted in Exhibit 1, the total assets of the IDA exceeded its total liabilities by \$18,182,701 (net position) as of June 30, 2014.
2. As reported in Exhibit 2, the total net position of the IDA increased by \$926,531 from \$17,256,168 in fiscal year 2012-2013 to \$18,182,701 in fiscal year 2013-2014.
3. Operating revenues in Exhibit 2 of \$1,760,333 primarily consisted of building rental fees, loan payments, Governor's Opportunity Funds, and contributions from Pulaski County Board of Supervisors.
4. Operating expenditures in Exhibit 2 of \$3,188,852 include property maintenance, insurance, utilities, depreciation, and Governor's Opportunity expenses.
5. From the cash perspective (described in Exhibit 3), IDA cash flows provided from operations, non-capital financing activities and investing activities totaled \$19,961,718 prior to being offset by \$21,640,349 in cash flows used in capital and related financing activities providing a \$1,678,631 decrease in the IDA's net cash during fiscal year 2013-14.

6. The IDA completed renovations to the Maple Shade Plaza where there are currently 3 businesses/retail shops leasing space. The Pulaski County Department of Social Services also leases space in the Maple Shade Plaza. During FY 2014 and FY 2015, the IDA will continue to make improvements to the parking lot.
7. During the fiscal year 2014, 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.

## FINANCIAL ANALYSIS

Net position 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 position for the 2012-13 and 2013-14 fiscal years:

	<u>FY 2013-14</u>	<u>FY 2012-13</u>
Current Assets	\$ 1,950,307	\$ 3,120,613
Noncurrent Assets	36,784,397	32,135,985
<b>Total Assets</b>	<b>\$ 38,734,704</b>	<b>\$ 35,256,598</b>
Deferred Outflows of Resources	\$ 401,932	\$ -
Current Liabilities	\$ 1,723,636	\$ 1,417,000
Noncurrent Liabilities	19,230,299	16,583,430
<b>Total Liabilities</b>	<b>\$ 20,953,935</b>	<b>\$ 18,000,430</b>
Invested in capital assets net of related debt	\$ 8,961,711	\$ 10,442,973
Unrestricted	9,220,990	6,813,195
<b>Total Net Position</b>	<b>\$ 18,182,701</b>	<b>\$ 17,256,168</b>

As included in Exhibit 1 and Exhibit 2 and summarized above, the total net position of the Authority increased by \$926,531 from \$17,256,168 on June 30, 2013 to \$18,182,701 on June 30, 2014.

*This space left blank intentionally*

The following table provides a summary comparison of the change net position for the 2012-13 and 2013-14 fiscal years:

	<u>FY 2013-14</u>	<u>FY 2012-13</u>
Operating revenues	\$ 1,760,333	\$ 1,725,406
Operating expenses	(3,188,852)	(1,556,043)
Income from Operations	\$ (1,428,519)	\$ 169,363
Non-operating revenues	\$ 3,151,939	\$ 343,930
Non-operating expenses	(796,887)	(766,401)
Non-operating Income (expenses)	\$ 2,355,052	\$ (422,471)
Capital Contributions	-	-
Change in Net Position	\$ 926,533	\$ (253,108)

As noted in the above table, the 2013-14 fiscal year resulted in a increase in Net Position in the amount of \$926,533. Operating revenues remained relatively level while operating expenses increased by \$1,632,809 due to increases in local industry assistance for Korona and Red Sun Farms. The Authority had a net loss from operations in the amount of \$1,428,519 for the 2013-14 fiscal year prior to the addition of non-operating revenues including contributions from the County in the amount of \$2,160,448.

#### **CAPITAL ASSETS**

The Authority had capital assets (net of accumulated depreciation) totaling \$11,524,401 and \$10,551,944 for fiscal years 2013 and 2014, respectively. These assets consisted of the ownership of the Bob White Building, 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 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, 2014 the Authority had long-term debt of \$20,289,354 with \$1,566,913 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 Bob White (formerly Renfro) building located on Bob White Boulevard (June 30, 2014 balance of \$1,319,043), Phoenix Packaging Expansion Loan (June 30, 2014 balance of \$3,205,466), a note payable for Riverlawn Elementary School totaling \$6,046,213 after refinancing, and Commerce Park debt in FY 2014 in the amount of \$6,580,000.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The 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, Phoenix Packaging, Red Sun Farms and Korona Candles 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.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA  
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)**

Statement of Net Position  
June 30, 2014

<b>Assets:</b>	
<i>Unrestricted Current Assets:</i>	
Accounts receivable	\$ 194,999
Interest receivable	28,276
Rent receivable	89,721
Capital lease receivable-current portion	543,600
Notes receivable-current portion	<u>585,985</u>
Total Unrestricted Current Assets	\$ <u>1,442,581</u>
<i>Restricted Current Assets:</i>	
Cash held for Virginia's First IFA	\$ <u>507,726</u>
Total Current Assets	\$ <u>1,950,307</u>
<i>Non-current Assets:</i>	
Capital lease receivable-long-term portion	\$ 6,608,310
Notes receivable-long-term portion	19,624,143
Capital assets	14,608,198
Less: accumulated depreciation	<u>(4,056,254)</u>
Total Non-current Assets	\$ <u>36,784,397</u>
Deferred Outflows of Resources	\$ <u>401,932</u>
Total Assets	\$ <u>39,136,636</u>
<b>Liabilities:</b>	
<i>Current Liabilities:</i>	
Accounts payable	\$ 132,572
Interest payable	24,151
Notes payable-current portion	1,258,284
Bonds payable-current portion	<u>308,629</u>
Total Current Liabilities	\$ <u>1,723,636</u>
<i>Non-current Liabilities:</i>	
Notes payable-long-term portion	\$ 2,981,252
Lease revenue notes-long-term portion	5,536,188
Bonds payable-long-term portion	10,205,001
Due to Pulaski County-long-term portion	<u>507,858</u>
Total Non-current Liabilities	\$ <u>19,230,299</u>
Total Liabilities	\$ <u>20,953,935</u>
<b>Net Position:</b>	
Net investment in capital assets	\$ 8,961,711
Unrestricted	<u>9,220,990</u>
Total Net Position	\$ <u>18,182,701</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 Position  
Year Ended June 30, 2014

<b>Operating Revenues:</b>	
Lease/rental fees	\$ 524,505
Microenterprise grant	125
Governor's opportunity fund	950,000
Department of Agriculture and Consumer Services Grant	100,000
Miscellaneous	<u>185,703</u>
Total operating revenues	\$ <u>1,760,333</u>
<b>Operating Expenses:</b>	
Board compensation	\$ 4,400
Materials and maintenance	188,692
Contractual services	303,667
Insurance	49,357
Local industry assistance	1,981,411
Utilities	329,587
Revenue refunds	4,933
Miscellaneous	10,992
Depreciation	<u>315,813</u>
Total operating expenses	\$ <u>3,188,852</u>
Operating Income (Loss)	\$ <u>(1,428,519)</u>
<b>Non-operating Revenues and (Expenses):</b>	
Gain (loss) on sale of property	\$ 51,950
Interest on notes receivable	1,898
Contributions from County	2,160,448
Recovered costs	937,643
Interest expense	<u>(796,887)</u>
Total non-operating revenues and expenses	\$ <u>2,355,052</u>
Change in net position	\$ <u>926,533</u>
Net Position, beginning of year, as restated	\$ <u>17,256,168</u>
Net Position, end of year	\$ <u><u>18,182,701</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**  
**June 30, 2014**

<b>Cash flows from operating activities:</b>	
Cash received from lessees	\$ 487,741
Cash received from others	1,055,287
Cash paid to suppliers for goods and services	<u>(2,825,478)</u>
Net cash provided by (used for) operating activities	\$ <u>(1,282,450)</u>
<b>Cash flows from non-capital financing activities:</b>	
Contribution from Pulaski County	\$ 2,160,448
Notes receivable issued	(10,114,284)
Payments received on notes receivable	6,072,164
Recovered Costs	937,643
Retirement of Indebtedness	(6,189,378)
Interest and loan costs paid on debt	<u>(879,132)</u>
Net cash provided by (used for) non-capital financing activities	\$ <u>(8,012,539)</u>
<b>Cash flows from capital and related financing activities:</b>	
Proceeds (loss) from sale of capital assets	\$ 51,950
Purchase of capital assets	(1,632,077)
Issuance of indebtedness	<u>9,194,587</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>7,614,460</u>
<b>Cash flows from investing activities:</b>	
Interest income	\$ <u>1,898</u>
Increase (decrease) in cash and cash equivalents	\$ <u>(1,678,631)</u>
Cash and cash equivalents at beginning of year	\$ <u>2,186,357</u>
Cash cash equivalents at end of year (included \$507,726 restricted cash)	\$ <u><u>507,726</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>	
Operating income (loss)	\$ <u>(1,428,521)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation/amortization	\$ 315,813
(Increase) decrease in receivables	(217,305)
Increase (decrease) in operating accounts payable	<u>47,563</u>
Net cash provided by (used for) operating activities	\$ <u><u>(1,282,450)</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, 2014**

---

**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.

**PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**  
**(A COMPONENT UNIT OF PULASKI COUNTY)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2014**

---

**NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Cash and Cash Equivalents**

For purposes of the statement of cash flows and the balance sheet, cash and cash equivalents consist of cash on hand, demand deposits, certificate of deposits, and short term investments with original maturities of three months or less.

**B. Deferred Income**

Contributions are recognized as income of the Authority when the activities for which the contributions were designated have been completed.

**C. Net Position**

Net position is the difference between a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding obligation related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related obligation are also included in this component of net position.

**D. Net Position Flow Assumption**

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**E. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority had deferred outflows of resources consisting of \$401,923 as of June 30, 2014.

**PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**  
**(A COMPONENT UNIT OF PULASKI COUNTY)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2014**

---

**NOTE 3-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.

*This space is left blank intentionally.*

**PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**  
**(A COMPONENT UNIT OF PULASKI COUNTY)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2014**

**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>
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,114,527	\$ 78,051	\$ (145,144)	\$ 1,047,434
Construction in progress	68,616	53,602	(53,721)	68,497
Total capital assets not being depreciated	<u>\$ 1,183,143</u>	<u>\$ 131,653</u>	<u>\$ (198,865)</u>	<u>\$ 1,115,931</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 14,224,424	\$ 1,585,149	\$ (2,323,906)	\$ 13,485,667
Machinery and equipment	-	6,600	-	6,600
Total capital assets being depreciated	<u>\$ 881,107</u>	<u>\$ 1,591,749</u>	<u>\$ (2,323,906)</u>	<u>\$ 13,492,267</u>
Accumulated depreciation:				
Buildings and improvements	\$ (3,883,166)	\$ (314,871)	\$ 142,725	\$ (4,055,312)
Machinery and equipment	-	(942)	-	(942)
Total accumulated depreciation	<u>\$ (30,054)</u>	<u>\$ (315,813)</u>	<u>\$ 142,725</u>	<u>\$ (4,056,254)</u>
Total capital assets being depreciated, net	<u>\$ 10,341,258</u>	<u>\$ 1,270,278</u>	<u>\$ (2,181,181)</u>	<u>\$ 9,436,013</u>
Business-Type activities capital assets, net	<u>\$ 11,524,401</u>	<u>\$ 1,401,931</u>	<u>\$ (2,380,046)</u>	<u>\$ 10,551,944</u>

Depreciation expense for the year amounted to \$315,813. 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, 2014, 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, 2014**

**NOTE 6- LONG-TERM OBLIGATIONS:**

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2014:

	<u>July 1, 2013</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Revenue bonds	\$ 1,590,233	\$ -	\$ (271,190)	\$ 1,319,043
Notes payable	10,184,878	9,194,587	(399,412)	18,980,053
Lease revenue notes	5,275,000	-	(5,275,000)	-
Unamortized bond discounts	(10,132)	-	390	(9,742)
Unamortized bond premiums	261,188	-	(261,188)	-
<b>Total</b>	<u>\$ 17,301,167</u>	<u>\$ 9,194,587</u>	<u>\$ (6,206,400)</u>	<u>\$ 20,289,354</u>

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	<u>Revenue Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	308,630	51,759	\$ 399,412	\$ 439,711
2016	322,358	38,031	398,079	438,749
2017	336,895	23,494	412,190	427,344
2018	351,160	8,403	421,767	414,426
2019	-	-	436,834	399,917
2020-2024	-	-	2,464,152	1,724,529
2025-2030	-	-	2,757,444	1,123,360
2030-2034	-	-	1,110,000	664,888
2035-2039	-	-	1,450,000	331,906
2040	-	-	335,000	18,006
<b>Totals</b>	<u>\$ 1,319,043</u>	<u>\$ 121,687</u>	<u>\$ 10,184,878</u>	<u>\$ 5,982,836</u>

*This space is left blank intentionally.*

**PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY  
(A COMPONENT UNIT OF PULASKI COUNTY)  
Notes to Financial Statements (Continued)  
At June 30, 2014**

**NOTE 6-LONG-TERM OBLIGATIONS: (Continued)**

Details of long-term 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	\$ 1,319,043	\$ 308,629
Total Revenue Bonds					\$ 1,319,043	\$ 308,629
Notes Payable:						
Commerce Park	0.77-5.38%	6/27/2013	2039	\$ 681,000	\$ 6,580,000	\$ 230,000
Unamortized Discount	n/a	6/27/2013	2039	(10,132)	(9,742)	(390)
Phoenix Packaging	5.00%	7/30/2012	2028	3,522,919	3,205,466	178,079
Riverlawn Elem. School	2.47-3.25%	6/27/2013	2027	6,046,213	6,046,213	401,579
Snowville Critzer	2.05%	6/27/2013	2027	2,680,534	2,680,534	392,930
Falls Stamping	5.00%	2/28/2014	2017	467,840	467,840	56,086
Total Notes Payable					\$ 18,970,311	\$ 1,258,284
Total					\$ 20,289,354	\$ 1,566,913

**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.

*This space is left blank intentionally.*

**PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY  
(A COMPONENT UNIT OF PULASKI COUNTY)  
Notes to Financial Statements (Continued)  
At June 30, 2014**

**NOTE 8-NOTES RECEIVABLE:**

At June 30, 2014, the Authority had the following notes receivable:

<u>Due From</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Principal Outstanding</u>
Pulaski County	2027	3.5-5.25%	\$ 5,644,281
Phoenix Packaging	2025	3.00%	554,818
Phoenix Packaging	2016	4.00%	2,488,267
Snowville and Critzer	2027	2.50%	2,680,534
Commerce Park	2023	0.00%	6,942,404
Michael Lutz	2017	5.00%	12,473
Fix Em Up Home Repair	2017	5.00%	11,921
Main Street Café	2013	15.00%	381
Falls Stamping	2030	5.00%	467,840
Old Dominion Auction Co.	2018	5.00%	14,935
<b>Total</b>			<b><u>\$ 18,817,854</u></b>

**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-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	\$ 4,901,910	\$ 393,600	\$ -
Phoenix Packaging Operations, LLC	2,250,000	150,000	-
Korona	1,900,000	-	-
<b>Total</b>	<b><u>\$ 9,051,910</u></b>	<b><u>\$ 543,600</u></b>	<b><u>\$ -</u></b>

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 2016. At the end of the lease term, the lessee has the option to purchase both the land and building for the remaining balance due.

A lease purchase agreement was entered into with Korona Candles, Inc. for the purchase of a building and land. Korona Candles, Inc. is required to make payments based on an agreed upon schedule until 2029. At the end of the lease term, the lessee has the option to purchase both the land and building for the remaining balance due.

**PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY**  
**(A COMPONENT UNIT OF PULASKI COUNTY)**  
**Notes to Financial Statements (Continued)**  
**At June 30, 2014**

---

**NOTE 11-LITIGATION:**

As of June 30, 2014, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should a court decision on pending matters not be favorable.

**NOTE 12-UPCOMING PRONOUNCEMENTS:**

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Authority has not determined the impact of this pronouncement on its financial statements.

---

## COMPLIANCE SECTION

---

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

---

## Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

---

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

We have audited, in accordance with the 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, the financial statements of the business-type activities of Industrial Development Authority of Pulaski County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Industrial Development Authority of Pulaski County's basic financial statements and have issued our report thereon dated February 6, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Industrial Development Authority of Pulaski County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Industrial Development Authority of Pulaski County's internal control. Accordingly, we do not express an opinion on the effectiveness of Industrial Development Authority of Pulaski County's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 [2014-01]

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Industrial Development Authority of Pulaski County's financial statements are free from 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*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Robinson, Farmer, Co. Associates*

Blacksburg, Virginia  
February 6, 2015

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified
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**

There are no financial statement findings to report.  
 2014-01

---

**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 2014 adjusted trial balance required significant adjustments that were proposed by the auditors.

**Cause of Condition:**

The Authority had some complex financial transactions during the 2014 fiscal year which were made incorrectly causing material differences on the trial balance.

**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:**

We recommend management request advice during the process of compiling its financial information for audit as necessary.

**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.

**Section III - Status of Prior Audit Findings and Questioned Costs**

None