

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

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

Industrial Development Authority of County of Pulaski, Virginia
Financial Report
Year Ended June 30, 2016

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of
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, 2016, 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, 2016, 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 on 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017, 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 Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 3, 2017

**INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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, 2016. 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 a) assets and deferred outflows of resources and b) 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 2015-16 HIGHLIGHTS

1. As noted in Exhibit 1, the total assets and deferred outflows of resources of the IDA exceeded its total liabilities by \$17,819,219 (net position) as of June 30, 2016.
2. As reported in Exhibit 2, the total net position of the IDA decreased by \$743,652 from \$18,562,871, as restated, in fiscal year 2014-2015 to \$17,819,219 in fiscal year 2015-2016.
3. Operating revenues in Exhibit 2 of \$572,733 primarily consisted of building rental fees.
4. Operating expenditures in Exhibit 2 of \$2,161,190 include IDA board compensation, property maintenance, insurance, utilities, depreciation, and economic development expenses.
5. From the cash perspective (described in Exhibit 3), IDA cash flows provided from capital and related financing activities and investing activities totaled \$4,939,348 prior to being offset by \$4,345,058 in cash flows used in operating and non-capital financing activities providing a \$594,376 increase in the IDA's net cash during fiscal year 2015-16.

6. During the fiscal year 2016, three businesses occupied rental space in the Bob White building. Continued expansion of leased space in the building will eventually eliminate a long-term cash outlay related to the Authority's ownership of the building. It should be noted that the current amortization of the Bob White building debt will end in FY 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, Virginia. 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 2014-15 and 2015-16 fiscal years:

	<u>FY 2015-16</u>	<u>FY 2014-15</u>
Current Assets	\$ 2,892,389	\$ 4,443,902
Noncurrent Assets	32,829,208	33,418,972
<u>Total Assets</u>	<u>\$ 35,721,597</u>	<u>\$ 37,862,874</u>
<u>Deferred Outflows of Resources</u>	<u>\$ -</u>	<u>\$ 371,014</u>
Current Liabilities	\$ 2,419,898	\$ 1,923,996
Noncurrent Liabilities	15,482,480	17,747,021
<u>Total Liabilities</u>	<u>\$ 17,902,378</u>	<u>\$ 19,671,017</u>
Net investment in capital assets	\$ 10,503,716	\$ 8,999,693
Unrestricted	7,315,503	9,563,178
<u>Total Net Position</u>	<u>\$ 17,819,219</u>	<u>\$ 18,562,871</u>

As included in Exhibit 1 and Exhibit 2 and summarized above, the total net position of the Authority decreased by \$743,652 from \$18,562,871, as restated, on June 30, 2015 to \$17,819,219 on June 30, 2016.

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The following table provides a summary comparison of the change in net position for the 2014-15 and 2015-16 fiscal years:

	<u>FY 2015-16</u>	<u>FY 2014-15</u>
Operating revenues	\$ 572,733	\$ 492,020
<u>Operating expenses</u>	<u>(2,161,190)</u>	<u>(4,357,654)</u>
Income/(Loss) from Operations	<u>\$ (1,588,457)</u>	<u>\$ (3,865,634)</u>
Nonoperating revenues	\$ 1,712,217	\$ 4,623,285
<u>Nonoperating expenses</u>	<u>(867,412)</u>	<u>(859,170)</u>
Nonoperating Income (expenses)	<u>\$ 844,805</u>	<u>\$ 3,764,115</u>
Change in Net Position	<u>\$ (743,652)</u>	<u>\$ (101,519)</u>

As noted in the above table, the 2015-16 fiscal year resulted in a decrease in net position in the amount of \$743,652. Operating revenues increased by \$80,713 while nonoperating revenues decreased by \$2,911,068 due to reductions in State grants while operating expenses decreased by \$2,196,464 due also to reduction in State grants which in turn resulted in decreases in local industry assistance. The Authority had a net loss from operations in the amount of \$1,588,457 for the 2015-16 fiscal year prior to the addition of non-operating revenues which include contributions from the Pulaski County Board of Supervisors in the amount of \$369,626.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling \$10,503,716 and \$11,057,681 for fiscal years 2016 and 2015 (as restated), respectively. These assets consist primarily 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 Dublin Primary School, the former Riverlawn Elementary School, and the former Draper Elementary Cottage. More information about the IDA's capital assets can be found in Note 4 to the Financial Statements.

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DEBT ADMINISTRATION

At the end of the fiscal year ending June 30, 2016 the Authority had long-term debt of \$16,330,222 with \$1,482,697 due during fiscal year 2016-2017. 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 building located on Bob White Boulevard (June 30, 2016 balance of \$658,345), Phoenix Packaging Expansion Loan (June 30, 2016 balance of \$2,840,196), a note payable for Hiwassee Fire Department (June 30, 2016 balance of \$293,900 previously included with Riverlawn Elementary School Debt), Commerce Park debt (June 30, 2016 balance of \$6,135,000), Snowville and Critzer Elementary Schools debt (June 30, 2016 balance of \$1,897,903). The majority of the former notes payable for Riverlawn Elementary School was refinanced through the Virginia Public School Authority by the Pulaski County Board of Supervisors during FY 15-16 and subsequently removed from the liabilities of the Authority. In addition, a notes payable for Falls Stamping was refinanced during FY 15-16 in the amount of \$1,800,000 through the Virginia Small Business Financing Authority resulting in a balance of \$1,069,790 at June 30, 2016. The Authority will continue to draw down available funds on this note as Falls Stamping continues to purchase operating equipment during FY 16-17. In addition, the Authority issued a bond payable through BB&T Governmental Finance in the amount of \$3,443,000 for construction and renovations at Dublin Elementary School. The Authority also issued a note payable through the Virginia Small Business Financing Authority in the amount of \$175,000 for the purchase of furniture and fixtures to be located in the new Pulaski Adult Day Services facility during the FY 15-16 fiscal year. Additionally, funds available will be drawn down on this note payable as furniture and fixtures are purchased during the FY 16-17 fiscal year. All Authority debt is reimbursed either through lease agreements or contributions from the Pulaski County Board of Supervisors.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The condition of the economy and the state of private-sector investment are ongoing 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. The Pulaski 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 Jonathan Sweet, County Administrator, Pulaski County, Virginia, 143 Third Street NW, Suite 1, Pulaski, VA 24301.

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

Statement of Net Position
At June 30, 2016

Assets:

Unrestricted Current Assets:

Cash and cash equivalents	\$ 308,306
Accounts receivable	9,603
Interest receivable	1,325
Rent receivable	56,193
Capital lease receivable-current portion	709,912
Notes receivable-current portion	1,013,254
Total Unrestricted Current Assets	<u>\$ 2,098,593</u>

Restricted Current Assets:

Cash held for Virginia's First IFA	\$ 507,726
Cash held for Pulaski County	286,070
Total Restricted Current Assets	<u>\$ 793,796</u>
Total Current Assets	<u>\$ 2,892,389</u>

Noncurrent Assets:

Capital lease receivable-long-term portion	\$ 7,199,923
Notes receivable-long-term portion	15,125,569
Capital assets	15,370,000
Accumulated depreciation	(4,866,284)
Total Noncurrent Assets	<u>\$ 32,829,208</u>
Total Assets	<u>\$ 35,721,597</u>

Liabilities:

Current Liabilities:

Accounts payable	\$ 101,327
Interest payable	27,094
Unearned revenue	14,594
Cash held for others	793,796
Due to Pulaski County-current portion	135,345
Notes payable-current portion	283,629
Revenue bond payable-current portion	561,505
Bonds payable-current portion	637,563
Total Current Liabilities	<u>\$ 2,554,853</u>

Noncurrent Liabilities:

Notes payable-long-term portion	\$ 3,921,307
Revenue bond payable-long-term portion	6,222,878
Bonds payable-long-term portion	4,703,340
Due to Pulaski County-long-term portion	500,000
Total Noncurrent Liabilities	<u>\$ 15,347,525</u>
Total Liabilities	<u>\$ 17,902,378</u>

Net Position:

Net investment in capital assets	\$ 10,503,716
Unrestricted	7,315,503
Total Net Position	<u>\$ 17,819,219</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 THE COUNTY OF PULASKI, VIRGINIA)

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

Operating Revenues:	
Lease/rental fees	\$ <u>572,733</u>
Total operating revenues	\$ <u>572,733</u>
Operating Expenses:	
Board compensation	\$ 3,822
Materials and maintenance	45,056
Contractual services	176,181
Insurance	76,822
Local industry assistance	1,211,289
Utilities	216,304
Miscellaneous	13,009
Depreciation	<u>418,707</u>
Total operating expenses	\$ <u>2,161,190</u>
Operating Income (Loss)	\$ <u>(1,588,457)</u>
Nonoperating Revenues and (Expenses):	
Gain (loss) on sale of property	\$ (161,672)
Interest income	1,411
Contributions from County	369,626
VDOT road funding	708,510
Recovered costs	607,970
Miscellaneous	24,700
Interest expense	<u>(705,740)</u>
Total nonoperating revenues and expenses	\$ <u>844,805</u>
Change in net position	\$ (743,652)
Net Position, beginning of year, as restated	<u>18,562,871</u>
Net Position, end of year	\$ <u><u>17,819,219</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 THE COUNTY OF PULASKI, VIRGINIA)

Statement of Cash Flows
At June 30, 2016

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Cash flows from operating activities:	
Cash received from lessees	\$ 544,968
Cash paid to suppliers for goods and services	(1,982,314)
	<hr/>
Net cash provided by (used for) operating activities	\$ (1,437,346)
Cash flows from noncapital financing activities:	
Contribution from Pulaski County	\$ 456,130
Notes receivable issued	(2,935,378)
Payments received on notes receivable	6,308,608
Recovered costs and miscellaneous	632,670
Retirement of indebtedness	(7,281,458)
Interest and loan costs paid on debt	(669,307)
State and federal grants	708,510
	<hr/>
Net cash provided by (used for) noncapital financing activities	\$ (2,780,225)
Cash flows from capital and related financing activities:	
Purchase of capital assets	\$ (26,414)
Issuance of indebtedness	4,838,275
	<hr/>
Net cash provided by (used for) capital and related financing activities	\$ 4,811,861
Cash flows from investing activities:	
Interest income	\$ 86
	<hr/>
Increase (decrease) in cash and cash equivalents	\$ 594,376
Cash and cash equivalents at beginning of year (including \$507,726 restricted cash)	<hr/> 507,726
Cash cash equivalents at end of year (including \$793,796 restricted cash)	\$ <u><u>1,102,102</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Operating income (loss)	\$ (1,588,457)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	418,707
(Increase) decrease in receivables	(42,359)
Increase (decrease) in unearned revenue	14,594
Increase (decrease) in operating accounts payable	(239,831)
	<hr/>
Net cash provided by (used for) operating activities	\$ <u><u>(1,437,346)</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 THE COUNTY OF PULASKI, VIRGINIA)
Notes to Financial Statements
At June 30, 2016

NOTE 1-ORGANIZATION, DESCRIPTION OF THE ENTITY:

The Industrial Development Authority of Pulaski, Virginia (the Authority) 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. Financial 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, Virginia. 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 THE COUNTY OF PULASKI, VIRGINIA)
Notes to Financial Statements (Continued)
At June 30, 2016

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. 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. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 does not have any deferred inflows of resources as of June 30, 2016.

D. 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.

E. 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.

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)
Notes to Financial Statements (Continued)
At June 30, 2016

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, equipment, and infrastructure of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>
Building Improvements	20-40
Machinery and Equipment	4-30

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

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

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)
Notes to Financial Statements (Continued)
At June 30, 2016

NOTE 3-DEPOSITS AND INVESTMENTS: (Continued)

Deposits (continued)

the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during year ended June 30, 2016.

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.

NOTE 4-PROPERTY, PLANT, AND EQUIPMENT:

A summary of changes in capital assets is presented as follows:

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,300,327	\$ -	\$ (63,500)	\$ 1,236,827
Construction in progress	71,620	-	(71,620)	-
Total capital assets not being depreciated	<u>\$ 1,371,947</u>	<u>\$ -</u>	<u>\$ (135,120)</u>	<u>\$ 1,236,827</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 14,130,007	\$ 3,123	\$ (32,971)	\$ 14,100,159
Machinery and equipment	6,600	26,414	-	33,014
Total capital assets being depreciated	<u>\$ 14,136,607</u>	<u>\$ 29,537</u>	<u>\$ (32,971)</u>	<u>\$ 14,133,173</u>
Accumulated depreciation:				
Buildings and improvements	\$ (4,448,989)	\$ (412,483)	\$ 3,296	\$ (4,858,176)
Machinery and equipment	(1,884)	(6,224)	-	(8,108)
Total accumulated depreciation	<u>\$ (4,450,873)</u>	<u>\$ (418,707)</u>	<u>\$ 3,296</u>	<u>\$ (4,866,284)</u>
Total capital assets being depreciated, net	<u>\$ 9,685,734</u>	<u>\$ (389,170)</u>	<u>\$ (29,675)</u>	<u>\$ 9,266,889</u>
Business-type activities capital assets, net	<u>\$ 11,057,681</u>	<u>\$ (389,170)</u>	<u>\$ (164,795)</u>	<u>\$ 10,503,716</u>

PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)
Notes to Financial Statements (Continued)
At June 30, 2016

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 OBLIGATIONS:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2016:

	<u>July 1, 2015</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Revenue bonds	\$ 7,372,114	\$ -	\$ (578,769)	\$ 6,793,345
Notes payable	3,478,015	1,395,275	(668,354)	4,204,936
Bonds payable	7,932,238	3,443,000	(6,034,335)	5,340,903
Unamortized bond discounts	(9,352)	-	390	(8,962)
Total	<u>\$ 18,773,015</u>	<u>\$ 4,838,275</u>	<u>\$ (7,281,068)</u>	<u>\$ 16,330,222</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>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 561,895	\$ 300,378	\$ 283,629	\$ 149,920	\$ 637,563	\$ 113,569
2018	551,450	280,842	294,771	157,699	640,048	99,661
2019	235,000	266,983	307,527	144,967	642,815	85,680
2020	245,000	260,351	320,831	131,668	645,611	71,621
2021	250,000	252,579	334,865	117,634	648,566	57,483
2022-2026	1,410,000	1,111,140	1,908,027	354,441	1,482,400	165,797
2027-2031	1,275,000	790,830	755,286	31,999	643,900	15,352
2032-2036	1,305,000	475,956	-	-	-	-
2037-2040	960,000	104,813	-	-	-	-
Totals	<u>\$ 6,793,345</u>	<u>\$ 3,843,872</u>	<u>\$ 4,204,936</u>	<u>\$ 1,088,328</u>	<u>\$ 5,340,903</u>	<u>\$ 609,163</u>

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PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)
Notes to Financial Statements (Continued)
At June 30, 2016

NOTE 6-LONG-TERM OBLIGATIONS: (Continued)

Details of long-term 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	\$ 658,345	\$ 336,895
Commerce Park Refinance	0.77-5.38%	6/27/2013	2039	6,810,000	6,135,000	225,000
Unamortized Discount	n/a	6/27/2013	2039	(10,132)	(8,962)	(390)
Total Revenue Bonds					<u>\$ 6,784,383</u>	<u>\$ 561,505</u>
Notes Payable:						
Phoenix Packaging	5.00%	7/30/2012	2028	3,522,919	\$ 2,840,196	\$ 196,769
Falls Stamping	2.44%	12/21/2015	2031	1,800,000	1,069,790	62,268
VSBF PADS Loan	2.44%	6/28/2016	2026	175,000	1,050	1,050
Hiwassee FD	2.47%	6/15/2016	2027	293,900	293,900	23,542
Total Notes Payable					<u>\$ 4,204,936</u>	<u>\$ 283,629</u>
Bonds Payable:						
Dublin Elem. School	2.37%	10/1/2015	2028	3,443,000	\$ 3,443,000	\$ 251,000
Snowville Critzer	2.05%	6/27/2013	2027	2,680,534	1,897,903	386,563
Total Bonds Payable					<u>5,340,903</u>	<u>637,563</u>
Total					<u>\$ 16,330,222</u>	<u>\$ 1,482,697</u>

NOTE 7-DUE TO COUNTY OF PULASKI:

As of June 30, 2016, \$500,000 is 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.

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PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)
Notes to Financial Statements (Continued)
At June 30, 2016

NOTE 8-NOTES RECEIVABLE:

At June 30, 2016, 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	2.5-5.25%	\$ 3,443,000
Hiwasee Fire Department	2027	2.47%	293,900
Phoenix Packaging	2025	3.00%	464,655
Phoenix Packaging	2016	4.00%	2,488,267
Snowville and Critzer	2027	2.50%	1,897,902
Commerce Park	2023	0.00%	6,360,000
Falls Stamping	2030	5.00%	1,191,099
Total			<u>\$ 16,138,823</u>

NOTE 9-LEASE PURCHASE RECEIVABLES:

<u>Due From</u>	<u>Balance Outstanding</u>	<u>Amount Due Within One Year</u>
Phoenix Packaging Operations, LLC	\$ 4,049,110	\$ 426,400
Phoenix Packaging Operations, LLC	2,000,000	162,500
Korona	1,860,725	121,012
Total	<u>\$ 7,909,835</u>	<u>\$ 709,912</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 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 THE COUNTY OF PULASKI, VIRGINIA)
Notes to Financial Statements (Continued)
At June 30, 2016

NOTE 10-LITIGATION:

As of June 30, 2016, 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 11-RESTATEMENT OF NET POSITION:

Net position, as previously reported	\$ <u>18,227,520</u>
Adjustment for:	
Increase in capital assets	467,755
Decrease in notes receivable	<u>(132,404)</u>
Total adjustments	\$ <u>335,351</u>
Net position, as restated	\$ <u><u>18,562,871</u></u>

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 Honorable Members of
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 the Industrial Development Authority of Pulaski County, Virginia as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 3, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses [2016-001].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority'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*.

Industrial Development Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, Famer, Cox Associates

Blacksburg, Virginia

January 3, 2017

Industrial Development Authority of Pulaski County, Virginia
 (A Component Unit of Pulaski County, Virginia)
 Schedule of Findings and Responses
 Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

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

Section II - Financial Statement Findings

2016-001

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.
Condition:	The Authority's trial balance required significant adjustments that were proposed by the auditors.
Cause of Condition:	The Authority failed to identify all year end accounting adjustments necessary for the financial statements to be prepared in accordance with current reporting standards. The Authority does not have proper controls in place to detect and record adjustments in closing their year end financial information.
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 an accurate and 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. Additionally, a consultant has been hired to assist with this process and, as the consultant becomes more familiar with the Authority, management expects that significant audit adjustments will not be necessary.