INDUSTRIAL DEVELOPMENT AUTHORITY

OF PULASKI COUNTY, VIRGINIA

(A COMPONENT UNIT OF THE COUNTY OF PULASKI, VIRGINIA)

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017

Industrial Development Authority of County of Pulaski, Virginia
Financial Report
Year Ended June 30, 2017

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FINANCIAL SECTION

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 (the Authority), a component unit of the County of Pulaski, Virginia, as of and for the year ended June 30, 2017, 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, 2017, 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 3-5 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 November 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
November 3, 2017

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017

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, 2017. 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 and deferred inflows of resources, 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 2016-17 HIGHLIGHTS

1. As noted in Exhibit 1, the total assets of the IDA exceeded its total liabilities by $17,178,511 (net position) as of June 30, 2017.
2. As reported in Exhibit 2, the total net position of the IDA decreased by $695,708 from $17,874,219, as restated, in fiscal year 2015-2016 to $17,178,511 in fiscal year 2016-2017.
3. Operating revenues in Exhibit 2 of $697,510 primarily consisted of building rental fees.
4. Operating expenditures in Exhibit 2 of $1,463,182 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 $1,915,033 prior to being offset by $1,893,730 in cash flows used in operating and non-capital financing activities providing a $21,303 increase in the IDA's net cash during fiscal year 2016-17.
6. During the fiscal year 2017, three businesses continued to occupy the 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:

	FY 2016-17	FY 2015-16
Current Assets	$ 3,018,616	$ 2,892,389
Noncurrent Assets	32,908,723	32,884,208
Total Assets	$ 35,927,339	$ 35,776,597
Current Liabilities	$ 2,740,873	$ 2,419,898
Noncurrent Liabilities	16,007,955	15,482,480
Total Liabilities	$ 18,748,828	$ 17,902,378
Net investment in capital assets	$ 10,353,939	$ 10,503,716
Unrestricted	6,824,572	7,370,503
Total Net Position	$ 17,178,511	$ 17,874,219

As included in Exhibit 1 and Exhibit 2 and summarized above, the total net position of the Authority decreased by $695,708 from $17,874,219, as restated, on June 30, 2016 to $17,178,511 on June 30, 2017.

The following table provides a summary comparison of the change in net position for the 2015-16 and 2016-17 fiscal years:

	FY 2016-17	FY 2015-16
Operating revenues	$ 697,510	$ 572,733
Operating expenses	(1,463,182)	(2,106,190)
Income/(Loss) from Operations	$ (765,672)	$ (1,533,457)
Nonoperating revenues	$ 1,314,202	$ 1,712,217
Nonoperating expenses	(1,244,238)	(867,412)
Nonoperating Income (expenses)	$ 69,964	$ 844,805
Change in Net Position	$ (695,708)	$ (688,652)

As noted in the above table, the 2016-17 fiscal year resulted in a decrease in net position in the amount of $695,708. Operating revenues increased by $124,777 while nonoperating revenues decreased by $398,015 due to reductions in State grants while operating expenses decreased by $643,008 due also to reduction in State grants which in turn resulted in an increase in the transfer from the County for local industry assistance. The Authority had a net loss from operations in the amount of $765,672 for the 2016-17 fiscal year prior to the addition of non-operating revenues which include contributions from the Pulaski County Board of Supervisors in the amount of $554,909.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling $10,353,939 and $10,503,716 for fiscal years 2017 and 2016, 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 Notes 2 and 5 to the Financial Statements.

DEBT ADMINISTRATION

At the end of the fiscal year ending June 30, 2017 the Authority had long-term debt of $16,977,976 with $1,469,631 due during fiscal year 2017-2018. More detailed information about the Authority's indebtedness, including annual debt service requirements, is presented in Note 7 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, 2017 balance of $289,228), Phoenix Packaging Expansion Loan (June 30, 2017 balance of $2,643,430), a note payable for Hiwassee Fire Department (June 30, 2017 balance of $270,357), Commerce Park debt (June 30, 2017 balance of $5,910,000), Snowville and Critzer Elementary Schools debt (June 30, 2017 balance of $4,703,339) and a note payable for Falls Stamping (June 30, 2017 balance of $2,000,000). The Authority issued $2,000,000 in new debt in FY 2017 for an additional Falls Stamping project. It should be noted that this is an interest only loan with the principal balance due in May 2018. All Authority debt is reimbursed either through lease agreements or contributions from the Pulaski County Board of Supervisors.

The Authority was pleased to announce in April 2017 a fourth expansion to the Phoenix Packaging facilities to result in 145 additional jobs. In addition, the Authority announced in September 2017 that Koinonia, a Brazilian manufacturing company producing industrial use foam, auto parts, and soundproofing equipment, will be locating in the Shae Dawn industrial development park with plans for 40 jobs and a $5,000,000 investment in their first United States operations.

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 a diverse business community and provide 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, 2017

Assets:		
Unrestricted Current Assets:		
Cash and cash equivalents	$	328,846
Accounts receivable		46,914
Interest receivable		26,012
Rent receivable		91,351
Prepaid expenses		9,812
Capital lease receivable-current portion		669,526
Notes receivable-current portion		1,051,596
Total Unrestricted Current Assets	$	2,224,057
Restricted Current Assets:		
Cash held for Virginia's First IFA	$	508,460
Cash held for Pulaski County		286,099
Total Restricted Current Assets	$	794,559
Total Current Assets	$	3,018,616
Noncurrent Assets:		
Capital lease receivable-long-term portion	$	6,620,998
Notes receivable-long-term portion		15,933,786
Capital assets		15,598,387
Accumulated depreciation		(5,244,448)
Total Noncurrent Assets	$	32,908,723
Total Assets	$	35,927,339
Liabilities:		
Current Liabilities:		
Accounts payable	$	134,280
Interest payable		16,617
Unearned revenue		21,883
Cash held for others		794,559
Due to Pulaski County-current portion		303,513
Notes payable-current portion		310,746
Revenue bond payable-current portion		519,228
Bonds payable-current portion		640,047
Total Current Liabilities	$	2,740,873
Noncurrent Liabilities:		
Notes payable-long-term portion	$	5,773,235
Revenue bond payable-long-term portion		5,671,428
Bonds payable-long-term portion		4,063,292
Due to Pulaski County-long-term portion		500,000
Total Noncurrent Liabilities	$	16,007,955
Total Liabilities	$	18,748,828
Net Position:		
Net investment in capital assets	$	10,353,939
Unrestricted		6,824,572
Total Net Position	$	17,178,511

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, 2017

Operating Revenues:		
Lease/rental fees	$	697,510
Operating Expenses:		
Board compensation	$	3,660
Materials and maintenance		29,771
Contractual services		105,430
Insurance		67,016
Local industry assistance		562,223
Utilities		220,126
Miscellaneous		55,692
Depreciation		419,264
Total operating expenses	$	1,463,182
Operating Income (Loss)	$	(765,672)
Nonoperating Revenues and (Expenses):		
Interest income	$	4,671
Contributions from County		524,932
Contribution of land from County		30,000
VDOT road funding		221,404
Recovered costs		522,934
Miscellaneous		10,261
Contributions to County		(650,000)
Interest expense		(594,238)
Total nonoperating revenues and expenses	$	69,964
Change in net position	$	(695,708)
Net Position, beginning of year, as restated		17,874,219
Net Position, end of year	$	17,178,511

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, 2017

Cash flows from operating activities:		
Cash received from lessees	$	632,330
Cash paid to suppliers for goods and services		(1,020,777)
Net cash provided by (used for) operating activities	$	(388,447)
Cash flows from noncapital financing activities:		
Contribution from Pulaski County	$	524,909
Payments to Pulaski County		(481,832)
Notes receivable issued		(2,800,953)
Payments received on notes and capital leases receivable		2,628,705
Recovered costs and miscellaneous		533,218
Retirement of indebtedness		(1,526,409)
Interest and loan costs paid on debt		(604,325)
State and federal grants		221,404
Net cash provided by (used for) noncapital financing activities	$	(1,505,283)
Cash flows from capital and related financing activities:		
Purchase of capital assets	$	(239,487)
Issuance of indebtedness		2,173,773
Net cash provided by (used for) capital and related financing activities	$	1,934,286
Cash flows from investing activities:		
Interest income	$	(19,253)
Increase (decrease) in cash and cash equivalents	$	21,303
Cash and cash equivalents at beginning of year (including $793,796 restricted cash)		1,102,102
Cash cash equivalents at end of year (including $794,559 restricted cash)	$	1,123,405
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Operating income (loss)	$	(765,672)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		419,264
(Increase) decrease in receivables		(72,469)
(Increase) decrease in prepaid expenses		(9,812)
Increase (decrease) in unearned revenue		7,289
Increase (decrease) in operating accounts payable		32,953
Increase (decrease) in amounts due to primary government		
Net cash provided by (used for) operating activities	$	(388,447)
Noncash investing, capital, and financing activities:		
Noncash transfer for land contribution	$	30,000

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

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.

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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 does not have any deferred outflows of resources as of June 30, 2017.

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, 2017.

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.

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.

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, 2017.

Property, plant, equipment, and infrastructure of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Asset Type	Years
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 the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

NOTE 3-DEPOSITS AND INVESTMENTS: (Continued)

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.

The Authority's rated debt investments at June 30, 2017 were rated by Standard and Poor and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investment Value

Rated Debt Investments	Fair Quality Ratings
	AAAm
Money Market Mutual Fund	$ 507,666

Custodial Credit Risk
For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds are not considered to have custodial credit risk. The Authority invests only in those investments authorized by the *Code of Virginia*. Therefore, the custodial credit risk is minimized.

Concentration of Credit Risk
If certain investments in any one issuer represent 5 percent of total investments, there must be a disclosure for the amount and issuer. Investments issued or explicitly guaranteed by the US government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Therefore the Authority does not have any investments for this disclosure requirement.

Interest Rate Risk
The Authority manages its exposure to declines in fair values by limiting the maturity of its investments.

	Investment Maturities		
Investment Type	Fair Value	< 1 year	1-5 years
Money Market Mutual Fund	$ 507,666	$ 507,666	$ -

NOTE 4-FAIR VALUE MEASUREMENTS:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Town maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.
The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The Authority has the following recurring fair value measurements as of June 30, 2017:

	Fair Value	Level 1
Money Market Mutual Fund	$ 507,666	$ 507,666

Remainder of this page left blank intentionally.

NOTE 5-CAPITAL ASSETS:

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

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, not being depreciated:				
Land	$ 1,236,827	$ 366,500	$ (65,600)	$ 1,537,727
Capital assets, being depreciated:				
Buildings and improvements	$ 14,100,159	$ 46,754	$ (137,000)	$ 14,009,913
Machinery and equipment	33,014	17,733	-	50,747
Total capital assets being depreciated	$ 14,133,173	$ 64,487	$ (137,000)	$ 14,060,660
Accumulated depreciation:				
Buildings and improvements	$ (4,858,176)	$ (411,267)	$ 41,100	$ (5,228,343)
Machinery and equipment	(8,108)	(7,997)	-	(16,105)
Total accumulated depreciation	$ (4,866,284)	$ (419,264)	$ 41,100	$ (5,244,448)
Total capital assets being depreciated, net	$ 9,266,889	$ (354,777)	$ (95,900)	$ 8,816,212
Business-Type Activities capital assets, net	$ 10,503,716	$ 11,723	$ (161,500)	$ 10,353,939

NOTE 6-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 7- LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2017:

	Balance July 1, 2016	Issuances	Retirements	Balance June 30, 2017
Revenue bonds	$ 6,793,345	$ -	$ (594,117)	$ 6,199,228
Notes payable	4,204,936	2,173,773	(294,728)	6,083,981
Bonds payable	5,340,903	-	(637,564)	4,703,339
Unamortized bond discounts	(8,962)	-	390	(8,572)
Total	$ 16,330,222	$ 2,173,773	$ (1,526,019)	$ 16,977,976

NOTE 7-LONG-TERM OBLIGATIONS: (Continued)

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

Year Ending June 30,	Revenue Bonds Principal	Revenue Bonds Interest	Notes Payable Principal	Notes Payable Interest	Bonds Payable Principal	Bonds Payable Interest
2018	$ 519,228	$ 280,842	$ 310,746	$ 361,476	$ 640,047	$ 99,661
2019	235,000	266,983	323,869	348,377	642,815	85,680
2020	245,000	260,351	2,337,577	334,674	645,611	71,621
2021	250,000	252,579	352,024	120,215	648,566	57,483
2022	260,000	243,519	367,081	105,157	282,600	47,045
2023-2026	1,150,000	867,621	1,637,399	255,626	1,199,800	118,752
2027-2031	1,275,000	790,830	755,285	31,999	643,900	15,352
2032-2036	1,305,000	475,956	-	-	-	-
2037-2040	960,000	104,813	-	-	-	-
Totals	$ 6,199,228	$ 3,543,494	$ 6,083,981	$ 1,557,524	$ 4,703,339	$ 495,594

Details of long-term obligations:

	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	$ 289,228	$ 289,228
Commerce Park Refinance	0.77-5.38%	6/27/2013	2039	6,810,000	5,910,000	230,000
Unamortized Discount	n/a	6/27/2013	2039	(10,132)	(8,572)	(390)
Total Revenue Bonds					$ 6,190,656	$ 518,838
Notes Payable:						
Phoenix Packaging	5.00%	7/30/2012	2028	3,522,919	$ 2,643,430	$ 206,833
Falls Stamping	2.44%	12/22/2015	2031	1,800,000	1,007,519	63,807
VSBF PADS Loan	2.44%	6/28/2016	2026	175,000	162,675	15,975
Falls Stamping- First Bank	6.75%	5/1/2017	2018	2,000,000	2,000,000	-
Hiwassee FD	2.47%	12/6/2013	2027	293,900	270,357	24,131
Total Notes Payable					$ 6,083,981	$ 310,746
Bonds Payable:						
Dublin Elem. School	2.37%	10/1/2015	2028	3,443,000	$ 3,192,000	$ 257,000
Snowville Critzer	2.05%	6/27/2013	2027	2,680,534	1,511,339	383,047
Total Bonds Payable					4,703,339	640,047
Total					$ 16,977,976	$ 1,469,631

NOTE 8-DUE TO COUNTY OF PULASKI:

As of June 30, 2017, $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.

NOTE 9-NOTES RECEIVABLE:

At June 30, 2017, the Authority had the following notes receivable:

Due From	Due	Interest Rate	Principal Outstanding	Amount Due Within One Year
Falls Stamping	2030	5.00%	$ 1,569,486	$ 98,021
Pulaski County	2027	2.50-5.25%	3,192,000	257,000
Hiwasee Fire Department	2027	2.47%	270,358	24,131
West Main Development	2027	5.00%	55,000	-
Snowville and Critzer	2027	2.50%	1,511,339	383,047
Phoenix Packaging	2025	3.00%	421,489	48,462
Commerce Park	2023	0.00%	6,135,000	225,000
Falls Stamping	2018	10.00%	2,000,000	-
Phoenix Packaging	2016	4.00%	1,488,267	-
Pulaski Adult Day Services	2026	2.44%	163,192	15,935
Phoenix Packaging	(1)	(1)	179,251	-
			$ 16,985,382	$ 1,051,596

(1) Currently, a letter of intent has been signed with no formal repayment terms being specified.

NOTE 10-LEASE PURCHASE RECEIVABLES:

Due From	Balance Outstanding	Amount Due Within One Year
Phoenix Packaging Operations, LLC	$ 3,688,310	$ 393,600
Phoenix Packaging Operations, LLC	1,862,500	150,000
Korona	1,739,714	125,926
Total	$ 7,290,524	$ 669,526

A lease purchase agreement was entered into with Phoenix Packaging Operations, LLC for the purchase of a building and land. Payments are required to be made based on an agreed upon schedule originally maturing in 2016. The Authority is working to update the agreement terms but no formal agreement is in place at June 30, 2017. 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.

NOTE 11-LITIGATION:

As of June 30, 2017, 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-RESTATEMENT OF BEGINNING BALANCES:

Net Position, Beginning of Year, as previously reported	$ 17,819,219
Adjustments:	
Loans receivable not previously report	55,000
Net Position, Beginning of Year, as restated	$ 17,874,219

COMPLIANCE SECTION

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 (the Authority), a component unit of the County of Pulaski, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 3, 2017.

Internal Control over Financial Reporting

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

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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, Cox Associates

Blacksburg, Virginia
November 3, 2017