

Industrial Development Authority of Pulaski County
Statement of Revenues, Expenses, and
Changes in Retained Earnings
Year Ended June 30, 2001

Revenues:	
Economic Stimulus Program (Pulaski County)	\$ 1,681,019
Refunds	1,975
Rental income	56,205
Sale of property	<u>36,000</u>
Total revenues	\$ <u>1,775,199</u>
Expenses:	
Board Compensation	\$ 1,650
Contracted Professional Services	24,649
Mowing Contracts	7,290
Miscellaneous	448
Water Improvements	29,394
Sewer Pump Station	10,000
Refunds	175
Insurance	1,738
Utilities	5,371
Electrical Services	<u>39,156</u>
Total expenses	\$ <u>119,871</u>
Net Income from operations	\$ <u>1,655,328</u>
Non-operating income (expenses):	
Interest income	\$ 38,598
Interest expense	(4,548)
Interest payments on debt	<u>(494,808)</u>
Total non-operating income (expenses)	\$ <u>(460,758)</u>
Net income	\$ 1,194,570
Fund balance July 1, 2000	<u>1,368,852</u>
Fund balance June 30, 2001	\$ <u><u>2,563,422</u></u>

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

Industrial Development Authority of Pulaski County
Statement of Cash Flows and Reconciliation
of Operating Income
Year Ended June 30, 2001

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Cash flows from operating activities	
Cash received from the State and others	\$ 1,773,957
Cash payments for goods and services	(119,657)
Net cash provided (used) by operating activities	\$ 1,654,300
Cash flows from investing activities:	
Investment income	\$ 32,374
Collections on notes receivable	9,991
Interest on notes receivable	6,826
Net cash provided (used) by investing activities	\$ 49,191
Cash flows from financing activities:	
Principal payments on debt	\$ (348,356)
Interest payments on debt	(494,808)
Net cash provided (used) from financing activities	(843,164)
Increase (Decrease) in cash and cash equivalents	\$ 860,327
<i>Cash and Cash Equivalents, July 1, 2000</i>	944,216
<i>Cash and Cash Equivalents, June 30, 2001</i>	\$ 1,804,543
Reconciliation to reconcile operating income to net cash provided (used) by operating activities	
Year Ended June 30, 2001	
Operating Income	\$ 1,655,328
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Increase (decrease) in accounts payable	214
(Increase) decrease in rent receivable	(1,242)
Net cash provided (used) by operating activities	\$ 1,654,300

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY

NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2001

NOTE 1—ORGANIZATION AND DESCRIPTION OF THE ENTITY AND ITS ACTIVITIES:

The Industrial Development Authority of Pulaski County, Virginia, was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Board of Supervisors on September 26, 1967, pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373, et seq., of the Code of Virginia (1950), as amended). The Authority is governed by seven directors appointed by the Board of Supervisors of Pulaski County, Virginia. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Virginia.

In addition, the Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities. Liability under the bonds may be retained by the Authority or it may be assumed by the enterprises for whom 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 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.

NOTE 2—ACCOUNTING POLICIES:

Method of Accounting:

The Authority maintains its books and prepares its financial statements under the accrual method of accounting. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and investments with maturities of 90 days or less. Investments are valued at fair value, which approximates market value.

Net Investment in Direct Financing Leases:

The Authority may acquire and improve properties and retain title to them. Where transfer of title at the completion of a lease to a tenant is not reasonably assured by bargain purchase options or other lease provisions, the Authority accounts for activities in its role as lessor as either capital leases or operating leases in accordance with the provisions of Financial Accounting Standard Number 13.

Passthrough Financing Leases:

Most activities of the Authority represent passthrough leases. These agreements provide for periodic rental payments in amounts which are equal to the principal and interest payments due to project bondholders. The Authority has assigned all rights to the rental payments to the trustees of the bondholders and the lessees have assumed responsibility for all operating costs such as utilities, repairs, and property taxes. In such cases, the Authority neither receives nor disburses funds.

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2001**

NOTE 2—ACCOUNTING POLICIES: (CONTINUED)

Passthrough Financing Leases: (Continued)

Although title to these properties rests with the Authority, bargain purchase options of other lease provisions eliminate any equity interest that would otherwise be retained. Deeds of trust secure outstanding bond obligations and title will revert to the lessee when bonds are fully paid.

Although the Authority provides a conduit to execute such transactions, it does not retain either the benefits of asset ownership or the liability for bond liquidation. Accordingly, the Authority does not recognize associated assets, liabilities, rental income, or interest expense in its financial statements.

Investment Income Recognition:

Interest income from short-term cash investment of bond proceeds related to projects retained and managed by the Authority is restricted as to its disposition by the bond indentures and is deferred as a part of the basis of related properties.

Contributions from Local Governments and Deferred Revenue:

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

NOTE 3—DEPOSITS AND INVESTMENTS:

Deposits:

All cash of the Pulaski County Industrial Development Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et. seq. of the Code of Virginia or covered by federal depository insurance.

Investments:

Statutes authorize the Authority 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).

Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the government or its safekeeping agent in the government's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker or dealer's trust department or safekeeping agent in the government's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the government's name. The Authority had no investments as of and for the year ended June 30, 2001.

Total cash and cash equivalents per exhibit 1 \$ 1,804,543

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY

NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2001

NOTE 4—NOTES AND MORTGAGES PAYABLE:

Notes and Mortgages Payable are stated at the outstanding unpaid balance as of the Balance Sheet date. All outstanding obligations of the Industrial Development Authority were current as of the Balance Sheet dates.

NOTE 5—REAL ESTATE – LEASE/PURCHASE AGREEMENTS:

- A. The Authority entered into a lease/purchase agreement with Renfro Corporation on June 6, 1997, for real estate owned and to be constructed by the Authority. The lease calls for monthly installments equal to an amount necessary to amortize the Authority's total investment in the building and land at 6% per annum over fifteen years. The lease contains an option to purchase the real estate and improvements at or before the termination of the lease period for the balance of any accrued interest, principal, and any lease prepayment fee then due on the financing for the project. The lease became effective July 1, 1996 and requires monthly lease payments of \$50,902. It is reported as a purchase at a nominal sum, with recapture of prior years' accumulated depreciation. As of June 30, 2001, the lease agreement had been defaulted on.
- B. The Authority entered into a lease/purchase agreement with LH Corporation on June 18, 1990, for real estate owned by the Authority having a cost of \$84,093 as of June 30, 1991.

The lease period began on October 1, 1990 for a period of two years. The Tenant may extend the lease for an additional period of eighteen years. The amount of the lease payments are to be determined at the time the option to extend the lease is exercised. The Tenant has exercised its option. The lease payments have been adjusted effective April 1, 1995, to \$715 per month, plus Pulaski County real estate taxes.

Since the Tenant has extended the lease for the additional eighteen years, then all lease payments, the two years plus the eighteen, shall be considered as purchase payments and the property shall be conveyed to the Tenant upon completion of all payments.

In 1994, the Authority entered into a lease/purchase agreement with LH Corporation for a building addition costing \$52,139. The lease payments are \$579 per month at 6% interest through March 1, 2005.

NOTE 6—REAL ESTATE LOAN COMMITMENT:

The Authority has advanced \$3,000,000 for the expansion of an industrial plant (VOLVO) in Pulaski County. The loan agreement specifies that should capital improvements exceed agreed upon base amounts, the loan, with its corresponding accrued interest, be forgiven. Interest is accrued on the note at 6.5625% per annum.

In conjunction with the Opportunity Fund of the Governor of the Commonwealth of Virginia, a loan commitment in the amount of \$1,000,000 a year for five years has been extended as part of the project.

The loan agreement specifies that should capital improvements placed in service exceed agreed upon base amounts, the loan, with its corresponding accrued interest, be forgiven. As of June 30, 1997, a total of \$3,000,000 in Opportunity Fund money has been advanced under terms of the agreement. The loan was forgiven by certification of capital expenditures by the company as of August 1, 1997.

Industrial Development Authority of Pulaski County
Schedule of Notes Receivable
At June 30, 2001

Description	Original Loan	Date of Loan	Date Due	Interest Rate	Monthly Payments	Outstanding at June 30, 2001
Renfro Corporation, Mt. Airy, NC: Lease Purchase, Newbern Road Plant	\$ 6,000,000	6/6/96	3/1/02	6.00%	\$ 50,902	\$ 5,107,045
New River Precision Machine Co., Inc., Dublin, VA: Secured by: Deed of trust on lot #9, Industrial Park Secured by: Deed of trust on lot #9, Industrial Park	25,000 15,000	10/28/86 12/30/87	5/28/07 12/28/07	5.00% 5.00%	165 99	12,810 8,247
LH Corporation, Dublin, VA: Secured by: Deed of trust on lot #6 Industrial Park Secured by: First lien on machinery, equipment, and other personal property acquired by maker with proceeds of loan.	78,521 215,000	4/1/95 6/15/90	3/1/11 3/1/05	7.75% 7.50%	715 2,516	23,273 58,564
Motion Control, Radford, VA: Secured by: Deed of trust on lot at Industrial Park	100,000	9/17/99	9/17/09	7.00%	1,161	100,000
Total receivable at June 30, 2001					\$	<u>5,309,939</u>
Rental Agreement: Reed Creek Operating Lease Agreement	\$ 50,000	Original Date of Lease 1/15/96	Final Date of Lease 12/15/05	Interest Rate 6.00%	Lease Payment 555	\$ 36,155

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE MEMBERS OF THE BOARD PULASKI COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY PULASKI, VIRGINIA

We have audited the financial statements of the Pulaski County Industrial Development Authority, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 6, 2001, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

Compliance

As part of obtaining reasonable assurance about whether the Pulaski County Industrial Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pulaski County Industrial Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of management and the Authority's Board. However, this report is a matter of public record and its distribution is not limited.

Roberta Farmer, Cox Associates

Radford, Virginia

October 6, 2001

INDEX TO AFFIDAVITS

Pulaski Furniture Company
Gus C. Vlahos, DDS
Pulaski Retirement Community
Medical Facilities of America
Mar-Bal, Inc.
Associates of Wheatland Hills