Industrial Development Authority of Pulaski County, Virginia
Financial Report

Year Ended June 30, 2007

Pulaski County Industrial Development Authority
Annual Financial Report
Fiscal Year Ended June 30, 2007

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FINANCIAL SECTION

6. As part of the above cash transactions of the IDA, the IDA's total debt increased by $14,653,732 in the 2006-07 fiscal year, as explained in the Debt Administration section below.
7. Operating revenues of $909,537 primarily consisted of building rent, local contributions (interest on loan repayments) and reimbursement for payment of the Bob White building loan and the operating deficit of the Bob White building by the Board of Supervisors.
8. The Industrial Development Authority was successful in increasing payments from private sector firms for the rental of space within the Bob White Building. However, the increase in rent and utility payments still did not cover total debt service, utility and maintenance costs by approximately $99,028 for the building. As of June 30, 2007, only 84,783 square feet or 41.6% of the total 204,000 square feet of space is leased. Since June 30, one lessee has left the building leaving another 20,000 square feet vacant. Thus, continued expansion of leased space in the building gives hope to eventually eliminating a long-term cash outlay related to the continued ownership of the building. It should be noted that the current amortization of the Bob White building debt will end in 2018 at which time the building will generate a net income to the ability assuming the Authority is able to continue leasing space in the building.

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of an entity's financial position. The Industrial Development Authority of Pulaski County serves as an economic development facilitator and as a leaser or seller of industrial property for the County of Pulaski. Thus, industrial properties acquired by the Board of Supervisors are often transferred to the Authority for the purpose of negotiated sale with a specific employer or development. Likewise, the Authority also serves as a conduit for financing of industrial activity by local employers and the support of those employers by the Board of Supervisors. Finally, the Authority serves as a conduit making possible the tax exempt financing of local industrial activities. In each of these situations, the financial obligations of the Authority are secured by a third party.

The following table provides a summary comparison of net assets for the 2005-06 and 2006-07 fiscal years:

	FY 2005-06	FY 2006-07
Current Assets	$ 1,764,726	$ 1,473,892
Noncurrent Assets	9,068,355	24,243,641
Total Assets	$ 10,833,081	$ 25,717,533
Current Liabilities	$ 914,049	$ 1,212,433
Noncurrent Liabilities	5,382,700	19,995,036
Total Liabilities	$ 6,296,749	$ 21,207,469
Invested in capital assets net of related debt	$ 1,943,333	$ 1,998,976
Unrestricted	2,592,999	2,511,088
Total Net Assets	$ 4,536,332	$ 4,510,064

As included in Exhibit 1 and summarized above, the net assets of the Authority decreased by $26,268 or less than 1% from $4,536,332 (restated) on June 30, 2006 to $4,536,332 on June 30, 2007. The most obvious changes are in non-current assets and liabilities. These changes are due to the issuance of the lease revenue note to the County for the construction of the Riverlawn Elementary School. It should be noted the transactions related to this issuance did not have an impact on the IDA's net assets.

The following table provides a summary comparison of the change net assets for the 2005-06 and 2006-07 fiscal years:

		FY 2005-06		FY 2006-07
Operating revenues	$	2,001,740	$	909,537
Operating expenses		(1,424,856)		(429,319)
Income from Operations	$	576,884	$	480,218
Non-operating revenues	$	31,132	$	87,579
Non-operating expenses		(1,014,860)		(594,065)
Non-operating Income (expenses)	$	(983,728)	$	(506,486)
Change in Net Assets	$	(406,844)	$	(26,268)

As noted in the above table, the 2006-07 fiscal year resulted in a significantly better financial outcome than did the 2005-06 fiscal year largely due to the sale of the shell building to Findlay Industries in 2005-06 resulting in a significant loss on that asset. Operating revenue decreased by $1,092,203 due to a decrease in the amount the County provided ($1,410,419) offset by an increase in rental income of $310,168. Operating expenses decreased by $995,537. This decrease was offset by a corresponding decrease in local industry assistance decreased of $828,620. Furthermore, depreciation expense decreased by $84,959 largely due to the sale of the shell building. The income from operations was completely depleted by the loss from non-operations due to an increase in interest expense. This change is explained in more detail in the debt section below.

CAPITAL ASSETS

The Authority had capital assets (net of accumulated depreciation) totaling $5,100,054 and $5,267,197 for 2007 and 2006, respectively. These assets consisted of the ownership of the Bob White Building, the former Grisham Elementary School in New River, DeHaven Park, a Claytor Lake property (formerly known as Harry's Point), undeveloped portions of the Pulaski County Corporate Center and parcels of vacant land adjacent to New River Community College and the Heron's Landing housing development in Fairlawn.. More information about the IDA's capital assets can be found in Note 4 to the Financial Statements.

DEBT ADMINISTRATION

In prior years, the largest portion of the Authority's liabilities consisted of debt on the former Renfro (now Bob White) building located on Bob White Boulevard (June 30, 2007 balance of $3,101,078) and two loans made in December 2005 and January 2007 to provide Findlay Industries to promote industry growth (June 30, 2007 balances of $2,267,532 and $719,916, respectively). During the 2006-07 fiscal year the IDA issued $14,000,000 in general obligations bonds (referred to as lease revenue note in the financials) for the construction of the Riverlawn Elementary School. The Board of Supervisors of the County will provide revenue in the form of contributions to cover the debt service of this issuance. Offsetting this liability is a lease revenue note receivable in the same amount payable by the County.

At the end of the fiscal year ending June 30, 2007, the Authority had long-term debt of $20,436,775 versus $5,766,203 at the end of the previous fiscal year. More detailed information about the Authority's indebtedness, including annual debt service requirements, is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The general condition of the economy and the state of private-sector investment are expected to be major factors in determining the Authority's activity level. Another primary factor is the competitive nature of economic development and the need for the County to invest in the incentives required to successfully locate significant projects such as the James Hardie Building Products and Findlay Industries expansion.

The IDA expenditures in the 2006-07 fiscal year show a significant increase in debt as a result of the Riverlawn Elementary School transaction. As previously noted, this debt service payments will be offset by corresponding contributions from the County. In addition, the IDA previously had a $2 million investment in the James Hardie site preparation cost and an estimated $2.2 million loan needed to complete the Shell Building for lease/purchase to Findlay Industries. The James Hardie debt will be offset by the appropriation of new tax revenues to the IDA by the Board of Supervisors and the additional debt on the Shell Building will be offset by lease-purchase payments from Findlay Industries. Finally, it is anticipated that the collection of rent and utility payments due the IDA for the lease of the Bob White building will continue to increase.

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 the County Administrator, Pulaski County, Virginia, 143 Third Street, Pulaski, VA 24301.

BASIC FINANCIAL STATEMENTS

INDUSTRIAL DEVELOPMENT AUTHORITY OF PULASKI COUNTY, VIRGINIA

Proprietary Fund Type
Statement of Cash Flows
Year Ended June 30, 2007

Cash flows from operating activities:		
Cash received from lessees	$	447,376
Cash received from others		284,705
Cash paid to suppliers for goods and services		(267,805)
Net cash provided (used) by operating activities	$	464,276
Cash flows from capital and related financing activities:		
Cash received from sale of capital assets	$	70,000
Proceeds of indebtedness		15,098,249
Notes receivable issued		(15,888,530)
Payments received on notes receivable		557,299
Retirement of indebtedness		(444,517)
Interest and loan cost paid on debt		(341,448)
Net cash provided (used) by capital and related financing activities	$	(948,947)
Cash flows from investing activities:		
Interest income	$	27,579
Net increase (decrease) in cash	$	(457,092)
Cash at beginning of year	$	1,384,459
Cash at end of year	$	927,367

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income (loss)	$	480,218
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation/amortization	$	157,143
(Increase) decrease in receivables		(177,456)
Increase (decrease) in operating accounts payable		4,371
Net cash provided (used) by operating activities	$	464,276

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

In addition, the Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities. Liability under the bonds may be retained by the Authority or it may be assumed by the enterprises for which facilities are constructed. Collection of revenues pledged to liquidate the bonds may be assigned to a trustee. The revenue bonds are not deemed to constitute a debt or pledge of the faith and credit of the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease or sale of the facilities constructed and may be secured by a deed of trust on those facilities.

A. Determination of the Reporting Entity

For financial reporting purposes, in conformance with the principles of the Governmental Accounting Standards Board, the Industrial Development Authority of Pulaski County, Virginia is a component unit of the County of Pulaski. The Authority is classified as a component unit because its members are appointed by the Board of Supervisors and the County provides significant funding to the Authority; thus, the County is financially accountable for the Authority. The Authority is reported as a discretely presented component unit in the County's financial report.

B. Basic Financial Statements

Pass-through Financing Leases – Most activities of the Authority represent pass-through leases. These agreements provide for periodic rental payments in amounts which are equal to the principal and interest payments due to project bond holders. The Authority has assigned all rights to the rental payments to the trustees of the bond holders and the lessees have assumed responsibility for all operating costs such as utilities, repairs and property taxes. In such cases, the Authority recognizes associated assets, liabilities, and rental income or interest expense in its financial statements.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 – ORGANIZATION, DESCRIPTION OF THE ENTITY: (Continued)

B. Basic Financial Statements (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

NOTE 2-DEPOSITS AND INVESTMENTS:

Deposits
All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

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 of the Authority are part of the County's pooled investments. GASB 40 disclosures can be found in the County's June 30, 2007 Financial Report.

NOTE 3-REAL ESTATE LOAN COMMITMENT:

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 the terms of the agreement. The loan was forgiven by certification of capital expenditures by the company as of August 1, 1997.

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT:

The Authority leases manufacturing facilities. The assets have been recorded at cost. The buildings and improvements are depreciated over an estimated useful life of 39 years using the straight-line method. Property, plant, and equipment consist of the following:

	Beginning Balance	Adjustments	Increases	Decreases	Ending Balance
Business-type Activities:					
Capital assets, not being depreciated:					
Land	$ 876,735	$ 2,250	$ -	$ (10,000)	$ 868,985
Capital assets, being depreciated:					
Buildings and improvements	$ 6,039,991	$ 303,386	$ -	$ -	$ 6,343,377
Accumulated depreciation for:					
Buildings and improvements	$ (1,826,945)	$ (128,220)	$ (157,143)	$ -	$ (2,112,308)
Total capital assets being depreciated, net	$ 4,213,046	$ 175,166	$ (157,143)	$ -	$ 4,231,069
Business-type activities capital assets, net	$ 5,089,781	$ 177,416	$ (157,143)	$ (10,000)	$ 5,100,054

Depreciation expense for the year amounted to $157,143. Interest paid during construction is capitalized in accordance with generally accepted accounting principles. The Authority capitalizes interest applicable to that portion of indebtedness, the proceeds of which are used to construct new facilities. For the year ended June 30, 2007, no interest paid was capitalized and added to the cost of depreciable buildings and improvements.

NOTE 5-CONTINGENCIES AND EVENTS OF DEFAULT:

Although obligations under the revenue bonds issued to date are secured by lease proceeds and the underlying properties, the Authority retains no liability on pass-through leases. However, the Authority and the Board of Supervisors of Pulaski County, Virginia, may choose, at their option, to assume responsibility for the bonds in the event of default by lessees to preserve the credit rating of the Authority for future issues.

NOTE 6-LONG TERM DEBT:

Annual requirements to amortize the Authority's long term debt and related interest are as follows:

Year Ending June 30,	Revenue Bonds Principal	Revenue Bonds Interest	Lease Revenue Note Principal	Lease Revenue Note Interest
2008	$ 441,739	$ 298,450	$ -	$ 665,883
2009	510,578	295,900	225,000	679,088
2010	539,553	267,925	7,735,000	671,213
2011	570,182	237,297	245,000	284,462
2012	602,559	204,920	255,000	275,275
2013-2017	3,081,682	484,497	1,445,000	1,213,625
2018-2022	342,233	9,018	1,800,000	857,962
2023-2027	-	-	2,295,000	355,500
Totals	$ 6,088,526	$ 1,798,007	$ 14,000,000	$ 5,003,008

Changes in long-term debt:

	Balance July 1, 2006	Adjustments	Issuances	Retirements	Balance June 30, 2007
Revenue bonds	$ 5,766,203	16,840	$ 750,000	$ (444,517)	$ 6,088,526
Lease revenue note	-		14,000,000	-	14,000,000
Unamortized bond premiums	-		348,249	-	348,249
Total	$ 5,766,203		$ 15,098,249	$ (444,517)	$ 20,436,775

Details of 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	$ 3,101,078	$ 198,490
Findlay Industries	5.75%	12/25/2005	2016	2,500,000	2,267,532	185,600
Findlay Industries	6.25%	1/1/2007	2016	750,000	719,916	57,649
Total Revenue bonds					$ 6,088,526	$ 441,739
Lease Revenue Note:						
Riverlawn Elementary School	3.5-5.25%	2/8/2007	2027	$ 14,000,000	$ 14,000,000	$ -
Unamortized bond premium	n/a	2/8/2007	2027	348,249	348,249	-
Total Lease Revenue note					$ 14,348,249	$ -
Total					$ 20,436,775	$ 441,739

NOTE 7 – DUE TO COUNTY OF PULASKI:

$ 500,000 due to County related to a 1990 revenue bond originally due April 15, 2005. No firm repayment schedule has been set by the Board of Supervisors for this obligation.

NOTE 8 – NOTES RECEIVABLE:

At June 30, 2007, the Authority had the following Notes Receivable:

Due from	Due	Interest Rate		Principal Outstanding
Mebco	2016	0.00%	$	315,000
Nanochemonics	2008	6.00%		250,000
Findlay Industries	2016	5.75%		2,999,549
Findlay Industries	2016	0.00%		1,494,700
Pulaski County	2027	3.5-5.25%		14,348,249
Total			$	19,407,498

NOTE 9 – DEFINED BENEFIT PENSION PLAN:

All personnel costs of the Authority are paid directly by Pulaski County, Virginia. Through the County of Pulaski, Virginia, the Authority contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (System). Actuarial information, trend information and the funding status and progress of the plan are included in the comprehensive annual report for the County of Pulaski, Virginia.

NOTE 10 – RESTATEMENT OF BEGINNING NET ASSETS:

		Net Assets
Business-type Activities:		
As previously stated	$	2,821,464
Change in revenue accruals		38,962
Change in notes receivable		1,515,330
Change in long-term debt		(16,840)
Change in capital assets (see note 3)		305,636
Change in accumulated depreciation (see note 11)		(128,220)
Restated amount	$	4,536,332

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS *A PROFESSIONAL LIMITED LIABILITY COMPANY*

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

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

We have audited the financial statements of the Industrial Development Authority of Pulaski County (Authority) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 16, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal ca 't l d s dh l rt f th l 't d d b d th f t

This report is intended solely for the information and use of management, the Authority and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia

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