

INDUSTRIAL DEVELOPMENT AUTHORITY
OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF THE COUNTY OF CARROLL, VIRGINIA)
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

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

FINANCIAL REPORT
JUNE 30, 2011

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

**To the Members of the Board of Directors
Carroll County Industrial Development Authority
Hillsville, Virginia**

We have audited the accompanying financial statements of the business-type activities of the Carroll County Industrial Development Authority, a component unit of the County of Carroll, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Carroll County Industrial Development Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Carroll County Industrial Development Authority as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, on our consideration of the Carroll County Industrial Development 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* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia
December 23, 2011

Basic Financial Statements

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

Statement of Net Assets
As of June 30, 2011**ASSETS**

Current assets:

Cash and cash equivalents	\$ 202,274
Interest receivable	152,402
Accounts receivable	1,000
Lease-purchase receivable - current portion	859,757
Total current assets	<u>\$ 1,215,433</u>

Noncurrent assets:

Assets held for resale:

Industrial sites	\$ 876,270
Cash and cash equivalents - restricted	71,280
Deferred issuance costs	196,528
Lease-purchase receivable - net of current portion	7,777,771

Capital assets:

Machinery and equipment	248,675
Less: accumulated depreciation	(122,696)
Total capital assets	<u>\$ 125,979</u>
Total noncurrent assets	<u>\$ 9,047,828</u>

Total Assets	<u><u>\$ 10,263,261</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	\$ 6,872
Accrued interest payable	147,908
Lease revenue bonds/notes payable-current portion	615,007
Total current liabilities	<u>\$ 769,787</u>

Noncurrent liabilities:

Lease revenue bonds/notes payable-net of current portion	<u>\$ 7,843,276</u>
Total Liabilities	<u>\$ 8,613,063</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ (9,614)
Restricted for debt service	71,280
Unrestricted	1,588,532
Total net assets	<u><u>\$ 1,650,198</u></u>

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

**Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011**

Operating Revenues:	
Contributions--Carroll County	\$ 192,480
Revenue from the use of property	92,112
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Total operating revenues	\$ 284,592
Operating Expenses:	
Professional services	\$ 32,794
Child Care Center - maintenance	29,173
Other repairs and maintenance	10,872
Facilities rent	31,499
Insurance	7,439
Miscellaneous	1,687
Incentive payments	24,225
Depreciation	108,201
	<hr/>
Total operating expenses	\$ 245,890
Operating income (loss)	\$ 38,702
Nonoperating Revenues (Expenses):	
Lease purchase revenue	\$ 171,533
Interest income	91
Interest expense	(379,076)
	<hr/>
Total nonoperating revenues (expenses)	\$ (207,452)
Change in net assets	\$ (168,750)
Net assets, beginning of year	\$ 1,818,948
	<hr/>
Net assets, end of year	\$ 1,650,198
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The accompanying notes to financial statements are an integral part of this statement.

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA
**Statement of Cash Flows
For the Year Ended June 30, 2011**

Cash flows from operating activities:	
Receipts from others	\$ 286,092
Payments to suppliers for goods and services	(140,774)
	<hr/>
Net cash provided by (used in) operating activities	\$ 145,318
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Cash flows from capital and related financing activities:	
Lease purchase revenue	\$ 64,005
Proceeds from indebtedness	434,490
Principal payments on indebtedness	(567,347)
Interest payments on indebtedness	(378,071)
	<hr/>
Net cash provided by (used in) capital and related financing activities	\$ (446,923)
	<hr/>
Cash flows from investing activities:	
Interest received	\$ 1,695
	<hr/>
Increase (decrease) in cash and cash equivalents	\$ (299,910)
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Cash and cash equivalents at beginning of year	573,464
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Cash and cash equivalents at end of year (including \$71,280 restricted cash and cash equivalents)	<u>\$ 273,554</u>
Reconciliation of operating income (loss) to net cash provided by	
(used in) operating activities:	
Operating income (loss)	\$ 38,702
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	\$ 108,201
(Increase) decrease in operating receivables	1,500
Increase (decrease) in payables and accrued expenses	(3,085)
	<hr/>
Net cash provided by (used in) operating activities	<u>\$ 145,318</u>
	<hr/>
Supplemental disclosure required:	
Interest paid during the year on indebtedness	<u>\$ 378,071</u>

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of more significant polities.

A. Determination of the Reporting Entity:

The Industrial Development Authority of Carroll County, Virginia was created as a governmental subdivision of the Commonwealth of Virginia by ordinance of the Board of Supervisors of Carroll County on August 18, 1969, 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. It is authorized to acquire, own, lease and dispose of properties to the end that such activities may promote industry and develop trade by encouraging enterprises to locate and remain in Virginia. The Authority is a component unit of Carroll County, 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 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.

B. Basis of Accounting:

The Authority operates as an enterprise activity and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are contributions and charges for services. Operating expenses include the cost of administration and related expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the 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, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Cash and Cash Equivalents:

For purposes of the statement of cash flows and the statement of net assets, cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

D. Other Significant Accounting Policies:

- Accounts receivable, if any, are shown at gross value and no allowance has been taken for doubtful accounts.
- Investments, if any, are stated at fair value, which is equal to the market value. The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.
- When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

E. Use of Estimates:

The preparation of financial statements in conformity with U.S. 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.

F. Pass-Through Financing Leases and Installment Sales:

The principal activities of the Authority represent pass-through leases or installments sales. These agreements provide for periodic payments in amounts which are equal to the principal and interest payments due to project bonds holders.

The Authority has assigned all rights to the payments to the trustees, agents or the holders of the bonds, and the lessees or purchasers have assumed responsibility for all operating costs such as utilities, repairs and property taxes. In such cases, the Authority neither receives nor disburses funds.

Although title to these properties may rest with the Authority, bargain purchase options or other provisions eliminate any equity interest that would otherwise be retained in the lease transactions. Deeds of trust secure outstanding bond obligations and title will pass to the lessee or purchaser at such time as the 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 assets, liabilities, rental income or interest expense in its financial statements.

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

G. Property and Equipment:

Property, plant and equipment are carried at cost. No depreciation is taken on industrial projects, which are held for the purpose of development and resale. Leasehold improvements are depreciated over the term of the lease and equipment is depreciated over a period of 3-15 years using the straight-line method.

H. Deferred Income:

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

I. Net Assets:

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets.

NOTE 2—DEPOSITS AND INVESTMENTS:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize 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). The Authority had no investments at June 30, 2011.

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INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 3—CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business - Type Activities:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 784,983	\$ -	\$ (784,983)	\$ -
Machinery and equipment	248,675	-	-	248,675
Total capital assets being depreciated	<u>\$ 1,033,658</u>	<u>\$ -</u>	<u>\$ (784,983)</u>	<u>\$ 248,675</u>
Less: accumulated depreciation for:				
Leasehold improvements	\$ (686,860)	\$ (98,123)	\$ 784,983	\$ -
Machinery and equipment	(112,618)	(10,078)	-	(122,696)
Total accumulated depreciation	<u>\$ (799,478)</u>	<u>\$ (108,201)</u>	<u>\$ 784,983</u>	<u>\$ (122,696)</u>
Business - Type activities capital assets, net	<u>\$ 234,180</u>	<u>\$ (108,201)</u>	<u>\$ -</u>	<u>\$ 125,979</u>

The Authority purchased land for development. Land purchased for future development by the Industrial Development Authority is valued at cost which totals \$876,270. No depreciation is recorded against land held for resale.

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INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 4—LONG TERM DEBT:

Changes in long term debt:

	<u>Balance July 1, 2010</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
Lease revenue bond	\$ 8,530,000	\$ -	\$ (535,000)	\$ 7,995,000
Lease revenue notes	143,530	434,490	(53,774)	524,246
Deferred amount on refunding	(82,390)	-	21,427	(60,963)
Total	\$ 8,591,140	\$ 434,490	\$ (567,347)	\$ 8,458,283

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

<u>Year Ending June 30,</u>	<u>Lease Revenue Bond</u>		<u>Lease Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 550,000	\$ 319,263	\$ 65,007	\$ 19,711
2013	570,000	299,663	67,635	17,083
2014	590,000	278,625	70,370	14,348
2015	615,000	255,263	73,216	11,502
2016	175,000	239,463	76,176	8,541
2017-2021	985,000	1,084,713	134,432	15,503
2022-2026	1,200,000	861,875	37,410	2,904
2027-2031	1,480,000	572,531	-	-
2032-2036	1,830,000	211,069	-	-
Totals	\$ 7,995,000	\$ 4,122,465	\$ 524,246	\$ 89,592

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INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 4—LONG TERM DEBT: (Continued)

Details of indebtedness:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-Type Activities</u>	<u>Amount Due Within One Year</u>
Lease Revenue Bond (Revenue bond is secured by a lease/purchase agreement with the County of Carroll, VA.)	3.25-4.38%	7/1/2005	7/20/2035	\$ 10,510,000	\$ 7,995,000	\$ 550,000
Lease Revenue Notes:						
School Bus Loan	4.00%	8/12/2010	8/12/2017	\$ 434,490	\$ 388,653	\$ 56,765
Mini Pumper Fire Truck Loan	3.83%	4/30/2009	4/24/2024	151,175	135,593	8,242
Lease Revenue Notes Total					\$ 524,246	\$ 65,007
Deferred amount on refunding					\$ (60,963)	\$ -
Total Long-Term Obligations					\$ 8,458,283	\$ 615,007

NOTE 5—LEASE PURCHASE RECEIVABLES:

<u>Due From:</u>	<u>In Relation to:</u>	<u>Balance Business-Type Activities</u>	<u>Amount Due Within One Year</u>	<u>Interest Receivable</u>
Carroll County, Virginia	Government Center	\$ 7,995,000	\$ 550,000	\$ 146,273
Carroll County School Board	School Buses	389,428	56,657	-
Crossroads Expansion	Crossroads Bldg.	168,000	168,000	3,150
Weststar	Weststar Renov.	85,100	85,100	2,979
Total		8,637,528	859,757	152,402

A lease purchase agreement was entered into with the County of Carroll for the construction of a County Complex. Terms of the lease agreement require the County to make payments to the Industrial Development Authority of Carroll County that are sufficient to redeem and pay interest on the Industrial Development's lease revenue bond dated July 1, 2005.

A lease purchase agreement was entered into with the Carroll County School Board for the purchase of six school buses. Carroll County School Board will pay monthly payments of \$5,966 beginning September 12, 2010 and ending on September 12, 2017.

A lease purchase agreement was entered into with the Crossroads Rural Entrepreneurial Institute, Inc. on December 20, 2010 in the amount of \$168,000 at a 3.75% interest rate. The entire amount is due in a lump sum payment within one year of the agreement.

A lease purchase agreement was entered into with the Weststar Investments, LLC on December 6, 2010 in the amount of \$85,100 at a 6.00% interest rate. The entire amount is due in a lump sum payment within 18 months of the agreement.

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 6—CONTINGENCIES:

All obligations under the revenue bonds issued to date are secured by lease purchase agreements and/or the underlying properties. The Authority retains no liability on pass through leases and installment sales.

On April 26, 2002, the Authority co-signed a loan for Wyatt-Carpenter Woodworks, Inc. in the amount of \$75,000. In the event the Corporation defaults on the loan, the Authority will be liable for any unpaid principal and interest.

NOTE 7—RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates with other localities in a public entity risk pool for their coverage of general liability, property, and auto insurance with the VACO Risk Management Program. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority paid contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of the loss, deficit, or depletion of all available funds and/or excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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 Members of the Board
Carroll County Industrial Development Authority
Hillsville, Virginia**

We have audited the financial statements of the business-type activities of the Carroll County Industrial Development Authority, as of and for the year ended June 30, 2011, which collectively comprise the Carroll County Industrial Development Authority's basic financial statements and have issued our report thereon dated December 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; 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 Carroll County Industrial Development 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 Carroll County Industrial Development Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Carroll County Industrial Development Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of the Authority in a separate letter dated December 23, 2011.

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

Robinson, Faimer, Cox Associates

Christiansburg, Virginia
December 23, 2011