INDUSTRIAL DEVELOPMENT AUTHORITY

OF CARROLL COUNTY, VIRGINIA

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

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2010

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF THE COUNTY OF CARROLL, VIRGINIA)
FINANCIAL REPORT
JUNE 30, 2010

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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 Carroll County Industrial Development Authority, a component unit of the County of Carroll, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the entity'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 Carroll County Industrial Development Authority as of June 30, 2010, 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 January 24, 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, 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 the 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.

The Authority has elected to omit Management's Discussion and Analysis which is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America.

Robinson, Farmer, Cox Associates
Christiansburg, Virginia
January 24, 2011

Basic Financial Statements

Exhibit 1

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

Statement of Net Assets
As of June 30, 2010

ASSETS		
Current assets:		
Cash and cash equivalents	$	573,464
Interest receivable		154,006
Accounts receivable		2,500
Lease-purchase receivable - current portion		535,000
Total current assets	$	1,264,970
Noncurrent assets:		
Assets held for resale:		
Industrial sites	$	876,270
Deferred issuance costs		204,550
Lease-purchase receivable - net of current portion		7,995,000
Capital assets:		
Leasehold improvements		784,983
Machinery and equipment		248,675
Less: accumulated depreciation		(799,478)
Total capital assets	$	234,180
Total noncurrent assets	$	8,433,730
Total Assets	$	10,574,970
LIABILITIES		
Current liabilities:		
Accounts payable	$	9,957
Accrued interest payable		154,925
Lease revenue bonds/notes payable-current portion		542,937
Total current liabilities	$	707,819
Noncurrent liabilities:		
Lease revenue bonds/notes payable-net of current portion	$	8,048,203
Total liabilities	$	8,756,022
NET ASSETS		
Invested in capital assets, net of related debt	$	90,650
Unrestricted		1,728,298
Total net assets	$	1,818,948

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

Exhibit 2

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2010

Operating Revenues:		
Contributions--Carroll County	$	2,009,766
Revenue from the use of property		129,250
Miscellaneous		10,325
Total operating revenues	$	2,149,341
Operating Expenses:		
Beaver Dam Trail	$	2,012
Professional services		50,352
Child Care Center - maintenance		4,109
Other repairs and maintenance		16,447
Facilities rent		47,248
Results - repairs and maintenance		1,186
Miscellaneous		26,653
Depreciation		288,943
Total operating expenses	$	436,950
Operating income (loss)	$	1,712,391
Nonoperating Revenues (Expenses):		
Lease purchase revenue	$	345,625
Gain on the sale of land		193,687
Contribution to the County		(1,242,205)
Interest income		176
Interest expense		(442,502)
Total nonoperating revenues (expenses)	$	(1,145,219)
Change in net assets	$	567,172
Net assets, beginning of year		1,251,776
Net assets, end of year	$	1,818,948

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

Exhibit 3

INDUSTRIAL DEVELOPMENT AUTHORITY OF CARROLL COUNTY, VIRGINIA

Statement of Cash Flows
For the Year Ended June 30, 2010

Cash flows from Operating activities:		
Receipts from others	$	2,149,706
Payments to suppliers for goods and services		(151,397)
Net cash provided by (used in) operating activities	$	1,998,309
Cash flows from Capital and related financing activities:		
Lease purchase revenue	$	873,142
Proceeds from the sale of land		276,554
Purchase of land held for resale		(87,521)
Principal payments on indebtedness		(2,445,559)
Interest payments on indebtedness		(461,074)
Net cash provided by (used in) capital and related financing activities	$	(1,844,458)
Cash flows from Investing activities:		
Interest received	$	176
Net cash provided by (used in) investing activities	$	176
Increase (decrease) in cash and cash equivalents	$	154,027
Cash and cash equivalents at beginning of year		419,437
Cash and cash equivalents at end of year	$	573,464
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$	1,712,391
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	$	288,943
(Increase) decrease in operating receivables		10,188
Increase (decrease) in payables and accrued expenses		(3,390)
Net cash provided by (used in) operating activities	$	2,008,132
Supplemental disclosure required:		
Interest paid during the year on indebtedness	$	461,074

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

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.

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 effect 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.

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:
All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 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).

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NOTE 3—CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business - Type Activities:				
Capital assets, not being depreciated:				
Land	$ 274,314	$ -	$ (274,314)	$ -
Capital assets, being depreciated:				
Buildings and improvements	$ 1,089,207	$ -	$ (1,089,207)	$ -
Leasehold improvements	784,983	-	-	784,983
Machinery and equipment	463,011	-	(214,336)	248,675
Total capital assets being depreciated	$ 2,337,201	$ -	$ (1,303,543)	$ 1,033,658
Less: accumulated depreciation for:				
Buildings and improvements	$ (271,499)	$ (54,461)	$ 325,960	$ -
Leasehold improvements	(490,614)	(196,246)	-	(686,860)
Machinery and equipment	(93,434)	(38,236)	19,052	(112,618)
Total accumulated depreciation	$ (855,547)	$ (288,943)	$ 345,012	$ (799,478)
Total capital assets being depreciated, net	$ 1,481,654	$ (288,943)	$ (958,531)	$ 234,180
Business - Type activities capital assets, net	$ 1,755,968	$ (288,943)	$ (1,232,845)	$ 234,180

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.

Carroll County, Virginia paid off $1,944,322 of the Authority's outstanding debt and therefore, the corresponding secured assets were transferred back to Carroll County, Virginia.

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NOTE 4—LONG TERM DEBT:

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

Year Ending June 30,	Lease Revenue Bond/Note Principal	Lease Revenue Bond/Note Interest
2011	$ 542,937	$ 343,082
2012	558,242	324,459
2013	578,557	304,543
2014	598,885	283,178
2015	624,226	259,475
2016-2020	996,712	1,138,791
2021-2025	1,203,971	916,043
2026-2030	1,420,000	635,969
2031-2035	1,750,000	290,105
2036-2037	400,000	35,550
Totals	$ 8,673,530	$ 4,531,195

Changes in long term debt:

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
Lease revenue bond/note payable	$ 10,603,980	$ -	$ (1,930,450)	$ 8,673,530
Lease purchase agreements	541,433	-	(541,433)	-
Deferred amount on refunding	(108,714)	-	26,324	(82,390)
Total	$ 11,036,699	$ -	$ (2,445,559)	$ 8,591,140

NOTE 4—LONG TERM DEBT: (Continued)

Details of indebtedness:

	Amount	Within One Year
Lease Revenue Bond/Note:		
On July 1, 2005, the Authority issued a $10,510,000 lease revenue bond bearing interest between 3.25% and 4.375%. Combined principal and interest payments are due semi-annually on July 20th and January 20th. If not paid sooner, the final installment shall be due and payable 30 years from the issuance date. This revenue bond is secured by a lease/purchase agreement with the County of Carroll. Principal payments vary from $175,000 to $615,000.	$ 8,530,000	$ 535,000
On April 30, 2009, the Authority entered into a $151,175 commercial loan bearing interest at 3.83%. Combined principal and interest payments of approximately $14,438 are due annually beginning on April 30, 2010 until defeased on April 24, 2024.	143,530	7,937
Total Long-Term Obligations	$ 8,673,530	$ 542,937

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NOTE 5—LEASE PURCHASE RECEIVABLE:

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. At June 30, 2010 the amount of principal and interest due under this agreement totaled $8,684,006. Of this amount $8,530,000 represents principal due and $154,006 represents interest.

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—LEASES:

The Authority leases building and office facilities under an operating lease. Total cost for such lease was $47,248 for the year ended June 30, 2010. The 36 month lease began on January 15, 2007 and terminated on January 15, 2010 and called for $141,744 to be paid in installments at the beginning of each quarter in the amount of $11,812. The lease agreement had an option to renew for an additional one year term at the same rate as the initial 36 month term.

COMPLIANCE SECTION

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, 2010, which collectively comprise the Carroll County Industrial Development Authority's basic financial statements and have issued our report thereon dated January 24, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (reference 2010-1).

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*.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, 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, Farmer, Cox Associates

Christiansburg, Virginia
January 24, 2011

Carroll County Industrial Development Authority

Schedule of Findings and Responses
Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	yes
Significant deficiency(ies) identified?	none reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2010-1

Criteria:	Per Statement on Auditing Standards 115 (SAS 115), identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a material weakness exists. In addition, SAS 115 indicates that the auditee should establish controls over the period-end financial reporting process and that reliance on the auditors to recommend period ending adjustments is not an acceptable component of such controls.
Condition:	The financial statements, as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements.
Effect of Condition:	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 controls over financial reporting.
Cause of Condition:	The County paid the entire balance on a number of loans related to fire and rescue buildings and vehicles. The assets securing the loans were not transferred back to the County.
Recommendation:	Assets that are financed through the IDA for the County should be transferred back to the County once the debt is paid in full.
Management's Response:	The Authority agrees with the finding and has transferred the assets to the County.