

**CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES
AUTHORITY
FINANCIAL REPORT
Year Ended June 30, 2012**

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Members of the Board
Carroll-Grayson-Galax Regional Industrial Facilities Authority
Galax, Virginia

We have audited the accompanying financial statements of the business-type activities of the Carroll-Grayson-Galax Regional Industrial Facilities Authority as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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-Grayson-Galax Regional Industrial Facilities Authority as of June 30, 2012 and the 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 February 15, 2013, on our consideration of the Carroll-Grayson-Galax Regional Industrial Facilities 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.

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 appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
February 15, 2013

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2012

ASSETS

Current Assets:	
Grants Receivable	\$ 178,749
Land Held for Resale	<u>6,657,693</u>
Total Current Assets	<u>\$ 6,836,442</u>
Other Assets:	
Loan costs net of accumulated amortization	<u>\$ 24,167</u>
Total Other Assets	<u>\$ 24,167</u>
Capital Assets:	
Land	\$ 65,000
Buildings	1,586,528
Equipment	7,880
Vehicles	42,396
Construction in Progress	409,940
Accumulated Depreciation	<u>(63,987)</u>
Net Capital Assets	<u>\$ 2,047,757</u>
Total Assets	<u>\$ 8,908,366</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Reconciled overdraft	\$ 4,832
Accrued interest	7,995
Accounts payable	163,793
Due to participant	7,932
Note payable, current portion	<u>70,820</u>
Total Current Liabilities	<u>\$ 255,372</u>
Long-term Liabilities:	
Note payable, net of current portion	<u>\$ 5,150,965</u>
Total Liabilities	<u>\$ 5,406,337</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 2,047,757
Unrestricted	<u>1,454,272</u>
Total Net Assets	<u>\$ 3,502,029</u>
Total Liabilities and Net Assets	<u><u>\$ 8,908,366</u></u>

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

Operating Revenues	
Grant income	\$ 465,070
Other income	20,968
	486,038
Total Operating Revenue	\$ 486,038
Operating Expenses	
Salary expenses	\$ 62,817
Fringe benefits	14,709
Professional fees	12,478
Advertising	4,184
Dues	331
Rent	3,000
Administrative	4,578
Training	899
Maintenance	1,202
Special Events	4,282
Miscellaneous	175
Depreciation	44,509
Amortization of Loan Costs	833
Insurance	1,109
Travel	4,357
	159,463
Total Operating Expenses	\$ 159,463
Operating Income	\$ 326,575
Other nonoperating revenues (expenses):	
Interest expense	\$ (321,483)
Contributions	471,662
	150,179
Total nonoperating revenue (expenses)	\$ 150,179
Change in net assets	\$ 476,754
Net assets, beginning of year	3,025,275
Net assets, end of year	\$ 3,502,029

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

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

Cash flows from operating activities:	
Receipts from grants	\$ 286,321
Receipts from others	20,968
Payments for operating expenses	(109,612)
Reconciled overdraft	4,832
	\$ 202,509
Cash flows from capital and related financing activities:	
Principal payments on indebtedness	\$ (72,793)
Received from localities	471,662
Interest payments on indebtedness	(313,488)
Purchase of capital assets	(297,808)
	\$ (212,427)
Net cash provided by (used for) investing activities	\$ (212,427)
Change in cash and cash equivalents	\$ (9,918)
Cash and cash equivalents at beginning of year	\$ 9,918
Cash and cash equivalents, at end of year	\$ -
Reconciliation of operating income to net cash	
Provided by (used for) operating activities	
Operating Income	\$ 326,575
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Amortization and depreciation	45,342
Changes in operating assets and liabilities	
Accounts payable	4,508
Reconciled overdraft	4,832
Grant receivable	(178,748)
	\$ 202,509

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

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE A - ORGANIZATION, DESCRIPTION OF THE ENTITY, AND ITS ACTIVITIES

The Carroll-Grayson-Galax Regional Industrial Facilities Authority was created as a joint venture between the County of Carroll, County of Grayson, and the City of Galax, Virginia. The Authority works with local businesses within the Twin Counties securing funding to create and preserve jobs, assisting with infrastructure projects, and industrial development.

In addition, the Authority is authorized to secure loans and grant funding for the purpose of obtaining and constructing facilities. Liability under the loans may be retained by the Authority or it may be assumed by the enterprises for whom facilities are constructed. The loans are payable solely from revenues generated from the contributions of the participating localities and may be secured by a deed of trust on those facilities.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Carroll-Grayson-Galax Regional Industrial Facilities Authority have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting

The Authority uses the accrual basis of accounting. Under this 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.

The Authority distinguishes operating revenues and expenses from non-operating 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 grants. Operating expenses include the cost of administration and related expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2012

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital Assets are defined by the Authority as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not to be capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest capitalized during the current or previous fiscal year.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Equipment	5
Vehicles	5

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

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CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2012

NOTE C - 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. At June 30, 2012, the Authority had no investments.

NOTE D - NOTE PAYABLE

The Authority has one outstanding note with National Bank of Blacksburg. At June 30, 2012, the principal balance of the note outstanding was \$5,221,785. Interest payments are based on outstanding balance.

	Balance July 1, 2011	Issuances	Retirements	Balance June 30, 2012
Wildwood Promissory Note	\$ 5,294,578	\$ -	\$ (72,793)	\$ 5,221,785
Total	\$ 5,294,578	\$ -	\$ (72,793)	\$ 5,221,785

Details of indebtedness:

	Balance at June 30, 2012	Amount Due Within One Year
<u>Notes Payable</u>		
\$5,300,000 Note Payable with National Bank of Blacksburg, monthly principal and interest payments beginning June 11, 2011 due through May 11, 2042 in various amounts, with interest payable at 5.25% to 8.25%. Interest rates adjustable every three years. Interest rate may not change by more than 1.25% per change and not change by more than 3.0% over the terms of the loan. The floor interest rate is 5.25%.	\$ 5,221,785	\$ 70,820
Total Notes Payable	\$ 5,221,785	\$ 70,820

CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 For the Year Ended June 30, 2012

NOTE D - NOTE PAYABLE (CONTINUED)

Annual requirements to amortize the above note and related interest are as follows:

Year Ending June 30	Notes Payable	
	Principal	Interest
2013	\$ 70,820	\$ 285,746
2014	75,096	280,692
2015	79,409	264,820
2016	86,839	260,389
2017	91,509	258,718
2018-2022	598,668	1,199,254
2023-2027	697,948	1,038,496
2028-2032	906,547	829,597
2033-2037	1,178,002	558,149
2038-2042	1,436,947	202,518
Totals	\$ 5,221,785	\$ 5,178,379

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CARROLL-GRAYSON-GALAX REGIONAL INDUSTRIAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended June 30, 2012

NOTE E - CAPITAL ASSETS

The Authority owns land that it prepares for use by prospective industries. The assets have been recorded at cost. At June 30, 2012, capital assets consisted of the following:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 65,000	\$ -	\$ -	\$ 65,000
Construction in Progress	-	409,940	-	409,940
Total capital assets, not being depreciated	<u>\$ 65,000</u>	<u>\$ 409,940</u>	<u>\$ -</u>	<u>\$ 474,940</u>
Capital assets, being depreciated:				
Buildings	\$ 1,586,528	\$ -	\$ -	\$ 1,586,528
Equipment	-	7,880	-	7,880
Vehicles	-	42,396	-	42,396
Total capital assets, being depreciated	<u>\$ 1,586,528</u>	<u>\$ 50,276</u>	<u>\$ -</u>	<u>\$ 1,636,804</u>
Less: accumulated depreciation for:				
Buildings	\$ (19,477)	\$ (39,663)	\$ -	\$ (59,140)
Equipment	-	(1,314)	-	(1,314)
Vehicles	-	(3,533)	-	(3,533)
Total accumulated depreciation	<u>\$ (19,477)</u>	<u>\$ (44,510)</u>	<u>\$ -</u>	<u>\$ (63,987)</u>
Total capital assets being depreciated, net	<u>\$ 1,567,051</u>	<u>\$ 5,766</u>	<u>\$ -</u>	<u>\$ 1,572,817</u>
Net capital assets	<u>\$ 1,632,051</u>	<u>\$ 415,706</u>	<u>\$ -</u>	<u>\$ 2,047,757</u>

NOTE F - LAND HELD FOR RESALE

The Authority has invested \$390,000 in 55.58 acres located at Washington Mills. The land is being held for resale for redevelopment.

The Authority has invested \$6,267,693 in 167 acres located at Exit 19 off Interstate 77. The Park was named Wildwood Commerce Park to attract small to medium size manufacturers and service industries.

Land held for resale is recorded at the lower of cost or market. Cost is determined by the acquisition price, if purchased, and estimated fair value at the date of contribution, if contributed.

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-Grayson-Galax Regional Industrial Facilities Authority
Galax, Virginia

We have audited the financial statements of the business type activities of the Carroll-Grayson-Galax Regional Industrial Facilities Authority as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 15, 2013. 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

Management of the Carroll-Grayson-Galax Regional Industrial Facilities Authority is responsible for establishing and maintaining effective 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 Carroll-Grayson-Galax Regional Industrial Facilities 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, 2012-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Carroll-Grayson-Galax Regional Industrial Facilities 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 other matters that we reported to management of the Carroll-Grayson-Galax Regional Industrial Facilities Authority in a separate letter dated February 15, 2013

Compliance and Other Matters (Continued)

The Carroll-Grayson-Galax Regional Industrial Facilities Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Carroll-Grayson-Galax Regional Industrial Facilities Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board, 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

Blacksburg, Virginia
February 15, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weaknesses identified?	Yes
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

<u>2012-1</u>	Material Auditor Adjustments to Financial Reporting
Criteria:	Per Statement on Auditing Standards No. 115, an auditee should have sufficient controls in place to produce financial statements in accordance with applicable standards. Furthermore, reliance on the auditor to propose adjustments necessary to comply with reporting standards is not a 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.
Cause of Condition:	2012 was the first year that the Authority maintained its own records. In addition, mid-year, the Authority had to change bookkeeping firms.
Effect:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal controls over financial reporting
Recommendation:	Our recommendation to the Carroll-Grayson-Galax Regional Industrial Facilities Authority, is to take steps to increase controls over its financial reporting in order to maintain records in accordance with generally accepted accounting standards.
Management's Response:	The Authority will work with their bookkeeper to ensure that adjustment are made in future periods.