The Industrial Development Authority

of Russell County, Virginia

(A Component Unit of Russell County, Virginia)

Financial Report

For The Year Ended June 30, 2020

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF RUSSELL COUNTY, VIRGINIA
(A COMPONENT UNIT OF RUSSELL COUNTY, VIRGINIA)
FINANCIAL REPORT
JUNE 30, 2020

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES, PLLC
Certified Public Accountants
CPAs | CONSULTANTS

Independent Auditors' Report

To the Board of Directors
The Industrial Development Authority of Russell County, Virginia
Lebanon, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Industrial Development Authority of Russell County, Virginia, a component unit of the County of Russell, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Industrial Development Authority of Russell County, Virginia, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement of Beginning Balances

As described in Note 14 to the financial statements, in 2020, The Industrial Development Authority of Russell County, Virginia restated beginning balances to reflect the reclassification of lease-purchases receivable and notes receivable, and to correct prior depreciation. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2020, The Industrial Development Authority of Russell County, Virginia adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted 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 this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2021, on our consideration of The Industrial Development Authority of Russell County, Virginia'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 solely 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 effectiveness of The Industrial Development Authority of Russell County, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Industrial Development Authority of Russell County, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
February 22, 2021

Basic Financial Statements

Exhibit 1

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF RUSSELL COUNTY, VIRGINIA
(A Component Unit of Russell County, Virginia)
Statement of Net Position
June 30, 2020

ASSETS		
Current Assets:		
Cash and cash equivalents	$	254,120
Rent receivable		47,237
Grants receivable		51,398
Interest receivable		134,724
Due from other governments		15,142
Note receivable - current portion		14,086
Lease-purchase receivable - current portion		949,303
Total Current Assets	$	1,466,010
Noncurrent Assets:		
Note receivable - net of current portion	$	65,437
Lease-purchase receivable - net of current portion		10,809,575
Capital Assets:		
Land		2,439,875
Construction in progress		3,846,352
Land improvements		394,783
Buildings and improvements		13,026,589
Office furniture and equipment		817,036
Less accumulated depreciation		(4,010,379)
Total Capital Assets	$	16,514,256
Total Noncurrent Assets	$	27,389,268
Total Assets	$	28,855,278
LIABILITIES		
Current Liabilities:		
Accounts payable	$	68,513
Accrued interest payable		86,194
Due to Russell County		200,000
Notes payable - current portion		1,634,563
Total Current Liabilities	$	1,989,270
Noncurrent Liabilities:		
Notes payable - net of current portion	$	19,340,480
Total Liabilities	$	21,329,750
NET POSITION		
Net investment in capital assets	$	7,270,543
Unrestricted		254,985
Total Net Position	$	7,525,528

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

Exhibit 2

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF RUSSELL COUNTY, VIRGINIA
(A Component Unit of Russell County, Virginia)
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

Operating Revenues:		
Revenue from the use of property	$	814,868
Other revenue		16,178
Bond financing fees		21,875
Total operating revenues	$	852,921
Operating Expenses:		
Wages	$	22,800
Contract labor		18,067
Equipment repair and replacement		86,354
Taxes and licenses		2,374
Industrial development expenditures		587,151
Project costs		738,273
Legal and professional fees		44,866
Travel and meetings		64,705
Insurance		20,806
Reception expense		3,871
Miscellaneous		390
Depreciation		333,338
Total operating expenses	$	1,922,995
Operating income (loss)	$	(1,070,074)
Nonoperating Revenues (Expenses):		
Interest income	$	153,878
Contributions from primary government		471,310
Contributions to primary government		(133,442)
Nonoperating grants		778,469
Loan forgiveness		100,000
Interest expense		(324,934)
Total nonoperating revenues (expenses)	$	1,045,281
Change in net position	$	(24,793)
Net position, beginning of year, as restated		7,550,321
Net position, end of year	$	7,525,528

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

Exhibit 3

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF RUSSELL COUNTY, VIRGINIA
(A Component Unit of Russell County, Virginia)
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash flows from operating activities:		
Receipts from industrial development related activities	$	846,939
Payments to and for employees		(24,544)
Payments to suppliers for goods and services		(1,485,995)
Net cash provided by (used for) operating activities	$	(663,600)
Cash flows from noncapital financing activities:		
Lease-purchases receivable issued	$	(7,195,110)
Payments received on lease-purchases receivable		322,142
Interest received		17,972
Notes receivable issued		(80,000)
Payments received on notes receivable		477
Proceeds from indebtedness		7,265,110
Principal payments on indebtedness		(577,282)
Interest payments on indebtedness		(175,670)
Grant revenue		727,071
Net cash provided by (used for) noncapital financing activities	$	304,710
Cash flows from capital and related financing activities:		
County of Russell, Virginia contribution, net	$	(133,442)
Principal payments on indebtedness		(100,096)
Interest payments on indebtedness		(20,869)
Net cash provided by (used for) capital and related financing activities	$	(254,407)
Cash flows from investing activities:		
Interest received	$	1,182
Net cash provided by (used for) investing activities	$	1,182
Increase (decrease) in cash and cash equivalents	$	(612,115)
Cash and cash equivalents at beginning of year		866,235
Cash and cash equivalents at end of year	$	254,120
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$	(1,070,074)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation expense		333,338
(Increase) decrease in receivables		(5,982)
(Increase) decrease in prepaids		24,370
Increase (decrease) in payables		54,748
Net cash provided by (used for) operating activities	$	(663,600)
Supplemental disclosure required:		
Interest paid during the year on indebtedness	$	175,670
Schedule of non-cash capital and related financing activities:		
Loans forgiven by VCEDA	$	100,000
Principal payments on indebtedness made directly by County of Russell, Virginia		399,100
Interest payments on indebtedness made directly by County of Russell, Virginia		72,210
Total non-cash capital and related financing activities	$	571,310

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 government units promulgated by the Governmental Accounting Standards Board (GASB).

The following is a summary of more significant policies.

A. Financial Reporting Entity:

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present The Industrial Development Authority of Russell County, Virginia, a component unit of Russell County, Virginia (The Authority).

The Industrial Development Authority of Russell County, Virginia was created as a governmental subdivision of the Commonwealth of Virginia by ordinance of the Board of Supervisors of Russell County in 1972, 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 Russell 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 which facilities are constructed. The 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 Presentation:

The Authority follows the business-type activities requirements, which provides that the following sections be included in the annual financial report:

- Management discussion and analysis (management has elected to omit this item)
- Basic financial statements including a statement of net position, statement of revenues, expenses, and changes in net position, and a statement of cash flows
- Notes to the financial statements

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

C. Basis of Accounting:

For financial reporting purposes, The Industrial Development Authority of Russell County, Virginia is considered a special-purpose government, engaged only in business-type activities. Accordingly, the Authority's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

D. Proprietary Fund Revenue and Expense Classifications:

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 rental revenue.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including gifts, and other revenue sources that are defined as nonoperating revenues.

Nonoperating expenses include interest on debt related to the purchase of capital assets, losses on the disposal of capital assets, bond issuance costs, and grant expenses. All other expenses are classified as operating expenses.

E. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority did not have any deferred outflows of resources as of June 30, 2020.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority did not have any deferred inflows of resources as of June 30, 2020.

F. Net Position:

For the Authority, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

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

F. Net Position: (Continued)

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

G. Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Authority. For purposes of the statement of cash flows, the Authority considers their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

H. 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.

I. Prepaid Items:

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

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

J. Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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 capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous fiscal year.

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.

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

Asset	Years
Land Improvements	15-25
Buildings and Improvements	15-50
Office Furniture and Equipment	8-15

K. Long-term Obligations:

Long-term obligations are reported as liabilities in the Authority's statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

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 amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments:

Statutes authorize local governments and other public bodies 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 that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard and Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). As of June 30, 2020, and for the year then ended, the Authority did not have any investments.

NOTE 3—CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 2,439,875	$ -	$ -	$ 2,439,875
Construction in progress	3,846,352	-	-	3,846,352
Total capital assets not being depreciated	$ 6,286,227	$ -	$ -	$ 6,286,227
Capital assets, being depreciated:				
Land improvements	$ 394,783	$ -	$ -	$ 394,783
Buildings and improvements	13,026,589	-	-	13,026,589
Office, furniture, and equipment	817,036	-	-	817,036
Total capital assets being depreciated	$ 14,238,408	$ -	$ -	$ 14,238,408
Less: accumulated depreciation for:				
Land improvements	$ (157,914)	$ (15,791)	$ -	$ (173,705)
Buildings and improvements	(2,746,244)	(311,573)	-	(3,057,817)
Office, furniture, and equipment	(772,883)	(5,974)	-	(778,857)
Total accumulated depreciation	$ (3,677,041)	$ (333,338)	$ -	$ (4,010,379)
Total capital assets being depreciated, net	$ 10,561,367	$ (333,338)	$ -	$ 10,228,029
Capital assets, net	$ 16,847,594	$ (333,338)	$ -	$ 16,514,256

NOTE 4—LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2020:

	Balance July 1, 2019	Issuances	Retirements	Balance June 30, 2020
Direct Borrowings and Placements:				
Notes Payable	$ 13,459,516	$ 7,265,110	$ (940,684)	$ 19,783,942
Notes Payable: Due to Other Governments	1,339,565	-	(148,464)	1,191,101
Total	$ 14,799,081	$ 7,265,110	$ (1,089,148)	$ 20,975,043

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

	Direct Borrowings and Placements			
Year Ending	Notes Payable		Notes Payable Due to Other Governments	
June 30,	Principal	Interest	Principal	Interest
2021	$ 1,364,433	$ 353,032	$ 270,130	$ 69,467
2022	1,494,974	333,012	203,911	40,776
2023	2,233,429	272,353	188,800	31,378
2024	1,470,771	231,509	189,910	22,099
2025	3,031,682	194,813	199,624	12,385
2026-2030	7,318,713	494,170	138,726	2,611
2031-2033	2,869,940	86,133	-	-
Totals	$ 19,783,942	$ 1,965,022	$ 1,191,101	$ 178,716

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NOTE 4—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Business-Type Activities	Amount Due Within One Year
Direct Borrowings and Placements:							
Notes Payable:							
Note Payable - SunTrust*	2.31%	2013	2026	$223,300- $458,600 (sa)	$5,086,100	$ 2,602,200	$ 408,700
Note Payable - Virginia Community Capital Bank	5.25%	2019	2029	$32,197 (m)	2,700,000	2,695,540	164,579
Note Payable - First Bank & Trust	4.60%	2019	2029	$5,765 (m)	550,000	505,208	46,938
Note Payable - VCEDA	0.00%	2005	2028	lump sum	500,000	474,800	-
Note Payable - VCEDA	1.625%	2011	2033	$6,465 (m) with lump sum	2,800,000	2,764,143	32,905
Note Payable - VCEDA	2.50% and	2013	2033	$8,333 and $4,713 (m)	2,500,000	1,434,964	152,644
Note Payable - VCEDA	0.00%	2013	2025	lump sum	2,500,000	1,544,087	-
Note Payable - VCEDA	2.00%	2015	2027	$4,900 (m)	500,000	408,365	115,931
Note Payable - VCEDA	0.00%	2017	2027	$12,442 (m)	1,500,000	952,100	149,300
Note Payable - VCEDA	0.00%	2019	2030	$9,910 (m) with lump sum	3,373,287	3,287,959	118,919
Note Payable - VCEDA	2.625%	2020	2031	$18,968 (m)	2,000,000	2,000,000	14,593
Note Payable - VCEDA	0.00%	2020	2021	lump sum	70,000	70,000	70,000
Note Payable - VSBFA	2.44%	2012	2023	$5,288 (m)	1,000,000	825,226	41,624
Note Payable - VA Tobacco Commission	0.00%	2018	2023	$10,750 (sa)	107,500	53,750	21,500
Note Payable - VA Tobacco Commission	0.00%	2018	2022	$12,800 (a+)	64,000	25,600	12,800
Note Payable - VA Tobacco Commission	0.00%	2020	2026	$14,000 (sa)	140,000	140,000	14,000
Total Notes Payable						$ 19,783,942	$ 1,364,433
Notes Payable: Due to Other Governments:							
Note Payable - Town of Lebanon	5.00%	2019	2026	$17,667 (m)	$1,250,000	$ 1,097,017	$ 216,219
Note Payable - CPPDC	2.50%	2013	2023	$2,723 (m)	250,000	94,084	53,911
Total Notes Payable: Due to Other Governments						$ 1,191,101	$ 270,130
Total Long-Term Obligations						$ 20,975,043	$ 1,634,563

(a+) = annual principal installments shown, does not include semi-annual interest installments, if applicable
(sa) = semi-annual installments, includes interest, if applicable
(m) = monthly installments, includes interest, if applicable

* Loan backed by a support agreement with the County of Russell, Virginia

If an event of default occurs with the VA Tobacco Commission, the entire remaining balance shall be immediately due and payable, together with interest thereon at the rate of six percent (6%) per annum from the date of the debt agreement.

If an event of default occurs with SunTrust, Virginia Community Capital Bank, First Bank & Trust, VCEDA, Town of Lebanon, or CPPDC, the principal of the note(s) may be declared immediately due and payable to the registered owner of the note(s) by written notice to the Authority.

NOTE 5—CONDUIT DEBT OBLIGATIONS:

From time to time, the Authority has issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

NOTE 6—AMOUNTS DUE TO OTHERS:

At year end, the following amounts were due to other governmental agencies:

Due to the County of Russell, Virginia	$	200,000

NOTE 7—NOTES RECEIVABLE:

During fiscal year 2020, the Authority issued a loan to Beartown Barbell Club, LLC in the amount of $10,000 plus interest of two percent (2%). Principal and interest will be paid by making sixty (60) equal payments every month, due on the first day of each month, beginning January 5, 2020.

As of June 30, 2020, Beartown Barbell Club, LLC was behind approximately three monthly payments with a balance due in the amount of $9,523. With the loan being in default, the Authority has the right to demand payment of the overdue amount by a certain date. If the payment is not made by this date, the Authority then has the right to require the borrower to pay immediately the full amount of principal that remains outstanding. As of the date of this report, the Authority had not acted on its rights under default.

Details of this note receivable as of June 30, 2020 are as follows:

Year Ending June 30,	Note Receivable Principal	Note Receivable Interest
2021	$ 2,419	$ 210
2022	1,979	124
2023	2,019	84
2024	2,060	43
2025	1,046	6
Totals	$ 9,523	$ 467

NOTE 7—NOTES RECEIVABLE: (CONTINUED)

During fiscal year 2020, the Authority issued $70,000 worth of interest free, COVID-19 related loans to various local businesses. These loans will be repaid by making thirty-six (36) monthly payments beginning January 1, 2021.

Details of this note receivable as of June 30, 2020 are as follows:

Year Ending June 30,	Notes Receivable Principal	Notes Receivable Interest
2021	$ 11,667	$ -
2022	23,334	-
2023	23,333	-
2024	11,666	-
Totals	$ 70,000	$ -

NOTE 8—LEASE PURCHASE RECEIVABLES:

The following is a summary of lease purchase receivables of the Authority for the year ended June 30, 2020:

Due From:	Balance Business-type Activities	Amount Due Within One Year	Interest Receivable
Clinch River Hemp Company, LLC	$ 2,000,000	$ 14,593	$ -
PolyCap LLC	7,330,502	623,703	134,724
Samuel Pressure Vessel Group, Inc.	1,434,964	152,645	-
JennChem, LLC	993,412	158,362	-
Total	$11,758,878	$949,303	$134,724

A lease purchase agreement was entered into with Clinch River Hemp Company, LLC for the development of property within Russell County for the creation of jobs and to encourage industrial development. Terms of the lease agreement require the Lessee to make payments to the Authority that are sufficient to redeem and pay interest on the Authority's related notes payable.

A lease purchase agreement was entered into with Greenfield ICI Holdings LLC/PolyCap LLC for the development of property within Russell County for the creation of jobs and to encourage industrial development. Terms of the lease agreement require the Lessee to make payments to the Authority that are sufficient to redeem and pay interest on the Authority's related notes payable.

NOTE 8—LEASE PURCHASE RECEIVABLES: (CONTINUED)

A lease purchase agreement was entered into with Samuel Pressure Vessel Group Inc. for the development of property within Russell County for the creation of jobs and to encourage industrial development. Terms of the lease agreement require the Lessee to make payments to the Authority that are sufficient to redeem and pay interest on the Authority's related notes payable.

A lease purchase agreement was entered into with JennChem, LLC for the development of property within Russell County for the creation of jobs and to encourage industrial development. Terms of the lease agreement require the Lessee to make payments to the Authority that are sufficient to redeem and pay interest on the Authority's related notes payable.

NOTE 9—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; injuries to employees; 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.

NOTE 10—COMMITMENTS AND CONTINGENCIES:

In August of 2012, the Authority came to an agreement with Lebanon LLC to construct and operate a hotel in Lebanon, Virginia. The project cost totaled approximately $4,600,000 with $4,100,000 being funded by loans of the Authority and a $500,000 investment provided by Lebanon LLC.

Beginning October 2015, Lebanon LLC began paying rent to the Authority monthly to cover related debt service up to $16,000 per month. Lebanon LLC pays all related taxes and utilities as well as maintains compliance with related operating franchise agreements. Upon expected repayment of all related debt in 20 years, the land, building, and furniture and fixtures will revert to Lebanon LLC.

NOTE 11—RUSSELL COUNTY SUPPORT AGREEMENTS:

Russell County has signed agreements (support agreements) that back certain debt obligations of the Authority as referenced in Note 4 to these financial statements. In these agreements, the Board of Supervisors has a non-binding obligation (moral obligation) to fund the Industrial Development Authority of Russell County, Virginia in amounts sufficient to cover debt service on the referenced obligations. To date, the County of Russell, Virginia has provided funds sufficient to cover such debt service.

NOTE 12—RELATED PARTY TRANSACTIONS:

The Authority purchased and renovated the Highlands Shopping Center, converting same into office space that is currently used by the County of Russell, Virginia. On January 1, 2013, the Authority created an operating lease agreement with the County of Russell, Virginia to make the required debt service payments as follows:

Year Ending	Operating Lease	
June 30,	Principal	Interest
2021	$ 408,700	$ 62,259
2022	418,400	51,521
2023	428,300	40,529
2024	438,400	29,278
2025	448,900	17,759
2026	459,500	5,965
Totals	$ 2,602,200	$ 207,311

NOTE 13—LITIGATION:

As of June 30, 2020, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decisions on pending matters not be favorable.

NOTE 14—RESTATEMENT OF NET POSITION:

After release of Fiscal Year 2019 Annual Financial Report:

It was noted by the Bond Counsel that the loan from the Town of Lebanon was a taxable loan and therefore the Town regards the loan as a receivable in their financial records. Therefore, the same loan must be regarded as a liability in the Authority's financial records.

Also, several errors were noted by the Authority in their assumptions used to calculate accumulated depreciation.

Finally, it was noted by auditors that rental agreements were actually lease-purchase agreements.

Net position July 1, 2019, as previously reported	$ 9,164,269
To reclassify Lebanon Note	(1,187,183)
To correct beginning depreciation	(33,899)
To reclassify lease-purchases receivable, including related interest receivable, and removal of related fixed assets	(392,866)
Net position, July 1, 2019, as restated	$ 7,550,321

NOTE 15—ADOPTION OF ACCOUNTING PRINCIPLES:

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2020. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

NOTE 16—SUBSEQUENT EVENTS:

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the release date of this report. As such, the full magnitude that the pandemic will have on the Authority's financial condition, liquidity, and future results of operations is uncertain. Management is monitoring the global situation and impact that it may have on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and global responses to curb its spread, the Authority is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

Due to continued strains put on small business as a result of the ongoing COVID-19 pandemic, the COVID-19 related loans issued to various local businesses, as discussed in Note 7, were "forgiven" in September 2020 by reclassification to grants.

NOTE 17—UPCOMING PRONOUNCEMENTS:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

NOTE 17—UPCOMING PRONOUNCEMENTS: (CONTINUED)

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No, 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

Statement No. 92, *Omnibus 2020*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics such as leases, assets related to pension and postemployment benefits, and reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. The effective dates differ by topic, ranging from January 2020 to periods beginning after June 15, 2021.

Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement, except for removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate and the requirements related to lease modifications, are effective for reporting periods beginning after June 15, 2020. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All requirements related to lease modifications in this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

NOTE 17—UPCOMING PRONOUNCEMENTS: (CONTINUED)

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement.* No 32, (1) increases consistency and comparability related to reporting of fiduciary component units in certain circumstances; (2) mitigates costs associated with the reporting of certain plans as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans. The effective dates differ based on the requirements of the Statement, ranging from June 2020 to reporting periods beginning after June 15, 2021.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

COMPLIANCE SECTION

Independent Auditors' 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 Directors
The Industrial Development Authority of Russell County, Virginia
Lebanon, Virginia

We have audited, in accordance with the 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, the financial statements of the business-type activities of The Industrial Development Authority of Russell County, Virginia, a component unit of the County of Russell, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise The Industrial Development Authority of Russell County, Virginia's basic financial statements and have issued our report thereon dated February 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Industrial Development Authority of Russell County, Virginia's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Industrial Development Authority of Russell County, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of The Industrial Development Authority of Russell County, Virginia's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control 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 as item 2020-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Industrial Development Authority of Russell County, Virginia's financial statements are free from 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 financial statements. 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 Industrial Development Authority of Russell County, Virginia's Response to Findings

The Industrial Development Authority of Russell County, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Industrial Development Authority of Russell County, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
February 22, 2021

The Industrial Development Authority of Russell County, Virginia
Schedule of Findings and Responses
Year Ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies)?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2020-001

Criteria: 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. The auditee should have controls in place to prepare financial statements in accordance with current reporting standards.

Condition: The financial statements, as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP).

Cause of Condition: The existence of lease-purchase contracts were misclassified as rental agreements leaving lease-purchase receivables unrecorded and payments on such misclassified as rental income. This also had fixed assets over stated by the amounts of assets related to these lease-purchase contracts. These issues resulted in material journal entries.

Effect of Condition: There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the entity's internal controls over financial reporting.

Recommendation: Authority staff should review the audit adjustments for the current year and update future financial reports, as necessary, to comply with current reporting standards.

Management's Response: The IDA will review the auditor's adjustments for the current year and will consider same in preparing future financial statements.