

ECONOMIC DEVELOPMENT AUTHORITY OF LEE COUNTY, VIRGINIA

Financial Statements

Year Ended June 30, 2020

Economic Development Authority of Lee County, Virginia
Financial Statements and Supplementary Information
Years Ended June 30, 2020 and 2019

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Independent Auditors' Report

To the Board of Directors
Economic Development Authority of Lee County, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the the business-type activities of the Economic Development Authority of Lee County, Virginia (the "Authority"), Component Unit of the County of Lee, 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 and 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 Boards, Commissions and Authorities*, 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 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 obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, and reflected as a restatement of beginning of year net position on the Statement of Revenues, Expenses and Changes in Net Position, an adjustment was made to correct a prior period misstatement. Our opinion is not modified with respect to this matter.

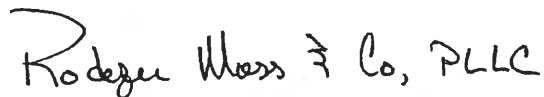
Other Matters

Required Supplementary Information

Management has omitted the *Management 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 June 30, 2021 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control over financial reporting and compliance.

Handwritten signature of Roderick W. Mass in black ink.

Norton, Virginia
June 30, 2021

ECONOMIC DEVELOPMENT AUTHORITY OF LEE COUNTY, VIRGINIA
Statement of Net Position
June 30, 2020

	<u>2020</u>
ASSETS	
Cash and cash equivalents	\$ 86,696
Notes receivable	31,617
Due from other governments	2,191,659
Capital assets, non-depreciable	686,359
Capital assets, depreciable, net	<u>1,766,967</u>
Total assets	<u>\$ 4,763,298</u>
LIABILITIES	
Accounts payable	\$ 88
Long-term liabilities:	
Due within one year	518,990
Due after one year	<u>2,858,946</u>
Total liabilities	<u>3,378,024</u>
NET POSITION	
Net investment in capital assets	\$ 1,267,049
Unrestricted	<u>118,225</u>
Total net position	<u>\$ 1,385,274</u>

ECONOMIC DEVELOPMENT AUTHORITY OF LEE COUNTY, VIRGINIA
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2020

Operating Revenue	
Grant revenue	\$ 110,000
Rental revenue	600
Other operating revenue	<u>661</u>
Total operating revenue	<u>111,261</u>
Operating Expenses	
Contract services	11,750
Maintenance	3,107
Administrative and general	1,949
Insurance	12,281
Utilities	2,544
Project disbursements	227,500
Depreciation	<u>79,924</u>
Total operating expenses	<u>339,055</u>
Operating loss	<u>(227,794)</u>
Non-Operating Revenue (Expenses)	
Loss on sale of capital assets	(871,389)
Interest income	1,797
Interest expense	<u>(915)</u>
Total non-operating revenue	<u>(870,507)</u>
Capital Contributions	65,113
Change in net position	(1,033,188)
Net position beginning of the year, as restated	<u>2,418,462</u>
Net position end of the year	<u>\$ 1,385,274</u>

ECONOMIC DEVELOPMENT AUTHORITY OF LEE COUNTY, VIRGINIA

Statement of Cash Flows

For the Year Ended June 30, 2020

Cash Flows From Operating Activities

Grant funds received	\$ -
Rent received from tenants	600
Fee and other revenue collected	661
Payments to suppliers for goods and services	(259,833)
Payments to employees for services	<u>(1,000)</u>
Net cash flows from operating activities	<u>(259,572)</u>

Cash Flows From Capital And Related Financing Activities

Capital assets, construction and other improvements	393,916
Loan principal payments received	44,995
Loan receivable forgiveness	-
Contributed capital	8,213
Debt proceeds received	15,000
Debt principal payments	<u>(139,633)</u>
Net cash flows from capital and related financing activities	<u>322,491</u>

Cash Flows From Investing Activities

Interest received on operating funds	1,797
Interest expense	<u>(133)</u>
Net cash flows from investing activities	<u>1,664</u>

Net increase (decrease) in cash and cash equivalents	64,583
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Cash and cash equivalents, beginning of year	<u>22,113</u>
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Cash and cash equivalents, end of year	<u><u>\$ 86,696</u></u>
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Reconciliation of operating income to net cash flows from operating activities

Operating (loss) income	\$ (227,794)
Adjustments to reconcile operating (loss) income to net cash flows from operating activities:	
Depreciation	79,924
Loan receivable forgiveness	(110,000)
(Decrease) increase in:	
Accounts payable	<u>(1,702)</u>
Net cash flows from operating activities	<u><u>\$ (259,572)</u></u>

Economic Development Authority of Lee County, Virginia
Notes to Financial Statements
Year Ended June 30, 2020

NOTE 1 - DESCRIPTION OF AUTHORITY

The Lee County Industrial Development Authority (the "Authority") was created as a political subdivision of the Commonwealth of Virginia on April 28, 1971, pursuant to the provisions of the Industrial Development and Revenue Board Act. On September 17, 2019, by Ordinance to amend Chapter 2, Article III., Section 2-24 of the Code of the County of Lee, Virginia, the Authority's name was changed to Economic Development Authority of Lee County, Virginia. The Authority is governed by seven (7) directors appointed for a term of four years by the Board of Supervisors of Lee County, Virginia. It is authorized to acquire, own, lease and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Virginia.

In addition, the Authority is authorized to issue revenue bonds for the purpose of obtaining and contracting facilities. Liability under the bonds may be retained by the Authority or it may be assumed by the enterprises for whom the 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 of the facilities constructed and may be secured by a deed of trust on these facilities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation - In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis (MD&A) - for State and Local Governments. This statement established new financial reporting requirements for governmental entities throughout the United States. The objective of this statement is to enhance the understanding and usefulness of the external financial reports of governmental entities to the citizenry, legislative and oversight bodies, and investors and creditors. The Authority has elected not to include MD&A.

Operating Cycle and Classification of Assets - The Authority may realize its assets and liquidate its liabilities in operating cycles which range from very short to very long periods. The accompanying financial statements are presented in a non-classified format because working capital concepts are not indicative of its operating liquidity.

Reporting Entity - In accordance with the Governmental Accounting Standards Board, the Economic Development Authority of Lee County, Virginia is reported as a component unit of the County of Lee, Virginia. The Authority is classified as a component unit of the County as its members are appointed by the Board of Supervisors.

Cash Equivalents - The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Basis of Accounting - The Authority utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which they are incurred.

Fund Accounting - The accounts of the Authority are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The Authority uses the proprietary fund of fund accounting. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are a determination of net income, financial position, and cash flows.

Use of 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 those estimates.

Pass-through Financing Leases - Activities of the Authority represent pass-through leases. These agreements provide for periodic rental payments in amounts, which are equal to the principal and interest payments due. These amounts are considered repayment of the note by the Authority. The lessees have assumed responsibility for all operating costs such as utilities, repairs and property taxes.

Economic Development Authority of Lee County, Virginia
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property, Plant and Equipment - Property, plant and equipment is recorded at cost or estimated cost. Any donated property that may be received will be recorded at market value as of the date of donation. Depreciation for property, plant and equipment has been provided over the following estimated useful lives using the Straight - Line Method:

Buildings	40 years
Building Improvements	10-25 years
Equipment	5-7 years

Date of Management Review - Management has evaluated events and transactions occurring subsequent to the statement of net position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

NOTE 3 - CASH AND CASH EQUIVALENTS

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

Investments - Investment Policy:

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 and certain corporate notes, banker’s acceptances, repurchase agreements, and the State Treasurer’s Local Government Investment Pool (LGIP).

Fair Value Measurement:

The Authority categorized the fair value measurement of its investments based on the hierarchy established by generally accepted accounting principles. Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards (GASB) Statements require or permit in the statement of net position at the end of each reporting period. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority does not have any investments at June 30, 2020 that are measured using Level 1, 2, or 3 inputs.

Credit Risk:

As required by state statute, the Authority requires that commercial paper have a short-term debt rating of no less than “A-1” (or equivalent) from a nationally recognized statistical rating organization.

Concentration of Credit Risk:

Deposits and investments held by any single issuer that exceeded 5% are as follows:

Powell Valley National Bank	100%
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Economic Development Authority of Lee County, Virginia
Notes to Financial Statements (Continued)

NOTE 3 - CASH AND CASH EQUIVALENTS - (Continued)

Custodial Credit Risk:

As required by the Code of Virginia, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all of the Authority's investments are held in the Treasurer's office in the Authority's name. All checking accounts and certificates of deposit are held in qualified depositories as defined in the Security for Public Deposits Act per sections 2.2-4400 through 2.2-4411 of the Code of Virginia.

The above items are reflected in the financial statements as follows:

Deposits and investments:	
Deposits	\$ <u>86,696</u>
Statement of net assets:	
Cash and cash equivalents	\$ <u>86,696</u>

At June 30, 2020, the Authority held no investments.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

The summary of property, plant and equipment at June 30, 2020, is as follows :

	July 1, 2019	Additions	Deletions	June 30, 2020
Capital assets, non-depreciable:				
Land and Improvements	\$ 703,022	\$ 13,000	\$ (46,171)	\$ 669,851
Construction in progress	920,217	-	(903,709)	16,508
Total capital assets, non-depreciable	<u>\$ 1,623,239</u>	<u>\$ 13,000</u>	<u>\$ (949,880)</u>	<u>\$ 686,359</u>
Capital assets, depreciable:				
Equipment	\$ 438,199	\$ -	\$ -	\$ 438,199
Buildings and Improvements	2,885,317	953,693	(1,701,110)	2,137,900
Total capital assets, depreciable	<u>\$ 3,323,516</u>	<u>\$ 953,693</u>	<u>\$ (1,701,110)</u>	<u>\$ 2,576,099</u>
Less accumulated depreciation	<u>1,205,100</u>	<u>79,924</u>	<u>(475,892)</u>	<u>809,132</u>
Total capital assets, depreciable, net	<u>\$ 2,118,416</u>	<u>\$ 873,769</u>	<u>\$ (1,225,218)</u>	<u>\$ 1,766,967</u>
Total capital assets, net	<u>\$ 3,741,655</u>	<u>\$ 886,769</u>	<u>\$ (2,175,098)</u>	<u>\$ 2,453,326</u>

Restricted Contributed Property – On October 31, 2019, the Authority agreed to accept real estate and cash from the dissolution of the St. Charles Development Authority. The real estate deed of gift portion included land, building and improvements valued at \$56,900. The Deed of Gift contained a restrictive covenant that the property granted shall not be used for the business of a bank, savings and loan, or similar financial institution and that said property shall not be conveyed except by deeds containing restrictive covenants substantially equivalent to those contained therein.

Economic Development Authority of Lee County, Virginia
Notes to Financial Statements (Continued)

NOTE 5 - LONG-TERM DEBT

Changes in Long-Term Debt:

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

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Amount Due Within 1 year
VCEDA	\$ 176,088	\$ -	\$ -	\$ 176,088	\$ -
VCEDA	200,000	-	200,000	-	-
VCEDA	39,199	-	-	39,199	-
VCEDA	515,000	-	-	515,000	-
County Economic Dev	32,967	-	28,852	4,115	4,115
Board of Supervisors	438,477	15,000	1,602	451,875	451,875
PVNB	2,249,659	-	58,000	2,191,659	63,000
TOTALS	\$ 3,651,390	\$ 15,000	\$ 288,454	\$ 3,377,936	\$ 518,990

Details of Long-Term Indebtedness:

Virginia Coalfield Economic Development Authority (VCEDA) – \$200,000 note payable dated March 5, 2005; the note is secured by a Deed of Trust on property located in the Constitutional Oaks Business Park. The note does not bear interest and was originally payable in one lump sum balloon payment on March 9, 2015 and has a due date of March 9, 2025. As of June 30, 2020 the amount outstanding totaled:

\$ 176,088

Virginia Coalfield Economic Development Authority (VCEDA) - \$150,000 note payable dated October 1, 1999. Original loan terms based the interest rate on the number of employees working at the Authority's Commercial property located in Dryden, Virginia. On January 1, 2002, the terms of the note were modified to a 0% interest rate with monthly principal installments of \$1,316.10 payable for 88 months. The property is currently not being leased and VCEDA has allowed the authority to cease monthly payments until a tenant is located to lease the property. As of June 30, 2020, the amount outstanding totaled:

39,199

Virginia Coalfield Economic Development Authority (VCEDA) - \$515,000 note payable dated April 19, 2018; note is secured by certain real property and fixtures located in Lee County, Virginia. The original note dated March 8, 2018 was in the amount of \$350,000, on April 19, 2018 the loan was increased by \$165,000, in August and October 2018 the loan was increased \$373,962 for a total of \$515,000. The note does not bear interest and is payable in one lump sum balloon payment on March 8, 2028. The total amount of the loan disbursed as of June 30, 2020 totaled:

515,000

Economic Development Authority of Lee County, Virginia
Notes to Financial Statements (Continued)

NOTE 5 - LONG-TERM DEBT - (Continued)

Lee County Economic Development - Original \$50,000 of funds related to Southwest Propane. As of June 30, 2020, the amount outstanding totaled:

4,115

Lee County Board of Supervisors - \$493,477 notes payable dated June 29, 2015 (\$50,000), March 1, 2016 (\$50,000), October 21, 2016 (\$46,875), February 23, 2017 (\$100,000), June 7, 2017 (\$40,000), January 31, 2018 (130,000), April 27, 2018 (\$5,000), June 1, 2018 (\$5,000), June 30, 2019 (\$51,602), and year ending June 30, 2020 (\$15,000). The notes do not bear interest and are payable in one lump sum balloon payment. As of June 30, 2020, the amount outstanding totaled:

451,875

Total Notes Payable at June 30, 2020:

\$ 1,186,277

Total Lease Revenue Note Payable at June 30, 2020 (note 6):

\$ 2,191,659

Total Long-Term Debt

\$ 3,377,936

Year(s) Ending June 30	VCEDA		VCEDA		VCEDA	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2022	-	-	-	-	-	-
2023	-	-	39,199	-	-	-
2024	-	-	-	-	-	-
2025	176,088	-	-	-	-	-
2026-2030	-	-	-	-	515,000	-
Totals	<u>\$ 176,088</u>	<u>\$ -</u>	<u>\$ 39,199</u>	<u>\$ -</u>	<u>\$ 515,000</u>	<u>\$ -</u>

Year(s) Ending June 30	Lee County Economic Development		Lee County Board of Supervisors		Total Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 4,115	\$ -	\$451,875	\$ -	\$ 455,990	\$ -
2022	-	-	-	-	-	-
2023	-	-	-	-	39,199	-
2024	-	-	-	-	-	-
2025	-	-	-	-	176,088	-
2026-2030	-	-	-	-	515,000	-
Totals	<u>\$ 4,115</u>	<u>\$ -</u>	<u>\$ 451,875</u>	<u>\$ -</u>	<u>\$1,186,277</u>	<u>\$ -</u>

Economic Development Authority of Lee County, Virginia
Notes to Financial Statements (Continued)

NOTE 6 - LEASE REVENUE NOTE PAYABLE

The following is a schedule of the lease revenue note issued by the Economic Development Authority of Lee County, Virginia at the request of the County of Lee to finance capital improvement projects which include the construction of a waste transfer station and an extension/renovation of the Co-Op extension office, and to provide financing for the refunding of a Series 2006 callable bond which was originally for the construction and equipping of a new Social Services facility. Liability under the lease revenue note has been assumed by the Authority for the County of Lee Project. In furtherance of the Project, the County of Lee agrees to pay rental subject to appropriations from time to time by the County of Lee, sufficient to pay the principal of and interest on the Note.

Name of Issue	Description of Facility	Stated Interest Rate	Date of Original Issue	Date of Maturity	Name of Trustee	Revenue Bond Aggregate Amount at Issue Date	Principal Amount Maturing Within 12 Months	Aggregate Outstanding Amt. Payable at 06/30/20
Industrial Development Authority of Lee County	Improvements County Buildings	3.38%	5/27/2016	8/1/1936	Powell Valley National Bank	\$2,491,000	\$63,000	\$2,191,659

Bond principal is payable in annual payments beginning on August 1, 2016. The following is a schedule of principal and interest payments required each year:

Year(s) Ending June 30	<u>Powell Valley National Bank</u>	
	Principal	Interest
2021	\$ 63,000	74,874
2022	62,000	72,765
2023	67,000	70,588
2024	66,000	68,344
2025	126,000	65,104
2026-2030	688,000	258,491
2031-2035	816,000	131,423
2036-2038	303,659	12,319
Totals	<u>\$ 2,191,659</u>	<u>\$ 753,908</u>

NOTE 7 - LITIGATION AND CONTINGENT LIABILITIES

It is the opinion of the Authority's management and legal counsel that there are no outstanding or pending litigation, claims, or assessments against the Authority, which could have a material effect on the Authority's financial statements.

Economic Development Authority of Lee County, Virginia
Notes to Financial Statements (Continued)

NOTE 8 - NOTES RECEIVABLE

Southwest Propane, LLC - \$45,000 note dated October 29, 2015. The term of the loan is for four years with interest rate of 2% and monthly payments of \$976 including principle and interest are due beginning February 1, 2016. As of June 30, 2020, the balance of the note receivable totaled:

975

Southwest Propane, LLC - \$5,000 performance agreement. Southwest Propane, LLC was under a performance obligation stating that should the company fail to employ at least 3 non-family, non-related employees for the first twelve months the note and other expenses incurred will be due in full. These provisions were not met and payment became due. As of June 30, 2020, the balance of the note receivable totaled:

5,000

Bates Family Farm - \$40,000 note dated April 4, 2014. The term of the loan is four years with an interest rate of 3%. Monthly payments in the amount of \$1,054 including principle and interest are due beginning July 1, 2017 and \$1,078 each succeeding month beginning August 1, 2017. As of June 30, 2020, the balance of the note receivable totaled:

5,349

McPherson Farm Equipment - \$25,000 note dated April 8, 2019. The term of the loan is for five years with a 3% interest rate. Semi-annual payments in the amount of \$2,711 are due beginning October 8, 2019. As of June 30, 2020, the balance of the note receivable totaled:

20,293

Total Notes Receivable at June 30, 2020:

\$ 31,617

NOTE 9 - IMPAIRED LOANS

The Authority reports no impaired loans as of June 30, 2020.

NOTE 10 - FACILITIES LEASE

A Facilities Lease was entered into on March 8, 2018 between the Lee County EDA and England, Inc. The initial lease term shall be for 5 years commencing on the earlier of the date that Lessor provides written notice to Lessee that the Facility is ready to occupy or June 1, 2018 and ending 5 years from the commencement date. During the term of the lease, Lessee shall pay Lessor rent as follows: \$0.00 per month provided the Lessee maintains at least 15 full-time jobs at the facility. Lessee shall have the option to purchase all of Lessor's interest in the Facilities by paying to Lessor a purchase price equal to \$500,000.

NOTE 11 - PERFORMANCE CONTRACT

The Tobacco Region Revitalization Commission awarded a grant in the amount of \$135,000 to the Lee County EDA to use in inducing England, Inc. to construct or locate taxable assets and employee persons in Lee County. In coordination with the grant award, a Performance Agreement by and among the aforementioned parties was made and entered into on January 26, 2018. The Performance Agreement requires England, Inc.(the Company) to employee at least 50 persons in Lee County with a quarterly aggregate payroll of at least \$351,000. In addition, the Company shall locate or construct taxable assets in Lee County having an assessed value of at least \$1,000,005. The employment obligations and taxable asset obligation must be met no later than 36 months after the end of the base quarter (December 31, 2017).

Economic Development Authority of Lee County, Virginia
Notes to Financial Statements (Continued)

NOTE 12 - RISKS AND UNCERTAINTIES

On March 11, 2020 the World Health Organization designated COVID-19 a world health pandemic. Our existing contingency and disaster preparedness plans give management the tools necessary to guide the Authority through such circumstances. We have evaluated the short-term and long-term impacts of this pandemic on the Authority, the outcome of which is not predictable with assurance, and it is possible that the Authority could be affected negatively by these circumstances.

Although the ultimate financial impact of this pandemic cannot be ascertained, through a thorough evaluation of cash, revenue sources, and our overhead projections, management believes that any resulting financial impact should not materially affect the financial position of the Authority as of June 30, 2020. The Authority cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the Authority's results for future operations, financial position and liquidity in subsequent periods.

NOTE 13 – RESTATEMENT OF NET POSITION

Information provided by the County of Lee in relation to amounts due to the Economic Development Fund of the County indicated that \$31,602 of amounts previously included as debt to the County were actually provided for expenses and not debt, and in correlation and amount from prior years of \$50,000 that was actually debt to the County was reflected as expenses. The net effect of the correction to prior year activities resulted in a restatement of the Authority's Net Position in the amount of \$18,398 as follows:

Net position, June 30, 2019, as previously stated	\$ 2,436,860
Adjustment related to amounts received from the Economic Development funds of the County of Lee	<u>(18,398)</u>
Net position, June 30, 2019, as restated	<u>\$ 2,418,462</u>

COMPLIANCE INFORMATION

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*

The Board of Directors
Economic Development Authority of Lee County, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Specifications for Audits of Boards, Commissions and Authorities, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Economic Development Authority of Lee County, Virginia (the "Authority"), as of and for the year ended June 30, 2020, and the related notes to the financial statements and have issued our report thereon dated June 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings, that we consider to be a significant deficiency. This deficiency is listed as finding 2020-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The Authority's response to the findings identified in our audit is described in the Schedule of findings and responses. The Authority'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 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.

Rodger Moss & Co, PLLC

Norton, Virginia
June 30, 2021

Economic Development Authority of Lee County, Virginia
Schedule of Findings
Year Ended June 30, 2020

Financial Statement Findings

Deficiencies in the Operation of Internal Control considered Significant Deficiencies:

2020-001 Lack of Separation of Duties (Repeated from prior year)

Condition: A small number of staff, often a single individual, are responsible for all financial accounting and reporting functions with minimal oversight.

Criteria: Generally accepted accounting principles indicate the establishment of a system of checks and balances so that no one person has control over a complete transaction from beginning to end. Workflow should be established so that one individual's work is automatically verified by another individual working independently.

Effect: The result of one individual handling an entire accounting transaction is the danger that intentional or unintentional errors could be made and not be detected.

Recommendation: Internal control procedures should be in place to segregate the duties of custody, recording, and authorization of the accounting records to prevent error and fraud.

Management Response: The Authority will review its policies going forward and implement any changes that it deems to be economically feasible. Further, to compensate for the lack of internal controls, careful review by management and the Board of Directors of the accounting records and monthly financial reports is utilized as an extremely important means of detecting material errors or irregularities.