OWENS
CPA & ASSOCIATES PC

C. Todd Owens, CPA

Certified Public Accountants and Consultants
Virginia Society of Certified Public Accountants
American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Industrial Development Authority of Russell County

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 (the Authority), a component unit of the County of Russell, Virginia, as of and for the year ended June 30, 2019, 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.

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 auditor's 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2019, and the changes in financial position and its cash flows for the year then ended in accordance accounting principles generally accepted in the United States of America.

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To the Board of Directors
Industrial Development Authority of Russell County
Page 2

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 November 26, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the Authority's internal control over financial reporting and compliance.

Owens CPA & Associates, P.C.

Owens CPA & Associates, P.C.
November 26, 2019

RUSSELL COUNTY
INDUSTRIAL DEVELOPMENT AUTHORITY

(A Component Unit of the County of Russell, Virginia)

ANNUAL FINANCIAL REPORT
June 30, 2019

-CONTENTS-

FINANCIAL SECTION

INDUSTRIAL DEVELOPMENT AUTHORITY OF RUSSELL COUNTY
(A Component Unit of the County of Russell, Virginia)
STATEMENT OF NET POSITION
June 30, 2019

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 866,235
Accounts receivable	56,397
Prepaid expenses	24,370
Total current assets	947,002
NONCURRENT ASSETS	
Capital assets:	
Land and land improvements	3,457,800
Property, plant, and equipment	17,492,376
Less: accumulated depreciation	(4,038,012)
Construction in progress	6,786,886
Total noncurrent assets	23,699,050
Total Assets	$ 24,646,052
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable - trade	$ 13,765
Accrued interest payable	30,006
Construction in progress payable	1,638,782
Due to Russell County	200,000
Current maturities of notes & bonds payable	662,195
Total Current Liabilities	2,544,748
NONCURRENT LIABILITIES	
Notes & bonds payable-net of current portion	12,937,035
Total noncurrent liabilities	12,937,035
Total liabilities	15,481,783
NET POSITION	
Net investment in capital assets	10,099,820
Unrestricted	(935,551)
Total net position	$ 9,164,269

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF RUSSELL COUNTY
(A Component Unit of the County of Russell, Virginia)
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

Operating revenues	
Revenue from use of property	1,099,670
Bond finnancing fees	21,875
Other revenue	2,130
Total operating revenue	1,123,675
Operating expenses	
Wages	21,600
Contract labor	18,093
Equipment repair and replacement	19,460
Taxes and licences	6,705
Industrial development expenditures	70,303
Insurance - property and liability	12,146
Supplies	3,422
Miscellaneous	2,498
Professional fees	34,936
Travel and meetings	59,664
Depreciation	400,596
Total operating expenses	649,423
Operating income (loss)	474,252
Nonoperating revenue (expenses)	
Interest income	587
Contributions from primary government	473,523
Contributions from other governments	1,152,515
Contributions to primary government	(213,204)
Contributions to other governments	(216,560)
Interest expense	(119,191)
Total nonoperating revenue (expense)	1,077,670
Change in net position	1,551,922
Net position, beginning of year	7,612,347
Net position, end of year	9,164,269

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

INDUSTRIAL DEVELOPMENT AUTHORITY OF RUSSELL COUNTY
(A Component Unit of the County of Buchanan, Virginia)
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from industrial development activities	$	1,122,375
Payments to and for employees		(23,252)
Payments to suppliers		(247,527)
Net cash provided by operating activities		851,596
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net of unpaid costs		(1,975,206)
Principal payments on debt		(847,552)
Contributed capital and grant revenue, net		1,196,274
Proceed from indebtedness		1,498,209
Interest Payments		(151,291)
Net cash used in capital and related financing activities		(279,566)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received		587
Net cash provided by investing activities		587
Net increase in cash and cash equivalents		572,617
Cash and cash equivalents, beginning of year		293,618
Cash and cash equivalents, end of year	$	866,235
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$	474,252
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation		400,596
Change in assets and liabilities		
(Increase) decrease in accounts receivable		1,300
(Increase) decrease in prepaid expenses		(24,370)
Increase (decrease) in operating accounts payable		(182)
Net cash provided by operating activities	$	851,596

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Authority follows the "business-type" activities requirements of GASB Statement 34, which provides that the following sections be included in the annual financial report:

1. Management discussion and analysis
2. Basic financial statements including a statement of net position, statement of revenues, expenses, and changes in net position, and a statement of cash flows
3. Notes to the financial statements

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.

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.

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 by GASB Statement 9 - Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB Statement 34, such as interest and other investment income.

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

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, 2019.

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, 2019.

Net Position

The Statement of Net Position reports the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as net position.

The Authority's net position is classified as follows:

Net Investment in Capital Assets - This category represents the net value of capital assets (property, plant, and equipment less accumulated depreciation) reduced by the debt incurred to acquire or construct the asset, if any.

Restricted - This category includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted - Unrestricted net position represents resources derived from charges to customers for goods received, services rendered or privileges provided, operating grants and contributions, and capital grants and contributions. These resources are used for transactions relating to the operations of the Authority and may be used at the Authority's discretion to meet current expenses for any lawful purposes.

Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the 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.

Cash Equivalents

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 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 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 capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned in the investment funds borrowed for construction. The amount of interest cost to be capitalized is based on the weighted average amount of accumulated expenditures for the period multiplied by the interest rate of the obligation incurred specifically to finance the construction of the capital asset or an average interest rate of outstanding obligations when the construction was not financed. Interest of $0 was capitalized during the current 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:

Assets	Years
Buildings and Improvements	15-50
Machinery and Equipment	8-15

2. 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). The Authority did not have any investments as of June 30, 2019.

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, 2019 that are measured using Level 1, 2, or 3 inputs.

Credit Risk

As required by state statue, 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:

First Bank and Trust Co.	100%

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. All checking accounts 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	$ 866,235
Statement of net assets:	
Cash and cash equivalents	$ 866,235

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Authority prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. The operating expenditure plans are prepared on the modified accrual basis of accounting, which significantly differs from the accrual basis of accounting that the Authority uses in the preparation of its financial statements.

These managerial budgets that are prepared for operations each year are not adopted by the Board of Directors as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

4. CAPITAL ASSETS

The summary of capital assets for the year ended June 30, 2019 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land and land improvements	$ 3,063,017	$ -	$ -	$ 3,063,017
Construction in progress	3,846,351	2,940,534	-	6,786,885
Capital assets, not depreciated	6,909,368	2,940,534	-	9,849,902
Capital assets, depreciated				
Land improvements	394,784	-	-	394,784
Buildings and improvements	16,031,686	643,654	-	16,675,340
Office furniture and equipment	787,236	29,800	-	817,036
Capital assets, depreciated	17,213,706	673,454	-	17,887,160
Less accumulated depreciation	(3,637,416)	(400,596)	-	(4,038,012)
Capital assets, depreciated, net	13,576,290	272,858	-	13,849,148
Capital assets, net	$ 20,485,658	$ 3,213,392	$ -	$ 23,699,050

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5. LONG-TERM DEBT

Activity for the year ended June 30, 2019 was as follows:

Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019	Due Within One Year
$ 12,948,573	$ 1,498,209	$ (847,552)	$ 13,599,230	$ 662,195

Details of Long-term Indebtedness:

	Total Amount	Due Within One Year
Note Payable - SunTrust Bank (refunding) issued in 2013, bearing interest at 2.31%, annual principal payments renge from $223,300 to $459,500 through 2026. Interest payments are due semi-annually (original issuance $5,086,100)	$ 3,001,300	$ 399,100
Note Payable - Cumberland Plateau Planning District issued 2012, bearing interest at 2.5%, maturing with monthly interest and principal Payments of $2,723 through 2022 (original issuance of $250,000).	139,714	29,531
Note Payable - Virginia Coalfield Economic Development Authority issued in 2006, bearing interest at 0%, matures May 9, 2026 (original issuance $500,000).	474,800	-
Note Payable - Virginia Coalfield Economic Development Authority issued in 2011, bearing interest at 1.625%, with principal and interest payments totaling $6,465 due monthly with a lump sum principal payment due 2033 (original issuance of $2,800,000).	2,775,103	32,943
Note Payable - Virginia Coalfield Economic Development Authority issued in 2011, bearing interest at 1.625%, with principal and payments totaling $6,464.85 due monthly with a lump sum principal payment due 2033 (original issuance of $2,800,000).	1,586,310	56,562
Note Payable - Virginia Coalfield Economic Development Authority issued in 2013, bearing interest at 0%, Monthly Payments of for 20 years with a lump sum principal payment due 2033 (original issuance of $2,500,000).	1,544,087	-
Note Payable - Virginia Coalfield Economic Development Authority issued in 2015, bearing interest at 2%, monthly payments of $2,599 for 20 years maturing in 2035 (original issuance of $500,000).	419,095	22,980
Note Payable - Virginia Small Business Financing Authority issued in 2012, bearing interest at 2.44%, monthly payments with principal and interest totaling $5,287 .86 with a lump sum principal payment due August 2022 (original issuance of $1,000,000).	858,003	41,967
Note Payable - Virginia Coalfield Economic Development Authority issued April 20, 2017, bearing interest at 0%, lump sum principal payment due ten years after the date of the loan. It has a performance agreement that if the facility has 32 full time employees at the 3rd anniversary date of this loan then it will forgive $100,000 of the loan (original issuance of $1,500,000).	1,188,959	-

Details of Long-term Indebtedness (continued):

	Total Amount	Due Within One Year
Note Payable - Virginia Tobacco Region Revitalization Commission issued January 25, 2018, bearing interest at 0% with semi-annual principal payments in the amount of $10,750 due February 1 and August 1. Original issue amount was $107,500 and matures in 2023.	$ 75,250	$ 21,500
Note Payable - Virginia Tobacco Region Revitalization Commission issued January 25, 2018, bearing interest at 0% with annual principal payments in the amount of $12,800 due March 1. Original issue was $64,000 and matures in 2022. It resulted from a defaulted performance agreement dated 8/20/2013 with Samuel Pressure Vessel Group, Inc.	38,400	12,800
Note Payable - Virginia Coalfield Economic Development Authority issued February 22, 2019 bearing interest at 0%, lump sum principal payment due ten years after the date of the loan. Any net rents and proceeds are to be applied torwards the outstanding balance of loan. It has a performance agreement that if certain employment criteria is met then $2,273,287 of the outstanding balance will be forgiven. As of June 30, 2019, $569,649 of funds have been drawn down on the loan. The lump sum principal payment is due in 2029 (original issuance of $3,373,287).	569,649	-
Note Payable - Virginia Community Capital Bank issued in 2019, bearing interest at 5.25%, 10 year term with interest only in first year, matures in 2009 (original issuance $2,700,000 of which $378,560 has been drawn down).	378,560	-
Note Payable - First Bank & Trust issued in 2018, bearing interest at 4.6%, monthly payments with principal and interest totaling $5,765 beginning July 2019, matures in 2029 (original issuance of $550,000).	550,000	44,812
Total	$ 13,599,230	$ 662,195

Future maturities of long-term debt are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2020	$ 633,228	$ 187,088
2021	721,306	190,554
2022	1,362,648	172,884
2023	1,384,933	121,153
2024	648,407	103,878
2025-2029	5,251,777	322,863
2030-2034	3,573,959	164,357
2035-2039	22,972	163
Totals	$ 13,599,230	$ 1,262,940

6. 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.

7. 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

8. 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.

9. LITIGATION AND CONTINGENT LIABILITIES

It is the opinion of the Authority's management and legal counsel that there are not any outstanding or pending litigation, claims, or assessments against the Authority which could have a material effect on the Authority's financial statements.

10. COMMITTENTS 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, l 00,000 being funded by loans of the Authority and a $500,000 investment provided by Lebanon LLC.

Beginning October 2015, Lebanon LLC will pay rent to the Authority monthly to cover related debt service up to $16,000 per month. Lebanon LLC will pay all related taxes and utilities as well as maintain 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.

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.

12. FACILITIES LEASE

A Facilities Lease was entered into on July 1, 2017 between the Russell County IDA and Jennchem, LLC. The initial lease term shall be for ten years commencing on the earlier of the date that Lessor provides written notice to Lessee that the Facility is ready to occupy or July 1, 2017 and ending 10 years from the commencement date. During the term of the lease, Lessee shall pay Lessor rent as follows: $14,233.33 per month for the first *5* years and $12,500 per month for the second five years. Lessee shall have the option to purchase the property after the expiration of the lease with a 60 day notice prior to expiration of the lease.

13. 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 I, 2013, the Authority created an operating lease agreement with the County of Russell, Virginia to make the required debt service payments as follows:

	Operating Lease	
Year Ending June 30,	Principal	Interest
2020	$ 399,100	$ 65,825
2021	408,700	56,199
2022	418,400	46,514
2023	428,300	36,600
2024	438,400	26,510
2025-2028	908,400	21,524
	$ 3,001,300	$ 253,172

14. SUBSEQUENT EVENTS

Management has evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through November 26, 2019 the date of which the financial statements were available to be issued. Management has determined there are no events or transactions which require disclosure.

15. NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued the following statements. Management has not yet estimated the effects, if any, of adopting the standards below, but does not expect them to be material.

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. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of* a *Construction Period,* establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The requirements of this statement should be applied prospectively.

Statement No. 90, *Majority Equity Interests-An Amendment of GASB Statements No. 14and No. 61),* defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method.

This statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting acomponent unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

COMPLIANCE SECTION

OWENS
CPA & ASSOCIATES PC

C. Todd Owens, CPA

Certified Public Accountants and Consultants
Virginia Society of Certified Public Accountants
American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S 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
Industrial Development Authority of Russell County

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, the financial statements of the Industrial Development Authority of Russell County (the Authority), a component unit of the County of Russell, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements and have issued our report thereon dated November 26, 2019.

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 opinion 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that we have not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 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.*

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To the Board of Directors
Industrial Development Authority of Russell County
Page 2

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 result 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.

Owens CPA & Associates, P.C.

Owens CPA & Associates, P.C.
November 26, 2019