VIRGINIA'S FIRST REGIONAL INDUSTRIAL FACILITY AUTHORITY

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2021

VIRGINIA'S FIRST REGIONAL INDUSTRIAL FACILITY AUTHORITY

Financial Report
Year Ended June 30, 2021

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

CPAs | CONSULTANTS

Independent Auditors' Report

To the Honorable Members of
Virginia's First Regional Industrial Facility Authority
Radford, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Virginia's First Regional Industrial Facility Authority, as of and for the year ended June 30, 2021, 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 Virginia's First Regional Industrial Facility Authority, as of June 30, 2021, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 September 17, 2021, on our consideration of the Virginia's First Regional Industrial Facility 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 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 Virginia's First Regional Industrial Facility 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 Virginia's First Regional Industrial Facility Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 17, 2021

Basic Financial Statements

Virginia's First Regional Industrial Facility Authority **Exhibit 1**

Statement of Net Position
As of June 30, 2021

ASSETS		
Current assets:		
Cash and cash equivalents	$	357,053
Accounts receivable		237,678
Prepaid items		908
Loan receivable (current portion)		2,462
Total current assets	$	598,101
Noncurrent assets:		
Inventory held for resale	$	5,012,414
Loan receivable (net of current portion)		24,613
Restricted assets:		
Cash and cash equivalents		513,215
Capital assets (net of accumulated depreciation):		
Water and sewer rights		1,130,550
Total noncurrent assets	$	6,680,792
Total assets	$	7,278,893
LIABILITIES		
Current liabilities:		
Accounts payable	$	4,623
Due to Pulaski County EDA		376,289
Accrued interest payable		31,470
Unearned revenue		16,987
Due to Pulaski County PSA (current portion)		26,568
Bonds and note payable (current portion)		295,589
Total current liabilities	$	751,526
Noncurrent liabilities:		
Due to Pulaski County PSA (net of current portion)	$	1,170,589
Bonds and notes payable (net of current portion)		5,038,157
Total noncurrent liabilities	$	6,208,746
Total liabilities	$	6,960,272
NET POSITION		
Unrestricted	$	318,621
Total net position	$	318,621

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

Virginia's First Regional Industrial Facility Authority **Exhibit 2**

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2021

Operating revenues:		
Annual dues	$	55,000
Rental income		34,722
Participant share - Commerce Park		412,500
Tax sharing payments		179,574
Sewage user fees		7,709
Performance agreement lease payments		50,004
Operating lease payments		3,975
ARC Grant		63,715
Miscellaneous		356
Total operating revenues	$	807,555
Operating expenses:		
Commerce Park:		
Miscellaneous	$	2,713
Marketing		5,184
Engineering		4,791
Insurance		377
Depreciation		35,330
Website Maintenance		236
Lot C Improvements (less contributions)		186,400
Virginia's First Regional IFA:		
Contracted management		70,340
Staff services		25,208
Miscellaneous		3,710
Insurance		550
Audit expense		5,250
Legal fees		8,432
Total operating expenses	$	348,521
Operating income (loss)	$	459,034
Nonoperating revenues (expenses):		
Interest earned	$	15,477
Interest expense		(290,840)
Total nonoperating revenues (expenses)	$	(275,363)
Change in net position	$	183,671
Net position, beginning of year		134,950
Net position, end of year	$	318,621

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

Statement of Cash Flows
Year Ended June 30, 2021

Cash flows from operating activities:		
Receipts from operating grants and participating jurisdictions	$	926,580
Payments to suppliers and corporations		(321,890)
Net cash provided by (used for) operating activities	$	604,690
Cash flows from capital and related financing activities:		
Principal payments on notes payable (PSA)	$	(51,300)
Interest payments		(58,700)
Net cash provided by (used for) capital and related financing activities	$	(110,000)
Cash flows from noncapital financing activities:		
Issuance of debt	$	100,611
Principal payments on bonds and notes payable*		(259,241)
Interest payments*		(261,175)
Net cash provided by (used for) noncapital financing activities	$	(419,805)
Cash flows from investing activities:		
Principal received on loans issued	$	2,462
Interest received		15,477
Net cash provided by (used for) investing activities	$	17,939
Increase (decrease) in cash and cash equivalents	$	92,824
Cash and cash equivalents at beginning of year (Includes restricted cash amount of $513,161)		777,444
Cash and cash equivalents at end of year (Includes restricted cash amount of $513,215)	$	870,268
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$	459,034
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		35,330
Changes in operating assets and liabilities:		
(Increase) decrease in prepaid items		19
(Increase) decrease in accounts receivable		127,753
Increase (decrease) in accounts payables		(8,718)
Increase (decrease) in unearned revenue		(8,728)
Net cash provided by (used for) operating activities	$	604,690

*Prior to June 30, 2021, the Pulaski County Economic Development Authority paid debt service on behalf of the Authority in the amount of $376,289. The Authority reimbursed the IDA $375,223 for debt service payments made in the prior fiscal year during the current year.

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 have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

Virginia's First Regional Industrial Facility Authority was created as a governmental subdivision of the Commonwealth of Virginia by concurrent resolutions of the Board of Supervisors of Bland, Craig, Giles, Montgomery, Pulaski, and Roanoke Counties; the City Councils of Roanoke, Radford, and Salem; and the Town Councils of Christiansburg, Dublin, Narrows, Pearisburg, and Pulaski on September 1st 1998. The Authority was created pursuant to the provisions of the Virginia Regional Industrial Facilities Act (Chapter 64 of Title 15.2 of the Code of Virginia, 1950 as amended). The City of Salem, the Towns of Narrows and Christiansburg and the County of Wythe subsequently withdrew from the Authority. The Authority is governed by up to twenty-six directors appointed by the participating localities. Each member government may appoint two members for a total of twenty-two members of the Board of Directors. The purpose of the Authority is to enhance the economic base for the member localities by developing, owning, and operating one or more facilities on a cooperative basis. As such, the Authority is authorized to expend such funds as may be available to it for the purpose of developing facilities, including but not limited to (i) purchasing real estate; (ii) grading sites; (iii) improving, replacing, and extending water, sewer, natural gas, electrical, and other utility lines; (iv) constructing, rehabilitating, and expanding buildings; (v) constructing parking facilities; (vi) constructing access roads, streets, and rail lines; (vii) purchasing or leasing machinery and tools; and (viii) making any other improvements deemed necessary by the Authority to meet its objectives. "Facility" means any structure or park, including real estate and improvements as applicable, for manufacturing, warehousing, distribution, office, or other industrial, residential, recreational or commercial purposes.

B. Basis of Accounting

The Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are contributions, revenue sharing payments and land sale proceeds. Operating expenses include the cost of administrative expenses, economic incentive payments, and host fee payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Inventory Valuation

Inventory held for resale consists of land in the Commerce Industrial Park and is valued at the lower of cost or market.

D. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 does not have any deferred outflows of resources as of June 30, 2021.

In addition to liabilities, the statement of net 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 does not have any deferred inflows of resources as of June 30, 2021.

E. Cash and Cash Equivalents

The Authority's 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. Investments totaling $513,215 are reported in the financial statements as cash and cash equivalents.

F. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

G. 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.

H. Net Position

Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets. The Authority's debt was issued for the purchase of capital assets and inventory held for resale. The Authority does not allocate debt between the two classes of assets purchased with same. Currently, outstanding debt exceeds the carrying value of inventory and capital assets.

Note 1-Summary of Significant Accounting Policies: (Continued)

I. Net Position Flow Assumption

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 financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives 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 of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year. Property, plant, and equipment of the Authority is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Water and sewer rights	40

K. Investments

Money market fund investments are measured at fair value.

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 the 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).

Credit Risk of Debt Securities

The Authority has not adopted an investment policy for credit risk. The Authority's rated debt investments as of June 30, 2021 were rated by Standard and Poor's rating scale and the ratings are presented below.

Authority's Rated Debt Investments' Values

Rated Debt Investments	**Fair Quality Ratings**
	AAAm
Fidelity Treasury Portfolio	$ 513,215

Interest Rate Risk

The Authority has not adopted an investment policy for interest rate risk. Investments subject to interest rate risk are presented below along with their corresponding maturities.

	Investment Maturities (in years)		
Investment Type	Fair Value	Less 1 yr	6-10 yrs
Fidelity Treasury Portfolio	$ 513,215	$ 513,215	$ -

Concentration of Credit Risk

The Authority has not adopted an investment policy for concentration of credit risk.

Note 3-Fair Value Measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Authority maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2: Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3: Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The Authority has the following recurring fair value measurements as of June 30, 2021:

		Fair Value Measurement Using		
Investment	6/30/2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fidelity Treasury Portfolio	$513,215	$ 513,215	$ -	$ -

Note 4-Long-term Obligations:

Changes in long-term obligations are as follows:

	Balance July 1, 2020	Issuances	Retirements	Balance June 30, 2021
Direct borrowings and placements:				
Bond Payable[1]	$ 5,200,000	$ -	$ (250,000)	$ 4,950,000
Bond Discount	(7,403)	-	390	(7,013)
Due to Pulaski County PSA[2]	1,248,457	-	(51,300)	1,197,157
VSBFA Loan	299,389	100,611	(9,241)	390,759
Total	$ 6,740,443	$ 100,611	$ (310,151)	$ 6,530,903

[1] Represents amounts due to the Pulaski County Industrial Development Authority for reimbursements related to debt service issued on behalf of the Industrial Facility Authority.

[2] Represents amounts due to the Pulaski County Public Service Authority for reimbursements related to debt service issued to provide water/sewer service to Commerce Park.

Annual requirements to amortize long-term debt and related interest are as follows:

For the Year	Direct Borrowings and Placements					
Ended	Bond Payable		Due Pulaski PSA		VSBFA Loan	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2022	$ 260,000	$ 243,519	$ 26,568	$ 28,432	$ 35,979	$ 9,143
2023	270,000	233,707	27,199	27,801	36,867	8,255
2024	280,000	223,112	27,844	27,156	37,776	7,346
2025	295,000	211,705	28,506	26,494	38,709	6,414
2026	305,000	199,097	29,183	25,817	39,664	5,459
2027-2031	1,275,000	790,830	156,646	118,354	201,764	11,940
2032-2036	1,305,000	475,956	176,152	98,848	-	-
2037-2041	960,000	104,814	198,088	76,912	-	-
2042-2046	-	-	222,755	52,245	-	-
2047-2051	-	-	250,493	24,508	-	-
2052	-	-	53,723	1,277	-	-
Totals	$ 4,950,000	$ 2,482,740	$ 1,197,157	$ 507,844	$ 390,759	$ 48,557

Note 4-Long-term Obligations: (Continued)

Details of long-term obligations	Total Amount	Amount Due Within One Year
Direct borrowings and placements:		
$6,810,000 bond issued on June 27, 2013 bearing interest at rates varying from 0.77% to 5.375%. Interest payments are due on June 15th and December 15th annually. Principal payments ranging from $230,000 to $335,000 are due annually on June 15th through 2039.	$ 4,950,000	$ 260,000
Original issue discount	(7,013)	(390)
$2,145,000 loan payable to the Pulaski County PSA in annual installments of $55,000 dated April 13, 2010. The loan became due and payable upon completion of the PSA water and sewer expansion project, with such project placed in service on June 30, 2013.	1,197,157	26,568
$400,000 promissory note issued on April 14, 2020 bearing interest at a rate of 2.44%. Payments of principal and interest are due on the first of each month of $3,760.21 until March 1, 2030. On April 1, 2030 a final ballon payment is due.	390,759	35,979
Total long-term obligations	$ 6,530,903	$ 322,157

On June 27, 2013, the Industrial Development Authority of Pulaski County issued $6,810,000 in revenue bonds. The proceeds from this bond issuance were used to refinance debts of Virginia's First Regional Industrial Facility Authority (IFA) and provide capital for improvements to an industrial development park (Commerce Park) owned by the IFA. Virginia's First Regional Industrial Facility Authority has agreed to reimburse the Industrial Development Authority of Pulaski County for all payments made under the bonds. As a result, Virginia's First Regional Industrial Facility Authority has reported all transactions related to the bonds in these financial statements and reports amounts due to the Industrial Development Authority of Pulaski County as bonds payable at year end.

Note 5-Assets Held for Resale:

Assets held for resale totaling $5,012,414 represent the estimated value of land in the New River Commerce Park owned by the Authority. This inventory is valued at the lower of cost or market.

Note 6-Due from Participating Jurisdictions:

The Authority sells shares to participating jurisdictions in industrial development projects initiated by the Authority. Participating jurisdictions are entitled to profits generated by these industrial development projects, as presented in their participation agreements, to the extent taxes (real estate, business and personal property, and machinery and tools) generated by the projects exceed expenses related to the projects. Under terms of these agreements, the host locality shall remit to the Authority taxes (less a 5% host fee in certain cases) generated from an industry locating on a project site in the host locality. The revenue sharing agreements further require the participating jurisdictions to contribute amounts necessary to cover all expenses of the projects, to the extent that taxes generated by the project do not cover these expenses.

Note 7-Capital Assets:

Capital asset activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Water and sewer rights	$ 1,413,190	$ -	$ -	$ 1,413,190
Accumulated depreciation:				
Water and sewer rights	$ (247,310)	$ (35,330)	$ -	$ (282,640)
Total capital assets, net	$ 1,165,880	$ (35,330)	$ -	$ 1,130,550

Note 8-Loans Receivable:

The Authority sold 3.5855 acres of land in the NRV Commerce Park for $16,135 under terms of a loan receivable dated May 9, 2013. The loan requires annual principal and interest payments of $1,122.96. The payments began on June 1, 2014 and continue for twenty years. Interest on the note accrues at 3.5% annually. The amount due at year end was $11,202.

The Authority sold 3.304 acres of land in the NRV Commerce Park for $5,000 cash and $20,000 under terms of a loan receivable dated January 7, 2019. The loan requires monthly principal and interest payments of $207.28. The payments began on February 1, 2019 and continue for ten years. Interest on the note accrues at 4.5% annually. The amount due at year end was $15,873.

Note 9-Restricted Cash and Cash Equivalents:

Restricted cash and cash equivalents consist of the following:

Debt service reserves	$ 513,215

Note 10-Operating Lease:

The Authority entered into an agreement with Mebane Manor, LLC on May 26, 2016 for the rent and/or subsequent purchase of approximately 27 acres. Terms of the agreement require annual rental payments of $2,000 for a ten-year period. On the 11th anniversary date of the agreement, Mebane Manor may purchase the 27 acre tract for $20,500. This lease is being accounted for in the accompanying financial statements as an operating lease.

Note 11-Construction Contributions:

On November 3, 2005, the Authority entered into an agreement with the Pulaski County Public Service Authority (PSA) for the construction of certain sewage infrastructure to serve Commerce Park. In accordance with the agreement, the Authority incurred costs totaling $369,134 for their portion of the construction. Assets created under the agreement are owned and operated by the PSA; however, the PSA is required to repay the aforementioned funds (to the extent possible) with revenue generated by this infrastructure based on usage. Revenue is recognized as earned (based on usage) and is presented in the accompanying financial statements as sewage user fees.

Note 12-Risk Management:

The Authority is exposed to various risks of losses 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 entities in a public entity risk pool for their coverage of general liability and public officials insurance with VACO. Each member of the risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority makes contributions and assessments 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 resources, 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 coverage in any of the past three fiscal years.

Note 13-Economic Incentive Agreements:

On March 15, 2013, the Industrial Facility Authority (IFA) and the County of Pulaski, Virginia entered into a performance agreement with Red Sun Farms Holdings LLC (the Company). Under the agreement, the IFA will lease certain industrial property (approximately 100 acres in the NRV Commerce Park) to the Company for $1/year and such property may transfer to the Company at the end of the lease agreement if all obligations under the performance agreement are met. The Company has agreed to pay a $0.10 surcharge per 1000/gallons of water delivered to the Company by the Pulaski County Public Service Authority. The Company has also agreed to invest $30,000,000 in the project, which consists of construction of a greenhouse structure, machinery and related assets used in their production facility. The Company has further committed to employ at least 205 employees at the facility and has further agreed to meet certain minimum wage requirements. As of December 31, 2019, the Company failed to meet certain requirements in the economic incentive agreement. In accordance with terms of the agreement, the Company must remit monthly lease payments of $4,167 to the Authority. The payments are reported in the accompanying financial statements as performance agreement lease payments. Tax revenues generated by the agreement will be remitted to the IFA under terms of the Commerce Park Participation Agreement.

Note 13-Economic Incentive Agreements: (Continued)

In 2020, the Authority entered into certain agreements with Patton Logistics, Inc. (the Company). Terms of the agreements require the Company to invest a minimum of $12 million dollars in Commerce Park and hire and maintain at least 33 full time positions (FTEs) with certain wage requirements by December 31, 2023. In exchange for the Company's commitment, the Authority has agreed to provide up to $750,000 in assistance for land improvements and has agreed to lease approximately 20 acres to the Company at $1.00 annually for a 12-year period. If the Company fails to perform, monthly lease payments will be due and payable to the Authority at graduated rates depending on the level of investment and employment attained by the Company.

Note 14-Due to Pulaski County EDA:

Prior to June 30, 2021, the Pulaski County EDA paid debt service on behalf of the Industrial Facility Authority in the amount of $376,289. At June 30, 2021, $376,289 (due to Pulaski County EDA) has been recorded as an accounts payable in the accompanying financial statements.

Note 15-Intangible Asset and Related Liability:

Virginia's First Regional Industrial Facility Authority (IFA) entered into a support agreement with the Pulaski County Public Service Authority (PSA) on April 13, 2010. The agreement stipulates that the IFA will make annual payments to the PSA in an amount not to exceed $55,000 for a period not to exceed 40 years. The payments are to provide capital support for the PSA to provide water and sewer service to an industrial park (Commerce Park) owned by the IFA. The agreement further stipulates that the IFA may collect a surcharge of $1 per 1000 gallons of water provided to and/or sewer treated from Commerce Park businesses. The IFA has recorded an intangible asset (water and sewer rights) in the financial statements, which represents the net book value of the IFA's commitment to the PSA at a discount rate of 2.375%.

Note 16—Subsequent Event:

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 2022.

Note 17— Upcoming Pronouncements:

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.

Note 17— Upcoming Pronouncements: (Continued)

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.

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.

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 Honorable Members of
Virginia's First Regional Industrial Facility Authority
Radford, 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 Virginia's First Regional Industrial Facility Authority as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Virginia's First Regional Industrial Facility Authority's basic financial statements and have issued our report thereon dated September 17, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Virginia's First Regional Industrial Facility Authority'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 Virginia's First Regional Industrial Facility Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Virginia's First Regional Industrial Facility 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Virginia's First Regional Industrial Facility 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 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 Virginia's First Regional Industrial Facility Authority's Response to Finding

The Virginia's First Regional Industrial Facility Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Virginia's First Regional Industrial Facility 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 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
September 17, 2021

Virginia's First Regional Industrial Facility Authority

Schedule of Findings and Responses
Year Ended June 30, 2021

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) identified?	No
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

Finding 2021-001

Criteria:	An auditee should have sufficient expertise in the selection and application of accounting principles used in the preparation of the annual financial report.
Condition:	The audit identified year end adjusting entries that were required for the financial statements to be presented in accordance with current reporting standards.
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.
Cause:	During the closing process the aforementioned adjustments were not identified for posting.
Recommendation:	Authority staff should review the audit adjustments for the current year and update future financial reports, as necessary, to comply with reporting standards.
Management's Response:	Staff will review the audit adjustments in the current year in relation to future financial statements and attempt to prepare the financial statements in accordance with applicable reporting standards.

Section III - Status of Prior Financial Statement Findings

Finding 2020-001 was repeated in the current year as 2021-001.